Annual Report

2012

CEZ Group

005

012

CEZ Group customer service won third place in the 2012 Top Ranking Performers in the Contact Center Industry competition.

015

021

076

CEZ Group is offering extra benefits and services for all its customers. Thanks to the 24-hour ČEZ ASSISTANT service, customer needs are dealt with in record time.

078

081

090

115

119

120

In addition to necessary equipment upgrades, comprehensive plant renewal projects are also bringing increased plant efficiency. Reduced emissions and support for environmentally friendly plant operation are among the fundamental objectives pursued by these projects.

136

162

166

Now, our corporate customers can get all the news about the ČEZ Business Club and the latest information on services and what’s going on at CEZ Group via ČEZ Prodej Business on the Twitter social network.

168

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022 047

The rebuild of Lipno I Hydro Power Station – the most extensive project of its kind in CEZ Group history – demonstrates our interest in renewable sources. When the project is finished, the plant's efficiency will have increased by approximately 5% and its annual generation volume will rise by 4 million kWh.

058 064

The Smart Region project, which CEZ Group is pursuing through its FutureMotion concept, is focusing on innovations in the area of electricity distribution.

096 099

On December 25, 2012, Temelín Nuclear Power Station generated its 15 billionth kWh of electricity, thereby meeting the goal of the SAFELY 15 TERA project. Dukovany Nuclear Power Station broke its previous record, too – on December 17, 2012 when its output reached 13.946 billion kWh.

104 107

144 149

CEZ Group is the only Czech industrial group with a program that has been supporting education in technical and natural science fields for over 20 years.

156 158

CEZ Group is a major supporter of the electromobility concept. In addition to building out charging stations, conventional and ultrafast, we are cooperating with municipalities and automakers to increase the availability of this mode of transport.

171 177

178 194

CEZ Group established its education program in 1992 with the aim of getting young people interested in studying technical fields and possibly embarking on careers in this area.

A modern company ready for tomorrow

The energy industry stands at the cusp of a new era in its evolution, which is bringing new efficiency and sustainability demands. As one of the biggest energy players in the Czech Republic and all of Central and Southeastern Europe, CEZ Group is quite aware of this situation and is excelling in its efforts to find new and effective solutions. Modern, award-winning customer service, extra advantages and services for customers, plant renewal, development and roll-out of progressive technologies, support for technical education – all of this makes CEZ Group a modern and self-confident entity whose steps are directed toward its clear goal: a successful future.

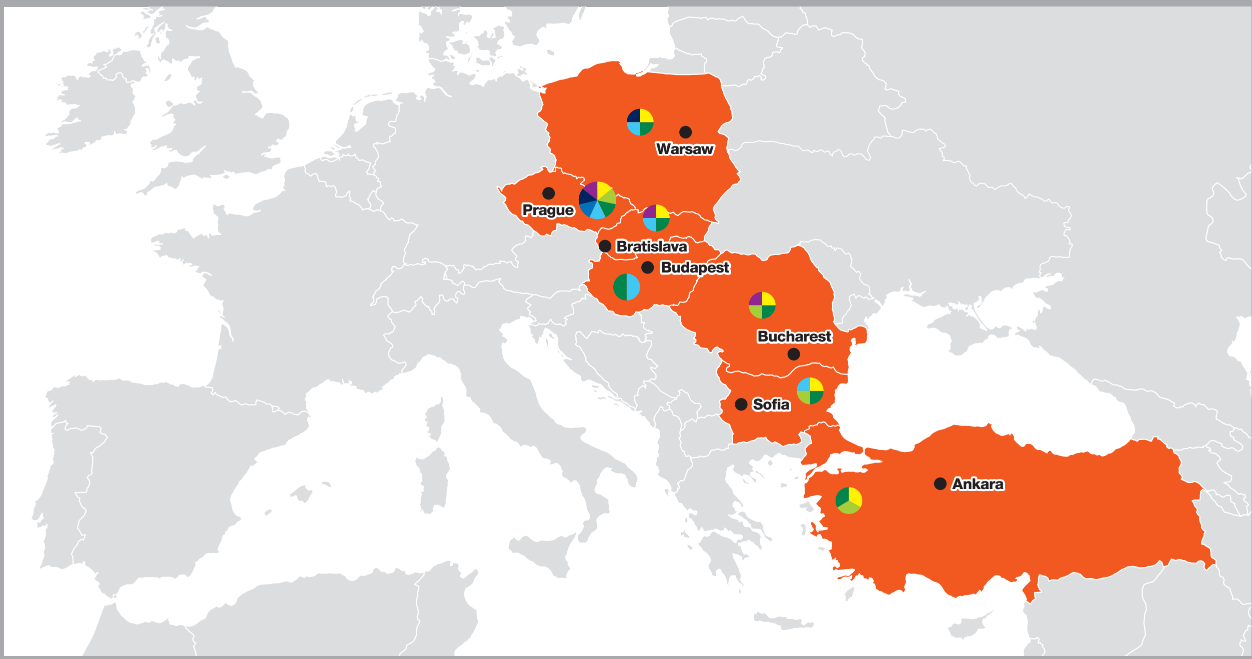
CEZ Group: An Introduction

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, distribution, and trading of power and heat, trading and sales of natural gas, and coal mining. CEZ Group has 27,000 employees. The largest shareholder of the parent company, ČEZ, a. s., is the Czech Republic (at December 31, 2012 its share of the Company's stated capital was nearly 70%). The shares of ČEZ, a. s. are traded on the Prague and Warsaw Stock Exchanges, where they form part of the PX and WIG-CEE stock exchange indexes.

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. As part of its business activities, CEZ Group upholds principles of sustainable development, supports energy efficiency, rolls out new technologies, and operates its power plants and other equipment in accordance with safety standards. Although the corporate culture is focused on performance and continual improvement of internal efficiency, 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.

In the Czech Republic, CEZ Group companies generate and distribute electricity and heat, trade in electricity and other commodities, sell electricity, heat, and natural gas to end customers, and mine coal. The generation portfolio consists of nuclear, coal, gas, hydro, and renewable power sources. To ensure continued success in the Czech Republic market, which is crucial to CEZ Group in terms of its business interests, the generation portfolio and distribution grids are undergoing an extensive renewal, upgrade, and development program, including in particular preparations for building a new nuclear power source at Temelín.

CEZ Group Energy Operations, by Country



Electricity
- generation
- distribution
- sale to end customers

Natural gas
- sale to end customers

Heat
- generation
- distribution
- sale to end customers

At the international level, CEZ Group focuses in particular on markets in Central and Southeastern Europe, where it operates primarily in the areas of distribution, sale, and generation of electricity from coal-fired and renewable power sources, as well as trading in electricity and other commodities. Members of the CEZ Group in the Netherlands and Ireland act as holding companies and provide certain financing functions.

CEZ Group holds generation and distribution assets in Poland, Romania, Bulgaria, Hungary, Slovakia, and Turkey. 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 development company that is preparing to build wind power plants. In Romania, CEZ Group is involved in the generation of electricity from renewable sources of energy – wind in particular – in addition to electricity distribution and sales operations. In Bulgaria, it distributes and sells electricity in the western part of the country, generates power in a coal-fired power plant, and is developing renewable sources. In Turkey, CEZ Group, together with a local partner, operates a distribution company, generates electricity in gas, hydro, and wind power plants, and is preparing to build additional power sources.

CEZ Group conducts wholesale trading operations in electricity and other commodities in a number of European countries. In addition to the Czech Republic, CEZ Group sells electricity and natural gas to customers in places such as Romania, Bulgaria, Turkey, Hungary, Poland, and Slovakia.

CEZ Group continues to implement technologies of the future. As it continually expands its network of charging stations for electric vehicles, the Group commissioned its first ultrafast charging station and is preparing to build more in cooperation with its partners. In Northwestern Bohemia, it is rolling out a smart distribution grid over a selected area.

Contents

The CEZ Group 2012 Annual Report contains QR codes that link to the specific web pages www, PDF documents, and information in plain text that appear either in the body of the Annual Report 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 by 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 2012 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 8, 2013

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

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

ERNST & YOUNG

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, 2012 presented in the annual report of ČEZ, a. s. („the Company") on pages 216–273 on which we have issued an auditors' report dated February 25, 2013, presented in the annual report on pages 214–215. We have also audited the separate financial statements of the Company as at December 31, 2012 presented in the annual report of the Company on pages 276–317 on which we have issued an auditors' report dated February 25, 2013, presented in the annual report on pages 274–275 (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 1–201 is consistent with that contained in the audited financial statements as at December 31, 2012. 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, 2012 presented in the annual report of the Company on pages 202–205. 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, 2012 is materially misstated.

Ernst & Young

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

Josef Pivoňka
Auditor, License No. 1963

April 8, 2013
Prague, Czech Republic

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

Introduction by the Chairman of the Board of Directors and Chief Executive Officer of ČEZ, a. s.

Dear shareholders,

By way of introduction, I would like to assure you that ČEZ's principal objective is – and will continue to be – to maximize and secure long-term growth in shareholder value. However, the conditions for meeting this objective are getting more and more difficult from one year to the next.

The European energy industry is going through a difficult period and has become a sector where words like "security", "stability", and "simple rules" may no longer apply. Nearly all big European utilities are under a lot of pressure as they face a number of common factors, most of them unfavorable. These factors go far beyond the prolonged debt crisis in the European Union and the related sluggishness in the economies of most European countries. They are now being joined by growing regulatory interventions at both the pan-European and national levels, in the form of massive growth in subsidized renewable power sources, shifts in the stance on nuclear energy in major European Union countries, a languishing emission rights system, and substantial declines in the prices of energy commodities – reflecting in particular growth in shale gas extraction in the USA. Together, these factors are bringing about a long-term decline in electric power prices, which are currently at levels last seen in 2006, and limiting the resources that less-developed European countries, in particular, can dedicate to making necessary investments in distribution grid operation and maintenance.

Despite these negative factors, CEZ Group managed a solid financial performance in 2012, nearly matching the previous year's level. CEZ Group net income reached CZK 40.2 billion in 2012, while EBITDA exceeded CZK 85.5 billion. That's down just 2% year-on-year, despite the major negative impact of losses associated with unprecedented actions of the Albanian government against the country's distribution company, leading to a loss of CEZ Group control over the company.

As one of few European utilities to do so, we maintained our credit rating from Standard & Poor's at A– with stable outlook. The Company's overall financial stability, strong liquidity position, and investor trust is also attested to by the successful placement of a CZK 1 billion, USD-denominated bond issue in the American market. This was the first ever corporate issue in the U.S. Dollar market under Rule 144A of the Securities Act of 1933 (USA) not just in the Czech Republic, but in the entire region. A portion of the issue (USD 300 million) has a maturity of 30 years, making it the issue with the longest maturity in Central and Eastern Europe, issued under the demanding terms of the most liquid bond market in the world, and the interest rates achieved are close to the levels commanded by the highest-rated Western European utilities.

CEZ Group's position amongst successful utilities is also documented by a number of global rankings. For example, in the Platts TOP 250 survey, ČEZ improved its position in the Europe, Middle East, and Africa (EMEA) region by three notches, coming in fourth just behind Enel SpA, Iberdrola S.A., and Électricité de France S.A. Worldwide, we continue to occupy seventh place. In the CE TOP 500 ranking by Deloitte, ČEZ is the most valuable power company in Central Europe – a position we held in previous years as well.

What did we do to maintain financial performance and prevent a weakening of the Company's position? In response to unfavorable economic developments and the deteriorating business environment in Europe, over the past few years we have undertaken a number of countermeasures aiming to stabilize and mitigate CEZ Group's risk profile. In view of the persistent risk of further declines in the price of electric power, we are diversifying our asset structure to leverage business opportunities in price-regulated segments. In sales, we fix our margins by selling larger volumes of electricity several years in advance, as well as through long-term contracts expiring in 2020. We are developing sales of natural gas and rolling out new products. On the expenses side, we are emphasizing internal efficiency through initiatives such as the creation of shared service centers in support, distribution, and customer services.

For me, the conclusion of an agreement with Czech Coal Group on long-term supplies of coal for Počerady Power Station is an important milestone. This agreement marks a fundamental advance in the strategic area of securing fuels for ČEZ power sources, as well as for the future of the Počerady site.

Over the past few years we have worked intensively to increase power plant output, efficiency, and reliability, particularly at the nuclear plants, as they are the pillars of our production base. Two key projects, SAFELY 16 TERA for Dukovany and 15 TERA for Temelín, are already bearing fruit. In 2012, both nuclear power plants broke their previous electricity generation records to grow power output by a total of 2 TWh (+7%) year-on-year – all under safety measures that are getting stricter and stricter. 2012 was a year of plant inspections conducted in response to the events at the Fukushima nuclear power plant in Japan. Both of our nuclear plants passed a series of stress tests, demostrating resistance to extreme natural influences and the capacity to withstand even very grave situations without threatening their surrounding areas. Based on the experience and lessons of the Fukushima nuclear power plant accident, certain requirements were identified for further increasing the resistance of nuclear power plants, particularly in conjunction with extreme natural phenomena. Yet still, we will continue to improve them because safety has always been, and always will be, our first priority.

2012 also saw continuation of the comprehensive renewal of selected coal-fired power plants in the Czech Republic with the aim of operating only highly efficient sources with the lowest possible emission factors. The upgrade of Tušimice Power Station was completed in June, the construction of a new, Czech coal-fired power source in Ledvice is continuing in accordance with an updated timeline, and the retrofit of Prunéřov II Power Station got underway following a protracted approvals process. We entered into a contract on the sale of Chvaletice Power Station, bringing us closer to fulfillment of a proposed settlement with the European Commission.

In the area of electricity and natural gas sales to end customers, our company ČEZ Prodej is successfully holding its position as the electricity market leader in all customer segments, despite growing competition. In gas sales, early last year the company became the biggest alternative supplier. Compared with 2011, the number of connection points served increased by 86%.

In line with the strategic objective of diversifying CEZ Group assets, 2012 saw the completion of the acquisition of Energotrans, bringing about a major increase in our market share in heat. We also made progress in the regional energy initiative, in the areas of microcogeneration, environmentally-friendly utilization of waste, and biomass. ČEZ's position in renewable energy sources grew substantially, especially at the international level as we completed construction of the largest onshore wind farm in Europe with 600 MW total installed capacity. The last, 240th turbine at the Fântânele and Cogealac site in Romania was connected to the grid on exactly November 22, 2012, the previously announced completion date. We are also developing other plans in Poland. However, we will support only those projects that offer attractive returns with acceptable risk profiles.

At the very top of ČEZ's priority list for future development is to lay the groundwork for construction of, and selection of a contractor for, two new reactor units at Temelín Nuclear Power Station. On July 2, 2012 we received bids from three qualified contractors. Due to its failure to meet required criteria, however, Areva had to be disqualified. As a result, just two consortia – the U.S.-Japan Westinghouse and the Czech-Russian MIR 1200 – are continuing in the tender, which is the only one in the world conducted according to the strict terms of the Public Procurement Act. And while a team of specialists is working very intensively to assess the bids, preparations for the permit and licensing process are going forward according to plan. We applied to the State Office for Nuclear Safety for a building permit and, in January 2013, the Ministry of the Environment of the Czech Republic issued a positive opinion within the Environmental Impact Assessment (EIA) process for the two new units.
I can report that we are fully aware of the importance and risk of this investment decision for CEZ Group, as we are that the current situation in Europe is not favorably inclined toward the construction of any new nuclear power source purely on a market basis. My principal tasks for 2013 are to ensure that the conditions for building the new nuclear source are the best possible, and prepare top-quality materials for the shareholders to make a decision on the further course of action in this key ČEZ project.
I have mentioned above the loss that affected the 2012 results ensuing from developments in Albania, and later in this Annual Report you will read what legal steps the Company is taking to ensure that the loss is not permanent. In early 2013, ČEZ's equity holdings in Bulgaria came under pressure as well. In both cases, baseless and unjustified allegations are being leveled at CEZ Group. Regardless of what further developments take place in these countries I am confident that, in the end, CEZ Group will defend its actions and investments, though it be forced to take legal action to do so.
In conclusion allow me, dear shareholders, to share my conviction that the measures we are taking, such as modifying the risk profile and exerting sustained pressure toward improving internal efficiency through cost-cutting, are the way to navigate CEZ Group through the current period of challenges in the power sector.

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

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WE’RE SIMPLIFYING CUSTOMER SERVICE

CEZ Group is working round the clock to improve its customer service channels. For example, as of September 2012 a new application, ČEZ ON-LINE, is simplifying the registration process compared to the original application, and providing an on-line option for ordering both electricity and natural gas. The new application gives customers access to complete information on their electricity and gas consumption, all in one place. At any time, they can check their bills and payments, file a self-service meter reading, or even switch to a different product line. They can also easily check how their electricity and gas consumption has changed over time.

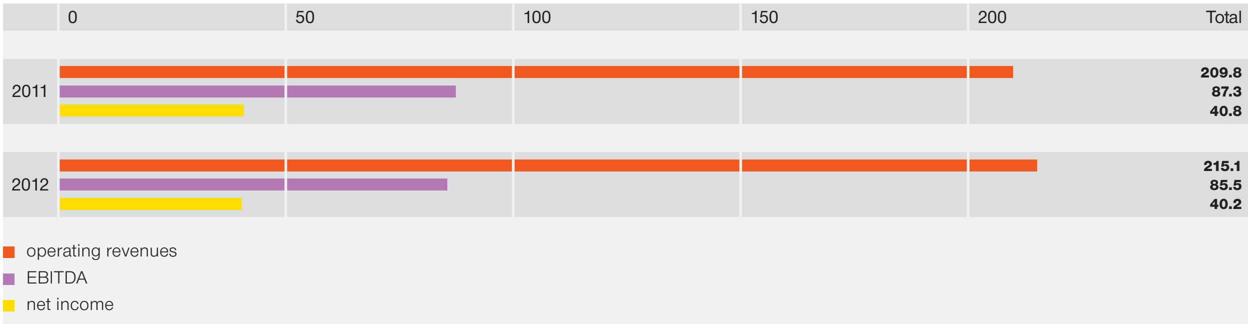
Selected Indicators of CEZ Group

Selected Indicators of CEZ Group in Accordance with IFRS

	Units	2008	2009	2010	2011	2012	Index 2012/2011 (%)
Electricity generated (gross)	GWh	67,595	65,344	68,433	69,209	68,832	99.5
Installed capacity	MW	14,288	14,395	15,018	15,122	15,781	104.4
Electricity sold [1]	GWh	38,820	43,817	44,594	42,846	41,732	97.4
Heat sold	TJ	14,016	13,040	16,918	15,249	19,467	127.7
Gas sold [1]	GWh	–	–	–	3,514	5,895	167.8
Operating revenues	CZK millions	183,958	196,352	198,848	209,761	215,095	102.5
of which: sales of electricity	CZK millions	165,317	173,494	175,277	181,793	186,797	102.8
Operating expenses (excluding depreciation and amortization)	CZK millions	(95,257)	(105,277)	(110,000)	(122,449)	(129,586)	105.8
EBITDA	CZK millions	88,701	91,075	88,848	87,312	85,509	97.9
EBIT	CZK millions	66,654	68,199	64,788	61,542	57,931	94.1
Net income	CZK millions	47,351	51,855	46,941	40,753	40,153	98.5
of which: net income attributable to equity holders of parent	CZK millions	46,510	51,547	47,051	40,756	41,429	101.7
Earnings per share – basic	CZK/share	87.0	96.7	88.1	76.3	77.6	101.7
Dividend per share (gross) [2]	CZK/share	40.0	50.0	53.0	50.0	45.0	90.0
Return on Invested Capital (ROIC)	%	17.2	16.7	14.4	12.5	10.9	87.2
Return on Equity (ROE), net	%	27.0	27.6	22.3	18.2	17.4	95.6
Equity (including non-controlling shares)	CZK millions	185,410	206,675	227,052	232,190	254,219	109.5
Net debt	CZK millions	67,713	124,062	134,137	156,197	161,028	103.1
Net debt / EBITDA	1	0.76	1.36	1.51	1.79	1.88	105.0
Capital expenditure [3]	CZK millions	(46,271)	(56,622)	(61,715)	(51,113)	(50,449)	98.7
Investments [4]	CZK millions	(15,118) [5]	(38,075) [6]	(11,128) [7]	(927)	(5,323)	574.2
Net cash provided by operating activities	CZK millions	70,583	87,354	77,165	61,773	64,612	104.6
Work force head count at December 31	persons	27,232	32,985	32,627	31,420	31,308	99.6

[1] Sales to end customers (outside CEZ Group).
[2] Approved in the given year; paid out of the previous year's income.
[3] Additions to property, plant and equipment and intangibles.
[4] Acquisition of subsidiaries, associates, and joint-ventures, net of cash acquired.
[5] Including loan to MOL.
[6] Including investment in Pražská teplárenská.
[7] Including investment in Dalkia Česká republika.

CEZ Group Results of Operations (CZK billions)



Credit Rating

The credit rating of ČEZ, a. s. remained unchanged in 2012. On April 13, 2012 the rating agency Moody's reaffirmed its A2 rating of the Company, with stable outlook. On January 29, 2013, Standard & Poor's reaffirmed the Company's A– rating, also with stable outlook.

Shares

Four CEZ Group companies have publicly traded shares.

1) ČEZ, a. s.

As at December 31, 2012, the stated capital of ČEZ, a. s. totaled 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 PSE Prime *) RM-System GPW	June 22, 1993 January 25, 1994 February 23, 1999 October 25, 2006

*) Effective from November 30, 2012, the PSE transitioned to a new system of exchange markets; shares accepted for trading in the Main Market were moved to the Prime market.

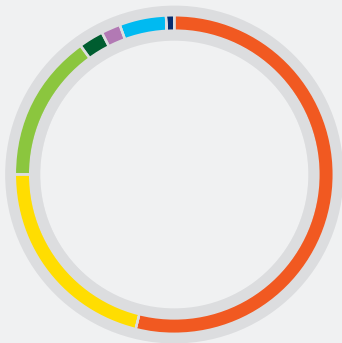
Structure of Shareholders – by Entity Type

	Stake in stated capital	Stake in voting rights	Stake in stated capital	Stake in voting rights
	at December 31, 2011 *)		at December 31, 2012	
Legal entities, total	94.12%	94.08%	93.33%	93.28%
Czech Republic	69.78%	70.29%	69.78%	70.29%
ČEZ, a. s.	0.72%	–	0.72%	–
Other legal entities	23.62%	23.79%	22.83%	22.99%
Private individuals, total	5.88%	5.92%	6.67%	6.72%

Source: Central Securities Depository
*) Figures at December 31, 2011 adjusted to account for new structure.

Structure of Identified Institutional Shareholders – by Geography

	%
North America	54.0
Continental Europe (other than Czech Republic and Poland)	21.0
United Kingdom and Ireland	15.0
Poland	2.6
Czech Republic	1.9
Asia	5.4
Other	0.1
Total	100.0



Explanatory note:
The shareholder structure by region is based on a questionnaire-based survey of institutional investors and asset managers from around the world conducted by Ipreo. In this manner, we were able to gain information on 79% of the total number of shares held by institutional owners. The figures in the table are weightings of institutional investors from various parts of the world in terms of the overall number of identified institutional shareholders. Shares owned by the Czech Republic and treasury shares are not included in the result.

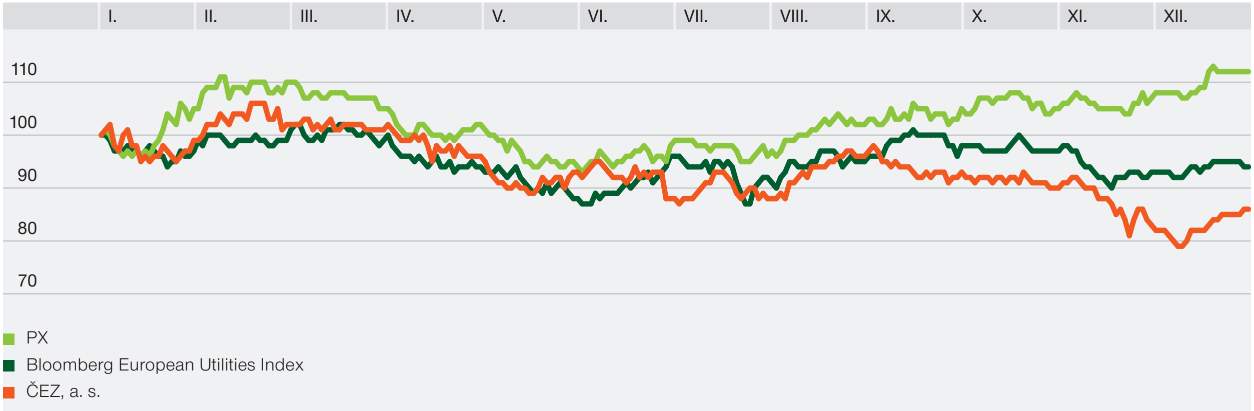
Treasury Shares

At the beginning of 2012, there were 3,875,021 treasury shares, or 0.72% of the stated capital, on ČEZ's asset account with the Central Securities Depository.

During the year, no beneficiaries of the motivational stock options program exercised claims to shares.

At year end 2012, there were 3,875,021 treasury shares, or 0.72% of the stated capital, on ČEZ's asset account with the Central Securities Depository.

ČEZ, a. s. Share Price in Comparison with PX and Bloomberg European Utilities Indexes (%)



Share-Related Indicators

	Units	2005	2006	2007	2008	2009	2010	2011	2012	Index 2012/2011 (%)
Net income per share – basic	CZK/share	36.3	47.0	72.9	87.0	96.7	88.1	76.3	77.6	101.7
Net income per share – diluted	CZK/share	36.2	46.8	72.7	86.9	96.6	88.1	76.3	77.6	101.7
Dividend per share (gross) [1]	CZK/share	9.0	15.0	20.0	40.0	50.0	53.0	50.0	45.0	90.0
Dividends declared [2]	CZK billions	5.3	8.9	11.8	21.3	26.7	28.3	26.7	24.0	89.9
Dividend as percentage of previous year's consolidated net income [2]	%	37.2	39.7	41.0	49.9	56.3	54.6	56.9	59.0	103.7
High for year	CZK	748.2	1,010.0	1,423.0	1,395.0	990.5	942.0	961.0	840.0	87.4
Low for year	CZK	346.6	565.5	827.5	580.5	639.5	741.5	679.0	622.5	91.7
At year end	CZK	736.3	960.0	1,363.0	784.8	864.0	783.0	786.0	680.0	86.5
Number of registered shares (at December 31)	thousands	592,211	592,211	592,211	592,211	537,990	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	3,875	100.0
Number of shares in circulation (at December 31)	thousands	589,771	588,756	541,841	533,040	533,435	533,905	534,115	534,115	100.0
Market capitalization (at December 31)	CZK billions	434.2	565.2	738.5	418.3	460.9	418.0	419.8	363.2	86.5
Book value per share	CZK	299.2	330.8	300.6	324.1	375.8	414.8	424.7	468.5	110.3
Price-to-book value ratio (P/BV)	%	246.1	290.2	453.4	242.2	229.9	188.8	185.1	145.1	78.4
Price-to-earnings ratio (P/E)	1	20.3	20.4	18.7	9.0	8.9	8.9	10.3	8.8	85.1
Total shareholder return (TSR)	%	118.8	32.4	44.1	(39.5)	16.5	(3.2)	6.8	(7.8)	–
ČEZ share trading volume on the PSE	CZK billions	298.7	347.5	403.1	386.4	202.4	130.0	142.2	94.8	66.6
ČEZ volume as proportion of overall PSE trading volume	%	28.7	40.9	39.8	45.4	43.6	33.3	38.3	40.1	104.7

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

Payment of Dividends to Shareholders
The General Meeting of June 26, 2012 approved a CZK 45/share dividend (before tax). Eligible for the dividend are persons who were ČEZ, a. s. shareholders as of the dividend strike date, i.e. July 2, 2012.
The dividends became payable on August 1, 2012 and can be claimed until August 2, 2016.

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, quarterly reports on the financial and commercial performance of CEZ Group are made available to the Company's shareholders. The Company also informs shareholders on an ad hoc basis of material events and circumstances that may affect the share price.
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. The Company's senior executives and employees 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, as well as holding meetings with individual shareholders at ČEZ, a. s. facilities.

2) Akenerji Elektrik Üretim A.S.
A portion of the shares of this company is publicly traded. A portion corresponding to 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.

3) CEZ Elektro Bulgaria AD
A portion of the shares of this company is publicly traded. A portion corresponding to a 33% stake in the stated capital has been traded on the Bulgarian Stock Exchange (Българска Фондова Борса) since October 29, 2012. The ISIN is BG1100024113. These shares are not traded in any other public markets. At December 31, 2012, the Himimport group held a 26.48% stake in the company's stated capital.
On February 19, 2013, following a public announcement by then-Prime Minister of the Republic of Bulgaria Boyko Metodiev Borisov, and reports in certain public media that the Prosecutor's office had taken a similar position, according to which the company's license was to be revoked the very same day, trading in the shares was suspended in accordance with Section 65(1)(1) of the Stock Exchange Rules. Trading was suspended February 19–27, 2013. Although the license was not revoked, revocation proceedings were initiated.

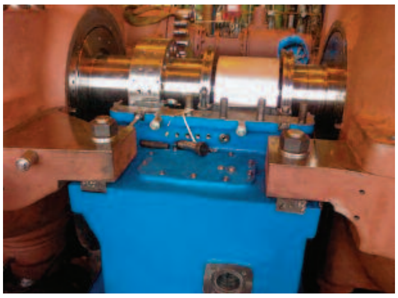
4) CEZ Razpredelenie Bulgaria AD
A portion of the shares of this company is publicly traded. A portion corresponding to a 33% stake in the stated capital has been traded on the Bulgarian Stock Exchange (Българска Фондова Борса) since October 29, 2012. The ISIN is BG1100025110. These shares are not traded in any other public markets.
On February 19, 2013, following a public announcement by then-Prime Minister of the Republic of Bulgaria Boyko Metodiev Borisov, and reports in certain public media that the Prosecutor's office had taken a similar position, according to which the company's license was to be revoked the very same day, trading in the shares was suspended in accordance with Section 65(1)(1) of the Stock Exchange Rules. Trading was suspended February 19–27, 2013. Although the license was not revoked, revocation proceedings were initiated.

Selected Events of 2012 and 2013 Up to Annual Report Closing Date

Selected Events of 2012

January
- bonds repurchased in a total volume of roughly EUR 350 million (approximately CZK 8.9 billion).

February
- upgraded turbine at Tisová Power Station put into routine operation.



April
- Moody's reaffirms A2 credit rating with stable outlook
- issue of ČEZ, a. s. bonds in a total of USD 1 billion (approximately CZK 18.5 billion), consisting of 10-year (USD 700 million) and 30-year (USD 300 million) bonds, in the U.S. Dollar market under Rule 144A of the Securities Act of 1933 (USA). It is the first corporate issue of this kind not just in the Czech Republic, but in the entire region as well.

May
- license obtained from State Office for Nuclear Safety to operate Unit 2 of Temelín Nuclear Power Station, valid until May 31, 2022.

June
- comprehensive renewal of Tušimice II Power Station completed

- proposal sent to conclude an inquiry led by the European Commission since 2009 by reaching a settlement, under which ČEZ, a. s. would agree to sell one or more coal-fired power plants with installed capacity of at least 800 MW
- Annual General Meeting of ČEZ, a. s.
- settlement of a transaction in which CEZ Group obtained a 100% stake in Czech Republic-based Energotrans, a.s. and sold a 50% stake in the MIBRAG mines (Germany).

July
- envelopes containing bids from three qualified bidders to build new reactor units at Temelín Nuclear Power Station received and opened
- Directorate-General for Climate Action (European Commission) approves possibility of direct allocation of emission rights for the Czech Republic for the 2013–2020 period.

August
- CEZ Group begins publishing information on power plant availability, planned and unplanned outages on the website of the German energy exchange, EEX, in accordance with a European Union regulation (REMIT)
- two bids received for sale of Chvaletice and Počerady Power Stations; series of negotiations begins on terms of possible transactions.

September
- first ultrafast CEZ Group charging station for electric vehicles opens.

October
- Areva disqualified from the tender to build new reactor units of Temelín Nuclear Power Station for failure to meet public procurement requirements. Areva filed objections against the disqualification, but these were rejected by ČEZ, a. s.
- four bids received in sale of Dětmarovice Power Station; series of negotiations begins on terms of possible transaction.

November
- most small-scale hydro plants, photovoltaic plants, wind plants, and biogas combustion plants merged into subsidiary ČEZ OZ uzavřený investiční fond a.s.
- construction completed on Fântânele and Cogealac wind farm in Romania

- zoning permit application for two new reactor units at the Temelín site filed with the State Office for Nuclear Safety.

December
- extraordinary General Meeting of ČEZ, a. s. held for purpose of approving split-off of Dětmarovice Power Station into a separate company as of February 1, 2013.

Selected Events of 2013 Up to Annual Report Closing Date

January
- ČEZ Korporátní služby, s.r.o., a company formed to optimize accounting, asset management, and human resources services support processes at CEZ Group, begins operating
- Ministry of the Environment of the Czech Republic issues a positive opinion in Environmental Impact Assessment (EIA) process for construction of two reactor units at Temelín Nuclear Power Station
- loss of control over Albanian subsidiary CEZ Shpërndarje Sh.A. due to revocation of license by regulator and subsequent appointment of an administrator
- Standard & Poor's reaffirms A– credit rating with stable outlook.

February
- announcement of intent to initiate international arbitration proceedings against Republic of Albania for failure to protect investment in distribution company

- proceedings commenced on withdrawal of electricity distribution and sale licenses held by Bulgarian companies of CEZ Group
- ČEZ, a. s. approves revised settlement agreement with the European Commission: an important step toward ending the inquiry conducted by the European Commission since 2009.

March
- long-term agreement signed between ČEZ, a. s. and mining company Vršanská uhelná (member of Czech Coal Group) on coal supplies for Počerady Power Station, including option parameters for possible future sale of the plant
- agreement on sale of Chvaletice Power Station to Litvínovská uhelná a.s. signed.

022

WE'RE MODERNIZING HYDRO SOURCES

The hydro power plants operated by CEZ Group delivered over 2.1 billion kWh of electricity in 2012. The hydro generation accomplishments of 2012 – such as 10.9% year-on-year growth in generation – have been accompanied by plant upgrades, including modifications designed to make the hydro installations more environmentally friendly. As part of CEZ Group's initiatives in support of environmentally friendly generation, the most extensive rebuild of Lipno I Hydro Power Station to-date – a project that will increase the plant's efficiency by approximately 5% – got underway in late 2012. The rebuild will include the overhaul of all the plant's machinery, including complete replacement of the turbine and its regulation system, as well as re-sealing of all pipes.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Governing Bodies of ČEZ, a. s.

(A Standalone Section 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 that was incorporated in the Commercial Register on May 6, 1992. The core businesses are generation and distribution of electricity, electricity trading, generation and distribution of heat, gas trading, and related activities. The Company is headquartered in the Czech Republic at the address Duhová 2/1444, postcode 140 53, Prague 4. The Company's website is www.cez.cz [1].

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, regular sessions of which are held at least once per year, no later than six months after the last day of the accounting period. All other General Meetings, convened by the Board of Directors, the Supervisory Board, or the shareholders set forth in Section 181(1) of the Commercial Code, are extraordinary General Meetings.

[1] www

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 and 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
- electing and removing members of the Audit Committee, approving Audit Committee membership contracts and rules for providing consideration to members of the Audit Committee 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/or dividends; and allocations of income to Company reserves
- deciding on remuneration of members of the Supervisory Board and members of the Audit Committee, deciding on payments of and rules for distribution of Board member bonuses among individual members of the Supervisory Board and Board of Directors
- deciding on filing of an application for acceptance of the Company's equity securities for trading on a European regulated market or foreign market similar to a regulated market, as well as on their withdrawal from trading
- 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
- denying or restricting preferential rights to acquire convertible and/or priority bonds and to subscribe new shares
- deciding on the Company's business policy and revisions thereof
- discussing the yearly report of the Board of Directors on the Company's business operations and the state of its assets
- deciding on appointment of an auditor to conduct the mandatory audit.

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. At the General Meeting, the person chairing the meeting is required to cause all motions, countermotions, and requests for explanation put forward by shareholders to be brought to the floor, provided they relate to an agenda item and provided the shareholder in question insists they be so brought. Further, the person chairing the meeting is required to ensure that a response is given to shareholder requests for explanation of Company-related matters that are on the General Meeting 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 took place on the basis of other legal circumstances
- increases and/or decreases in the stated capital
- decreases of the stated capital and issue of convertible and/or priority bonds
- winding-up of the Company with liquidation and proposed allocation of the liquidation remainder
- 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 to acquire convertible and/or priority bonds
- exclusion or restriction of preferential rights to subscribe 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, and/or withdrawal of shares from trading on a European regulated market or foreign market similar to a regulated 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.

General Meetings in 2012

Annual General Meeting

The 20th Annual General Meeting of ČEZ, a. s. was held on June 26, 2012. 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 2011 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 2011
- approved the distribution of 2011 income as follows:
  - a CZK 45/share dividend, before tax, calculated from the total number of shares outstanding: CZK 24,209,539,000
  - bonuses to members of the Board of Directors and Supervisory Board: CZK 25,500,000
  - retained earnings: CZK 13,102,418,000.

  The dividend strike date is July 2, 2012. The dividend applicable to treasury shares held by the Company as of the strike date will not be paid. An amount corresponding to the dividends that would otherwise be paid for treasury shares held by the Company as of the dividend strike date will be 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 duration of his or her membership of the relevant body during 2011. 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 2012
- approved an amendment to the Articles of Association proposed by the Board of Directors
- approved the overall sponsorship expenditure for 2013 (CZK 221 million), as well as the provision of non-monetary gifts in a value totaling CZK 648,000 in 2012 and CZK 21 million in 2013
- confirmed Martin Roman as a member of the Supervisory Board of ČEZ, a. s.
- removed Ján Dzvoník and Liběna Dobrovolná from the Supervisory Board of ČEZ, a. s.
- elected the following new members of the Supervisory Board: Milan Bajgar, Robert Vacek, and Jiří Volf
- confirmed Ivo Foltýn as a member of the Audit Committee of ČEZ, a. s.
- approved the Supervisory Board membership contracts between ČEZ, a. s. and Liběna Dobrovolná, Ján Dzvoník, Aleš Klepko, and Martin Roman, and Amendments No. 1 to the Supervisory Board membership contracts between ČEZ, a. s. and Ivo Foltýn and Martin Říman
- approved the Audit Committee membership contracts between ČEZ, a. s. and Ján Dzvoník and Ivo Foltýn
- granted consent for a contract on contribution of part of the undertaking – the Počerady Power Station organizational unit – into the stated capital of Elektrárna Počerady, a.s. (recipient of the contribution)
- granted consent for a contract on contribution of part of the ČEZ, a. s. undertaking – "EVI heat supply infrastructure and out-of-compound networks" – into the stated capital of ČEZ Teplárenská, a.s.; contract to be entered into between ČEZ, a. s. (originator) and ČEZ Teplárenská, a.s. (recipient of the contribution).

Extraordinary General Meeting
On December 18, 2012 an extraordinary General Meeting was held, which:

- granted consent for a contract on contribution of part of the undertaking – the Dětmarovice Power Station organizational unit – into the basic capital of Elektrárna Dětmarovice, a.s.
- approved Supervisory Board membership contracts of Milan Bajgar, Robert Vacek, and Jiří Volf
- elected Lubomír Poul a member of the Supervisory Board
- elected Jiřina Vorlová a member of the Audit Committee.

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:

- vetting compliance with generally binding legislation, the Articles of Association, and resolutions of the General Meeting
- verifying how the Board of Directors exercises ownership rights in legal entities in which the Company holds equity stakes
- reviewing annual, extraordinary, consolidated, and/or interim financial statements, proposals on distribution of income, including stipulation of the amount and manner of payment of dividends and Board member bonuses, or settlement of losses, and the Board of Directors' report on related parties; and presenting its conclusions to the General Meeting
- discussing quarterly financial performance results, half-yearly and yearly reports pursuant to the Act on Doing Business in the Capital Market, and annual reports pursuant to the Accounting Act
- presenting statements, recommendations, and proposals to the General Meeting and the Board of Directors
- electing and removing members of the Board of Directors
- approving Board of Directors membership contracts entered into with members of that body as well as the remuneration for carrying out their duties of office pursuant to Section 66(3) of the Commercial Code
- deciding on stipulation and evaluation of tasks assigned to executives who are also members of the Board of Directors.

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 (except for inventories and securities held for liquidity-management purposes) that are, or are to be, included in the Company's business assets and whose book value exceeds 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 conduct the mandatory audit
- origination of any loan (credit) to a third party or acceptance of any Company guarantee for third-party obligations, provided the loan, credit, or guarantee exceeds CZK 200 million
- acceptance of any long-term loan (credit) from a third party for a term longer than one year, or any similar financial transaction (other than hedging transactions), in excess of CZK 500 million
- issue of bonds other than those for which the consent of the General Meeting is required under Section 160 of the Commercial Code
- granting of options on Company shares
- enabling the conduct of due diligence (legal, commercial, technical, and/or environmental audit) of ČEZ, a. s. or any of its organizational units
- entering into management contracts with executives who are also members of the Board of Directors and with Chief Officers (division heads) of ČEZ, a. s., and on appointment to the office of Chief Executive Officer
- stipulation and evaluation of tasks assigned to the Company's 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.

Supervisory Board Composition and Operation

The Supervisory Board has 12 members. Two thirds are elected and removed by the General Meeting and one third are 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 an employee of the Company, a labor representative, or a labor organization member 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 2012, 14 meetings were held: 11 regularly scheduled meetings and three 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 held and resolutions adopted, and the minutes also include minority opinions, if requested by the members in question, and must always include opposing opinions, if any, of Supervisory Board members elected by the employees. When necessary in urgent matters, a *per rollam* resolution may be called. Such a resolution is deemed to have been passed if at least two thirds of all members cast votes and a simple majority of all members voted for the resolution in question. 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, Company employees, and/or other persons.

Members of the 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 as at December 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 on 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, re-elected in June 2011 (four-year term)
- MOL Hungarian Oil and Gas Plc – member of the Board of Directors since April 29, 2010 (five-year term)
- 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
- Akenerji Elektrik Üretim A.S. – member and Vice Chairman of the Board of Directors in 2009–2012.

Vladimír Hronek

Vice Chairman since March 20, 2013,
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 as at December 31, 2012: 0.

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

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 as at December 31, 2012: 2.

- ECHO Labor Union – member of the Board of Trustees since 2004 (term expires in 2013)
- CEZ Group European Works Council – member since June 26, 2007; re-elected 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.

Milan Bajgar

Member since June 26, 2012

A graduate of the Palacký University, Olomouc, Faculty of General Medicine.

He gained managerial and professional experience in the position of Managing Director and Company Director of Beskydské rehabilitační centrum, spol. s r.o.

Number of ČEZ, a. s. shares as at December 31, 2012: 0.

- Beskydské rehabilitační centrum, spol. s r.o. – Managing Director and Partner since December 13, 2000
- TALEGA, a.s. – member of the Supervisory Board since September 7, 2007 (five-year term)
- PATRIOT 2004 o.p.s. – Founder and Chairman of the Board of Trustees since July 28, 2004; re-elected effective November 20, 2010 (three-year term)
- Apartmánový dům u lázeňského parku s.r.o. – Managing Director since March 1, 2006
- Association of Apartment Owners in Building No. 781 – LARA Čeladná – Committee member since May 12, 2008
- Apartmánový dům KRISTIÁN s.r.o. – Managing Director since May 12, 2008
- Kněhyně o.s. – Chairman of the Executive Council since 2011
- Rozhledna, o.s. – Chairman of the Executive Council since 2010
- ■ AD Landek 2011 s.r.o. – Managing Director in 2007–2011.

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 as at December 31, 2012: 10.

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

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 gained managerial and professional experience during a tenure with the financial group PM holding and in 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 as at December 31, 2012: 0.

- MOSS logistics s.r.o. – Managing Director since September 24, 1997 (no term specified), Partner since February 5, 1998; Head 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 (six-year term)
- ■ 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
- ■ 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 as at December 31, 2012: 0.

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

- 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.

Václav Pačes

Member since March 20, 2013

A professor of biochemistry and a graduate of the Charles University, Prague, Faculty of Natural Sciences, Dr. Pačes defended his dissertation at the Institute of Organic Chemistry and Biochemistry of the Czechoslovak Academy of Sciences. He gained managerial and other professional experience in positions such as Chairman of the Academy of Sciences of the Czech Republic, Director of the Institute of Molecular Genetics of the Academy of Sciences of the Czech Republic, and Chairman of the Independent Energy Commission formed by the Government of the Czech Republic.

- HANUŠ GOLDSCHEIDER FOUNDATION FOR CZECH GOLF – member of the Board of Trustees since June 1, 2011.

Lubomír Poul

Member since December 18, 2012

A graduate of the Brno University of Technology, Faculty of Electrical Engineering.

He gained managerial and other professional experience in positions such as head of the Office of the Ministry of Industry and Trade of the Czech Republic, Acting Director of the Ministry Office, and, since 2010, Head of the Office of the Government of the Czech Republic – a position he holds up to the present.

Number of ČEZ, a. s. shares as at December 31, 2012: 0.

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 as at December 31, 2012: 2,230.

- 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.

Robert Vacek

Member since June 26, 2012

A graduate of the University of Economics, Prague, Faculty of Macroeconomics.

He gained professional experience in positions such as Assistant Department Director at the National Security Authority (Security Management Section) and Deputy to the Vice Chairwoman of the Government and Chief Director of the Department of Coordination in the Fight Against Corruption of the Office of the Government of the Czech Republic.

Number of ČEZ, a. s. shares as at December 31, 2012: 0.

- Bezpečná budoucnost energetiky o.s. – Vice Chairman of the Association since April 2012.

Jiří Volf
Member since June 26, 2012
A graduate of the University of Economics, Prague, Faculty of Industrial Economics, Mr. Volf did postgraduate work at the Brno University of Technology, where he was appointed senior lecturer.
He gained managerial and professional experience in positions such as department director, Deputy Minister, and State Secretary of the Ministry of Finance of the Czech Republic; an outside member of a consulting body to the Energy Regulatory Office; adviser to the Minister of Finance; and member of consulting bodies to the Government of the Czech Republic and other government agencies.

Number of ČEZ, a. s. shares as at December 31, 2012: 3,040.

- THERMAL-F, a.s. – member of the Board of Directors since April 6, 2011 (five-year term)
- Národní vzdělávací fond, o.p.s. – Chairman of the Board of Trustees since January 30, 2006 (three-year term, re-election possible)
- University of Economics – Chairman of the Board of Trustees
- Charles University – member of the Board of Trustees
- Tomas Bata University – member of the Board of Trustees
- Academy of Performing Arts – member of the Board of Trustees
- Academy of Sciences of the Czech Republic – member of the Academic Congress
- MERO ČR, a.s. – member and First Vice Chairman of the Supervisory Board in 2011–2012
- Virtuální institut – Internetové centrum pro sociální studia, o.p.s., in liquidation – member of the Board of Trustees in 2000–2008. Liquidation was completed in 2008 and the company was stricken from the Commercial Register
- Vzdělávací centrum pro veřejnou správu ČR, o.p.s. – member of the Board of Trustees in 2005–2009
- Daňová akademie s.r.o. in liquidation – Managing Director in 2008–2011
- Palacký University, Olomouc – member of the Board of Trustees in 2006–2012.

Members of the ČEZ, a. s. Supervisory Board whose memberships ceased in 2012 or before the Annual Report closing date:

Liběna Dobrovolná
Member from June 1, 2011 to June 26, 2012

Ján Dzvoník
Member from June 1, 2011 to June 26, 2012

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

Ivo Foltýn
Resigned from the Supervisory Board as announced on March 20, 2013. Also, he is not a member of the Audit Committee or the Supervisory Board Strategy Committee.

Committees of the Supervisory Board
Within the scope of its powers, the Supervisory Board may set up certain committees from time to time. 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 elects a Chairman and a Vice Chairman. The committees meet as needed, but no less than once per quarter.

How Committees of the Supervisory Board Make Decisions
The position, powers, and composition of individual committees of the Supervisory Board are defined in the Statute of each committee, which is subject to approval by the Supervisory Board. Each of the committees represents a quorum if all members of the committee in question were properly invited and if a simple majority of all members is present at the meeting. To pass a resolution, the consent of a simple majority of all members if necessary. Minutes of committee meetings are kept, which also contain minority opinions should the members in question so request. The minutes must be archived for as long as the Company remains in existence.

- 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.

Strategy Committee of the Supervisory Board

The committee's 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 renewing generation capacity.

Members of the Strategy Committee of the Supervisory Board:

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

Jiří Volf
Member since August 9, 2012

Members of the Strategy Committee of the ČEZ, a. s. Supervisory Board whose memberships ceased in 2012 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

Personnel Committee of the Supervisory Board

The Personnel Committee's activities are focused on the following:

- making proposals to the Supervisory Board regarding its personnel policies vis-à-vis the Board of Directors
- presenting opinions on proposals to elect and remove members of the Board of Directors
- submitting nominations of candidates for Board of Directors membership to the Supervisory Board for approval
- giving 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
- giving recommendations to the Supervisory Board on Board of Directors proposals regarding the appointment of personnel to the Supervisory Boards of companies in which ČEZ, a. s. has equity stakes 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

Milan Bajgar
Member since August 9, 2012

Vladimír Hronek
Member since December 2, 2010

Members of the Personnel Committee of the Supervisory Board whose memberships ceased in 2012 or before the Annual Report closing date:

Liběna Dobrovolná
Member from June 23, 2011 to June 26, 2012

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 by law or the Articles of Association 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.

The Board of Directors, *inter alia:*

- sees to commercial management, including keeping of proper accounts
- convenes and organizes the General Meeting, and presents to it, *inter alia*, the following:
  - the Company's draft business policy and draft amendments thereto
  - draft amendments to the Articles of Association
  - proposals to increase/decrease the stated capital, proposals for issue of 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; amounts to be allocated to reserves; and/or manner of settling Company losses
  - yearly report on the Company's business operations and the state of its assets
  - proposals to wind up the Company
  - summary explanatory report pursuant to Section 118(8) of the Act on Doing Business in the Capital Market
  - nomination of auditor to conduct the mandatory audit, including the audit of the Company's financial statements and consolidated financial statements, as recommended by the Audit Committee
- implements resolutions of the General Meeting
- grants and revokes the power to sign on behalf of the Company
- approves and amends the ČEZ, a. s. Signature Rules and, with the consent of the labor organizations operating within the Company, the ČEZ, a. s. Work Rules
- 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.

No later than by May 15 of the calendar year, the Board of Directors submits to the Supervisory Board for review the regular and consolidated financial statements together with income distribution proposals, the Board of Directors' report pursuant to Section 66a(9) of the Commercial Code, the manner of payment and due date of dividends, the amount of Board member bonuses, and the proposal for settlement of the Company's losses, if any. The Board of Directors also submits any extraordinary financial statements to the Supervisory Board for review.

Board of Directors Composition and Operation

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's headquarters: Duhová 2/1444, 140 53 Prague 4, Czech Republic.

The Board of Directors meets at least once per month. As a rule, meetings take place weekly. In 2012, a total of 46 meetings were held: 37 regular meetings and nine extraordinary meetings.

How the Board of Directors Makes Decisions

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. In order for the Board of Directors to adopt a resolution, a simple majority of the votes of all its members is necessary.

Minutes of meetings are kept, including descriptions of all resolutions adopted, and when members vote against any resolution of the Board of Directors, or abstain from voting, they must be mentioned in the minutes by name. When necessary in urgent matters, a decision may be made without holding a meeting – such decisions are referred to as *per rollam*. In such cases, the resolution is deemed to have been adopted if at least a two-thirds majority of all members took part in the voting and, at the same time, a simple majority of all members voted in favor of the resolution in question. Decisions taken without holding a meeting 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, Company 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 the best of their and knowledge 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 seeing to the Company's commercial management, the Board of Directors decides in matters such as, *inter alia*:

- use of the Company's non-distributable reserve fund, unless stipulated otherwise by law
- increase of the Company's stated capital in accordance with Section 210 of the Commercial Code, and the issuance of Company shares booked to owner in conjunction therewith
- price proposals submitted to the regulatory body
- 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
- capital projects and their implementation, subject to the Articles of Association

- 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
- the content of the annual report pursuant to the Accounting Act and of the half-yearly and yearly reports pursuant to the Act on Doing Business in the Capital Market
- allocation of bonuses determined by the General Meeting between the Board of Directors and Supervisory Board on the basis of rules approved by the General Meeting
- 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
- divestiture of real property, and/or lease thereof in cases when the lease term would exceed three years
- acquisition, divestiture, encumbrance, and/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
- capital projects with values in excess of CZK 500 million
- disposition of equity holdings in other legal entities headquartered in the Czech Republic or abroad under the conditions set forth in the Company's Articles of Association
- transfers and/or encumbrance of the Company's treasury shares
- staffing of the supervisory boards of companies in which ČEZ, a. s. holds an equity stake exceeding CZK 500 million of the basic share capital, or of other predetermined companies
- issuance of bonds except when the consent of the General Meeting is required pursuant to Section 160 of the Commercial Code
- provision of options for Company shares
- entering into contracts pursuant to Section 193(2) of the Commercial Code
- enabling the conduct of due diligence (legal, commercial, technical, and/or environmental audit) of the Company and/or any of its organizational units
- entering into manager contracts with executives who are also members of the Board of Directors and with Chief Officers (division heads) of the Company, and on appointment to the office of Chief Executive Officer
- stipulation and evaluation of tasks assigned to 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
- drafting the Company's business plan within the framework of the business policy approved by the General Meeting
- drafting the business policies (and amendments thereto) of controlled entities with stated capital in excess of 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 of ČEZ, a. s.

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

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,
First Vice Chairman from May 21, 2008 to June 29, 2010,
Vice Chairman from May 10, 2006 to May 20, 2008 and from June 29, 2010 to September 15, 2011,
Member continuously since December 15, 2005

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.

In 2011, the Supervisory Board elected Daniel Beneš to the Board of Directors for an additional 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 construction of new units at Temelín Nuclear Power Station.

Number of ČEZ, a. s. shares as at December 31, 2012: 0.
Number of ČEZ, a. s. share options at December 31, 2012: 512,602.
Number of ČEZ, a. s. share options at March 31, 2013: 512,602.

- 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)
- 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 16, 2011 (three-year term)
- Coal Energy, a.s. in liquidation – member of the Supervisory Board and Chairman of the Supervisory Board in 2006–2009
- Jadrová energetická spoločnosť Slovenska, a. s. – member and Vice Chairman of the Supervisory Board in 2009–2013 (until January 2013).

Martin Novák

Vice Chairman since October 20, 2011,
re-elected effective from May 22, 2012,
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 Master of Business Administration (MBA) program at the University of Pittsburgh, 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, Accounting Section.

Number of ČEZ, a. s. shares as at December 31, 2012: 900.
Number of ČEZ, a. s. share options at December 31, 2012: 243,497.
Number of ČEZ, a. s. share options at March 31, 2013: 243,497.

- 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 as at December 31, 2012: 0.
Number of ČEZ, a. s. share options at December 31, 2012: 165,000.
Number of ČEZ, a. s. share options at March 31, 2013: 165,000.

- 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 in 2009–2013 (until January 2013).

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 as at December 31, 2012: 216.
Number of ČEZ, a. s. share options at December 31, 2012: 126,256.
Number of ČEZ, a. s. share options at March 31, 2013: 126,256.

- ▪ CM European Power International B.V. – member of the Board of Directors since November 19, 2011 (three-year term)
- ■ Loyalty Management CZ, a.s. – Vice Chairman of the Board of Directors in 2003–2010 (resignation letter delivered on May 13, 2010, but termination of office has not yet been recorded in the Commercial Register)
- ■ Loyalty Consulting s.r.o. – Partner and Managing Director in 2003–2012
- ■ Dalkia Česká republika, a.s. – member of the Supervisory Board in 2010–2012.

Michaela Chaloupková

Member since October 20, 2011

A graduate of the University of West Bohemia in Pilsen, Faculty of Law. In 2007 Ms. Chaloupková 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 Chairwoman 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 as at December 31, 2012: 0.
Number of ČEZ, a. s. share options at December 31, 2012: 134,153.
Number of ČEZ, a. s. share options at March 31, 2013: 134,153.

Tomáš Pleskač

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

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 as at December 31, 2012: 0.
Number of ČEZ, a. s. share options at December 31, 2012: 190,000.
Number of ČEZ, a. s. share options at March 31, 2013: 250,000.

- ▪ Akenerji Elektrik Üretim A.S. – member of the Board of Directors since May 13, 2009 (term expires September 4, 2015), Vice Chairman of the Board of Directors since June 20, 2012
- ▪ 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 from September 5, 2008 to August 4, 2011, Chairman of the Board of Directors since August 5, 2011
- ▪ "U Petrské věže" Owners Association for Building No. 1157 – member of the statutory body since November 22, 2007; re-elected on November 2, 2010 (three-year term)
- ■ Mitteldeutsche Braunkohlengesellschaft mbH – member of the Supervisory Board in 2009–2012 (sale of the entity).

Members of the Board of Directors whose membership ceased in 2012 or before the Annual Report closing date:

Vladimír Hlavinka

Member from January 1, 2008 to January 31, 2013

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

Committees of the Board of Directors

The Board of Directors is entitled to set up committees and other teams to facilitate its work. No such committees or teams were formed in 2012.

▪ 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.

Audit Committee

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.

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.

Audit Committee Composition and Operation

The Audit Committee has five members, all of whom 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. Members serve for terms of four years. The work address of members of the Audit Committee is the Company's headquarters: Duhová 2/1444, 150 43 Prague 4, Czech Republic. The Audit Committee meets bimonthly, as a rule. Five regular meetings were held in 2012.

Members of the Audit Committee

Ján Dzvoník
Chairman since March 8, 2012,
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 as at December 31, 2012: 0.

- MERO ČR, a.s. – member of the Supervisory Board since June 25, 2008, re-elected on September 19, 2012 (four-year term); Chairman of the Supervisory Board since August 5, 2008, re-elected on October 2, 2012; and member of the Audit Committee since December 16, 2009 (four-year term)
- MERO GERMANY AG – Chairman of the Supervisory Board since June 28, 2012
- Poštovní tiskárna cenin Praha a.s. – member of the Board of Directors since October 11, 2012 (five-year term)
- MERO GERMANY AG – Vice Chairman of the Supervisory Board in 2009–2012
- ALIATROS spol. s r.o. – Partner and Managing Director in 2008–2010
- Česká pošta, s.p. – member of the Supervisory Board in 2007–2009.

Lubomír Klosík
Vice Chairman since March 8, 2012,
Member since May 13, 2009
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.

Jiřina Vorlová
Member since December 18, 2012
A graduate of the University of Economics, Prague, Faculty of Commerce, major in economics of internal commerce.
She gained managerial and other professional experience in positions such as Head of the Business Support Department at the Ministry of Finance of the Czech Republic.

Number of ČEZ, a. s. shares as at December 31, 2012: 0.

- ČEPRO, a.s. – member of the Supervisory Board since February 23, 2011, First Vice Chairwoman of the Supervisory Board since March 31, 2011
- PPP Centrum a.s. – member of the Board of Directors since March 1, 2012.

- 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.

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, is subject to General Meeting approval. 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 is 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 is decided by the Audit Committee.
- target-based 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 – at Company expense, endowment life insurance is taken out for members of the Board of Directors and Supervisory Board. Upon termination of office or upon the Company withdrawing from the endowment life insurance contract, the policy in question is transferred free of charge to the member of the Board of Directors or Supervisory Board.
- 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 who, due to statutory restrictions, are not allowed to earn remuneration do not receive monthly fixed remuneration or any other consideration unless permitted by law.

Persons with Executive Authority at ČEZ, a. s.

The senior management of ČEZ, a. s. consists of persons with executive authority. These are the Chief Executive Officer (CEO) and the seven chief officers who report directly to him. The work address of the CEO and the other chief officers is the corporate headquarters of ČEZ, a. s.: Duhová 2/1444, 140 53 Prague 4, Czech Republic.

Chief Executive Officer

Daniel Beneš
Chief Executive Officer since September 16, 2011
For personal data, see entry under Board of Directors, above.

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 a unified platform for assessing major CEZ Group projects and initiatives in various phases of their life cycles, the Senior Management Council now integrates the portfolios of the former Strategy and Development Committees. The Senior Management Council meets every week, as a rule. Special "strategy meetings" of the Senior Management Council consider among other things market developments, strategic projects, site plans, management of assets in the various business segments, composition of capital expenditures, and proposals concerning Company strategy, all of 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, as well as the quality and safety aspects of the corporate culture, current and potential problems, quality issues, and their optimal solutions.

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.

Michaela Chaloupková
Chief Procurement Officer since January 1, 2012
For personal data, see entry under Board of Directors, above.

Tomáš Pleskač
Chief Distribution and International Affairs Officer since April 1, 2012
For personal data, see entry under Board of Directors, above.

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 in Kansas City.

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, 2012: 94,223.
Number of ČEZ, a. s. share options at December 31, 2012: 150,000.
Number of ČEZ, a. s. share options at March 31, 2013: 150,000.

- Eurelectric, the international association based in Brussels – member of the Board of Directors since June 4, 2012
- 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, 2012 (term expires October 31, 2014)
- 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.
- ■ Eurelectric, the international association based in Brussels – deputy member of the Board of Directors in 2005–2012.

Ladislav Štěpánek

Acting Chief Production Officer since February 1, 2013

A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering.

He gained managerial and other professional experience in positions such as director of the CEO's office, director of the Board of Directors' office, and head of the Fuel Cycle department of ČEZ, a. s.

Number of ČEZ, a. s. shares at December 31, 2012: 15,000.
Number of ČEZ, a. s. share options at December 31, 2012: 0.
Number of ČEZ, a. s. share options at March 31, 2013: 0.

Members of ČEZ, a. s. senior management whose membership ceased in 2012 or before the Annual Report closing date:

Vladimír Hlavinka

Chief Production Officer from January 1, 2008 to January 31, 2013

Hana Krbcová

Chief Human Resources Officer from October 1, 2009 to June 30, 2012

Jiří Kudrnáč

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

- 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.

Material Reorganizations

As of January 1, 2012 a reorganization took effect which began to streamline the Company's line management at the senior level.

In this reorganization, the Chief Operating Officer's division was eliminated, as was the position of Chief Operating Officer. Some departments were moved to the Chief Executive Officer's division, while the procurement department was turned into a separate division that sees to the centralization of all procurement processes, including the fuel cycle.

The Administration and Human Resources divisions were placed under the Chief Finance Officer.

The Distribution division was placed under the Chief International Affairs Officer.

As of April 1, 2012 the Distribution division, headed by the Chief International Affairs Officer, was merged with the International Affairs division to form a new Distribution and International Affairs division.

As of July 1, 2012 the Human Resources and Administration division was transformed into sections reporting directly to the Chief Financial Officer. This reorganization was carried out to create conditions for further improving efficiency and successfully implementing the Provision of Services project.

As of October 1, 2012 a portion of the enterprise, corresponding to the Počerady Power Station organizational unit, was split off into a separate joint-stock company, Elektrárna Počerady, a.s., in accordance with the conclusions of the ČEZ, a. s. General Meeting held on June 26, 2012.

As of January 1, 2013 the company ČEZ Korporátní služby, s.r.o. began operating with an expanded list of principal businesses (functioning as a shared services center). From ČEZ, a. s., it took over a portion of the activities of the CEZ Group's Accounting and Personnel Services departments as well as the activities of ČEZ Správa majetku, s.r.o.

As of February 1, 2013 a portion of the enterprise, corresponding to the Dětmarovice Power Station organizational unit, was split off into a separate joint-stock company, Elektrárna Dětmarovice, a.s.

Powers and Responsibilities as at December 31, 2012

At the executive employees level, the Company's senior management consists of the Chief Executive Officer and the other chief officers (division heads).

Chief Executive Officer

The Chief Executive Officer 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 Chief Executive Officer directs 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.

The Chief Executive Officer is in charge of Company strategic and external matters relating to CEZ Group.

The Chief Executive Officer carries out substantive management of subsidiaries involved in the area of brown coal mining and sales.

Division Heads

Chief Finance Officer

The Chief Finance Officer is responsible for commercial and financial management, human resources management, and for the effective configuration and functioning of support services.

The Chief Finance Officer is in charge of the following areas: financing, central controlling, accounting, taxes, risk management, information and communication technology management, equity stakes, and human resources.

The Chief Finance Officer carries out substantive management of subsidiaries involved in the areas of information technologies and corporate services.

Chief Production Officer

The Chief Production Officer is responsible for efficient generation of electricity and heat in accordance with safety standards and, further, for maintaining a functional system of power plant maintenance, including maintaining power plant personnel at the required level of fitness.
The Chief Production Officer is in charge of power sources (process management) and central engineering services.
The Chief Production Officer carries out substantive management of subsidiaries involved in the generation of electricity and heat.

Chief Strategy Officer

The Chief Strategy Officer is in charge of developing strategy, proposing and evaluating opportunities and directions for business development, strategic asset management, optimization of CEZ Group performance, and management of projects and project know-how.
The Chief Strategy Officer coordinates scientific research within CEZ Group.

Chief Investment Officer

The Chief Investment Officer is in charge of building new and comprehensively renewing existing generating units (except for wind farms), both in the Czech Republic and abroad, and providing technical support for acquisition projects.
The Chief Investment Officer carries on this activity while adhering to requirements of nuclear safety, radiation protection, and general safety requirements.
The Chief Investment Officer carries out substantive management of subsidiaries involved in the areas of capital expenditure and engineering.

Chief Distribution and International Affairs Officer

The Chief Distribution and International Affairs officer is in charge of international business (except for electricity wholesaling and trading in natural gas), the distribution segment, transfer of best practices among distribution companies, mergers & acquisitions (M&A), and managing of renewable power sources.
The Chief Distribution and International Affairs officer sees to the substantive management of international equity holdings, as well as of subsidiaries involved in the areas of electricity distribution to end customers, distribution grid maintenance and repair, and electricity metering-related activities.

Chief Sales Officer

The Chief Sales Officer is in charge of selling generated electricity, trading, and substantive management of international sales representations.
The Chief Sales Officer sees to long-term contracts for fixing margins on electricity generation, portfolio optimization, and sales support.
The Chief Sales Officer carries out the substantive management of subsidiaries involved in selling electricity and natural gas to end customers and providing end-customer services.

Chief Procurement Officer

The Chief Procurement Officer is in charge of all aspects of purchasing and sale; sales support; logistics and storage; and logistics methodology management for the Company and for CEZ Group in the Czech Republic (other than purchasing and sale of electricity, heat, selected operational substances, and financial services).
At the international level, the Chief Procurement Officer is in charge of procurement operations related to the construction of new and the comprehensive renewal of existing power plants, as well as coordinating other purchasing, selling, and logistics activities.
The Chief Procurement Officer carries out substantive management of subsidiaries involved in purchasing and selling electrical components.

Remuneration Principles – Chief Executive Officer and 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 hours 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 reach 60.0 – 77.8% in the case of the Chief Officers (division heads), including the Chief Executive Officer but excluding the Chief Investment Officer.
  The criteria for granting an individual annual bonus to an Executive are based on the Company's strategic priorities and principal objectives, which are set each year by the Chief Executive Officer in an executive order. For 2012, the weightings of the individual criteria were stipulated as follows:
  - 10% for the CEZ Group economic indicator (ROIC)
  - 20% for an economic indicator 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 to which the CEZ Group EBITDA and CEZ Group ROIC targets are met.
  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 department based on the (consolidated) financial statements of the Company/CEZ Group and/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. 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 borne 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.
- 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 and subject to 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 traveling to visit their families.
- employee benefits – Executives receive premium healthcare. In addition, all Executives receive the benefits set forth in the valid Collective Agreement.

Executives who are at the same time members of the Company's Board of Directors are entitled to stock options, company car, and reimbursement of travel expenses only once.

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	2,315	–	52,922
Bonus linked to Company performance and wage compensation [1]	CZK '000	77	–	63,085
Remuneration to members of Company governing bodies	CZK '000	8,298	5,418	–
2011 bonus paid to members of governing bodies	CZK '000	16,043	9,457	–
Severance pay and cash settlement	CZK '000	–	–	–
Other cash income	CZK '000	8,569	2,464	5,768
of which: Supplemental Pension Insurance contributions [1]	CZK '000	62	–	105
endowment life insurance	CZK '000	8,449	2,464	5,335
use of employee personal account [1]	CZK '000	58	–	122
life jubilee bonus [1]	CZK '000	–	–	–
domestic business travel reimbursement above limit	CZK '000	–	–	3
international business travel reimbursement above limit	CZK '000	–	–	203
other cash income	CZK '000	–	–	–
Other in-kind income [1]	CZK '000	935	2,151	549
of which: company car for business and personal use	CZK '000	921	2,120	464
mobile telephone for business and personal use	CZK '000	14	31	8
mobility program	CZK '000	–	–	77
other in-kind income	CZK '000	–	–	–
Income from entities controlled by the issuer	CZK '000	394	–	10,000
of which: remuneration to members of governing bodies of controlled companies	CZK '000	394	–	9,993
endowment life insurance	CZK '000	–	–	3
company car for business and personal use [1]	CZK '000	–	–	–
other cash and in-kind income	CZK '000	–	–	4
Information on loans and securities				
Loans originated by the issuer	CZK '000	–	–	–
Loans originated by entities controlled by the issuer	CZK '000	–	–	–
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 options to which claim arose in 2012	number	–	663,906	50,000
average option price	CZK	–	718.42	738.98
Number of shares on which option was exercised	number	–	–	–
average option price	CZK	–	–	–
resulting in-kind income taxed	CZK millions	–	–	–
Number of shares on which option expired or was otherwise terminated	number	750,000	160,000	–
average option price	CZK	1,192.74	1,089.54	–
Number of options whose beneficiaries left office	number	–	–	285,000
average option price	CZK	–	–	908.56
Number of options held at December 31, 2012	number	–	1,656,508	150,000
average option price	CZK	–	859.08	859.14
Number of Company shares at December 31, 2012 held by members of governing bodies and other persons with executive authority [2]	number	5,282	1,116	94,223

[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 are for all persons who were members of governing bodies or classified as other persons with executive authority at December 31, 2012.

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 Volf was a member of the Board of Trustees of Virtuální institut – Internetové centrum pro sociální studia, o.p.s., in liquidation, in 2000–2008. The liquidation was completed in 2008 and the company was stricken from the Commercial Register. In 2008–2011 he was Managing Director of Daňová akademie s.r.o. in liquidation.
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.

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:
Members of the Supervisory Board carry out the duties of their office under an Agreement on Membership of the ČEZ, a. s. Supervisory Board, and members of the Audit Committee do so under an Agreement on Membership of the ČEZ, a. s. Audit Committee. These agreements include a non-compete clause. One member of the Supervisory Board has a consulting services contract. Certain members of the Supervisory Board and Audit Committee have agreements on use of a company car.
Members of the Board of Directors carry out the duties of their office under an Agreement on Membership of the Board of Directors. In the event of termination of office prior to the end of the four-year term (except in cases of resignation), they are entitled – under the terms of the aforesaid agreement – to severance pay in the amount of their aggregate remuneration for the number of months that would otherwise have been paid, had they remained in office until the end of their term. All members of the Board of Directors have entered into non-compete agreements, as well as stock option agreements, agreements on use of a company car, and agreements on endowment life insurance.
Division heads carry out their duties of office under an employment contract. One of the division heads has an agreement on bonus upon completion of a particular task, which sets forth a special target-based bonus. The agreements do not treat any special benefits in the event of termination of employment. One of the division heads, who is not a member of the Board of Directors, has a stock option agreement.

Potential conflicts of interest:
No 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:
No prior agreement with any person with executive authority exists on the selection of that person for his or her current 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. Members of the Supervisory Board who are employees of ČEZ, a. s. are elected in proper elections.

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 24–43 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. From the publication of that summary 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.

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 2012 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. These persons are nominated by the shareholders, and 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.

1 2 3

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 and affiliated entities. As at December 31, 2012 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 taking place
   - 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 questions posed by shareholders, ČEZ is governed by applicable law, which requires that it provide answers to to such 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 questions posed by shareholders to be sufficient.

Approach to Risks in Relation to Financial Reporting

As required by the Accounting Act, ČEZ, a. s. maintains accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The obligation under the Income Tax Act to also report figures without the influence of international accounting standards is met by maintaining a parallel general ledger pursuant to Czech Accounting Standards (CAS). The results from the CAS general ledger are used for tax purposes only.

Until December 31, 2012, ČEZ also provided accounting services to selected subsidiaries headquartered in the Czech Republic, which together with ČEZ, a. s. and other companies make up the CEZ Consolidated Group. Effective from January 1, 2013, a substantial portion of this accounting services function was transferred to the subsidiary ČEZ Korporátní služby, s.r.o.

The books of these selected subsidiaries are kept in accordance with Czech accounting regulations and, at the same time, documentation is prepared according to IFRS for consolidation, evaluation, and planning purposes. Dual general ledgers (CAS and IFRS) functionality is implemented for most of these selected subsidiaries as well.

Accounting processes at ČEZ and in the selected 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 elaborated in work procedures and methodological materials, which describe specific parts of the accounting function.

Unified accounting policies at ČEZ and its 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 consolidated financial statements are stipulated in the Rules of Consolidation.

Accounting transactions are processed in accordance with a directive issued by each company individually, subject to the general principle that all accounting transactions are recorded only on the basis of approved documentation. Approval takes place either in writing for documents forwarded to the accounting department in paper form, or electronically through the SAP (enterprise information system) approvals 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 of transactions) in the accounting system is limited to employees of the relevant 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 on an ongoing basis by the Accounting Section. In addition, they are audited by an external auditor, who carries out the audit of the individual and consolidated financial statements as at the balance sheet date, i.e. December 31.

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.

The Summary Report Pursuant to Section 118(8) of the Act on Doing Business on the Capital Market, on Certain Aspects of the Shareholders' Equity, is based on the requirements set forth in Sections 118(5)(a)-(k) of said Act.
As at December 31, 2012, 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 161,494,229,000.

As of December 31, 2012, 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, the Ministry of Labor and Social Affairs of the Czech Republic, and the Office for Government Representation in Property Affairs, 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 Limited, whose stake is 5.24% of the stated capital.

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, a. s. on the basis of a General Meeting resolution are not exercised by the Company. As at December 31, 2012, ČEZ, a. s. held 3,875,021 such treasury shares, i.e. 0.72%.
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 6th, 7th, 8th, 11th, 12th, 13th, 14th, 19th, 20th, 21st, 23rd, and 24th Eurobond issues; the 1st, 2nd, and 4th Namensschuldverschreibung issues; the 1st and 2nd US bond issues; 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 for EUR 100 million signed in 2012; 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 2012 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 880 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 executives 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. Option beneficiaries 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 option beneficiary 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.
In 2012, among employees and members of the Board of Directors there were nine 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.

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WE'RE TESTING THE ENERGY OF TOMORROW

The Smart Region pilot project focused on building out smart distribution grids has been ongoing in Vrchlabí, a city in North Bohemia, since early 2010. For the purpose of increasing the reliability of distribution grid operation, 2012 saw the replacement of existing medium-voltage cables with cables designed for higher voltages. Also, five new transformer stations were installed and connected to the distribution grid, while two existing transformer stations were rebuilt. All of these transformer stations now include new protection, automation, and monitoring technologies, enabling faults to be identified in the shortest possible time.


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Report on Operations
Financial Performance of CEZ Group

For accounting purposes, the CEZ Consolidated Group consisted of a total of 112 companies at December 31, 2012. Of this number 92 were fully consolidated, and 20 associates and joint-ventures were consolidated by the equity method.

CEZ Consolidated Group as at December 31, 2012

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

Power Production & Trading Central Europe

ČEZ, a. s.
Baltic Green I sp. z o.o.
Baltic Green II sp. z o.o.
Baltic Green III sp. z o.o.
A.E. Wind sp. z o.o.
CEZ Bosna i Hercegovina d.o.o.
CEZ Deutschland GmbH
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.
Eco-Wind Construction S.A.
Elektrárna Dětmarovice, a.s.
Elektrárna Chvaletice a.s.
Elektrárna Mělník III, a. s.
Elektrárna Počerady, a.s.
Elektrárna Tisová, a.s.
Elektrociepłownia Chorzów ELCHO sp. z o.o.
Elektrownia Skawina S.A.
Elektrownie Wiatrowe Lubiechowo sp. z o.o.
Energetické centrum s.r.o.
Energotrans, a.s.
F.W. Tolkowiec sp. z o.o.
Farma Wiatrowa Leśce sp. z o.o.
Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.
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.
LOMY MOŘINA spol. s r.o. *)

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.
ÚJV Řež, a. s.

Power Production & Trading Southeastern Europe
CEZ Bulgarian Investments B.V.
ECO Etropol 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. *)
Sakarya Elektrik Perakende Satis A.S. *)

Other Southeastern Europe
CEZ Bulgaria EAD
CEZ Romania S.A.
CEZ RUS OOO
CEZ Ukraine LLC

*) associate or joint-venture

CEZ Consolidated Group as at December 31, 2012

ČEZ, a. s.

- 100% CEZ Deutschland GmbH
- 100% CEZ Towarowy Dom Maklerski sp. z o.o.
- 100% CEZ Finance Ireland Ltd.
  - 100% CEZ International Finance Ireland Ltd.
- 100% CEZ Magyarország Kft.
- 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 Bulgaria EAD
- 100% CEZ Trade Polska sp. z o.o.
- 100% ČEZ Prodej, s.r.o.
- 100% ČEZ Měření, s.r.o.
- 100% Energetické centrum s.r.o.
- 100% CEZ Srbija d.o.o.
- 52.5% ÚJV 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%
  - 1.3% ČEZ OZ uzavřený investiční fond a.s. 0.1%
- 98.6%
- 100% Elektrárna Chvaletice a.s.
- 100% Elektrárna Dětmarovice, a.s.
- 100% Elektrárna Mělník III, 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.
- 76% CEZ Shpërndarje Sh.A.
- 100% TEC Varna EAD
- 100% CEZ Albania Sh.A.
- 100% CEZ Bulgaria EAD
- 100% CEZ Bosna i Hercegovina d.o.o.
- 67% CEZ Elektro Bulgaria AD
- 67% CEZ Razpredelenie Bulgaria AD
- 100% CEZ RUS OOO
- 100% CEZ Bulgarian Investments B.V.
  - 100% [6] ECO Etropol AD
  - 100% Free Energy Project Oreshets EAD
- 100% CEZ Ukraine LLC
- 51% NERS d.o.o.

% 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, 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 and CEZ Distributie, 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 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%.
[6] In the case of Eco Etropol AD, CEZ Bulgarian Investments B.V. owns 49,999 out of a total of 50,000 shares. The stake of CEZ Bulgarian Investments B.V. is 99.998%.

- 100% ČEZ Distribuce, a. s.
- 100% ČEZ Distribuční služby, s.r.o.
- 100% ČEZ Teplárenská, a.s.
  - 100% MARTIA a.s.
  - 55.8% Tepelné hospodářství města Ústí nad Labem s.r.o.
- 100% Teplárna Trmice, a.s.
- 100% PPC Úžín, a.s.
- 100% ČEZ Bohunice a.s.
  - 49% Jadrová energetická spoločnosť Slovenska, a. s.
    - 100% JESS Invest, s. r. o.
- 50% CM European Power International B.V.
  - 100% CM European Power International s. r. o.
  - 100% MOL - CEZ European Power Hungary Kft.
  - 51% CM European Power Slovakia, s. r. o.
- 24.5% CM European Power Slovakia, s. r. o.
- 100% ČEZ Energetické produkty, s.r.o.
- 100% Elektrárna Počerady, a.s.
- 100% Elektrárna Tisová, a.s.
- 100% Energotrans, a.s.
- 50.1% ČEZ Energo, s.r.o.
- 100% Severočeské doly a.s.
  - 100% SD - 1.strojírenská, a.s.
  - 100% SD - Autodoprava, a.s.
  - 100% SD - Kolejová doprava, a.s.
  - 100% SD - Rekultivace, a.s.
  - 92.7% SD - KOMES, a.s.
  - 100% PRODECO, a.s.
- 51.1% LOMY MOŘINA spol. s r.o.

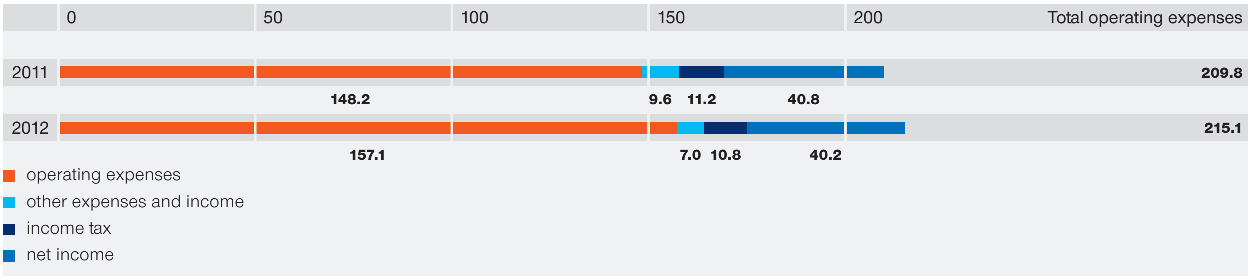
- 100% CEZ Silesia B.V.
  - 100% CEZ Chorzow B.V.
    - 100% Elektrociepłownia Chorzów ELCHO sp. z o.o.
- 100% CEZ Poland Distribution B.V.
  - 100% Elektrownia Skawina S.A.
  - 75% Eco-Wind Construction S.A.
    - 100% A.E. Wind sp. z o.o.
    - 100% Elektrownie Wiatrowe Lubiechowo sp. z o.o.
    - 100% Farma Wiatrowa Leśce sp. z o.o.
    - 100% Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.
    - 100% F.W. Tolkowiec sp. z o.o.
    - 100% Mega Energy sp. z o.o.
  - 100% Baltic Green I sp. z o.o.
  - 100% Baltic Green II sp. z o.o.
  - 100% Baltic Green III sp. z o.o.
- 95% Ovidiu Development S.R.L. 5%
- 100% [1] Tomis Team S.R.L. 1 share [1]
  - 100% M.W. Team Invest S.R.L.
  - 100% Taidana Limited
- 100% [2] CEZ Vanzare S.A. 1 share [2]
- 100% [2] CEZ Distributie S.A. 1 share [2]
- 100% [3] CEZ Romania S.A. 1 share [3]
  - 100% TMK Hydroenergy Power S.R.L.
- 37.4% Akenerji Elektrik Üretim A.S.
  - 99.99% [4] Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S. 0.0025% 0.0025%
  - 99.99% AK-EL Kemah Elektrik Üretim ve Ticaret A.S.
  - 100% Aken B.V.
  - 90% Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.
  - 90% Akka Elektrik Üretim A.S.
  - 100% AK-EL Yalova Elektrik Üretim A.S.
  - 99.3% Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.
  - 99.4% Akkur Enerji Üretim Ticaret ve Sanayi A.S.
  - 100% [5] Egemer Elektrik Üretim A.S. 2 shares [5] 2 shares [5]
  - 45% Akcez Enerji A.S.
- 27.5% Akcez Enerji A.S.
  - 100% Sakarya Elektrik Dagitim A.S.
  - 100% Sakarya Elektrik Perakende Satis A.S.

CEZ Group Financial Performance Results

Net income fell CZK 0.6 billion year-on-year, to CZK 40.2 billion. Earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased by CZK 1.8 billion year-on-year, to CZK 85.5 billion.

Net Income Breakdown

Net Income Breakdown (CZK billions)



Operating Income and Expenses

The main factor influencing the CZK 0.6 billion drop in operating income was operating expenses (– CZK 8.9 billion), and in particular higher expenses for purchased power, including additional expenses for mandatory purchasing of power from renewable sources of energy (– CZK 5.8 billion).

Other factors influencing the lower operating result were emission rights, credits, and certificates, net (– CZK 2.4 billion) and lower gains and losses from electricity, coal and gas derivative trading, net (– CZK 1.3 billion), due to declines in the market prices of electricity and emission rights.

Of positive influence were, in particular, higher revenues from sales of electricity (+ CZK 5.0 billion), from sales of heat (+ CZK 1.1 billion) due in particular to the Energotrans acquisition, and from sales of gas (+ CZK 0.6 billion), as well as lower fuel expenses due to lower generation in coal-fired power plants (+ CZK 1.3 billion).

Also up in year-on-year terms was depreciation and amortization (– CZK 1.8 billion), reflecting the ongoing implementation of the extensive CAPEX program.

Other Expenses and Income

Other expenses and income were down CZK 2.6 billion year-on-year, to CZK –7.0 billion.

Shares in the results of companies consolidated by the equity method caused income to grow CZK 4.1 billion. This jump was influenced in particular by the one-off impact of the accounting settlement of the JTSD/MIBRAG transaction in 2011 (+ CZK 2.8 billion), as well as by higher income in the Turkish companies (+ CZK 1.6 billion), due primarily to FOREX gains on translation of USD-denominated credits.

A decrease in gift tax on emission rights had a positive, CZK 1.8 billion impact due to the decline in the market price of emission rights.

Interest expenses fell CZK 0.6 billion, particularly on higher capitalization, while interest revenues – mostly from loans granted and receivables – were down CZK 0.1 billion.

Currency gains/losses and financial derivatives caused income to fall CZK 1.7 billion, primarily on the year-on-year decline in the valuation of the MOL option (– CZK 0.8 billion) and other financial derivatives and currency translation (– CZK 0.9 billion).

Goodwill write-offs were up CZK 0.6 billion in 2012, due in particular to a partial write-off of goodwill in Romanian distribution in 2012 compared to the write-off of goodwill in Albania in 2011.

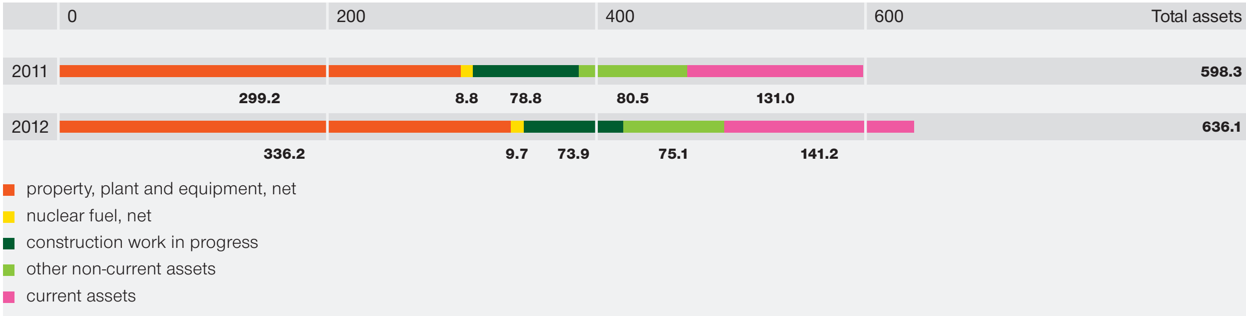
Dividend income was down CZK 0.5 billion in 2012, due to lower dividends received from Dalkia Česká republika.

Other negative impacts included a year-on-year drop in compensation for the shift of the Energotrans acquisition (– CZK 0.4 billion) and expenses related to bond repurchasing (– CZK 0.3 billion).

Income tax was down CZK 0.4 billion year-on-year.

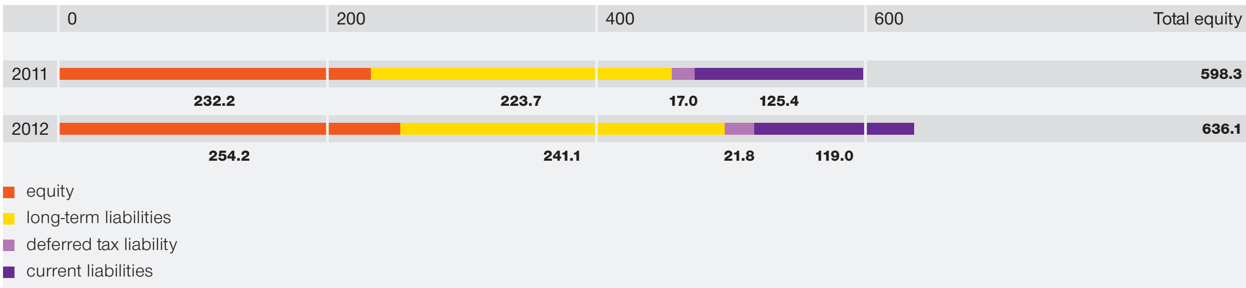
Structure of Assets and Capital

Structure of Assets as at December 31 (CZK billions)



CEZ Group consolidated assets grew CZK 37.8 billion compared to 2011, to CZK 636.1 billion.
Fixed assets increased by CZK 27.6 billion to CZK 494.9 billion. Within this amount, the book value of property, plant and equipment, nuclear fuel, and construction work in progress rose CZK 33.0 billion on new acquisitions and capital expenditures. Other fixed assets fell CZK 13.4 billion, mostly due to investments and other financial assets, net being lower on a CZK 12.4 billion drop in the value of available-for-sale securities. On the other hand, intangible assets grew in value, by CZK 5.1 billion, particularly on the valuation of the net assets of companies newly added to CEZ Group to their fair value, and investments in associates and joint-ventures rose CZK 3.1 billion, which was attributable in particular to expanded stakes in Turkish companies.
Current assets were up CZK 10.2 billion in 2012, to CZK 141.2 billion, with the following factors contributing to the rise: a CZK 6.4 billion increase in derivative receivables, a CZK 6.1 billion rise in the balance of emission rights, a CZK 3.5 billion increase in liquid securities, a CZK 1.1 billion rise in income tax receivables, and a CZK 2.4 billion increase in stocks of fossil fuels, materials, and supplies. Growth in these current asset categories was offset by a CZK 4.1 billion drop in cash and cash equivalents, a CZK 3.8 billion decline in assets classified as held for sale, and a CZK 1.4 billion decrease in advances paid and prepayments.

Structure of Equity as at December 31 (CZK billions)



Equity, including non-controlling interests, grew CZK 22.0 billion in 2012, to CZK 254.2 billion. Net income generated in 2012 increased equity by CZK 40.2 billion; dividends reduced equity by CZK 24.0 billion. Other factors, which increased equity by CZK 5.8 billion, included most significantly the overall change in the fair value of cash-flow hedge instruments carried in equity (+ CZK 7.8 billion) and the overall change in the fair value of available-for-sale securities carried in equity (+ CZK 1.2 billion). On the other hand, currency translation differences (– CZK 1.5 billion) and deferred tax on items in other comprehensive income (– CZK 1.7 billion) decreased equity.

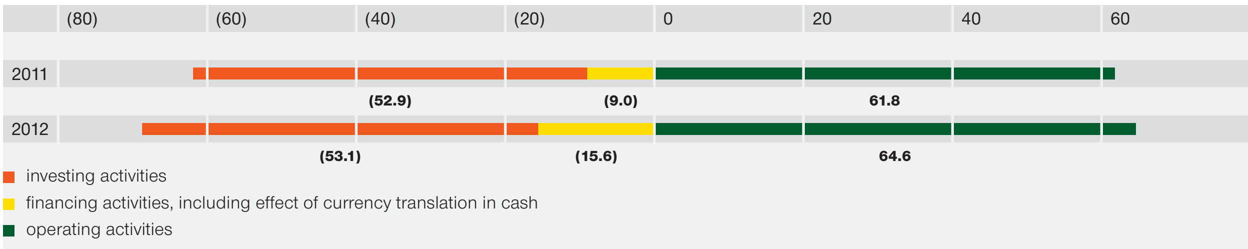
Long-term liabilities, including nuclear provisions, were up CZK 17.4 billion to CZK 241.1 billion, with the principal drivers being: a CZK 12.9 billion increase in bonds outstanding, to CZK 146.1 billion; a CZK 5.1 billion increase in the value of nuclear provisions due in particular to lower discount rates (market interest rates declined); and other factors accounting for a CZK 0.9 billion drop. Long-term bank loans declined CZK 1.5 billion as they were paid down.

Deferred tax liability grew CZK 4.8 billion, to CZK 21.8 billion, due in particular to three factors: a higher difference between the valuation of property, plant and equipment for tax and accounting purposes, respectively; an increase in deferred tax relating to other comprehensive income; and an increase in the income tax rate in Slovakia effective from 2013.

The CZK 6.4 billion drop in short-term liabilities, to CZK 119.0 billion, was caused in particular by a CZK 8.0 billion reduction in the current portion of long-term debt, including short-term loans; a CZK 2.6 billion decrease in derivative payables; and a CZK 2.3 billion decline in trade payables, including advance payments received for electricity. On the other hand, other liabilities were up CZK 6.5 billion, due in particular to unbilled deliveries of goods and services.

Cash Flows

Cash Flows (CZK billions)



Cash Flows (CZK billions)

	2011	2012
Cash and cash equivalents at beginning of period	22.2	22.1
Operating activities	61.8	64.6
Investing activities	(52.9)	(53.1)
Financing activities, including effect of currency translation in cash	(9.0)	(15.6)
Cash and cash equivalents at end of period	22.1	18.0

Cash provided by operating activities was up CZK 2.8 billion year-on-year, having been subjected to the following negative factors: lower net income (– CZK 1.0 billion); adjustments to reconcile income before income taxes to net cash provided by operating activities (– CZK 3.4 billion), the most important of which was the accounting settlement of the JTSD/MIBRAG transaction in 2011; and the impact of cash transactions (– CZK 1.7 billion), particularly higher income tax paid.

The CZK 8.9 billion drop in working capital, calculated as the change in working capital in 2012 (– CZK 6.3 billion) compared to the change in 2011 (– CZK 15.2 billion), was driven by higher retirements of receivables than of payables (+ CZK 5.8 billion), including accruals of unbilled electricity (+ CZK 7.1 billion). However, these factors were partially offset by growth in the balance of emission rights (– CZK 2.6 billion), inventories including fossil fuels (– CZK 0.9 billion), and other factors (– CZK 0.5 billion).

Cash used in investing activities was up CZK 0.3 billion year-on-year, primarily on a CZK 4.4 billion increase in acquisition of subsidiaries, associates and joint-ventures. Factors exerting in the other direction included a CZK 1.7 billion increase in proceeds from sales of fixed assets, a CZK 1.4 billion rise in the balance of loans and repayment thereof (higher repayments), year-on-year growth in restricted assets that was lower by CZK 0.7 billion, and other factors amounting to CZK 0.3 billion.

Cash used in financing activities, including the net effect of currency translation in cash, was up CZK 6.6 billion year-on-year. The main driver was a CZK 9.9 billion year-on-year increase in the balance of repayments and draw-downs of credits and loans (higher repayments). Lower dividends paid (by CZK 2.7 billion) and higher currency translation differences (by CZK 0.8 billion) had a positive impact.

Comprehensive Income

The comprehensive income, net of tax, rose CZK 13.4 billion year-on-year, to CZK 46.0 billion. The principal drivers of the year-on-year rise were the overall change in the fair value of cash-flow hedges (+ CZK 17.5 billion) and the change in the fair value of securities available for sale (+ CZK 1.2 billion).

On the other hand, the following factors reduced comprehensive income: related deferred tax (by CZK 3.5 billion), currency translation differences in equity (by CZK 1.1 billion), and the decline in net income (by CZK 0.6 billion).

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					
2011	69,436	49,635	119,071	55,745	(14,989)
2012	68,224	47,651	115,875	56,924	(16,110)
Distribution & Sale CE					
2011	93,793	9,946	103,739	15,996	(3,453)
2012	101,010	5,884	106,894	17,604	(3,585)
Mining CE					
2011	4,806	6,083	10,889	4,793	(1,876)
2012	4,632	5,905	10,537	4,392	(2,137)
Other CE					
2011	3,274	38,050	41,324	4,996	(2,170)
2012	3,170	39,171	42,341	5,703	(2,251)
Power Production & Trading SEE					
2011	3,860	706	4,566	2,310	(937)
2012	2,243	1,184	3,427	2,743	(1,103)
Distribution & Sale SEE					
2011	34,567	353	34,920	3,551	(2,285)
2012	35,799	847	36,646	(1,773)	(2,328)
Other SEE					
2011	25	2,207	2,232	88	(60)
2012	17	2,304	2,321	154	(64)
Elimination					
2011	–	(106,980)	(106,980)	(167)	–
2012	–	(102,946)	(102,946)	(238)	–
Consolidated					
2011	209,761	–	209,761	87,312	(25,770)
2012	215,095	–	215,095	85,509	(27,578)

CE = Central Europe
SEE = Southeastern Europe

The biggest segment, Power Production & Trading Central Europe, saw its EBITDA grow CZK 1.2 billion year-on-year on higher electricity generation volume in the Czech Republic and a corresponding growth in the gross margin on electricity, despite unfavorable developments in the market prices of electric power and emission rights. Another positive factor was the acquisition of a power plant and a power-heating plant through Energotrans, which joined CEZ Group in late June 2012. In Poland there was moderate growth in both the gross margin and electricity generation volume (up 0.1 TWh) due to higher generation from biomass.

The 0.7 TWh increase in electricity generation volume in the Czech Republic was related to record generation at the Dukovany and Temelín Nuclear Power Stations, which was up 2.0 TWh year-on-year on shorter outages and higher installed capacity, thereby offsetting the decline in generation at coal-fired power plants (–1.5 TWh). At the same time, generation of electricity from renewable sources of energy was up slightly (by 0.2 TWh) as hydro power stations saw their output increase due to higher precipitation.

EBITDA of the Distribution & Sale Central Europe segment was up CZK 1.6 billion, year-on-year, thanks to higher gross margins on sales of electricity and gas in the Czech Republic and Slovakia. Additional expenses for mandatory purchasing of electricity from renewable sources had a negative impact, however.

Sales of electricity in the Czech Republic posted positive results thanks in particular to lower expenses, connected with the prices at which electric power is procured, and to the settlement of unbilled electricity. Sales of natural gas to end customers rose significantly – by 2.3 TWh year-on-year.

EBIT (CZK millions)	Income tax (CZK millions)	Net income (CZK millions)	CAPEX (CZK millions)	Work force head count at December 31 (persons)	Segment
					Power Production & Trading CE
40,756	(7,177)	43,189	27,533	7,519	2011
40,814	(7,032)	41,235	26,103	7,790	2012
					Distribution & Sale CE
12,543	(2,281)	10,044	9,670	1,466	2011
14,019	(2,577)	11,111	8,304	1,459	2012
					Mining CE
2,917	(542)	193	4,121	3,467	2011
2,255	(443)	2,502	3,741	3,432	2012
					Other CE
2,826	(642)	2,220	23,751	8,555	2011
3,452	(718)	2,676	23,289	8,631	2012
					Power Production & Trading SEE
1,373	(80)	(103)	4,886	563	2011
1,640	(60)	603	6,947	480	2012
					Distribution & Sale SEE
1,266	(517)	(140)	2,534	8,631	2011
(4,101)	(3)	(4,562)	3,151	8,328	2012
					Other SEE
28	–	6	775	1,219	2011
90	(11)	92	973	1,188	2012
					Elimination
(167)	40	(14,656)	(22,157)	–	2011
(238)	40	(13,504)	(22,059)	–	2012
					Consolidated
61,542	(11,199)	40,753	51,113	31,420	2011
57,931	(10,804)	40,153	50,449	31,308	2012

Despite a slight year-on-year upswing in electricity distribution volume (+ 0.2 TWh), EBITDA attributable to distribution in the Czech Republic fell as expenses for mandatory purchasing of electricity from renewable sources grew, though the impact was mitigated by measures taken to cut operating expenses.

EBITDA of the Mining Central Europe segment was down CZK 0.4 billion year-on-year on a 2.3 million ton reduction in coal extraction volume at Severočeské doly. The primary cause of the lower coal extraction volume was lower demand on the part of ČEZ, a. s., corresponding to lower generation in coal-fired power plants, with slightly lower demand on the part of external customers – due to the warmer winter – and proceeds from the sale of surplus emission rights in 2011 as secondary causes.

The Power Production & Trading Southeastern Europe segment's EBITDA figure improved by CZK 0.4 billion on positive developments in Romania, which more than offset a decline in generation in Bulgaria. The CZK 1.4 billion rise in EBITDA in Romania is associated with the completion of the Fântânele-Cogealac wind farm, which brought a 0.4 TWh increase in electricity generation volume, including the impact of the granting of both green certificates. EBITDA in Bulgaria was down CZK 1.0 billion year-on-year, due to a 1.5 TWh drop in electricity generation volume at the Varna power plant on lower demand for electricity in the regulated market.

The EBITDA of the Distribution & Sale Southeastern Europe dropped substantially – by CZK 5.3 billion – in year-on-year terms, due primarily to governmental intervention in the regulatory environment in Albania.

EBITDA of the Albanian companies fell CZK 6.6 billion year-on-year on an unprecedented decision taken by the Albanian regulator in December 2011 setting tariffs for the years 2012–2014, in which it increased by 91% the regulated prices the distribution company must pay for energy, without any corresponding revision of the regulated prices applicable to the distribution company's end customers. This was followed by an increase in expenses for electricity imported to cover losses, which under a decision of the regulator was not reflected in tariffs for end customers. All this was accompanied by additional invoicing by the government-owned electricity producer for electricity supplied to cover losses, and by levying of additional taxes. The volume of electricity sold and distributed fell by 1.3 TWh and 0.7 TWh, respectively, due to legislative measures that caused the departure of the biggest customers.

EBITDA of the Romanian companies involved in distribution and sale was up CZK 0.9 billion year-on-year on a 0.3 TWh increase in electricity sales volume, with corresponding increases in the gross margin and operating expenses. At the same time, allowances for overdue receivables from the Romanian railways were reversed when the receivables in question were paid.

EBITDA of the Bulgarian distribution and sales companies was up moderately – by CZK 0.4 billion – in year-on-year terms, in conjunction with the announcement by the regulator of higher tariffs for end customers effective from July 1, 2012. The volume of electricity sold and distributed remained at 2011's levels, i.e. 10.1 TWh and 9.2 TWh, respectively.

Commercial and Financial Outlook for 2013

As of February 28, 2013, CEZ Group expected to post 2013 consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) of around CZK 80 billion and consolidated net income in the vicinity of CZK 37 billion. The net income of the parent company, ČEZ, a. s., was expected to be approximately CZK 22 billion.

In particular, the anticipation of a year-on-year decline in income reflects unfavorable developments in European energy markets, a declining trend in prices of electric power, lower allocation of emission rights for generation, the necessity of buying emission rights in the market, a decline in generation in the Czech Republic in conjunction with the comprehensive renewal of Prunéřov Power Station, reduced coal supplies, and lower planned deployment of generation sources.

Other factors contributing to the forecasted year-on-year decline in income are a lower realization hedging rate for the Czech Koruna against the Euro and extraordinary factors from 2012 (extraordinary trading gains and extraordinary repayment of receivables from the Romanian State railways). In conjunction with the ongoing extensive CAPEX program and completion of individual projects therein, CEZ Group also expects to see a year-on-year rise in depreciation and amortization.

Positive factors in the year-on-year growth forecast include, in particular, the termination of operations in Albania in January 2013 (following an unprecedented loss in 2012), growth in generation in completed wind farms in Romania, and the impact, on distribution in the Czech Republic, of correction factors by which the regulator, on an ongoing basis and two years in arrears, takes into account the difference between actually posted and permitted electricity distribution revenues and expenses. In year-on-year terms, we expect to see a decline in financial expenses in conjunction with such factors as the gift tax on emission rights (taxation terminated in 2012), the positive effect of removing the Albanian distribution company from the consolidation, and lower income tax.

CEZ Group sees the following material risks applying to the above growth forecast for 2013: development of national regulatory conditions in southeastern Europe (Bulgaria in particular), falling electricity prices, development of European regulation of the power industry (support for renewable sources and the system of emission rights in particular), and a deepening of the debt crisis and an economic slowdown in Europe. On the other hand, CEZ Group's performance results will be positively impacted by an agreement on coal supplies to Počerady Power Station and the sale of Chvaletice Power Station.

We expect CEZ Group investments (CAPEX and financial investments) in 2013 of around CZK 50 billion, over 60% of which we plan to invest in power sources.

In terms of 2013 cash flow, CEZ Group intends to cover nearly all planned investing and financing outflows, including dividends, out of cash generated by operating activity, and thus expects overall CEZ Group debt to grow only slightly.

CEZ Group Financing

Solvency in 2012

CEZ Group's solvency in 2012 was good and the companies of CEZ Group had no difficulties meeting their obligations, with the exception of the distribution and sales company in Albania which was placed in a delicate financial situation by decisions taken by the local regulator.

2012 saw continuation of the extensive program of CEZ Group capital expenditures which, like in past years, had a substantial impact on the Group's liquidity position. In particular, growth-oriented CAPEX went on renewal of brown coal-fired power plants, construction of a gas-fired power plant in the Czech Republic, and construction of a wind farm in Romania. CZK 23.9 billion in 2011 dividends were paid in 2012. Also in 2012, CEZ Group settled the acquisition of Energotrans and the sale of a stake in MIBRAG. Both transactions had minimal impact on CEZ Group's liquidity in 2012, as the purchase price for Energotrans included an off-set of an investment by CEZ Group in Pražská teplárenská a.s. made and settled in 2009.

Throughout 2012, the condition of the financial markets improved steadily, despite repeated waves of low confidence. Understandably, this was partly due to record-low interest rates and various forms of monetary expansion that gave investors incentives to invest in financial assets. Of significance for CEZ Group was, in addition, the fact that low interest rates forced bond market investors into longer instruments. The positive developments in the financial markets are also attested to by the fact that the volume of bonds issued in 2012 exceeded the volumes from 2010 and 2011.

In 2012, CEZ Group focused on getting its bonds listed in the capital markets of the United States of America, which have proven to be highly liquid and functional even in a time of crisis and negative news reports – particularly in the Eurozone. In April, ČEZ, a. s. issued USD 700 million (approximately CZK 12.9 billion) in ten-year bonds and USD 300 million (approximately CZK 5.5 billion) in 30-year bonds. Thus, CEZ Group succeeded in establishing itself in a market that, should problems in the Eurozone paralyze the Eurobond market, can be expected to continue to be sufficiently liquid to enable us to get the financing we need. The 30-year bonds are the longest that CEZ Group has ever issued in a public market and they contributed substantially to the successful result in the private placements market in the second half of the year, when we managed to issue EUR 191 million (approximately CZK 4.8 billion) in 35-year bonds and, subsequently, another EUR 50 million (approximately CZK 1.3 billion) in 30-year bonds. Together with a EUR 40 million (approximately CZK 1.0 billion) issue of 20-year registered bonds (Namensschuldverschreibung) in April 2012, our bond-issuing activities in 2012 played a major role in extending the average time-to-maturity of CEZ Group debts.

In early 2012, ČEZ repurchased bonds maturing in October 2012 and 2013, focusing in particular on the issue maturing first. In total, ČEZ, a. s. repurchased bonds with a nominal value of approximately EUR 350 million (approximately CZK 8.8 billion), EUR 222 million (approximately CZK 5.6 billion) of which was from the issue maturing in 2012. By this transaction, CEZ Group effectively reduced expenses associated with holding cash obtained from pre-financing the bonds' maturity.

In 2012, CEZ Group successfully renewed practically all its bilateral committed credit lines, totaling CZK 29 billion. A large majority of the committed credit lines continues to be through the bills of exchange program. ČEZ, a. s. hardly used these credit lines in 2012 and, like in previous years, 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, 2012, bills of exchange outstanding totaled CZK 2.5 billion, and of that amount CZK 1.5 billion was from the committed lines.

In May 2012, CEZ Group entered into another of a series of loan agreements with the European Investment Bank to finance capital expenditures in the Czech distribution grid – this latest loan is for EUR 100 million (approximately CZK 2.5 billion) and matures in ten years. In October 2012, a EUR 150 million (approximately CZK 3.7 billion) bank loan maturing in June 2014 was partially refinanced by issuing variable-rate bonds with parameters identical to the loan in question.

Thanks to these transactions, CEZ Group managed to increase the average maturity of its financial debts to a level just under 8.5 years.

At year end 2012 ČEZ, a. s. had drawn approximately 7% of the committed credits.

List of Bonds Outstanding as at December 31, 2012 Issued by CEZ Group

Security	Issuer	ISIN	Issue date	Volume	Interest	Maturity	Form	Face value
7th bond issue [1]	ČEZ, a. s.	CZ0003501058	January 26, 1999	CZK 2.5 billion	CPI + 4.2%	2014	booked to owner	CZK 1,000,000
4th Eurobond issue [2]	ČEZ, a. s.	XS0271020850	October 17, 2006	EUR 372.2 million	4.125%	2013	booked to owner	EUR 50,000
6th Eurobond issue	ČEZ, a. s.	XS0376701206	July 18, 2008	EUR 600 million	6.00%	2014	booked to owner	EUR 50,000
7th Eurobond issue [3]	ČEZ, a. s.	XS0384970652	September 17, 2008	JPY 12 billion	3.005%	2038	booked to owner	JPY 1,000,000,000
8th Eurobond issue [4]	ČEZ, a. s.	XS0387052706	September 22, 2008	EUR 6 million	zero coupon	2038	booked to owner	EUR 100,000
11th Eurobond issue	ČEZ, a. s.	XS0430082932	May 26, 2009	EUR 600 million	5.75%	2015	booked to owner	EUR 50,000
12th Eurobond issue [3]	ČEZ, a. s.	XS0447067843	September 8, 2009	JPY 8 billion	2.845%	2039	booked to owner	JPY 1,000,000,000
13th Eurobond issue [5]	ČEZ, a. s.	XS0458257796	October 19, 2009	EUR 750 million	5.00%	2021	booked to owner	EUR 50,000
14th Eurobond issue	ČEZ, a. s.	XS0462797605	November 4, 2009	EUR 50 million	6M Euribor + 1.25%	2019	booked to owner	EUR 50,000
19th Eurobond issue	ČEZ, a. s.	XS0502286908	April 16, 2010	EUR 750 million	4.875%	2025	booked to owner	EUR 50,000
20th Eurobond issue [6]	ČEZ, a. s.	XS0521158500	June 28, 2010	EUR 750 million	4.500%	2020	booked to owner	EUR 50,000
1st NSV (Namensschuld-verschreibungen)	ČEZ, a. s.	XF0000NS9FM8	November 29, 2010	EUR 40 million	4.500%	2030	Global Depositary Receipt (GDR)	EUR 500,000
2nd NSV (Namensschuld-verschreibungen)	ČEZ, a. s.	XF0000NS9TZ1	January 31, 2011	EUR 40 million	4.75%	2023	Global Depositary Receipt (GDR)	EUR 500,000

[1] Bonds issued with a rate of 9.22%; converted to variable rate of CPI + 4.2% in 2006.
[2] Issue repurchased in January 2012; original issue volume was EUR 500 million.
[3] Proceeds of issue in Japanese Yen were swapped for Euros through a credit linked swap.
[4] Yield is determined by difference between issue price (EUR 1,071,696) and face value (EUR 6,000,000) of the bond.
[5] 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 issue volume to EUR 750 million.
[6] In December 2010, EUR 250 million in bonds was issued and added to the EUR 500 million bond issue of June 28, 2010, increasing issue volume to EUR 750 million.

Manager	Administrator	Market	Traded since	Issue rating (S&P/Moody's)
ING Barings Capital Markets	Citibank, a.s.	PSE Official Free Market RM-System	January 26, 1999 December 5, 2001	–/–
Société Générale Corporate & Investment Banking	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	October 17, 2006	A–/A2
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	A–/A2
Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 17, 2008	A–/A2
Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 22, 2008	–/–
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	A–/A2
Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 8, 2009	A–/A2
BNP Paribas, Société Générale, The Royal Bank of Scotland plc, Erste Group Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	October 19, 2009	A–/A2
Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	November 4, 2009	A–/A2
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	A–/A2
Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch, Erste Group Bank AG, The Royal Bank of Scotland plc	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	June 28, 2010	A–/A2
–	–	–	–	–/–
–	–	–	–	–/–

Security	Issuer	ISIN	Issue date	Volume	Interest	Maturity	Form	Face value
21st Eurobond issue [7]	ČEZ, a. s.	XS0592280217	February 17, 2011	JPY 11.5 billion	2.160%	2023	booked to owner	JPY 100,000,000
22nd Eurobond issue	ČEZ, a. s.	XS0622499787	May 3, 2011	CZK 1.25 billion	4.600%	2023	booked to owner	CZK 5,000,000
23rd Eurobond issue	ČEZ, a. s.	XS0630397213	May 27, 2011	EUR 500 million	3.625%	2016	booked to owner	EUR 100,000
24th Eurobond issue [8]	ČEZ, a. s.	XS0635263394	June 21, 2011	EUR 100 million	2.15% * Index Ratio CPI	2021	booked to owner	EUR 100,000
25th Eurobond issue	ČEZ, a. s.	XS0713866787	December 5, 2011	EUR 50 million	4.102%	2021	booked to owner	EUR 100,000
3rd NSV (Namensschuld-verschreibungen)	ČEZ, a. s.	XF0000B03489	April 2, 2012	EUR 40 million	4.7%	2032	Global Depositary Receipt (GDR)	EUR 1,000,000
1st U.S. bond issue [9], [10]	ČEZ, a. s.	US157214AA57	April 3, 2012	USD 700 million	4.25%	2022	booked to owner	USD 200,000
2nd U.S. bond issue [9], [10]	ČEZ, a. s.	US157214AB31	April 3, 2012	USD 300 million	5.625%	2042	booked to owner	USD 200,000
26th Eurobond issue	ČEZ, a. s.	XS0814711775	August 8, 2012	EUR 50 million	4.375%	2042	booked to owner	EUR 100,000
27th Eurobond issue	ČEZ, a. s.	XS0818793209	August 20, 2012	EUR 50 million	4.5%	2047	booked to owner	EUR 100,000
28th Eurobond issue [11]	ČEZ, a. s.	XS0822571799	September 3, 2012	EUR 80 million	4.383%	2047	booked to owner	EUR 100,000
29th Eurobond issue	ČEZ, a. s.	XS0840265739	October 9, 2012	EUR 150 million	3M Euribor + 0.36%	2014	booked to owner	EUR 100,000
4th NSV (Namensschuld-verschreibungen) [12]	ČEZ, a. s.	XFCA00H08349 XFCA00H08356 XFCA00H08364	December 10, 2012	EUR 61 million	4.27%	2047	Global Depositary Receipt (GDR)	EUR 500,000

[7] Issue proceeds converted to EUR via a swap.
[8] 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.
[9] Issue was executed via a non-public bond offering to qualified institutional buyers under Rule 144A of the Securities Act of 1933 (USA), as amended (the "Securities Act") and, outside the United States of America, to certain non-American entities pursuant to Regulation S of the Securities Act.
[10] Issue proceeds converted to EUR via a swap.
[11] In November 2012, EUR 20 million in bonds was issued and added to the EUR 60 million issue of September 3, 2012, increasing the issue volume to EUR 80 million.
[12] The issue volume was divided into three certificates.

Manager	Administrator	Market	Traded since	Issue rating (S&P/Moody's)
Credit Agricole Corporate and Investment Bank	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	February 17, 2011	A–/A2
Česká spořitelna, a.s.	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	May 3, 2011	A–/A2
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	A–/A2
Barclays Bank plc	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	–	–	A–/A2
UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	December 5, 2011	–/–
Commerzbank AG	–	–	–	–/–
Barclays Bank plc, Citigroup Global Markets Inc., Goldman Sachs International, SG Americas Securities, LLC	Citibank, N.A., London Branch	Bourse de Luxembourg	April 3, 2012	A–/A2
Barclays Bank plc, Citigroup Global Markets Inc., Goldman Sachs International, SG Americas Securities, LLC	Citibank, N.A., London Branch	Bourse de Luxembourg	April 3, 2012	A–/A2
UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	August 8, 2012	A–/A2
UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	August 20, 2012	A–/A2
UniCredit Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 3, 2012	A–/A2
Československá obchodní banka, a. s.	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	October 9, 2012	A–/A2
UniCredit Bank AG	–	–	–	–/–

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.
In April 2012, the 3rd issue of NSV (Namensschuldverschreibungen) registered bonds was issued.
In April 2012, the 1st and 2nd US bond issues were issued.
In August 2012, the 26th Eurobond issue was issued through the EMTN Eurobond program.
In August 2012, the 27th Eurobond issue was issued through the EMTN Eurobond program.
In September 2012, the 28th Eurobond issue was issued through the EMTN Eurobond program.
In October 2012 the 29th Eurobond issue was issued through the EMTN Eurobond program.
In November 2012, the 28th Eurobond issue was increased.
In December 2012, the 4th issue of NSV (Namensschuldverschreibungen) registered bonds was issued.

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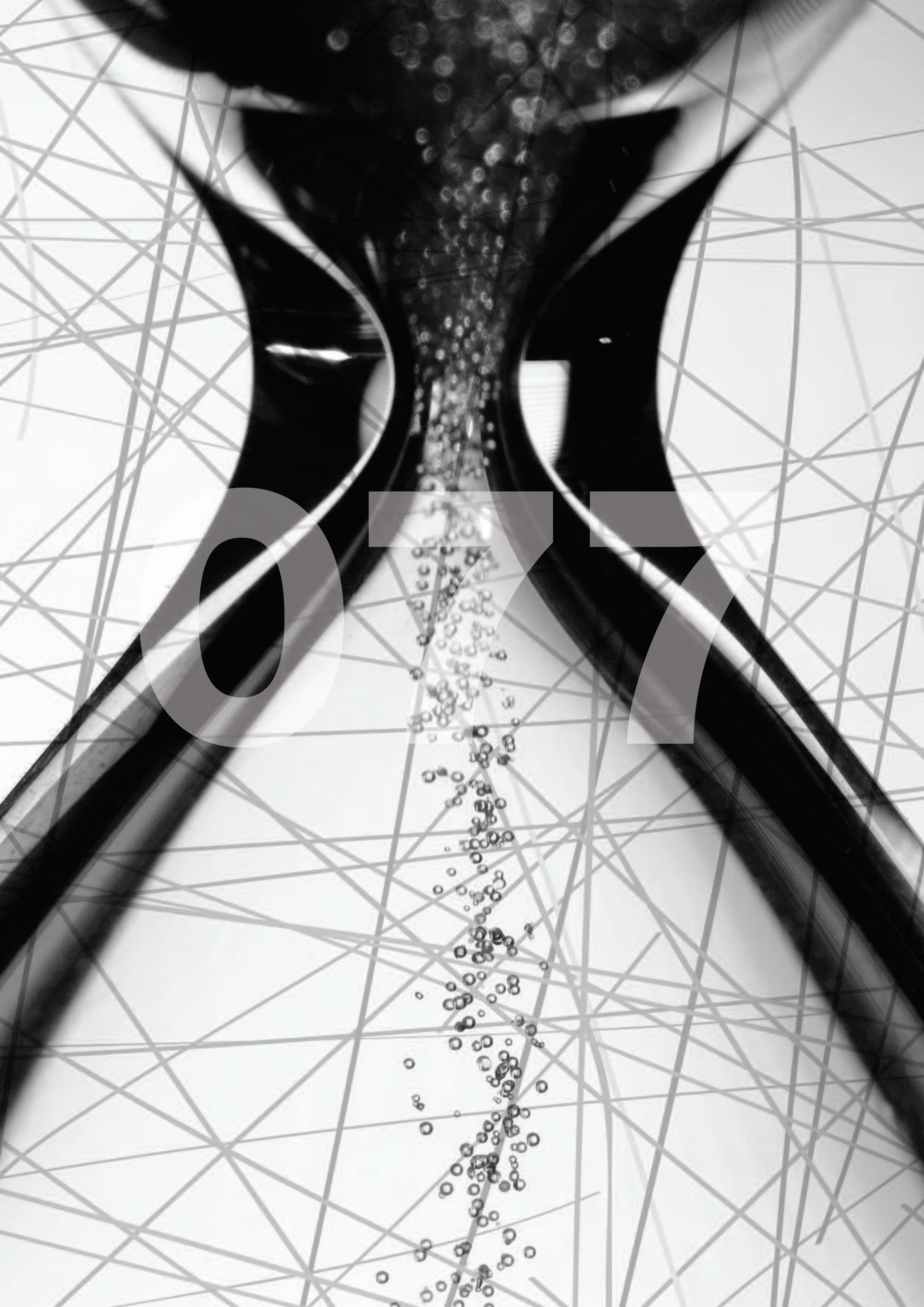
“ČEZ ASSISTANT” HELPS OUR CUSTOMERS

For a monthly fee of CZK 10, our ČEZ ASSISTANT help service provides customers round-the-clock advice and services. They can turn to the Assistant when their appliances break, an accident happens in their household due to power or gas outages, or they encounter difficulties with blocked doors, and they can do so 24 hours a day through the customer service line, the ČEZ ON-LINE application, or the order form. Should an on-site visit be necessary to fix the problem, mobile technicians leave for the site no later than 90 minutes after the event is reported.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CEZ Group Capital Expenditures

Capital Expenditures (CZK millions)

	2011	2012
Additions to property, plant and equipment	49,887	49,465
of which: nuclear fuel procurement	4,527	3,361
Additions to intangibles	1,226	984
Additions to long-term financial assets	833	832
Change in balance of liabilities attributable to capital expenditure	1,295	2,237
Additions to property, plant and equipment and other non-current assets	53,241	53,518
Investments	927	5,323
Capital expenditures, total	54,168	58,841

The companies of CEZ Group incurred a total of CZK 50,449 million in capital expenditures in 2012, down CZK 664 million year-on-year.

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

	Central Europe		Southeastern Europe		Total	
	2011	2012	2011	2012	2011	2012
Nuclear energy (including fuel procurement)	9,118	7,633	–	–	9,118	7,633
Coal and CCGT power plants	15,874	17,459	10	10	15,884	17,469
of which: new-build	8,483	10,446	–	–	8,483	10,446
renewal and other	7,391	7,013	10	10	7,401	7,023
Hydro sources, not including renewables	138	238	–	–	138	238
Renewables	1,360	356	4,851	6,944	6,211	7,300
Distribution of electricity	9,639	8,276	2,593	3,145	12,232	11,421
Distribution of heat	491	260	–	–	491	260
Mining	3,693	3,307	–	–	3,693	3,307
Environmental	826	527	–	–	826	527
Information systems	1,199	956	76	42	1,275	998
Other	1,159	1,246	86	50	1,245	1,296
Total	43,497	40,258	7,616	10,191	51,113	50,449

CAPEX Outlook for 2013–2017

As a part of the five-year business plan, the ČEZ, a. s. Board of Directors approves a framework for CEZ Group's future capital expenditures. Actual CAPEX can differ from the approved plan, as it depends on developments in markets, CEZ Group strategy (which is based on up-to-date market forecasts), CEZ Group's debt capacity, and how the planned CAPEX is to be financed.

Planned CEZ Group CAPEX, by Type (CZK billions)

	2013	2014	2015	2016	2017
Generation	32.3	32.8	18.9	15.9	26.0
Construction and comprehensive renewal of conventional and nuclear plants	18.9	16.2	5.4	5.8	17.8
Renewable sources	0.9	4.7	2.2	1.0	0.0
Maintenance of existing plants and other	12.5	11.9	11.3	9.1	8.1
Distribution and sale	11.0	9.8	9.6	10.7	10.8
Mining	2.7	2.8	2.0	2.4	2.3
Other CAPEX	5.5	5.0	3.2	3.6	3.8
CAPEX, total	51.5	50.4	33.7	32.6	42.9

CEZ Group Energy Procurement and Disposition

Procurement and Disposition of Electricity

Electricity Procured and Sold (GWh)

	2011	2012	Index 2012/2011 (%)
Electricity procured	62,532	62,217	99.5
Generated in-house	69,209	68,832	99.5
In-house and other consumption, including pumping in pumped-storage plants	(6,677)	(6,615)	99.1
Sold to end customers	(42,846)	(41,732)	97.4
Wholesale balance	(12,365)	(12,283)	99.3
Sold in the wholesale market	(220,388)	(230,257)	104.5
Purchased in the wholesale market	208,023	217,974	104.8
Grid losses	(7,321)	(8,202)	112.0

Electricity Generation, by Source of Energy (GWh)

	Czech Republic		Poland		Bulgaria		Romania		Total	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Nuclear	28,283	30,324	–	–	–	–	–	–	28,283	30,324
Coal	32,574	31,038	1,891	1,745	3,043	1,536	–	–	37,508	34,319
Hydro	1,868	2,066	6	5	–	–	21	31	1,895	2,102
Biomass	427	422	307	509	–	–	–	–	734	931
Photovoltaic	130	135	–	–	–	5	–	–	130	140
Wind	9	9	–	–	–	–	620	966	629	975
Natural gas	30	40	–	–	–	–	–	–	30	40
Biogas	–	1	–	–	–	–	–	–	–	1
Total	63,321	64,035	2,204	2,259	3,043	1,541	641	997	69,209	68,832

Electricity Sold to End Customers (GWh)

	Czech Republic		Poland		Bulgaria	
	2011	2012	2011	2012	2011	2012
Large end-customers	10,085	10,148	95	217	2,900	2,983
Retail-commercial customers	3,579	3,181	–	–	2,837	2,804
Residential customers	8,305	8,017	–	–	4,286	4,311
End customers, total	21,969	21,346	95	217	10,023	10,098

Heat

Supplies of Heat from Power-Heating Plants (TJ)

	Heat Supply		External Heat Sales (outside CEZ Group)	
	2011	2012	2011	2012
ČEZ [1]	10,682	10,275	2,295	1,043
Chvaletice Power Station	175	163	8	8
Energetické centrum	109	108	109	104
ČEZ Energetické služby	68	77	66	66
ČEZ Teplárenská [1]	437	331	5,149	8,457
ČEZ Energo	391	464	391	378
Trmice Power-Heating Plant [1]	2,419	2,977	2,404	–
Počerady Power Station [1]	–	77	–	16
Energotrans	–	4,333	–	4,332
Czech Republic, total	14,281	18,805	10,422	14,404
ELCHO	2,270	2,370	2,225	2,319
Skawina	2,645	2,787	2,597	2,739
Poland, total	4,915	5,157	4,822	5,058
Varna	5	5	5	5
Bulgaria, total	5	5	5	5
Central Europe, total	19,196	23,962	15,244	19,462
Southeastern Europe, total	5	5	5	5
CEZ Group, total	19,201	23,967	15,249	19,467

[1] Heat generation and/or infrastructure ownership change in 2012.

Natural Gas

Natural Gas Procured and Sold (GWh)

	2011	2012	Index 2012/2011 (%)
Procured	9,277	117,256	> 500
of which: external suppliers	9,198	116,971	> 500
OTE	79	285	360.8
Removed from storage	358	1,289	360.1
Sold	(8,138)	(116,388)	> 500
of which: trading	(4,554)	(110,224)	> 500
external large end-customers	(1,951)	(2,369)	121.4
medium end-customers	(470)	(610)	129.8
small end-customers	(314)	(644)	205.1
residential customers	(779)	(2,272)	291.7
OTE	(70)	(269)	384.3
Placed in storage	(845)	(1,656)	196.0
Consumed in-house	(652)	(501)	76.8

Romania		Albania		Other countries		Total	
2011	2012	2011	2012	2011	2012	2011	2012
805	1,036	1,386	880	2,423	2,547	17,694	17,811
935	929	999	816	9	72	8,359	7,802
1,555	1,611	2,647	2,075	–	105	16,793	16,119
3,295	3,576	5,032	3,771	2,432	2,724	42,846	41,732

Financial Performance of ČEZ, a. s.

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

Key Figures of ČEZ, a. s. (IFRS)

	Units	2011	2012	Index 2012/2011 (%)
Electricity generated (gross)	GWh	59,584	57,757	96.9
Installed capacity	MW	11,633	10,700	92.0
Heat sold	TJ	8,811	8,699	98.7
Operating revenues	CZK millions	113,441	108,147	95.3
Operating expenses (excluding depreciation and amortization)	CZK millions	63,751	59,633	93.5
EBITDA	CZK millions	49,690	48,514	97.6
EBIT	CZK millions	36,850	35,253	95.7
Net income	CZK millions	37,337	35,336	94.6
Dividend per share (gross) [1)]	CZK/share	50.00	45.00	90.0
Total assets	CZK millions	503,660	538,873	107.0
Equity	CZK millions	192,600	210,911	109.5
Financial debt	CZK millions	167,585	175,013	104.4
Return on Assets (ROA), net	%	7.70	6.80	88.3
Return on Equity (ROE), net	%	19.50	17.50	89.7
Net debt / EBITDA	1	2.90	3.22	111.0
Capital expenditure	CZK millions	26,491	26,133	98.6
Work force head count at December 31	persons	5,933	5,722	96.4

[1)] Approved in the given year; paid out of the previous year's income.

Revenues, Expenses, and Income

In 2012, ČEZ, a. s. generated EBITDA of CZK 48.5 billion, down CZK 1.2 billion (−2.4%) year-on-year. Net income was down CZK 2.0 billion (−5.4%) year-on-year.

Operating revenues fell CZK 5.3 billion (−4.7%), particularly on a CZK 2.9 billion drop in electricity revenues and a CZK 1.9 billion contraction in revenues from electricity, coal, and gas derivatives trading. ČEZ, a. s. power generation in 2012 was down 1.8 TWh from 2011, to 57.8 TWh. This decline was caused by the split-off of Počerady Power Station into a separate company (with generation volume of 1.5 TWh as of the split-off date) and lower generation in coal-fired power plants (due to outages on three generating units at Prunéřov Power Station for comprehensive renewal −1.8 TWh). However, the lower generation in coal-fired power plants was partially offset by substantial growth in generation at nuclear power plants: both plants posted record generation volumes, increasing generation by 2.0 TWh compared to 2011, on higher achievable capacity at Dukovany Nuclear Power Station and increased operational reliability at Temelín Nuclear Power Station. Hydro power plants, too, increased their generation volume – by 0.2 TWh compared to the previous year.

Total operating expenses (including depreciation and amortization) were down CZK 3.7 billion (−4.8%), particularly on a CZK 4.7 billion drop in procurement costs for energy and related services and a CZK 1.6 billion reduction in fuel costs due in part to a CZK 1.2 billion decline in fossil fuels consumption associated with the decreased generation at coal-fired plants.

On the other hand, higher expenses for emission rights (up CZK 1.2 billion year-on-year) and growth in other operating expenses and depreciation and amortization by CZK 0.9 billion and CZK 0.4 billion, respectively, had a negative impact.

Other expenses and income were down CZK 0.7 billion year-on-year, but this reduction was partially offset by a CZK 0.3 billion decline in income tax due to the lower income.

Other Expenses and Income

Other expenses and income were down CZK 0.7 billion year-on-year, to CZK 6.4 billion.

Other financial income (expenses) was down CZK 1.0 billion year-on-year, to nil in 2012; this decrease is attributable to a lower offset from the acquisition of Energotrans in 2012 (CZK 0.4 billion), the influence of bond repurchasing (CZK 0.3 billion), and other items, total (CZK 0.3 billion).

Furthermore, dividends received declined by CZK 0.9 billion to CZK 14.6 billion. CZK 0.5 billion of this decrease is attributable to Dalkia Česká republika and the remaining CZK 0.4 billion to CEZ Group companies.

Financial derivatives and foreign exchange rate gains (losses) also had a negative impact on income, and their impact on income worsened by CZK 0.9 billion year-on-year: whereas in 2011 these items generated a CZK 0.6 billion profit, in 2012 their result was a CZK 0.3 billion loss.

A CZK 1.8 billion decrease in gift tax due to the decline in the market price of emission rights had a positive impact. Also positive was the impact of interest expenses, which were down CZK 0.4 billion year-on-year thanks to higher capitalization and lower market interest rates, in particular.

Other items got worse by CZK 0.1 billion.

Structure of Assets and Capital

Total assets grew CZK 35.2 billion year-on-year, to CZK 538.9 billion.

Fixed assets increased CZK 19.0 billion year-on-year, to CZK 418.7 billion, primarily on acquisitions of new companies and capital expenditures.

Current assets were up CZK 16.2 billion in 2012, to CZK 120.2 billion, primarily on a CZK 10.0 billion increase in receivables that was driven in particular by growth in short-term loans granted. Furthermore, derivative receivables grew CZK 6.3 billion, the balance of emission rights was up CZK 5.0 billion, short-term bank notes increased CZK 2.4 billion, and inventories grew as well – by CZK 1.1 billion. On the other hand, 2012 saw cash and cash equivalents decline CZK 7.1 billion, assets classified as held for sale were down CZK 1.0 billion, and other factors fell CZK 0.5 billion.

Equity was up CZK 18.3 billion in 2012, to CZK 210.9 billion. The net income generated in 2012 contributed CZK 35.3 billion to the increase in equity. Subsequently, the increase was partially reduced by the CZK 24.0 billion approved dividend. Changes in equity in conjunction with other comprehensive income – hedge accounting especially – increased equity by CZK 6.9 billion.

Long-term liabilities were up CZK 21.3 billion, to CZK 208.9 billion, primarily on new bond issues (+ CZK 12.9 billion) and increased volume of long-term bank loans (+ CZK 3.1 billion) relating to the need for additional resources to finance capital expenditures. The accumulated provision for nuclear decommissioning and fuel storage also increased, by CZK 5.2 billion, as a result of lower discount rates.

Deferred tax liability was up CZK 2.2 billion, to CZK 11.0 billion, due to differing valuations of property, plant and equipment for tax and accounting purposes, respectively, and to deferred tax associated with other comprehensive income.

Current liabilities were down CZK 6.6 billion, to CZK 108.0 billion, on an CZK 8.6 billion contraction in the current portion of long-term debt and short-term bank loans due in particular to the repayment of the current portion of bonds outstanding. Furthermore, trade payables fell CZK 6.1 billion, derivative payables were down CZK 1.5 billion, and provisions for greenhouse gas emissions also fell, by CZK 1.6 billion. On the other hand, payables from group cash pooling were up CZK 6.4 billion and estimated items relating to unbilled electricity grew by CZK 4.9 billion.

Cash Flows

The net change in cash and cash equivalents was down CZK 6.9 billion year-on-year.

Cash provided by operating activities grew slightly (+ CZK 0.8 billion) in year-on-year terms. Income before income taxes after adjustments to reconcile income before income taxes to net cash provided by operating activities was down CZK 2.5 billion year-on-year on higher cash transactions (+ CZK 0.6 billion) – namely, higher dividends received.

The positive impact of working capital (+ CZK 2.6 billion) is attributable to declines in short-term liquid securities (+ CZK 1.8 billion), tax receivables (+ CZK 1.9 billion), and accruals (+ CZK 5.5 billion), as well as to the development of payables and receivables (– CZK 4.0 billion) and the higher balance of emission rights (– CZK 2.7 billion).

Cash used in investing activities grew higher in year-on-year terms (– CZK 22.5 billion), due primarily to higher loans granted and lower repayments within CEZ Group (– CZK 17.1 billion) and higher investments in fixed assets (– CZK 5.8 billion).

Net cash from financing activities was up CZK 14.0 billion year-on-year, particularly on higher payables from group cash pooling (+ CZK 7.8 billion), a slight upswing in the balance of proceeds from and payments of borrowings (+ CZK 3.7 billion) and lower dividends paid (+ CZK 2.7 billion).

The net effect of currency translation in cash was positive (+ CZK 0.9 billion).

Comprehensive Income

The comprehensive income, net of tax, increased CZK 12.7 billion year-on-year, to CZK 42.2 billion. Positive factors included, most significantly, the overall year-on-year change in the fair value of cash flow hedges (+ CZK 17.4 billion) and the year-on-year change in the fair value of available-for-sale financial assets (+ CZK 0.7 billion). On the other hand, deferred tax related to other comprehensive income (CZK 3.4 billion), and the decline in net income (CZK 2.0 billion), had a negative impact.

Financing

Borrowings and Their Maturity

a) Long-term loans

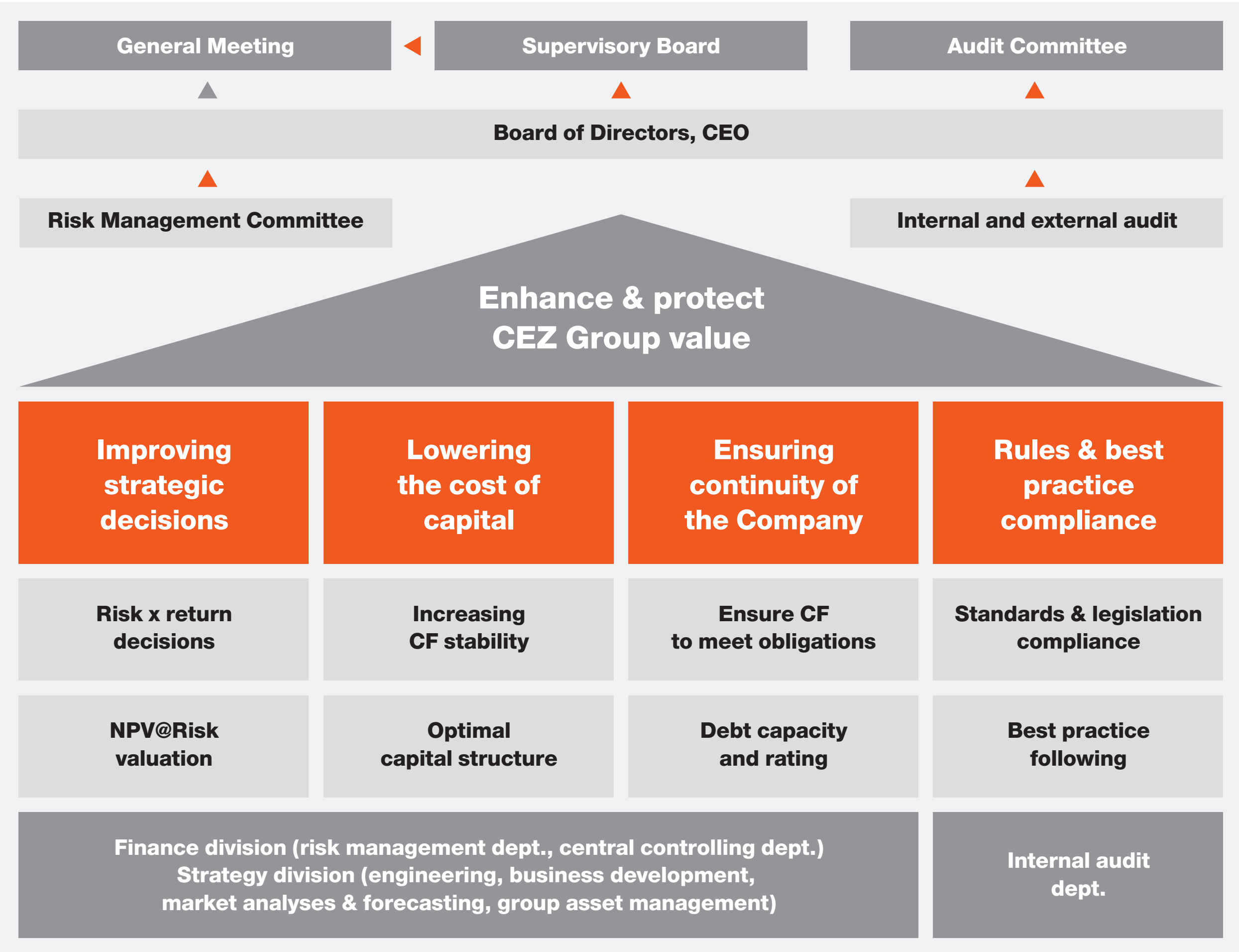
Creditor	Currency	Maximum loan amount in given currency (millions)	Amount owed at December 31, 2012 (CZK millions)	Maturity	Collateral
European Investment Bank	CZK	3,058	235	Sep 16, 2013	none
European Investment Bank	EUR	200	4,693	Nov 12, 2019	none
European Investment Bank	EUR	100	2,430	Jan 13, 2020	none
European Investment Bank	EUR	100	2,396	Jul 26, 2021	none
European Investment Bank	EUR	80	2,011	Jul 26, 2021	none
European Investment Bank	EUR	100	2,514	Jun 6, 2022	none
European Investment Bank	EUR	100	2,514	Jun 6, 2022	none
Long-term loans, total			16,793		
of which: portion falling due by year end 2013			1,625		
Long-term loans, net of portion falling due within one year			15,168		

b) Short-term loans

	Indebtedness as at December 31, 2012 (CZK millions)
Short-term bank loans	2,481
Negative balance facilities	254
Portion of long-term loans falling due by year end 2013	1,625
Other short-term financing	–
Short-term loans, total	4,360

Risk Management and Insurance 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 body 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 2012, these tools were updated to reflect changes in market and regulatory conditions in Europe, including the specific details of NAP Phase III and the reduced volume of emission rights granted for CEZ Group generation installations.

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 and/or fixing of coal plant gross margins 3–6 years in advance, long-term electricity sales contracts and/or fixing of coal plant gross margins, 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 and bounds for sliding fixation of generation revenues five years in advance
- volume risk for electricity generated from renewable sources abroad and purchased electricity from renewable sources in the Czech Republic (as of 2013, this risk has been rendered negligible by amended legislation in the Czech Republic).

In 2012, the basic mathematical model EBITDA@Risk (used to measure the sensitivity of cash flow to market risk over the next five years) was adapted to a change in the method used to fix the margins for the various types of power plants operated in the Czech Republic. 2012 also brought an expansion in the array of centrally managed and quantified risks as a result of the further integration of international holdings 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. Strict credit rules are applied when entering into long-term contracts for hedging the margins of generation installations in the Czech Republic
- electricity and gas end-customer credit risk is managed by setting payment terms on the basis of the customer's internally determined credit (in 2012 average customer credit once again declined slightly, which led to a year-on-year increase in bad debt-related losses).

Developments in 2012 included a deepening of regular supplier credibility assessments conducted for material CEZ Group CAPEX projects, and treatment of supplier credit risk when entering into material contracts with suppliers was given higher priority. A gas-storage option was added to the credit rules and systems applicable to gas trading.

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, upgrades and construction of coal- and gas-fired power installations in the Czech Republic. Risks posed by the preparation and implementation of these CAPEX projects are quantified in a unified fashion and reported on a quarterly basis according to the unified Group methodology for managing CAPEX risk.

2012 saw further interconnection of the process of financial quantification of CAPEX risk with the overall process of budgeting funds for CAPEX projects and evaluating the draw-down of said funds, as well as with the centralized process for prioritizing material development CAPEX projects on a quarterly basis.

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. The strategy was updated to reflect shareholder priorities and the principal business risks of CEZ Group (developments in the European and Czech economies, developments in the EU integration project and 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.

2012 brought further 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.

Insurance at 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 Liability Insurance for the Nuclear Industry
- 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 2012
- 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 was 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 plants carry insurance covering property and machinery risks, including interruption of operation and general liability insurance coverage.

The Albanian distribution company carried insurance of property risks and liability insurance. It had 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.

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 section'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 2012, a total of 60 audits were conducted: 18 at ČEZ, a. s. and 42 in the subsidiaries (including 12 audits in international holdings), where they are conducted by the Internal Audit Section of ČEZ, a. s. under contract. Concurrently, internal audit also monitors certain operations, particularly in accounting (under Service Level Agreement for subsidiaries). 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 Bulgaria, Romania, the Turkish distribution company, and – in 2012 – Albania as well).

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 of the results of the audit activities, including any modifications to the audit plan. 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.

Safety management is treated by internal directives in accordance with national legislation and international recommendations so as to give safety top priority in all processes and operations. This system is subject to an internal, three-tier system of regular checks: self-evaluation, a check by the Safety Department, and a check at the headquarters level by the CEZ Group Safety Inspectorate and review of the integrated management system by the Quality and Management System department. Also, utilization of ISO and Safe Enterprise/OHSAS certification systems is an integral part of how safety and environmental protection are managed.

Following the prior implementation and stabilization of segment-based safety management, changes in the safety management system at CEZ Group continued in 2012 towards unification of requirements, particularly in terms of managing legal requirements and safety risks, and reorganizing safety management in the segments with the aim of optimizing and further reinforcing the independence of the three-tier management system.

In cooperation with the Safety department of the Production Division, the CEZ Group Safety Inspectorate drafted and discussed materials necessary for setting up a new system of safety controls of all nuclear processes at CEZ Group.

The system is based on comprehensive, periodic, preventive, and friendly checks of nuclear safety management, performance, and evaluation in accordance with the WANO PO&C (Performance Objectives and Criteria) methodology. In view of the methodology used and the planned utilization of the most experienced professionals, including external support, good prospects have been created for further reinforcing safety prevention in accordance with the requirements of the Safety and Environmental Protection Policy.

The CEZ Group management system is operated in the context of an approved Quality-of-Management Policy, which sets forth the fundamental principles by which quality is to be perceived by all employees. From a practical perspective, in order for the Quality-of-Management Policy to be fulfilled, the management system must be correctly set up, evaluated, documented, and continually improved. Correct set-up of the management system creates conditions for effective process-based and line management in all areas. The suitability and correctness of the system's set-up were verified by international delegations that visited the Temelín and Dukovany Nuclear Power Stations in 2012. The system received positive marks from these delegations, which declared the system to be in accordance with worldwide good practices.

The company evaluates the management system through established, internal, integrated quality, EMS, and OSH audits, through a system of self-evaluation, and through periodic reviews of the integrated management system. In the course of evaluating the management system, continual checks are conducted to determine the extent to which the set goals and requirements, including requirements of the public, are being fulfilled.

In terms of improvements, a significant activity in 2012 was the implementation of PDCA (Plan, Do, Check, Act – also called the Deming cycle, a method for managing and continually improving processes) principles, accompanied by an extensive campaign, primarily in the area of electricity generation. As we continually improve the management system and adhere to good practices, we are engaging in long-term efforts to remove discrepancies and potential weak points.

Nuclear Plant Operational Safety

Following the natural disaster-caused accident at the Fukushima power plant, the European Council decided to conduct stress tests of nuclear plants operated in European Union Member States with the aim of re-assessing their resistance to extreme natural conditions (floods, earthquakes) and their ability to handle even very grave situations without endangering their surrounding areas. In the first phase, analyses were conducted and reports drafted by the nuclear power plant operator, ČEZ, a. s., for the Dukovany and Temelín Nuclear Power Stations. Subsequently, the reports were reviewed by the State Office for Nuclear Safety and a so-called "National Report" was drafted and submitted to international experts for further review. The third step in the process was a partner review of the National Reports in a group consisting of experts from European Union Member States and certain other countries. The partner review also included brief visits by the experts to selected nuclear power plants. Dukovany Nuclear Power Station was so visited and assessed in February 2012, and the experts assessed Temelín Nuclear Power Station in September.

The results of the extensive review of selected aspects of nuclear safety that took place within the stress-test framework did not demonstrate any fundamental shortcomings that would warrant any immediate measures in terms of nuclear safety. The review also confirmed that both plants are resistant to accidents within the scope of their design parameters and that the selection of locations for the plants was correct.

Both the national and ENSREG (European Nuclear Safety Regulators Group) final reports, as well as the European Commission, recommend taking certain measures to further improve the plants' operational safety. The individual recommendations will be implemented in accordance with the approved National Action Plan for Improving the Safety of Nuclear Installations.

On September 13–27, 2012, an international WANO PEER REVIEW was conducted at Dukovany Nuclear Power Station to compare operational experience. The team compared international requirements and standards (WANO Performance Objectives and Criteria) and worldwide best practices with the actual, day-to-day operation of Dukovany Nuclear Power Station in ten areas. In the final report, 19 areas were mentioned for possible improvement, along with six good practices in which the plant can serve as a model for others.

On November 4–26, 2012, an OSART mission by the International Atomic Energy Agency took place at Temelín Nuclear Power Station at the request of the Government of the Czech Republic, focusing on management organization, operation, maintenance, technical support, feedback, chemistry, radiation protection, and the emergency management system. The information gathered was compared with IAEA criteria and the results of other plants. According to the mission's conclusions, Temelín Nuclear Power Station is operated in accordance with IAEA criteria and has no fundamental safety shortcomings. The mission issued a report detailing its conclusions and findings, which includes 11 recommendations and proposals for improvements, as well as six good practices. Implementation of the OSART team's recommendations will be vetted by an OSART Follow-Up mission to take place after approximately 18 months.

CEZ Group Strategic Objectives

CEZ Group's main objective is to stabilize the Group's value in the face of ongoing uncertainty surrounding future developments in key parameters influencing the European power industry (regulation of emission rights, support for renewable sources of energy, economic developments, and the debt crisis in Europe). In light of ongoing negative developments in the markets, CEZ Group will place greater emphasis on changing the portfolio's risk profile and continue to exert pressure towards improved performance. To reach this objective, CEZ Group's strategy focuses on five principal areas, entitled New nuclear source, Fuel procurement, Performance, Regional power, and Renewable sources.

Principal Areas of CEZ Group Strategy

1. New nuclear source

The main strategic goal is to build Units 3 and 4 of Temelín Nuclear Power Station, i.e. to achieve conditions that make it possible to implement and finance the construction project and address construction- and regulation-related risks. The new reactor units will give CEZ Group a stable power source, replace capacity in coal-fired power plants that are nearing the end of their useful lifetimes, avoid problems with securing sufficient fuel coal, and reduce emissions, including CO_2 emissions. CEZ Group is exploring possibilities for involving a strategic or financial partner in the project. CEZ Group's strategy is in line with the updated National Energy Master Plan, which envisions that nuclear power sources will account for over 50% of the Czech Republic's generation mix in the period after 2040.

2. Fuel procurement

ČEZ, a. s. engaged in a number of negotiations, particularly with Czech Coal, on long-term coal supplies for the purpose of securing fuel for operating coal-fired power plants in the future. At the same time, it looked into the possibility of possibly selling some of its older coal-fired plants in conjunction with a proposed settlement agreement between the European Commission and CEZ Group. Within the framework of such an agreement, ČEZ is proposing an obligation to sell 800 MW of its generation capacity. In March 2013, an agreement on supplies of coal for Počerady Power Station was signed between ČEZ, a. s. and the mining company Vršanská uhelná, which is part of the Czech Coal group. The agreement includes option parameters for a possible sale of the plant in the future. Under the agreement signed on March 19, 2013, Chvaletice Power Station will leave CEZ Group. In the future, CEZ Group plans to continue materially investing in and renovating only those power plants for which it has secured coal supplies.

3. Performance

The objective of this initiative is to secure additional surplus cash and bring about a long-term improvement in CEZ Group's performance through the optimizing measures that are already running as part of NEW VISION. 2012 saw optimization of CAPEX using design-to-cost methodology in the Production Division as well as at Severočeské doly a.s. and ČEZ Distribuce, a. s. Optimization of support services will take place in three areas:

- corporate services (transaction accounting, human resources, and asset management)
- provision of distribution grid-related services (grid maintenance, metering, storage)
- external customer service (customer services for sales and distribution).

On January 1, 2013, a new company, ČEZ Korporátní služby, s.r.o., commenced operations. This reorganization marks a fundamental milestone in the implementation of a Services Plan at CEZ Group and subsequent optimization of support processes. As of July 1, 2013 and October 1, 2013, respectively, ČEZ Měření and ČEZ Logistika are to be merged into ČEZ Distribuční služby, which will provide grid-related services.

The new model for organizing and providing services within CEZ Group should bring more than just higher performance and better cost effectiveness. It should also guarantee the required level of service quality and bring smoother collaboration between the various organizational units and companies.

4. Regional power

CEZ Group is focusing on building a strong position in the regions by acquiring generation plants of local significance and deepening its involvement in district heating, combined heat and power generation, and waste-to-energy and biomass combustion projects.

In 2012, the various Regions of the Czech Republic were ranked in terms of Regional Power, and the potentials of individual programs were determined. Commencement of the first phase of the ZEVO program (a waste-to-energy installation) was approved and on November 12, 2012 a public commercial inquiry was announced to find a ZEVO equipment supplier. A plan for the long-term operation of existing CEZ Group power-heating installations was completed as well.

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 these types of installations – 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. On November 22, 2012 the last, 240th turbine was connected to the grid at Fântânele-Cogealac, the biggest onshore wind farm in Europe. During the year, CEZ Group continued to lay groundwork for building wind farms in Poland. In addition to Romania and Poland, wind farm acquisition opportunities in Germany are under active consideration.

Other Significant Activities in the Principal Business Segments

Production Segment

2012 saw successful completion of the SAFELY 15 TERA ETE project, which aimed to achieve output of at least 15 TWh from Temelín Nuclear Power Station. In conjunction with the project, all planned activities were conducted, focusing on operational safety, works organization & management, care of equipment, the supplier system, and human resources development.

Also completed was the SAFELY 16 TERA EDU project, which, as of 2013, is to increase Dukovany Nuclear Power Station's annual electricity generation output to approximately 16 TWh while ensuring the required levels of operational safety and reliability. The result is to be achieved by shortening planned outages for fuel replacement and making modifications to the main generating equipment to bring it up to its full design capacity, and thereby increasing its generation output.

Through the biomass project, CEZ Group continues to increase solid biofuels-based generation. At the Poříčí Power-Heating Plant, a CAPEX project took place with the aim of increasing the weighting of biomass in the fuels mix and converting the fluidized-bed boiler to run 100% biomass. At the Hodonín Power-Heating Plant, a conveyance system for biomass pellets was put into permanent operation with the aim of increasing output from the fluidized-bed boiler there that runs on 100% biomass. At Dětmarovice Power Station, a milling test was conducted on a mixture of black coal and biomass in the form of pellets to explore possibilities for biomass co-combustion at the facility. ČEZ Energo, s.r.o. is involved in the construction and subsequent operation of gas-fired cogeneration units for combined heat and power generation, with installed capacities ranging from hundreds of kW_e up to units of MW_e. At year end 2012, the company operated 53 of these units with an overall installed electricity generation capacity of 19.8 MW_e. The long-term objective of ČEZ Energo is to operate a centrally managed portfolio of these sources with 200 MW_e total generation capacity, thereby adding another pillar – distributed generation – alongside conventional power to its business mix.

Development of the Dukovany Nuclear Power Station Site

The long-term objective is to operate Dukovany Nuclear Power Station's existing reactor units, while maintaining the required level of safety, beyond 2015. The project, already commenced some time ago, aims to prepare the plant's equipment, personnel, documentation, and processes for renewal of the permit enabling operation beyond 2015, and carry out measures necessary to operate the plant until 2025 with an outlook for further extension of operations. Each year, progress made in the project is documented and the documentation submitted to the State Office for Nuclear Safety. 2012 saw the approval of a long-term plan for the Dukovany site, based on a comprehensive analysis of realistic scenarios of the site's development in conjunction with the reactor units in operation and their expected lifetime, phasing out of coal mining, anticipated development of electricity demand, and the needs and interests of CEZ Group. The plan's "development" section is based, *inter alia*, on a detailed feasibility study, the conclusions of which confirm the possibility of building one reactor unit with 1,200–1,700 MW of capacity. The year 2035 was determined as an appropriate time frame for expanding the plant's generation capacity while keeping the existing reactor units in continued operation. From a long-term perspective, the construction of the new unit would support the plan for utilizing the site for the purpose of supplying heat to the City of Brno.

Distribution Segment

In distribution, 2012 saw the evaluation of the implemented optimization of preventive maintenance rules while maintaining compliance with all applicable laws, regulations, and safety standards. Also, possibilities were explored and measures prepared for implementation in this area.

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. Maximizing the repatriation of funds expended abroad back to the corporate parent and ongoing consolidation of international assets continue to be major priorities in this area. CEZ Group is considering targeted departures from high-risk markets and preparing to reinforce its positions, engage in vertical integration in preferred markets, and monetize successful acquisitions in areas outside target markets.

Sales Segment

The objective is, by 2015, to continue growing market share in sales of natural gas and become a provider of multi-commodity services focusing on selling to, servicing, and maintaining end customers with an emphasis on cost-effectiveness.

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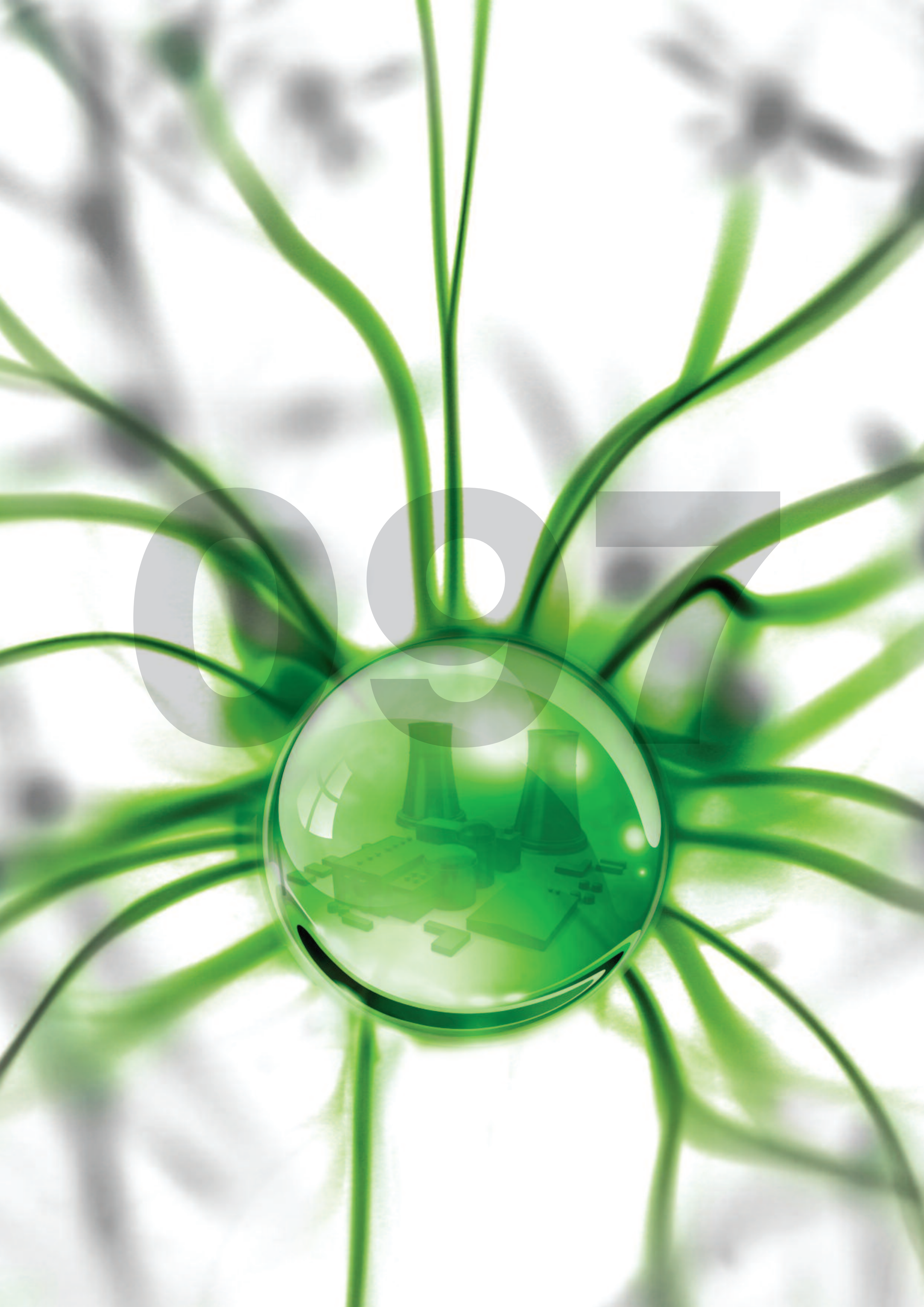
RECORD-BREAKING GENERATION

CEZ Group's nuclear power plants are in the top 25% in the world in terms of quality of operation. Five years of continual work on the SAFELY 15 TERA project have brought a record generation result at Temelín, the Czech Republic's most advanced nuclear power station. From January to December 2012 it generated 15 billion kWh of electricity, enough to cover one fifth of the Czech Republic's annual consumption. At year end Dukovany Nuclear Power Station also set a record. The plant has generated 351 billion kWh of electricity over nearly 28 years in operation.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CEZ Group in the Czech Republic

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 other 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. Various instruments can be traded on the Czech Republic's exchange, 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., where intra-day trading is also possible. For several years now, around 30 traders have been active in the wholesale market, and five electronic broker platforms were in operation in 2012.

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. In 2012, the coupling was expanded to include the Hungarian market as well.

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 traded 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 14 countries, as well as trading in natural gas, black coal, and 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 through its business activities to contribute to increased market transparency. In 2012, the Group reaffirmed this position in the formulation of new rules for allocation of cross-border transmission capacities in the region of Central Europe. It continued to advocate these positions through its memberships in the professional associations EURELECTRIC, EFET, and IETA.

The principal trading channels for the forward market are the PXE and the over-the-counter (OTC) market (broker platforms and bilateral contracts); in the spot market, short-term trades (Czech abbreviation: OKO) organized by OTE, a.s. remain the main trading channel.

Ancillary services are purchased by transmission grid operators at auction, through 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 had caused ČEZ's share of this market to decline in years past, but by 2012 the situation had stabilized. Expressed in technical units, ČEZ's share in the supply of ancillary services was 62.3% (compared to 62.7% in 2011).

There are currently approximately 47 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 2010–2011 saw a massive upswing in their numbers. According to OTE, a.s. figures, the total number of electricity supplier switches at all voltage levels for the entire Czech Republic in 2012 was 473,128, up from 448,860 switches in 2011, 249,181 in 2010, and 96,744 in 2009. That means that approximately 8.3% of connection points switched electricity suppliers in 2012 (2011: approximately 7.9% of connection points).

Thanks to the fully liberalized and transparent wholesale electricity market in the Czech Republic (functioning PXE exchange), 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 28.0% in the large end-customers segment (connected to the high- and medium-voltage grids) and 49.4% in the retail customers segment.

In the electricity distribution area, all prices are regulated by the Energy Regulatory Office. Price decisions were promulgated for eligible customers; concerning purchasing to support generation of electricity from renewable sources of energy, combined generation of power and heat, and secondary energy sources; prices of electricity and related services over the transmission grid; payments among distribution companies; prices for OTE's activities; and other regulated payments. The permitted electricity distribution revenues figure set by the Energy Regulatory Office for 2012 was CZK 22,079 million. 9,661 new connection points were connected to the grid in 2012.

2012 also brought a year-on-year increase in the number of new photovoltaic power plant connections, due to changes in legislation (a new Act on Supported Sources came into effect from January 1, 2013) and major cuts in support levels for new photovoltaic power plants commissioned in 2013 and later. As of December 31, 2012, the total number of photovoltaic power plants connected to the distribution grid of ČEZ Distribuce, a. s. exceeded 13,500, and their combined installed capacity was 986 MW.

In the Czech Republic, the 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. The 2012 figures indicate that the economic crisis has returned, with consumption falling by 0.7% year-on-year (after adjusting for weather). While the overall cross-border export capacity remained the same, 2012 once again saw a narrowing of the difference in wholesale price levels between the Czech Republic and the Federal Republic of Germany, from 0.56 EUR/MWh in 2011 to 0.21 EUR/MWh (difference between EEX and OKO spot markets).

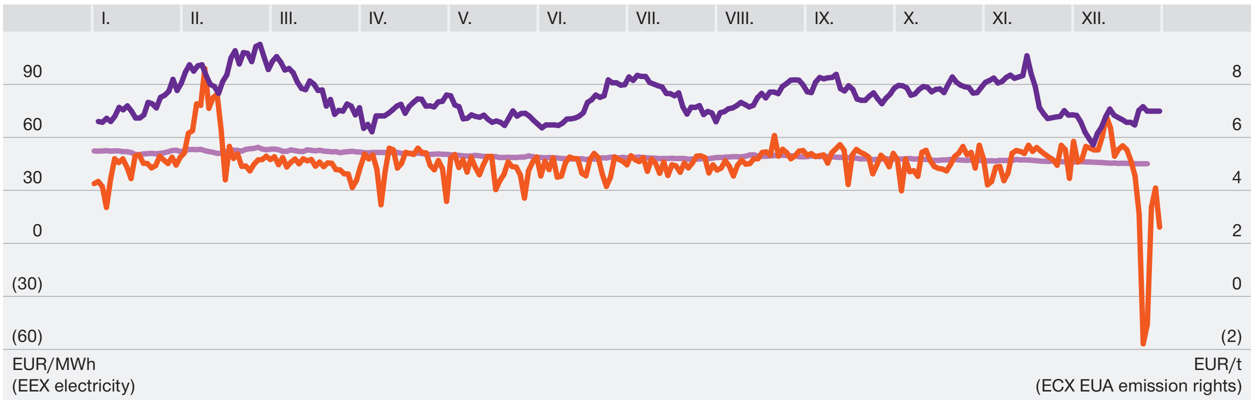
The natural gas market in the Czech Republic, too, is fully liberalized and the basic rules governing its functioning are similar to those in the electricity market. Although the gas market was liberalized later than that of electricity, on the other hand all its key players were already experienced, making the pace of liberalization and development of a competitive environment much faster. By 2012, both markets had reached the same level of competitiveness. Market convergence is evident in the behavior of most active traders, who offer their customers both commodities, and indeed customers are more and more frequently sourcing both electricity and natural gas from a single supplier. In the retail market, there are approximately 40 active traders (i.e. traders that have over 100 connection points registered with OTE, a.s.). 348,056 switches were recorded throughout the Czech Republic in 2012, down slightly from 2011's figure of 361,941, while the numbers for 2010 and 2009 were 84,424 and 33,327, respectively. In 2012, then, approximately 8.3% of connection points switched to a different supplier – a figure comparable to that of the electricity segment.

Developments in World Energy Markets in 2012

World markets related to the power industry (electricity, coal, greenhouse gas emission rights, natural gas) began 2012 on a moderate growth trajectory.

Electricity and Emission Rights
During the first two months of 2012, the price of the EEX BL 2013 one-year forward contract for electricity grew by over 2 EUR/MWh, to 54.33 EUR/MWh. Price levels in the spot market for electricity remained low throughout the first half of 2012, with the exception of a sudden upward jump in February, attributable to extreme cold weather. This phenomenon was short-lived, however. In the second half of the year the price increased slightly.
Late February brought a reversal in energy market developments, and for the rest of the year weakness prevailed in more or less all commodities. They responded to the combination of unfavorable macroeconomic data, the situation in the Eurozone, and profit-taking by investors following the preceding growth. In the case of EEX BL 2013 electricity, the loss came to over 9 EUR/MWh and trading ended the year at a level of 45 EUR/MWh. In the spot market, prices even dipped into negative numbers for several days. This phenomenon was related to unseasonably warm weather, the holiday period, and higher generation of electricity from renewable sources.
The emission rights market was influenced, among other factors, by discussions on the final form of a plan to reduce emissions in the 2013–2020 period (NAP III) relating to the withdrawal of some emission rights from the market. The price of a forward contract with delivery in December 2012 rose to 9.5 EUR/ton, an increase of 29% from the beginning of the year. In mid-November, prices of emission rights dropped precipitously on the announcement of a European Commission proposal to withdraw 900 million emission rights from the trading system (back-loading), as the markets deemed the number insufficient. Within less than a month emission rights lost one third of their value, followed by a slight increase in price.

Electricity and Emission Rights

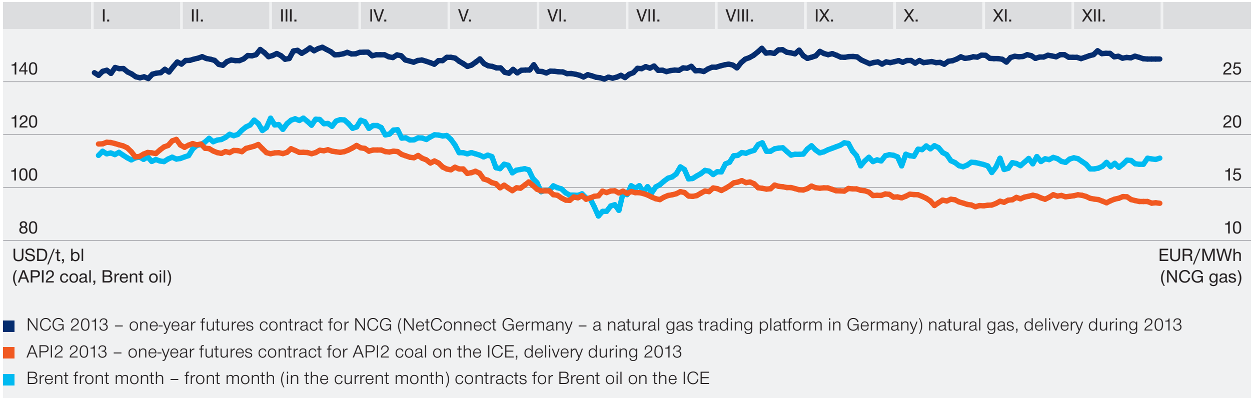


- EEX Spot – spot contract for electricity on the EEX
- EEX BL 2013 – one-year futures contract for electricity on the EEX, baseload supply during 2013
- ECX EUA 2012 – futures contract for emission right with delivery in December 2012, on the ICE

Coal, Oil, and Gas

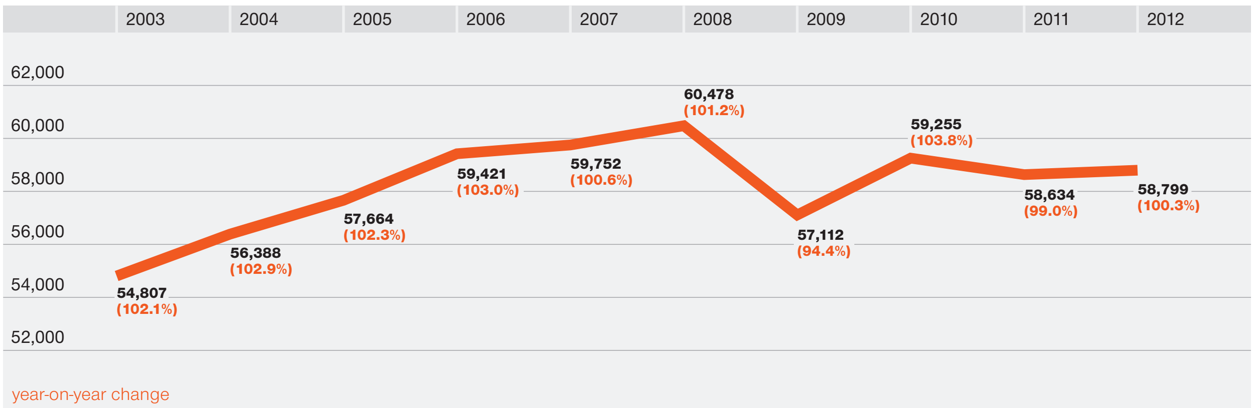
European coal API2 continued along a downward trajectory. An important role was played by the import of cheap American coal in conjunction with the boom in shale gas extraction in the United States of America.
Crude oil, on the other hand, gained during the second half, managing to return to levels last seen in early 2012. In the case of the basic Brent front month contract, this level was 110 USD/bl. Growth in crude oil prices was driven by several factors, principally: expectations of another round of quantitative easing in the USA, tension in the Middle East, and sanctions against the Islamic Republic of Iran.

Coal, Oil and Gas

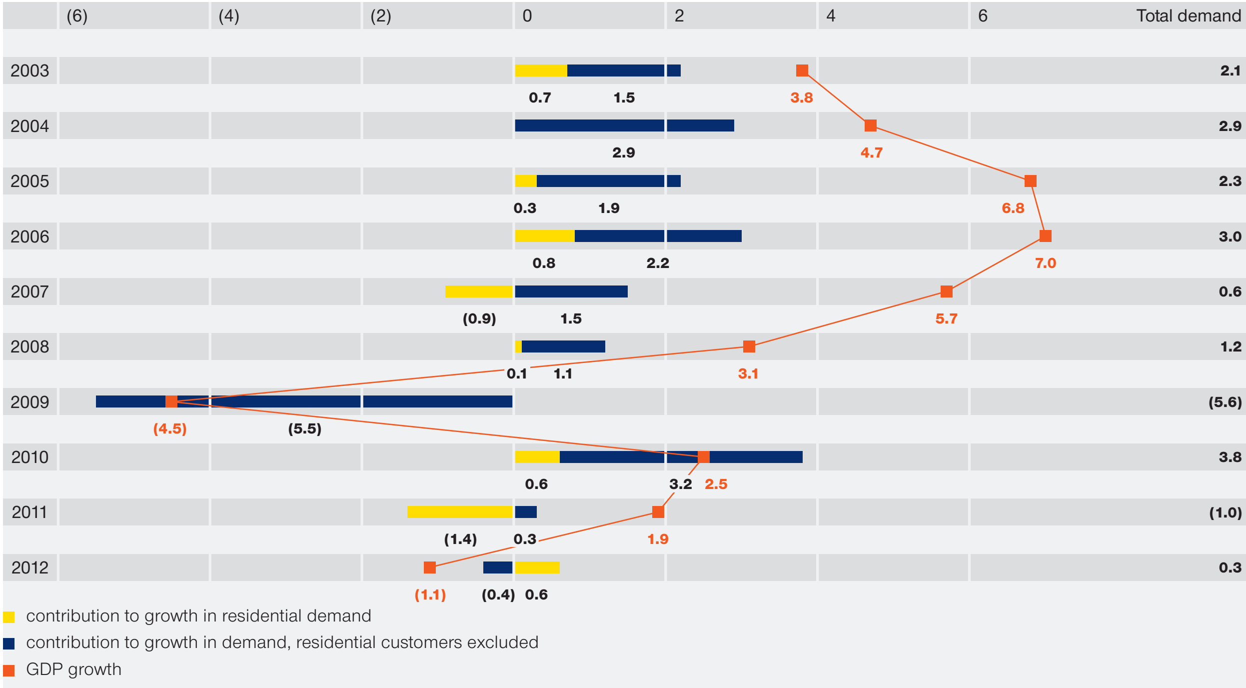


Czech Republic – Selected Indicators

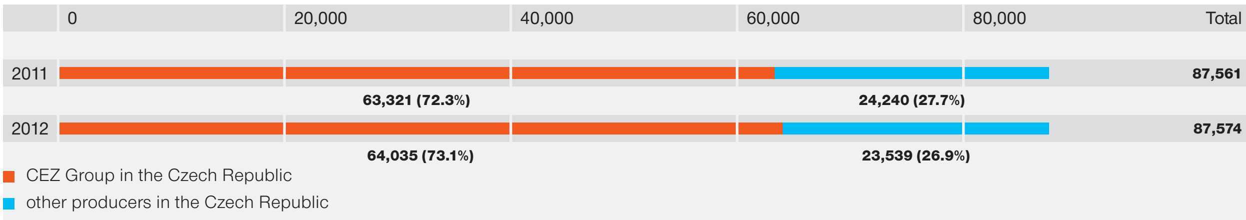
Electricity Demand in the Czech Republic (GWh)



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



Electricity Generation in the Czech Republic, Gross (GWh)



Brief Power Industry Development Forecast from the Perspective of CEZ Group

2012 saw dramatic growth in generation of electricity from subsidized sources and other regulatory interventions that are forcing wholesale prices downward, and in some cases into negative numbers. The frequency of these phenomena is growing and the future of the wholesale market is uncertain.

The European power industry continues to be influenced by macroeconomic developments and the direction of European Union energy policy, among other factors. As these two factors do not always operate in the same direction and it is not clear which will be stronger, any forecast of future developments will be marked by a certain degree of uncertainty.

The European Union's economy is flat and will very likely not grow in 2013, either. Despite a certain calming of the situation following (so far) verbal interventions by the European Central Bank, considerable uncertainty remains over further developments in the debt crisis. This uncertainty manifests itself in the form of tighter bank lending policies, reduced household spending, and deferral of corporate capital expenditures. Due to continued pressure on States to stabilize their budgets, there will be cuts in government spending. All this puts a damper on economic activity and subsequently slows growth in electricity consumption as well.

European Union energy policy emphasizes market liberalization and integration and the implementation of climate policies, and is embodied in the so-called "3 x 20 policy goals for 2020". The long-term objectives are, by that year, to bring about a 20% reduction in carbon dioxide emissions from their 1990 level, cover 20% of energy consumption from renewable sources, and through increased efficiency achieve a 20% energy savings compared to what consumption would be without these measures. Also, discussions are currently getting underway on the goals for beyond 2020.

The unexpected slump and subsequent stagnation in economic activity brought about a substantial drop in CO_2 emissions, resulting in a glut of emission rights in the emission trading system (EU ETS). Oversupply brought about a significant decline in the price of emission rights, down to levels that provide no incentive at all to invest in low-emission technologies or fuel substitution. Thus, in view of the ambitious long-term goals in the emissions area (reduction by up to 80% by 2050), the European Commission is looking for a way to reform the system so it acts as an incentive once again. However, the proposed reform is encountering resistance in some Member States, due to concerns over the impact higher prices on emission rights would have on an already weakened economy. Repeated delays of the decision only demonstrate how difficult it is to find a consensus and underline the overall uncertainty of the final result, which can have a major, long-term impact on electricity prices.

By 2016, regulation of SO_X and NO_X emissions, which is included in the Large Combustion Plant Directive (LCPD), will force the shuttering of major generation capacities 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 the closure of many old plants throughout the European Union.

2012 saw the adoption of the Energy Efficiency Directive (EED), which calls for new energy savings, corresponding to 1.5% of average consumption during the three years prior to implementation of the directive, to be achieved each year starting in 2014. The directive is couched in relatively general terms, containing a possibility to reduce the goal by up to 25% and giving individual States a relatively large degree of flexibility. Its real impact on the power sector, then, will only become evident during 2013, as the directive is implemented in national legislation.

Another factor of fundamental impact on the electricity market will be the development of generation from renewable sources, which by 2020 is to grow by one half from today's figure of 700 TWh. The increasing weighting of these sources is narrowing the potential of conventional energy, while growth in photovoltaic generation is reducing the price of electric power during peak hours. Photovoltaics' weather-dependent nature brings a high need for flexible back-up capacity, but in the current situation the market, deformed by a constant stream of new regulatory measures, lacks the necessary stability for making long-term investment decisions on a market basis.

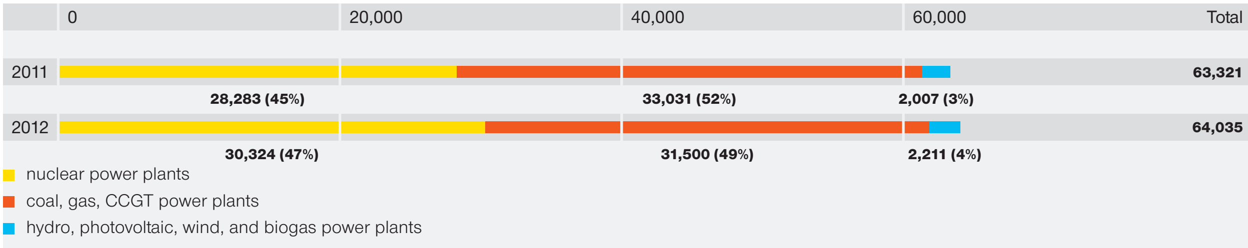
Subsequently, a number of European States began to consider introducing "capacity payments", to secure the construction of new, flexible generating capacity. Rapid growth in generation, particularly in unstable photovoltaic power plants and wind farms, is also giving transmission grid operators cause for concern. Their European association (ENTSO-E) has come out with a plan for the necessary grid upgrades, but the progress on the ground has been much slower than is needed.

Electricity and Heat Generation

Electricity Generation

CEZ Group power plants generated a total of 64,035 GWh of electricity in 2012, up 714 GWh from 2011.

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



Installed Capacity

At December 31, 2012, CEZ Group companies in the Czech Republic owned generation installations with aggregate installed capacity of 13,168.1 MW, up 354.5 MW from year-end 2011. The most significant changes during 2012 were the acquisition of Energotrans (six generating units at Mělník with 352 MW total installed capacity), completion of a project to increase the output of Dukovany Nuclear Power Station (the rebuild of Unit 2 was completed and its installed capacity increased by 70 MW), and commissioning of additional cogeneration units by ČEZ Energo, s.r.o., increasing the total installed capacity there by 8.7 MW. The installed capacity of the Dvůr Králové nad Labem power-heating plant was reduced. At the Trmice Power-Heating Plant, CCGT equipment was dismantled and sold, decreasing the plant's total installed capacity by 70 MW.

In a series of steps, certain ČEZ, a. s. power plants have been split off into separate legal entities. This occurred on September 1, 2010 in the case of Chvaletice Power Station, and the already operational Počerady Power Station followed on October 1, 2012, with the generation installation that is currently under construction at the Počerady site remaining in the hands of ČEZ, a. s. Dětmarovice Power Station was split off on February 1, 2013.

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)

List of CEZ Group Power Plants in the Czech Republic

Nuclear Power Plants

Plant	Owner	Installed capacity (MW) at December 31, 2012	Year commissioned
Dukovany	ČEZ, a. s.	4 x 510	1985–1987, overhaul 2009, 2010, 2011, 2012
Temelín	ČEZ, a. s.	2 x 1,000	2002–2003
Nuclear power plants, total		4,040.0	

Coal-Fired Power Plants

Plant	Owner	Type of fuel	Installed capacity (MW) at December 31, 2012	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	Elektrárna Počerady, 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 [1)]	ČEZ, a. s.	brown coal	5 x 210	1981–1982	1996
Tisová II	ČEZ, a. s.	brown coal	1 x 112	1961	1997
Tušimice II	ČEZ, a. s.	brown coal	4 x 200	1974–1975, comprehensive renewal 2007–2012	1997
Coal-fired power plants, total			6,052.0		

[1)] Comprehensive renewal of three generating units underway since September 1, 2012.

Power-Heating Plants

Plant	Owner	Type of fuel	Installed capacity (MW) at December 31, 2012	Year commissioned	Desulfurized since
Dvůr Králové nad Labem	ČEZ, a. s.	brown coal	1 x 3.5; 1 x 3.8	1955, 2011	1997
Hodonín	ČEZ, a. s.	brown coal	1 x 50; 1 x 55	1954–1958	1996–1997
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
Mělník I	Energotrans, a.s.	brown coal	4 x 60; 2 x 56	1959–1961	1995
Otín u Jindřichova Hradce	Energetické centrum s.r.o.	biomass	1 x 5.6	2008	
Trmice	Teplárna Trmice, a.s.	brown coal	2 x 20; 3 x 16	1970–1997	1997
Fórum Třebíč	ČEZ Energo, s.r.o.	gas	1 x 0.03	1997	
Boiler Unit – Brtnice	ČEZ Energo, s.r.o.	gas	1 x 0.266	2012	
Boiler Unit – Bystřice nad Pernštejnem	ČEZ Energo, s.r.o.	gas	1 x 2	2012	
Boiler Unit – Fügnerova, Vrchlabí	ČEZ Energo, s.r.o.	gas	1 x 0.8	2012	
Boiler Unit – Jihlava, U Břízek	ČEZ Energo, s.r.o.	gas	1 x 2.014	2010	
Boiler Unit – Liščí kopec, Vrchlabí	ČEZ Energo, s.r.o.	gas	1 x 1.560	2012	
Boiler Unit – Malé náměstí, Votice	ČEZ Energo, s.r.o.	gas	1 x 0.6	2012	
Boiler Unit – Moravský Krumlov	ČEZ Energo, s.r.o.	gas	1 x 0.8	2012	
Boiler Unit – Nádražní, Adamov	ČEZ Energo, s.r.o.	gas	1 x 2	2012	
Boiler Unit – Sušice, Kaštanová	ČEZ Energo, s.r.o.	gas	2 x 0.175	2010	
Boiler Unit – Sušice, Na Hrázi	ČEZ Energo, s.r.o.	gas	2 x 0.178	2012	
Boiler Unit – Sušice, Pravdova	ČEZ Energo, s.r.o.	gas	2 x 0.178	2012	
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 – Světlá nad Sázavou 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	1x 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	
ÚSP Jindřichov in Silesia	ČEZ Energo, s.r.o.	gas	1 x 0.022	2000	
Power-heating plants, total			1,005.5		

Hydro Power Plants

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

Plant	Owner	Installed capacity (MW) at December 31, 2012	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 [1)]	ČEZ OZ uzavřený investiční fond a.s.	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, 2012	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 [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 3.1	1941
Brno – Komín [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 0.106; 1 x 0.140	1923, overhaul 2008
Čeňkova Pila [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 0.096	1912
Černé jezero [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 1.5; 1 x 0.04; 1 x 0.37	1930, 2004, 2005
Hradec Králové [1)]	ČEZ OZ uzavřený investiční fond a.s.	3 x 0.25	1926
Hracholusky [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 2.55	1964
Les Království [1)]	ČEZ OZ uzavřený investiční fond a.s.	2 x 1.105	1923, overhaul 2005
Mělník [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 0.590	2010
Obříství [1)]	ČEZ OZ uzavřený investiční fond a.s.	2 x 1.679	1995
Pardubice [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 1.998	1978, overhaul 2012
Pastviny [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 3	1938, overhaul 2003
Plzeň – Bukovec [1)]	ČEZ OZ uzavřený investiční fond a.s.	2 x 0.315	2007
Práčov [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 9.75	1953, overhaul 2001
Předměřice nad Labem [1)]	ČEZ OZ uzavřený investiční fond a.s.	1 x 2.6	1953, overhaul 2009
Přelouč [1)]	ČEZ OZ uzavřený investiční fond a.s.	2 x 0.68; 2 x 0.49	1927, overhaul 2005
Spálov [1)]	ČEZ OZ uzavřený investiční fond a.s.	2 x 1.2	1926, overhaul 1999
Spytihněv [1)]	ČEZ OZ uzavřený investiční fond a.s.	2 x 2	1951, overhaul 2009
Vydra [1)]	ČEZ OZ uzavřený investiční fond a.s.	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, 2012	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, 2012	Year commissioned
Dukovany	ČEZ, a. s.	0.01	1998, 2003
Bežerovice [1)]	ČEZ OZ uzavřený investiční fond a.s.	3.013	2009
Čekanice u Tábora [1)]	ČEZ OZ uzavřený investiční fond a.s.	4.48	2009
Hrušovany nad Jevišovkou [1)]	ČEZ OZ uzavřený investiční fond a.s.	3.802	2009
Chýnov u Tábora [1)]	ČEZ OZ uzavřený investiční fond a.s.	2.009	2009
Přelouč [1)]	ČEZ OZ uzavřený investiční fond a.s.	0.021	2009
Žabčice [1)]	ČEZ OZ uzavřený investiční fond a.s.	5.6	2009
Buštěhrad [1)]	ČEZ OZ uzavřený investiční fond a.s.	2.396	2010
Vranovská Ves [1)]	ČEZ OZ uzavřený investiční fond a.s.	16.033	2010
Ševětín [1)]	ČEZ OZ uzavřený investiční fond a.s.	29.902	2010
Mimoň Ra3 [1)]	ČEZ OZ uzavřený investiční fond a.s.	17.494	2010
Pánov [1)]	ČEZ OZ uzavřený investiční fond a.s.	2.134	2010
Ralsko Ra1 [1)]	ČEZ OZ uzavřený investiční fond a.s.	38.269	2010
Photovoltaic power plants, total		125.2	

Wind Power Plants

Plant	Owner	Installed capacity (MW) at December 31, 2012	Year commissioned
Janov [1)]	ČEZ OZ uzavřený investiční fond a.s.	2 x 2	2009
Nový Hrádek [2)]	ČEZ OZ uzavřený investiční fond a.s.	4 x 0.4	2002
Věžnice [1)]	ČEZ OZ uzavřený investiční fond a.s.	2 x 2.05	2009
Wind power plants, total		9.7	

Biogas Stations

Plant	Owner	Type of fuel	Installed capacity (MW) at December 31, 2012	Year commissioned
BPS Číčov [1)]	ČEZ OZ uzavřený investiční fond a.s.	biogas	1 x 0.526	2011
Biogas stations, total			0.5	

[1)] Generation licence holder is ČEZ Obnovitelné zdroje, s.r.o.
[2)] Was not in operation; license canceled on January 30, 2013.

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). An addendum to the contract was signed, securing further fuel reloads for ten years. The addendum to the contract was submitted to the EURATOM Supply Agency for approval. Another technical addendum to the contract in 2012 specifies a new type of improved fuel. Work commenced on a development program and licensing for this new fuel. First use of the fuel is expected no earlier than 2014.

All deliveries in 2012 were of the improved, latest version of VVER 440 second generation fuel. All units of Dukovany Nuclear Power Station with this fuel achieved output of over 500 MW_e. In 2012, Temelín Nuclear Power Station continued to operate with TVEL fuel in both units. It was confirmed that the fuel's operation is absolutely satisfactory and enables fuel to be reloaded faster during outages.

In the years to come, the TVSA-T fuel both units are running on will enable a further planned increase in the output of Temelín Nuclear Power Station. The necessary documentation has already been completed by OAO TVEL and Czech organizations, and is currently being reviewed by the State Office for Nuclear Safety.

Raw uranium necessary to fabricate nuclear fuel, and processing thereof (conversion and enrichment services), were sourced exclusively under long-term contracts. Nearly one third of our uranium needs is covered long-term by supplies from the domestic uranium producer DIAMO, State enterprise, 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. In 2012, ČEZ, a. s. signed a contract covering a substantial portion of Temelín Nuclear Power Station's uranium requirement in 2015–2020. 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 2012 were dominated by brown coal, at 25.6 million tons, accounting for 96.2% of total coal supplies.

The biggest suppliers of brown power generation coal to ČEZ, a. s. in 2012 were 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). A long-term purchase agreement with Vršanská uhelná a.s., a member of the Czech Coal group, was signed in March 2013.

A medium-term purchase agreement is in effect with Severočeské doly a.s. (2011–2015).

Black coal volume supplied to ČEZ, a. s. power plants totaled 1.0 million tons (3.8% of overall coal consumption). The bulk, 0.7 million tons (70.0%), was supplied by OKD, a.s., and the remaining 0.3 million tons (30.0%) was sourced by import from Polish suppliers.

Black coal supplies take place under one-year purchase contracts.

Supplies of sorbents for running flue gas desulfurization equipment at coal-fired power plants in 2012 totaled 1.257 million tons at a cost of CZK 476.4 million.

Biomass Combustion and Co-Combustion

Biomass consumption within ČEZ, a. s. in 2012 totaled 396,587 tons, up 4.4% 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. In the Czech Republic, the share of purpose-grown energy crops is low.

Within ČEZ, a. s., biomass was combusted in the existing power-heating plants Hodonín, Poříčí II, Tisová I, and Dvůr Králové nad Labem. Energetické centrum consumed a total of 47,277 tons of this raw material in 2012 for its biomass-fired power plant in Otín u Jindřichova Hradce.

Natural Gas

To supply the CCGT power plant in Počerady, a purchase agreement for deliveries of natural gas has been signed with RWE (for a period of 15 years from the start of the CCGT power plant's commercial operation).

Electricity Generation Outlook

2013 will see repairs, combined with partial fuel replacement, undertaken on both of Temelín Nuclear Power Station's reactor units. During the outages, projects ensuing from recommendations made within the stress-test process will be undertaken.

Following completion of the annual repairs cycle, during September 2013 the achievable capacity is to be increased by 40 MW on each unit thanks to utilization of the reactors' full design capacity. The increase is conditional upon the consent of the State Office of Nuclear Safety.

Repairs will also take place at Dukovany Nuclear Power Station, on all four reactor units, combined with partial fuel replacement and there, too, projects ensuing from recommendations made within the stress-test process will be carried out.

Overall, nuclear generation volume is expected to grow by 0.64 TWh year-on-year.

At CEZ Group's coal-fired power plants, major repairs are planned at the Mělník II, Tisová II, and Dětmarovice Power Stations. The comprehensive renewal of three generating units at Prunéřov II Power Station is continuing, as is operational stabilization at Tušimice II Power Station following the comprehensive renewal of all four generating units there. Of significance in 2013 will be the commissioning of a new 838 MW CCGT unit at Počerady II Power Station and the successful resolution of fuel deliveries from Vršanská uhelná.

Electricity generated by power plants run on fossil fuels, including the CCGT source expected to be commissioned in 2013, is forecasted to be approximately 3.9 TWh less than in 2012. The decline is caused primarily by the ongoing comprehensive renewal of Prunéřov II Power Station and redistribution of fuel supplies.

Major repairs are also planned at the Lipno I and Kamýk hydro power plants. Hydro generation is expected to be approximately 0.2 TWh less than the actual figure for 2012, which was characterized by high flow rates.

Heat

CEZ Group heat generation sources in the Czech Republic supplied a total of 14,404 TJ in 2012. In terms of the year-on-year comparison, this represents a 3,982 TJ (38%) increase in supplies.

This major increase was caused by the inclusion in CEZ Group of Energotrans, a.s., which generates electricity and heat at a brown coal-fired installation at Mělník. This heat is supplied to the City of Prague and the City of Neratovice. It is the biggest power-heating source in the Czech Republic and by acquiring it CEZ Group substantially reinforced its position in the district heat industry, in accordance with its corporate strategy.

The process of concentrating CEZ Group's heat supply infrastructure assets in the specialized subsidiary ČEZ Teplárenská, a.s. continued. Most importantly, 2012 saw the transfer of infrastructure in Ústí nad Labem from Trmice Power-Heating Plant and of infrastructure in Ostrava from Vítkovice Power-Heating Plant, an organizational unit of ČEZ, a. s. This will lead to better and more efficient services for heat customers and more effective management of district heat infrastructure. The bulk of operations related to supplying end customers is located in the industrial areas of North Bohemia and Moravia.

Heat Generation Outlook

Supplies of heat from CEZ Group installations next year, and the related indicators, will be influenced by changes in certain conditions:

As of January 1, 2013, supplies of heat from Vítkovice Power-Heating Plant at the Ostrava – Vítkovice site will go through the subsidiary, ČEZ Teplárenská, a.s., which has acquired ownership of the district heat infrastructure at this site and will continue to be the end heat supplier.

As of February 1, 2013, Dětmarovice Power Station was split off into a separate company, Elektrárna Dětmarovice, a.s., and will continue to supply heat to Bohumín and Orlová through ČEZ Teplárenská supply infrastructure.

The subsidiary ČEZ Teplárenská, a.s. will gradually increase its base of heat customers connected, in particular, to heat networks supplied by CEZ Group power plants and power-heating plants.

Energotrans, a.s., which supplies heat to Prague, became a part of the CEZ Group in mid-2012. As a result, supplies of heat from CEZ Group sources in the Mělník area are expected to rise to an estimated 9,800 TJ in 2013.

In cooperation with partners in the South Bohemia region, CEZ Group continues to prepare a project for future supplies of heat from Temelín Nuclear Power Station to České Budějovice.

The subsidiary ČEZ Energo, s.r.o. is succeeding in implementing its business plan of building and operating small cogeneration units which, using natural gas as fuel, generate both heat and power, enabling the company to supply connected heat networks at competitive prices. Further development of these distributed generation sources is expected in 2013.

Capital Expenditure

In 2012, CEZ Group incurred capital expenditures totaling CZK 40,131 million in the Czech Republic.

Nuclear Power

Dukovany Nuclear Power Station

An upgrade of the Instrumentation & Control system was successfully completed on Unit 3, and equipment on Unit 2 was rebuilt with a subsequent increase to 510 MW of installed capacity. During the related outages, fuel was replaced in both units as well. In March 2013, after the repairs on Unit 3, the achievable capacity was increased by 2 MW following replacement of the high-pressure heater.

Temelín Nuclear Power Station

2012 saw outages of both reactor units for fuel replacement. During the outages, planned CAPEX projects were carried out on both units.

Construction of New Reactor Units at 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 (together with Westinghouse Electric Company Czech Republic), AREVA NP, and the Škoda JS consortium together with Atomstroyexport and JSC OKB Gidropress. The RFP documentation contained 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.

All three qualified bidders submitted their bids, based on the RFP documentation, according to plan by the deadline July 2, 2012. AREVA NP's bid was rejected, without further evaluation, on October 5, 2012 due to failure to comply with statutory and commercial requirements. Thus, two bidders remain in the tender process: the Czech-Russian consortium MIR 1200 and Westinghouse (USA-Japan).

On March 25, 2013, ČEZ notified those bidders who are continuing in the public tender of the results of the assessment and preliminary evaluation of the bids. The notifications, together with invitations to negotiations, were received by the consortium consisting of Westinghouse Electric Company, LLC and Westinghouse Electric Company Czech Republic as well as by the consortium consisting of ŠKODA JS, Atomstroyexport, and JSC OKB Gidropress. The assessment and preliminary evaluation is one step in the overall tender and will be followed by negotiations with both bidders with the objective of improving all aspects of the bids.

Evaluation of the bids submitted by qualified bidders is taking place under strict security measures. Only specially trained employees working in protected facilities are allowed to access the information.

Preparations for the permit and licensing process continued, as did the preparation of related CAPEX projects, some of which are already in the implementation phase. Also, the Environmental Impact Assessment (EIA) for the construction of Temelín Nuclear Power Station Unit Nos. 3 and 4 continued, including public hearings in the Federal Republic of Germany and the Republic of Austria. A public hearing in the Czech Republic was held on June 22, 2012. The process continued with the Ministry of the Environment of the Czech Republic reviewing comments on the assessment and subsequently issuing a consenting opinion in January 2013. In December 2012, an application for placement of a nuclear installation was submitted to the State Office for Nuclear Safety and the relevant fee pursuant to the Nuclear Act was paid.

Conventional Energy

Comprehensive Renewal of Tušimice II Power Station

Phase Two of the comprehensive renewal was completed and warranty operation is ongoing on Units 21 and 22. Currently, the process of obtaining certificates of occupancy for the various buildings is ongoing, with completion planned for June 2013. In July 2012, a fire damaged the building housing vacuum belts used to remove moisture from industrial gypsum, causing a plant-wide outage that lasted three weeks, until mobile gypsum dewatering equipment was sourced and put into operation.

Comprehensive Renewal of Prunéřov II Power Station

All permits necessary under applicable legislation for construction of the project have been obtained.
The comprehensive renewal commenced on September 1, 2012. Currently, demolition work is nearly complete, installation of steel structures and boiler pressure vessels has begun, and foundations are being laid for the turbogenerator mounts and equipment shared by the generation units. Temporary measures are being taken to enable operation of the remaining Units 21 and 22. Decisions promulgated by regulatory authorities are being challenged in administrative court.

Construction of New 660 MW Source at Ledvice Power Station

Installation work continued in 2012, mainly on the boiler house, the machine house, and the flue-gas desulfurization installation. Electrical and I&C systems are being installed as well. Plant construction is scheduled to be completed on December 31, 2014. An addendum to the agreement with the contractor, Alstom, was signed to take into account a delay in delivery of the boiler house, including stipulation of a new deadline, responsibility, and warranties of project completion.

Construction of CCGT Installation at Počerady Power Station

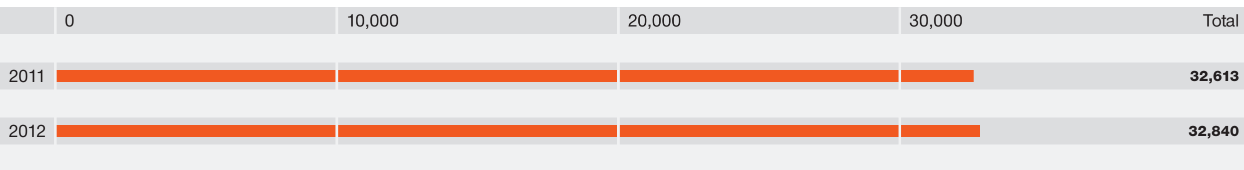
Deliveries and installation of the new source were completed in 2012. Initial firing of the gas turbines took place, and subsequent activities are underway for putting the plant into routine operation. Commissioning of the plant is expected in the second half of 2013.

Distribution and Sale

Electricity Distribution

In the Czech Republic, electricity is distributed by ČEZ Distribuce, a. s., which arranged for 32,840 GWh of electricity to be supplied to customers in 2012. The year-on-year increase of 227 GWh was caused, in particular, by higher demand for electricity (before adjusting for weather) primarily due to weather conditions. In terms of voltage levels, the increase took place mainly in the low-voltage segment (up 237 GWh).

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



Electricity Distribution Outlook for 2013

In 2013, ČEZ Distribuce, a. s. expects to supply 33,202 GWh of electricity to customers. At the same time, it plans to incur capital expenditures of approximately CZK 8.3 billion for distribution grid renewal and development.

Capital Expenditure

CEZ Group CAPEX in the distribution segment in the Czech Republic exceeded CZK 8 billion in 2012, down 16% year-on-year. The principal objectives of investing in renewal and development of the distribution grid are to increase and improve distribution grid quality, reliability, and safety, and automate the management of grid operation. CAPEX went primarily on the low- and medium-voltage grids and construction of transformer stations. CAPEX on projects initiated by customers reached a total of CZK 3.7 billion. An ongoing activity in the CAPEX area is the Smart Region project (rolling out of a smart distribution grid in a selected geographical area), which will enable conventional and alternative power sources to be combined effectively.

In 2012 the most significant projects included:

- Přeštice – rebuild of R 110 kV substation
- Řeporyje – rebuild of R 110 kV substation and I&C systems
- Babylon – rebuild of R 110 kV substation, own consumption, and mass remote control
- Jablonec South – new 110/22 kV transformer station
- Mírovka, 400/110 kV transformer station – rebuild of 110 kV substation – phase 2
- Ostrava Poruba – rebuild of 110/22 kV transformer station
- Turnov – new 110/35 kV transformer station
- Dluhonice – Hodolany, upgrade of 110 kV power line
- Unified Dispatch Control System (UDCS) for the distribution company
- Tuchlovice transformer station – increased resistance to short circuits
- Kladno – upgrade of 110 kV power line segments – V1900, V1901, and V1902
- Hoštice – Horní Životice branch, rebuild of 110 kV power line segments – V687, V688, and V689
- Liberec, Jeřmanice transformer station – new 35 kV substation
- Chýně – new 110/22 kV transformer station.

Sales

In 2012, CEZ Group offered end customers in the Czech Republic the following commodities and related services:

- electricity (ČEZ Prodej, s.r.o., ČEZ, a. s., ČEZ Energo, s.r.o.)
- natural gas (ČEZ Prodej, s.r.o., ČEZ Energetické služby, 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., Energotrans, a.s., Elektrárna Počerady, a.s.)
- electricity distribution (ČEZ Distribuce, a. s.).

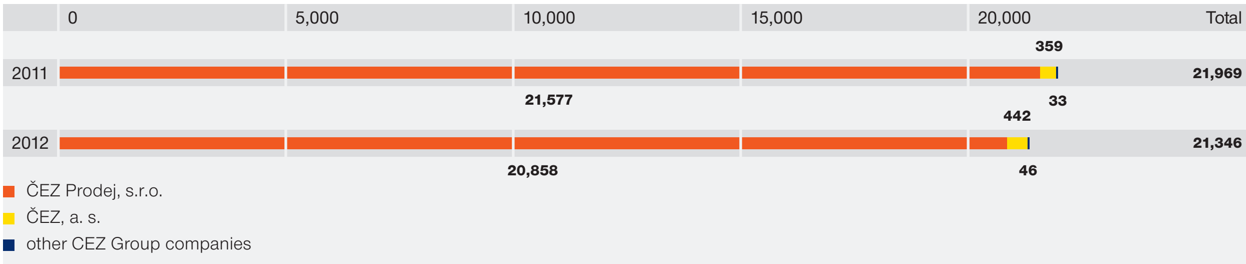
Customers can order electricity and natural gas either directly, in the form of supplies of the actual commodity (Electricity or Natural Gas Supply Contract), in which case the customer obtains distribution service through a separate Distribution Service Supply Contract, or – much more frequently – through 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 itself, but also arranges for provision of distribution services by the relevant local distributor in accordance with applicable legislation.

Sales 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 on a par with advanced European markets in terms of its competitiveness. The pro-active approach of several dozen electricity traders makes for a highly competitive environment that gives customers a sufficiently varied and broad offering of energy products.

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, is holding the position of market leader in all customer segments: large end-customers, retail-commercial customers, and residential customers.

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



In 2012, ČEZ Prodej, s.r.o. supplied an aggregate total of 20.9 TWh of electricity to its customers for a market share of 35.5%. Compared to 2011, this figure is down 0.7 TWh, particularly on customer departures, the rate of which we managed to reduce despite the increasingly intense competitive battle for customers in the energy markets.

In addition to ČEZ Prodej, s.r.o., smaller amounts of electricity were also sold to end customers by the companies ČEZ, ČEZ Energo, Elektrárna Počerady, Elektrárna Chvaletice, Teplárna Trmice, and Energetické centrum.

For 2013, CEZ Group anticipates electricity supply volume in the wholesale segment to be the same as it was in 2012. In the retail segment (smaller companies and residential customers), the situation is expected to be similar to that seen in 2012: declining market share caused by ongoing pressure from the competition.

Sale of Natural Gas

At CEZ Group, gas sales to end customers in the Czech Republic are handled primarily by ČEZ Prodej, s.r.o., which offers all customers (large end-customers, medium end-customers, small end-customers, and residential customers) a complete portfolio of natural gas products. Since successfully launching operations in the gas market in 2010, it has steadily grown its market share in the residential category, where 129,000 new contracts were gained in 2012. Out of nearly 300,000 contractual customers, supplies have commenced at over 80% of connection points, with the remainder in the processing stage.

In addition to high-quality services, ČEZ Prodej, s.r.o. also offers customers financial savings, since supplies of natural gas from CEZ Group are based on the latest, best prices/products in the wholesale market (exchange/commodity formulas). Also, residential and retail-commercial customers who have Integrated Gas Supply Contracts with ČEZ Prodej enjoy a price guaranteed to be no less than 5% lower (CEZ Group takes advantage of lower buying prices for natural gas) than that offered by the dominant natural gas supplier in the given distribution area.

In 2012, ČEZ Prodej, s.r.o. supplied its end customers an aggregate total of 5.1 TWh of natural gas, giving CEZ Group a 5.9% share in overall end-customer gas supplies, 5.8% in the large end-customers segment, and around 7.0% in the residential segment. This is up from 2011's figures of 3.4 TWh and 4.7% overall market share. As at December 31, 2012, ČEZ Prodej, s.r.o. had a total of 244,934 connection points, or 11.7% of the total number of connection points in the Czech Republic, making it the biggest alternative gas supplier. Compared to 2011, the number of connection points served rose 86%.

Besides ČEZ Prodej, s.r.o., the company ČEZ Energetické služby, s.r.o. also sold natural gas to end customers, though in substantially smaller amounts: its gas sales volume in 2012 was 0.07 TWh.

Sales Outlook for 2013

In 2013, CEZ Group anticipates that it will supply over 5.3 TWh of natural gas to its customers in the Czech Republic at a minimum of 400,000 connection points.

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, EU Allowances (EUAs), Certified Emission Reductions (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 determined by local energy legislation, the state of market liberalization, the relative balance between supply and demand, possibilities for cross-border electricity supplies, and other factors.

In 2012, ČEZ, a. s. sold electricity for delivery in 2013, 2014, and 2015 via the PXE through standard exchange products (one-year, one-quarter, one-month) and via 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.

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, it serves as a hedge for future sales of electricity generated within the Group (up until the year 2020) and for future procurement of electricity for end customers, as well as 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 primarily traditional ones for ČEZ, a. s., such as electricity and emission rights. Another is natural gas, which is traded through futures products on the ICE (IntercontinentalExchange) in London, the EEX (European Energy Exchange) in Leipzig, and other trading platforms. Last but not least, ČEZ, a. s. trades in black coal products of the futures type on the ICE in London as well as coal commodity swaps in the OTC market.

For all trading and commercial activities there are specific risk frameworks, both stop-loss and value-at-risk, that define permissible products and time frames, as well as, in particular, market- and credit-related bounds and limits.

Mining

Severočeské doly

The core business of Severočeské doly a.s. is coal mining (www.sdas.cz 1). Once again in 2012, the company maintained its position as the largest Czech brown coal company. The company has two coal 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. It supplies power generation coal to the Ledvice and Mělník III Power Stations, as well as to big power-heating plants. Bílina Mines extracted 10.2 million tons of coal in 2012, and at year end it had approximately 154 million tons of extractable coal reserves.

Bílina sorted coal, of which the company supplied 2.2 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, and it entered into legal force on January 26, 2011.

The Bílina pit is the deepest open-pit mining operation in the entire Czech Republic. In the northern and central portions of the mining front in particular, the thickness of the overburden layers is increasing. To maintain the necessary rate of advance on the overburden cuts and increase extraction capacity in this portion of the front, a new TC2-class K111 excavator was deployed in 2011.

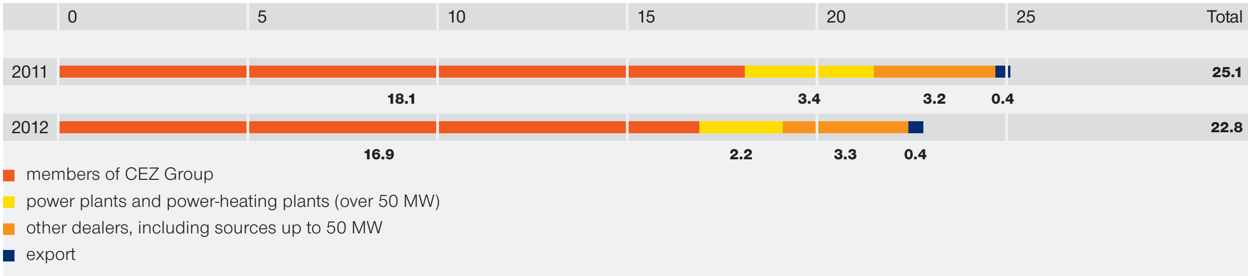
The Nástup Tušimice Mines brown coal-mining operation is located in the westernmost portion of the Ústí Region. In 2012, Nástup Tušimice Mines extracted 13.0 million tons of coal, all of which was destined for the Tušimice and Prunéřov Power Stations (which are local to the mine), the Chvaletice and Mělník II Power Stations, and the Komořany power-heating plant. As of December 31, 2012, the Tušimice mining area had approximately 229 million tons of extractable coal reserves. The mining operation is located in the Tušimice Extraction Area, which is defined in a 1994 decision of the Most District Mining Office. Under an Opening, Preparation, and Extraction Plan (OPEP), Nástup Tušimice Mines' operations 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 OPEP of November 2005 (estimated to take place in 2014). For continued mining operations, a new decision was promulgated in late 2012 but has not yet entered into force.

1 www

Coal Sales

Severočeské doly a.s. sold a total of 22.8 million tons of brown coal in 2012, a 2.3 million ton decrease in sales volume compared to the record year 2011. The decrease is attributable to lower demand.

Coal Sales, by Customer (millions of tons)



Brown Coal Mining Outlook for 2013

Bílina Mines plans to extract a total of 9.8 million tons of coal in 2013. Planned extraction volume of Nástup Tušimice Mines in 2013 is around 17.4 million tons of coal. The expected growth in extraction volume reflects increased generation at CEZ Group coal-fired power plants.

Capital Expenditure

In 2012 Severočeské doly a.s. incurred capital expenditures totaling CZK 3.8 billion. The biggest CAPEX projects were related to process equipment and buildings on the first and second overburden cuts at the Bílina Mines coal pit, shifting of the South Slopes trunk belt conveyor, completion of the Ledvice Power Infrastructure Corridor, and commencement of a project entitled "Expansion of the Emerán Minewater Treatment Plant". Also, financially significant land buying took place to secure the further advance of mining operations.

In terms of environmental projects, Bílina Mines continued in 2012 with construction projects designed to protect cities and towns by mitigating the negative impacts of mining activity, primarily noise and dust.

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 the FGD systems of CEZ Group coal-fired power plants, to which it delivers approximately 500,000–700,000 tons of limestone per year, covering approximately half of their annual consumption of this commodity. In 2012, supplies to ČEZ, a. s. power plants totaled approximately 600,000 tons of limestone. The projection for 2013 is 520,000 tons. A second significant commodity produced by LOMY MOŘINA spol. s r.o. is construction rock. All of the company's customers for this commodity are from outside CEZ Group, and the company supplies them 250,000–300,000 tons per year, with a moderately declining year-on-year trend. Verified limestone reserves provide good prospects for sustained, long-term extraction operations.

FutureMotion

In June 2009, an initiative entitled "FutureMotion – the Energy of Tomorrow" was launched with the objective of securing a long-term stable and positive outlook for ČEZ and the Czech power industry in the "knowledge economy" and help people lead comfortable and safe lives while minimizing environmental impacts. The aim of the initiative is to create a platform for developing innovative themes and technologies that are subsequently taken to the next level in day-to-day operations (for example, the small-scale cogeneration and biofuels programs run by the Production division). Within the initiative several programs are being developed, among them the following:

Electromobility
The network of charging stations continued to expand in 2012. At December 31, 2012, electromotorists could take advantage of 32 such stations, not just in Prague, but in other cities of the Czech Republic – Pilsen, Trutnov, Hradec Králové, Vrchlabí, and Ostrava – as well. Also, as of September the first ultrafast charging station is in operation in front of ČEZ's headquarters in Prague. In 2012 there was an increase in the number of partners actively involved with CEZ Group in the Electromobility project. Among the most significant partnerships is the one with car manufacturer ŠKODA AUTO a.s. focused not just on testing electric cars and building charging stations, but also on developing technical solutions and business models. CEZ Group has also begun collaborating with cities and government agencies. Together with Česká pošta (Czech Post), CEZ Group is testing electric cars in real, day-to-day operations. Mercedes-Benz Česká republika s.r.o., a subsidiary of the German automaker Daimler AG, joined the testing program in January 2013.

Smart Region
The Smart Region project continued according to the project timeline in 2012, with active collaboration between CEZ Group and the Vrchlabí city leadership, and moved fully into the execution phase. As part of the Smart Region project, existing 10 kV medium-voltage cables were replaced by cables capable of carrying 35 kV in order to increase the operating reliability of the distribution grid. Also in 2012, two distribution transformer stations were completely rebuilt and another five new transformer stations were installed and connected to the distribution grid. In 2012, we succeeded in commissioning three modern cogeneration units with 3,920 kW of total installed electricity generation capacity and 4,351 kW of total heat capacity.

AMM (Automated Meter Management)
Following the installation of a total of 33,000 smart electric meters at the homes and businesses of customers in three selected areas – Pardubice, Jeřmanice in North Bohemia, and the Smart Region in Vrchlabí – the AMM project entered the phase of optimization and evaluation of results. The operational parameters of the metering technologies and the reliability and performance of IT systems were evaluated on an ongoing basis. Selected customers with smart electric meters were offered a special tariff, and subsequently the ability of these customers to take advantage of the new AMM-based products and services was evaluated – for example, their ability to change their behavior in line with differing prices during the day, and thereby save on their electric bill. The data collected will serve to update the CEZ Group smart metering strategy, and were also used as source material for a study entitled "Economic assessment of the introduction of intelligent metering systems in the Czech Republic power sector", which was drawn up by the Ministry of Industry and Trade of the Czech Republic in compliance with the requirements of Directive 2009/72/EC of the European Parliament and of the Council.

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WE’RE ROLLING OUT CLEAN, EFFICIENT TECHNOLOGIES

The comprehensive renewal of CEZ Group coal-fired power installations in North Bohemia – Tušimice Power Station and Prunéřov Power Station – is part of a wide-ranging program that also includes building new installations in a value exceeding CZK 100 billion. This is the biggest CAPEX project in the recent history of the Czech Republic and will ensure that the Czech power industry continues to be competitive, as well as helping to make the power plants more easy on the environment. The upgrade of Tušimice Power Station has reduced the plant’s annual coal requirement by 1.4 million tons – not only did that help the environment; it extended the plant’s useful life as well.


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CEZ Group Abroad

Republic of Poland

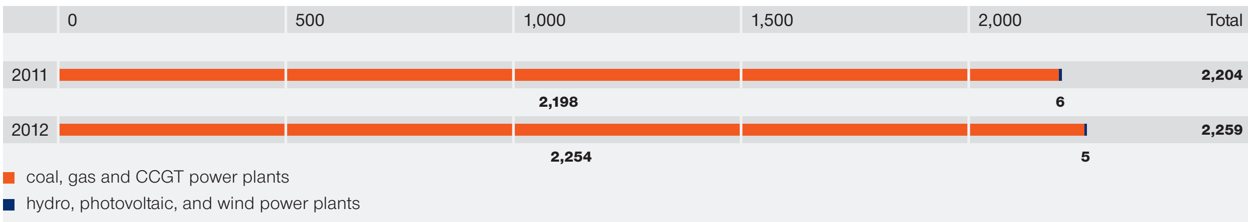
Business Environment in the Power Industry

The Polish power market is almost fully liberalized. Only residential electricity tariffs, i.e. distribution and trading fees, are regulated. In preparation for the third greenhouse gas 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 with the objective of lowering greenhouse gas emissions. Poland sent its rights derogation proposal, together with the national CAPEX plan, to the European Commission in September 2011. Approval of both the allocation of rights and the CAPEX plan is expected in 2013, and their approval is a pre-condition for granting of the emission rights for 2013–2020. In view of the country's large degree of dependence on coal for power generation, Poland vetoed a proposal for a greater reduction in European Union-wide emissions after 2020 as well as Roadmap 2050, the Union's long-term plan for cutting emissions, and has come out against any reform of the EU ETS, even if it comes before 2020.
In the context of reducing its power industry's emission intensity, Poland is endeavoring to develop nuclear energy. Two nuclear power plants, with 6,000 MW total capacity, are planned.
In Poland, combined power and heat generation 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. A new law, expected to be adopted in 2013, is to clarify support for biomass co-combustion and wind energy.

CEZ Group in Poland

Electricity Generation

Electricity Generated in Poland, Gross (GWh)



www.cezpolska.pl

In 2012, CEZ Group power plants in Poland generated 2,259 GWh of electricity, up 55 GWh (+2.5%) 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 the ELCHO power plant's revenue from compensation for termination of long-term contracts with PSE S.A.

Installed Capacity

As at December 31, 2012, CEZ Group companies in the Republic of Poland owned generating facilities with a combined total installed capacity of 730 MW. Of this figure, 728 MW 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, 2012	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, 2012	Year commissioned
Skawina/Skawinka	Elektrownia Skawina S.A.	1 x 1.6	1961
Small-scale hydro power plants, total		1.6	

Solid Fossil Fuels and Sorbents

In 2012, the Skawina and ELCHO power plants consumed a total of 982,000 tons of black coal, sourced from mining companies in their vicinity. ELCHO purchases coal under a long-term contract with Kompania Węglowa S.A. In 2012, Skawina sourced coal from Kompania Węglowa S.A., Katowicki Holding Węglowy S.A., and Bugor sp. z o.o.

The Polish power plants utilize biomass as another significant power generation fuel. In 2012, both plants invested in equipment to increase the volume of biomass they combust.

Using equipment that injects biomass directly into its boilers, Skawina combusted 146,400 tons of biomass, or 22.5% of the plant's total fuel consumption, thereby generating 204.8 GWh of electricity, i.e. up 52.4 GWh from 2011. In 2012, ELCHO obtained a permit to combust up to 45% biomass, in relation to its total fuel consumption. It combusted a total of 192,000 tons of biomass (accounting for 28.6% of its overall fuel consumption) to produce 304 GWh of electricity, up 150 GWh from 2011.

Electricity Generation Outlook for 2013

In 2013, CEZ Group power plants in Poland are expected to generate 2.35 TWh of electricity, i.e. 4% more than the actual quantity generated in 2012. This is the result of biomass co-combustion, as well as turbine repairs undertaken at ELCHO in 2012. Moreover, the new Borek Szlachecki hydro power plant is to be commissioned in 2013.

Electricity Sales

Electricity is sold by CEZ Trade Polska sp. z o.o. as a supplementary activity to support electricity trading. In 2012, a total of 217 GWh was supplied to the large end-customers segment.

Electricity Sales Outlook for 2013

In 2013 we expect to grow supply volume to 382 GWh on an increased number of customers in the portfolio.

Heat

The Polish power plants of CEZ Group sold a total of 5,058 TJ of heat in 2012. Of this figure, the Skawina power plant accounted for 2,739 TJ and the ELCHO power plant 2,319 TJ.

Skawina supplied heat to one distribution company, MPEC (Miejskie Przedsiebiorstwo Energetyki Cieplnej S.A. w Krakowie), in 2012. MPEC supplies heat to Cracow and to three end customers. In 2012, Skawina signed new heat customers representing a 15.3 MW_t incremental increase in heat output.

ELCHO supplied heat to three distribution companies. 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. In 2012, ELCHO connected new heat customers corresponding to a 6.25 MW_t increase in heat output.

Heat Sales Outlook for 2013

In 2013, heat sales volume is expected to total 4,900 TJ.

Capital Expenditure

Capital expenditures in Poland totaled CZK 0.1 billion in 2012.

The Skawina power plant invested mainly in the construction of the new Borek Szlachecki small-scale hydro power plant with 950 kW_e of capacity. CAPEX also continued in a biomass milling facility to assure the quality necessary for direct injection into the boilers, and a project to roof over the biomass storage site was completed.

The ELCHO power plant's CAPEX in 2012 focused on an overhaul of Turbine No. 2.

In accordance with CEZ Group strategy, Eco-Wind Construction S.A. is preparing a portfolio of wind farm projects with approximately 700 MW total installed capacity. Once building permits are obtained, construction is planned to begin at three sites (Elbląg – Krasin, Suwałki – Radysy, Grudziądz) in 2014. Other projects are in the planning stages, as well.

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. 2012 saw the launch of the Bulgarian energy exchange. However, the wholesale market price is effectively regulated at a substantially lower level, compared to neighboring countries, using a so-called "fee for transmission grid use", which is levied on all electricity exported from the country. The degree to which the market is open, measured by physical delivery to end customers and export, is estimated at 35% of the total net generation volume of power plants in Bulgaria.

In response to the European Union's third liberalization package, a process began in 2012 to spin off the transmission grid and related assets from the company NEK EAD to the company ESO EAD ("ЕЛЕКТРОЕНЕРГИЕН СИСТЕМЕН ОПЕРАТОР" ЕАД) and its completion is anticipated in 2013.

2012 saw continued trial synchronized operation of the Bulgarian transmission grid with its Turkish and Greek counterparts. This gave Bulgaria market access to the grids of all its neighbors. Joint auctions of cross-border transmission capacity take place on the Bulgaria-Greece and Bulgaria-Romania lines. On the borders with Macedonia, Turkey, and Serbia, capacity is divided equally between the corresponding national transmission system operators.

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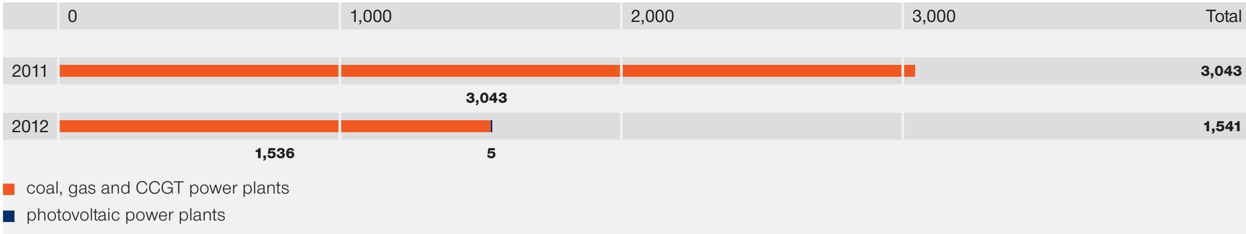
Two significant changes in distribution grid ownership took place in 2012: Czech Republic-based ENERGO - PRO bought the distribution grid in northeastern Bulgaria, with 1.1 million customers, from the departing E.ON. The Bulgarian State privatized, through the stock exchange in Sofia, minority stakes in electricity distribution and sales companies: two are majority-controlled by ENERGO - PRO and two by CEZ Group.
In 2013, plans were unveiled for changes in the power industry: specifically, disconnection of all photovoltaic power plants that fail to duly report their generation to ESO EAD, reduction in capacity for cold reserve and its purchase at auction, simplification of electricity export, and imposition of new rules for electricity trading to make the market more open. As of the Annual Report closing date, however, no details were known concerning these measures.
On January 24, 2013, the European Commission filed suit against Bulgaria to the European Court of Justice, on the grounds that it failed to implement the third liberalization package by the March 3, 2011 deadline.

CEZ Group in Bulgaria

Operations in the Country
CEZ Group has had electricity distribution operations in Bulgaria, covering the western portion of the country including the capital, Sofia, since January 2005. On February 19, 2013, the State Energy and Water Regulation Commission (Държавна комисия за енерго и водно регулиране), i.e. the Bulgarian energy regulator (DKEVR), promulgated a decision commencing a process of revoking the electricity distribution license of CEZ Razpredelenie Bulgaria AD and the electricity sales license of CEZ Elektro Bulgaria AD. These companies are alleged to have violated the Energy Act by breaching obligations associated with replacement of equipment, failing to comply with disclosure requirements toward DKEVR, and not complying with public procurement rules. Both companies submitted their objections and written opinions to the regulator within the time period given by law. A public hearing has been scheduled for April 16, 2013.
On February 27, 2013, the public prosecutor commenced inquiries at all three distribution companies in the country (CEZ Group, ENERGO - PRO, and EVN) as well as at the DKEVR itself.
On February 28, 2013, Parliament adopted an amendment of the Energy Act enabling the regulator to change the price of electricity as at any date it chooses. Effective from March 5, 2013 DKEVR imposed a 7.17% average reduction in the price of electricity for residential customers in the CEZ Razpredelenie Bulgaria AD distribution area based on a reduction in the recognized grid losses figure from 15% to 12%. The new tariff decision takes effect on June 30, 2013.
On March 28, 2013, the Commission for the Protection of Competition (Комисия за защита на конкуренцията), i.e. the Bulgarian anti-trust authority, opened an investigation of all three distribution companies in the country (CEZ Group, ENERGO - PRO, and EVN) on the suspicion that they took joint action to make it difficult for consumers to switch to a different electricity supplier. Under a court permit, the buildings of all the companies were searched. On March 29, 2013, ČEZ sent a complaint to the European Commission containing a list of facts that, in its opinion, demonstrate that licenses in the power sector are granted and revoked, and certain other official procedures conducted, in ways that violate Bulgarian law, European Union law, and the Treaty on the Functioning of the European Union (regarding freedom of establishment and free movement of capital). The complaint applies, in particular, to the manner in which the process of license revocation was commenced, as it was instigated by the Prime Minister – with the public prosecutor calling for it as well – and not by the independent energy regulator. In ČEZ's opinion, such an action is a breach of European Union law, various measures of which have not, however, yet been integrated into Bulgarian law. In addition, most of the alleged misconduct by Bulgarian members of CEZ Group cannot be deemed grounds for revocation of license under Bulgarian law.

Electricity Generation

Electricity Generated in Bulgaria, Gross (GWh)



The coal-fired Varna power plant generated a total of 1,536 GWh of electricity in 2012, down 1,507 GWh (50%) from 2011. The decline was attributable primarily to lower generation for the regulated market, and in particular activation of the cold reserve by ESO, the market operator (TEC Varna accounts for 60% of Bulgaria's backup generation capacity). A new photovoltaic power plant in Oreshets supplied 5 GWh of electricity to the grid.

Installed Capacity

CEZ Group has 1,265 MW of installed capacity in Bulgaria: 1,260 MW at the Varna coal-fired power plant and 5 MW at the Oreshets photovoltaic power plant.

Location of CEZ Group Power Sources 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, 2012	Year commissioned
Varna	TEC Varna EAD	black coal	6 x 210	1968–1969 1977–1979
Coal-fired power plants, total			1,260.0	

Unit 4 of the Varna power plant has been off-line since January 1, 2013 as it does not meet the environmental limits set forth in the integrated permit.

Photovoltaic Power Plants

Plant	Owner	Installed capacity (MW) at December 31, 2012	Year commissioned
Oreshets	Free Energy Project Oreshets EAD	5	2012
Photovoltaic power plants, total		5.0	

Solid Fossil Fuels and Sorbents

In 2012, the Varna power plant consumed a total of 665,000 tons of coal. Coal is imported from Russia and Ukraine – transported by sea from Mariupol, Ukraine. Compared with 2011, the quality of imported coal improved (higher heat content).

Electricity Generation Outlook for 2013

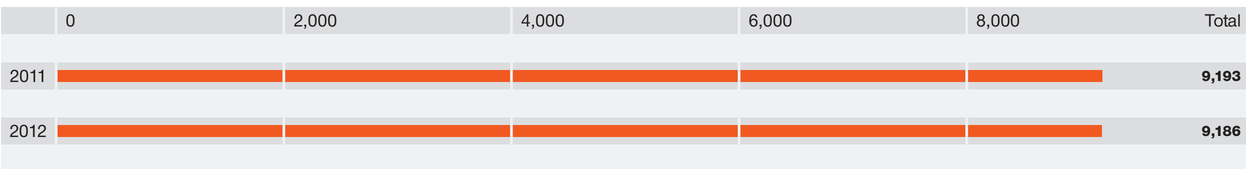
Varna, CEZ Group's biggest coal-fired power plant, plans to increase electricity output in 2013, due to higher expected cold reserve activation by ESO, the Bulgarian operator, than was seen in 2012.

Heat

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

Electricity Distribution

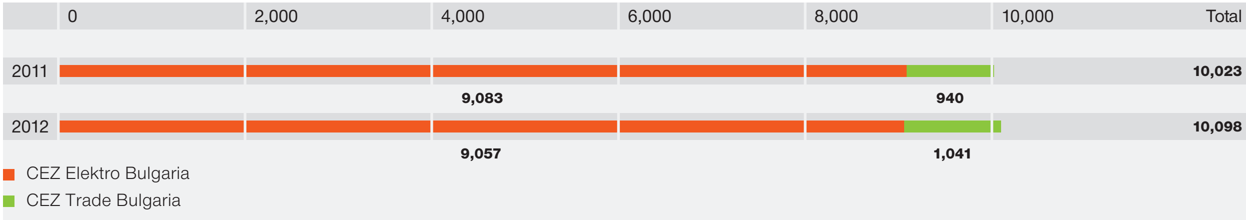
Electricity Distributed to End Customers in Bulgaria (GWh)



The volume of electricity distributed in Bulgaria in the area served by CEZ Group in 2012 was unchanged year-on-year. Growth in residential consumption in 2012 was offset by a drop in the commercial segment (corporate customers at the low-voltage level). In year-on-year terms, CEZ Group in Bulgaria succeeded in reducing losses in the distribution grid, with declines seen in both technical losses due to targeted investments in distribution infrastructure (transformer replacements and upgrades, replacement of electric meters) and non-technical losses thanks to further optimization of their management process.

Electricity Sales

Electricity Sold to End Customers in Bulgaria (GWh)



CEZ Elektro Bulgaria AD sold 9,057 GWh of electricity to end customers in 2012, down 26 GWh year-on-year. Growth in the volume of electricity sold to households, in line with the long-term, moderate growth trend in this segment, was offset by lower sales to corporate customers at the low-voltage level. Corporate customers remained with CEZ Elektro Bulgaria in 2012, despite the fact that some of their number – those connected to the medium-voltage grid in particular – can now choose their electricity supplier in the free market.
CEZ Trade Bulgaria sold 1,041 GWh of electricity to end customers in the free market in 2012.

Electricity Distribution and Sales Outlook for 2013

In 2013, CEZ Group anticipates moderate growth in electricity distribution volume due to new connections to the distribution grid and growing consumption in both the residential and commercial segments. Electricity sales figures are expected to fall compared to 2012, as some corporate customers may switch to a different dealer when the next phase of electricity market liberalization begins in early 2013.
In the period from March to the end of June 2013, when the regulation period expires, the March 5, 2013 reduction in the price of electricity will have an approximately CZK 0.2 billion negative impact on the income result. Tariffs for the period from July 1, 2013 onward will be set later.

Capital Expenditure

In 2012, CAPEX in Bulgaria reached approximately CZK 1.7 billion. Distribution grid CAPEX went primarily on improving distribution grid quality, replacing electric meters, building out new connections to the distribution grid, and purchasing power infrastructure-related buildings pursuant to the Energy Act. Once again in 2013, CAPEX will focus on improving the quality of the distribution grid, replacing electric meters, and purchasing power-related buildings.
We are currently considering a retrofit of the Varna power plant to improve its environmental profile as a necessary pre-condition for operating the plant beyond December 31, 2014. Realization of this project would reduce the plant's SO_X, NO_X and dust emissions in accordance with an obligation taken on by Bulgaria when the country joined the European Union.
Generation-related CAPEX went on construction of the Oreshets photovoltaic power plant. In 2013, we are planning to build a gasification-based biomass power plant near the town of Etropole with a planned cost of approximately CZK 0.3 billion. Capital expenditures on these power plant projects are ongoing in fulfillment of an obligation set forth in the agreement on purchase of the Varna coal-fired power plant.

Romania

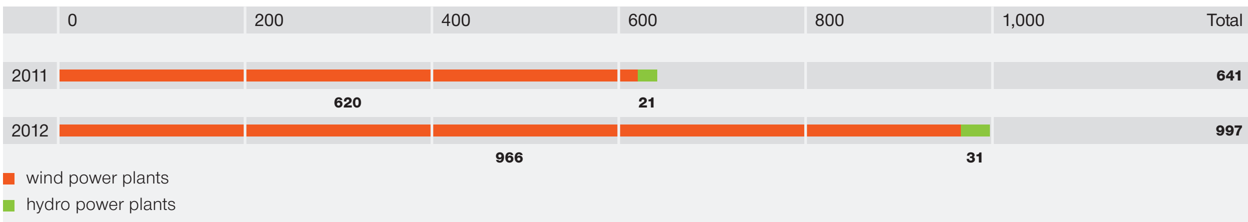
Business Environment in the Power Industry

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. Key producers include Hidroelectrica, Nuclearelectrica, and Termoelectrica. Certain municipal and local power-heating plants are under municipal ownership. 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.
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. The Cogealac wind farm was granted its first green certificate on October 1, 2012, and the second followed on December 1, 2012. The Fântânele wind farm was able to utilize both certificates throughout 2012.
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). In conjunction with LCPD compliance, up to 3 GW of coal-based generating capacity will be taken off-line by 2015.

CEZ Group in Romania

Electricity Generation

Electricity Generated in Romania, Gross (GWh)



The year-on-year increase in generation in Romania was attributable primarily to the wind farm build-out.

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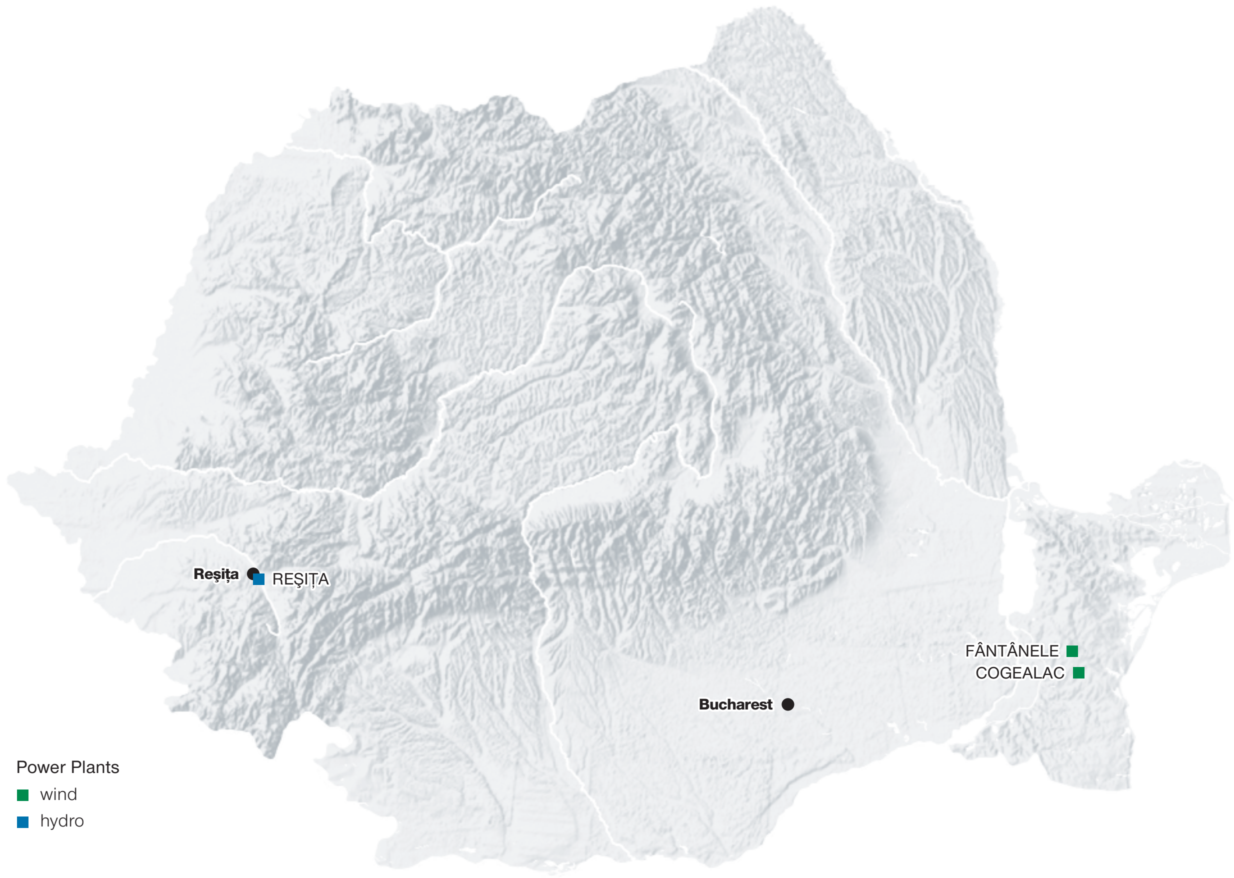
Location of CEZ Group Power Sources in Romania



Installed Capacity

CEZ Group companies in Romania had a total of 618 MW of installed capacity at December 31, 2012.

List of CEZ Group Power Plants in Romania

Wind Power Plants

Plant	Owner	Installed capacity (MW) at December 31, 2012	Year commissioned
Cogealac	Ovidiu Development S.R.L.	252.5	2012
Fântânele	Tomis Team S.R.L. MW Team Invest S.R.L.	347.5	2010
Wind power plants, total		600.0	

In 2012, CEZ Group completed construction of the Fântânele and Cogealac wind farm in Constanța County. The last wind turbines in Fântânele were erected and connected. In the Cogealac portion, 87 turbines were erected and connected to the grid. The last of Fântânele and Cogealac's 240 wind turbines was connected to the grid on November 22, 2012.
The Fântânele and Cogealac wind farm generated a total of 966 GWh of electricity in 2012, up 346 GWh from the previous year.

Hydro Power Plants

Plant	Owner	Installed capacity (MW) at December 31, 2012	Year commissioned
Breazova	TMK Hydroenergy Power S.R.L.	0.370	1977
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
Small-scale hydro-power plants, total		18.0	

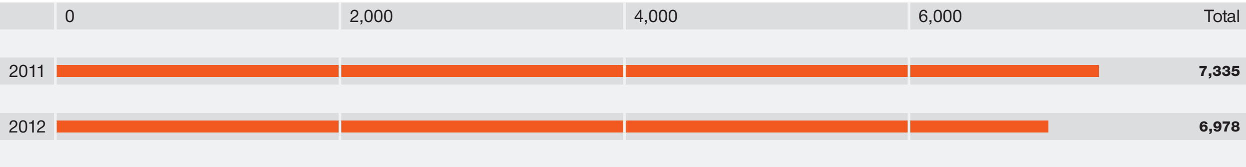
In 2012, work continued on upgrading small-scale hydro power plants belonging to TMK Hydroenergy Power S.R.L., which are located in the southwestern portion of Romania in Karash-Severin County near the city of Reşița.
By the end of July, all the plants were taken off-line for the upgrade works.
The upgrades are scheduled to be completed by the end of 2013, after which the installed capacity will increase to 20.6 MW.
In the period from January to July 2012, the power plants of TMK Hydroenergy Power S.R.L. generated a total of 31 GWh of electricity.

Electricity Generation Outlook for 2013

The Fântânele wind farm is expected to generate a total of 0.9 TWh, while the neighboring Cogealac farm's output is predicted to reach 0.6 TWh. As the Reşița complex of hydro power plants is shut down for reconstruction, its generation output for the entire year 2013 will be nil.

Electricity Distribution

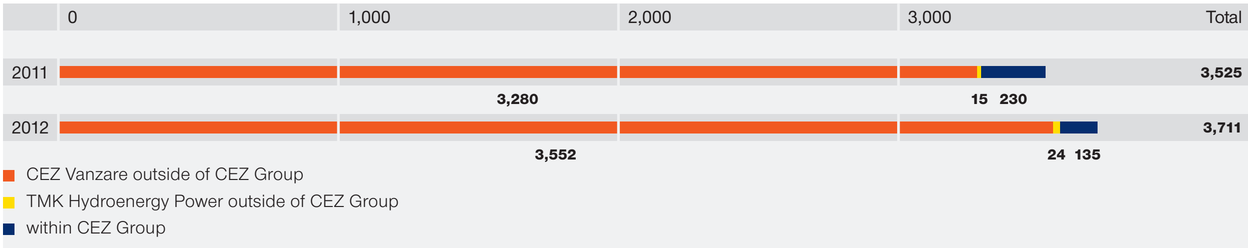
Electricity Distributed to End Customers in Romania (GWh)



The Romanian distribution company, CEZ Distributie S.A., distributed 6,978 GWh of electricity in 2012, down 357 GWh year-on-year. The main reason was lower electricity consumption at a major industrial customer.

Electricity Sales

Electricity Sold to End Customers in Romania (GWh)



The Romanian sales company, CEZ Vanzare S.A., sold 3,687 GWh of electricity to end customers in 2012, up 177 GWh year-on-year. Electricity sales by TMK Hydroenergy Power S.R.L. to end customers totaled 24 GWh for the year. The year-on-year growth was driven in particular by higher residential consumption.

Electricity Distribution and Sales Outlook for 2013

The plan calls for 3.5 TWh of electricity to be sold to end customers. Electricity distribution volume to end customers in 2013 is planned at 7.5 TWh.

Capital Expenditure

Total CAPEX dedicated to generation and distribution of electricity in 2012 was CZK 8.3 billion. In addition to the Fântânele and Cogealac wind farms, 2012 CAPEX in Romania went on upgrading small-scale hydro power plants belonging to TMK Hydroenergy Power S.R.L. CAPEX projects to improve distribution grid parameters at all voltage levels continued as well.

Republic of Turkey

Business Environment in the Power Industry

By 2010, the Turkish market had recovered from the impacts of the global economic crisis and it continued to grow at a fast pace. At year end 2012, its GDP was approximately 16% higher than when the crisis began in 2008. Due to its economy's 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. 2012 saw the privatization of three distribution companies serving a total of 8.1 million customers. Also privatized were four brown coal deposits, with 1,196 million tons of total coal reserves dedicated to generating electric power, and the Seyitömer power-heating plant with 600 MW of installed capacity. Several hydro power plant projects with 63.25 MW of total installed capacity were privatized as well. The Turkish market has been partially liberalized since the end of 2009, but only about one fifth of overall generation volume is sold in the free wholesale market. The market for end consumers – with the exception of households – is fully liberalized for practical purposes.
In line with the gradual harmonization of Turkish legislation with that of the European Union, by the end of 2012 the country had made separation of electricity distribution from electricity sales to end customers a binding legal requirement. This process is to be completed during a transition period which will expire in mid-2013. Furthermore, the Turkish Government intends to make the market more effective by privatizing State-owned generation installations with up to 16 GW of installed capacity.
On July 1, 2012 a new Commercial Code took effect, based on European Union legislation. It increases the transparency of corporate governance and financial reporting and imposes obligations on both independent and internal auditors. It gives shareholders more rights and places restrictions on priority shares. Effective from July 1, 2013, it requires each capital corporation to create a website providing shareholders and creditors all necessary information on the company's functioning.
Distribution companies in Turkey are facing an expanding trend where wholesale companies offer aggressive discounts to big customers, and industrial enterprises in particular. As market prices of electricity in 2012 are substantially higher than in previous years, however, the prices at which these wholesalers buy electricity also grew, and they were unable to retain their eligible customers. In the second half of 2012, a number of these eligible customers switched to the national tariff (a tariff available to all customers), and the volume of electricity sold by Sakarya Elektrik Dagitim A.S. grew substantially as a result.

CEZ Group in Turkey

Electricity Generation

Electricity is generated by Akenerji Elektrik Üretim A.S. and its subsidiaries Akkur Enerji Elektrik Üretim A.S. and Mem Enerji Elektrik Üretim A.S. In total, these companies generated 2,585 GWh of electricity in 2012, practically unchanged from the previous year's figure of 2,594 GWh. Compared to past years, the volume of electricity generated in gas-fired power plants fell, with the largest drop being seen at the Çerkezköy power plant. On the other hand, hydro power plants – three of which were commissioned in 2012 – saw their generation volume grow.

Location of Power Sources Co-Owned by CEZ Group 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, 2012	Year commissioned
Bozüyük	Akenerji Elektrik Üretim A.S.	natural gas	1 x 45 2 x 43.5	1997 1997
Çerkezköy	Akenerji Elektrik Üretim A.S.	natural gas	1 x 21.5 1 x 43.5 1 x 33	1993 1995 1996
İzmir-Kemalpaşa	Akenerji Elektrik Üretim A.S.	natural gas	2 x 43.6 1 x 40	2005 2005
Gas-fired power plants, total			357.2	

Wind Power Plants

Plant	Owner	Installed capacity (MW) at December 31, 2012	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, 2012	Year commissioned
Akocak	Akenerji Elektrik Üretim A.S.	81	2010
Bulam	Mem Enerji Elektrik Üretim A.S.	7.03	2010
Burcbendi	Akkur Enerji Üretim Ticaret ve Sanayi A.S.	27.33	2010
Feke I	Akkur Enerji Üretim A.S.	2 x 14.5	2012
Feke II	Akkur Enerji Üretim Ticaret ve Sanayi A.S.	69.35	2010
Gokkaya	Mem Enerji Elektrik Üretim A.S.	2 x 14	2012
Himmetli	Mem Enerji Elektrik Üretim A.S.	2 x 13.5	2012
Uluabat	Akenerji Elektrik Üretim A.S.	97.02	2010
Hydro power plants, total		365.7	

Electricity Generation Outlook for 2013

Overall electricity generation volume is expected at 2,264 GWh. The slight year-on-year drop is caused by shutdown of the Çerkezköy power plant ahead of its planned sale.

Electricity Distribution and Sale

Sakarya Elektrik Dagitim A.S. distributed and sold a total of 7,859 GWh and 8,217 GWh, respectively, of electricity to end customers in 2012. The volume of distributed electricity grew moderately year-on-year (from 7,646 GWh in 2011), while sales were up substantially (by 24.3% from 6,106 GWh in 2011). The gradual rise in electricity distribution volume was caused by growing demand on the part of local households, industrial enterprises, and commercial customers alike. The fluctuating volume of electricity sold was caused by eligible customers migrating back and forth between Sakarya Elektrik Dagitim A.S. and wholesale dealers in response to developments in market prices.

Electricity Distribution and Sales Outlook for 2013

In 2013 we expect to see electricity distribution volume of 8,272 GWh and electricity sales volume of 6,986 GWh. The anticipated year-on-year drop in electricity sales volume reflects the price situation in the Turkish electricity market, described above.

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.

Capital Expenditure

Capital expenditure totaled TRY 0.6 billion (approximately CZK 6.3 billion) in 2012.
2012 saw completion of construction and subsequent commissioning of three hydro power plants – Himmetli, Gökkaya, and Feke I – which expanded the portfolio of hydro sources.
The biggest CAPEX project is the construction of an 872 MW CCGT installation at Hatay on the southeastern coast of Turkey; the project entered the implementation phase on October 15, 2011. This is an extraordinarily efficient power plant (over 57% efficiency) with a minimum lifetime of 30 years. Commissioning of this source is planned for the second half of 2014.
In the distribution segment, CAPEX was directed toward increasing grid capacity and efficiency.

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 3 x 63 A nominal current: these customers are entitled to a tariff set by the regulator. The second exception is support for electricity generation from renewable sources of energy.
After a partial recovery of the Hungarian economy, electricity consumption leveled off in 2012 at a level of 39 TWh, with just a slight, 0.6% decrease compared to the previous year. 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 private 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 Électricité de France.
Overall electricity generation in Hungary totaled 32 TWh in 2012, down 4% year-on-year. Once again, 2012 brought a continuation of the trend toward expensive domestic electricity generation being edged out by cheaper imports; these represented 7.4 TWh of electricity in 2012.
The volume of electricity generated from renewable sources traded in the “KÁT” system (mandatory purchasing of renewable energy) fell 68% in 2012, to 2 TWh, on elimination of support for cogeneration sources from the system.

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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 due to relatively low regulated electricity prices.

Another important milestone in the electric power market came on September 11, 2012, the effective date of the "market coupling" of the Czech Republic, Hungary, and Slovakia, allocating cross-border flows of electricity and transmission capacity among these markets. After three months of successful operation, the new system showed itself to be stable, and therefore its participating market operators (HUPX, OKTE, and OTE) decided to further optimize it.

CEZ Group in Hungary

CEZ Group owns 7% of the shares of MOL Nyrt., a major Hungarian energy conglomerate.

Heat Generation

Process steam for the Danube refinery was generated by MOL - CEZ European Power Hungary Kft. In 2012 the company generated 1,185 TJ of heat from gas and heating oil purchased from MOL Energiakereskedő Zrt. (which is 40% owned by MOL Nyrt.).

Heat Generation

Sales of Electricity in Hungary

Electricity was sold through CEZ Magyarország Kft. In 2012, 1,146 GWh was supplied to customers in the large end-customer segment.

The Hungarian member of CEZ Group, CEZ Magyarország Kft., which is a seller in the Hungarian electricity market, grew its customer base in 2012. However, its income result was – like in the previous year – negatively impacted by a turnover tax (iparági különadó) imposed on companies in the energy, telecommunications, and retail sectors since 2010, as well as by a surtax levied on energy company profits (energiaellátók jövedelemadója).

Electricity Sales Outlook for 2013

The total supply volume for 2013 is expected to be similar to 2012's figure. By the end of 2012, the volume of electricity sold for delivery in 2013 had already reached 941 GWh.

Capital Expenditure

2012 saw work suspended on the project to build a 850 MW CCGT power plant at Százhalombatta – the site of the most important refinery of MOL Nyrt., and the only expenses incurred were those necessary to maintain the project in a state enabling it to be either continued (decision to be made by December 31, 2013) or sold.

Slovak Republic

Business Environment in the Power Industry

Like those of other countries in the region, Slovakia's energy markets are seeing the steady implementation of European Union standards and regulations liberalizing the electricity and gas markets, expanding the competencies and independence of regulatory bodies, and giving customers more rights. A milestone in this area was the adoption, in mid-2012, of a new Energy Act which took effect on September 1, 2012. The Act brings a major increase in the rights of electricity and natural gas customers. As a result, consumers will be able to change their suppliers of both energy commodities in a simple, more streamlined manner. The Act also calls for them to receive their final bill free-of-charge within six weeks of announcing their decision to change to a new supplier.

In updating the Energy Act, close attention was paid to separating generation, distribution, and supply activities of energy market players from the operation of the transmission grid and transport networks. In practice, this so-called "unbundling" will take place through a model of complete separation of ownership. A similar process will be applied to natural gas processing and supply, as well.

The Energy Act imposes a new requirement that each electricity and natural gas customer be given the right to utilize a so-called "universal service": this right is to be granted to the entire spectrum of customers from households and non-producing institutions to large industrial enterprises. This represents "the right to supply of electricity in one's own area, at the prescribed quality, for reasonable, transparent, comparable, and non-discriminatory prices."

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CEZ Group in the Slovak Republic

Electricity and Heat Generation

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 2012, CM European Power Slovakia, s. r. o. generated 484 GWh of electricity and 4,797 TJ of heat. CM European Power Slovakia, s. r. o. purchases heating oil and refinery gas from the Slovnaft refinery.

Location of Power Source Co-Owned by CEZ Group in the Slovak Republic

power-heating plant

List of Power-Heating Plants Co-Owned by CEZ Group in the Slovak Republic

Power-Heating Plants

Plant	Owner	Type of fuel	Installed capacity (MW) at December 31, 2012	Year commissioned	Desulfurized since
Slovnaft	CM European Power Slovakia, s. r. o.		2 x 25; 2 x 32	1965–1996	2012
Power-heating plants, total			114.0		

Sale of Electricity and Natural Gas in the Slovak Republic

Electricity and gas are sold by CEZ Slovensko, s.r.o. In 2012, this company supplied electricity and gas to entities in both the large and small end-customer segments, i.e. to households and small and mid-sized companies. In the small end-customer segment, nearly 90,000 contracts were signed by year end 2012. All told, 1,578 GWh of electricity and 1.2 TWh of natural gas was supplied to end customers in all segments in 2012.

Electricity and Natural Gas Sales Outlook for 2013

For 2013, supply volume in the large end-customer segment is expected to grow, and the small end-customer segment may, too, depending on developments in price regulation. We will continue to actively pursue growth in our market share.

Remark: Figures (technical units and work force head counts) for the power-heating plant in Slovakia are not included in the CEZ Group totals, because the assets in question are owned by associates.

Capital Expenditure

CM European Power Slovakia, s. r. o. completed a flue gas desulfurization project in order to comply with emission limits, and other installations were rebuilt for the purpose of increasing operational heat and electricity supply capacity to the Slovnaft refinery. A Feasibility Study and project documentation studies were carried out for the project of a new nuclear source at the Jaslovské Bohunice site. The study contains analyses and discussion of proposed technical alternatives, an evaluation of the site itself, the contractor system, project management, project financing, and an economic analysis of the project for the new nuclear source. The Russian State agency Rosatom expressed interest in acquiring a stake in the planned project for building a nuclear power plant at the Jaslovské Bohunice site. On January 15, 2013, a memorandum was signed creating conditions for providing the necessary information on the current state of project preparations, so that Rosatom can consider the possibility of entering the project and acquiring the stake.

Republic of Albania

Business Environment in the Power Industry

The electricity market is regulated. Limited liberalization of electricity supplies is offered only to big electricity consumers in the mining industry, producers of steel and other metals, and to cement producers in particular. A legislative amendment in 2012 moved most large end-customers from the tariff-customer regime into the eligible customers category. Construction of new power sources, large and small, has been liberalized, and in the case of hydro power plants is governed by a statutory process involving the granting of concessions.

Per capita electricity consumption in Albania grew only slightly in 2012 as the economy's growth slowed and continues to lag substantially behind levels seen in more advanced European countries. The long-term growth trend in private sector consumption was preserved, however. Albania's economic growth is threatened by the debt crisis in Europe, and to make matters worse the energy sector has been negatively impacted by an extended drought. As a result, hydro generation was severely limited and the high price of imported electricity combined with the poor solvency of the country's populace and economy gave rise to major liquidity problems throughout Albania's energy sector.

Until recently, the ownership transformation of the energy sector in Albania had been limited mostly to the distribution segment with CEZ Group's entry into the Albanian market in 2009. Large hydro power plants belonging to the State-owned company Korporata Energjitike Shqiptare (KESH) sh.a. account for the bulk of electricity generation. In 2012, the government commenced a still-pending process to privatize four smaller hydro power plants with combined installed capacity of 76.7 MW.

CEZ Group in Albania

Operations in the Country

CEZ Group entered the Albanian market in May 2009 when it acquired a 76% stake in the Albanian distribution company Operatori i Sistemit te Shperndarjes Sh.A., subsequently renamed to CEZ Shpërndarje (hereinafter also referred to as CEZ SH). The remaining 24% was owned by the Albanian government. The contract documentation signed when the stake was purchased included a Declaration on Regulation, accepted by both parties to the transaction, which called (in binding fashion) for the conducting of a series of independent studies, which were to be accepted by ERE, the Albanian regulator, and thereby provide for all the distribution company's justified costs to be reflected in the tariffs and ensure that all other regulatory conditions were put in place for the license holder to fulfill its obligations. Right from the beginning, however, the Albanian authorities breached many of the mutual agreements. First, in 2009 the ERE failed to accept an independent Initial Level of Losses Study. In 2010, it refused to accept a Study of Losses and related recommendations for reducing losses, and failed to reflect it in the distribution company's tariffs, thereby breaching the regulatory framework.

From 2011 the situation continued to deteriorate in response to the debt crisis in Europe and insufficient water for generation of electricity, which in Albania is generated primarily in hydro power plants. As a result, the State-owned power company KESH was forced to import electricity at high prices from abroad and began having trouble with liquidity. In December 2011, the ERE promulgated decisions setting tariffs for the 2012–2014 period (Decision No. 147 of December 15, 2011 for the distribution tariff and Decision No. 148 for the RPS sales tariff), which increased the regulated prices at which CEZ SH buys electricity by 91%, without any corresponding adjustment in the regulated prices for end customers. What is more, the ERE also failed to accept a Study on the Amount of Bad Debts, which CEZ SH submitted in accordance with the Declaration on Regulation. The study's conclusions were not reflected in the tariff calculations. CEZ SH appealed to the ERE against the decisions and the tariff calculations that were issued in violation of the Declaration on Regulation, and subsequently resorted to filing suit in court as well. These decisions and other unfavorable steps by Albanian institutions had a negative impact on CEZ SH's financial performance and caused liquidity problems that led all the way to a critical financial situation and insolvency.

Throughout 2012, the ERE was repeatedly notified in writing of the problems and deteriorating financial situation of CEZ SH, as well as of the necessity of taking immediate steps to prevent CEZ SH from becoming incapable of meeting obligations under its licenses. The ERE did not respond to these repeated notices and calls on the part of ČEZ, and although ČEZ endeavored to improve the regulatory environment the ERE hindered these efforts by taking restrictive measures making it more difficult to disconnect delinquent customers, changing the methodology for reporting cases of energy theft, not approving conditions that would have enabled a loan to be taken out to finance CAPEX, and imposing other administrative measures. Although the ERE did later approve the Study on the Amount of Bad Debts and slightly reduced the regulated price at which CEZ SH buys electricity, this partial modification of the tariff did not bring it into compliance with the Declaration on Regulation and failed to produce the desired improvement in the distribution company's financial situation. Subsequently, the Albanian tax administration changed its stance, leading to the imposition of additional tax amounts and penalties.

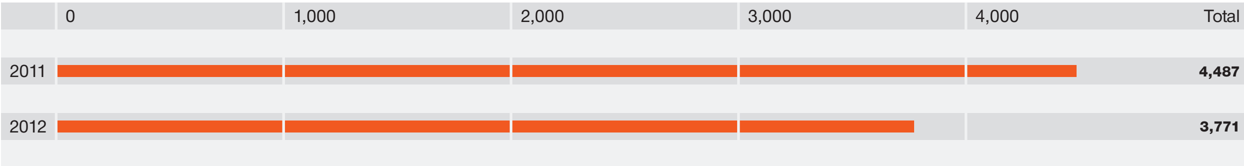
It was only under the influence of the worsening energy crisis in Albania that the Albanian side, late in the year, agreed to negotiations regarding CEZ Group's exit from the country. In the context of these negotiations, the Albanian side began to publicly proclaim its own unspecified financial claims against ČEZ. The Albanian side never sufficiently justified, legally specified, or clearly quantified these claims. ČEZ rejected a priori all such statements of the Albanian side as false, ungrounded, and unjustified.

In late 2012, the regulator commenced a license revocation procedure on the grounds of alleged breaches of the license conditions. On January 21, 2013 the ERE issued a decision revoking CEZ SH's distribution (DSO) and electricity sales to tariff customers (RPS) licenses and, at the same time, appointed an "administrator" of CEZ SH. The administrator took over running the company, including all decision-making powers and responsibility for its day-to-day operation. The rights of CEZ SH's statutory bodies and of its shareholders passed to the administrator, thereby causing ČEZ, de facto, to lose control over CEZ SH. In order to protect the interests of its shareholders, ČEZ appealed against the appointment of the administrator and its powers and, at the same time, on February 7, 2013 officially notified the Government of the Republic of Albania of its intent to initiate international arbitration proceedings, thereby fulfilling a necessary pre-condition for commencing them.

On February 7, 2013, ČEZ, a. s. repaid CEZ SH's obligations toward the International Financial Corporation and the European Bank for Reconstruction and Development, under a loan agreement entered into between these two banks and CEZ SH in June 2011 and a written arrangement between ČEZ, a. s. and both banks entered into on July 20, 2012. Said banks subsequently made it impossible for CEZ SH to draw down a line of credit, as yet unused, that had been set up by the aforementioned agreement.

Electricity Distribution

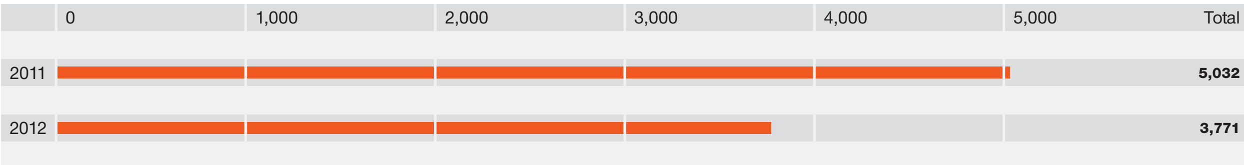
Electricity Distributed to End Customers in Albania (GWh)



Distribution of electricity and its sale to end customers were handled in 2012 by CEZ SH, which operates in the Albanian power market as the country's sole distribution company and which at the same time also sells electricity to end customers. In 2012, the company distributed a total of 3,771 GWh of electricity to its customers, down 716 GWh from 2011. The year-on-year drop in electricity distribution volume was caused by policies and orders of the Albanian regulator, restrictive measures hindering disconnection of delinquent customers, a change in the methodology for reporting cases of energy theft, and other administrative measures that led to increased grid losses and a drop in the volume of distributed electricity.

Electricity Sales

Electricity Sold to End Customers in Albania (GWh)



All the negative factors that affected electricity distribution volume also had an impact on electricity sales volume, which was also reduced, in year-on-year terms, by a legislative amendment. As a result of the amendment, a considerable number of large end-customers migrated from the protected tariff customer regime to the eligible customers category. The electricity sales volume dropped 25%, compared to 2011, to 3,771 GWh in consequence.

Electricity Distribution and Sales Outlook for 2013

In early 2013, the Albanian electric power sector found itself in a considerably destabilized state. The lack of CAPEX funding, high grid losses, and low margins in generation, transmission, and distribution are considerably limiting the sector's potential for growth. Insufficient generation capacity, which in its current state does not cover the country's energy consumption, deprives the sector of additional money that must be paid to import electricity from abroad at prices that customers in Albania are unable to pay. Electricity sales volume in 2013 will further depend on global economic developments and the willingness of multinational organizations and governments to support Albania's development.

Capital Expenditure

As drawing of a long-term CAPEX loan from the EBRD and the IFC was deferred, CAPEX in 2012 was restricted only to necessary investments in metering – the procurement of new electric meters in particular – and completion of projects carried over from 2011.

Other Countries with CEZ Group Operations

Kingdom of the Netherlands
CEZ Group has no energy-related business activities in the Kingdom of the Netherlands. The Dutch subsidiaries are holding and/or financing companies used to finance projects within CEZ Group.

Bosnia and Herzegovina
Due to the breach of the Implementation Agreement of the Gacko project in the Republic of Serbia in Bosnia and Herzegovina 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 on May 19, 2009, in which it is seeking payment of over EUR 50 million for lost profits, damages, and the value of its stake. 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, which are ongoing in Vienna before the International Court of Arbitration of the International Chamber of Commerce. Oral arguments in the matter itself are expected in June 2013, and the arbitration tribunal's decision is expected no earlier than late 2013.

Republic of Serbia
CEZ Group engages in wholesale electricity trading in the country. M&A-related activities have been on hold since 2010.

Republic of Kosovo
Wholesale electricity trading was conducted directly by ČEZ, a. s. Its license was terminated as of October 31, 2012.

Federal Republic of Germany
CEZ Group wound up its electricity generation and coal mining operations in Germany on June 29, 2012, when we sold our stake in JTSD - Braunkohlebergbau GmbH. CEZ Group's continued presence in the German energy market is limited to trading in electricity and other commodities.

Russian Federation
Operations in the country have been minimized and liquidation of the sole Russian subsidiary, CEZ RUS OOO, is to be completed in 2013.

Ukraine
Operations in the country have been minimized and liquidation of the sole Ukrainian subsidiary, CEZ Ukraine LLC, is to be completed in 2013.

Ireland
CEZ Group has no energy-related business activities in Ireland. The principal business of its subsidiaries here relates to CEZ Group's financing. The company CEZ Finance Ireland Ltd is to be liquidated in 2013.

Cyprus
In 2010 Tomis Team S.R.L., a Romanian member of CEZ Group, acquired a 100% stake in Taidana Limited in conjunction with the settlement of a transaction from 2008 relating to the construction of the Fântânele and Cogealac wind park. Steps relating to the settlement of the original transaction were completed in 2012.
CEZ Group has no energy-related business activities in Cyprus.

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WE COMBINE EDUCATION WITH PRACTICE

Sixty partner high schools and universities have the opportunity to send their teachers and students on specialized internships and tours organized by CEZ Group. An example of this unique project taking place right on ČEZ worksites was an internship for ten teachers from the Secondary School of Electrical Engineering in Ostrava, which took place in the first half of 2012. The teachers attended lectures, panel discussions, and tours of selected substations where they got acquainted with live-line working, diagnostic procedures at distribution grid control, and possible applications for thermography in the power industry.


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Changes in CEZ Group Ownership Interests

Czech Republic

2012

April 1 Elektrárna Počerady, a.s. established as 100% subsidiary of ČEZ, a. s.
June 28 ČEZ, a. s. completes purchase of 100% equity stake in Energotrans, a.s.
July 2 ČEZ Energetické produkty, s.r.o. buys 59.94% equity stake in the company in PROJEKT LOUNY ENGINEERING, s.r.o.
August 6 Ústav jaderného výzkumu Řež a.s. (current name: ÚJV Řež, a. s.) sells its 62.5% equity stake in LACOMED, spol. s r.o.
August 22 Elektrárna Mělník III, a. s. established as 100% subsidiary of ČEZ, a. s.
August 23 Elektrárna Tisová, a.s. established as 100% subsidiary of ČEZ, a. s.
September 7 Elektrárna Dětmarovice, a.s. established as 100% subsidiary of ČEZ, a. s.
October 1 ČEZ Teplárenská, a.s. increased its equity stake in Tepelné hospodářství města Ústí nad Labem s.r.o. from 36.25% to 55.83%. The stake of Teplárna Trmice, a.s. was decreased by the same amount, 19.58%. Both changes related to a split-up of Teplárna Trmice, a.s., with the split-off portion of the undertaking (power-heating plants) being merged into ČEZ Teplárenská, a.s.
November 1 the following companies were dissolved as a result of being merged into the successor company ČEZ OZ uzavřený investiční fond a.s.: eEnergy Ralsko a.s., 3 L invest a.s., eEnergy Ralsko - Kuřívody a.s., AREA-GROUP CL a.s., FVE Vranovská Ves a.s., DOMICA FPI s.r.o., GENTLEY a.s., Bohemian Development, a.s., eEnergy Hodonín a.s., Bioplyn technologie s.r.o., FVE Buštěhrad a.s., and KEFARIUM,a.s. ČEZ Obnovitelné zdroje, s.r.o. was split up, with a portion of the undertaking passing to ČEZ OZ uzavřený investiční fond a.s.
November 30 Teplárna Trmice, a.s. sold its 65% equity stake in ULITEP, spol. s r.o.

2013

January 1 Telco Pro Services, a. s. established as a 100% subsidiary of ČEZ ICT Services, a. s.
January 1 ČEZ Správa majetku, s.r.o. renamed to ČEZ Korporátní služby, s.r.o.

Republic of Bulgaria

November 6 CEZ Laboratories Bulgaria EOOD - in liquidation dissolved. With regard to Bulgarian legislation and a subsequent decision of the Anti-trust Office, it could no longer carry on its activities in the area of electric meter verification.

November 12 CEZ Elektroproizvodstvo Bulgaria AD dissolved by merger with TEC Varna EAD, in conjunction with CEZ Group's strategic objectives. Its existence was connected with preparations for a project to build a CCGT source in Varna with 880 MW of planned installed capacity, but this project was suspended.

December 20 Eco Etropol AD acquired. CEZ Bulgarian Investments B.V. bought a 99.998% stake in the company. The company is charged with building a facility for gasification of biomass and generation of electricity, with 5 MW of installed capacity, in the vicinity of the city of Etropole, in conjunction with an obligation given in the investment memorandum signed when the Varna power plant was acquired.

Kingdom of the Netherlands

December 31 CEZ Finance B.V. dissolved. The company had for a short time (starting on October 17, 2012) borne the name CEZ Finance B.V. in liquidatie. Through this company ČEZ, a. s. had issued its foreign currency bonds before the Czech Republic joined the European Union.

Republic of Poland

May 21 and December 20 in two steps, CEZ Group increases its stake (held through CEZ Poland Distribution B.V.) in Eco-Wind Construction S.A. from 67% to 75% in accordance with the transaction documentation from 2011.

November 21, 22, and 23 Baltic Green I sp. z o.o., Baltic Green II sp z o.o., and Baltic Green III sp. z o.o. incorporated. These companies are 100% owned by Netherlands-based CEZ Poland Distribution B.V. The companies will serve as project platforms for construction of the first wind farms in the portfolio being prepared by Eco-Wind Construction S.A. The farms will be built in Northern Poland in the Warmian-Masurian Voivodeship and their planned capacity is 168 MW.

Republic of Turkey

In 2012, steps were taken to bring the ownership structure of the Turkish distribution and sales company Sakarya Elektrik Dagitim A.S. operated by CEZ Group in cooperation with its Turkish partner, AKKÖK, into compliance with legislative requirements. Electricity distribution was unbundled from electricity sales, which are handled by Sakarya Elektrik Perakende Satis A.S., established on November 12, 2012. Sakarya Elektrik Dagitim A.S. is now involved in electricity distribution only. Both companies are 100% owned by Akcez Enerji A.S. In accordance with an agreement entered into in late 2012, Akcez Enerji A.S. will be owned directly by ČEZ, a. s. and its Turkish partner AKKÖK, which during 2013 (depending on fulfillment of contractual conditions) are to acquire 22.5% stakes owned by Akenerji Elektrik Üretim A.S., to be added to their current 27.5% stakes. As a result, both principal shareholders of Akenerji Elektrik Üretim A.S. (ČEZ, a. s. and AKKÖK) will have equal, 50% stakes in the company's share capital.

Republic of Kosovo

April 19 New Kosovo Energy L.L.C. dissolved.

Federal Republic of Germany

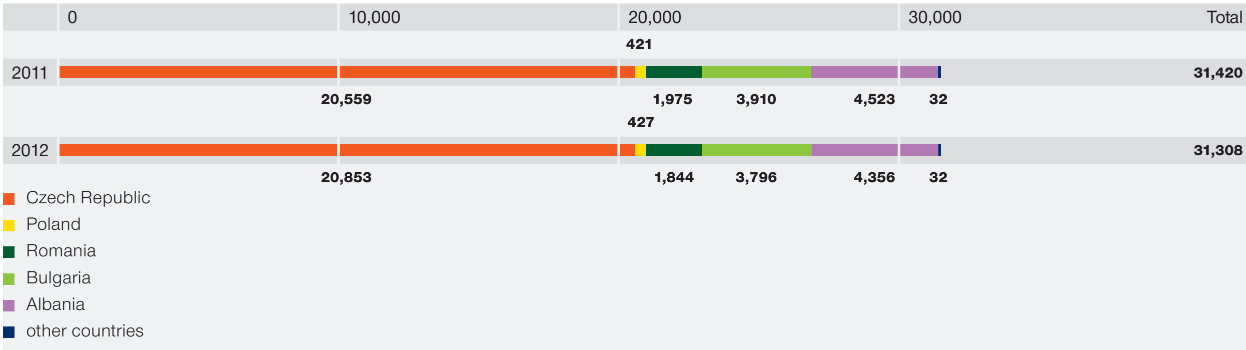
June 29 settlement of sale of the entire 50% stake in JTSD - Braunkohlebergbau GmbH, which was the 100% owner of German mining and power company Mitteldeutsche Braunkohlengesellschaft mbH; with the sale of this stake, the Group loses control over the companies Mitteldeutsche Braunkohlengesellschaft mbH, Fernwärme GmbH Hohenmölsen - Webau, GALA-MIBRAG-Service GmbH, Montan Bildungs- und Entwicklungsgesellschaft mbH, MUEG Mitteldeutsche Umwelt, Ingenieurbüro für Grundwasser GmbH, and MIBRAG Neue Energie GmbH.

Human Resources

Number of Employees

As at December 31, 2012, the members of the CEZ Consolidated Group employed a total of 31,308 persons, i.e. 112 persons less than in 2011.

Work Force Head Count (persons) as at December 31, by Location

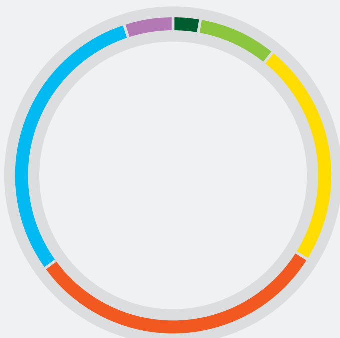


Note: In January 2013 the Albanian distribution company was eliminated from the consolidated group.

The age structure of the CEZ Group work force remained practically unchanged year-on-year.

Work Force by Age as at December 31, 2012

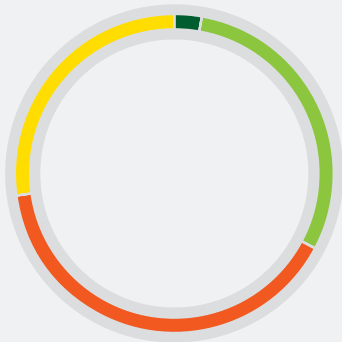
	%
25 years and under	3
26–30 years	8
31–40 years	23
41–50 years	31
51–60 years	30
61 and more years	5
Total	100



The education structure of the work force, by highest level of education achieved, changed only slightly compared to the previous year.

Work Force by Highest Level of Education Achieved at December 31, 2012

	%
primary	3
apprenticeship	30
secondary	40
university	27
Total	100



Strategic Recruiting

For strategic recruiting, 2012 was once again a year full of activities aimed primarily at sparking children's and young people's interest in studying technical fields and securing a sufficient number of qualified candidates to navigate the generational "changing of the guard" as well as for staffing newly built and retrofitted plants. This year, these activities once again elicited a positive response, as documented by our number-one ranking in the Clear Choice survey of university students and number-two ranking in The Most Desired Company survey within the Employer of the Year competition. Our ramped-up activities over the past four years helped us to place third in the Most Desired Company of the Decade.
A considerable portion of strategic recruiting activities is focused, as a matter of standard procedure, on cooperation with schools. It is within these activities that we seek out future employees, primarily at schools that teach technical subjects (primarily electrical and mechanical engineering). Our network of partner schools consists of 13 faculties at seven universities, as well as 46 secondary schools.
Traditionally, our primary source for finding talented students has been the "Nuclear School-Leaving Exams" and "Summer University" programs at both nuclear power plants (Temelín and Dukovany), the "Power Industry School-Leaving Exam" focused on conventional energy at Prunéřov Power Station, and the distribution-focused Power Industry School-Leaving Exam in Děčín. In addition to these events, various tours, lectures, and panel discussions were organized with leading energy-sector personalities and CEZ Group employees. Once again in 2012, we succeeded in attracting the required number of talented students meeting our profile criteria for the scholarship program, as needed in production.

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:

- developing managers enrolled in the ČEZ Leader program and key employees through long-term, tailored personal development plans. These plans are focus on professional and personal growth for the purpose of supporting business goals. In addition, at the nuclear plants we are systematically developing management potential through a special program entitled ČEZ Leader for Nuclear Energy
- continually improving specialized training and skills of nuclear power plant employees
- preparing future personnel of the planned new nuclear source by enrolling these employees in a special preparation and training system
- identifying and sharing significant know-how and experience of employees (Knowledge Management), thereby minimizing the risk of its loss and increasing the safety and efficiency of various activities. The knowledge management process is implemented at the Temelín and Dukovany Nuclear Power Stations as well as at other ČEZ, a. s. departments on an as-needed basis. ČEZ's process-based model in the Nuclear Knowledge Management area is considered a good practice by the International Atomic Energy Agency (IAEA) in Vienna
- commencing systematic safety training of employees of suppliers at our conventional power plants
- preparing new, unified basic employee training programs for employees at conventional and hydro power plants
- expanding the offering of electronic training programs through e-learning courses and the self-education portal
- the ČEZ Potentials program – a year-round development program for the most successful new employees.

Social Policy

At CEZ Group, social policy is focused on maintaining labor peace. It consists of a wide range of activities and benefits, both monetary and non-monetary in nature, provided to employees under Collective Agreements entered into between employers and labor organizations. Wages at CEZ Group are in line with the Group's long-term commercial performance and its position in the labor market. Furthermore, employees of CEZ Group companies benefit from a shortened, 37.5-hour work week, one additional week of paid vacation per year beyond the legal requirement, and paid personal time beyond that required by law. CEZ Group companies also provide their employees a superior range of secondary employment benefits such as personal accounts intended to be used primarily for recreation, health care, Supplemental Pension Insurance contributions, life insurance, employee meal plans, contributions for the first three days of sickness, rewards for life jubilees and upon retirement, 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. There, 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.

Labor Relations

In 2012, the total number of basic labor organizations at ČEZ, a. s. was 27, and approximately 2,000 employees, or 33% of the Company's total work force, were unionized.
At the integrated subsidiaries of CEZ Group, a total of 39 basic labor organizations operated, and approximately 3,100 employees, or 48% of these companies' total work force, were unionized. 35 of these basic labor organizations were members of four regional Associations of Basic Organizations.
All of the labor organizations are organized into two labor unions: the ECHO Labor Union and the Czech Union of Power Industry Employees.
During 2012, regular meetings were held between the employer and labor representatives, at which the labor organizations received information and discussions were held concerning reorganizations and other topics set forth by the Labor Code and the Collective Agreement.
At ČEZ, a. s. and the integrated subsidiaries, the current Collective Agreements expire on December 31, 2014. In the autumn of 2012, collective bargaining took place on amendments to all valid collective agreements, relating primarily to wage growth for 2013. Collective bargaining culminated in December with the signing of Amendment No. 10 to the ČEZ, a. s. Collective Agreement and Amendment No. 7 to the collective agreements of the integrated subsidiaries.
15 basic labor organizations operate within the Severočeské doly Group. The current collective agreements are valid until December 31, 2014, while the subsidiary SD - KOMES, a.s. has a collective agreement valid until December 31, 2013.
In Romania, collective agreements are entered into at CEZ Distributie, CEZ Romania, and CEZ Vanzare. At CEZ Vanzare and CEZ Romania, agreements valid until the end of 2013 have been signed. At CEZ Distributie, the 2012 agreement was extended until March 31, 2013. March 2013 saw the signing of a new collective agreement which is valid for two years starting from April 1, 2013.
In Poland, a total of four labor organizations operated within CEZ Group in 2012. In September 2012, an agreement between labor representatives and company management was signed at the ELCHO power plant, guaranteeing jobs and wage conditions for employees slated to be transferred in a planned outsourcing of the plant's coal loading operation. The current collective agreement at ELCHO is valid until the end of 2013. The collective agreement for employees of the Skawina power plant has no pre-set expiration date.
Three labor organizations operated at the Varna power station in Bulgaria. The collective agreement there is valid until the end of 2013. 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. The collective agreements at these companies are valid until December 31, 2013.
At the Albanian distribution company CEZ Shpërndarje Sh.A. two labor organizations operated in 2012. The signed collective agreement is valid until the end of 2013.
There is a European Works Council at CEZ Group, with representatives from the Czech Republic, Poland, Bulgaria, and Romania. Of the European Works Council's 23 members, 14 are from the Czech Republic, four from Bulgaria, three from Romania, and two from Poland.
In 2012, during the CEZ Group European Works Council's second term, two meetings were held – one in Bucharest and the other in Prague. 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 2012.
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 2012, and regulations implementing it were issued as well.

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)
- Act No. 165/2012 Sb. on Supported Energy Sources and amending certain acts (repealed Act No. 180/2005 Sb. as of January 1, 2013).

In addition to these five core acts that govern 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.

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. 201/2012 Sb. on Air Protection (repealed Act No. 86/2002 Sb. as of September 1, 2012)
- Act No. 695/2004 Sb. on Conditions for Trading in Greenhouse Gas Emission Rights and amending certain acts
- Act No. 383/2012 Sb. on Conditions for Trading in Greenhouse Gas Emission Rights (repealed Part One of Act No. 695/2004 Sb., i.e. the part relating to conditions for trading in greenhouse gas emission rights, as of January 1, 2013).

During 2012, 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):
  - indirect amendment by Act No. 165/2012 Sb. – expanded powers of Ministry of Industry and Trade of the Czech Republic, support for biomethane, support for distributed generation (effective from May 30, 2012, January 1, 2013)
  - indirect amendment by Act No. 350/2012 Sb. – revision of Ministry of Industry and Trade of the Czech Republic's powers in conjunction with an amendment of the Construction Act (effective from January 1, 2013)

- Act No. 406/2000 Sb. on Energy Management:
  - direct amendment by Act No. 318/2012 Sb. – efficiency of use of energy sources and grids, energy audit (effective from January 1, 2013, January 1, 2014, January 1, 2015)
  - indirect amendment by Act No. 165/2012 Sb. – revisions in conjunction with the new Act on Supported Energy Sources (effective from May 30, 2012, January 1, 2015).

The following lower-level regulations were promulgated in 2012 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. 59/2012 Sb. on regulatory reporting (effective from March 2, 2012)
  - new Decree No. 344/2012 Sb. on states of emergency in the gas industry and on method for ensuring a standard level of security in gas supply (effective from November 1, 2012)
  - new Decree No. 345/2012 Sb. on gas system dispatch management and handing-over of data for dispatch management (effective from November 1, 2012)
  - Decree No. 348/2012 Sb. amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures, as amended (effective from November 5, 2012)
  - new Decree No. 387/2012 Sb. on State authorization for construction of electricity generation installations (effective from December 1, 2012)
  - Decree No. 388/2012 Sb. amending Decree No. 79/2010 Sb. on power system dispatch management and handing-over of data for dispatch management (effective from December 1, 2012)
  - Decree No. 436/2012 Sb. amending Decree No. 365/2009 Sb. on the Gas Market Rules, as amended (effective from January 1, 2013)
  - Decree No. 438/2012 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 January 1, 2013)
  - Decree No. 445/2012 Sb. amending Decree No. 426/2005 Sb. on details of granting licenses to do business in the energy sectors, as amended (effective January 1, 2013)
  - new Decree No. 452/2012 Sb. on required content of applications for granting, modification, extension, and cancellation of authorizations to build selected types of gas facilities, including a model application, and on conditions for assessing such applications (effective from January 1, 2013)
  - Decree No. 476/2012 Sb. amending 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 January 1, 2013)
- Act No. 406/2000 Sb. on Energy Management
  - new Decree No. 441/2012 Sb. stipulating the minimum efficiency of energy use in the generation of electricity and heat (effective from January 1, 2013)
  - new Decree No. 480/2012 Sb. on energy audits and energy opinions (effective from January 1, 2013)
- 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. 355/2012 Sb. stipulating a limit on State budget funds for provision of subsidies for payment of cost overruns connected with promotion of electricity produced from renewable sources for the year 2013 (effective from October 29, 2012)
  - Government Regulation No. 429/2012 Sb. amending Government Regulation No. 355/2012 Sb. stipulating a limit on State budget funds for provision of subsidies for payment of cost overruns connected with promotion of electricity produced from renewable sources for the year 2013 (effective from November 30, 2012)

- Act No. 165/2012 Sb. on Supported Energy Sources and amending certain acts
  - new Decree No. 346/2012 Sb. on times and procedures for selecting form of support, procedures for registration of support with the market operator, times and procedures for selecting and changing regimes of the green bonus for electricity, and the time for offering electricity mandatorily to the purchaser (registration decree; effective from November 5, 2012)
  - new Decree No. 347/2012 Sb. stipulating technical and economic parameters of renewable sources for generation of electricity and the useful lifetime of facilities for generating electricity from renewable sources (effective from November 5, 2012, January 1, 2013)
  - new Decree No. 439/2012 Sb. stipulating the manner of and times for billing and paying for components of the prices of electricity transmission, gas conveyance, and distribution of electricity and gas for covering costs connected with support for electricity, distributed generation, and biomethane and implementing certain other provisions of the Act on Supported Energy Sources (clearing decree; effective from January 1, 2013)
  - new Decree No. 440/2012 Sb. on guarantees of origin of electricity from renewable sources of energy (effective from January 1, 2013)
  - new Decree No. 453/2012 Sb. on electricity from high-efficiency combined heat and power generation and electricity from secondary sources (effective from January 1, 2013)
  - new Decree No. 459/2012 Sb. on requirements, metering, and quality of biomethane supplied to the conveyance system, distribution system, and/or underground gas storage facilities (effective from January 1, 2013)
  - new Decree No. 477/2012 Sb. stipulating types and parameters of supported renewable sources for generation of electricity, heat and biomethane and stipulating documents and storage thereof (effective from January 1, 2013, January 1, 2014, April 30, 2014)
  - new Decree No. 478/2012 Sb. on reporting and keeping records on electricity and heat from supported sources and biomethane, the quantity and quality of actually acquired and used sources, and on the implementation of certain other provisions of the Act on Supported Energy Sources (effective from January 1, 2013)

- Act No. 201/2012 Sb. on Air Protection:
  - Government Regulation No. 351/2012 Sb. on biofuels sustainability criteria (effective from November 1, 2012)
  - new Decree No. 415/2012 Sb. on the permissible level of pollution and the determination thereof, and on the implementation of certain other provisions of the Act on Air Protection (effective from December 1, 2012).

Because the Czech Republic is a part of the European Union, it is necessary to monitor the legal framework and changes thereto at the EU level. Indeed, Member States are required to implement (in the case of directives) or directly comply with (in the case of regulations and decisions) European Union legislation when modifying their own national legislative rules.

At the European Union level, 2012 was another year in which amendments and new legislation were adopted that are significant in terms of CEZ Group's business:

- Directive 2012/27/EU of the European Parliament and of the Council of October 25, 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (text with European Economic Area relevance)
- Regulation (EU) No. 648/2012 of the European Parliament and of the Council of July 4, 2012 on OTC derivatives, central counterparties, and trade repositories (text with European Economic Area relevance)
- Commission Delegated Regulation (EU) No. 244/2012 of January 16, 2012 supplementing Directive 2010/31/EU of the European Parliament and of the Council on the energy performance of buildings by establishing a comparative methodology framework for calculating cost-optimal levels of minimum energy performance requirements for buildings and building elements (text with European Economic Area relevance)
- Commission Regulation (EU) No. 600/2012 of June 21, 2012 on the verification of greenhouse gas emission reports and ton-kilometer reports and the accreditation of verifiers pursuant to Directive 2003/87/EC of the European Parliament and of the Council
- Commission Regulation (EU) No. 601/2012 of June 21, 2012 on the monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council

- Commission Regulation (EU) No. 1042/2012 of November 7, 2012 amending Regulation (EU) No. 1031/2010 to list an auction platform to be appointed by the United Kingdom
- Commission Regulation (EU) No. 784/2012 of August 30, 2012 amending Regulation (EU) No. 1031/2010 to list an auction platform to be appointed by Germany and correcting Article 59(7) thereof
- Decision No. 994/2012/EU of the European Parliament and of the Council of October 25, 2012 establishing an information exchange mechanism with regard to intergovernmental agreements between Member States and third countries in the field of energy (text with European Economic Area relevance)
- 2012/709/Euratom: Council Decision of November 13, 2012 on the adoption of the 2012–2015 High Flux Reactor supplementary research program to be implemented by the Joint Research Center for the European Atomic Energy Community
- 2012/413/EU: Commission Decision of July 19, 2012 on the establishment of the annual priority lists for the development of network codes and guidelines for 2013 (text with European Economic Area relevance)
- Commission Decision of July 6, 2012 concerning the application pursuant to Article 10c (5) of Directive 2003/87/EC of the European Parliament and of the Council to give transitional free allocation for the modernization of electricity generation notified by the Czech Republic
- Commission Implementing Decision of February 10, 2012 laying down rules concerning the transitional national plans referred to in Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions (notified under document C(2012) 612) (text with European Economic Area relevance) (2012/115/EU)
- State Aid SA.33537 (2012/N) – Czech Republic: Transitional free allocation of greenhouse gas emission rights for the purpose of modernizing electricity generation facilities
- 2012/148/EU: Commission Recommendation of March 9, 2012 on preparations for the roll-out of smart metering systems.

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, brought regulation of wholesale energy markets at the European Union level. Market participants are required to publicly disclose, in an effective and timely manner, certain internal information concerning the participant's undertaking. These disclosures include information on the capacity and utilization of equipment for the generation, consumption, and transmission of electricity. At the web address www.cez.cz/cs/vyroba-elektriny/remit.html [1], ČEZ, a. s. has been publicly disclosing information on generation sources in the Czech Republic, including outages thereof, right from the first day the regulation went into effect. As of August 16, 2012, the information is also disclosed on the EEX Transparency platform. The disclosures cover ČEZ, a. s., Elektrárna Chvaletice a.s., Elektrárna Počerady, a.s., Elektrárna Dětmarovice, a.s., Energotrans, a.s., and Teplárna Trmice, a.s. Information on CEZ Group's power plants located in other countries is presented on the relevant national websites.

- www.cez.bg/bg/za-nas/kompaniite-v-balgariya/tets-varna/remit.html [2]
- www.cezpolska.pl/pl/cez-w-polsce/ec-elcho-s-a/remit.html [3]
- www.cezpolska.pl/pl/cez-w-polsce/elektrownia-skawina-s-a/remit.html [4]

The regulation also bans the use of unfair practices that have an impact on wholesale energy markets. Market participants' compliance with the disclosure requirements is supervised by the Energy Regulatory Office.

Regulation (EU) No. 648/2012 of the European Parliament and of the Council of July 4, 2012 on OTC derivatives, central counterparties, and trade repositories (EMIR) took effect on August 16, 2012. Its objective is to mitigate the risks inherent in OTC derivatives trading. In a series of steps, the regulation is introducing mandatory clearing of selected OTC derivative contracts through central counterparties, as well as mandatory disclosures concerning derivative contracts to trade repositories (i.e. registers of trading data). ČEZ, a. s. began preparing to comply with the above obligations within the corresponding legislative deadlines.

Notice: This chapter contains selected information on legislation and was drafted with the highest possible care. It cannot, however, be taken as qualified legal advice. ČEZ, a. s. will bear no responsibility for the execution or non-execution of any legal act, by any person, on the basis of this summary.

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WE’RE BLAZING THE TRAIL TO ELECTROMOBILITY

CEZ Group is developing electromobility through its FutureMotion program. In cooperation with cities and towns, infrastructure partners, and automotive industry representatives, CEZ Group is contributing to the development of this emission-free mode of transport and helping to test and evaluate its impacts on the electricity distribution grid. By the end of 2012, the company had installed 32 charging stations, including ultrafast charging stations which, thanks to higher voltages, are capable of charging batteries to 80% capacity within 20 minutes. Through the ČEZ Electromobility project, 40 electric vehicles are in operation throughout the Czech Republic.


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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 2012, 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. In 2012, 14 measurement stations were 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 five of the stations also measure 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 dust, NO_X, SO_2, and CO_2 concentrations.

Poland

Both CEZ Group combustion sources complied with emission limits in 2012.

Bulgaria

The Varna power station complied with emission limits in 2012.

Greenhouse Gas Emission Rights

Listed by CEZ Group Company

Emission Rights Granted and CO_2 Produced in 2012 (tons)

	Emission rights granted	CO_2 produced
ČEZ, a. s.	25,294,999	19,577,950
ČEZ Teplárenská, a.s.	93,508	11,604
Elektrárna Chvaletice a.s.	2,719,059	3,376,802
Elektrárna Počerady, a.s.	6,696,795	5,966,653
Energotrans, a.s.	2,209,181	1,895,779
Teplárna Trmice, a.s.	1,125,198	722,226
Energetické centrum s.r.o.	19,203	1,062
Poland	3,628,509	1,884,205
Bulgaria	3,357,936	1,580,583
Total	42,935,207	35,016,864

End of Free-of-Charge Allocation

The Czech Republic, along with another eight European Union Member States, received an exemption from the requirement to grant greenhouse gas emission rights exclusively at auction as of 2013. The Czech Republic's application of September 2011 for partial free-of-charge allocation of rights to generate electricity (the so-called "derogation") was approved in June 2012 by the Directorate-General for Climate Change (European Commission) and this was followed in December 2012 by approval from a competition perspective by the Directorate-General for Competition (European Commission). As of the Annual Report closing date, the applications of Poland and Bulgaria, where CEZ Group also operates, had been approved only by the Directorate-General for Climate Change (European Commission) and so derogation cannot yet be applied in these countries.

Under derogation, CEZ Group can obtain 76.1 million tons of emission rights in the years 2013–2020 in exchange for investments in reducing greenhouse gas emissions. These investments must at least equal the value of the emission rights granted through derogation. The value of the emission rights is determined on the basis of their market prices in the preceding year.

In 2012, CEZ Group submitted to the Ministry of the Environment of the Czech Republic its "Report on Realization of Investments" for the period June 25, 2009 to September 30, 2012, in which independent financial and power industry auditors confirmed that the Group had invested over CZK 22 billion in clean, environmentally friendly technologies. According to the information in said report, in 2013 CEZ Group will receive a total of 18.8 million tons of rights to generate electricity in generation installations in the Czech Republic.

Water Protection

Water use and wastewater discharge is governed by conditions set forth in integrated permits issued by the relevant authorities and in decisions handed down by water regulation bodies. In the period in question, all CEZ Group generation facilities complied with the water protection-related technical terms and conditions of operation 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.

Protection and Support of Fauna

Czech Republic

With regard to ČEZ Distribuce's legal obligation to secure all medium-voltage power lines against bird injury by the year 2024, measures are currently being prepared to conduct a safety audit of these power lines. Throughout 2012, we conducted 24-hour monitoring of flying bird collisions with outdoor medium-voltage power lines in the section where the lines cross the Elbe River. The monitoring has been ongoing since 2011 and so far no bird collision resulting in physical injury to the bird has been detected. During 2012, a risk assessment pursuant to Act No. 167/2008 Sb. on Prevention of Environmental Damage was conducted at all relevant CEZ Group sites.

CEZ Group takes great interest in protecting fauna inside and around its power plant compounds. For example, CEZ Group's preservation 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 National Nature Preserve in Miroslav, and 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). The revitalization and dredging of the Miroslav Lake (Miroslavský rybník) created ideal nesting conditions and habitat for a number of water and wetland bird species as well as amphibians, including the European Fire-bellied Toad (Bombina bombina) which is endangered throughout Europe.

Romania

CEZ Distributie S.A. continued in a project equipping power lines with devices designed to protect birds from injury. At the Fântânele and Cogealac wind farm, a specialized company conducted ecosystem monitoring, focusing on birds, their migratory patterns, feeding, reproduction, and behavior. No changes in the lives of birds or other fauna living in the area were detected in 2012.

Bulgaria

In 2012, CEZ Razpredelenie Bulgaria AD commenced a project to equip a power line at the Dolno Ozirovo site with bird protection devices, with execution planned for 2013. The company is also preparing to install 54 platforms to serve as stork nesting points.

Land Clean-Up and Reclamation

Czech Republic

In 2012, reclamation work continued at sites in the vicinity of CEZ Group conventional power plants (ash and other waste dumps, settling ponds, etc.). In 2012, over 8.2 million tons of certified power generation by-products (PGBPs) were utilized in land reclamation. These power generation by-products are primarily ash, products of the semi-dry flue gas desulfurization process, and synthetic gypsum from the wet limestone scrubbing process of flue gas purification.

CEZ Group produced a total of over 9.9 million tons of PGBPs in the course of generating power and heat in 2012. Of the total amount of PGBPs, over 99% was used in the form of certified products (over 82% in land reclamation and landscape creation), while a negligible amount was disposed of as waste in accordance with the Waste Act.

Consumption and Emissions

CEZ Group Consumption and Emissions

	Units	2011	2012	Index 2012/2011 (%)
Total electricity	GWh	5,186	5,232	100.9%
Total water consumption	m³ '000	490,621	618,338	126.0%
of which: surface water	m³ '000	490,404	618,088	126.0%
underground water	m³ '000	217	251	115.5%
Emissions and unit emissions of air pollutants				
Solids	tons	2,324	2,293	98.7%
Sulfur dioxide	tons	52,487	48,164	91.8%
Nitrogen oxides	tons	49,843	45,028	90.3%
Carbon monoxide	tons	5,292	5,666	107.1%
Carbon dioxide	tons	33,375,472	31,552,076	94.5%

Research and Development

In 2012, CEZ Group spent CZK 758.8 million to support various research and development ("R&D") programs. The 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 Expenditures Relating to Research and Development, 2012 (CZK millions)

Společnost	
ČEZ, a. s.	232.6
Centrum výzkumu Řež s.r.o.	238.9
ČEZ Distribuce, a. s.	4.8
ČEZ Energetické produkty, s.r.o.	12.0
Severočeské doly a.s.	23.1
ÚJV Řež, a. s.	247.4
Total	758.8

ČEZ, a. s.

Centralization of the R&D agenda helps ČEZ, a. s. reinforce its technological competencies and make effective use of the synergies produced when projects that cross the borders of individual scientific disciplines are pursued. In its R&D projects, ČEZ, a. s. collaborates with various institutions involved in power industry R&D, including universities.

At the international level, cooperation continued with the EPRI (Electric Power Research Institute, Inc.) in the nuclear field, and VGB Powertech, eV in fossil-fuels based power. ČEZ, a. s. continually and actively monitors the preparation of new mechanisms for support and collaboration in research, development, and demonstrations of new power technologies within the European Union and is a member of several European technology platforms such as, for example, Sustainable Nuclear Energy TP and Smart Grids TP. ČEZ, a. s. became a member of the NUGENIA association focused on second- and third-generation nuclear energy R&D. The Czech Republic equivalent of the European technology platforms is the "Sustainable Energy Czech Republic" technology platform, of which ČEZ, a. s. is an active member.

Nuclear Energy

ČEZ, a. s. makes full use of the results of nuclear R&D projects organized through the EPRI (Electric Power Research Institute) and requested by nuclear power plant operators from all over the world. 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 ČEZ, a. s. nuclear-related R&D projects are focused primarily on further improving the safety, environmental, and economic parameters of nuclear power plants in operation.

Conventional Energy

At Mělník Power Station, an innovative brown coal mill was tested and put into routine operation. The mill features reduced energy consumption, increased efficiency of milling, and an expanded output regulation range. A mathematical validation model was applied to a selected fluidized-bed boiler (at Poříčí Power Station) and a dry-bottom boiler (at Tisová Power Station) to optimize coal combustion conditions. Its use reduces NO_X emissions and/or increases the unit's operational efficiency.

Renewable Sources of Energy

2012 saw continued testing of an innovative membrane-based technique for refining and purifying biogas to produce biomethane, as well as verification of the long-term operational stability of demonstration units processing biogas from biogas stations and wastewater treatment plants. Work also continued on developing a conceptually new type of hydro turbine that can be utilized at low-head sites. Activities in this area also focused on identifying and verifying possibilities for increasing the potential of existing photovoltaic power plants.

Energy Storage and Distribution Grid Development

ČEZ, a. s. is evaluating promising directions and applications of energy storage technologies, primarily battery-based, in conjunction with rapid growth in electricity generation from intermittent renewable sources and the development of distributed generation, among other factors. ČEZ, a. s. is participating in the 7th Framework Program project Grid4EU.

Projects Supported by National Public Funds

ČEZ, a. s. is a participant in two projects supported by the Technology Agency of the Czech Republic. A project in the ALFA program is focused on the compatibility of corrosion-stressed construction materials for power generation systems using supercritical water and high-temperature steam as work media. A comprehensive project entitled "Center for Reliable Energy Research and Experimental Development" (a Center of Competence program) aims to contribute to the increased efficiency, prolonged lifetime, operational reliability, safety, and economic effectiveness of power generation equipment in both conventional and nuclear power plants. Furthermore, the project will help bring up a new generation of professional technicians and reinforce flagging know-how in the power generation and power engineering fields.

Fees Relating to Registration of ČEZ, a. s. Trademarks in 2012 (CZK '000)

Fees to Industrial Property Office in Prague for registration of trademarks in the Czech Republic	35.0
Fees to Industrial Property Office in Prague for extension of trademarks in the Czech Republic	60.5
Payments to patent representative	125.0
Total	220.5

ÚJV Řež, a. s.

Key operations include development and design services for operators and suppliers of power generation equipment in general, and nuclear power plants in particular. Also material is the institute's participation in the 7th Framework Program in the area of nuclear fission (EURATOM) and in other international projects (IAEA and OECD/NEA) focused principally on increasing the safety of nuclear power plants with VVER-type reactors.

In order to increase concentration and achieve more effective R&D management, ÚJV Řež, a. s. holds equity stakes in specialized subsidiaries such as, for example, Výzkumný a zkušební ústav Plzeň s.r.o. in the area of research and testing of equipment in electrical power and transport systems, Ústav aplikované mechaniky Brno, s.r.o. which has a long-standing tradition in research and provision of services in the area of mechanical engineering and structural design, and Centrum výzkumu Řež s.r.o. (see separate section, below).

Members of the ÚJV Group are traditional members of a number of European technology platforms, consortia, and specialized professional networks such as:

- SNE-TP (technological platform for sustainable nuclear energy)
- FCH JTI (hydrogen and fuel cells platform)
- HTR–TN (high-temperature reactors technology network)
- JHR consortium (construction and operation of the Jules Horowitz Reactor)
- EERA (European Energy Research Alliance)
- IGDTP (platform for implementing geological disposal of high-activity nuclear waste)
- NUGENIA (safe, reliable operation of second- and third-generation nuclear power plants).

ÚJV Řež, a. s. participates in a large number of projects supported by domestic and international public funds:

Projects supported by the Ministry of Industry and Trade of the Czech Republic:

- a reliable and safe new-generation nuclear source for the Czech Republic's power industry
- research into the attributes of materials for safe storage of radioactive waste and development of procedures for their assessment
- research and development of methods and technologies for CO_2 capture in fossil fuel-fired power plants and storage in geological formations within the Czech Republic
- risk studies, safety analyses, and proposals for utilizing the full design capacity of VVER reactor units
- safety of a new generation of nuclear power plants
- construction of a research and development-oriented Positron Emission Tomography center in Řež
- research and development of a technology and system for storing radioactive waste in conjunction with a new nuclear source
- research and development of advanced hydrogen-based technologies for the power industry and transportation
- a small-scale nuclear reactor for generation of power and heat in the Czech Republic
- research into methods for analyzing serious nuclear accident risk to propose ways to further increase the safety of nuclear power plants following the events in Fukushima
- methods and tools for non-invasive, on-line cabling diagnostics in I&C systems of complex industrial installations.

Projects supported by the Technology Agency of the Czech Republic:

- research and development of advanced hydrogen production techniques based on high-temperature electrolysis
- new, robotic, remote-controlled technology for diagnostics and repair of submerged equipment
- development of a methodology for assessing degradation in the parameters of irradiated materials of difficult-to-replace nuclear power plant components.

Projects supported by the Ministry of Education, Youth, and Sports of the Czech Republic:

- support for participation in joint research projects of OECD Nuclear Energy Agency (HALDEN, CABRI, ROSA, SCIP, etc.)
- participation in and utilization of results of EDFA program (nuclear fusion).

Selected projects of the 7th Framework Program (EURATOM):

- ESFR-CP (European Sodium Fast Reactor)
- LONGLIFE (Radiation-induced brittleness in reactor pressure vessels)
- ADVANCE (cable lifetime at nuclear power plants)
- GETMAT (materials for fourth-generation nuclear reactors).

Centrum výzkumu Řež s.r.o.

Centrum výzkumu Řež s.r.o. is an organization that implements research projects in the areas of nuclear energy and safety. Its R&D activities can be roughly divided into four areas:

R&D for nuclear reactors in operation

Research centered upon the influence of neutrons in terms of damaging pressure vessel materials. Another direction of research aims to gain a deeper understanding of fuel-damaging mechanisms to inform decision-making on the further use of fuel elements. In the chemistry area, work focused on identifying a correlation between operation and water regime, in order to optimize regimes for high material integrity and suppress transport of activity. On the LR-0 reactor, unique experiments are ongoing with a full-size model of the active zone to determine precise courses of the neutron stream enabling prediction of vessel damage and identification of possibilities for increasing reactor output through a more precise interpretation of fission chamber measurements.

R&D of fourth-generation nuclear reactors

Materials in general are a critical area in fourth-generation nuclear reactors – an area where Centrum výzkumu Řež s.r.o. is dedicating considerable efforts, focusing primarily on reactors cooled by helium, supercritical water, and liquid metals (lead, bismuth-lead alloy). Liquid metals work is concentrating on the behavior of oxygen in liquid metals and finding effective diagnostics – measuring the corrosion potential for monitoring the attributes of the cooling medium and its reaction with structural materials. This work on innovative reactor designs is conducted exclusively within the framework of international collaboration – primarily within the 7th Framework Program.

Nuclear fusion research

This company is focusing on research into technologies for producing tritium and on removing heat generated by the fusion reaction. The related concepts are to be verified on prototype modules called Test Blanket Modules (TBM) at the International Thermonuclear Experimental Reactor (ITER).

SUSEN

The SUSEN project is being realized as the Regional Research & Development Center of the Operational Program 'Research and Development for Innovation'. Research in the SUSEN project focused on activities designed to ensure the project is sustainable beyond 2015. In addition to work on fourth-generation reactors, research activities on radioactive waste processing were begun, as did experimental work on waste disposal using the technique of melting with salts, while work continued on utilizing the cold crucible technique and work began on methodologies of anaerobic corrosion in the conditions of an underground repository.

ČEZ Energetické produkty, s.r.o.

Work continued on two projects with funding support from the Ministry of Industry and Trade of the Czech Republic (TIP program). The first is focusing on possible applications for power plant fly-ash as an alternative adhesive in the production of environmentally friendly cement composites. The aim of the second project is to develop new technologies for preparing high-value porous rock and to assess the viability of utilizing various types of domestic fly ash.

ČEZ Distribuce, a. s.

R&D activities focused on testing the results of studies done in previous years, primarily in the area of new medium- and low-voltage grid technologies. ČEZ Distribuce, a. s. is a participant in the 7th Framework Program's Grid4EU project (supported by European Commission funds), the goal of which is to verify the functioning of so-called "smart grids" in six demonstration projects. The principal themes of Grid4EU are new grid management techniques, automation and remote control, increased integration of renewable sources, and active customer involvement.

Severočeské doly a.s.

This company is pursuing R&D projects focused on increasing operational reliability in production, evaluating extraction conditions, mitigating environmental burdens, and reducing negative impacts of open-pit operations on the environment (dust and noise) at work sites and in municipal areas. In 2012, the company became one of the implementers of the "Increasing the lifetime of conveyor belts subject to impact wear" project, supported by the Ministry of Industry and Trade of the Czech Republic (TIP program). The aim of the project is to increase the lifetime of conveyor belts by optimizing the granularity of transported material, the height from which it falls onto the belt, the structure of the conveyor belt itself, and the location of impact.

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WE HAVE BENEFITS FOR COMPANIES AS WELL

In 2012, CEZ Group unveiled its new, exclusive benefits program, ČEZ Business Club, for selected corporate customers. Members of the program gain attractive benefits and discounts on services and products necessary for their business – offered through a wide range of partners in areas such as finance, business equipment, and various services. Registration is simple, and the offering of discounts can save companies up to tens of thousands of korunas in expenses.


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Litigation

Litigation Before Courts

Czech Republic

1. ČEZ, a. s. is a party to suits relating to the realization of takeover offers and squeeze-outs of minority shareholders:
   - Suit seeking review of consideration paid and stipulation of a different consideration amount in the 2005 squeeze-out of minority shareholders from Severomoravská energetika, a. s. The proceedings are pending before the court of first instance. Should the complainants win, the total additional payment could be up to approximately CZK 1,060 million. The result of the proceedings is impossible to predict.
   - 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 total additional payment could be up to approximately CZK 1,700 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. The proceedings are pending before the court of first instance. The possible impact of this suit on ČEZ Teplárenská, a.s. and ČEZ, a. s. is impossible to determine at this phase of the proceedings. The result of the proceedings is impossible to predict.
   - The other disputes relating to the squeeze-out processes listed in the 2011 Annual Report were resolved in 2012.
2. In the cases of the General Meetings of Severočeské doly a.s. and United Energy, a.s. (ČEZ Teplárenská, a.s. is the legal successor) that decided on the squeeze-outs, minority shareholders have filed suits seeking that certain resolutions of these General Meetings be declared null and void.
3. 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. Under a resolution of the Municipal Court in Prague dated May 17, 2012 a new complainant, UVR Mníšek pod Brdy a.s., entered the proceedings in place of the previous complainant on the grounds that it purchased the debtor's undertaking. To date, no hearing in the matter has been called. UVR Mníšek pod Brdy a.s. invested all the receivables purchased with the debtor's undertaking into a newly established company which will replace the original debtor in the proceedings, and the relevant court was notified.

4. Lesy České republiky, s.p. has filed 15 suits against the Company, all identical in substance. The complainant is seeking compensation for damage to forests caused by ČEZ, a. s. operations in 1997–2009. The oldest suit is from 1999 and the latest was filed in 2012. The total amount sought in all the suits is CZK 235.8 million, plus interest.
5. Since June 2, 2010, ČEZ Prodej, s.r.o. has been involved in litigation with Správa železniční dopravní cesty, státní organizace (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 and court proceedings are underway. 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.
6. Since January 11, 2013, ČEZ Prodej, s.r.o. has been involved in litigation with Správa železniční dopravní cesty, státní organizace (SŽDC), in which it is seeking CZK 857 million in damages. The dispute is currently before the Municipal Court in Prague, with ČEZ Prodej, s.r.o. as the complainant. So far, no hearings have been called in the matter. 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 2011 and damages resulting therefrom.
7. In May 2012, ČEZ Prodej, s.r.o. filed suit against VÍTKOVICE, a.s. before the Regional Court in Ostrava, seeking payment of CZK 407 million in damages from the breach of an electricity supply contract in 2011. The suit seeks payment of another CZK 10 million owed by said company for electricity used in 2011, but not paid. So far in the case, the court has issued a payment order, which was appealed by the respondent.
8. 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. By its decision of November 22, 2012, the bankruptcy court approved the final report and in accordance with it ČEZ, a. s. will be paid an amount of approximately CZK 62.5 million out of the schedule.
9. 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, as well as 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. For nearly two years now, the insolvency administrator has been endeavoring to sell the debtor's undertaking without success. Therefore, the Committee of Creditors is now considering the option of selling off the debtor's remaining assets piecemeal. However, for Teplárna Trmice, a.s. the resulting satisfaction will be close to nil, as all the assets have been foreclosed upon.
10. 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 336 million and a claim of approximately CZK 14 million in damages. Proceedings in the matter are ongoing before the Regional Court in Ústí nad Labem, which on November 19, 2012 issued a partial decision declining to grant ČEZ's claim for a contractual penalty of approximately CZK 336 million. This decision has not yet entered into legal force, and ČEZ appealed it on January 18, 2013. The Regional Court in Ústí nad Labem has not made any decision on ČEZ's other claims. On March 18, 2013 the parties agreed on a settlement, the terms of which include a retraction of the suit filed on October 15, 2010.
11. A dispute is ongoing between ČEZ, a. s. and Sokolovská uhelná, právní nástupce, a.s. ("SU") regarding the quantity and price of brown coal supplied by SU to ČEZ, a. s. under a long-term purchase agreement (valid until 2027 or exhaustion of the coal reserves in SU mines). SU is challenging the validity of said long-term purchase agreement. So far in conjunction with this dispute, ČEZ, a. s. initiated one suit against SU on July 13, 2011, in which 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 proceedings are pending before the Regional Court in Pilsen, which has not yet decided in the matter.

International

Albania

In view of the fact that the regulator (ERE) promulgated decisions on January 21, 2013 revoking the license of CEZ Shpërndarje Sh.A. to operate a distribution grid and sell electricity to end customers and appointing an administrator who has, on the basis of said decisions, taken over all powers of the company's governing bodies and those of its shareholders and is therefore in charge of the company's affairs, up-to-date information concerning developments in the disputes relating to CEZ Shpërndarje Sh.A. was not available as of the Annual Report closing date.

12. 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. Said debts 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 followed. CEZ Shpërndarje Sh.A. challenged the payment order in court, and on the basis of that challenge an injunction suspending payment until a final decision is taken on the grounds for payment was handed down by a court. In its decision, the District Court in Tirana declared the invoices null and void in full, and KESH, sh.a. appealed that decision. On January 22, 2013, the appeals court rejected the appeal and confirmed that the invoices are null and void. An appeal to the Supreme Court was not filed.
13. 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. Currently, the matter is pending before the District Court in Tirana.
14. 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, independent experts would conduct additional, independent studies 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 thought. In spite of the Declaration on Regulation, however, ERE approved the study only partially and with a delay, and it failed to 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. The District Court in Tirana declared the ERE decision null and void.
15. 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. that certain provisions of the agreement are in conflict with Albanian law. These provisions give KESH, sh.a. the ability to demand compensation from CEZ Shpërndarje Sh.A. in excess of what is set forth in the Declaration on Regulation – specifically, for the difference between the estimated amount of electricity for 2011 and the amount actually used. CEZ Shpërndarje Sh.A. challenged ERE's decision in court, but the court proceedings before the District Court in Tirana 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.
16. In September 2012, KESH, sh.a. issued an invoice to CEZ Shpërndarje Sh.A. for an alleged electricity debt that arose in 2011. CEZ Shpërndarje Sh.A. did not recognize the invoice and did not consider the amount set forth therein to be its financial obligation toward KESH, sh.a. It disputed the information concerning electricity volume and the amount owed. Despite this, KESH, sh.a. initiated collection proceedings on the grounds that the invoice was not paid. CEZ Shpërndarje Sh.A. responded by filing a suit to the District Court in Tirana, where the proceedings in question are still pending.
17. CEZ Shpërndarje Sh.A. filed suit against ERE Decision No. 134 of September 17, 2012 approving an agreement between KESH, sh.a. and CEZ Shpërndarje Sh.A. on purchase of electricity for the period January 1, 2012 – December 31, 2014 over objections raised by CEZ Shpërndarje Sh.A. calling attention to the fact that certain portions of the agreement violate Albanian law. The court proceedings are still pending before the District Court in Tirana.

18. CEZ Shpërndarje Sh.A. filed suit against ERE Decision No. 102 of July 19, 2012 approving an agreement between Operatori i Sistemit te Transmetimit sh.a. (operator of the transmission grid in Albania) and CEZ Shpërndarje Sh.A. over objections raised by CEZ Shpërndarje Sh.A. calling attention to the fact that certain portions of the agreement violate Albanian law. Under the ERE decision, the original amount owed is subject to interest at a rate of 0.5% p.d. Court proceedings are pending before the District Court in Tirana.
19. CEZ Shpërndarje Sh.A. filed suit against ERE Decision Nos. 108 and 109 of October 21, 2012 approving electricity supply agreements between the company and its end customers. The provisions of these agreements provide an unreasonably high degree of protection to customers who fail to effect due and timely payment for electricity supplies, and thereby cause the company additional damages. Proceedings are pending before the District Court in Tirana.
20. CEZ Shpërndarje Sh.A. filed suit against an August 2012 decision of the Tax Office in Tirana relating to insufficient payment and levying a fine of ALL 3.6 billion (approximately CZK 0.65 billion) as the result of a tax audit. Although CEZ Shpërndarje Sh.A. filed an appeal in tax proceedings on August 31, 2012, the Tax Directorate pronounced the tax levy effective on December 20, 2012. Proceedings are pending before the District Court in Tirana.
21. CEZ Shpërndarje Sh.A. had prepared a legal challenge of ERE Decision No. 161 of December 7, 2012 relating to an update of electricity production, transmission, distribution, and sales tariffs for the Third Regulation Period (2012–2014) for the companies and sources CEZ Shpërndarje Sh.A., KESH sh.a., TEC-Vlorë, Operatori i Sistemit te Transmetimit sh.a., Ulëz, Shkopet, Bistrica 1, and Bistrica 2. ERE failed to update the distribution tariff and conditions for buying electricity from renewable sources as CEZ Shpërndarje Sh.A. had requested in its application, and preparations to file suit challenging the decision had begun for this reason. Following the revocation of licenses and takeover of CEZ Shpërndarje Sh.A. by the administrator, the documentation of the legal challenge was handed over, but the administrator refused to file it and the deadline for such filing has expired.
22. On November 20, 2012 CEZ Shpërndarje Sh.A. filed a claim for ALL 26.54 billion (approximately CZK 4.6 billion) in damages against the Albanian Ministry of Finance and the Albanian Ministry of Economy, Trade, and Power under the Government Guarantee Agreement of May 9, 2009, under which the Republic of Albania agreed to indemnify CEZ Shpërndarje Sh.A. in the event the company suffers damages as a result of certain changes in or failure to comply with the regulatory framework agreed between the parties in the privatization of CEZ Shpërndarje Sh.A. The company CEZ Shpërndarje Sh.A. is currently managed by a regulator appointed by said administrator and has not yet filed any claim for damages to the relevant arbitration tribunal.
23. On January 21, 2013 ERE issued its Decision Nos. 4 and 5 revoking CEZ Shpërndarje's license to operate a distribution grid and sell electricity to end customers and appointing an administrator who is temporarily charged with running the company. On the basis of these decisions, the administrator also took over all powers of the company's governing bodies and its shareholders. In late February 2013, the de facto suspended Managing Director of CEZ Shpërndarje Sh.A. appealed said decisions of the regulator, basing his arguments on a legal opinion indicating that he is entitled to take such a step even after an administrator has taken control over CEZ Shpërndarje Sh.A.

Information on arbitration proceedings in Albania are given in the subchapter "Other Proceedings", below.

Other Countries

24. In October 2012, Romania-based Electrica S.A. filed a complaint ČEZ, a. s. to the International Court of Arbitration at the International Chamber of Commerce (ICC) in Paris, demanding payment of EUR 18.8 million (approximately CZK 0.5 billion). In the complaint Electrica S.A. maintains that ČEZ, a. s. breached its obligations under the Privatization Agreement of April 5, 2005 under which ČEZ a. s. acquired from Electrica S.A. a stake in the complainant's subsidiary, Electrica Oltenia S.A. Amongst other things, ČEZ, a. s. was to have breached its obligation to notify the complainant of specific matters concerning Electrica Oltenia S.A. ČEZ, a. s. considers the complaint of Electrica S.A. to be unfounded; in its response to the complaint, it rejected it in full and proposed that the complaint be denied. Conclusion of the arbitration proceedings is expected in 2014.

25. The European Human Rights Court is currently deciding the permissibility of a suit filed by complainants Diaconescu et al. (Corneliu Diaconescu and Elena Diaconescu) against the Romanian State in the matter of unauthorized placement of electrical equipment on lands owned by them. The court has not yet handed down a decision.
26. Several disputes that arose in conjunction with the construction of the Fântânele and Cogealac Wind Farm in Romania are pending. The most important dispute, concerning ownership of the land plot under a transformer station, is currently suspended.
27. An on-site inspection was conducted by the Ministry of Labor and Social Security (Çalışma ve Sosyal Güvenlik Bakanlığı) of the Republic of Turkey to scrutinize the work conditions at Sakarya Elektrik Dagitim A.S. On April 30, 2012 the inspection released a report on its findings, one of which was that the outsourcing of certain key operations was a breach of labor-law regulations, and cancelled the registration of the contracts under which the relevant companies provided the outsourced services to Sakarya Elektrik Dagitim A.S. Sakarya Elektrik Dagitim A.S. did not agree with the content and conclusions of the report and on May 8, 2012 it filed its objections with the Sakarya Area Labor Court, which rejected the objections on January 15, 2013. This decision, which is in effect and which cannot be appealed, may lead to a major reorganization of Sakarya Elektrik Dagitim A.S. and related growth in costs.
28. CEZ Razpredelenie Bulgaria AD, CEZ Elektro Bulgaria AD, and TEC Varna EAD appealed a decision of the State Energy and Water Regulation Commission (DKEVR) setting prices for the period July 1, 2012 – June 30, 2013. The Commission approved neither the prices nor the required revenues proposed by these three companies and, according to them, in making its decision it committed a number of breaches of procedures and statutes.
29. CEZ Razpredelenie Bulgaria AD, CEZ Elektro Bulgaria AD, and TEC Varna EAD appealed a decision of the State Energy and Water Regulation Commission (DKEVR) setting quantities of electricity (quotas) for the period July 1, 2012 – June 30, 2013. The Commission did not approve the proposed quantities of electricity, which impact the requested revenues.
30. CEZ Elektro Bulgaria AD filed a court challenge against a Methodology issued by the State Energy and Water Regulation Commission (DKEVR) for compensation of costs of the public supplier and end suppliers ensuing from the stipulated obligation of buying electricity generated from renewable sources and high-efficiency combined heat and power generation (cogeneration) for above-market prices. Under said Methodology, CEZ Elektro Bulgaria AD does not receive full compensation of costs incurred for buying energy so generated.
31. 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, and 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. The State of Upper Austria appealed the decision to the High Regional Court in Linz, as the appeals court, which rejected the appeal on April 12, 2012. Within the legal time limit, the State of Upper Austria filed another appeal, this time to the Supreme Court in Vienna, and it too was rejected on September 19, 2012. At this point, the complainant decided to take advantage of extraordinary recourse: renewal of proceedings. In November 2012, the Linz Regional Court refused to renew the proceedings. The State of Upper Austria appealed this decision to the High Regional Court in Linz, which denied the appeal in February 2013. Within the relevant time period, the State of Upper Austria filed an "extraordinary appeal" in the matter, to the Supreme Court in Vienna.

32. A lawsuit is currently pending before the District Court in Banská Bystrica, Slovak Republic, filed by CEZ 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. The subject matter of the dispute is breach of contract by PPA Power s.r.o. by failing to take delivery of the agreed amount of electricity in 2010, and resulting damages. Currently, the case is pending the result of an expert opinion that will determine the amount of damages incurred by CEZ Slovensko, s.r.o. The court can be expected to take a decision after it acquaints itself with the expert's opinion.

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 of 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 arose 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. On June 28, 2012, ČEZ, a. s. submitted to the Commission a set of proposed undertakings, one of which is an undertaking to sell one of its coal-fired power plants. On July 10, 2012 the Commission commenced comment proceedings on ČEZ's proposed undertakings by publishing, in the Official Journal of the EU, an announcement of commencement of a so-called "market test", including a list of the proposed measures. According to the proposed undertakings, the Company can itself choose which of three power plants (Počerady, Chvaletice, Tisová) it will sell together with Mělník III or Dětmarovice. In late 2012, however, the Commission revised the proposed measures by removing Dětmarovice from the group of power plants whose sale would enable the Commission's proceedings against CEZ Group to be terminated. It is expected that, upon mutual approval of the revised proposal of measures, the Commission will issue a decision making the offered undertakings legally binding for ČEZ, a. s. The undertakings relate to a coal-fired sources with 800 MW of installed capacity, or 1,000 MW in the case of Počerady Power Station. Termination of proceedings in the form of a "settlement" is common practice in the area of European competition law. In such a case, the Commission accepts the undertakings offered by the investigated entity and terminates the entire proceedings, provided it reaches the conclusion that the settlement leads to a strengthening of competition in the market such that it is no longer necessary to continue in the investigation. ČEZ, a. s. thereby eliminates the risk of having to prove, at great length and cost, that it did not engage in any anti-competitive behavior, while at the same time executing the sale in accordance with its own development strategy for coal-fired sources, i.e. to operate only modern, low-emission sources with secured fuel.

In conjunction with developments in Albania and the Albanian State's long-standing unhelpful attitude toward ČEZ's investment in CEZ Shpërndarje Sh.A., ČEZ, a. s. is preparing for the probable commencement of arbitration. The platform for the international arbitration can be either the privatization contract or the international investment agreement – i.e. either the Energy Charter Treaty (ECT) or the bilateral Treaty between the Czech Republic and the Republic of Albania on the support and mutual protection of investments (Bilateral Investment Treaty – BIT). On February 7, 2013 ČEZ, a. s. sent to the Albanian side a so-called "Notice of Dispute", which is a formal notification of intent to commence investment arbitration and mandatorily precedes the actual arbitration complaint. The delivery of this notification marks the beginning of a "cooling-off period", during which it is still possible to arrive at an amicable resolution with the counterparty and, should no such resolution be reached, it provides time in which to select the specific platform for the arbitration (i.e. to decide whether to pursue the arbitration under the ECT or the BIT). Precise quantification of the amount that ČEZ, a. s. would seek in the event of arbitration will take place in a later phase of the proceedings.

CEZ Group Donorship and Advertising Partnerships

An integral part of our corporate culture, philanthropy, characterizes CEZ Group as a long-term supporter of education, culture, sports, and community life through corporate donorship. Philanthropic activities at CEZ Group have long been governed by the motto: “We help where we operate”.

Donorship

Once again in 2012, CEZ Group continued to fulfill one of the pillars of its social responsibility through active donorship. We gained two number-one rankings in an independent national responsible and sustainable business competition, defended our number-one ranking in the TOP Responsible Corporation in the Biggest Corporate Donor 2012 category by volume of funding, and joint charity projects of CEZ Group, its employees, and the Nadace CEZ foundation won first place in the projects category of Most Engaged Employees of the Year 2012. CEZ Group’s long history of donorship initiatives makes it one of the most active corporations in the Czech Republic in this area.

Financial Donorship

In 2012, CEZ Group companies donated a total of CZK 438.4 million. Of this amount, direct donations accounted for CZK 262.5 million and contributions to the Nadace CEZ foundation totaled CZK 175.9 million. They also contributed another CZK 21.3 million in other, smaller donations.

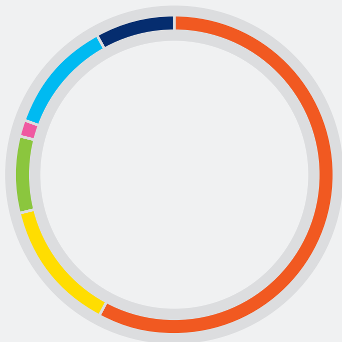
CEZ Group Direct Donations (CZK millions)

Company	Total value
Czech Republic	
ČEZ, a. s.	153.0
ČEZ Distribuce, a. s.	2.0
ČEZ Distribuční služby, s.r.o.	1.9
ČEZ Energetické služby, s.r.o.	[1]
ČEZ Logistika, s.r.o.	0.1
ČEZ Měření, s.r.o.	1.7
ČEZ Obnovitelné zdroje, s.r.o.	0.3
ČEZ Prodej, s.r.o.	0.2
ČEZ Správa majetku, s.r.o.	3.6
ČEZ Teplárenská, a.s.	0.5
ČEZ Zákaznické služby, s.r.o.	0.7
Elektrárna Chvaletice a.s.	0.3
Energetické centrum s.r.o.	[1]
Energotrans, a.s.	0.4
PRODECO, a.s.	[1]
SD - 1.strojírenská, a.s.	[1]
SD - Kolejová doprava, a.s.	[1]
SD - Rekultivace, a.s.	0.1
Severočeské doly a.s.	94.2
Teplárna Trmice, a.s.	[1]
ÚJV Řež, a. s.	0.2
Republic of Poland	
A.E. Wind sp. z o.o.	0.4
CEZ Polska sp. z o.o.	0.1
Eco-Wind Construction S.A.	0.1
Elektrociepłownia Chorzów ELCHO sp. z o.o.	0.4
Elektrownia Skawina S.A.	0.7
Republic of Bulgaria	
CEZ Bulgaria EAD	0.4
CEZ Elektro Bulgaria AD	[1]
CEZ Razpredelenie Bulgaria AD	[1]
TEC Varna	0.6
Romania	
CEZ Distributie S.A.	0.1
CEZ Vanzare S.A.	0.1
TMK Hydroenergy Power S.R.L.	[1]
Hungary	
CEZ Magyarország Kft.	[1]
Republic of Serbia	
CEZ Srbija d.o.o.	[1]
Total	262.5

[1] Less than CZK 0.1 million.

CEZ Group Direct Donations, by Area

Area	CZK millions	%
municipal infrastructure and regional development	151.9	57.9
culture, the arts, and the environment	35.1	13.4
education, science, and youth	19.9	7.6
healthcare	4.6	1.7
sport	30.5	11.6
needy and handicapped	20.5	7.8
Total	262.5	100.0



Nadace CEZ Foundation

Contributions by CEZ Group Companies to the Nadace CEZ Foundation (CZK millions)

Company	Contribution
ČEZ, a. s.	66.5
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	175.9

Over its ten-year history, the Nadace CEZ foundation (www.nadacecez.cz [1]) has distributed donations totaling nearly CZK 1.48 billion to 4,300 public-benefit projects.

In 2012, the foundation supported 388 projects with a total amount of CZK 140.5 million. Funding support focused on programs that responded to society's current needs. Orange Stairs helped integrate more handicapped students into the mainstream learning process, Orange Classrooms supported students' interest in technical subjects, Support for Regions gave new opportunities for developing community life. Orange Bicycle got the general public involved in helping the needy.

For the fourth time, the Nadace CEZ foundation was a partner of "Making Wishes Come True, Thinking of Others", a CEZ Group employees charity initiative. In 2012, help went out to active retirees, with 697 employees donating a total of CZK 525,000 to the project, to which the Nadace CEZ foundation added another CZK 500,000. This financial assistance enriched the activities of 28 interest-based associations of retirees and other individuals whose active lifestyle serves as an inspiration for those around them.

Support for Education

ČEZ, a. s. has been implementing an education program, entitled World of Energy, since 1992. Through it, ČEZ, a. s. provides schools, teachers, and students a long-term program supporting education in technical and science-related fields. In addition to popularization, its goal is to give students positive motivation to study power engineering and spark their interest in a future career in our field. The program is open to all schools in the Czech Republic and offers them high-quality materials, panel discussions, special seminars, and tours. As a general partner, ČEZ, a. s. supports the Academy of the Sciences of the Czech Republic's "Science Week" event as well as Expo Science, the biggest national science competition for high-school students. In addition, the Company organizes its own science competition for university students and the CEZ Prize for theses and doctoral dissertations.

[1] www

Advertising Partnerships

As a major corporation, CEZ Group provided advertising-based support to a number of community projects, large and small, from various walks of life. Through sports-related projects connected with environmental protection, we are a traditional supporter of trails for cycling and cross-country skiing, providing funding for their maintenance.

In accordance with tradition, CEZ Group engaged in partnerships in countries where it operates:
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, Association of Firefighters of Bohemia, Moravia, and Silesia, Plácky Volunteer Fire Department, Association of Non-State Non-Profit Organizations of the Pilsen Region – Local Group, South Bohemia K9 Rescue Brigade, Region with a Better Outlook, Stability in Dynamism
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, Smetana's Litomyšl, Janáček's May, Bohemia Jazz Fest, Folk Summer Vacation in Náměšť nad Oslavou, City of Orlové House of Culture, Kaskáda Culture Center in Bílina, Leica Gallery Prague, Theater of East Bohemia in Pardubice, Gărâna – jazz music festival in Romania
Amateur sports – maintenance of the Jizerská magistrála cross-country skiing trail, maintenance of cross-country skiing trails in Blanský les (Blansko Forest), Lipno, and Czech Canada, support for cycling as a form of transportation in Karlovy Vary, ČEZ STREET hockey, Track & Field for Kids in Kladno, the "Krkonošská 70", the TJ Lokomotiva Trutnov running competition
Professional sports – the Czech Olympic Team, the Czech Extraliga, Chomutov Pirates ice-hockey team, Futsal AC ROSE Kadaň, ČEZ Basketball Nymburk basketball team, Czech Sports Association (ČSTV), Golden Helmet (Zlatá přilba), the Golden Spike (Zlatá tretra) and Kutná Hora Bar (Kutnohorská laťka) track & field meets, the Cyclo-cross World Cup in Tábor, junior players in the FK Teplice soccer team, Skiinterkritérium SKI klub Ústí nad Orlicí, Energie Karlovy Vary ice-hockey team, Sportovní klub Kadaň, Baník Sokolov soccer team, Teplice soccer team, PFK Levski Sofia soccer team
Education – Science and Technology Days in Pilsen and Brno, Techmania (Regional Technical Museum in Pilsen), Charles University in Prague, Faculty of Mathematics and Physics, Student Union event, Science Week (Academy of Sciences), Science in the Streets (University of West Bohemia in Pilsen), book donations and rural education in Romania (Asociația Vasiliada), repair of a school near a power plant and summer camp for children with excellent report cards in Romania
Aid for the needy – Social cars in Litoměřice, Žatec, Poděbrad, and Děčín (KOMPAKT), Association of the Wheelchair-Bound and the Mentally and Physically Handicapped in the Czech Republic, Hvězda SKP Pardubice, Physical Therapy Sojourns for Cerebral Palsy Patients (DMO pobyty civic association)
The environment – Let's Clean Up the Jizerka Mountains, Learning Path of the Šumava National Park and Protected Natural Area Administration, Czech Union for Nature Protection – event in Vrané nad Vltavou, Czech Union for Nature Protection Elbe River Eco-center – Rescue Stations for Injured Wild Animals, learning trails of the Friends of Nature Near Forests
Healthcare – Water Rescue Service of the Czech Red Cross Pastviny, Paramedic Rescue Service of the Vysočina Region, České Budějovice Hospital, Třebíč Hospital, Břeclav Hospital, Brno Hospital.

CEZ Group's advertising partnerships at the international level focused in particular on supporting sports and cultural events in the areas where we operate. The Group also supported the operation of the www.energiainfo.hu [1] website with power industry-related information.

1

www

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WE’RE BRINGING UP A NEW GENERATION OF TECHNICIANS

The ČEZ education program celebrated its 20th anniversary in 2012. During that time, CEZ Group has invested over CZK 150 million in the program, which has helped hundreds of thousands of students to take a closer look at technical fields, for example by holding 4,100 panel discussions, offering teachers cooperation in integrating interesting topics in curricula, and providing a number of learning materials and Internet applications. A competition organized within the program has so far attracted 3,000 students and 1,200 teachers have taken advantage of opportunities to expand their horizons at special seminars.


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Basic Organization Chart of ČEZ, a. s. as at March 31, 2013

General Meeting

Board of Directors

901000000
Chief Executive Officer's Division
Daniel Beneš

- **901004000** CEZ Group Communications and Marketing
- **90100B000** CEZ Group Public Affairs
- **901003000** Legal
- **901002000** Internal Audit
- **901008000** CEZ Group Security
- **90100A000** CEZ Group Safety Inspectorate
- **901009000** Quality and Management System
- **901007000** ČEZ Ombudsman's Office
- **901000010** Chief Executive Officer's Office

90B000000
Strategy Division
Pavel Cyrani

- **90B001000** Engineering
- **90B002000** Business Development
- **90B003000** Market Analyses 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
- **90A00A000** Mergers & Acquisitions
- **90A000500** International Acquisitions – MOL

904000000
Sales Division
Alan Svoboda

- **904003000** Trading
- **904000200** Foreign Commercial Representation
- **904000500** Portfolio Optimization
- **904000600** Long-Term Contracts

Supervisory Board

Audit Committee

905000000
Production Division
Ladislav Štěpánek – Acting Division Head

- **905002000** Safety
- **905004000** Production Management
- **905005000** Asset Management
- **905006000** Central Engineering
- **905007000** Supplier System Management
- **905008000** Cogeneration
- **905009000** Personnel Training Center
- **905000100** Production Division Analytical Support
- **9053DU000** Dukovany NPS
- **9053TE000** Temelín NPS
- **9053ME000** Mělník CPS
- **9053PL000** Počerady and Ledvice CPS
- **9053TP000** Tušimice and Prunéřov CPS
- **9053VD000** Hydro Power Stations
- **9053VT000** Hodonín, Poříčí, and Tisová Power-Heating Plants
- **9053VI000** Vítkovice Power-Heating Plant

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
- **902006000** ICT Management
- **906003000** Equity Holdings
- **902008000** Human Resources

NPS = Nuclear Power Station
CPS = Coal-Fired Power Station(s)

Directory of Companies in the CEZ Consolidated Group

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Baltic Green III sp. z o.o.
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in forced administration since
January 21, 2013

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Information Centers and Facilities Available for Public Tours

Štěchovice Hydro Power Station	
Type of exhibit	run-of-river and pumped-storage hydro power plant
Operator	ČEZ, a. s.
Street and street number	Prof. Vl. Lista 329
Postcode and city	252 07 Štěchovice
Telephone	602 107 453 603 769 197 608 308 759 211 026 111
Fax	211 026 577
E-mail	cez@cez.cz
Opening hours	year round
Advance reservation necessary	yes, on weekdays 8:00 a.m.–3:00 p.m.
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
E-mail	infocentrum.edu@cez.cz
Opening hours	July–August: Sunday–Saturday 9:00 a.m.–4:00 p.m. September–June: Monday–Friday by advance reservation only
Advance reservation necessary	September–June, www.cez.cz
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	731 562 835 725 614 409 607 666 928 607 673 651 380 746 621
E-mail	infocentrum.eli@cez.cz
Opening hours	June 15–September 15: seven days a week, tours begin on the hour (first tour 10:00 a.m., last tour 4:00 p.m.); tours in German language each Wednesday and Friday 4:00 p.m.–5:00 p.m.
Advance reservation necessary	September 16–June 14
Name of nearest public transport station/stop	Lipno nad Vltavou, žel. st. (bus); Lipno nad Vltavou (train)

Orlík Hydro Power Station	
Type of exhibit	information center and tour of power plant and dam
Operator	Rozvoj destinace Písecka o.s.
Street and street number	Vodní elektrárna Orlík, P. O. Box 9
Postcode and city	262 33 Solenice
Telephone	737 506 950
E-mail	pisecko@email.cz
Opening hours	Sunday–Saturday
Advance reservation necessary	yes
Name of nearest public transport station/stop	Solenice (bus); Orlík – hráz (boat)

Slapy Hydro Power Plant	
Type of exhibit	tour of power plant
Operator	ČEZ, a. s.
Street and street number	Vodní elektrárna Slapy
Postcode and city	252 08 Slapy nad Vltavou
Telephone	602 107 453
E-mail	cez@cez.cz
Opening hours	year round
Advance reservation necessary	yes, on weekdays 8:00 a.m.–3:00 p.m.
Name of nearest public transport station/stop	Štěchovice, Třebenice (bus)

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; May, October: Wednesdays and Saturdays only (tours begin at 9:00 a.m., 11:00 a.m., 1:00 p.m. and 3:00 p.m.)
Advance reservation necessary	no
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	602 322 244 583 283 282
E-mail	infocentrum.eds@cez.cz info@k3-sport.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, www.dlouhe-strane.cz
Name of nearest public transport station/stop	Kouty nad Desnou/Loučná nad Desnou, restaurace (bus)

Renewable Sources Information Center	
Type of exhibit	information center, Hradec Králové 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	492 122 660 725 781 564 725 781 565
E-mail	infocentrum.oze@cez.cz
Opening hours	information center: seven days a week, 9:00 a.m.–4:00 p.m. power plant tours: Saturdays, Sundays and State holidays at 2:00 p.m. and by advance reservation (Sun-Sat) Closed: every first Monday of the month, January 1, Easter Monday, December 24, and December 31
Advance reservation necessary	groups of over 10 persons power plant tours information center guide
Name of nearest public transport station/stop	Labská kotlina – Obří akvárium (bus, trolleybus)

ÚJV Řež, a. s.	
Type of exhibit	LVR – 15 and LR – 0 reactors, experimental hall
Operator	ÚJV Řež, a. s., Centrum výzkumu Řež s.r.o.
Street and street number	Hlavní 130, Řež
Postcode and city	250 68 Husinec
Telephone	266 173 463
Fax	220 940 840
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 269
Postcode and city	675 50 Dukovany 2
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.–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	only for groups above five persons, www.cez.cz
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	only 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 8:00 a.m.–4:00 p.m.; closed on State holidays
Advance reservation necessary	only for groups above ten persons
Name of nearest public transport station/stop	Chudeřice, závod (bus); Chotějovice (train)

Tušimice Coal-Fired Power Station	
Type of exhibit	power plant tour
Operator	ČEZ, a. s.
Street and street number	Elektrárny Tušimice, Kadaň 9
Postcode and city	432 01 Kadaň
Telephone	720 733 105 724 551 232
E-mail	marie.tuckova@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
Name of nearest public transport station/stop	Tušimice, I. ELNA (bus)

Severočeské doly a.s. Information Center	
Type of exhibit	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	infocentrum@sdas.cz (www.infocentrumsdas.cz)
Opening hours	Monday–Friday 8:00 a.m.–11:30 a.m., 12:10 p.m.–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 bus)

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	hoffmanova@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 Plant	
Type of exhibit	power plant tour
Operator	Elektrociepłownia Chorzów ELCHO sp. z o.o.
Street and street number	M. Skłodowskiej-Curie 30
Postcode and city	41-503 Chorzów
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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 Plant	
Type of exhibit	power plant tour
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 2012	February 28, 2013
ČEZ, a. s. audited financial statements for the year 2012	February 28, 2013
CEZ Group consolidated financial figures for the year 2012	February 28, 2013
Press conference	February 28, 2013
Conference call (in English)	February 28, 2013
CEZ Group 2012 Annual Report – electronic version in Czech, English, and Polish; Czech version in Print	April 30, 2013
CEZ Group 2012 Annual Report – Polish version in print	May 3, 2013
CEZ Group non-audited consolidated financial figures for Q1 2013	May 7, 2013
Interim consolidated financial statements	May 7, 2013
Press conference	May 7, 2013
Conference call (in English)	May 7, 2013
ČEZ, a. s. non-audited financial figures for Q1 2013	May 7, 2013
Accounting statements	May 7, 2013
CEZ Group 2012 Annual Report – English version in print	May 15, 2013
Annual General Meeting	June 19, 2013
CEZ Group non-audited consolidated financial figures for H1 2013	August 8, 2013
Interim consolidated financial statements	August 8, 2013
Press conference	August 8, 2013
Conference call (in English)	August 8, 2013
ČEZ, a. s. non-audited financial figures for H1 2013	August 8, 2013
Accounting statements	August 8, 2013
CEZ Group 2013 Half-Year Report	September 2, 2013
CEZ Group non-audited consolidated financial figures for Q1–Q3 2013	November 12, 2013
Interim consolidated financial statements	November 12, 2013
Press conference	November 12, 2013
Conference call (in English)	November 12, 2013
ČEZ, a. s. non-audited financial figures for Q1–Q3 2013	November 12, 2013
Accounting statements	November 12, 2013
CEZ Group audited consolidated financial statements for the year 2013	February 27, 2014
ČEZ, a. s. audited financial statements for the year 2013	February 27, 2014

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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. The CEZ Group website is currently the top-ranked website in the Industry and Energy category according to the Web Top 100, having won in this category in both 2011 and 2012.
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.

1 www 2 www 3 www 4 www 5 www

In 2012, www.cez.cz attracted nearly 2.4 million visitors, up 19% from the previous year. More than half of the visits were from newcomers to the site. According to Google Analytics the visitors spend over four minutes, on average, at the site and one third of them come back regularly.
In the various countries where CEZ Group does business, it operates a set of websites of unified design. A unique concept of a multilingual web portal based on the Czech website is in operation at the addresses 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 sites contain descriptions of the operations in the given country, local event listings, and information for customers. Prior to the loss of control over the Albanian distribution company, a www.cez.al site operated in the same manner.
ČEZ ON-LINE, an Internet-based self-service portal providing customers comfortable access to our products and services, was improved in 2012. The portal now includes complete, at-a-glance information on the connection point, bills, and self-service meter readings, as well as an option to enter into a natural gas supply contract. In the autumn, newly registered users of the services could take advantage of a special offer: one year's free-of-charge use of the ČEZ ASSISTANT service.
Also during 2012, CEZ Group's new self-service Geoportal, geoportal.cez.cz, reinforced its position in the Group's on-line service offering, giving builders and engineers a comfortable way 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.
To date, over 200,000 users have taken advantage of the Geoportal.

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.cezregiony.cz presents CEZ Group outreach projects 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) the www.levnyplynodcez.cz and www.cez.cz/etarif sales websites inform customers of special offers, and include a practical price calculator.
5) www.cez.cz/business provides information to business customers and enables them enroll in the ČEZ Business Club.

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 business 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, or the on-line version www.zpravodajedu.cz
5) Temelín Nuclear Power Station's magazine, entitled Temelínky, keeps its readers abreast of 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.3pol.cz
7) an energy- and power industry-related news and information site sponsored by CEZ Group in Hungary can be found at: www.energiainfo.hu
8) the monthly bulletin Energetika v EU (Power Industry in the EU) informs its readers 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 continues to present itself successfully in the social networks Facebook and Twitter (www.twitter.com/SkupinaCEZ). ČEZ currently maintains nine Facebook pages on various themes, which together have approximately 25,000 "fans". Overall monthly visitorship on these pages is around 50,000 users, but during campaigns this figure can approach the 100,000 mark. CEZ Group also utilizes this platform as a crisis communications channel, for example.
The youngest of the nine Facebook pages, "Pro jádro" (For Nuclear) (www.facebook.com/projadro), which ČEZ established in September 2012, boasts the largest fanbase. Since its launch it has amassed over 10,000 fans.
Another page, "Práce v ČEZ" (Work at ČEZ) (www.facebook.com/PracevCEZu) focusing on recruitment-related information, has nearly 7,000 fans and during 2012 served as the principal communications channel for a student competition entitled "Cool Brigáda" (A Cool Summer Job). In the competition, participants could find out what a future career in the power industry might be like and win a summer job at one of CEZ Group's operations.
Last year, CEZ Group launched its first Olympic-themed social network page on the occasion of the Summer Olympic Games in London. The page, entitled "Jsme s vámi" (We're With You) (www.facebook.com/jsmesvami), attracted over 4,500 fans. On the page, visitors could compete using the special ČEZ Games application in an Olympic-themed trivia quiz, archery, and hammer throw. All in all, over 22,000 users visited the application and over 13,000 played the game.

Other CEZ Group pages on Facebook also include:
- "ČEZ fandí elektromobilům" (ČEZ is for electric cars) (www.facebook.com/fandime.elektromobilum),
- "O ČEZu více, dozvíš se v IC" (Find out more about ČEZ at the IC) (www.facebook.com/CEZinformacni.centra),
- "ČEZ lidem" (ČEZ for People) (www.facebook.com/CEZlidem),
- "Geniální panter", a panther-themed page dedicated to the Karlovy Vary International Film Festival (www.facebook.com/genialnipanter),
- "Třípól" (www.facebook.com/pages/T%C5%99%C3%ADp%C3%B3l/159181350798727),
- "ČEZ Slovensko" (ČEZ Slovakia) (www.facebook.com/CEZslovensko).

CEZ Group videos can be viewed at www.youtube.com/user/SkupinaCEZ.

Glossary of Selected Terms and Abbreviations

Term	Commentary
Design-to-Cost	A decision-making restriction on project contents achieved by setting a cost limit for project execution
EBRD	European Bank for Reconstruction and Development
ERE	Enti Rregullator i Energjise Energy market regulator (in Albania)
ERÚ	Energetický regulační úřad The Energy Regulatory Office
FOREX	Foreign exchange
GPW	Giełda papierów wartościowych w Warszawie SA The Warsaw Stock Exchange
IAEA	International Atomic Energy Agency An international organization for promoting the peaceful use of nuclear energy.
ICE	IntercontinentalExchange (an electronic exchange)
IFC	International Finance Corporation A part of the World Bank group.
NAP	National Allocation Plan A document showing the number of CO_2 emission allowances granted to individual CO_2 producing installations for a given trading period in a given country. The first trading period encompasses the years 2005–2007, the second 2008–2012, and the third 2013–2020.
OSART	Operational Safety Review Team A review of nuclear power plant operation and development. Takes place at the recommendation of the IAEA (the International Atomic Energy Association in Vienna) every ten years at the invitation of the Government of the Czech Republic. Compares the reviewed plant's practices with international standards and IAEA recommendations in nine areas, as well as scrutinizing 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.
PSE	Prague Stock Exchange
WANO	The World Association of Nuclear Operators

List of Units and Abbreviations Used

Unit	Commentary
J.kg-1	joules per kilogram; a unit of heat content
OSH	occupational safety and health
t	metric ton; a unit of mass
TJ	terajoule; a unit of work (energy)
V	volt; a unit of electrical potential (voltage)
W	watt; a unit of power (load)
Wh	watt-hour, a unit of work

Method Used to Calculate CEZ Group Key Indicators

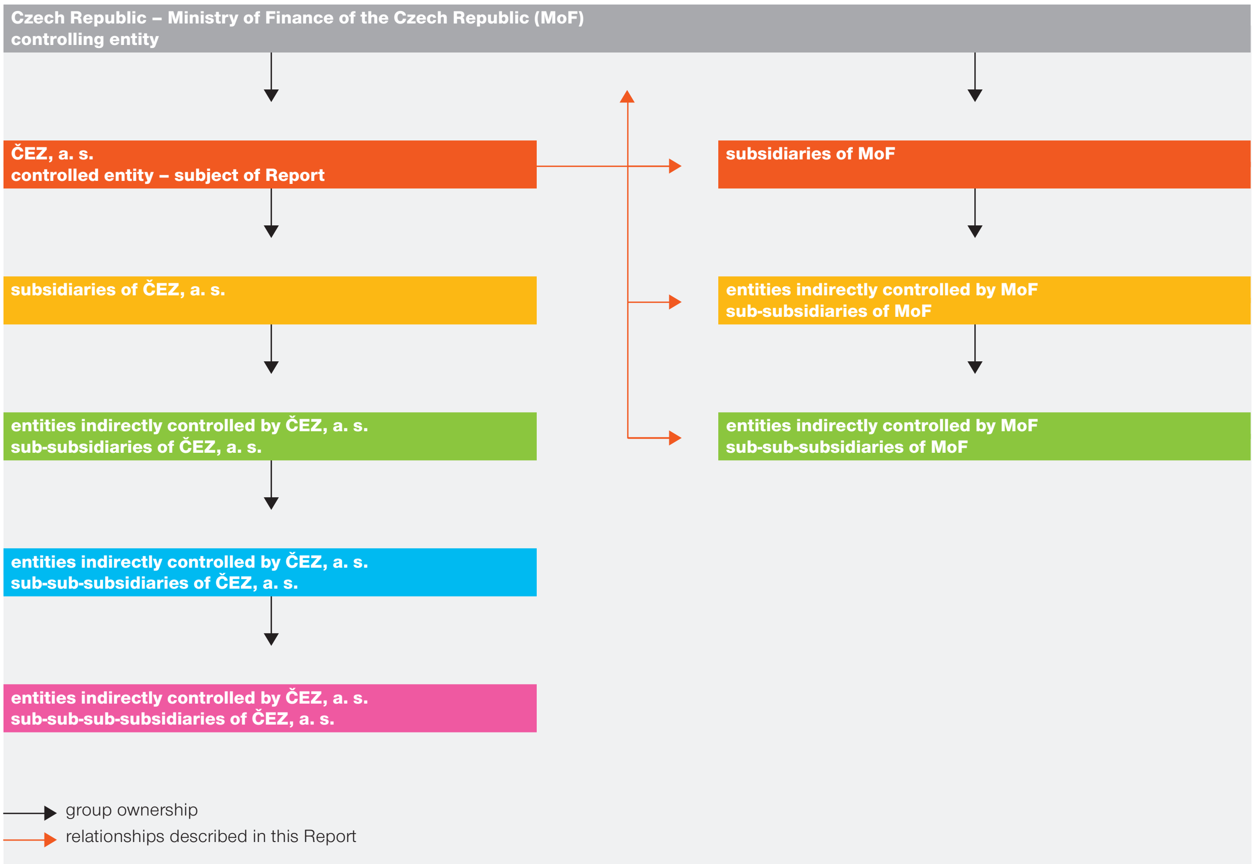
Indicator	Calculation
Current ratio	Current assets / Current liabilities
Dividend per share (gross)	Dividend granted in current year, before tax, on shares outstanding (paid in the year in question, out of previous year's income)
EBIT	Income before income taxes and other expenses/income
EBITDA	Income before income taxes and other expenses/income + Depreciation and amortization
Invested capital	Property, plant and equipment; nuclear fuel; and investments + Non-current intangible assets + Net working capital
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 [1])
Net debt / EBITDA	Net debt / (Income before income taxes and other expenses/income + Depreciation and amortization)
Return on assets (ROA), net	Net income / Average total assets [3]
Return on equity (ROE), net	Net income attributable to equity holders of the parent / Average equity attributable to equity holders of the parent [3]
	[2] Net income / Average equity [3]
Return on invested capital (ROIC)	(EBIT + Creation/release of other provisions) * (1 – Corporate income tax rate) / (Average invested capital) [3]
Total capital	Equity attributable to equity holders of the parent + Total debt
Total debt	Long-term debt, net of current portion + Current portion of long-term debt + Short-term loans

[1] In 2012, the definition of highly liquid financial assets was expanded to include the current portion of debt securities held to maturity. The change was applied to past years as well.
[2] Definition applies to ČEZ, a. s. if value is different from definition for CEZ Group.
[3] 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 2012

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 the Municipal Court in Prague (Part B, insert 1581).

Size of equity interest	At December 31, 2012 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, 2012–December 31, 2012.

4. Alphabetical List of Companies – Group Members

See insert under back cover flap.

5. Contractual Relations

In the period in question, the following agreement remained in effect, and the following purchase orders were 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. 4100011154 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.

České aerolinie a.s.
Purchase order no. 4100531846 for organization of a seminar on the topic "Communication standards in the aeronautics industry" on May 10, 2012 for selected employees of ČEZ, a. s.

Letiště Praha, a. s.
Purchase order no.: 4100032408 for VIP check-in services at Ruzyně Airport.

The above agreement and purchase orders 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 2012

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 2012 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
BOHEMIA CRYSTALEX TRADING a.s. (bankruptcy proceedings initiated)
Ormilk, a.s. in liquidation

8. Conclusion

The compilation of the Related Parties Report for the Year 2012 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 majority shareholder.
The auditor's statement is included in the 2012 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, 2013

Daniel Beneš	Martin Novák
Chairman of the Board of Directors	Vice Chairman of the Board of Directors

Supplementary Information on CEZ Group Members

Individual Results of Fully Consolidated Companies

No.	Fully consolidated company	Operating revenues		Operating expenses		EBITDA	
		2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)
	Czech Republic						
1	ČEZ, a. s.	108,147	95	(72,894)	95	48,514	98
2	Centrum výzkumu Řež s.r.o.	215	110	(217)	115	18	64
3	ČEZ Bohunice a.s.	–	–	(3)	7	(3)	169
4	ČEZ Distribuce, a. s.	52,349	103	(46,050)	107	12,607	91
5	ČEZ Distribuční služby, s.r.o.	4,395	97	(3,855)	98	1,292	95
6	ČEZ Energetické produkty, s.r.o.	1,214	100	(1,171)	100	47	86
7	ČEZ Energetické služby, s.r.o.	544	94	(514)	97	62	73
8	ČEZ Energo, s.r.o.	391	–	(341)	165	77	119
9	ČEZ ENERGOSERVIS spol. s r.o.	678	109	(623)	104	58	204
10	ČEZ ICT Services, a. s.	4,476	98	(3,700)	102	2,284	97
11	ČEZ Logistika, s.r.o.	4,491	109	(3,964)	108	531	110
12	ČEZ Měření, s.r.o.	1,920	100	(1,654)	99	310	113
13	ČEZ Obnovitelné zdroje, s.r.o.	910	112	(895)	153	23	5
14	ČEZ OZ uzavřený investiční fond a.s.	1,918	–	(1,236)	> 500	1,420	–
15	ČEZ Prodej, s.r.o.	76,508	99	(72,292)	96	4,595	185
16	ČEZ Správa majetku, s.r.o.	2,214	100	(1,609)	94	861	110
17	ČEZ Teplárenská, a.s.	3,143	159	(3,035)	164	402	113
18	ČEZ Zákaznické služby, s.r.o.	1,199	98	(1,083)	100	116	82
19	Elektrárna Dětmarovice, a.s.	–	–	(1)	–	(1)	–
20	Elektrárna Chvaletice a.s.	4,870	112	(3,268)	119	2,098	106
21	Elektrárna Mělník III, a. s.	–	–	(1)	–	(1)	–
22	Elektrárna Počerady, a.s.	2,223	–	(868)	–	1,496	–
23	Elektrárna Tisová, a.s.	–	–	(1)	–	(1)	–
24	Energetické centrum s.r.o.	172	100	(132)	104	67	93
25	Energotrans, a.s.	3,859	–	(2,379)	–	1,772	–
26	MARTIA a.s.	322	110	(314)	109	12	128
27	PPC Úžín, a.s.	–	31	(46)	> 500	(46)	> 500
28	PRODECO, a.s.	903	29	(895)	29	17	74
29	SD - 1.strojírenská, a.s.	1,387	137	(1,319)	135	85	152
30	SD - Autodoprava, a.s.	644	101	(597)	98	171	104
31	SD - Kolejová doprava, a.s.	903	122	(643)	148	314	88
32	SD - KOMES, a.s.	1,058	123	(1,053)	109	7	–
33	SD - Rekultivace, a.s.	1,652	129	(1,456)	122	207	224
34	Severočeské doly a.s.	10,537	97	(8,308)	104	4,391	92
35	STE - obchodní služby spol. s r.o. in liquidation	–	–	–	4	–	122
36	ŠKODA PRAHA a.s.	95	70	(86)	70	8	73
37	ŠKODA PRAHA Invest s.r.o.	17,464	115	(16,935)	112	535	> 500
38	Tepelné hospodářství města Ústí nad Labem s.r.o.	532	104	(510)	104	36	102
39	Teplárna Trmice, a.s.	1,051	88	(917)	75	408	154
40	ÚJV Řež, a. s.	1,482	89	(1,332)	87	248	113

	Depreciation and amortization		Net income		Total assets		Equity		Work force head count at December 31	
	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (persons)	Index 2012/2011 (%)
	(13,261)	103	35,336	95	538,873	107	210,911	110	5,722	96
	(20)	95	(3)	–	923	144	246	99	188	109
	–	–	(5)	–	3,209	100	3,209	100	–	–
	(6,308)	103	4,759	79	131,322	101	88,546	100	1,191	98
	(752)	100	437	89	7,269	96	5,910	99	1,878	97
	(3)	64	35	89	446	107	133	123	31	111
	(31)	88	23	64	549	98	457	105	262	97
	(26)	151	44	136	889	123	584	108	58	121
	(4)	102	44	216	221	80	82	69	386	102
	(1,507)	106	632	84	5,518	79	4,165	78	512	102
	(5)	99	425	110	1,034	114	645	107	163	96
	(45)	208	218	107	863	94	455	103	1,022	100
	(7)	3	13	16	388	9	262	11	104	92
	(739)	–	(4)	328	13,301	> 500	3,627	> 500	2	–
	(379)	100	3,383	190	27,357	109	9,050	123	228	105
	(257)	93	483	117	4,821	103	4,475	105	242	100
	(293)	129	95	89	4,464	124	3,549	121	253	119
	–	102	90	79	383	84	112	83	865	102
	–	–	(1)	–	1	–	1	–	–	–
	(497)	124	1,105	110	7,219	101	5,593	105	225	99
	–	–	(1)	–	19	–	19	–	–	–
	(141)	–	980	–	10,308	–	7,251	–	269	–
	–	–	(1)	–	19	–	19	–	–	–
	(26)	101	28	90	322	89	85	89	50	102
	(292)	–	2,067	–	7,066	–	6,352	–	192	–
	(4)	97	5	290	141	86	51	108	141	125
	–	–	(46)	> 500	108	70	107	70	3	–
	(8)	90	7	73	1,799	178	155	98	95	138
	(17)	109	55	171	644	104	193	113	618	103
	(123)	92	38	162	655	103	554	103	443	102
	(54)	110	211	85	884	108	698	110	538	131
	(2)	43	1	–	388	112	195	101	15	60
	(11)	101	160	238	647	62	243	161	58	98
	(2,162)	114	2,584	103	31,967	106	20,259	107	3,432	99
	–	–	–	122	2	83	1	82	–	–
	–	–	2	13	497	81	223	69	21	124
	(6)	77	396	> 500	7,226	64	601	294	497	96
	(14)	98	18	105	313	109	196	105	89	98
	(274)	98	77	–	4,197	91	3,343	90	288	83
	(98)	114	108	91	2,485	108	1,373	109	763	92

No.	Fully consolidated company	Operating revenues		Operating expenses		EBITDA	
		2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)
	Republic of Poland						
41	A.E. Wind sp. z o.o.	–	–	(1)	194	(1)	194
42	Baltic Green I sp. z o.o.	–	–	0	–	–	–
43	Baltic Green II sp. z o.o.	–	–	0	–	–	–
44	Baltic Green III sp. z o.o.	–	–	0	–	–	–
45	CEZ Nowa Skawina S.A.	1	25	(4)	63	(3)	145
46	CEZ Polska sp. z o.o.	170	101	(160)	98	21	123
47	CEZ Produkty Energetyczne Polska sp. z o.o.	62	107	(57)	106	5	133
48	CEZ Towarowy Dom Maklerski sp. z o.o.	–	–	(2)	228	(2)	226
49	CEZ Trade Polska sp. z o.o.	359	178	(350)	165	9	–
50	Eco-Wind Construction S.A.	2	–	(34)	183	(29)	182
51	Elektrociepłownia Chorzów ELCHO sp. z o.o.	2,279	117	(1,001)	117	1,496	117
52	Elektrownia Skawina S.A.	1,700	96	(1,272)	92	721	101
53	Elektrownie Wiatrowe Lubiechowo sp. z o.o.	–	–	–	192	0	> 500
54	F.W. Tolkowiec sp. z o.o.	–	–	–	86	0	86
55	Farma Wiatrowa Leśce sp. z o.o.	–	–	–	112	0	156
56	Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.	–	–	–	111	0	173
57	Mega Energy sp. z o.o.	–	–	–	86	0	86
	Republic of Bulgaria						
58	CEZ Bulgaria EAD	1,564	110	(1,521)	108	96	146
59	CEZ Bulgarian Investments B.V.	–	–	(47)	106	(47)	127
60	CEZ Elektro Bulgaria AD	17,278	111	(17,285)	111	(7)	–
61	CEZ Razpredelenie Bulgaria AD	8,275	146	(7,606)	139	1,445	154
62	CEZ Trade Bulgaria EAD	1,527	130	(1,552)	140	(25)	–
63	ECO Etropol AD	–	–	0	–	–	–
64	Free Energy Project Oreshets EAD	34	–	(15)	380	28	–
65	TEC Varna EAD	2,169	57	(2,320)	80	141	12
	Romania						
66	CEZ Distributie S.A.	4,989	101	(3,968)	99	1,824	105
67	CEZ Romania S.A.	758	93	(724)	94	45	83
68	CEZ Trade Romania S.R.L.	596	104	(595)	104	1	57
69	CEZ Vanzare S.A.	9,160	113	(8,458)	103	703	–
70	M.W. Team Invest S.R.L.	597	191	(173)	119	550	196
71	Ovidiu Development S.R.L.	225	> 500	(12)	90	320	–
72	TMK Hydroenergy Power S.R.L.	24	–	(30)	63	2	73
73	Tomis Team S.R.L.	1,068	140	240	–	1,752	194
	Republic of Albania						
74	CEZ Albania Sh.A.	232	112	(459)	229	(224)	–
75	CEZ Trade Albania Sh.P.K.	100	31	(218)	68	(117)	–
76	CEZ Shpërndarje Sh.A.	6,553	80	(12,959)	161	(5,790)	–
	Federal Republic of Germany						
77	CEZ Deutschland GmbH	–	–	(1)	51	(1)	52
	Kingdom of the Netherlands						
78	CEZ Chorzow B.V.	–	–	(3)	57	(3)	57
79	CEZ International Finance B.V.	–	–	(5)	44	(5)	44
80	CEZ MH B.V.	–	–	(3)	63	(3)	63
81	CEZ Poland Distribution B.V.	24	–	(94)	196	(70)	146
82	CEZ Silesia B.V.	–	–	(3)	87	(3)	87
	Ireland						
83	CEZ Finance Ireland Ltd.	–	–	(2)	39	(2)	39
84	CEZ International Finance Ireland Ltd.	–	–	(3)	313	(3)	313
	Slovak Republic						
85	CEZ Slovensko, s.r.o.	6,972	121	(6,585)	109	387	–
	Hungary						
86	CEZ Magyarország Kft.	1,919	97	(1,944)	93	(25)	23
	Russian Federation						
87	CEZ RUS OOO	–	–	(3)	252	(3)	254
	Serbia						
88	CEZ Srbija d.o.o.	246	26	(240)	26	6	> 500
	Bosnia and Herzegovina						
89	CEZ Bosna i Hercegovina d.o.o.	11	> 500	(12)	> 500	(1)	165
90	NERS d.o.o.	0	–	(1)	126	(1)	143
	Ukraine						
91	CEZ Ukraine LLC	–	–	–	18	–	19
	Cyprus						
92	Taidana Limited	–	–	(1)	> 500	(1)	> 500

Depreciation and amortization		Net income		Total assets		Equity		Work force head count at December 31	
2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (persons)	Index 2012/2011 (%)
–	–	(1)	329	8	338	(1)	> 500	–	–
–	–	–	–	3	–	3	–	–	–
–	–	–	–	3	–	3	–	–	–
–	–	–	–	3	–	3	–	–	–
–	225	(3)	50	147	99	(11)	144	–	–
(11)	90	8	230	829	97	48	130	65	103
–	–	5	129	26	135	16	150	24	96
–	–	–	73	36	105	36	105	–	–
–	133	(12)	138	196	318	18	107	8	89
(2)	> 500	(37)	–	606	145	393	97	16	–
(218)	112	1,020	125	7,979	110	5,748	109	121	98
(293)	90	347	156	5,448	113	3,727	112	193	96
–	–	(1)	> 500	13	133	(1)	289	–	–
–	–	–	92	–	164	–	251	–	–
–	–	–	304	9	133	–	410	–	–
–	–	–	337	10	130	–	440	–	–
–	–	–	92	–	164	–	251	–	–
(53)	101	34	456	719	85	56	249	679	98
–	–	(40)	138	1,032	100	938	93	–	–
–	90	8	25	3,433	119	919	98	68	100
(777)	102	607	348	10,772	113	7,698	106	2,603	98
–	111	(24)	–	204	113	62	70	5	100
–	–	–	–	4	–	–	–	–	–
(9)	–	14	–	218	418	12	–	–	–
(291)	98	(133)	–	3,570	80	3,002	84	441	92
(803)	102	991	115	14,601	96	12,048	97	1,251	94
(11)	134	18	65	2,658	106	154	133	509	98
–	–	–	99	120	143	11	97	5	125
–	–	818	–	2,829	158	547	–	45	102
(126)	111	200	> 500	3,581	102	601	142	0	–
(107)	–	60	–	11,439	225	3	–	0	–
(9)	76	(5)	39	780	172	184	92	25	34
(444)	102	616	–	15,094	85	2,550	139	14	156
(3)	114	(268)	–	127	50	(254)	–	233	95
–	112	(120)	> 500	58	27	(114)	–	2	100
(616)	102	(6,420)	> 500	8,205	94	(6,175)	–	4,123	96
–	–	(1)	51	34	96	34	96	–	–
–	–	913	436	2,204	173	1,368	311	–	–
–	–	368	88	9,198	93	779	65	–	–
–	–	1,015	61	14,892	91	175	–	–	–
–	–	(107)	231	3,007	103	2,100	96	–	–
–	–	13	25	1,006	100	992	100	–	–
–	–	(2)	41	8,289	100	8,288	100	–	–
–	–	(3)	316	8,418	97	8,415	97	–	–
–	42	294	–	2,064	113	548	> 500	24	126
–	111	(26)	22	356	96	39	–	8	100
–	65	(3)	252	31	92	31	91	–	–
–	86	3	–	75	34	9	138	2	100
–	–	(1)	227	19	100	18	98	–	–
–	–	(1)	68	13	109	13	108	–	–
–	–	–	–	–	–	–	–	–	–
–	–	(1)	> 500	2	–	1	–	–	–

Individual Results of Associates and Joint-Ventures

No.	Associates and joint-ventures	Operating revenues		Operating expenses	
		2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)
	Czech Republic				
1	LOMY MOŘINA spol. s r.o.	223	97	(220)	99
	Hungary				
2	MOL - CEZ European Power Hungary Kft.	21	178	(12)	> 500
	Kingdom of the Netherlands				
3	CM European Power International B.V.	0	–	(4)	104
	Slovak Republic				
4	CM European Power International s. r. o.	0	0	(208)	> 500
5	CM European Power Slovakia, s. r. o.	3,728	107	(3,532)	109
6	Jadrová energetická spoločnosť Slovenska, a. s.	30	83	(141)	90
7	JESS Invest, s.r.o.	0	–	(6)	326
	Republic of Turkey				
8	Akcez Enerji A.S.	0	–	(7)	49
9	Aken B.V.	0	–	0	81
10	Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	0	–	(1)	33
11	Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	6,271	159	(6,148)	155
12	Akenerji Elektrik Üretim A.S.	4,331	101	(3,939)	111
13	Akka Elektrik Üretim A.S.	3	> 500	132	–
14	Akkur Enerji Üretim Ticaret ve Sanayi A.S.	583	152	(339)	133
15	AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	0	–	(2)	216
16	AK-EL Yalova Elektrik Üretim A.S.	0	–	(2)	88
17	Egemer Elektrik Üretim A.S.	0	–	(9)	92
18	Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	188	363	(147)	273
19	Sakarya Elektrik Dagitim A.S.	18,937	138	(17,814)	144
20	Sakarya Elektrik Perakende Satis A.S.	–	–	(2)	–

	EBITDA		Depreciation and amortization		Net income		Total assets		Equity	
	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)	2012 (CZK millions)	Index 2012/2011 (%)
	2	30	0	–	2	29	415	95	363	98
	9	85	0	–	12	34	756	95	309	109
	(4)	104	0	–	(257)	–	2,638	106	1,596	84
	(208)	> 500	0	102	(210)	> 500	5	3	3	2
	193	77	2	–	223	86	5,336	116	1,739	100
	(86)	91	(25)	94	(66)	94	5,753	96	5,746	96
	(6)	326	0	–	(5)	> 500	93	91	93	93
	(7)	47	0	–	1,088	–	10,831	103	4,786	130
	0	81	0	–	0	> 500	28	99	28	98
	(1)	32	0	102	0	2	31	101	31	101
	121	–	2	–	77	–	624	85	187	170
	820	74	(428)	115	511	–	22,534	113	8,124	105
	136	–	(1)	> 500	139	–	1	8	1	–
	401	169	(156)	144	216	–	5,893	104	2,216	278
	(2)	251	0	103	23	41	830	136	827	137
	(2)	88	0	73	(1)	–	156	101	155	101
	(9)	91	0	337	(305)	> 500	8,463	186	682	60
	131	> 500	(90)	> 500	(27)	15	3,631	122	467	171
	1,122	87	0	–	960	90	7,329	109	2,187	102
	(2)	–	0	–	(2)	–	5	–	1	–

Fees Charged by External Auditors to Companies of the CEZ Consolidated Group in 2012 (CZK millions)

	Audit services	Tax consulting	Economic and organizational consulting	Other	Total
ČEZ, a. s.	22.0	2.6	22.3	–	46.9
Fully consolidated CEZ Group companies	56.7	1.8	13.3	18.4	90.2
CEZ Group, total	78.7	4.4	35.6	18.4	137.1

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, 2012, 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 information. 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, 2012, 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 25, 2013
Prague, Czech Republic

CEZ Group Consolidated Balance Sheet in Accordance with IFRS as of December 31, 2012

(in CZK millions)

ASSETS	2012	2011 (restated *)
Property, plant and equipment		
Plant in service	656,757	605,063
Less accumulated provision for depreciation	(320,574)	(305,813)
Net plant in service (Note 3)	336,183	299,250
Nuclear fuel, at amortized cost	9,702	8,844
Construction work in progress (Note 3)	73,869	78,743
Total property, plant and equipment	419,754	386,837
Other non-current assets		
Investment in associates and joint-ventures	14,383	11,292
Investments and other financial assets, net (Note 4)	38,406	51,810
Intangible assets, net (Note 5)	21,604	16,553
Deferred tax assets (Note 28)	750	809
Total other non-current assets	75,143	80,464
Total non-current assets	494,897	467,301
Current assets		
Cash and cash equivalents (Note 8)	17,957	22,062
Receivables, net (Note 9)	54,763	54,732
Income tax receivable	1,798	678
Materials and supplies, net	7,671	6,687
Fossil fuel stocks	4,032	2,657
Emission rights (Note 10)	12,153	6,013
Other financial assets, net (Note 11)	39,476	29,569
Other current assets (Note 12)	3,323	4,779
Assets classified as held for sale (Note 13)	–	3,823
Total current assets	141,173	131,000
TOTAL ASSETS	636,070	598,301

EQUITY AND LIABILITIES	2012	2011 (restated *)
Equity		
Equity attributable to equity holders of the parent		
Stated capital	53,799	53,799
Treasury shares	(4,382)	(4,382)
Retained earnings and other reserves	200,818	177,408
Total equity attributable to equity holders of the parent (Note 14)	250,235	226,825
Non-controlling interests	3,984	5,365
Total equity	254,219	232,190
Long-term liabilities		
Long-term debt, net of current portion (Note 15)	176,106	164,685
Accumulated provision for nuclear decommissioning and fuel storage (Note 18)	42,415	37,285
Other long-term liabilities (Note 19)	22,559	21,721
Total long-term liabilities	241,080	223,691
Deferred tax liability (Note 28)	21,828	17,009
Current liabilities		
Short-term loans (Note 20)	4,784	5,500
Current portion of long-term debt (Note 15)	12,005	19,264
Trade and other payables (Note 21)	73,267	78,186
Income tax payable	1,615	1,701
Accrued liabilities (Note 22)	27,272	20,760
Total current liabilities	118,943	125,411
TOTAL EQUITY AND LIABILITIES	636,070	598,301

* Certain numbers shown were restated due to the final purchase price allocation of Eco-Wind Construction S.A. as of the acquisition date and do not correspond to the 2011 consolidated financial statements (see Note 6).

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, 2012

(in CZK millions)

	2012	2011
Revenues		
Sales of electricity and related services	186,797	181,793
Gains and losses from electricity, coal and gas derivative trading, net	4,588	5,843
Sales of gas, coal, heat and other revenues	23,710	22,125
Total revenues (Note 23)	215,095	209,761
Operating expenses		
Fuel	(15,841)	(17,145)
Purchased power and related services	(71,656)	(65,865)
Repairs and maintenance	(5,511)	(5,014)
Depreciation and amortization	(27,578)	(25,770)
Salaries and wages (Note 24)	(18,707)	(18,105)
Materials and supplies	(5,098)	(5,478)
Emission rights, net (Note 10)	476	2,895
Other operating expenses (Note 25)	(13,249)	(13,737)
Total expenses	(157,164)	(148,219)
Income before other income (expenses) and income taxes	57,931	61,542
Other income (expenses)		
Interest on debt, net of capitalized interest (Note 2.8)	(4,318)	(4,954)
Interest on nuclear and other provisions (Note 2.24, 18 and 19)	(2,051)	(2,002)
Interest income (Note 26)	1,745	1,835
Foreign exchange rate gains (losses), net	763	(566)
Goodwill impairment (Note 5)	(848)	(292)
Other income (expenses), net (Note 27)	(2,716)	69
Share of profit (loss) from associates and joint-ventures (Note 2.2)	451	(3,680)
Total other income (expenses)	(6,974)	(9,590)
Income before income taxes	50,957	51,952
Income taxes (Note 28)	(10,804)	(11,199)
Net income	40,153	40,753
Net income attributable to		
Equity holders of the parent	41,429	40,756
Non-controlling interests	(1,276)	(3)
Net income per share attributable to equity holders of the parent (CZK per share) (Note 31)		
Basic	77.6	76.3
Diluted	77.6	76.3
Average number of shares outstanding (000s) (Notes 14 and 31)		
Basic	534,115	534,041
Diluted	534,126	534,054

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, 2012

(in CZK millions)

	2012	2011
Net income	40,153	40,753
Other comprehensive income		
Change in fair value of cash flow hedges recognized in equity	7,935	(7,330)
Cash flow hedges removed from equity	(127)	(2,343)
Change in fair value of available-for-sale financial assets recognized in equity	1,302	54
Available-for-sale financial assets removed from equity	(76)	(33)
Translation differences	(1,436)	(330)
Share on equity movements of associates and joint-ventures	(82)	1
Deferred tax related to other comprehensive income (Note 28)	(1,706)	1,828
Other comprehensive income, net of tax	5,810	(8,153)
Total comprehensive income, net of tax	45,963	32,600
Total comprehensive income attributable to		
Equity holders of the parent	47,339	32,487
Non-controlling interests	(1,376)	113

CEZ Group Consolidated Statement of Changes in Equity in Accordance with IFRS for the Year Ended December 31, 2012

(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, 2010	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)	–	–	–	–	–	–	–	542	542
Acquisition of non-controlling interests (Note 6)	–	–	–	–	–	(143)	(143)	(712)	(855)
Put options held by non-controlling interest	–	–	–	–	–	(518)	(518)	(238)	(756)
December 31, 2011 (restated *)	53,799	(4,382)	(10,647)	(4,826)	950	191,931	226,825	5,365	232,190
Net income	–	–	–	–	–	41,429	41,429	(1,276)	40,153
Other comprehensive income	–	–	(1,333)	6,332	993	(82)	5,910	(100)	5,810
Total comprehensive income	–	–	(1,333)	6,332	993	41,347	47,339	(1,376)	45,963
Dividends	–	–	–	–	–	(23,982)	(23,982)	(4)	(23,986)
Share options	–	–	–	–	75	–	75	–	75
Transfer of exercised and forfeited share options within equity	–	–	–	–	(216)	216	–	–	–
Capital contributions by non-controlling interests	–	–	–	–	–	–	–	1	1
Acquisition of non-controlling interests (Note 6)	–	–	3	–	–	(306)	(303)	(58)	(361)
Put options held by non-controlling interest	–	–	–	–	–	281	281	56	337
December 31, 2012	53,799	(4,382)	(11,977)	1,506	1,802	209,487	250,235	3,984	254,219

* Certain numbers shown were restated due to the final purchase price allocation of Eco-Wind Construction S.A. as of the acquisition date and do not correspond to the 2011 consolidated financial statements (see Note 6).

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, 2012

(in CZK millions)

	2012	2011
OPERATING ACTIVITIES		
Income before income taxes	50,957	51,952
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation, amortization and asset write-offs	28,571	26,098
Amortization of nuclear fuel	2,787	3,225
Gain on fixed asset retirements, net	(98)	(198)
Foreign exchange rate losses (gains), net	(763)	566
Interest expense, interest income and dividend income, net	2,267	2,335
Provision for nuclear decommissioning and fuel storage	5	(63)
Valuation allowances, other provisions and other adjustments	943	1,005
Share of (profit) loss from associates and joint-ventures	(451)	3,680
Changes in assets and liabilities		
Receivables	793	(15,999)
Materials and supplies	(845)	(423)
Fossil fuel stocks	(1,283)	(846)
Other current assets	(13,261)	(17,480)
Trade and other payables	2,838	18,369
Accrued liabilities	5,479	1,164
Cash generated from operations	77,939	73,385
Income taxes paid	(11,548)	(8,916)
Interest paid, net of capitalized interest	(4,069)	(4,357)
Interest received	1,978	876
Dividends received	312	785
Net cash provided by operating activities	64,612	61,773
INVESTING ACTIVITIES		
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired (Note 6)	(5,323)	(927)
Proceeds from disposal of subsidiaries and associates, net of cash disposed of	686	–
Additions to property, plant and equipment and other non-current assets, including capitalized interest	(53,518)	(53,241)
Proceeds from sale of fixed assets	3,433	1,752
Loans made	(543)	(778)
Repayment of loans	2,727	1,609
Change in restricted financial assets	(597)	(1,291)
Total cash used in investing activities	(53,135)	(52,876)
FINANCING ACTIVITIES		
Proceeds from borrowings	125,247	101,624
Payments of borrowings	(117,067)	(83,530)
Proceeds from other long-term liabilities	330	116
Payments of other long-term liabilities	(306)	(181)
Dividends paid to Company's shareholders	(23,995)	(26,655)
(Dividends paid to) contributions received from non-controlling interests, net	(4)	38
Sale of treasury shares	–	169
Total cash used in financing activities	(15,795)	(8,419)
Net effect of currency translation in cash	213	(602)
Net decrease in cash and cash equivalents	(4,105)	(124)
Cash and cash equivalents at beginning of period	22,062	22,186
Cash and cash equivalents at end of period	17,957	22,062
Supplementary cash flow information		
Total cash paid for interest	7,637	7,111

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

CEZ Group Notes to the Consolidated Financial Statements as of December 31, 2012

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, 2012 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 2012 produced approximately 66% of the electricity and a portion of the district heating in the Czech Republic. In the Czech Republic the Company operates fourteen 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, biogas, black oil, gas) in the Czech Republic, two fossil fuel plants and one hydroelectric plant in Poland, one fossil fuel plant and one solar plant in Bulgaria and a wind farm and a complex of hydroelectric plants in Romania. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria, Romania and Albania (see also Note 33). The average number of employees of the Company and its consolidated subsidiaries was 31,272 and 31,805 in 2012 and 2011, 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 Eco-Wind Construction S.A. as of the acquisition date and do not correspond to the 2011 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 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 are attributed to the non-controlling interest even if that results in a deficit balance.

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 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. Changes in Accounting Policies

a. Adoption of New IFRS Standards in 2012
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, 2012:
- IAS 12 Income Taxes – Deferred Taxes (Amendment) effective January 1, 2012
- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment) effective July 1, 2011
- IFRS 7 Financial Instruments: Disclosures (Amendment) effective July 1, 2011

The impact of the adoption of standards or interpretations on the financial statements or performance of the Group is described below:

IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets (Amendment)
The amendment becomes effective for annual periods beginning on or after January 1, 2012. 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 assets. The Group does not currently have any investment property as well as is not using revaluation model therefore this does not affect its financial position or performance.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)
The amendment is effective for annual periods beginning on or after July 1, 2011 with early adoption permitted. When an entity's date of transition to IFRS is on or after the functional currency normalization date, the entity may elect to measure all assets and liabilities held before the functional currency normalization date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The amendment does not have an impact on the Group's financial position, performance or its disclosures.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (Amendment)
The amendment requires additional disclosures about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after July 1, 2011. The amendment does not currently have an impact on the Group's financial position, performance or its disclosures.

All other standards and interpretations whose application was mandatory for the period beginning on or after January 1, 2012 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, 2013 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 amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendment to IAS 1 changes 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 does not change the nature of the items that are currently recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods. The amendment affects presentation only and there is no impact on the Group's financial position or performance.

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 recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized 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. Revised standard has no impact on the Group.

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. The Group has already been applying the equity method for investments in joint ventures prior to the issue of this revised standard.

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 practice. The amendment is effective for financial statements beginning on or after January 1, 2014. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. The Group does not expect the amendment will have an impact on the Group's financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans (Amendments)
These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after January 1, 2013. The amendment has no impact on the Group.

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)
The amendment is effective for annual periods beginning on or after January 1, 2013. This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with IAS 32. The Group is currently assessing the impact of this amended IFRS, but does not expect significant impact on its financial statements and disclosures.

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. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Financial assets
Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if:
- The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

Financial liabilities

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

The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. The standard has not yet been endorsed by EU.

In subsequent phases, the IASB will address general hedge accounting and the impairment of financial assets.

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 judgment 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. Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee and
- The ability to use its power over the investee to affect the amount of the investor's returns.

This standard becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. 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.

Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

- Joint operation – An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognize all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.
- Joint venture – An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed.

Under these new categories, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. 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 summarized financial information for each subsidiary with a material non-controlling interest; description of significant judgments 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 summarized 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. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)
In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after January 1, 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The Group is currently assessing the impact that this standard could have on the financial position and performance.

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.

Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e. an 'exit price'). 'Fair value' as used in IFRS 2 Share-based Payments and IAS 17 Leases is excluded from the scope of IFRS 13.

The standard provides clarification on a number of areas, including the following:
- Concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets
- Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements
- A description of how to measure fair value when a market becomes less active

New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

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.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognizes these costs as a non-current asset, only if certain criteria are met. This is referred to as the 'stripping activity asset'. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The interpretation is effective for annual periods beginning on or after January 1, 2013. The new interpretation will not have an impact on the Group.

Improvements to IFRSs
In May 2012, the IASB issued amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments become effective for annual periods on or after January 1, 2013 and will have no impact on the financial position or performance of the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

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 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 2,787 million and CZK 3,225 million for the years ended December 31, 2012 and 2011, 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 241 million and CZK 463 million in 2012 and 2011, 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 3,616 million and CZK 2,893 million and the interest capitalization rate was 4.5% and 4.4% in 2012 and 2011, 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 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	8–25
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 25,955 million and CZK 24,383 million for the years ended December 31, 2012 and 2011, which was equivalent to a composite depreciation rate of 4.1% and 4.2%, 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.

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 25 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 these circumstances 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 2012 and 2011 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 the 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.

The emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. Since 2011 the subject to 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, which are subject to the gift tax, 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, 2012 and 2011 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, 2012 and 2011 the provision for obsolescence amounted to CZK 355 million and CZK 437 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, 2012 and 2011, 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 2013 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 at December 31, 2012 and 2011 using a long-term real rate of interest of 2.0% per annum and 2.5% per annum, respectively, 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, 2012 and 2011 the estimate for the effect of inflation is 1.5% and 2.0%, respectively.

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 at December 31, 2012 and 2011 using a long-term real rate of interest of 2.0% per annum and 2.5% per annum, respectively, 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, 2012 and 2011 the estimate for the effect of inflation is 1.5% and 2.0%, respectively.

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 2012 and 2011 the expense recognized in respect of the share option plan amounted to CZK 75 million and CZK 73 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, 2012 and 2011 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2012	2011
CZK per 1 EUR	25.140	25.800
CZK per 1 USD	19.055	19.940
CZK per 1 PLN	6.172	5.789
CZK per 1 BGN	12.854	13.191
CZK per 1 RON	5.658	5.969
CZK per 100 JPY	22.130	25.754
CZK per 1 TRY	10.670	10.550
CZK per 100 ALL	18.053	18.644

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 classified as held for sale are not depreciated or amortized.

3. Property, Plant and Equipment

Net plant in service at December 31, 2012 and 2011 is as follows (in CZK millions)

	Buildings	Plant and Equipment	Land and Other	Total 2012	Total 2011
Cost at January 1	226,991	371,340	6,732	605,063	559,349
Plant additions	16,672	34,332	695	51,699	37,511
Disposals	(1,261)	(10,988)	(77)	(12,326)	(3,887)
Reclassification from assets classified as held for sale	–	–	–	–	11,054
Acquisition of subsidiaries	5,554	3,153	52	8,759	405
Change in capitalized part of provisions	150	5,156	–	5,306	225
Reclassification and other	481	(479)	(2)	–	(13)
Currency translation differences	(861)	(860)	(23)	(1,744)	419
Cost at December 31	247,726	401,654	7,377	656,757	605,063
Accumulated depreciation and impairment at January 1	(92,900)	(212,087)	(826)	(305,813)	(275,329)
Depreciation	(6,817)	(19,114)	(24)	(25,955)	(24,383)
Net book value of assets disposed	(496)	(616)	(3)	(1,115)	(378)
Disposals	1,262	10,988	15	12,265	3,856
Reclassification from assets classified as held for sale	–	–	–	–	(8,987)
Reclassification and other	(60)	51	1	(8)	(3)
Impairment losses recognized	(82)	(417)	(6)	(505)	(636)
Impairment losses reversed	191	18	8	217	267
Currency translation differences	191	148	1	340	(220)
Accumulated depreciation and impairment at December 31	(98,711)	(221,029)	(834)	(320,574)	(305,813)
Net plant in service at December 31	149,015	180,625	6,543	336,183	299,250

Group's plant in service pledged as security for liabilities at December 31, 2012 and 2011 is CZK 223 million and CZK 289 million, respectively.

Construction work in progress contains mainly refurbishments performed on Ledvice, Prunéřov, Počerady and Temelín power plants and the electricity distribution network of subsidiary ČEZ Distribuce, a. s.

4. Investments and Other Financial Assets, Net

Investments and other financial assets, net at December 31, 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Restricted debt securities available-for-sale	12,577	11,048
Restricted debt securities held to maturity	–	50
Restricted cash	2,504	2,205
Total restricted financial assets	15,081	13,303
Financial assets in progress, net	4	–
Debt securities held-to-maturity	106	107
Debt securities available-for-sale	1,719	2,465
Equity securities available-for-sale	651	353
Investment in Dalkia	3,166	3,166
Investment in Pražská teplárenská	–	11,963
Derivatives	2,769	3,029
Investment in MOL	14,682	16,112
Other long-term receivables, net	228	1,312
Total	38,406	51,810

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). Following the agreement between the parties from 2011, in 2012 CEZ Group acquired 100% stake in Energotrans, a.s. (see Note 6) and the purchase price was partly paid by the offset with the amount of investment in Pražská teplárenská.

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 separate liability from derivatives in Trade and other payables (see Note 21).

Movements in impairment provisions (in CZK millions)

	2012		2011	
	Available-for-sale financial assets	Long-term receivables	Available-for-sale financial assets	Long-term receivables
Opening balance	43	16	43	–
Additions	1	–	–	16
Reversals	–	(16)	–	–
Closing balance	44	–	43	16

Debt instruments at December 31, 2012 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	14,877	–	49	14,926
Due in 2–3 years	3	–	496	499
Due in 3–4 years	2	–	368	370
Due in 4–5 years	6	106	806	918
Due in more than 5 years	22	–	–	22
Total	14,910	106	1,719	16,735

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, 2012 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%	119	–	418	537
From 2.00% to 2.99%	–	–	215	215
From 3.00% to 3.99%	102	–	–	102
From 4.00% to 4.99%	–	106	1,086	1,192
From 5.00% to 5.99%	14,689	–	–	14,689
Total	14,910	106	1,719	16,735

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

The following table analyses the debt instruments at December 31, 2012 by currency (in CZK millions)

	CZK	EUR	USD	BGN	PLN	Total
Long-term receivables	76	14,803	1	23	7	14,910
Debt securities held-to-maturity	106	–	–	–	–	106
Debt securities available-for-sale	1,719	–	–	–	–	1,719
Total	1,901	14,803	1	23	7	16,735

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

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2012 and 2011 are as follows (in CZK millions)

	Software	Rights and Other	Goodwill	Total 2012	Total 2011
Cost at January 1	10,475	5,374	9,819	25,668	23,330
Additions	1,229	94	–	1,323	2,598
Disposals	(755)	(7)	(766)	(1,528)	(235)
Reclassification from assets classified as held for sale	–	–	–	–	14
Acquisition of subsidiaries	2	5,703	1,675	7,380	394
Impairment of goodwill	–	–	(848)	(848)	(292)
Reclassification and other	–	(8)	–	(8)	(16)
Currency translation differences	(4)	117	(141)	(28)	(125)
Cost at December 31	10,947	11,273	9,739	31,959	25,668
Accumulated amortization and impairment at January 1	(7,507)	(2,559)	–	(10,066)	(8,958)
Amortization	(1,207)	(416)	–	(1,623)	(1,387)
Net book value of assets disposed	(1)	–	–	(1)	(15)
Disposals	755	7	–	762	235
Reclassification from assets classified as held for sale	–	–	–	–	(14)
Currency translation differences	1	(51)	–	(50)	73
Accumulated amortization and impairment at December 31	(7,959)	(3,019)	–	(10,978)	(10,066)
Net intangible assets at December 31	2,988	8,254	9,739	20,981	15,602

At December 31, 2012 and 2011, intangible assets presented in the balance sheet include intangible assets in progress in the amount of CZK 623 million and CZK 951 million, respectively.

At December 31, 2012 and 2011 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, 2012 and 2011 goodwill was allocated to the following cash-generating units for the purpose of impairment testing (in CZK millions):

	2012	2011
Romanian distribution and sale	2,398	3,384
Czech distribution and sale	2,210	2,976
Energotrans	1,675	–
Polish power plants (ELCHO, Skawina)	1,211	1,136
ČEZ Teplárenská	727	679
Energetické centrum	507	507
Teplárna Trmice	325	373
TMK Hydroenergy Power	277	292
Eco-Wind Construction	7	7
Other	402	465
Total carrying amount of goodwill	9,739	9,819

In 2012 the Group performed impairment tests of goodwill and as a result of these tests the Group recognized total impairment loss of CZK 848 million out of which CZK 788 million is related to the Romanian distribution and sale cash-generating unit. This impairment of goodwill was mainly a result of the outlook of electricity distribution regulation and current market conditions in Romania.

In 2011 the Group recognized the 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.

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 period until the end of useful life of power plants and discount rate of 7.5%. 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, Energotrans, 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 4.8% for Energotrans, ČEZ Teplárenská, Teplárna Trmice and Energetické centrum and 4.7% for Czech distribution and sale. Cash flows beyond the five-year period are extrapolated using 2.0% growth rate for Energetické centrum. 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. There is no growth rate considered for cash flows beyond five-year period for Teplárna Trmice, ČEZ Teplárenská and Energotrans. 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 9.3%. Cash flows beyond the five-year period are based on the terminal value of regulatory asset base. As a result of the impairment test, an impairment loss of CZK 788 million was recognized in 2012 for this cash generating unit.

The recoverable amount of TMK Hydroenergy Power 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%. There is no growth rate considered for cash flows beyond five-year period. 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 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 2012

In June 2012, the Group acquired a 100% interest in Energotrans, a.s., which deals with the production and sale of electricity and supplies heat from Mělník to Prague.

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

	Energotrans
Share acquired in 2012	100%
Property, plant and equipment	8,768
Investments and other financial assets	297
Intangible assets	5,706
Cash and cash equivalents	2,134
Receivables, net	1,869
Materials and supplies, net	12
Fossil fuel stocks	91
Emission rights	510
Other current assets	45
Other long-term liabilities	(6)
Deferred tax liability	(2,630)
Trade and other payables	(172)
Income tax payable	(15)
Accrued liabilities	(298)
Total net assets	16,311
Share of net assets acquired	16,311
Goodwill	1,675
Total purchase consideration	17,986
Less	
Cash and cash equivalents in the subsidiary acquired	(2,134)
Receivables from acquisition	243
Consideration paid in previous periods	(11,963)
Cash outflow on acquisition of the subsidiary	4,132

Acquisition-related costs of CZK 97 million have been recognized in the statement of income in line item Other operating expenses.

Total purchase consideration includes contingent arrangements in total amount of CZK 1,452 million related to future agreed swap of assets between the previous owner of Energotrans and the Group. The Group is obliged to pay all proceeds from the sale of 100% share in Energotrans SERVIS, a.s. to the seller of Energotrans and on the other hand, the Group is to receive proceeds from purchase of 100% share in Areál Třeboradice, a.s. The contingent arrangements have been recorded at estimated fair values of amounts to be paid or received.

From the date of acquisition, the newly acquired subsidiary has contributed the following balances to the Group's income statement for the year ended December 31, 2012 (in CZK millions):

	Energotrans
Revenues	618
Income before other income (expense) and income taxes	45
Net income	33

If the combination had taken place at the beginning of the year 2012, the profit for CEZ Group as of December 31, 2012 would have been CZK 40,598 million and revenues from continuing operations would have been CZK 216,230 million. The amount of goodwill recognized as a result of the business combination comprises the value of expected synergies arising from the acquisition.

Acquisitions of non-controlling interests from third parties in 2012

In May 2012 the Group increased its capital share in Eco-Wind Construction S.A. ("EWC") from 67% to 69.03%. In December 2012 the Group further increased its capital share in Eco-Wind Construction S.A. to 75%.

The following table summarizes the critical terms of these transactions (in CZK millions):

	EWC
Share of net assets acquired	58
Amount directly recognized in equity	303
Total purchase consideration	361

The following table summarizes the cash flows related to acquisitions during 2012 (in CZK millions):

Investment in subsidiary	6,023
Acquisitions of non-controlling interests	361
Cash outflows related to joint-ventures	809
Cash outflows on acquisitions in progress	4
Change in payables / receivables from acquisitions	260
Less cash acquired	(2,134)
Total cash outflows on acquisitions	5,323

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 as of the acquisition date operated approximately 45 cogeneration units at total installed capacity 12 MW_e and will build other projects of combined generation of electricity and heat with unit power up to 5 MW_e. 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 MW_e.

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.

Previously presented provisional accounting for the acquisition of Eco-Wind Construction S.A. based on provisional 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 2011	67%	67%
Property, plant and equipment	27	–
Intangible assets, net	6	1
Deferred tax assets	18	–
Cash and cash equivalents	3	3
Receivables, net	12	12
Inventories, net	341	813
Deferred tax liability	–	(63)
Trade and other payables	(25)	(25)
Accrued liabilities	–	(17)
Total net assets	382	724
Share of net assets acquired	256	485
Goodwill	236	7
Total purchase consideration	492	492
Less		
Cash and cash equivalents in the subsidiary acquired	(3)	(3)
Payables from acquisition	(10)	(10)
Cash outflow on acquisition of the subsidiary	479	479

Final purchase price allocation compared with provisional accounting resulted in no changes in consolidated net income.

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

	ČEZ Energo	TMK
Share acquired in 2011	50.11%	100%
Property, plant and equipment	206	208
Investments and other financial assets, net	42	–
Cash and cash equivalents	401	3
Receivables, net	311	9
Inventories, net	1	1
Other current assets	2	–
Other long-term liabilities	(48)	–
Deferred tax liability	(8)	(5)
Trade and other payables	(292)	(1)
Accrued liabilities	(5)	(1)
Total net assets	610	214
Share of net assets acquired	306	214
Goodwill	95	291
Total purchase consideration	401	505
Less		
Cash and cash equivalents in the subsidiary acquired	(401)	(3)
Consideration paid in previous periods	(401)	(508)
Cash inflow on acquisition of the subsidiaries	(401)	(6)

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

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	
		2012	2011	2012	2011
3 L invest a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
A.E. Wind sp. z o.o.	Poland	75.00%	67.00%	100.00%	100.00%
AREA-GROUP CL a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
Baltic Green I sp. z o.o.	Poland	100.00%	–	100.00%	–
Baltic Green II sp. z o.o.	Poland	100.00%	–	100.00%	–
Baltic Green III sp. z o.o.	Poland	100.00%	–	100.00%	–
Bioplyn technologie s.r.o. [1)]	Czech Republic	–	100.00%	–	100.00%
Bohemian Development, a.s. [1)]	Czech Republic	–	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%	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 [2)]	Bulgaria	–	100.00%	–	100.00%
CEZ FINANCE B.V. in liquidatie [3)]	Netherlands	–	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%	100.00%	100.00%
CEZ Laboratories Bulgaria EOOD – in liquidation [4)]	Bulgaria	–	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 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.	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%	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%

Subsidiaries	Country of incorporation	% equity interest		% voting interest	
		2012	2011	2012	2011
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	100.00%	100.00%	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%
ECO Etropol AD	Bulgaria	100.00%	–	100.00%	–
DOMICA FPI s.r.o. [1)]	Czech Republic	–	100.00%	–	100.00%
Eco-Wind Construction S.A.	Poland	75.00%	67.00%	75.00%	67.00%
eEnergy Hodonín a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
eEnergy Ralsko a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
eEnergy Ralsko - Kuřívody a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
Elektrárna Dětmarovice, a.s.	Czech Republic	100.00%	–	100.00%	–
Elektrárna Chvaletice a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrárna Mělník III, a. s.	Czech Republic	100.00%	–	100.00%	–
Elektrárna Počerady, a.s.	Czech Republic	100.00%	–	100.00%	–
Elektrárna Tisová, a.s.	Czech Republic	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%
Elektrownie Wiatrowe Lubiechowo sp. z o.o.	Poland	75.00%	67.00%	100.00%	100.00%
Energetické centrum s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Energotrans, a.s.	Czech Republic	100.00%	–	100.00%	–
Farma Wiatrowa Leśce sp. z o.o.	Poland	75.00%	67.00%	100.00%	100.00%
Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.	Poland	75.00%	67.00%	100.00%	100.00%
Free Energy Project Oreshets EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
FVE Buštěhrad a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
FVE Vranovská Ves a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
F.W. Tolkowiec sp. z o.o.	Poland	75.00%	67.00%	100.00%	100.00%
GENTLEY a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
KEFARIUM,a.s. [1)]	Czech Republic	–	100.00%	–	100.00%
MARTIA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Mega Energy sp. z o.o.	Poland	75.00%	67.00%	100.00%	100.00%
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%
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%	55.83%	55.83%	55.83%
Teplárna Trmice, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
TMK Hydroenergy Power S.R.L	Romania	100.00%	100.00%	100.00%	100.00%
Tomis Team S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
ÚJV Řež, a. s.	Czech Republic	52.46%	52.46%	52.46%	52.46%

Associates and joint-ventures	Country of incorporation	% equity interest		% voting interest	
		2012	2011	2012	2011
Akcez Enerji A.S. [5)]	Turkey	50.00%	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	37.15%	36.99%	49.71%	49.50%
AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
AK-EL Yalova Elektrik Üretim A.S.	Turkey	37.36%	33.65%	50.00%	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 [6)]	Germany	–	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	37.09%	36.99%	49.64%	49.50%
Mitteldeutsche Braunkohlengesellschaft mbH [6)]	Germany	–	50.00%	–	50.00%
MOL - CEZ European Power Hungary Ltd.	Hungary	50.00%	50.00%	50.00%	50.00%
Sakarya Elektrik Dagitim A.S. [5)]	Turkey	50.00%	44.31%	50.00%	50.00%
Sakarya Elektrik Perakende Satis A.S. [5)]	Turkey	50.00%	–	50.00%	–

The equity interest represents effective ownership interest of the Group.

1) The company merged with the succession company ČEZ OZ uzavřený investiční fond a.s. with the effective date of January 1, 2012.
2) The company merged with the succession company TEC Varna EAD with the effective date of November 12, 2012.
3) The former company name CEZ FINANCE B.V. was changed to CEZ FINANCE B.V. in liquidatie in October 2012 and the liquidation of the company was completed in December 2012.
4) The liquidation of the company CEZ Laboratories Bulgaria EOOD – in liquidation was completed in November 2012.
5) Interest of the Group in these companies as of December 31, 2012 was 44.31%, but due to share purchase agreement from December 2012, it effectively represents 50% equity interest.
6) Interest of the Group in these companies was sold in June 2012.

The following table illustrates summarized financial information of joint-ventures for the year ended December 31, 2012 (in CZK millions):

	Total current assets	Total non-current assets	Total current liabilities	Total non-current liabilities	Revenues	Expenses	Net income (loss)
Akcez Enerji A.S.	550	10,281	571	5,474	1,088	–	1,088
Aken B.V.	28	–	–	–	–	–	–
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	31	–	–	–	–	–	–
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	604	20	434	3	6,271	(6,194)	77
Akenerji Elektrik Üretim A.S.	6,263	16,271	4,168	10,242	4,331	(3,820)	511
Akka Elektrik Üretim A.S.	1	–	–	–	139	–	139
Akkur Enerji Üretim Ticaret ve Sanayi A.S.	682	5,211	2,581	1,096	583	(367)	216
AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	704	126	3	–	23	–	23
AK-EL Yalova Elektrik Üretim A.S.	154	2	1	–	–	(1)	(1)
CM European Power International B.V.	1,838	800	1,042	–	–	(257)	(257)
CM European Power International s.r.o.	4	1	2	–	–	(210)	(210)
CM European Power Slovakia s.r.o.	2,756	2,580	3,590	7	3,727	(3,504)	223
Egemer Elektrik Üretim A.S.	5,081	3,382	1,771	6,010	–	(305)	(305)
Jadrová energetická spoločnosť Slovenska, a. s.	2,476	3,277	7	–	30	(96)	(66)
JESS Invest, s. r. o.	93	–	–	–	–	(5)	(5)
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	696	2,935	1,688	1,476	187	(214)	(27)
MOL - CEZ European Power Hungary Ltd.	137	619	447	–	22	(10)	12
Sakarya Elektrik Dagitim A.S.	5,387	1,942	3,893	1,249	18,937	(17,977)	960
Sakarya Elektrik Perakende Satis A.S.	3	2	4	–	–	(2)	(2)

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 (loss)
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 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, 2012 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
LOMY MOŘINA spol. s r.o.	415	52	363	222	2

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

8. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2012 and 2011 is as follows (in CZK millions)

	2012	2011
Cash on hand and current accounts with banks	6,105	4,721
Short-term bank notes	256	716
Term deposits	11,596	16,625
Total	17,957	22,062

At December 31, 2012 and 2011, cash and cash equivalents included foreign currency deposits of CZK 6,577 million and CZK 7,442 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2012 and 2011 was 1.5% and 1.7%, respectively. For the years 2012 and 2011 the weighted average interest rate was 1.5% and 1.8%, respectively.

9. Receivables, Net

The composition of receivables, net, at December 31, 2012 and 2011 is as follows (in CZK millions)

	2012	2011
Unbilled electricity supplied to retail customers	8,790	7,900
Received advances from retail customers	(6,023)	(6,098)
Unbilled supplies to retail customers, net	2,767	1,802
Trade receivables	57,962	57,726
Taxes and fees, excluding income taxes	3,657	3,337
Other receivables	5,563	7,239
Allowance for doubtful receivables	(15,186)	(15,372)
Total	54,763	54,732

The information about receivables from related parties is included in Note 29.

At December 31, 2012 and 2011, the ageing analysis of receivables, net is as follows (in CZK millions)

	2012	2011
Not past due	51,521	50,274
Past due but not impaired [1]		
Less than 3 months	2,435	2,853
3–6 months	352	546
6–12 months	167	391
more than 12 months	288	668
Total	54,763	54,732

[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)

	2012	2011
Opening balance	15,372	12,134
Additions	4,303	4,794
Reversals	(4,007)	(1,994)
Acquisition of subsidiaries	4	–
Currency translation differences	(486)	438
Closing balance	15,186	15,372

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 2012 and 2011 (in CZK millions):

	2012		2011	
	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	43,656	5,257	36,740	2,123
Emission rights granted	43,079	2,099	42,936	3,640
Emission rights acquired in business combinations	2,427	510	–	–
Settlement of prior year actual emissions	(38,148)	(2,866)	(39,122)	(2,513)
Emission rights purchased	8,168	4,426	2,282	984
Emission rights sold	(9,196)	(575)	(5,250)	(46)
Emission credits purchased	14,045	1,258	2,707	877
Emission credits sold	(3,750)	(747)	(5)	(2)
Reclassified to emission credits held for trading	–	–	(26)	(12)
Reclassified from assets classified as held for sale	–	–	3,394	241
Currency translation differences	–	12	–	(35)
Granted and purchased emission rights and credits at December 31	60,281	9,374	43,656	5,257
Emission rights and credits held for trading				
Emission rights and credits for trading at January 1	297	39	1,570	472
Settlement of prior year actual emissions	(296)	(29)	–	–
Emission rights purchased	13,232	2,677	2,004	813
Emission rights sold	(5,133)	(1,436)	(2,004)	(627)
Emission credits purchased	4,557	22	1,121	456
Emission credits sold	(10)	(1)	(2,420)	(885)
Reclassified from emission credits for own use	–	–	26	12
Fair value adjustment	–	(453)	–	(202)
Emission rights and credits held for trading at December 31	12,647	819	297	39

During 2012 and 2011 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 34,115 thousand tons and 38,444 thousand tons of CO_2, respectively. At December 31, 2012 and 2011 the Group recognized a provision for CO_2 emissions in total amount of CZK 3,527 million and CZK 3,418 million, respectively (see Notes 2.13 and 22).

At December 31, 2012 and 2011 the balance of emission rights presented in the balance sheet includes also green and similar certificates in total amount CZK 1,960 million and CZK 717 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, 2012 and 2011 (in CZK millions):

	2012	2011
Gain on sales of granted emission rights	1,190	1,647
Net gain (loss) from trading with emission rights and credits	101	(615)
Gain on green and similar certificates	1,850	1,222
Net gain (loss) from derivatives	(783)	303
Creation of provisions for emission rights	(1,245)	(302)
Settlement of provisions for emission rights	56	3,089
Remitted emission rights	(240)	(2,247)
Fair value adjustment	(453)	(202)
Net gain related to emission rights, emission credits and green and similar certificates	476	2,895

The expense related to the gift tax on granted emission rights is included in the line Other income (expenses), net (see Notes 2.13 and 27).

11. Other Financial Assets, Net

Other financial assets, net, at December 31, 2012 and 2011 were as follows (in CZK millions)

	2012	2011
Debt securities held-to-maturity	10,889	3,166
Debt securities available-for-sale	566	1,021
Equity securities available-for-sale	736	4,538
Derivatives	27,285	20,844
Total	39,476	29,569

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, 2012 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%	10,889	462	11,351
From 4.00% to 4.99%	–	104	104
Total	10,889	566	11,455

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 are denominated in CZK and EUR.

12. Other Current Assets

The composition of other current assets at December 31, 2012 and 2011 is as follows (in CZK millions)

	2012	2011
Advances paid	1,767	1,825
Prepayments	1,556	2,943
Deferred variation margin on “own use” electricity futures (see Note 22)	–	11
Total	3,323	4,779

Deferred variation margin represents the net variation margin paid to or by energy exchange POWER EXCHANGE CENTRAL EUROPE in respect of the electricity future contracts treated as own use, which will be delivered after the balance sheet date. In 2012 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

In July 2011, all relevant bodies of the Group approved the transaction in which CEZ Group planned 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 acquire 100% interest in Energotrans, a.s. The completion of these transactions after approval by relevant competition authorities took place in June 2012 (see Note 6).

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 at December 31, 2012 and December, 2011 are as follows

	2012	2011
Property, plant and equipment	–	1,031
Investment in MIBRAG	–	1,036
Long-term receivables	–	1,609
Other current assets	–	147
Assets classified as held for sale	–	3,823

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, 2012, 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 2012 and 2011 (in pieces)

	2012	2011
Number of treasury shares at beginning of period	3,875,021	4,085,021
Sales of treasury shares	–	(210,000)
Number of treasury shares at end of period	3,875,021	3,875,021

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

Declared dividends per share were CZK 45 and CZK 50 in 2012 and 2011, respectively. Dividends from 2012 profit will be declared on the general meeting, which will be held in the first half of 2013.

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. Considering the current structure and stability of cash flow of the Group, the 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% in the long term.

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):

	2012	2011
Total long-term debt	188,111	183,949
Total short-term loans	4,784	5,500
Total debt	192,895	189,449
Less: Cash and cash equivalents	(17,957)	(22,062)
Less: Highly liquid financial assets	(13,910)	(11,190)
Total net debt	161,028	156,197
Income before income taxes and other income (expenses)	57,931	61,542
Plus: Depreciation and amortization	27,578	25,770
EBITDA	85,509	87,312
Total equity attributable to equity holders of the parent	250,235	226,825
Total debt	192,895	189,449
Total capital	443,130	416,274
Net debt to EBITDA ratio	1.88	1.79
Total debt to total capital ratio	43.5%	45.5%

15. Long-term Debt

Long-term debt at December 31, 2012 and 2011 is as follows (in CZK millions)

	2012	2011
4.125% Eurobonds, due 2013 (EUR 372 million) [1]	9,345	12,863
5.125% Eurobonds, due 2012 (EUR 278 million) [2]	–	12,891
6.000% Eurobonds, due 2014 (EUR 600 million)	15,048	15,419
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,653	3,087
5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million)	34	33
5.750% Eurobonds, due 2015 (EUR 600 million)	15,054	15,436
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,770	2,060
5.000% Eurobonds, due 2021 (EUR 750 million)	18,804	19,292
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,253	1,285
3M Euribor + 0.36% Eurobonds, due 2014 (EUR 150 million)	3,771	–
3M Libor + 0.70% Eurobonds, due 2012 (USD 100 million)	–	1,992
6M Pribor + 0.62% Eurobonds, due 2012 (CZK 3,000 million)	–	2,999
4.875% Eurobonds, due 2025 (EUR 750 million)	18,755	19,239
4.500% Eurobonds, due 2020 (EUR 750 million)	18,656	19,119
2.160% Eurobonds, due 2023 (JPY 11,500 million)	2,545	2,962
4.600% Eurobonds, due 2023 (CZK 1,250 million)	1,247	1,247
3.625% Eurobonds, due 2016 (EUR 500 million)	12,493	12,798
2.150%*IRp Eurobonds, due 2021 (EUR 100 million)	2,514	2,580
4.102% Eurobonds, due 2021 (EUR 50 million)	1,252	1,284
4.250% U.S. bonds, due 2022 (USD 700 million)	13,193	–
5,625% U.S. bonds, due 2042 (USD 300 million)	5,649	–
4.375% Eurobonds, due 2042 (EUR 50 million)	1,230	–
4.500% Eurobonds, due 2047 (EUR 50 million)	1,230	–
4.383% Eurobonds, due 2047 (EUR 80 million)	2,011	–
4.500% registered bonds, due 2030 (EUR 40 million)	982	1,006
4.750% registered bonds, due 2023 (EUR 40 million)	991	1,016
4.700% registered bonds, due 2032 (EUR 40 million)	999	–
4.270% registered bonds, due 2047 (EUR 61 million)	1,506	–
9.220% Debentures, due 2014 (CZK 2,500 million) [3]	2,499	2,499
Total bonds and debentures	155,484	151,107
Less: Current portion	(9,345)	(17,882)
Bonds and debentures, net of current portion	146,139	133,225
Long-term bank and other loans		
Less than 2.00% p. a.	28,231	7,892
2.00% to 2.99% p. a.	3,784	14,679
3.00% to 3.99% p. a.	286	8,980
4.00% to 4.99% p. a.	238	384
More than 4.99% p. a.	88	907
Total long-term bank and other loans	32,627	32,842
Less: Current portion	(2,660)	(1,382)
Long-term bank and other loans, net of current portion	29,967	31,460
Total long-term debt	188,111	183,949
Less: Current portion	(12,005)	(19,264)
Total long-term debt, net of current portion	176,106	164,685

1) In January 2012, the original nominal value of the issue (EUR 500 million) was reduced by bought back own bonds at a nominal value of EUR 128 million.
2) In January 2012, the original nominal value of the issue (EUR 500 million) was reduced by bought back own bonds at a nominal value of EUR 222 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, 2012 and 2011 was 6.6% and 6.5%, 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.

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)

	2012	2011
Current portion	12,005	19,264
Between 1 and 2 years	28,429	15,260
Between 2 and 3 years	18,244	28,904
Between 3 and 4 years	15,618	17,888
Between 4 and 5 years	2,975	15,175
Thereafter	110,840	87,458
Total long-term debt	188,111	183,949

The following table analyses the long-term debt at December 31, 2012 and 2011 by currency (in millions)

	2012		2011	
	Foreign currency	CZK	Foreign currency	CZK
EUR	6,225	156,489	6,407	165,312
USD	1,000	19,046	112	2,233
JPY	33,371	7,385	33,432	8,610
BGN	63	805	–	–
PLN	–	–	3	17
ALL	305	55	406	76
KRW	5,404	97	4,942	85
XDR	5	137	6	170
CZK	–	4,097	–	7,446
Total long-term debt		188,111		183,949

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, 2012 and 2011 without considering interest rate hedging (in CZK millions):

	2012	2011
Floating rate long-term debt		
with interest rate fixed for 1 month	73	198
with interest rate fixed from 1 to 3 months	8,561	8,985
with interest rate fixed from 3 months to 1 year	28,216	29,603
with interest rate fixed more than 1 year	805	–
Total floating rate long-term debt	37,655	38,786
Fixed rate long-term debt	150,456	145,163
Total long-term debt	188,111	183,949

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 2012 and 2011 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.

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

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

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

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

Carrying amounts and the estimated fair values of financial instruments at December 31, 2012 and 2011 are as follows (in CZK millions)

		2012		2011	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS					
Investments					
Restricted debt securities available-for-sale	AFS	12,577	12,577	11,048	11,048
Restricted debt securities held-to-maturity	HTM	–	–	50	50
Restricted cash	LaR	2,504	2,504	2,205	2,205
Financial assets in progress	LaR	4	4	–	–
Debt securities held-to-maturity	HTM	106	123	107	123
Debt securities available-for-sale	AFS	1,719	1,719	2,465	2,465
Equity securities available-for-sale	AFS	3,817	3,817	15,482	15,482
Long-term receivables	LaR	14,910	15,492	17,424	18,121
Current assets					
Receivables	LaR	54,763	54,763	54,732	54,732
Cash and cash equivalents	LaR	17,957	17,957	22,062	22,062
Debt securities held-to-maturity	HTM	10,889	10,889	3,166	3,166
Debt securities available-for-sale	AFS	566	566	1,021	1,021
Equity securities available-for-sale	AFS	736	736	4,538	4,538
Other current assets	LaR	1,767	1,767	1,825	1,825
LIABILITIES					
Long-term debt	AC	(188,111)	(209,246)	(183,949)	(189,486)
Short-term loans	AC	(4,784)	(4,784)	(5,500)	(5,500)
Accounts payable	AC	(49,586)	(49,586)	(51,929)	(51,929)
DERIVATIVES					
Cash flow hedges					
Short-term receivables	HFT	21	21	132	132
Long-term receivables	HFT	2,499	2,499	1,822	1,822
Short-term liabilities	HFT	(287)	(287)	(3,099)	(3,099)
Long-term liabilities	HFT	(1,868)	(1,868)	(1,541)	(1,541)
Total cash flow hedges		365	365	(2,686)	(2,686)
Electricity, coal and gas trading contracts					
Short-term receivables	HFT	26,227	26,227	17,905	17,905
Short-term liabilities	HFT	(19,387)	(19,387)	(16,688)	(16,688)
Total electricity, coal and gas trading contracts		6,840	6,840	1,217	1,217
Other derivatives					
Short-term receivables	HFT	1,037	1,037	2,807	2,807
Long-term receivables	HFT	270	270	1,207	1,207
Short-term liabilities	HFT	(4,007)	(4,007)	(6,470)	(6,470)
Long-term liabilities	HFT	(1,350)	(1,350)	(1,056)	(1,056)
Total other derivatives		(4,050)	(4,050)	(3,512)	(3,512)

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 2012 and 2011.

As at December 31, 2012, 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	26,227	133	26,094	–
Cash flow hedges	2,520	1	2,519	–
Other derivatives	1,307	563	744	–
Available-for-sale restricted debt securities	12,577	12,577	–	–
Available-for-sale debt securities	2,285	2,285	–	–
Available-for-sale equity securities *	770	770	–	–

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(19,387)	(232)	(19,155)	–
Cash flow hedges	(2,155)	(97)	(2,058)	–
Other derivatives	(5,357)	(51)	(5,306)	–

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)	–

* 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 sales and emission allowances' purchases in the following 3-year horizon, closing long-term contracts for electricity sale and emission allowances purchase 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 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) or MonteCarlo VaR for the commodity options 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, coal ARA, Richards Bay, Newcastle and Brent crude oil)
- 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)

	2012	2011
Monthly VaR (95%) – impact of changes in commodity prices	556	1,307

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 2013 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)

	2012	2011
Monthly currency VaR (95% confidence)	1,205	452

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)

	2012	2011
IR sensitivity * to parallel yield curve shift (+10bp)	(27)	(16)

* 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)

	2012	2011
Monthly stock VaR (95% confidence)	1,561	1,129

Credit exposure from provided guarantees at December 31 (in CZK millions)

	2012	2011
Guarantees provided to joint ventures	4,497	6,022
Guarantees provided to external parties	–	12
Total	* 4,497	* 6,034

* Some of the guarantees could be called until December 2016 at the latest.

Liquidity risk

Contractual maturity profile of financial liabilities at December 31, 2012 (in CZK millions)

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *	Guarantees issued **
Less than 1 year	7,748	16,582	49,772	268,921	4,497
Between 1 and 2 years	7,409	28,161	182	43,977	–
Between 2 and 3 years	3,452	20,810	146	18,194	–
Between 3 and 4 years	3,354	17,382	88	155,554	–
Between 4 and 5 years	3,171	4,434	8	2,480	–
Thereafter	14,235	134,775	–	68,957	–
Total	39,369	222,144	50,196	558,083	4,497

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 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 2013 to 2017. The hedging instruments as at December 31, 2012 and 2011 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 5.3 billion and EUR 5.6 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (1,776) million and CZK (1,690) million at December 31, 2012 and 2011, respectively.

The Group also enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur in 2015. The hedging instruments as at December 31, 2012 and 2011 are the futures and forward contracts for the purchase of allowances equivalent to 2.9 million tons and 14.5 million tons of CO_2 emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (98) million and CZK (2,799) million at December 31, 2012 and 2011, respectively.

In 2011 the Group started to enter into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2014 to 2015. The hedging instruments are the derivative electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK 2,239 million and CZK 1,803 million at December 31, 2012 and 2011, respectively.

In 2012 and 2011 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 and related services, Gains and losses from electricity, coal and gas derivative trading, net, Emission rights, net and Other income (expenses), net. In 2012 and 2011 the Group recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (778) million and CZK (579) million, respectively. The ineffectiveness in 2012 and 2011 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 four 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 2012 and 2011, the payments to the nuclear account amounted to CZK 1,516 million and CZK 1,414 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, 2012 and 2011 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommissioning	Spent fuel storage		Total
		Interim	Long-term	
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
Movements during 2012				
Discount accretion and effect of inflation	414	289	976	1,679
Provision charged to income statement	12	453	–	465
Effect of change in estimate charged to income statement	–	364	–	364
Effect of change in estimate added to fixed assets (Note 2.24)	2,432	–	2,451	4,883
Current cash expenditures	(3)	(742)	(1,516)	(2,261)
Balance at December 31, 2012	12,038	6,794	23,583	42,415

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 2012 the Group recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage cost and change in discount rate, the change in estimate in provision for nuclear decommissioning due to change in discount rate and the change in long-term spent fuel storage due to the modification of the expected output of the nuclear power plants and change in discount rate.

In 2011 the Group 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, 2012 and 2011 are as follows (in CZK millions):

	2012	2011
Provision for decommissioning and reclamation of mines and mining damages	6,915	6,473
Provision for waste storage reclamation	1,739	1,909
Other long-term provisions	826	371
Deferred connection fees	6,674	7,381
Derivatives	3,218	2,597
Other	3,187	2,990
Total	22,559	21,721

The following table shows the movements of provisions for the years ended December 31, 2012 and 2011 (in CZK millions):

	Mine reclamation and damages	Waste storage
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 to 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
Movements during 2012		
Discount accretion and effect of inflation	280	79
Provision charged to income statement	75	–
Effect of change in estimate added to (deducted from) fixed assets (Note 2.25)	336	(21)
Current cash expenditures	(249)	(228)
Balance at December 31, 2012	6,915	1,739

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 2.0% at December 31, 2012 and 2.5% at December 31, 2011. 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, 2012 and 2011 are as follows (in CZK millions)

	2012	2011
Short-term bank loans	4,304	4,333
Bank overdrafts	480	1,167
Total	4,784	5,500

Interest on short-term loans is variable. The weighted average interest rate was 0.7% and 1.9% at December 31, 2012 and 2011, respectively. For the years 2012 and 2011 the weighted average interest rate was 1.7% and 1.8%, respectively.

21. Trade and Other Payables

Trade and other payables at December 31, 2012 and 2011 are as follows (in CZK millions)

	2012	2011
Advances received from retail customers	13,978	14,064
Unbilled electricity supplied to retail customers	(11,283)	(11,209)
Received advances from retail customers, net	2,695	2,855
Trade payables	43,724	45,893
Fair value of option (see Note 4)	3,520	4,272
Derivatives	20,161	21,985
Other	3,167	3,181
Total	73,267	78,186

The information about payables to related parties is included in Note 29.

22. Accrued Liabilities

Accrued liabilities at December 31, 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Provision for CO_2 emissions	3,527	3,418
Other provisions	4,237	3,298
Accrued interest	3,341	3,358
Taxes and fees, except income tax	1,011	1,151
Unbilled goods and services	14,470	9,058
Contingent liabilities from acquisitions	163	251
Deferred variation margin on “own use” electricity futures (see Note 12)	220	–
Deferred income	204	131
Other	99	95
Total	27,272	20,760

23. Revenues

The composition of revenues for the years ended December 31, 2012 and 2011 is as follows (in CZK millions)

	2012	2011
Sales of electricity and related services		
Sales of electricity to end customers	61,128	60,674
Sales of electricity through energy exchange	2,013	4,265
Sales of electricity to traders	42,511	40,202
Sales to distribution and transmission companies	1,308	1,136
Other sales of electricity	7,848	7,371
Effect of hedging (see Note 17.3)	1,921	2,616
Sales of ancillary, system, distribution and other services	70,068	65,529
Total sales of electricity and related services	186,797	181,793
Electricity, coal and gas derivative trading		
Sales	265,674	233,293
Purchases	(262,759)	(228,678)
Effect of hedging (see Note 17.3)	297	(6)
Changes in fair value of commodity derivatives	1,376	1,234
Total gains and losses from electricity, coal and gas derivative trading, net	4,588	5,843
Sales of gas, coal, heat and other revenues		
Sales of gas	6,342	5,715
Sales of coal	4,445	4,550
Sales of heat	5,371	4,316
Other	7,552	7,544
Total sales of gas, coal, heat and other revenues	23,710	22,125
Total revenues	215,095	209,761

24. Salaries and Wages

Salaries and wages for the years ended December 31, 2012 and 2011 were as follows (in CZK millions)

	2012		2011	
	Total	Key management personnel [1]	Total	Key management personnel [1]
Salaries and wages	(13,197)	(235)	(12,901)	(300)
Remuneration of the board members, including royalties	(145)	(39)	(133)	(39)
Share options	(75)	(75)	(73)	(73)
Social and health security	(4,045)	(29)	(4,015)	(31)
Other personal expenses	(1,245)	(26)	(983)	(36)
Total	(18,707)	(404)	(18,105)	(479)

[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, 2012 and 2011, the aggregate number of share options granted to members of Board of Directors and selected managers was 2,443 thousand and 2,663 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 2012 and 2011 the Company recognized a compensation expense of CZK 75 million and CZK 73 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 2012 and 2011 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, 2010	**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**
Options granted	664	256	920	727.80
Options forfeited	(910)	(230)	(1,140)	1,122.90
Share options at December 31, 2012 [2]	**1,657**	**786**	**2,443**	**852.85**

[1] In 2011 the weighted average share price at the date of the exercise for the options exercised was CZK 936.76.
[2] At December 31, 2012 and 2011 the number of exercisable options was 900 thousand and 1,485 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 992.65 per share and CZK 1,142.30 per share at December 31, 2012 and 2011, 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:

	2012	2011
Weighted average assumptions		
Dividend yield	5.6%	4.4%
Expected volatility	22.4%	34.0%
Mid-term risk-free interest rate	1.1%	1.5%
Expected life (years)	1.4	1.4
Share price (CZK per share)	733.6	851.5
Weighted average grant-date fair value of options (CZK per 1 option)	63.4	121.1

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, 2012 and 2011 the exercise prices of outstanding options were in the following ranges (in thousand pieces):

	2012	2011
CZK 600–900 per share	1,688	883
CZK 900–1,400 per share	755	1,780
Total	2,443	2,663

The options granted which were outstanding as at December 31, 2012 and 2011 had an average remaining contractual life of 1.9 years and 1.6 years, respectively.

25. Other Operating Expenses

Other operating expenses for the years ended December 31, 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Services	(12,923)	(12,873)
Travel expenses	(220)	(232)
Gain on sale of property, plant and equipment	146	145
Gain on sale of material	156	57
Capitalization of expenses to the cost of assets and change in own inventory	5,575	5,037
Fines, penalties and penalty interest, net	929	547
Change in provisions and valuation allowances	224	(525)
Taxes and fees	(2,974)	(2,710)
Write-off of bad debts and cancelled investment	(1,199)	(510)
Gifts	(463)	(466)
Other, net	(2,500)	(2,207)
Total	(13,249)	(13,737)

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, 2012 and 2011 is as follows (in CZK millions)

	2012	2011
Loans and receivables	949	991
Held-to-maturity investments	114	89
Available-for-sale investments	318	302
Bank accounts	364	453
Total	1,745	1,835

27. Other Income (Expenses), Net

Other income (expenses), net, for the years ended December 31, 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Derivative gains (losses), net	(858)	2,120
Gains on sales of available-for-sale financial assets	88	103
Change in impairment of financial investments	(5)	–
Gift tax on emission allowances	(1,852)	(3,640)
Other, net	(89)	1,486
Total	(2,716)	69

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 2012 and 2011. The Czech corporate income tax rate for 2013 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)

	2012	2011
Current income tax charge	(10,316)	(10,783)
Adjustments in respect of current income tax of previous periods	(8)	(185)
Deferred income taxes	(480)	(231)
Total	(10,804)	(11,199)

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

	2012	2011
Income before income taxes	50,957	51,952
Statutory income tax rate in Czech Republic	19%	19%
“Expected” income tax expense	(9,682)	(9,871)
Tax effect of		
Change in tax rates and laws	(12)	–
Non-deductible gain from derivatives	129	286
Non-deductible expenses related to shareholdings	(27)	(18)
Goodwill impairment	(137)	(29)
Other non-deductible items, net	(358)	(224)
Non-deductible share based payment expense	(14)	(14)
Gift tax on emission allowances	(430)	(692)
Profit (loss) from associates and joint-ventures	91	(738)
Income already taxed or exempt	162	208
Tax credits	5	5
Adjustments in respect of current income tax of previous periods	(8)	(185)
Effect of different tax rate in other countries	(528)	111
Change in unrecorded deferred tax receivables	5	(38)
Income taxes	(10,804)	(11,199)
Effective tax rate	21%	22%

Deferred income taxes, net, at December 31, 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Accumulated provision for nuclear decommissioning and spent fuel storage	6,649	5,729
Financial statement depreciation in excess of tax depreciation	146	174
Revaluation of financial instruments	23	1,221
Allowances	986	997
Other provisions	1,840	1,694
Penalty payables	–	1
Tax loss carry forwards	201	106
Other temporary differences	480	361
Unrecorded deferred tax asset	(361)	(366)
Total deferred tax assets	9,964	9,917
Tax depreciation in excess of financial statement depreciation	(28,843)	(24,796)
Revaluation of financial instruments	(820)	(220)
Other provisions	(706)	(589)
Penalty receivables	(95)	(24)
Other temporary differences	(578)	(488)
Total deferred tax liability	(31,042)	(26,117)
Total deferred tax liability, net	(21,078)	(16,200)
Reflected in the balance sheet as follows		
Deferred tax assets	750	809
Deferred tax liability	(21,828)	(17,009)
Total deferred tax liability, net	(21,078)	(16,200)

Movements in net deferred tax liability, net, in 2012 and 2011 were as follows (in CZK millions)

	2012	2011
Opening balance	16,200	17,793
Deferred tax recognized in profit or loss	480	231
Deferred tax charged directly to equity	1,706	(1,828)
Acquisition of subsidiaries	2,630	76
Currency translation differences	62	(72)
Closing balance	21,078	16,200

At December 31, 2012 and 2011 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 27,936 million and CZK 25,912 million, respectively.

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

	2012			2011		
	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	7,935	(1,500)	6,435	(7,330)	1,393	(5,937)
Cash flow hedges removed from equity	(127)	24	(103)	(2,343)	445	(1,898)
Change in fair value of available-for-sale financial assets recognized in equity	1,302	(248)	1,054	54	(16)	38
Available-for-sale financial assets removed from equity	(76)	18	(58)	(33)	6	(27)
Translation differences	(1,436)	–	(1,436)	(330)	–	(330)
Share on equity movements of associates and joint-ventures	(82)	–	(82)	1	–	1
Total	7,516	(1,706)	5,810	(9,981)	1,828	(8,153)

29. Related Parties

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

At December 31, 2012 and 2011, the receivables from related parties and payables to related parties are as follows (in CZK millions)

	Receivables		Payables	
	2012	2011	2012	2011
Akcez Enerji A.S.	89	55	33	73
Akenerji Elektrik Üretim A.S.	22	1,414	648	–
CM European Power International B.V.	520	292	–	–
CM European Power Slovakia s.r.o.	698	542	–	–
JTSD - Braunkohlebergbau GmbH [1]	–	1,756	–	–
LOMY MOŘINA spol. s r.o.	3	5	13	21
OSC, a.s.	–	–	33	24
SINIT,a.s.	21	1	14	33
Výzkumný a zkušební ústav Plzeň s.r.o.	–	–	22	20
Others	54	87	28	47
Total	1,407	4,152	791	218

[1] Related party till June 29, 2012.

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	
	2012	2011	2012	2011
Akcez Enerji A.S.	34	112	–	–
Akenerji Elektrik Üretim A.S.	90	98	–	24
LACOMED, spol. s r.o.	35	40	3	4
LOMY MOŘINA spol. s r.o.	29	16	178	175
MOL - CEZ European Power Hungary Ltd.	32	34	–	–
OSC, a.s.	–	–	108	106
SINIT,a.s.	5	2	41	71
Ústav aplikované mechaniky Brno, s.r.o.	7	4	28	33
Others	71	100	103	68
Total	303	406	461	481

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, 2012 and 2011 (in CZK millions):

Year 2012	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	68,224	101,010	4,632	3,170	2,243	35,799	17	215,095	–	215,095
Intersegment sales	47,651	5,884	5,905	39,171	1,184	847	2,304	102,946	(102,946)	–
Total revenues	**115,875**	**106,894**	**10,537**	**42,341**	**3,427**	**36,646**	**2,321**	**318,041**	**(102,946)**	**215,095**
EBITDA	56,924	17,604	4,392	5,703	2,743	(1,773)	154	85,747	(238)	85,509
Depreciation and amortization	(16,110)	(3,585)	(2,137)	(2,251)	(1,103)	(2,328)	(64)	(27,578)	–	(27,578)
EBIT	40,814	14,019	2,255	3,452	1,640	(4,101)	90	58,169	(238)	57,931
Interest on debt and provisions	(6,197)	(297)	(295)	(14)	(502)	(166)	(26)	(7,497)	1,128	(6,369)
Interest income	2,272	18	388	19	25	144	7	2,873	(1,128)	1,745
Goodwill impairment	(60)	–	–	–	–	(788)	–	(848)	–	(848)
Share of profit (loss) from associates and joint-ventures	(104)	–	27	–	171	357	–	451	–	451
Income taxes	(7,032)	(2,577)	(443)	(718)	(60)	(3)	(11)	(10,844)	40	(10,804)
Net income	41,235	11,111	2,502	2,676	603	(4,562)	92	53,657	(13,504)	40,153
Identifiable assets	258,548	72,390	21,838	13,366	30,391	28,027	76	424,636	(4,882)	419,754
Investment in associates and joint-ventures	4,243	–	185	–	6,413	3,542	–	14,383	–	14,383
Unallocated assets										201,933
Total assets										**636,070**
Capital expenditure	26,103	8,304	3,741	23,289	6,947	3,151	973	72,508	(22,059)	50,449
Average number of employees	7,668	1,459	3,454	8,467	526	8,484	1,214	31,272	–	31,272

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	237,240	67,712	20,128	15,327	25,859	28,224	82	394,572	(7,735)	386,837
Investment in associates and joint-ventures	4,463	–	190	–	4,800	1,839	–	11,292	–	11,292
Unallocated assets										200,172
Total assets										**598,301**
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

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):

	2012	2011
Czech Republic	165,833	162,318
Bulgaria	21,034	20,653
Romania	10,473	9,577
Poland	3,270	2,825
Albania	6,553	8,330
Other	7,932	6,058
Total revenues	215,095	209,761

The following table shows the split of property, plant and equipment according to the location of entity which they belong to at December 31, 2012 and 2011 (in CZK million):

	2012	2011
Czech Republic	352,014	323,631
Bulgaria	13,629	13,534
Romania	40,438	35,598
Poland	9,244	9,040
Albania	4,423	5,028
Other	6	6
Total property, plant and equipment	419,754	386,837

31. Net Income per Share

	2012	2011
Numerator (CZK millions)		
Basic and diluted		
Net income attributable to equity holders of the parent	41,429	40,756
Denominator (thousands shares)		
Basic		
Weighted average shares outstanding	534,115	534,041
Dilutive effect of share options	11	13
Diluted		
Adjusted weighted average shares	534,126	534,054
Net income per share (CZK per share)		
Basic	77.6	76.3
Diluted	77.6	76.3

32. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2012 to total CZK 207.5 billion over the next five years, as follows: CZK 50.2 billion in 2013, CZK 49.3 billion in 2014, CZK 33.3 billion in 2015, CZK 32.2 billion in 2016 and CZK 42.5 billion in 2017. 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, 2012 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 for energy generation purposes is liable for up to CZK 8 billion per incident. The Nuclear Act limits the liability for damage caused by other nuclear installations and 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 and general third party liability insurance in connection with main operations of the Group.

33. Situation in Albania

In May 2009, ČEZ acquired a 76% shareholding in the sole Albanian distribution company OSSh – currently CEZ Shpërndarje ("CEZ SH"). The remaining 24% is owned by the Albanian government. Part of the contractual documentation is the Regulatory Statement, which has set a particular form of regulation and anticipated acceptance of a series of independent studies that would reflect all eligible costs in tariffs and other regulatory conditions for meeting CEZ SH's obligations as the license holder. In December 2011, the Albanian regulator (ERE) made decisions as to tariffs for the period 2012–2014 and increased regulated prices of electricity purchases without any corresponding modification of regulated prices for CEZ SH's end customers. ČEZ filed a claim with ERE against the decisions that were adopted in conflict with the Regulatory Statement and, consequently brought a legal action. The regulator's decisions together with other unfavorably set conditions by the Albanian government institutions negatively affected CEZ SH's results of operations and gradually caused problems with liquidity resulting in CEZ SH's critical financial situation and insolvency.

In the course of 2012 ČEZ repeatedly notified the ERE in writing of the issues and CEZ SH's deteriorating financial position and also of the necessity to take immediate action toward CEZ SH's inability to meet its license-related obligations. The ERE repeatedly did not respond to ČEZ notifications and calls but rather adopted restrictive measures making the cut offs of power non-payers more difficult, changed the method of reporting of revealed power thefts and did not approve terms enabling withdrawal of an investment loan. In addition, the Albanian tax administration changed its approach to assessments of additional tax payments and penalties. During negotiations the Albanian side started to publicly proclaim its own, closely unspecified financial claims towards ČEZ. The Albanian side has never sufficiently backed up, legally specified and unanimously quantified these claims and, above all, never brought them to any court or arbitrary institution. For sake of prudence ČEZ has always a priori rejected in writing all the Albanian side assertions as untrue and ungrounded and get an independent legal opinion prepared. Considering all relevant circumstances and the valid Albanian legislation, the Albanian side success in bringing the alleged claims cannot be anticipated, the possible legal grounds of these claims are, as per the Albanian law, very weak and the obligation to prove its assertions is fully at the plaintiff's side. Under the current circumstances these claims can be regarded as ungrounded and purpose-made assertions and therefore ČEZ created no provision against them as at December 31, 2012.

The consolidated financial statements of the CEZ Group as at December 31, 2012 and for the year then ended include the following figures with respect to CEZ SH (in CZK million):

Balance Sheet	
Assets	8,210
Liabilities	(12,465)
Equity attributable to equity holders of the parent	(2,914)
of which translation differences	(229)
Non-controlling interest	(1,341)
Total equity	**(4,255)**
Statement of Income	
Loss attributable to equity holders of the parent	(4,919)
Loss attributable to non-controlling interest	(1,553)
Total loss	**(6,472)**

On January 21, 2013 the regulator decided to revoke the CEZ SH's license for the distribution and sale of electricity to tariff customers and appointed the administrator of CEZ SH. The administrator took control over the company including the decision making powers and responsibility for its operations. Both the rights of CEZ SH statutory bodies and the ČEZ shareholder rights were transferred to the administrator and thus ČEZ lost control over CEZ SH. To prevent interests of its shareholders ČEZ appealed against setting up of the administrator and against its powers and on February 7, 2013 it officially notified the Albanian government of its intention to launch international arbitration proceedings.

On February 7, 2013, ČEZ paid CEZ SH's liabilities in the amount of EUR 35.2 million to the International Financial Corporation and the European Bank for Reconstruction and Development related to the loan agreement made by and between the two banks and CEZ SH in June 2011 and in accordance with the written arrangement between ČEZ and the two banks signed on July 20, 2012. ČEZ thus has become CEZ SH's creditor. In addition, the two banks (EBRD on February 14, 2013 and IFC on February 15, 2013) also cancelled the unused line of credit which was originally contracted at EUR 100 million.

34. Legal Disputes

As of December 31, 2012 ČEZ, a. s. was a defendant in several lawsuits related to the realization of takeover offer and squeeze-out of minority shareholders in several subsidiaries. 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.

35. Events after the Balance Sheet Date

On January 21, 2013 the regulator decided to revoke the CEZ Shpërndarje's license for the distribution and sale of electricity to tariff customers and appointed the administrator of CEZ Shpërndarje (see Note 33).

On February 7, 2013 ČEZ paid CEZ Shpërndarje's liabilities in the amount of EUR 35.2 million to the International Financial Corporation and the European Bank for Reconstruction and Development (see Note 33).

On February 20, 2013 the Bulgarian regulator announced the initiation of proceedings to revoke CEZ Razpredelenie Bulgaria's license for distribution of electricity and CEZ Elektro Bulgaria's license for the sale of electricity. The regulator set the procedural deadlines for licensed entities. The Group considers the reasons of the regulator as ungrounded and both companies will use all legal means to stop the proceedings initiated without revocation of the licenses.

These financial statements have been authorized for issue on February 25, 2013.

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, 2012, 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 information. For details of 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.

ERNST & YOUNG

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ, a. s. as at December 31, 2012, 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 25, 2013
Prague, Czech Republic

ČEZ, a. s. Balance Sheet in Accordance with IFRS as of December 31, 2012

(in CZK millions)

ASSETS	2012	2011
Property, plant and equipment		
Plant in service	318,139	313,006
Less accumulated provision for depreciation	(175,703)	(184,124)
Net plant in service (Note 3)	142,436	128,882
Nuclear fuel, at amortized cost	9,698	8,839
Construction work in progress (Note 3)	68,318	68,982
Total property, plant and equipment	220,452	206,703
Other non-current assets		
Investments and other financial assets, net (Note 4)	197,658	192,428
Intangible assets, net (Note 5)	604	578
Total other non-current assets	198,262	193,006
Total non-current assets	418,714	399,709
Current assets		
Cash and cash equivalents (Note 6)	8,815	15,930
Receivables, net (Note 7)	56,232	46,281
Income tax receivable	1,044	374
Materials and supplies, net	4,129	3,737
Fossil fuel stocks	2,033	1,359
Emission rights (Note 8)	10,038	5,007
Other financial assets, net (Note 9)	36,869	28,247
Other current assets (Note 10)	999	1,985
Assets classified as held for sale	–	1,031
Total current assets	120,159	103,951
TOTAL ASSETS	538,873	503,660

EQUITY AND LIABILITIES	2012	2011
Equity		
Stated capital	53,799	53,799
Treasury shares	(4,382)	(4,382)
Retained earnings and other reserves	161,494	143,183
Total equity (Note 11)	210,911	192,600
Long-term liabilities		
Long-term debt, net of current portion (Note 12)	161,307	145,293
Accumulated provision for nuclear decommissioning and fuel storage (Note 15)	42,227	37,059
Other long-term liabilities (Note 16)	5,405	5,274
Total long-term liabilities	208,939	187,626
Deferred tax liability (Note 24)	11,016	8,798
Current liabilities		
Short-term loans	2,735	3,624
Current portion of long-term debt (Note 12)	10,971	18,668
Trade and other payables (Note 17)	77,543	79,347
Accrued liabilities (Note 18)	16,758	12,997
Total current liabilities	108,007	114,636
TOTAL EQUITY AND LIABILITIES	538,873	503,660

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, 2012

(in CZK millions)

	2012	2011
Revenues		
Sales of electricity	94,315	97,246
Gains and losses from electricity, coal and gas derivative trading, net	4,032	5,904
Sales of gas, heat and other revenues	9,800	10,291
Total revenues (Note 19)	108,147	113,441
Operating expenses		
Fuel	(14,016)	(15,609)
Purchased power and related services	(24,826)	(29,540)
Repairs and maintenance	(3,504)	(3,431)
Depreciation and amortization	(13,261)	(12,840)
Salaries and wages (Note 20)	(6,113)	(5,951)
Materials and supplies	(1,694)	(1,837)
Emission rights, net (Note 8)	(1,196)	3
Other operating expenses (Note 21)	(8,284)	(7,386)
Total expenses	(72,894)	(76,591)
Income before other income (expenses) and income taxes	35,253	36,850
Other income (expenses)		
Interest on debt, net of capitalized interest	(4,576)	(5,019)
Interest on nuclear and other provisions	(1,743)	(1,713)
Interest income (Note 22)	2,583	2,608
Foreign exchange rate gains (losses), net	1,268	(244)
Other income (expenses), net (Note 23)	8,825	11,414
Total other income (expenses)	6,357	7,046
Income before income taxes	41,610	43,896
Income taxes (Note 24)	(6,274)	(6,559)
Net income	35,336	37,337
Net income per share (CZK per share) (Note 27)		
Basic	66.2	69.9
Diluted	66.2	69.9
Average number of shares outstanding (000s)		
Basic	534,115	534,041
Diluted	534,126	534,054

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, 2012

(in CZK millions)

	2012	2011
Net income	35,336	37,337
Other comprehensive income		
Change in fair value of cash flow hedges recognized in equity	7,867	(7,360)
Cash flow hedges removed from equity	(104)	(2,306)
Change in fair value of available-for-sale financial assets recognized in equity	733	44
Deferred tax relating to other comprehensive income (Note 24)	(1,614)	1,828
Other comprehensive income, net of tax	6,882	(7,794)
Total comprehensive income	42,218	29,543

ČEZ, a. s. Statement of Changes in Equity in Accordance with IFRS for the Year Ended December 31, 2012

(in CZK millions)

	Stated capital	Treasury shares	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total equity
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
Net income	–	–	–	–	35,336	35,336
Other comprehensive income	–	–	6,288	594	–	6,882
Total comprehensive income	–	–	6,288	594	35,336	42,218
Dividends	–	–	–	–	(23,982)	(23,982)
Share options	–	–	–	75	–	75
Transfer of exercised and forfeited share options within equity	–	–	–	(216)	216	–
December 31, 2012	53,799	(4,382)	1,467	1,168	158,859	210,911

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, 2012

(in CZK millions)

	2012	2011
OPERATING ACTIVITIES		
Income before income taxes	41,610	43,896
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation, amortization and asset write-offs	13,377	12,858
Amortization of nuclear fuel	2,786	3,225
Gain on fixed asset retirements, net	(62)	(68)
Foreign exchange rate losses (gains), net	(1,268)	244
Interest expense, interest income and dividend income, net	(12,564)	(13,062)
Provision for nuclear decommissioning and fuel storage	(14)	(68)
Valuation allowances, other provisions and other adjustments	1,722	1,039
Changes in assets and liabilities		
Receivables	731	(10,551)
Materials and supplies	(518)	(575)
Fossil fuel stocks	(674)	(476)
Other current assets	(12,696)	(17,667)
Trade and other payables	23	16,991
Accrued liabilities	5,113	1,628
Cash generated from operations	37,566	37,414
Income taxes paid	(6,340)	(5,382)
Interest paid, net of capitalized interest	(4,323)	(4,446)
Interest received	2,568	2,354
Dividends received	14,500	13,237
Net cash provided by operating activities	43,971	43,177
INVESTING ACTIVITIES		
Acquisition of subsidiaries, associates and joint-ventures	(7,383)	(6,470)
Additions to property, plant and equipment and other non-current assets, including capitalized interest	(29,700)	(23,908)
Proceeds from sale of fixed assets	1,577	654
Loans made	(21,150)	(10,787)
Repayment of loans	11,496	18,215
Change in restricted financial assets	(366)	(682)
Total cash used in investing activities	(45,526)	(22,978)
FINANCING ACTIVITIES		
Proceeds from borrowings	79,488	57,676
Payments of borrowings	(67,859)	(49,785)
Proceeds from other long-term liabilities	1	–
Change in payables/receivables from group cashpooling	6,461	(1,296)
Dividends paid	(23,995)	(26,655)
Sale of treasury shares	–	169
Net cash used in financing activities	(5,904)	(19,891)
Net effect of currency translation in cash	344	(520)
Net decrease in cash and cash equivalents	(7,115)	(212)
Cash and cash equivalents at beginning of period	15,930	16,142
Cash and cash equivalents at end of period	8,815	15,930
Supplementary cash flow information		
Total cash paid for interest	7,492	6,968

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

ČEZ, a. s.
Notes to the Financial Statements as of December 31, 2012

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 5,872 and 5,934 in 2012 and 2011, 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, 2012. 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, 2012 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	Milan Bajgar
Member	Vladimír Hlavinka	Member	Petr Gross
Member	Michaela Chaloupková	Member	Vladimír Hronek
Member	Tomáš Pleskač	Member	Jiří Kadrnka
		Member	Jan Kohout
		Member	Drahoslav Šimek
		Member	Robert Vacek
		Member	Jiří Volf

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 25, 2013.

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 2,786 million and CZK 3,225 million for the years ended December 31, 2012 and 2011, 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 241 million and CZK 470 million in 2012 and 2011, 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 3,218 million and CZK 2,661 million and an interest capitalization rate was 4.6% and 4.5% in 2012 and 2011, 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 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	8–25
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	45
Machinery and equipment	12
Fossil fuel plants	
Buildings and structures	39
Machinery and equipment	12
Nuclear power plant	
Buildings and structures	38
Machinery and equipment	13

Depreciation of plant in service was CZK 13,038 million and CZK 12,624 million for the years ended December 31, 2012 and 2011, which was equivalent to a composite depreciation rate of 4.1%. 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.

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 2012 and 2011 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.

Since 2011 the subject to 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, which are subject to the gift tax, 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 recognized 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, 2012 and 2011 the allowance for short-term uncollectible receivables amounted to CZK 3,307 million and CZK 1,750 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, 2012 and 2011, 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 2013 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 at December 31, 2012 and 2011 using a long-term real rate of interest of 2.0% per annum and 2.5% per annum, respectively, 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, 2012 and 2011 the estimate for the effect of inflation is 1.5% 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 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 2012 and 2011 the expense recognized in respect of the share option plan amounted to CZK 75 million and CZK 73 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, 2012 and 2011 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2012	2011
CZK per 1 EUR	25.140	25.800
CZK per 1 USD	19.055	19.940
CZK per 1 PLN	6.172	5.789
CZK per 1 BGN	12.854	13.191
CZK per 1 RON	5.658	5.969
CZK per 100 JPY	22.130	25.754
CZK per 1 TRY	10.670	10.550
CZK per 100 ALL	18.053	18.644

2.25. Non-current Assets Held for Sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

2.26. Adoption of New IFRS Standards in 2012

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, 2012:

- IAS 12 Income Taxes – Deferred Taxes (Amendment) effective January 1, 2012
- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment) effective July 1, 2011
- IFRS 7 Financial Instruments: Disclosures (Amendment) effective July 1, 2011

The impact of the adoption of standards or interpretations on the financial statements or performance of the Company is described below:

IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets (Amendment)
The amendment becomes effective for annual periods beginning on or after January 1, 2012. 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 assets. The Company does not currently have any investment property as well as is not using revaluation model therefore this does not affect its financial position or performance.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)
The amendment is effective for annual periods beginning on or after July 1, 2011 with early adoption permitted. When an entity's date of transition to IFRS is on or after the functional currency normalization date, the entity may elect to measure all assets and liabilities held before the functional currency normalization date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The amendment does not have an impact on the Company's financial position, performance or its disclosures.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (Amendment)
The amendment requires additional disclosures about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after July 1, 2011. The amendment does not currently have an impact on the Company's financial position, performance or its disclosures.

All other standards and interpretations whose application was mandatory for the period beginning on or after January 1, 2012 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, 2013 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 amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendment to IAS 1 changes 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 does not change the nature of the items that are currently recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods. The amendment affects presentation only and there is no impact on the Company's financial position or performance.

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 recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized 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. Revised standard has no impact on the Company.

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 amendment will not have an impact on the financial position or performance of the Company.

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 practice. The amendment is effective for financial statements beginning on or after January 1, 2014. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. The Company does not expect the amendment will have an impact on the Company's financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans (Amendments)
These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after January 1, 2013. The amendment has no impact on the Company.

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)
The amendment is effective for annual periods beginning on or after January 1, 2013. This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with IAS 32. The Company is currently assessing the impact of this amended IFRS, but does not expect significant impact on its financial statements and disclosures.

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. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Financial assets
Debt instruments may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if:
- The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value.

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

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

The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. The standard has not yet been endorsed by EU.

In subsequent phases, the IASB will address general hedge accounting and the impairment of financial assets.

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 judgment 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. Control exists when an investor has:

- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee and
- The ability to use its power over the investee to affect the amount of the investor's returns.

This standard becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. The standard will not have an impact 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.

Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. 'Control' in 'joint control' refers to the definition of 'control' in IFRS 10. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

- Joint operation – An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. In respect of its interest in a joint operation, a joint operator must recognize all of its assets, liabilities, revenues and expenses, including its relative share of jointly controlled assets, liabilities, revenue and expenses.
- Joint venture – An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed.

Under these new categories, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. The standard will not have an impact 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 summarized financial information for each subsidiary with a material non-controlling interest; description of significant judgments 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 summarized 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. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)
In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after January 1, 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The standard will not have an impact 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.

Fair value under IFRS 13 is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (i.e. an 'exit price'). 'Fair value' as used in IFRS 2 Share-based Payments and IAS 17 Leases is excluded from the scope of IFRS 13.

The standard provides clarification on a number of areas, including the following:
– Concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets
– Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements
– A description of how to measure fair value when a market becomes less active

New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurements and the effect of fair value measurements on profit or loss.

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.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognizes these costs as a non-current asset, only if certain criteria are met. This is referred to as the 'stripping activity asset'. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The interpretation is effective for annual periods beginning on or after January 1, 2013. The new interpretation will not have an impact on the Company.

Improvements to IFRSs
In May 2012, the IASB issued amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments become effective for annual periods on or after January 1, 2013 and will have no impact on the financial position or performance of the Company.

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

3. Property, Plant and Equipment

Net plant in service at December 31, 2012 and 2011 was as follows (in CZK millions)

	Buildings	Plant and Equipment	Land and Other	Total 2012	Total 2011
Cost at January 1	83,029	228,785	1,192	313,006	305,523
Additions	5,367	17,576	64	23,007	7,829
Disposals	(207)	(6,819)	(5)	(7,031)	(799)
Change in capitalized part of the provision	(20)	4,941	–	4,921	453
Non-monetary contribution and other movements	(2,962)	(12,736)	(66)	(15,764)	–
Cost at December 31	85,207	231,747	1,185	318,139	313,006
Accumulated depreciation and impairment at January 1	(40,934)	(143,190)	–	(184,124)	(172,285)
Depreciation	(2,239)	(10,799)	–	(13,038)	(12,624)
Net book value of assets disposed	(9)	(114)	–	(123)	(27)
Non-monetary contribution and other movements	2,261	12,295	–	14,556	–
Disposals	207	6,819	–	7,026	797
Impairment losses recognized	–	–	–	–	15
Accumulated depreciation and impairment at December 31	(40,714)	(134,989)	–	(175,703)	(184,124)
Net plant in service at December 31	44,493	96,758	1,185	142,436	128,882

Construction work in progress contains mainly refurbishments performed on Ledvice, Prunéřov, Počerady and Temelín power plants.

4. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2012, and 2011 consist of the following (in CZK millions)

	2012	2011
Restricted debt securities available-for-sale	8,809	8,237
Restricted cash	1,446	909
Total restricted financial assets	10,255	9,146
Equity securities and interests, net	162,125	144,360
Investment in Dalkia	3,166	3,166
Investment in Pražská teplárenská	–	11,963
Loans granted	16,358	20,706
Derivatives	2,770	3,030
Other long-term receivables, including prepayments	38	57
Financial assets in progress	2,946	–
Total	197,658	192,428

The balance of long-term financial assets in progress includes amounts paid in respect of ongoing acquisitions and increases of share capital of subsidiaries, associates and joint-ventures that was not yet registered at December 31.

In June 2012 the Company acquired 100% share in Energotrans, a.s. which supplies heat from Mělník to Prague. The purchase price was partly paid by the offset with the amount of investment in Pražská teplárenská . At the same time CEZ Group sold 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 also sold a project for the construction of new coal-fired power plant Profen. As 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.

Movements in impairment provisions (in CZK millions)

	2012	2011
Opening balance	13,810	11,363
Additions	1,104	2,447
Reversals	(30)	–
Closing balance	14,884	13,810

In 2012 the Company created an impairment provision against the investment in CEZ Shpërndarje Sh.A. up to full amount of investment due to the negative equity position of this subsidiary (see Note 29).

In addition the Company created an impairment provision against the investment in CEZ Distributie S.A. at the amount of CZK 290 million in connection with the goodwill impairment recorded in the consolidated financial statements.

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.

Loans granted and other long-term receivables at December 31, 2012 and 2011 are contracted to mature in the following periods after the balance sheet date (in CZK millions)

	2012		2011	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Due in 1–2 years	8,329	38	1,909	55
Due in 2–3 years	1,320	–	5,530	–
Due in 3–4 years	1,489	–	805	2
Due in 4–5 years	1,320	–	805	–
Due in more than 5 years	3,900	–	11,657	–
Total	16,358	38	20,706	57

Loans granted and other long-term receivables at December 31, 2012 and 2011 have following effective interest rate structure (in CZK millions)

	2012		2011	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Less than 2.0%	–	37	–	57
From 2.0% to 2.99%	6,436	1	214	–
From 3.0% to 3.99%	4,515	–	741	–
From 4.0% to 4.99%	36	–	4,283	–
Over 4.99%	5,371	–	15,468	–
Total	16,358	38	20,706	57

Loans granted and other long-term receivables at December 31, 2012 and 2011 according to currencies (in CZK millions)

	2012		2011	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
CZK	9,179	24	14,879	31
EUR	6,574	12	5,037	25
PLN	605	1	790	–
USD	–	1	–	1
Total	16,358	38	20,706	57

4.1. Investments in Subsidiaries, Associates and Joint-ventures

Several subsidiaries were founded or acquired during 2012:

Energotrans, a.s. (100%), Elektrárna Mělník III, a. s. (100%), Elektrárna Tisová, a.s. (100%) and Elektrárna Dětmarovice, a.s. (100%).

In 2012 Elektrárna Počerady, a.s. has been established by non-monetary conribution of part of business.

As at October 1, 2012 part of Teplárna Trmice, a.s. was demerged from the entity and merged with ČEZ Teplárenská, a.s.

Due to the merger of eEnergy Ralsko a.s., eEnergy Ralsko - Kuřívody a.s., eEnergy Hodonín a.s., FVE Vranovská Ves a.s., GENTLEY a.s., 3 L invest a.s., AREA-GROUP CL a.s., DOMICA FPI s.r.o. and demerged part of ČEZ Obnovitelné zdroje, s.r.o. with ČEZ OZ uzavřený investiční fond a.s. as at November 1, 2012, the share in ČEZ OZ uzavřený investiční fond a.s. increased to 98.63%.

In 2012 the share capital CEZ Hungary Ltd. was increased by cash contribution.

In 2012 the companies New Kosovo Energy L.L.C., CEZ Laboratories Bulgaria EOOD – in liquidation and CEZ FINANCE B.V. were deleted from the Commercial Register.

The following table summarizes investments in subsidiaries, associates and joint-ventures and other ownership interests:

As at December 31, 2012

Company	Country	Interest in CZK millions	% interest	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,415	100.00	4,500
Energotrans, a.s.	Czech Republic	17,986	100.00	–
Severočeské doly a.s.	Czech Republic	14,312	100.00	1,707
CEZ Distributie S.A.	Romania	13,780	100.00	696
CEZ Finance Ireland Ltd.	Ireland	9,025	100.00	–
TEC Varna EAD	Bulgaria	8,856	100.00	280
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	–
CEZ Silesia B.V.	Netherlands	5,788	100.00	–
Teplárna Trmice, a.s.	Czech Republic	5,013	100.00	–
ČEZ Správa majetku, s.r.o.	Czech Republic	4,960	100.00	260
ČEZ Teplárenská, a.s.	Czech Republic	4,452	100.00	350
ČEZ ICT Services, a. s.	Czech Republic	4,391	100.00	1,796
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	–
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	3,457	98.63	–
CEZ Shpërndarje Sh.A.	Albania	3,028	76.00	–
Elektrárna Chvaletice a.s.	Czech Republic	2,739	100.00	821
Akcez Enerji A.S.	Turkey	1,744	27.50	–
Ovidiu Development S.R.L.	Romania	1,643	95.00	–
Elektrárna Počerady, a.s.	Czech Republic	1,260	100.00	–
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	1,688
ŠKODA PRAHA a.s.	Czech Republic	987	100.00	100
CEZ Bulgarian Investments B.V.	Netherlands	973	100.00	–
CM European Power International B.V.	Netherlands	949	50.00	–
CEZ Vanzare S.A.	Romania	817	100.00	–
ČEZ Distribuční služby, s.r.o.	Czech Republic	728	100.00	469
Energetické centrum s.r.o.	Czech Republic	679	100.00	39
CEZ Slovensko, s.r.o.	Slovakia	557	100.00	–
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	–
CM European Power Slovakia s.r.o.	Slovakia	295	24.50	–
PPC Úžín, a.s.	Czech Republic	220	100.00	–
ČEZ Měření, s.r.o.	Czech Republic	217	100.00	203
ČEZ Logistika, s.r.o.	Czech Republic	200	100.00	385
ÚJV Řež, a. s. [1)]	Czech Republic	185	52.46	–
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	6
CEZ Hungary Ltd.	Hungary	158	100.00	–
NERS d.o.o.	Bosnia and Herzegovina	152	51.00	–
CEZ Romania S.A.	Romania	91	100.00	–
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	85	99.90	–
CEZ RUS OOO	Russia	73	100.00	–
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	39.25	–
CEZ Polska sp. z o.o.	Poland	50	100.00	–
Other		451	–	993
Total		177,009		
Provision		(14,884)		
Total, net		162,125		

[1)] In 2012 Ústav jaderného výzkumu Řež a.s. changed its name to ÚJV Řež, a. s.

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.	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		

4.2. Restricted Financial Assets

At December 31, 2012 and 2011, restricted balances of financial assets totaled CZK 10,255 million and CZK 9,146 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), and accumulated provision for nuclear decommissioning in compliance with the Nuclear Act. Restricted financial assets comprise not only restricted cash balances, but also term deposits and government bonds.

At December 31, 2012 and 2011, restricted funds representing accumulated provision for waste storage and reclamation totaled CZK 268 million and CZK 436 million, respectively, while restricted funds representing accumulated provision for nuclear decommissioning totaled CZK 9,932 million and CZK 8,522 million, respectively.

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2012 and 2011 were as follows (in CZK millions)

	Software	Rights and Other	Total 2012	Total 2011
Cost at January 1	1,161	1,069	2,230	2,159
Additions	211	72	283	110
Disposals	(26)	(6)	(32)	(24)
Non-monetary contribution and other movements	(13)	–	(13)	(15)
Cost at December 31	1,333	1,135	2,468	2,230
Accumulated amortization at January 1	(1,056)	(745)	(1,801)	(1,610)
Amortization	(99)	(124)	(223)	(215)
Disposals	26	6	32	24
Non-monetary contribution and other movements	12	–	12	–
Accumulated amortization at December 31	(1,117)	(863)	(1,980)	(1,801)
Intangible assets, net	216	272	488	429

At December 31, 2012 and 2011, intangible assets presented in the balance sheet included intangible assets in progress in the amount of CZK 116 million and CZK 149 million, respectively. 297

6. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2012 and 2011 were as follows (in CZK millions)

	2012	2011
Cash on hand and current accounts with banks	1,641	1,822
Short-term securities	–	660
Term deposits	7,174	13,448
Total	8,815	15,930

At December 31, 2012 and 2011, cash and cash equivalents included foreign currency deposits of CZK 2,723 million and CZK 4,010 million, respectively.

Average interest rates on term deposits at December 31, 2012 and 2011 were 1.17% and 1.64%, respectively. The weighted average interest rate for 2012 and 2011 was 1.52% and 1.76%, respectively.

7. Receivables, Net

The composition of receivables, net, at December 31, 2012 and 2011 is as follows (in CZK millions)

	2012	2011
Trade receivables	36,099	35,437
Short-term loans granted	21,162	8,266
Taxes and fees excl. income tax	353	1,253
Other receivables	1,925	3,075
Allowance for doubtful receivables	(3,307)	(1,750)
Total	56,232	46,281

The information about receivables from related parties is included in Note 25.

In 2012 the receivables from subsidiaries in Albania were fully provided for (see Note 29).

At December 31, 2012 and 2011 the ageing analysis of receivables, net is as follows (in CZK millions)

	2012	2011
Not past due	55,739	45,818
Past due but not impaired [1]	–	–
less than 3 months	393	256
3–6 months	25	138
6–12 months	75	69
Total	56,232	46,281

[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)

	2012	2011
Opening balance	1,750	1,622
Additions	1,809	906
Reversals	(220)	(832)
Currency translation difference	(32)	54
Closing balance	3,307	1,750

8. Emission Rights

The following table summarizes the movements and balances of emission rights and credits in measurement units (thousands of tons) in 2012 and 2011 and as at December 31, 2012 and 2011, respectively, and their valuation presented in the accompanying financial statements:

	2012		2011	
	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	33,678	4,968	28,470	1,681
Emission rights granted	31,992	1,901	31,992	3,296
Non-monetary contribution to Elektrárna Počerady, a.s.	(6,697)	(538)	–	–
Settlement of prior year actual emissions with register	(29,107)	(2,471)	(29,829)	(1,292)
Emission rights purchased	8,058	4,389	6,505	2,591
Emission rights sold	(2,996)	(241)	(1,235)	(485)
Emission credits purchased	13,970	1,249	–	–
Emission credits sold	(5,662)	(1,016)	–	–
Reclassified to emission rights and credits held for trading	(436)	(171)	(2,225)	(823)
Granted and purchased emission rights and credits at December 31	42,800	8,070	33,678	4,968
Emission rights and credits held for trading				
Emission rights held for trading at January 1	297	39	1,569	471
Settlement of prior year actual emissions with register	(296)	(29)	–	–
Emission rights purchased	22,949	5,082	4,351	1,652
Emission rights sold	(11,349)	(2,680)	(6,550)	(2,277)
Emission credits purchased	4,557	22	3,822	1,288
Emission credits sold	(10)	(1)	(5,120)	(1,716)
Reclassified from emission rights and credits for own use	436	171	2,225	823
Fair value adjustment	–	(636)	–	(202)
Emission rights and credits held for trading at December 31	16,584	1,968	297	39

In 2012 and 2011, total emissions of greenhouse gases made by the Company amounted to an equivalent of 19,680 thousand tons and 29,403 thousand tons of CO_2, respectively. At December 31, 2012 and 2011 the Company recognized a provision for CO_2 emissions in total amount of CZK 1,580 million and CZK 3,198 million, respectively (see Notes 2.10 and 18).

The following table shows the impact of transactions with emission rights and credits on income for the year ended December 31, 2012 and 2011 (in CZK millions):

	2012	2011
Gain on sales of granted emission rights	488	–
Net gain (loss) from trading with emission rights	83	(169)
Net loss from emission rights purchased for own use	–	(265)
Net loss from emission credits sold	(320)	(649)
Net loss (gain) from derivatives	(783)	303
Remitted emission rights and credits	(197)	(1,026)
Fair value adjustment	(636)	(202)
Creation of provisions for emission rights	–	(169)
Settlement of provisions for emission rights	169	2,180
Total gain (loss) from emission rights and credits	(1,196)	3

The expense related to the gift tax on granted emission rights is included in the line Other income (expenses), net (see Notes 2.10 and 23).

9. Other Financial Assets, Net

Other financial assets, net, at December 31, 2012 and 2011 were as follows (in CZK millions)

	2012	2011
Derivatives	26,793	20,543
Equity securities available-for-sale	737	4,538
Debt securities held-to-maturity	9,339	3,166
Total	36,869	28,247

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 securities 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, 2012 and 2011 were as follows (in CZK millions)

	2012	2011
Prepayments	402	1,633
Deferred variation margin on “own use” electricity futures	–	11
Advances granted	597	341
Total	999	1,985

Deferred variation margin represents the net variation margin paid to or by energy exchange POWER EXCHANGE CENTRAL EUROPE, a.s. (PXE) in respect of the electricity future contracts treated as own use, which will be delivered after balance sheet date. In 2012 this deferred variation margin is negative and therefore it is presented as part of Accrued liabilities (see Note 18).

11. Equity

As at December 31, 2012, 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 2012 and 2011 (in pieces)

	2012	2011
Number of treasury shares at beginning of period	3,875,021	4,085,021
Sales of treasury shares	–	(210,000)
Number of treasury shares at end of period	3,875,021	3,875,021

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, 2012 and 2011, the balance was CZK 16,227 million and CZK 16,227 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, 2012 and 2011 such balances amounted to CZK 4,382 million and CZK 4,382 million, respectively, and were recorded against distributable retained earnings.

Dividends paid per share were CZK 45 and CZK 50 in 2012 and 2011, respectively. Dividends from 2012 profit will be declared on the general meeting which will be held in the first half of 2013.

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. Considering the current structure and stability of cash flow of the Group, the 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% in the long term.

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):

	2012	2011
Total long-term debt	188,111	183,949
Total short-term loans	4,784	5,500
Total debt	192,895	189,449
Less: Cash and cash equivalents	(17,957)	(22,062)
Less: Highly liquid financial assets	(13,910)	(11,190)
Total net debt	161,028	156,197
Income before income taxes and other income (expenses)	57,931	61,542
Plus: Depreciation and amortization	27,578	25,770
EBITDA	85,509	87,312
Total equity attributable to equity holders of the parent	250,235	226,825
Total debt	192,895	189,449
Total capital	443,130	416,274
Net debt to EBITDA ratio	1.88	1.79
Total debt to total capital ratio	43.5%	45.5%

12. Long-term Debt

Long-term debt at December 31, 2012 and 2011 was as follows (in CZK millions)

	2012	2011
4.125% Eurobonds, due 2013 (EUR 372 million) [1]	9,345	12,863
5.125% Eurobonds, due 2012 (EUR 278 million) [2]	–	12,891
6.000% Eurobonds, due 2014 (EUR 600 million)	15,048	15,419
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,653	3,087
5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million)	34	33
5.750% Eurobonds, due 2015 (EUR 600 million)	15,054	15,436
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,770	2,060
5.000% Eurobonds, due 2021 (EUR 750 million)	18,804	19,292
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,253	1,285
3M Libor + 0.70% Eurobonds, due 2012 (USD 100 million)	–	1,992
6M Pribor + 0.62% Eurobonds, due 2012 (CZK 3,000 million)	–	2,999
4.875% Eurobonds, due 2025 (EUR 750 million)	18,755	19,239
4.500% Eurobonds, due 2020 (EUR 750 million)	18,656	19,119
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,545	2,962
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,247	1,247
3.625% Eurobonds, due 2016 (EUR 500 million)	12,493	12,798
2.150%*IRp Eurobonds, due 2021 (EUR 100 million)	2,514	2,580
4.102% Eurobonds, due 2021 (EUR 50 million)	1,252	1,284
4.375% Eurobonds, due 2042 (EUR 50 million)	1,230	–
4.500% Eurobonds, due 2047 (EUR 50 million)	1,230	–
4.383% Eurobonds, due 2047 (EUR 80 million)	2,011	–
3M Euribor + 0.36% Eurobonds, due 2014 (EUR 150 million)	3,771	–
4.250% U.S. bonds, due 2022 (USD 700 million)	13,193	–
5.625% U.S. bonds, due 2042 (USD 300 million)	5,649	–
4.500% Registered bonds, due 2030 (EUR 40 million)	982	1,006
4.750% Registered bonds, due 2023 (EUR 40 million)	991	1,016
4.700% Registered bonds, due 2032 (EUR 40 million)	999	–
4.270% Registered bonds, due 2047 (EUR 61 million)	1,506	–
9.220% Debentures, due 2014 (CZK 2,500 million) [3]	2,499	2,499
Total long term bonds and debentures	155,484	151,107
Less: Current portion	(9,345)	(17,882)
Long-term bonds and debentures, net of current portion	146,139	133,225
Long-term bank loans		
less than 2.00% p. a.	16,794	470
2.00% to 2.99% p. a.	–	12,384
Total long term loans	16,794	12,854
Less: Current portion	(1,626)	(786)
Long-term loans, net of current portion	15,168	12,068
Total long term debt	172,278	163,961
Less: Current portion	(10,971)	(18,668)
Total long-term debt, net of current portion	161,307	145,293

[1] In January 2012, the original nominal value of the issue (EUR 500 million) was reduced by bought back own bonds at a nominal value of EUR 128 million.
[2] In January 2012, the original nominal value of the issue (EUR 500 million) was reduced by bought back own bonds at a nominal value of EUR 222 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, 2012 and 2011 was 6.6% and 6.5%, 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.

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)

	2012	2011
Current portion	10,971	18,668
Between 1 and 2 years	22,856	14,525
Between 2 and 3 years	17,262	19,496
Between 3 and 4 years	14,701	17,014
Between 4 and 5 years	2,208	14,376
Thereafter	104,280	79,882
Total long-term debt	172,278	163,961

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

	2012		2011	
	Foreign currency	CZK	Foreign currency	CZK
EUR	5,668	142,486	5,684	146,645
USD	989	18,842	100	1,992
JPY	31,487	6,968	31,487	8,109
CZK	–	3,982	–	7,215
Total long-term debt		172,278		163,961

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, 2012 and 2011 without considering interest rate hedging (in CZK millions):

	2012	2011
Floating rate long-term debt		
with interest rate fixed from 1 to 3 months	4,006	471
with interest rate fixed from 3 months to 1 year	20,311	21,159
Total floating rate long-term debt	24,317	21,630
Fixed rate long-term debt	147,961	142,331
Total long-term debt	172,278	163,961

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 2012 and 2011 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, 2012 and 2011 are as follows (in CZK millions)

		2012		2011	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS					
Investments					
Equity securities and interests, net	SaA	162,125	162,125	144,360	144,360
Restricted debt securities available-for-sale	AFS	8,809	8,809	8,237	8,237
Restricted cash	LaR	1,446	1,446	909	909
Other long-term financial assets, net	LaR	22,508	22,508	35,892	35,892
Current assets					
Receivables	LaR	56,232	56,232	46,281	46,281
Cash and cash equivalents	LaR	8,815	8,815	15,930	15,930
Short-term debt securities held-to-maturity	HTM	9,339	9,339	3,166	3,166
Short-term equity securities available-for-sale	AFS	737	737	4,538	4,538
Other current assets	LaR	597	597	341	341
LIABILITIES					
Long-term debt including the current portion	AC	(172,278)	(193,413)	(163,961)	(170,079)
Short-term loans	AC	(2,735)	(2,735)	(3,624)	(3,624)
Current liabilities	AC	(57,498)	(57,498)	(57,799)	(57,799)
DERIVATIVES					
Cash flow hedges					
Short-term receivables	HFT	19	19	132	132
Long-term receivables	HFT	2,499	2,499	1,822	1,822
Short-term liabilities	HFT	(287)	(287)	(3,093)	(3,093)
Long-term liabilities	HFT	(1,868)	(1,868)	(1,541)	(1,541)
Total cash flow hedges		363	363	(2,680)	(2,680)
Electricity, coal and gas trading contracts					
Short-term receivables	HFT	25,735	25,735	17,527	17,527
Short-term liabilities	HFT	(19,266)	(19,266)	(16,257)	(16,257)
Total electricity, coal and gas trading contracts		6,469	6,469	1,270	1,270
Other derivatives					
Short-term receivables	HFT	1,039	1,039	2,884	2,884
Long-term receivables	HFT	271	271	1,208	1,208
Short-term liabilities	HFT	(492)	(492)	(2,198)	(2,198)
Long-term liabilities	HFT	(1,351)	(1,351)	(1,056)	(1,056)
Total other derivatives		(533)	(533)	838	838

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 2012 and 2011.

At December 31, 2012, 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	25,735	133	25,602	–
Cash flow hedges	2,518	–	2,518	–
Other derivatives	1,310	562	748	–
Available-for-sale restricted debt securities	8,809	8,809	–	–
Available-for-sale short-term equity securities	737	737	–	–

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(19,266)	(232)	(19,034)	–
Cash flow hedges	(2,155)	(96)	(2,059)	–
Other derivatives	(1,843)	(50)	(1,793)	–

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)	–

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 sales and emission allowances' purchases in the following 3-year horizon, closing long-term contracts for electricity sale and emission allowances' purchase 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: 305

- 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 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) or Monte-Carlo VaR for the commodity options 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, coal ARA, Richards Bay, Newcastle and Brent crude oil)
- 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)

	2012	2011
Monthly VaR (95%) – impact of changes in commodity prices	556	1,330

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 2013 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)

	2012	2011
Monthly currency VaR (95% confidence)	194	437

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)

	2012	2011
IR sensitivity* to parallel yield curve shift (+10bp)	(4)	9

* 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)

	2012	2011
Guarantees provided to subsidiaries, associates and joint-ventures	19,575	29,118
Guarantees provided to external parties	–	12
Total *	19,575	29,130

* Some of the guarantees could be called until March 2027 at the latest.

Liquidity risk

Contractual maturity profile of financial liabilities at December 31, 2012 (in CZK millions)

	Bonds and debentures	Loans	Derivatives *	Trade and other payables	Guarantees issued **
Less than 1 year	16,582	4,540	270,483	57,498	19,575
Between 1 and 2 years	28,161	1,699	44,106	–	–
Between 2 and 3 years	20,810	2,354	18,195	–	–
Between 3 and 4 years	17,382	2,336	155,554	–	–
Between 4 and 5 years	4,434	2,317	2,480	–	–
Thereafter	134,775	7,286	68,957	–	–
Total	222,144	20,532	559,775	57,498	19,575

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 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 2013 to 2017. The hedging instruments as at December 31, 2012 and 2011 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 5.3 billion and EUR 5.6 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (1,778) million and CZK (1,684) million at December 31, 2012 and 2011, respectively.

The Company also enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur in 2015. The hedging instruments as at December 31, 2012 and 2011 are the futures and forward contracts for the purchase of allowances equivalent to 2.9 million tons and 14.5 million tons of CO_2 emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (98) million and CZK (2,799) million at December 31, 2012 and 2011, respectively.

In 2011 the Company started to enter into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2014 to 2015. The hedging instruments are the derivative electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK 2,239 million and CZK 1,803 million at December 31, 2012 and 2011, respectively.

In 2012 and 2011 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 2012 and 2011 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (778) million and CZK (579) million, respectively. The ineffectiveness in 2012 and 2011 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 four 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. 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 2012 and 2011, respectively, the payments to the nuclear account amounted to CZK 1,516 million and CZK 1,414 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, 2012 and 2011 (in CZK millions):

	Accumulated provisions			
	Nuclear decommissioning	Spent fuel storage		Total
		Interim	Long-term	
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
Movements during 2012				
Discount accretion and effect of inflation	403	289	976	1,668
Provision charged to income statement	–	453	–	453
Effect of change in estimate charged to income statement	–	364	–	364
Effect of change in estimate added to fixed assets	2,490	–	2,451	4,941
Current cash expenditures	–	(742)	(1,516)	(2,258)
Balance at December 31, 2012	11,850	6,794	23,583	42,227

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 2012 the Company recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage cost and change in discount rate, the change in estimate in provision for nuclear decommissioning due to change in discount rate and the change in long-term spent fuel storage due to the modification of the expected output of the nuclear power plants and change in discount rate.

In 2011 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, 2012 and 2011 are as follows (in CZK millions)

	2012	2011
Derivatives	3,219	2,597
Provision for waste storage reclamation	1,277	1,762
Employee benefits liabilities	909	915
Total	5,405	5,274

The following table shows the movements of the provision for waste storage reclamation for the years ended December 31, 2012 and 2011 (in CZK millions):

	2012	2011
Balance at January 1	1,762	1,457
Discount accretion and effect of inflation	76	65
Effect of change in estimate added to (deducted from) fixed assets	(106)	416
Current cash expenditures	(105)	(176)
Non-monetary contribution	(350)	–
Balance at December 31	1,277	1,762

17. Trade and Other Payables

Trade and other payables at December 31, 2012 and 2011 were as follows (in CZK millions)

	2012	2011
Trade payables	30,212	36,332
Derivatives	20,045	21,548
Payables from Group cashpooling and similar intra-group loans	26,043	20,383
Other	1,243	1,084
Total	77,543	79,347

18. Accrued Liabilities

Accrued liabilities at December 31, 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Provisions	3,460	4,844
Deferred variation margin on “own use” electricity futures (see Note 10)	220	–
Accrued interest	3,299	3,256
Unbilled goods and services	9,579	4,642
Taxes and fees, except income tax	200	223
Other	–	32
Total	16,758	12,997

In 2012, the Company recognized a provision in the amount of CZK 895 million for the guarantee for a loan granted by International Financial Corporation and the European Bank for Reconstruction and Development to CEZ Shpërndarje (see Note 29).

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, 2012 and 2011, the provision totaled CZK 342 million and CZK 363 million, respectively.

In 2012 and 2011, the Company recognized provision in total amount of CZK 1,580 million and CZK 3,198 million, respectively, for insufficient amount of granted allowances to cover actual emissions (see Note 8).

19. Revenues

Revenues for the years ended December 31, 2012 and 2011 were as follows (in CZK millions)

	2012	2011
Sale of electricity		
Electricity sales – domestic		
ČEZ Prodej, s.r.o.	33,961	36,746
POWER EXCHANGE CENTRAL EUROPE, a.s. (PXE)	2,013	4,265
Other	38,556	30,108
Total electricity sales – domestic	74,530	71,119
Electricity sales – foreign	11,582	16,942
Effect of hedging (see Note 14.3)	1,908	2,579
Sales of ancillary and other services	6,295	6,606
Total sales of electricity	94,315	97,246
Electricity, coal and gas derivative trading		
Sales domestic	18,861	31,724
Sales foreign	241,579	197,061
Purchases domestic	(18,585)	(19,433)
Purchases foreign	(239,074)	(204,577)
Effect of hedging	297	(6)
Changes in fair value of commodity derivatives	954	1,135
Total gains and losses from electricity, coal and gas derivative trading, net	4,032	5,904
Sales of gas, heat and other revenues		
Sales of gas	4,270	5,715
Sales of heat	1,759	1,789
Other	3,771	2,787
Total sales of gas, heat and other revenues	9,800	10,291
Total revenues	108,147	113,441

20. Salaries and Wages

Salaries and wages for the years ended December 31, 2012 and 2011 were as follows (in CZK millions)

	2012		2011	
	Total	Key management personnel [1]	Total	Key management personnel [1]
Salaries and wages	(4,226)	(235)	(4,244)	(300)
Remuneration of board members, including royalties	(39)	(39)	(39)	(39)
Share options	(75)	(75)	(73)	(73)
Social and health security	(1,286)	(29)	(1,306)	(31)
Other personal expenses	(487)	(26)	(289)	(36)
Total	(6,113)	(404)	(5,951)	(479)

[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 2012 and 2011.

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, 2012 and 2011 the aggregate number of share options granted to members of Board of Directors, Supervisory Board members and selected managers was 2,443 thousand and 2,663 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 2012 and 2011 the Company has recognized a compensation expense of CZK 75 million and CZK 73 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 2012 and 2011 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, 2010	**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**
Options granted	664	256	920	727.80
Options forfeited	(910)	(230)	(1,140)	1,122.90
Share options at December 31, 2012 [2]	**1,657**	**786**	**2,443**	**852.85**

[1] In 2011 the weighted average share price at the date of the exercise for the options exercised was CZK 936.76.
[2] At December 31, 2012 and 2011 the number of exercisable options was 900 thousand and 1,485 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 992.65 per share and CZK 1,142.30 at December 31, 2012 and 2011, 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:

	2012	2011
Weighted average assumptions		
Dividend yield	5.6%	4.4%
Expected volatility	22.4%	34.0%
Mid-term risk-free interest rate	1.1%	1.5%
Expected life (years)	1.4	1.4
Share price (CZK per share)	733.6	851.5
Weighted average grant-date fair value of options (CZK per 1 option)	63.4	121.1

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, 2012 and 2011 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

	2012	2011
CZK 600–900 per share	1,688	883
CZK 900–1,400 per share	755	1,780
Total	2,443	2,663

The options granted, which were outstanding as at December 31, 2012 and 2011 had an average remaining contractual life of 1.9 years and 1.6 years, respectively.

21. Other Operating Expenses

Other operating expenses for the years ended December 31, 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Services	(6,819)	(6,687)
Change in provisions and valuation allowances	782	1,792
Taxes and fees	(1,887)	(1,660)
Write-off of bad debts and cancelled investment	(12)	(104)
Travel expense	(87)	(85)
Gifts	(219)	(202)
Gain on sale of property, plant and equipment	23	34
Gain (loss) on sale of material	44	(39)
Fines, penalties and penalty interest, net	490	35
Other, net	(599)	(470)
Total	(8,284)	(7,386)

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, 2012 and 2011 was as follows (in CZK millions)

	2012	2011
Loans and receivables	1,735	1,791
Held-to-maturity investments	111	87
Available-for-sale investments	318	302
Bank accounts	419	428
Total	2,583	2,608

23. Other Income (Expenses), Net

Other income (expenses), net, for the years ended December 31, 2012 and 2011 consist of the following (in CZK millions)

	2012	2011
Dividends received	14,557	15,474
Derivative gains (losses), net	(1,621)	816
Gains on sale of available-for-sale financial assets	12	85
Gift tax on emission rights	(1,493)	(3,296)
Impairment of financial investments (Note 4)	(1,074)	(2,447)
Other, net	(1,556)	782
Total	8,825	11,414

24. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2012 and 2011. The Czech corporate income tax rate for 2013 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)

	2012	2011
Current income tax charge	(5,632)	(6,379)
Adjustments in respect of current income tax of previous periods	(38)	(87)
Deferred income taxes	(604)	(93)
Total	(6,274)	(6,559)

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

	2012	2011
Income before income taxes	41,610	43,896
Statutory income tax rate	19%	19%
"Expected" income tax expense	(7,906)	(8,340)
Tax effect of		
Non-deductible provisions and allowances, net	(598)	(414)
Non-deductible expenses related to shareholdings	(27)	(16)
Other non-deductible items, net	(156)	(58)
Non-taxable revenue from dividends	2,826	2,996
Non-deductible share based payment expense	(14)	(14)
Gift tax on emission allowances	(361)	(626)
Adjustments in respect of current income tax of previous periods	(38)	(87)
Income tax	(6,274)	(6,559)
Effective tax rate	15%	15%

Deferred income tax liability, net, at December 31, 2012 and 2011 was calculated as follows (in CZK millions):

	2012	2011
Accumulated provision for nuclear decommissioning and spent fuel storage	6,649	5,729
Other provisions	480	615
Allowances	64	90
Deferred tax recognized in equity	–	1,131
Other temporary differences	156	162
Total deferred tax assets	7,349	7,727
Tax depreciation in excess of financial statement depreciation	(17,548)	(16,178)
Penalty receivables	(86)	(14)
Deferred tax recognized in equity	(564)	(81)
Other temporary differences	(167)	(252)
Total deferred tax liability	(18,365)	(16,525)
Total deferred tax liability, net	(11,016)	(8,798)

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

	2012			2011		
	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	7,867	(1,495)	6,372	(7,360)	1,399	(5,961)
Cash flow hedges removed from equity	(104)	20	(84)	(2,306)	438	(1,868)
Change in fair value of available-for-sale financial assets recognized in equity	733	(139)	594	44	(9)	35
Total	8,496	(1,614)	6,882	(9,622)	1,828	(7,794)

25. Related Parties

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

At December 31, 2012 and 2011, the receivables from related parties and payables to related parties were as follows (in CZK millions)

	Receivables		Payables	
	2012	2011	2012	2011
3 L invest, a.s. *)	–	3,125	–	72
Akcez Enerji A.S.	89	55	33	73
Akenerji Elektrik Üretim A.S.	22	1,414	648	–
AREA-GROUP CL, a.s. *)	–	1,456	–	95
CEZ Bulgaria EAD	137	240	–	–
CEZ Distributie S.A.	–	–	210	920
CEZ Elektroproizvodstvo	–	114	–	–
CEZ Finance B.V.	–	–	–	47
CEZ Hungary Ltd.	256	295	155	98
CEZ International Finance B.V.	–	–	715	434
CEZ MH B.V.	6,669	4,469	210	297
CEZ Romania S.A.	109	48	1,500	904
CEZ Shpërndarje Sh.A	976	396	–	–
CEZ Slovensko, s.r.o.	637	728	177	189
ČEZ Bohunice a.s.	–	–	194	198
ČEZ Distribuce, a. s.	10,375	6,883	2,978	1,915
ČEZ Distribuční služby, s.r.o.	11	10	3,431	2,941
ČEZ Energetické produkty, s.r.o.	1	2	182	345
ČEZ ICT Services, a. s.	287	11	472	1,243
ČEZ Logistika, s.r.o.	7	8	444	289
ČEZ Měření, s.r.o.	2	1	388	423
ČEZ Obnovitelné zdroje, s.r.o.	1	1,625	40	97
ČEZ OZ uzavřený investiční fond	9,471	–	171	–
ČEZ Prodej, s.r.o.	1,760	1,540	7,240	5,720
ČEZ Správa majetku, s.r.o.	5	5	419	267
ČEZ Teplárenská, a.s.	231	91	244	525
ČEZ Zákaznické služby, s.r.o.	4	4	202	237
DOMICA FPI, s.r.o. *)	–	968	–	6
eEnergy Ralsko, a.s. *)	–	199	–	–
Elektrárna Chvaletice, a.s.	578	508	3,965	3,163
Elektrociepłownia Chorzów ELCHO sp. z o.o.	844	1,111	6	4
Elektrárna Počerady, a.s.	273	–	2,150	–
Elektrownia Skawina S.A.	3	81	145	105
Energetické centrum, s.r.o.	216	240	–	12
Energotrans, a.s.	41	–	1,052	–
GENTLEY, a.s. *)	–	1,932	–	58
Ovidiu Development S.R.L.	8,143	3,438	87	1
Severočeské doly a.s.	268	1,356	424	500
ŠKODA PRAHA a.s.	–	–	246	257
ŠKODA PRAHA Invest s.r.o.	9	18	3,256	4,305
Taidana Limited	–	–	–	2,634
Teplárna Trmice, a.s.	3	1	1,413	739
Tomis Team S.R.L.	141	209	105	108
ÚJV Řež, a. s.	–	–	224	375
Other	2,262	2,328	2,180	1,745
Total	43,831	34,909	35,306	31,341

*) In 2012 the companies eEnergy Ralsko a.s., eEnergy Ralsko - Kuřívody a.s., eEnergy Hodonín a.s., FVE Vranovská Ves a.s., GENTLEY a.s., 3 L invest a.s., AREA GROUP CL a.s., DOMICA FPI s.r.o. and demerged part of ČEZ Obnovitelné zdroje, s.r.o. merged with ČEZ OZ uzavřený investiční fond a.s.

The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2012 and 2011 (in CZK millions)

	Sales to related parties		Purchases from related parties	
	2012	2011	2012	2011
Akcez Enerji A.S.	34	112	–	–
CEZ Bulgaria EAD	272	285	–	–
CEZ Hungary Ltd.	1,709	1,535	106	198
CEZ MH B.V.	139	85	–	–
CEZ Romania S.R.L.	197	168	–	–
CEZ Shpërndarje Sh.A	1	550	273	–
CEZ Slovensko, s.r.o.	2,117	3,235	861	1,594
CEZ Srbija d.o.o.	90	863	217	762
CEZ Trade Bulgaria EAD	28	35	460	239
CEZ Trade Polska sp. z o.o.	269	150	28	23
CEZ Trade Romania S.R.L.	486	235	555	555
CEZ Vanzare S.A.	1,101	655	8	–
ČEZ Distribuce, a. s.	378	601	117	146
ČEZ Distribuční služby, s.r.o.	91	89	1	–
ČEZ Energetické produkty, s.r.o.	13	15	984	1,083
ČEZ Energetické služby, s.r.o.	14	21	108	121
ČEZ ENERGOSERVIS spol. s r.o.	16	12	479	435
ČEZ ICT Services, a. s.	77	74	1,905	1,868
ČEZ Obnovitelné zdroje, s.r.o.	11	10	258	227
ČEZ Prodej, s.r.o.	39,391	40,539	3,789	7,098
ČEZ Správa majetku, s.r.o.	49	50	648	648
ČEZ Teplárenská, a.s.	1,504	1,113	120	165
Elektrárna Chvaletice, a.s.	2,396	2,117	5,153	4,342
Elektrociepłownia Chorzów ELCHO sp. z o.o.	215	3	512	208
Elektrownia Skawina S.A.	262	98	1,814	1,508
Energotrans, a.s.	286	–	606	–
LOMY MOŘINA spol. s r.o.	–	–	174	175
OSC, a.s.	–	–	100	88
SD - Kolejová doprava, a.s.	14	10	670	522
Severočeské doly a.s.	48	63	5,269	5,623
ŠKODA PRAHA Invest s.r.o.	57	57	17,390	14,970
TEC Varna EAD	–	678	281	1,706
Teplárna Trmice, a.s.	64	63	515	505
Tomis Team, S.R.L.	141	98	956	704
Ústav jaderného výzkumu Řež a.s.	1	1	460	546
Other	1,083	767	2,925	195
Total	52,554	54,387	47,742	46,254

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

	2012	2011
Numerator – basic and diluted (CZK millions)		
Net profit	35,336	37,337
Denominator (thousands shares)		
Basic		
Weighted average shares outstanding	534,115	534,041
Dilutive effect of share options	11	13
Diluted		
Adjusted weighted average shares	534,126	534,054
Net income per share (CZK per share)		
Basic	66.2	69.9
Diluted	66.2	69.9

28. Commitments and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2012 to total CZK 123.8 billion over the next five years, as follows: CZK 35.1 billion in 2013, CZK 29.5 billion in 2014, CZK 16.3 billion in 2015, CZK 15.5 billion in 2016 and CZK 27.4 billion in 2017. 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, 2012 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 and general third party liability insurance in connection with main operations of the Company.

29. Situation in Albania

In May 2009, ČEZ acquired a 76% shareholding in the sole Albanian distribution company OSSh – currently CEZ Shpërndarje ("CEZ SH"). The remaining 24% is owned by the Albanian government. Part of the contractual documentation is the Regulatory Statement, which has set a particular form of regulation and anticipated acceptance of a series of independent studies that would reflect all eligible costs in tariffs and other regulatory conditions for meeting CEZ SH's obligations as the license holder. In December 2011, the Albanian regulator (ERE) made decisions as to tariffs for the period 2012–2014 and increased regulated prices of electricity purchases without any corresponding modification of regulated prices for CEZ SH's end customers. ČEZ filed a claim with ERE against the decisions that were adopted in conflict with the Regulatory Statement and, consequently brought a legal action. The regulator's decisions together with other unfavorably set conditions by the Albanian government institutions negatively affected CEZ SH's results of operations and gradually caused problems with liquidity resulting in CEZ SH's critical financial situation and insolvency.

In the course of 2012 ČEZ repeatedly notified the ERE in writing of the issues and CEZ SH's deteriorating financial position and also of the necessity to take immediate action toward CEZ SH's inability to meet its license-related obligations. The ERE repeatedly did not respond to ČEZ notifications and calls but rather adopted restrictive measures making the cut offs of power non-payers more difficult, changed the method of reporting of revealed power thefts and did not approve terms enabling withdrawal of an investment loan. In addition, the Albanian tax administration changed its approach to assessments of additional tax payments and penalties. During negotiations the Albanian side started to publicly proclaim its own, closely unspecified financial claims towards ČEZ. The Albanian side has never sufficiently backed up, legally specified and unanimously quantified these claims and, above all, never brought them to any court or arbitrary institution. For sake of prudence ČEZ has always a priori rejected in writing all the Albanian side assertions as untrue and ungrounded and get an independent legal opinion prepared. Considering all relevant circumstances and the valid Albanian legislation, the Albanian side success in bringing the alleged claims cannot be anticipated, the possible legal grounds of these claims are, as per the Albanian law, very weak and the obligation to prove its assertions is fully at the plaintiff's side. Under the current circumstances these claims can be regarded as ungrounded and purpose-made assertions and therefore ČEZ created no provision against them as at December 31, 2012.

Considering the CEZ SH's negative equity and financial position ČEZ created 100% allowances against the financial investment, trade receivables and the extended borrowings. In addition, ČEZ made a provision for guarantee for a loan plus interest and other charges.

On January 21, 2013 the regulator decided to revoke the CEZ SH's license for the distribution and sale of electricity to tariff customers and appointed the administrator of CEZ SH. The administrator took control over the company including the decision making powers and responsibility for its operations. Both the rights of CEZ SH statutory bodies and the ČEZ shareholder rights transferred to the administrator and thus ČEZ lost control over CEZ SH. To prevent interests of its shareholders ČEZ appealed against setting up of the administrator and against its powers and on February 7, 2013 it officially notified the Albanian government of its intention to launch international arbitration proceedings.

On February 7, 2013, ČEZ paid CEZ SH's liabilities in the amount of EUR 35.2 million to the International Financial Corporation and the European Bank for Reconstruction and Development related to the loan agreement made by and between the two banks and CEZ SH in June 2011 and in accordance with the written arrangement between ČEZ and the two banks signed on July 20, 2012. ČEZ thus has become CEZ SH's creditor. In addition, the two banks (EBRD on February 14, 2013 and IFC on February 15, 2013) also cancelled the unused line of credit which was originally contracted at EUR 100 million.

30. Legal Disputes

As of December 31, 2012 ČEZ, a. s. was a defendant in several lawsuits related to the realization of takeover offer and squeeze-out of minority shareholders in several subsidiaries. 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.

31. Events after the Balance Sheet Date

As at January 1, 2013 the Company contributed part of business (heat distribution network) to subsidiary ČEZ Teplárenská, a.s.

On January 21, 2013 the regulator decided to revoke the CEZ Shpërndarje's license for the distribution and sale of electricity to tariff customers and appointed the administrator of CEZ Shpërndarje (see Note 29).

As at February 1, 2013 the Company contributed part of business (Dětmarovice coal fired plant) to subsidiary Elektrárna Dětmarovice, a.s.

On February 7, 2013 ČEZ paid CEZ Shpërndarje's liabilities in the amount of EUR 35.2 million to the International Financial Corporation and the European Bank for Reconstruction and Development (see Note 29).

On February 20, 2013 the Bulgarian regulator announced the initiation of proceedings to revoke CEZ Razpredelenie Bulgaria's license for distribution of electricity and CEZ Elektro Bulgaria's license for the sale of electricity. The regulator set the procedural deadlines for licensed entities. Both the companies consider the reasons of the regulator as ungrounded and will use all legal means to stop the proceedings intiated without revocation of the licences.

These financial statements have been authorized for issue on February 25, 2013.

Identification of ČEZ, a. s.

ČEZ, a. s.
Duhová 2/1444
140 53 Prague 4
Czech Republic

Incorporated in the Commercial Register maintained by the Municipal Court in Prague (part B, insert 1581)

Established:	1992
Legal form:	joint-stock company
ID Number:	452 74 649
Tax ID:	CZ45274649
Bankers:	KB Prague 1, account no. 71504011/0100
Telephone:	+420 211 041 111
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Closing date of the 2012 Annual Report: March 31, 2013

www.cez.cz

www

Group Structure Chart
Alphabetical List of Companies – Group Members

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