ČEZ, a. s.

FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2014

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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, 2014, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ, a. s. as at December 31, 2014, 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

Martin Skácelík, Auditor
License No. 2119

March 2, 2015
Prague, Czech Republic

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2014

in CZK Millions

	2014	2013
Assets		
Property, plant and equipment:		
Plant in service	344,246	319,081
Less accumulated provision for depreciation	(196,333)	(182,282)
Net plant in service (Note 3)	147,913	136,799
Nuclear fuel, at amortized cost	10,898	10,627
Construction work in progress (Note 3)	81,913	86,512
Total property, plant and equipment	240,724	233,938
Other non-current assets:		
Investments and other financial assets, net (Note 4)	188,388	192,512
Intangible assets, net (Note 5)	668	572
Total other non-current assets	189,056	193,084
Total non-current assets	429,780	427,022
Current assets:		
Cash and cash equivalents (Note 6)	9,511	14,166
Receivables, net (Note 7)	46,757	56,480
Income tax receivable	1,404	807
Materials and supplies, net	5,519	4,535
Fossil fuel stocks	561	593
Emission rights (Note 8)	4,175	7,300
Other financial assets, net (Note 9)	38,359	37,206
Other current assets (Note 10)	1,117	1,148
Total current assets	107,403	122,235
Total assets	537,183	549,257

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

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2014

continued

	2014	2013
Equity and liabilities		
Equity:		
Stated capital	53,799	53,799
Treasury shares	(4,382)	(4,382)
Retained earnings and other reserves	156,715	155,826
Total equity (Note 11)	206,132	205,243
Long-term liabilities:		
Long-term debt, net of current portion (Note 12)	143,316	162,746
Accumulated provision for nuclear decommissioning and fuel storage (Note 15)	47,087	43,641
Other long-term liabilities (Note 16)	10,009	10,321
Total long-term liabilities	200,412	216,708
Deferred tax liability (Note 25)	9,624	8,744
Current liabilities:		
Short-term loans (Note 17)	7,433	2,230
Current portion of long-term debt (Note 12)	15,092	24,713
Trade and other payables (Note 18)	84,479	78,844
Accrued liabilities (Note 19)	14,011	12,775
Total current liabilities	121,015	118,562
Total equity and liabilities	537,183	549,257

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

ČEZ, a. s.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

in CZK Millions

	2014	2013
Revenues:		
Sales of electricity	72,132	89,487
Gains and losses from electricity, coal and gas derivative trading, net	2,692	1,592
Sales of gas, heat and other revenues	9,882	10,565
Total revenues (Note 20)	84,706	101,644
Operating expenses:		
Fuel	(10,175)	(10,818)
Purchased power and related services	(26,162)	(35,231)
Repairs and maintenance	(2,979)	(3,242)
Depreciation and amortization	(13,527)	(13,358)
Impairment of property, plant and equipment and intangible assets	(297)	(2,474)
Salaries and wages (Note 21)	(6,087)	(6,071)
Materials and supplies	(1,400)	(1,500)
Emission rights, net (Note 8)	(3,090)	(1,104)
Other operating expenses (Note 22)	(5,162)	(7,751)
thereof: Gain from settlement agreement with Republic of Albania (Note 4.1)	*2,562*	-
Total expenses	(68,879)	(81,549)
Income before other income (expenses) and income taxes	15,827	20,095
Other income (expenses):		
Interest on debt, net of capitalized interest	(3,722)	(4,865)
Interest on nuclear and other provisions	(1,574)	(1,523)
Interest income (Note 23)	1,442	1,928
Foreign exchange rate gains (losses), net	(192)	1,068
Gain on sale of subsidiaries, associates and joint-ventures	24	5,212
Other income (expenses), net (Note 24)	10,883	7,747
Total other income (expenses)	6,861	9,567
Income before income taxes	22,688	29,662
Income taxes (Note 25)	(1,778)	(3,289)
Net income	20,910	26,373

Net income per share (CZK per share) (Note 28)		
Basic	39.1	49.4
Diluted	39.1	49.4

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

ČEZ, a. s.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

in CZK Millions

	2014	2013
Net income	20,910	26,373
Other comprehensive income – items that may be reclassified subsequently to statement of income:		
Change in fair value of cash flow hedges recognized in equity	4,889	(9,483)
Cash flow hedges reclassified from equity	(4,045)	(3,059)
Change in fair value of available-for-sale financial assets recognized in equity	711	(410)
Deferred tax relating to other comprehensive income (Note 25)	(295)	2,461
Other comprehensive income, net of tax	1,260	(10,491)
Total comprehensive income	22,170	15,882

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

ČEZ, a. s.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014

In CZK Millions

	Stated capital	Treasury shares	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total equity
December 31, 2012	53,799	(4,382)	1,467	1,168	158,859	210,911
Net income	-	-	-	-	26,373	26,373
Other comprehensive income	-	-	(10,159)	(332)	-	(10,491)
Total comprehensive income	-	-	(10,159)	(332)	26,373	15,882
Effect of merger	-	-	-	-	(289)	(289)
Dividends	-	-	-	-	(21,294)	(21,294)
Share options	-	-	-	33	-	33
Transfer of forfeited share options within equity	-	-	-	(97)	97	-
December 31, 2013	53,799	(4,382)	(8,692)	772	163,746	205,243
Net income	-	-	-	-	20,910	20,910
Other comprehensive income	-	-	684	576	-	1,260
Total comprehensive income	-	-	684	576	20,910	22,170
Effect of merger	-	-	-	-	(6)	(6)
Dividends	-	-	-	-	(21,301)	(21,301)
Share options	-	-	-	26	-	26
Transfer of forfeited share options within equity	-	-	-	(70)	70	-
December 31, 2014	53,799	(4,382)	(8,008)	1,304	163,419	206,132

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

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

In CZK Millions

	2014	2013
Operating activities:		
Income before income taxes	22,688	29,662
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	13,527	13,365
Amortization of nuclear fuel	3,349	3,065
Gain on fixed asset retirements, net	(116)	(5,315)
Foreign exchange rate losses (gains), net	192	(1,068)
Interest expense, interest income and dividend income, net	(18,417)	(11,360)
Provision for nuclear decommissioning and fuel storage	(342)	(239)
Valuation allowances, other provisions and other adjustments	4,936	6,118
Changes in assets and liabilities:		
Receivables	(1,469)	1,886
Materials and supplies	(987)	(457)
Fossil fuel stocks	32	478
Other current assets	455	1,417
Trade and other payables	13,361	(2,247)
Accrued liabilities	1,320	(4,580)
Cash generated from operations	38,529	30,725
Income taxes paid	(1,791)	(3,317)
Interest paid, net of capitalized interest	(3,901)	(4,582)
Interest received	1,384	1,888
Dividends received	20,701	14,296
Net cash provided by operating activities	54,922	39,010
Investing activities:		
Acquisition of subsidiaries, associates and joint-ventures	(1,103)	(729)
Proceeds from disposal of subsidiaries, associates and joint-ventures	102	4,449
Additions to property, plant and equipment and other non-current assets, including capitalized interest	(22,096)	(29,127)
Proceeds from sale of fixed assets	52	1,300
Loans made	(1,503)	(7,769)
Repayment of loans	13,032	5,623
Change in restricted financial assets	(632)	(755)
Total cash used in investing activities	(12,148)	(27,008)

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

continued

	2014	2013
Financing activities:		
Proceeds from borrowings	66,610	47,618
Payments of borrowings	(95,107)	(46,119)
Proceeds from other long-term liabilities	-	1,750
Payments of other long-term liabilities	(114)	(86)
Change in payables/receivables from group cashpooling	2,544	11,382
Dividends paid	(21,320)	(21,336)
Net cash used in financing activities	(47,387)	(6,791)
Net effect of currency translation in cash	(42)	140
Net increase (decrease) in cash and cash equivalents	(4,655)	5,351
Cash and cash equivalents at beginning of period	14,166	8,815
Cash and cash equivalents at end of period	9,511	14,166

Supplementary cash flow information

Total cash paid for interest	8,310	8,004

ČEZ, a. s.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2014

CONTENT:

1. Description of the Company

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

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

The average number of employees was 5,525 and 5,437 in 2014 and 2013, respectively.

The Czech Republic represented by the Ministry of Finance is a majority shareholder holding 69.8% of the Company's share capital at December 31, 2014. The majority shareholder's share of the voting rights represented 70.3% at the same date.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

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

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

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

Certain numbers in the Statement of Income were reclassified in 2014 and the prior year figures were changed accordingly to provide comparative information on the same basis. The Company changed the way of presentation of expenses related to write-off of cancelled investments on the statement of income. The write-off of cancelled investments was moved from the line item Other operating expenses to line item of Impairment of property, plant and equipment and intangible assets. The write-off of cancelled investments for the comparative period presented for 2013 amounted to CZK 7 million.

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 March 2, 2015.

2.2. Changes in Accounting Policies

2.2.1. Adoption of New IFRS Standards in 2014

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, 2014:

- IAS 28 Investments in Associate and Joint Ventures (revised), effective January 1, 2014
- IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities), effective January 1, 2014
- IAS 36 Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets), effective January 1, 2014
- IAS 39 Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting), effective January 1, 2014
- IFRS 10 Consolidated Financial Statements, effective January 1, 2014
- IFRS 11 Joint Arrangements, effective January 1, 2014
- IFRS 12 Disclosure of Involvement with Other Entities, effective January 1, 2014
- Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)
- IFRIC 21 Levies, effective January 1, 2014

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

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 does not have an impact on the separate financial statement of the Company.

IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)
In December 2011, International Accounting Standards Board (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 amendment had no impact on the Company’s financial statements.

IAS 36 Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets)
The amendment clarifies the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the IASB intended to require disclosure of information about the recoverable amount of impaired assets if that amount was based on fair value less costs to sell. An unintended consequence of the amendments was that an entity would be required to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity’s total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:

- Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.
- Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonizes disclosure requirements between value in use and fair value less costs of disposal.

The amendment is effective for financial statements beginning on or after January 1, 2014. The amendment had no impact on the Company's financial statements.

IAS 39 Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)
The amendment provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

The amendment covers novations:

- That arise as a consequence of laws or regulations, or the introduction of laws or regulations
- Where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties
- That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

The amendment is effective for financial statements beginning on or after January 1, 2014. The amendment had no impact on the Company's financial statements.

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, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

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 is 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 had no impact on the 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 had no impact on the 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 affects 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 had no impact on the Company’s separate financial statements.

IFRIC 21 Levies
The interpretation is applicable to all levies other than outflows that are within the scope of other standards (e.g. IAS 12) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognized before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognizing a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. The interpretation is effective for annual periods beginning on or after January 1, 2014. The new interpretation had no impact on the Company's separate financial statements.

All other standards and interpretations whose application was mandatory for the period beginning on or after January 1, 2014 have no material impact on the Company's financial statements.

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

The Company is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2015 or later. Standards and interpretations most relevant to the Company's activities are detailed below:

IFRS 9 Financial Instruments – Classification and measurement. The IFRS 9 was originally issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments 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.

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

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

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

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The standard has not yet been endorsed by EU. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company’s financial assets and liabilities.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the balance sheet and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity’s rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing IFRS preparer, this standard would not apply.

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

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The standard has not yet been endorsed by EU. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

The amendments clarify:
- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the balance sheet may be disaggregated

- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The standard has not yet been endorsed by EU. These amendments are not expected to have a significant impact to the Company, but will assist in in applying judgment when meeting the presentation and disclosure requirements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41: Bearer Plants
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

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

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in joint operation
The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint-Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

Annual Improvements to IFRSs 2010 - 2012

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

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

The Company will apply these improvements from January 1, 2015.

Annual Improvements to IFRSs 2011 - 2013

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

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 13	Fair Value Measurement
IAS 40	Investment Property

The Company will apply these improvements from January 1, 2015.

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

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

These improvements have not yet been endorsed by EU.

These changes will have no significant impact on the Company's financial statements.

2.3. Estimates

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

2.4. Revenues

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

Revenues are recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the revenue can be reliably measured. Sales are recognized net of value added tax and discounts, if any.

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

Revenue from services is recognized when the services are rendered.

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

2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,349 million and CZK 3,065 million for the years ended December 31, 2014 and 2013, 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 275 million and CZK 339 million in 2014 and 2013, 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 3,977 million and CZK 3,500 million and the interest capitalization rate was 4.5% and 4.6% in 2014 and 2013, respectively.

2.7. Property, Plant and Equipment

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

Internally developed property, plant and equipment are recorded at their accumulated cost. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment the cost 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.

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 Impairment of property, plant and equipment and intangible assets.

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

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

	Useful lives (years)
Buildings and structures	20 – 50
Machinery and equipment	4 – 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

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

Depreciation of plant in service was CZK 13,298 million and CZK 13,149 million for the years ended December 31, 2014 and 2013, which was equivalent to a composite depreciation rate of 4.0% and 4.1%, respectively.

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. Improvements are capitalized.

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

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

2.10. Emission Rights

Emission right represents the right of the operator of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plans the Company have been granted emission rights 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.

The emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. The allocation of emission rights granted free of charge to an entity operating certain electricity generation facilities specified by the law was the subject to a gift tax in 2011 and 2012. As a result, granted emission rights, which were subject to the gift tax, were 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 firstly at the cost of emission rights resulting from hedging strategy, 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 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 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.

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.

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

2.12. 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 6 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 cash guarantees given to transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Company.

2.14. 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.

2.15. Materials and Supplies

Purchased inventories are valued at actual cost, using the weighted average method. Costs of purchased inventories comprise expenses which have been incurred in respect of the acquisition of materials and supplies including transportation costs. When consumed, inventories are charged to income or capitalized as part of property, plant and equipment. Work-in-progress is valued at actual cost. Costs of inventories produced internally include direct material and labor costs. Obsolete inventories are reduced to their realizable value by a provision charged to the income statement. At December 31, 2014 and 2013 the provision for obsolescence amounted to CZK 73 million and CZK 71 million, respectively.

2.16. Fossil Fuel Stocks

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 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. 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 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.

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. The Company presents revenues and expenses related to commodity trading net in the line Gains and losses from electricity, coal and gas derivative trading, net.

2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. differences between book and tax depreciation). Income tax due is provided at a rate of 19% for the years ended December 31, 2014 and 2013, respectively, from income before income taxes after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate enacted for 2015 and on is 19%.

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

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

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

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

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

2.20. Long-term Debt

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

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

The carrying amount of long-term debt, which is hedged against the changes in its fair value, is adjusted by the changes in the fair value attributable to the hedged risk. The changes in the fair value of the hedged long-term debt are recognized in profit or loss and are included in the income statement line Other 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.

2.21. 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 (see Note 15).

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, 2014 and 2013 using a long-term real rate of interest of 1.75% per annum and 2.0% 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, 2014 and 2013 the estimate for the effect of inflation is 1.25% and 1.5%, 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 2084 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 and in liability for final storage of spent nuclear fuel that result from a change in the current best estimate of timing and/or amount of cash flows required to settle the obligation or from a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period.

2.22. Treasury Shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of equity as a reduction 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

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 2014 and 2013 the expense recognized in respect of the share option plan amounted to CZK 26 million and CZK 33 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, 2014 and 2013 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2014	2013
CZK per 1 EUR	27.725	27.425
CZK per 1 USD	22.834	19.894
CZK per 1 PLN	6.492	6.603
CZK per 1 BGN	14.193	14.023
CZK per 1 RON	6.185	6.135
CZK per 100 JPY	19.090	18.957
CZK per 1 TRY	9.789	9.275

2.25. Non-current Assets Held for Sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

3. Property, Plant and Equipment

Net plant in service at December 31, 2014 and 2013 was as follows (in CZK millions):

	Buildings	Plant and Equipment	Land and Other	Total 2014	Total 2013
Cost at January 1	85,630	232,049	1,402	319,081	318,139
Additions	4,801	18,341	52	23,194	4,273
Disposals	(1,033)	(677)	(1)	(1,711)	(633)
Change in capitalized part of the provision	122	3,514	-	3,636	1,248
Effect of merger	-	-	46	46	3,995
Non-monetary contribution and other movements	(24)	24	-	-	(7,941)
Cost at December 31	89,496	253,251	1,499	344,246	319,081
Accumulated depreciation and impairment at January 1	(41,282)	(141,000)	-	(182,282)	(175,703)
Depreciation	(2,098)	(11,200)	-	(13,298)	(13,149)
Net book value of assets disposed	(37)	(2)	-	(39)	-
Effect of merger	-	-	-	-	(760)
Non-monetary contribution and other movements	23	(21)	-	2	6,733
Disposals	1,033	677	-	1,710	633
Impairment losses recognized*)	(483)	(1,943)	-	(2,426)	(36)
Accumulated depreciation and impairment at December 31	(42,844)	(153,489)	-	(196,333)	(182,282)
Net plant in service at December 31	46,652	99,762	1,499	147,913	136,799

*) Contains impairment losses recognized in relation to Počerady gas power plant that was created in the year 2013 as an impairment loss to construction in progress. The impairment loss was transferred to the tangible assets in 2014 when the Počerady gas power plant was put in use.

At December 31, 2014 construction work in progress contains mainly refurbishments performed on Ledvice, Prunéřov, Dukovany and Temelín power plants. It also contains costs of CZK 2,261 million for the preparation of construction of additional two units in nuclear power plant Temelín.

4. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2014, and 2013 consist of the following (in CZK millions):

	2014	2013
Restricted debt securities available-for-sale	10,166	8,632
Restricted cash	1,863	1,979
Total restricted financial assets	12,029	10,611
Equity securities and interests, net	158,136	163,580
Investment in Dalkia	3,166	3,166
Loans granted, net	7,871	10,568
Derivatives	5,456	4,552
Long-term receivable from settlement with Albania	1,705	-
Other long-term receivables	25	35
Total	188,388	192,512

Movements in impairment provisions against equity securities and interest and provisions against loans (in CZK millions):

	2014		2013	
	Equity securities and interests	Loans	Equity securities and interests	Loans
Opening balance	20,501	768	14,884	-
Additions	6,473	150	5,973	768
Derecognition of impaired fin. assets	(3,028)	(768)	-	-
Reversals	(265)	-	(356)	-
Closing balance	23,681	150	20,501	768

In 2014 the Company created an impairment provisions against the investments in CEZ Hungary Ltd. at the amount of CZK 121 million, CEZ Trade Albania Sh.P.K. at the amount of CZK 85 million, Shared Services Albania Sh. A. at the amount of CZK 73 million and CEZ Srbija d.o.o. at the amount of CZK 36 million in connection with reduction of recoverable value. In addition the impairment provision against the investment in Tomis Team S.R.L. was increased by CZK 3,182 million, in TEC Varna EAD by CZK 1,021 million, in CEZ Razpredelenie Bulgaria AD by CZK 991 million, in Ovidiu Development S.R.L. by CZK 863 million and in Energetické centrum s.r.o. by CZK 101 million due to the reduction of recoverable value.

In 2014 the Company reversed created impairment provision against the investments in Operatori i Shpërndarjes së Energjisë Elektrike (sooner CEZ Shpërndarje Sh.A.) at the amount of CZK 3,028 million and in NERS d.o.o. at the amount of CZK 102 million in connection with the sale of its shares, in CEZ RUS OOO at the amount of CZK 50 million due to liquidation of company and in PPC Úžín, a.s. at the amount of CZK 113 million due to the merger with ČEZ, a. s.

In 2014 the Company also reversed the created impairment provision against the loans granted to CEZ Shpërndarje Sh.A. at the amount of CZK 768 million and created an impairment provision of CZK 150 million against the loans granted to M.W. Team Invest S.R.L.

In 2013 the Company created an impairment provision against the investments in Energetické centrum s.r.o. at the amount of CZK 63 million, Tomis Team S.R.L. at the amount of CZK 3,475 million and Ovidiu Development S.R.L. at the amount CZK 822 million in connection with reduction of recoverable value. In addition the impairment provision against the investment in TEC Varna EAD was increased by CZK 1,613 million and the impairment provision against the investment in CEZ Razpredelenie Bulgaria AD decreased by CZK 309 million due to changes in recoverable value.

In 2013 the Company created an impairment provision of CZK 768 million against the loans granted to CEZ Shpërndarje Sh.A.

Loans granted and other long-term receivables at December 31, 2014, and 2013 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	2014		2013	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Due in 1 – 2 years	1,907	586	2,602	27
Due in 2 – 3 years	1,407	572	1,979	5
Due in 3 – 4 years	1,439	570	1,438	3
Due in 4 – 5 years	1,414	2	1,437	-
Due in more than 5 years	1,704	-	3,112	-
Total	7,871	1,730	10,568	35

Loans granted and other long-term receivables at December 31, 2014 and 2013 have following effective interest rate structure (in CZK millions):

	2014		2013	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Less than 2.0%	-	1,730	32	35
From 2.0% to 2.99%	910	-	2,299	-
From 3.0% to 3.99%	3,320	-	3,866	-
From 4.0% to 4.99%	89	-	64	-
Over 4.99%	3,552	-	4,307	-
Total	7,871	1,730	10,568	35

Loans granted and other long-term receivables at December 31, 2014 and 2013 according to currencies (in CZK millions):

	2014		2013	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
CZK	6,540	15	7,860	20
EUR	950	1,712	2,370	13
PLN	381	1	338	1
USD	-	2	-	1
Total	7,871	1,730	10,568	35

4.1. Investments in Subsidiaries, Associates and Joint-ventures

In 2014 two subsidiaries ČEZ Inženýring, s.r.o. (100 %) and ČEZ ESCO, a.s. (100 %) were founded.

In 2014 the share capitals of ŠKODA PRAHA a.s. and Ovidiu Development S.R.L. was increased by cash contribution.

In 2014 the equity of CEZ Hungary Ltd. was increased by cash contribution outside the registered capital.

In 2014 the share capital of Shared Services Albania Sh. A. was increased by the capitalization of receivable.

At July 1, 2014 PPC Úžín, a.s. was deleted from the Commercial Register due to the merger with ČEZ, a. s.

In 2014 the Company sold its 51% share in NERS d.o.o. to the company Elektroprivreda Republike Srpske on the basis of termination of proceedings by arbitration panel, which ruled in favor of the Company.

In 2014 CEZ RUS OOO was deleted from the Commercial Register.

In May 2009, the Company acquired a 76% shareholding in the sole Albanian distribution company CEZ Shpërndarje Sh.A. The remaining 24% was owned by the Albanian government. On January 21, 2013 the Albanian regulator decided to revoke the CEZ Shpërndarje Sh.A's license for the distribution and sale of electricity to tariff customers and appointed the administrator of CEZ Shpërndarje Sh.A. As a result, the Company lost control of CEZ Shpërndarje Sh.A. as of the same date. The administrator took control over the company including the decision making powers and responsibility for its operations. Both the rights of statutory bodies of CEZ Shpërndarje Sh.A. and the ČEZ shareholder rights were transferred to the administrator. In May 2013, the arbitration proceedings with the International Arbitration Tribunal for damage incurred due to its non-protected investment were formally initiated between ČEZ and the Republic of Albania. In 2014 a Settlement Agreement was signed with the Albanian state in the presence of a mediator from the Energy Community Secretariat in Vienna. The total amount of compensation for receivables and shares is EUR 95 million in favor of CEZ Group. Its discounted value of CZK 2,562 million was recorded in statement of income in 2014 (see Note 22). In 2014 the Company received EUR 10 million and the remaining amount will be received in four annual installments until 2018 and is guaranteed by reputable European bank. Upon the effective date of the Settlement Agreement, the Company transferred 76% share in CEZ Shpërndarje Sh.A. back to Albanian state. At the same time, the arbitration proceedings were closed.

Several subsidiaries were founded or acquired during 2013:

In 2013 a subsidiary ČEZ Nová energetika, a.s. (100%) was founded.

In 2013 the share capital of ČEZ Teplárenská, a.s. and Elektrárna Dětmarovice, a.s. was increased by non-monetary contribution of part of business.

In 2013 the share capitals of Akenerji Elektrik Üretim A.S. and CEZ Trade Albania Sh.P.K. were increased by cash contribution. Due to the cash contribution to the share capital of ČEZ OZ uzavřený investiční fond a.s. the share in the company increased to 99.60% in 2013. In addition, the investment in ČEZ OZ uzavřený investiční fond a.s. increased by the capitalization of loan granted by the Company.

In 2013 the Company acquired non-controlling interest in ČEZ Obnovitelné zdroje, s.r.o. and Akcez Enerji A.S. The share in capital of these companies increased to 100% and 50%, respectively.

As at September 2, 2013 the Company sold its 100% share in Elektrárna Chvaletice a.s.

In 2013 STE – obchodní služby spol. s r.o. v likvidaci was deleted from the Commercial Register.

The following table summarizes investments in subsidiaries, associates and joint-ventures and other ownership interests:

As at December 31, 2014 Company	Country	Interest, net in CZK millions	% interest[3)]	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,415	100.00	5,716
Energotrans, a.s.	Czech Republic	17,986	100.00	1,352
Severočeské doly a.s.	Czech Republic	14,312	100.00	1,707
CEZ Distributie S.A.	Romania	13,489	100.00	-
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	12,874	99.60	1,199
Akenerji Elektrik Üretim A.S.	Turkey	9,043	37.36	-
CEZ Finance Ireland Ltd.	Ireland	9,025	100.00	-
CEZ Razpredelenie Bulgaria AD	Bulgaria	6,870	67.00	453
CEZ Poland Distribution B.V.	Netherlands	4,887	100.00	-
ČEZ Teplárenská, a.s.	Czech Republic	4,678	100.00	170
CEZ Silesia B.V.	Netherlands	4,368	100.00	-
ČEZ ICT Services, a. s.	Czech Republic	4,236	100.00	500
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	-
ČEZ Korporátní služby, s.r.o.	Czech Republic	3,486	100.00	813
Akcez Enerji A.S.	Turkey	3,034	50.00	-
Elektrárna Dětmarovice, a.s.	Czech Republic	2,196	100.00	-
TEC Varna EAD	Bulgaria	1,288	100.00	-
Elektrárna Počerady, a.s.	Czech Republic	1,280	100.00	3,139
ČEZ Distribuční služby, s.r.o.	Czech Republic	1,145	100.00	983
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	2,869
ŠKODA PRAHA a.s.	Czech Republic	996	100.00	-
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	389
ČEZ Slovensko, s.r.o.	Slovakia	557	100.00	-
Energetické centrum s.r.o.	Czech Republic	515	100.00	-
ČEZ Energetické služby, s.r.o.	Czech Republic	422	100.00	38
ČEZ Energo, s.r.o.	Czech Republic	401	50.10	-
ČEZ ESCO, a.s.	Czech Republic	400	100.00	-
ŠKODA PRAHA Invest s.r.o.	Czech Republic	389	100.00	775
CM European Power Slovakia s.r.o.	Slovakia	295	24.50	2
ÚJV Řež, a. s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	3
CEZ Romania S.A.	Romania	91	100.00	65
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	85	100.00	98
ČEZ Inženýring, s.r.o.	Czech Republic	80	100.00	-
CEZ Hungary Ltd.	Hungary	73	100.00	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	39.25	-
CEZ Polska sp. z o.o.	Poland	50	100.00	-
CEZ Trade Polska sp. z o.o.	Poland	45	100.00	-
CITELUM, a.s.	Czech Republic	43	48.00	23
Other		242	-	72
Total, net		158,136		

As at December 31, 2013 Company	Country	Interest, net in CZK millions	% interest[3]	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,415	100.00	3,000
Energotrans, a.s.	Czech Republic	17,986	100.00	3,088
Severočeské doly a.s.	Czech Republic	14,312	100.00	1,707
CEZ Distributie S.A.	Romania	13,489	100.00	485
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	12,874	99.60	1,199
Akenerji Elektrik Üretim A.S.	Turkey	9,043	37.36	-
CEZ Finance Ireland Ltd.	Ireland	9,025	100.00	-
CEZ Razpredelenie Bulgaria AD	Bulgaria	7,860	67.00	-
CEZ Poland Distribution B.V.	Netherlands	4,887	100.00	-
ČEZ Teplárenská, a.s.	Czech Republic	4,678	100.00	-
CEZ Silesia B.V.	Netherlands	4,368	100.00	-
ČEZ ICT Services, a. s.	Czech Republic	4,236	100.00	650
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	-
ČEZ Korporátní služby, s.r.o.	Czech Republic	3,486	100.00	401
Tomis Team S.R.L.	Romania	3,182	100.00	-
Akcez Enerji A.S.	Turkey	3,034	50.00	-
TEC Varna EAD	Bulgaria	2,310	100.00	-
Elektrárna Dětmarovice, a.s.	Czech Republic	2,196	100.00	-
Elektrárna Počerady, a.s.	Czech Republic	1,280	100.00	-
ČEZ Distribuční služby, s.r.o.	Czech Republic	1,145	100.00	1,058
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	2,143
CEZ Bulgarian Investments B.V.	Netherlands	973	100.00	-
CM European Power International B.V.	Netherlands	949	50.00	-
Ovidiu Development S.R.L.	Romania	821	95.00	-
CEZ Vanzare S.A.	Romania	817	100.00	91
Energetické centrum s.r.o.	Czech Republic	616	100.00	-
ČEZ Slovensko, s.r.o.	Slovakia	557	100.00	-
ČEZ Energetické služby, s.r.o.	Czech Republic	422	100.00	7
ŠKODA PRAHA a.s.	Czech Republic	421	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	-
ÚJV Řež, a. s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	-
CEZ Hungary Ltd.	Hungary	158	100.00	-
PPC Úžín, a.s.[1]	Czech Republic	107	100.00	-
CEZ Trade Albania Sh.P.K.	Albania	92	100.00	-
CEZ Romania S.A.	Romania	91	100.00	20
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	85	100.00	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	39.25	-
NERS d.o.o.[2]	Bosnia and Herzegovina	50	51.00	-
CEZ Polska sp. z o.o.	Poland	50	100.00	-
CEZ Srbija d.o.o.	Serbia	46	100.00	-
CEZ Trade Polska sp. z o.o.	Poland	45	100.00	-
CITELUM, a.s.	Czech Republic	43	48.00	29
Other		245	-	147
Total, net		163,580		

[1] PPC Úžín, a.s. merged with the succession company ČEZ, a. s. with the legal effective date of July 1, 2014.
[2] In 2014 the Company sold its 51% share in NERS d.o.o.
[3] Equity interest is equal to voting rights.

4.2. Restricted Financial Assets

At December 31, 2014 and 2013, restricted balances of financial assets totaled CZK 12,029 million and CZK 10,611 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, 2014 and 2013, restricted funds representing accumulated provision for waste storage and reclamation totaled CZK 303 million and CZK 306 million, respectively, while restricted funds representing accumulated provision for nuclear decommissioning totaled CZK 11,665 million and CZK 10,244 million, respectively.

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2014 and 2013 were as follows (in CZK millions):

	Software	Rights and Other	Total 2014	Total 2013
Cost at January 1	1,287	1,203	2,490	2,468
Additions	329	32	361	111
Disposals	(31)	(17)	(48)	(49)
Effect of merger	-	-	-	5
Non-monetary contribution and other movements	-	(44)	(44)	(45)
Cost at December 31	1,585	1,174	2,759	2,490
Accumulated amortization at January 1	(1,150)	(951)	(2,101)	(1,980)
Amortization	(129)	(82)	(211)	(209)
Disposals	31	17	48	49
Effect of merger	-	-	-	(3)
Non-monetary contribution and other movements	-	-	-	42
Accumulated amortization at December 31	(1,248)	(1,016)	(2,264)	(2,101)
Net intangible assets at December 31	337	158	495	389

At December 31, 2014 and 2013, intangible assets presented in the balance sheet included intangible assets in progress of CZK 173 million and CZK 183 million, respectively.

6. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2014 and 2013 is as follows (in CZK millions):

	2014	2013
Cash on hand and current accounts with banks	7,611	5,541
Short-term securities	900	600
Term deposits	1,000	8,025
Total	9,511	14,166

At December 31, 2014 and 2013, cash and cash equivalents included foreign currency deposits of CZK 160 million and CZK 2,129 million, respectively.

The weighted average interest rate on short-term securities and term deposits at December 31, 2014 and 2013 was 0.49% and 0.71%, respectively. For the years 2014 and 2013 the weighted average interest rate was 0.55% and 0.93%, respectively.

7. Receivables, Net

The composition of receivables, net, at December 31, 2014 and 2013 is as follows (in CZK millions):

	2014	2013
Trade receivables	34,588	34,152
Short-term loans granted	10,916	20,482
Taxes and fees excl. income tax	358	1,024
Other receivables	5,256	3,799
Allowance for doubtful receivables	(4,361)	(2,977)
Total	46,757	56,480

The information about receivables from related parties is included in Note 26.

At December 31, 2014 and 2013 the ageing analysis of receivables, net is as follows (in CZK millions):

	2014	2013
Not past due	46,558	56,210
Past due but not impaired [1)]		
less than 3 months	196	159
3 – 6 months	1	1
6 – 12 months	2	110
Total	46,757	56,480

[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):

	2014	2013
Opening balance	2,977	3,307
Additions	3,169	1,398
Reversals	(1,790)	(1,950)
Non-monetary contribution	-	(10)
Currency translation difference	5	232
Closing balance	4,361	2,977

In 2014 additions to allowances comprise the allowance of CZK 2,345 million for loans granted to Tomis Team S.R.L., Ovidiu Development S.R.L. and M.W. Team Invest S.R.L.

8. Emission Rights

The following table summarizes the movements and balances of emission rights and credits in measurement units (thousands of tons) in 2014 and 2013 and as at December 31, 2014 and 2013, respectively, and their valuation presented in the accompanying financial statements:

	2014		2013	
	in thousands tons	in millions CZK	in thousands tons	in millions CZK
Emission rights and credits granted and purchased for own use:				
Granted and purchased emission rights and credits at January 1	14,645	6,078	42,800	8,070
Emission rights granted	23,539	-	-	-
Effect of merger with Teplárna Trmice, a.s.	-	-	209	6
Non-monetary contribution to Elektrárna Dětmarovice, a.s.	-	-	(2,456)	(197)
Settlement of prior year actual emissions with register	(16,623)	(2,966)	(17,834)	(1,128)
Emission rights purchased	2,382	422	-	-
Emission rights sold	(2,073)	-	(10,370)	(822)
Emission credits purchased	2,131	2	3,524	191
Emission credits sold	(474)	(12)	(1,228)	(42)
Granted and purchased emission rights and credits at December 31	23,527	3,524	14,645	6,078
Emission rights and credits held for trading:				
Emission rights and credits held for trading at January 1	9,210	1,222	16,584	1,968
Emission rights purchased	3,321	557	6,119	835
Emission rights sold	(9,306)	(1,782)	(8,950)	(1,059)
Emission credits purchased	813	4	10	-
Emission credits sold	(818)	(4)	(4,553)	(20)
Fair value adjustment	-	654	-	(502)
Emission rights and credits held for trading at December 31	3,220	651	9,210	1,222

In 2014 and 2013, total emissions of greenhouse gases made by the Company amounted to an equivalent of 16,468 thousand tons and 16,623 thousand tons of CO_2, respectively. At December 31, 2014 and 2013 the Company recognized a provision for CO_2 emissions in total amount of CZK 3,524 million and CZK 2,924 million, respectively (see Notes 2.10 and 19).

The allocation of 2013 granted emission rights in an equivalent of 12,682 thousand tons was approved by the European Union in January 2014 and this allocation was reflected when creating the provision for CO_2 emissions at December 31, 2013.

The following table shows the impact of transactions with emission rights and credits on income for the year ended December 31, 2014 and 2013 (in CZK millions):

	2014	2013
Gain on sales of granted emission rights	342	1,337
Net gain (loss) from trading with emission rights and credits	(136)	541
Net gain (loss) from derivatives	(384)	710
Remitted emission rights and credits	(2,966)	(292)
Fair value adjustment	654	(502)
Creation of provision for emission rights	(3,524)	(2,898)
Settlement of provision for emission rights	2,924	-
Net loss from emission rights and credits	(3,090)	(1,104)

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 24).

9. Other Financial Assets, Net

Other financial assets, net, at December 31, 2014 and 2013 were as follows (in CZK millions):

	2014	2013
Derivatives	22,865	21,451
Equity securities available-for-sale	2,112	278
Debt securities held-to-maturity and term deposits	13,382	15,477
Total	38,359	37,206

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

Equity securities available-for-sale balance includes investments in money market fund.

Debt securities held-to-maturity are denominated in CZK and at December 31, 2014 bear an interest rate up to 1.14%.

The Company concluded two put option agreements with Vršanská uhelná a.s. in March 2013. Under these contracts the Company has the right to transfer 100% of the shares of its subsidiary Elektrárna Počerady, a.s. to Vršanská uhelná a.s. First option can be exercised in 2016 for cash consideration of CZK 8.5 billion less CZK 0.4 billion per each block of the power plant not modernized. Second option can be exercised in 2024 for cash consideration of CZK 2 billion. The contracts represent derivatives that will be settled by the delivery of unquoted equity instrument. Elektrárna Počerady, a.s. is not quoted on any market, there is no similar power plant in the Czech Republic for sale and also no similar transaction took place. There is also significant variability in the range of reasonable fair values for this equity instrument and it is difficult to reasonably assess the probabilities of various estimates. As a result the fair value cannot be reliably measured. Consequently, the put options will be measured at cost. There was no option premium paid on the options and therefore the cost of these instruments is zero.

10. Other Current Assets

Other current assets at December 31, 2014 and 2013 were as follows (in CZK millions):

	2014	2013
Prepayments	680	668
Advances granted	437	480
Total	1,117	1,148

11. Equity

As at December 31, 2014, the share capital of the Company registered in the Commercial Register totaled CZK 53,798,975,900 and consisted of 537,989,759 shares with a nominal value of CZK 100 per share. All shares are bearer common shares that are fully paid and listed and do not convey any special rights.

There were no changes in number of treasury shares in 2014 and 2013. Treasury shares remaining at end of period (3,875,021 pieces at December 31, 2014 and 2013) are presented at cost as a deduction from equity.

Declared dividends per share were CZK 40 in 2014 and CZK 40 in 2013, respectively. Dividends from 2014 profit will be declared on the general meeting which will be held in the first half of 2015.

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, plus impairment of property, plant and equipment and intangible assets including goodwill and less gain (or loss) on sale of property, plant and equipment. 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. Highly liquid financial assets consist for capital management purposes of short-term equity and debt securities available-for-sale, short-term debt securities held-to-maturity, long-term debt securities available-for-sale and both short-term and long-term deposits. Total capital is total equity attributable to equity holders of the parent plus total debt.

The composition of EBITDA changed compared to prior year presentation. This year's EBITDA does not include the amount of write-off of cancelled investments. Prior year figures were amended accordingly.

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

	2014	2013
Total long-term debt	176,526	196,300
Total short-term loans	7,608	2,716
Total debt	184,134	199,016
Less:		
Cash and cash equivalents	(20,095)	(25,003)
Highly liquid financial assets:		
Short-term equity securities available-for-sale	(2,112)	(278)
Short-term debt securities available-for-sale	-	(49)
Short-term debt securities held-to-maturity and term deposits	(14,672)	(16,627)
Long-term deposits	(10)	-
Long-term debt securities available-for-sale	-	(633)
Total net debt	147,245	156,426
Income before income taxes and other income (expenses)	36,946	45,690
Depreciation and amortization	27,705	27,902
Impairment of property, plant and equipment and intangible assets including goodwill	8,025	8,469
Gain on sale of property, plant and equipment	(178)	(67)
EBITDA	72,498	81,994
Total equity attributable to equity holders of the parent	261,308	258,076
Total debt	184,134	199,016
Total capital	445,442	457,092
Net debt to EBITDA ratio	2.03	1.91
Total debt to total capital ratio	41.3%	43.5%

12. Long-term Debt

Long-term debt at December 31, 2014 and 2013 was as follows (in CZK millions):

	2014	2013
6.000% Eurobonds, due 2014 (EUR 600 million)	-	16,421
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,283	2,267
5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million)	42	39
5.750% Eurobonds, due 2015 (EUR 460 million) [1)]	12,749	16,408
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,523	1,512
5.000% Eurobonds, due 2021 (EUR 750 million)	20,715	20,480
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,380	1,364
4.875% Eurobonds, due 2025 (EUR 750 million)	20,701	20,469
4.500% Eurobonds, due 2020 (EUR 750 million)	20,633	20,381
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,195	2,180
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,248	1,248
3.625% Eurobonds, due 2016 (EUR 340 million) [2)]	9,397	13,653
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million)	2,773	2,742
4.102% Eurobonds, due 2021 (EUR 50 million)	1,382	1,366
4.375% Eurobonds, due 2042 (EUR 50 million)	1,358	1,343
4.500% Eurobonds, due 2047 (EUR 50 million)	1,358	1,343
4.383% Eurobonds, due 2047 (EUR 80 million)	2,218	2,194
3M Euribor + 0.36% Eurobonds, due 2014 (EUR 150 million)	-	4,114
3.000% Eurobonds, due 2028 (EUR 500 million)	13,655	13,492
3M Euribor + 0.35% Eurobonds, due 2017 (EUR 45 million)	1,219	-
4.250% U.S. bonds, due 2022 (USD 700 million)	15,847	13,790
5.625% U.S. bonds, due 2042 (USD 300 million)	6,775	5,900
4.500% Registered bonds, due 2030 (EUR 40 million)	1,086	1,072
4.750% Registered bonds, due 2023 (EUR 40 million)	1,096	1,083
4.700% Registered bonds, due 2032 (EUR 40 million)	1,102	1,090
4.270% Registered bonds, due 2047 (EUR 61 million)	1,662	1,643
3.550% Registered bonds, due 2038 (EUR 30 million)	828	819
9.220% Debentures, due 2014 (CZK 2,500 million) [3)]	-	2,500
Total bonds and debentures	145,225	170,913
Less: Current portion	(12,749)	(23,035)
Bonds and debentures, net of current portion	132,476	147,878
Bank loans (less than 2.00% p. a.)	13,183	16,546
Less: Current portion	(2,343)	(1,678)
Bank loans, net of current portion	10,840	14,868
Total long term debt	158,408	187,459
Less: Current portion	(15,092)	(24,713)
Total long-term debt, net of current portion	143,316	162,746

1) In April 2014, the original nominal value of the issue (EUR 600 million) was reduced by bought back own bonds at a nominal value of EUR 140 million.

2) In April 2014, the original nominal value of the issue (EUR 500 million) was reduced by bought back own bonds at a nominal value of EUR 160 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, 2013 was 5.6%.

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):

	2014	2013
Current portion	15,092	24,713
Between 1 and 2 years	10,886	18,817
Between 2 and 3 years	2,872	16,062
Between 3 and 4 years	1,653	2,409
Between 4 and 5 years	3,033	2,409
Thereafter	124,872	123,049
Total long-term debt	158,408	187,459

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

	2014		2013	
	Foreign currency	CZK	Foreign currency	CZK
EUR	4,636	128,537	5,763	158,062
USD	991	22,622	990	19,690
JPY	31,438	6,001	31,435	5,959
CZK	-	1,248	-	3,748
Total long-term debt		158,408		187,459

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, 2014 and 2013 without considering interest rate hedging (in CZK millions):

	2014	2013
Floating rate long-term debt		
with interest rate fixed from 1 to 3 months	1,219	4,114
with interest rate fixed from 3 months to 1 year	14,563	20,410
Total floating rate long-term debt	15,782	24,524
Fixed rate long-term debt	142,626	162,935
Total long-term debt	158,408	187,459

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.

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

Securities held for trading

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

Investments

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

Short-term receivables and payables

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

Short-term loans

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

Long-term debt

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

Derivatives

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

Carrying amounts and the estimated fair values of financial instruments at December 31, 2014 and 2013 are as follows (in CZK millions):

		2014		2013	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Investments:					
Restricted debt securities available-for-sale	AFS	10,166	10,166	8,632	8,632
Restricted cash	LaR	1,863	1,863	1,979	1,979
Other long-term financial assets, net	LaR	9,601	9,601	10,603	10,603
Current assets:					
Receivables	LaR	46,399	46,399	55,456	55,456
Cash and cash equivalents	LaR	9,511	9,511	14,166	14,166
Short-term debt securities held-to-maturity and term deposits	HTM	13,382	13,382	15,477	15,477
Short-term equity securities available-for-sale	AFS	2,112	2,112	278	278
Other current assets	LaR	437	437	480	480
Liabilities:					
Long-term debt including the current portion	AC	(158,408)	(182,401)	(187,459)	(200,439)
Short-term loans	AC	(7,433)	(7,433)	(2,230)	(2,230)
Current liabilities	AC	(68,107)	(68,107)	(64,115)	(64,115)
Derivatives:					
Cash flow hedges:					
Short-term receivables	HFT	211	211	6	6
Long-term receivables	HFT	4,519	4,519	3,934	3,934
Short-term liabilities	HFT	(173)	(173)	(65)	(65)
Long-term liabilities	HFT	(3,464)	(3,464)	(4,799)	(4,799)
Total cash flow hedges		1,093	1,093	(924)	(924)
Electricity, coal and gas trading contracts:					
Short-term receivables	HFT	21,235	21,235	19,637	19,637
Short-term liabilities	HFT	(15,502)	(15,502)	(14,038)	(14,038)
Total electricity, coal and gas trading contracts		5,733	5,733	5,599	5,599
Other derivatives:					
Short-term receivables	HFT	1,419	1,419	1,808	1,808
Long-term receivables	HFT	937	937	618	618
Short-term liabilities	HFT	(697)	(697)	(626)	(626)
Long-term liabilities	HFT	(2,387)	(2,387)	(1,501)	(1,501)
Total other derivatives		(728)	(728)	299	299

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

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

There were no transfers between the levels in 2014 and 2013.

As at December 31, 2014, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	21,235	1,235	20,000	-
Cash flow hedges	4,730	996	3,734	-
Other derivatives	2,356	368	1,988	-
Available-for-sale restricted debt securities	10,166	10,166	-	-
Available-for-sale short-term equity securities	2,112	2,112	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(15,502)	(2,188)	(13,314)	-
Cash flow hedges	(3,637)	(110)	(3,527)	-
Other derivatives	(3,084)	(96)	(2,988)	-

Assets and liabilities for which fair value is disclosed

	Total	Level 1	Level 2	Level 3
Short-term debt securities held-to-maturity and term deposits	13,382	-	13,382	-
Long-term debt including the current portion	(182,401)	(141,286)	(41,115)	-

As at December 31, 2013, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	19,637	245	19,392	-
Cash flow hedges	3,940	141	3,799	-
Other derivatives	2,426	321	2,105	-
Available-for-sale restricted debt securities	8,632	8,632	-	-
Available-for-sale short-term equity securities	278	278	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(14,038)	(58)	(13,980)	-
Cash flow hedges	(4,864)	(313)	(4,551)	-
Other derivatives	(2,127)	(65)	(2,062)	-

Assets and liabilities for which fair value is disclosed

	Total	Level 1	Level 2	Level 3
Short-term debt securities held-to-maturity and term deposits	15,477	-	15,477	-
Long-term debt including the current portion	(200,439)	(152,643)	(47,796)	-

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

Offsetting of Financial Instruments

The following table shows the recognized financial instruments that are offset, or subject to enforceable master netting agreement or other similar agreements but not offset, as of December 31, 2014 and 2013 (in CZK millions):

	2014		2013	
	Financial asset	Financial liability	Financial asset	Financial liability
Derivatives	28,321	(22,223)	26,003	(21,029)
Other financial instruments *	26,317	(29,223)	25,410	(20,623)
Collaterals paid (received) **	3,345	(2,092)	3,112	(400)
Gross financial assets / liabilities	57,983	(53,538)	54,525	(42,052)
Assets / liabilities set off under IAS 32	-	-	-	-
Amounts presented in the balance sheet	57,983	(53,538)	54,525	(42,052)
Effect of master netting agreement	(40,007)	40,007	(35,969)	35,969
Net amount after master netting agreement	17,976	(13,531)	18,556	(6,083)

* Other financial instruments consist of invoices due from derivative trading and are included in Receivables, net or Trade and other payables.

** Collaterals paid are included in Receivables, net and collaterals received are in included in Trade and other payables.

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

Short-term derivative assets are included in the balance sheet in Other financial assets, net, long-term derivative assets in Investments and other financial assets, net, long-term derivative liabilities in Other long-term liabilities and short-term derivative liabilities in Trade and other payables.

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 6-year horizon, closing long-term contracts for electricity sale and emission allowances' purchase and the FX and IR risk hedging in medium-term horizon. In Business Plan horizon, the risk management is also based on Debt Capacity concept which enables to assess the impact of main Investment and other Activities (incl. the risk characteristics), on expected cash flow and total debt in order to maintain corporate rating. Risks of Investment Projects are also managed and monitored based on unified quantification of all kinds of risk according to Group methodology.

Risk management organization

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

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

Overview and methods of risk management

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

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

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

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

For all risks quantified on a unified basis, a partial risk limit is set whose continuous utilization is evaluated 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, crude oil), volume (volume of electricity produced by wind power plants)
- Credit risks: financial and business counterparty risk and electricity, gas and heat end customer risk
- Operational risks: risks of nuclear and fossil power plants operation, investment risks

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

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

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).

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

Company's maximum exposure to credit risk to receivables and other financial instruments as at 31 December 2014 and 2013 is the carrying value of each class of financial assets except for financial guarantees.

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

Liquidity risks

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

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 crude oil and crude oil products)
- 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):

	2014	2013
Monthly VaR (95%) – impact of changes in commodity prices	693	688

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 2015 and from highly probable forecasted foreign currency revenues, costs 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):

	2014	2013
Monthly currency VaR (95% confidence)	337	331

Interest risks

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

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

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

	2014	2013
IR sensitivity* to parallel yield curve shift (+10bp)	2	-

* 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)

	2014	2013
Guarantees provided to subsidiaries, associates and joint-ventures*	22,535	13,232

* Some of the guarantees could be called until July 2028 at the latest.

Liquidity risk

Contractual maturity profile of financial liabilities at December 31, 2014 (in CZK millions):

	Bonds and debentures	Loans	Derivatives *	Trade and other payables	Guarantees issued **
Less than 1 year	19,136	9,854	330,121	68,107	22,535
Between 1 and 2 years	15,049	1,549	54,482	-	-
Between 2 and 3 years	6,530	1,701	14,206	-	-
Between 3 and 4 years	5,306	1,690	7,442	-	-
Between 4 and 5 years	6,686	1,679	3,965	-	-
Thereafter	156,915	4,440	70,057	-	-
Total	209,622	20,913	480,273	68,107	22,535

Contractual maturity profile of financial liabilities at December 31, 2013 (in CZK millions):

	Bonds and debentures	Loans	Derivatives *	Trade and other payables	Guarantees issued **
Less than 1 year	30,835	3,914	327,784	64,115	13,232
Between 1 and 2 years	23,295	2,414	58,330	-	-
Between 2 and 3 years	19,594	2,413	21,028	-	-
Between 3 and 4 years	5,443	2,413	5,326	-	-
Between 4 and 5 years	5,443	2,412	5,726	-	-
Thereafter	163,460	5,235	69,611	-	-
Total	248,070	18,801	487,805	64,115	13,232

* 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.

The committed credit facilities available to the Company as at December 31, 2014 and 2013 amounted to CZK 24.4 billion and CZK 27.0 billion, respectively.

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 2015 to 2019. The hedging instruments as at December 31, 2014 and 2013 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 3.8 billion and EUR 5.0 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (1,749) million and CZK (4,531) million at December 31, 2014 and 2013, respectively.

The Company enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur in the period from 2015 to 2016. The hedging instruments as at December 31, 2014 and 2013 are the futures contracts for the purchase of allowances equivalent to 13.1 million tons and 12.5 million tons of CO_2 emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK 513 million and CZK (273) million at December 31, 2014 and 2013, respectively.

The Company also enters into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2015 to 2020. The hedging instruments are the futures and forward contracts electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK 2,329 million and CZK 3,880 million at December 31, 2014 and 2013, respectively.

In 2014 and 2013 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 2014 and 2013 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK 197 million and CZK (126) million, respectively. The ineffectiveness in 2014 and 2013 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 units which were put into service from 1985 to 1987. Nuclear power plant, Temelín, has two units which have started commercial operation in 2002 and 2003. 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 2013 Dukovany and a 2014 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 22.4 billion and CZK 18.4 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 operates, supervises and is responsible for disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a "nuclear account" funded by the originators of radioactive waste. Contribution to the nuclear account was stated by a government resolution at 50 CZK per MWh produced at nuclear power plants. In 2014 and 2013, respectively, the payments to the nuclear account amounted to CZK 1,516 million and CZK 1,537 million, respectively. The originator of radioactive waste and spent fuel directly covers all costs associated with interim storage of radioactive waste and spent fuel.

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

The following is a summary of the provisions for the years ended December 31, 2014 and 2013 (in CZK millions):

	Accumulated provisions			
	Nuclear decommis-sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2012	11,850	6,794	23,583	42,227
Movements during 2013:				
Discount accretion and effect of inflation	415	238	825	1,478
Provision charged to income statement	-	460	-	460
Effect of change in estimate charged to income statement	-	249	-	249
Effect of change in estimate added to fixed assets	1,295	-	19	1,314
Current cash expenditures	-	(550)	(1,537)	(2,087)
Balance at December 31, 2013	13,560	7,191	22,890	43,641
Movements during 2014:				
Discount accretion and effect of inflation	474	252	801	1,527
Provision charged to income statement	-	472	-	472
Effect of change in estimate charged to income statement	-	156	-	156
Effect of change in estimate added to fixed assets	2,559	-	954	3,513
Current cash expenditures	-	(706)	(1,516)	(2,222)
Balance at December 31, 2014	16,593	7,365	23,129	47,087

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 2014 the Company recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage costs and change in discount rate, the change in estimate in provision for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Temelín and 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 2013 the Company recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage costs, the change in estimate in provision for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Dukovany and the change in long-term spent fuel storage 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, 2014 and 2013 are as follows (in CZK millions):

	2014	2013
Derivatives	5,851	6,300
Provision for waste storage reclamation	1,418	1,320
Employee benefits liabilities	989	950
Other *	1,751	1,751
Total	10,009	10,321

* Long-term deposit received from Vršanská uhelná a.s.

The following table shows the movements of the provision for waste storage reclamation for the years ended December 31, 2014 and 2013 (in CZK millions):

	2014	2013
Balance at January 1	1,320	1,277
Discount accretion and effect of inflation	46	44
Effect of change in estimate added to (deducted from) fixed assets	123	(65)
Current cash expenditures	(71)	(43)
Effect of merger	-	107
Balance at December 31	1,418	1,320

17. Short-term Loans

Short-term loans at December 31, 2014 and 2013 were as follows (in CZK millions):

	2014	2013
Short-term bank loans	7,431	1,813
Bank overdrafts	2	143
Short-term debentures	-	274
Total	7,433	2,230

Interest on short-term loans is variable. The weighted average interest rate was 0.3% and 0.5% at December 31, 2014 and 2013, respectively. For the years 2014 and 2013 the weighted average interest rate was 0.3% and 0.7%, respectively.

18. Trade and Other Payables

Trade and other payables at December 31, 2014 and 2013 were as follows (in CZK millions):

	2014	2013
Trade payables	25,142	29,295
Derivatives	16,372	14,729
Payables from Group cashpooling and similar intra-group loans	39,991	33,403
Other	2,974	1,417
Total	84,479	78,844

The information about payables to related parties is included in Note 26.

19. Accrued Liabilities

Accrued liabilities at December 31, 2014 and 2013 consist of the following (in CZK millions):

	2014	2013
Provisions	4,268	3,588
Deferred variation margin on “own use” electricity futures	217	436
Accrued interest	2,952	3,716
Unbilled goods and services	6,214	4,627
Taxes and fees, except income tax	357	408
Other	3	-
Total	14,011	12,775

In 2014 and 2013, the Company recognized provision of CZK 3,524 million and CZK 2,924 million, respectively, for emission rights (see Note 8).

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, 2014 and 2013, the provision totaled CZK 447 million and CZK 393 million, respectively.

At December 31, 2014 and 2013, the provision for legal and commercial disputes amounted to CZK 293 million and CZK 267 million, respectively.

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 the balance sheet date.

20. Revenues

Revenues for the years ended December 31, 2014 and 2013 were as follows (in CZK millions):

	2014	2013
Sale of electricity:		
Electricity sales – domestic:		
ČEZ Prodej, s.r.o.	24,431	29,316
PXE	3,365	2,036
Other	29,319	35,920
Total electricity sales – domestic	57,115	67,272
Electricity sales – foreign	9,234	13,828
Effect of hedging (see Note 14.3)	1,290	2,687
Sales of ancillary and other services	4,493	5,700
Total sales of electricity	72,132	89,487
Electricity, coal and gas derivative trading:		
Sales domestic	14,658	16,746
Sales foreign	200,405	197,932
Purchases domestic	(14,324)	(15,779)
Purchases foreign	(193,184)	(191,629)
Effect of hedging	(270)	13
Changes in fair value of commodity derivatives	(4,593)	(5,691)
Total gains and losses from electricity, coal and gas derivative trading, net	2,692	1,592
Sales of gas, heat and other revenues:		
Sales of gas	4,615	5,268
Sales of heat	2,096	1,855
Other	3,171	3,442
Total sales of gas, heat and other revenues:	9,882	10,565
Total revenues	84,706	101,644

In 2014 the line item Total gains and losses from electricity, coal and gas derivative trading, net also includes CZK 1,952 million for the termination of contract with Crédit Agricole Corporate and Investment Bank.

21. Salaries and Wages

Salaries and wages for the years ended December 31, 2014 and 2013 were as follows (in CZK millions):

	2014		2013	
	Total	Key management personnel [1)]	Total	Key management personnel [1)]
Salaries and wages including remuneration of board members and royalties	(4,191)	(296)	(4,218)	(291)
Share options	(26)	(26)	(33)	(33)
Social and health security	(1,313)	(48)	(1,321)	(47)
Other personal expenses	(557)	(43)	(499)	(25)
Total	(6,087)	(413)	(6,071)	(396)

[1)] Members of Supervisory Board, Audit Committee 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.

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

At December 31, 2014 and 2013, the aggregate number of share options granted to members of Board of Directors and selected managers was 2,575 thousand and 2,388 thousand, respectively.

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

In 2014 and 2013 the Company recognized a compensation expense of CZK 26 million and CZK 33 million, respectively, related to the granted options.

The following table shows changes during 2014 and 2013 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, 2012	1,657	786	2,443	852.85
Options granted	550	295	845	559.43
Options forfeited	(585)	(315)	(900)	970.06
Share options at December 31, 2013 [1)]	1,622	766	2,388	704.84
Options granted	610	177	787	586.77
Movements	(120)	120	-	764.34
Options forfeited	(285)	(315)	(600)	814.75
Share options at December 31, 2014 [1)]	1,827	748	2,575	643.14

[1)] At December 31, 2014 and 2013 the number of exercisable options was 1,128 thousand and 947 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 737.24 per share and CZK 809.74 per share at December 31, 2014 and 2013, 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:

	2014	2013
Weighted average assumptions:		
Dividend yield	4.6%	6.7%
Expected volatility	23.2%	22.4%
Mid-term risk-free interest rate	0.5%	0.8%
Expected life (years)	1.4	1.4
Share price (CZK per share)	571.2	549.7
Weighted average grant-date fair value of options (CZK per 1 option)	42.3	37.5

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

At December 31, 2014 and 2013 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

	2014	2013
CZK 450 – 600 per share	1,000	650
CZK 600 – 800 per share	1,445	1,233
CZK 800 – 950 per share	130	505
Total	2,575	2,388

The options granted, which were outstanding as at December 31, 2014 and 2013 had an average remaining contractual life of 1.8 years and 1.9 years, respectively.

22. Other Operating Expenses

Other operating expenses for the years ended December 31, 2014 and 2013 consist of the following (in CZK millions):

	2014	2013
Services	(6,554)	(6,657)
Change in provisions and valuation allowances	1,191	2,533
Taxes and fees	(1,852)	(1,943)
Write-off of bad debts	(4)	(1,469)
Travel expense	(74)	(88)
Gifts	(152)	(180)
Gain (loss) on sale of property, plant and equipment	(6)	13
Gain (loss) on sale of material	(20)	100
Fines, penalties and penalty interest, net	449	440
Gain from settlement agreement with Republic of Albania (see Note 4.1)	2,562	-
Other, net	(702)	(500)
Total	(5,162)	(7,751)

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.

23. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2014 and 2013 was as follows (in CZK millions):

	2014	2013
Loans and receivables	842	1,225
Held-to-maturity investments	82	135
Available-for-sale investments	262	291
Bank accounts	256	277
Total	1,442	1,928

24. Other Income (Expenses), Net

Other income (expenses), net, for the years ended December 31, 2014 and 2013 consist of the following (in CZK millions):

	2014	2013
Dividends received	20,697	14,296
Derivative gains (losses), net	(418)	8
Gains on sale of available-for-sale financial assets	101	212
Gift tax on emission rights	-	(226)
Impairment of financial investments	(9,010)	(7,403)
Other, net	(487)	860
Total	10,883	7,747

25. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2014 and 2013.

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):

	2014	2013
Current income tax charge	(1,189)	(3,603)
Adjustments in respect of current income tax of previous periods	(5)	(7)
Deferred income taxes	(584)	321
Total	(1,778)	(3,289)

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

	2014	2013
Income before income taxes	22,688	29,662
Statutory income tax rate	19%	19%
"Expected" income tax expense	(4,311)	(5,636)
Tax effect of:		
Non-deductible provisions and allowances, net	(1,608)	(1,013)
Non-deductible expenses related to shareholdings	(23)	(27)
Other non-deductible items, net	(218)	(261)
Non-taxable revenue from settlement agreement with Republic of Albania	454	-
Non-taxable income from dividends	3,932	2,714
Non-deductible share based payment expense	(5)	(6)
Non-taxable gain on sale of subsidiary	5	990
Gift tax on emission allowances	-	(43)
Adjustments in respect of current income tax of previous periods	(4)	(7)
Income tax	(1,778)	(3,289)
Effective tax rate	8%	11%

Deferred income tax liability, net, at December 31, 2014 and 2013 was calculated as follows (in CZK millions):

	2014	2013
Accumulated provision for nuclear decommissioning and spent fuel storage	7,424	6,847
Other provisions	1,198	1,054
Allowances	562	509
Deferred tax recognized in equity	1,879	2,039
Other temporary differences	161	178
Total deferred tax assets	11,224	10,627
Tax depreciation in excess of financial statement depreciation	(19,477)	(18,400)
Penalty receivables	(228)	(155)
Deferred tax recognized in equity	(277)	(142)
Other temporary differences	(866)	(674)
Total deferred tax liability	(20,848)	(19,371)
Total deferred tax liability, net	(9,624)	(8,744)

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

	2014			2013		
	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	4,889	(929)	3,960	(9,483)	1,802	(7,681)
Cash flow hedges reclassified from equity	(4,045)	769	(3,276)	(3,059)	581	(2,478)
Change in fair value of available-for-sale financial assets recognized in equity	711	(135)	576	(410)	78	(332)
Total	1,555	(295)	1,260	(12,952)	2,461	(10,491)

26. Related Parties

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

At December 31, 2014 and 2013, the receivables from related parties and payables to related parties were as follows (in CZK millions):

	Receivables		Payables	
	2014	2013	2014	2013
Akcez Enerji A.S.	119	104	-	-
CEZ Bulgaria EAD	102	249	1	-
CEZ Bulgarian Investments B.V.	-	49	110	-
CEZ Hungary Ltd.	230	209	38	23
CEZ Chorzow B.V.	-	-	1,045	71
CEZ International Finance B.V.	-	-	1,189	947
CEZ MH B.V.	-	8,754	2,238	651
CEZ Polska sp. z o.o.	19	19	539	957
CEZ Romania S.A.	178	170	1,476	629
CEZ Silesia B.V.	-	-	1,328	1,308
CEZ Vanzare S.A.	5	102	-	-
CM European Power International	199	401	-	-
CM European Power Slovakia s.r.o.	507	642	-	-
ČEZ Bohunice a.s.	-	-	208	210
ČEZ Distribuce, a. s.	7,763	9,045	5,962	7,594
ČEZ Distribuční služby, s.r.o.	10	23	5,316	4,810
ČEZ Energetické produkty, s.r.o.	1	-	255	249
ČEZ Energetické služby, s.r.o.	28	1	19	157
ČEZ ENERGOSERVIS spol. s r.o.	201	4	601	570
ČEZ ESCO, a.s.	-	-	400	-
ČEZ ICT Services, a. s.	27	11	884	543
ČEZ Inženýring, s.r.o.	1	-	97	-
ČEZ Korporátní služby, s.r.o.	14	12	660	611
ČEZ Obnovitelné zdroje, s.r.o.	23	11	31	181
ČEZ OZ uzavřený investiční fond a.s.	2	51	360	-
ČEZ Prodej, s.r.o.	4,314	1,723	11,222	7,914
ČEZ Slovensko, s.r.o.	353	392	85	24
ČEZ Teplárenská, a.s.	197	205	224	259
ČEZ Zákaznické služby, s.r.o.	-	2	143	120
Eco-Wind Construction S.A.	363	312	-	-
Elektrárna Dětmarovice, a.s.	247	56	1,887	1,594
Elektrárna Počerady, a.s.	743	1,339	5,944	7,372
Elektrociepłownia Chorzów ELCHO sp. z o.o.	74	642	1	-
Elektrownia Skawina S.A.	181	88	91	113
Energetické centrum, s.r.o.	152	201	-	-
Energotrans, a.s.	245	86	650	225
M. W. Team Invest S.R.L.	1,019	1,128	-	-
Ovidiu Development S.R.L.	8,061	8,451	58	75
SD-Kolejová doprava, a.s.	5	1	103	78
Severočeské doly a.s.	667	768	530	490
Shared Services Albania Sh. A.	-	91	-	-
ŠKODA PRAHA Invest s.r.o.	1,185	210	2,132	3,161
Telco Pro Services, a. s.	2	1	249	241
Tomis Team S.R.L.	473	674	79	103
ÚJV Řež, a. s.	1	1	211	217
Other	420	306	216	274
Total	28,131	36,534	46,582	41,771

The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2014 and 2013 (in CZK millions):

	Sales to related parties		Purchases from related parties	
	2014	2013	2014	2013
Akcez Enerji A.S.	56	32	-	-
CEZ Bulgaria EAD	218	244	2	-
CEZ Hungary Ltd.	1,371	1,259	20	47
CEZ MH B.V.	31	110	9	-
CEZ Polska sp. z o.o.	98	92	-	-
CEZ Romania S.R.L.	182	185	-	-
CEZ Srbija d.o.o.	153	131	160	354
CEZ Trade Bulgaria EAD	162	149	202	282
CEZ Trade Polska sp. z o.o.	505	424	14	15
CEZ Trade Romania S.R.L.	1	478	4	258
CEZ Vanzare S.A.	97	938	-	-
ČEZ Distribuce, a. s.	620	186	131	126
ČEZ Distribuční služby, s.r.o.	108	130	24	8
ČEZ Energetické produkty,s.r.o.	6	5	596	492
ČEZ Energetické služby, s.r.o.	8	8	115	106
ČEZ ENERGOSERVIS spol. s r.o.	38	22	1,755	767
ČEZ ICT Services, a. s.	56	61	1,782	1,981
ČEZ Korporátní služby, s.r.o.	44	47	667	719
ČEZ Obnovitelné zdroje, s.r.o.	7	9	277	264
ČEZ Prodej, s.r.o.	29,433	34,612	3,177	2,482
ČEZ Slovensko, s.r.o.	2,899	3,710	298	353
ČEZ Teplárenská, a.s.	1,749	1,583	155	98
Elektrárna Dětmarovice, a.s.	964	482	3,215	3,086
Elektrárna Chvaletice, a.s. [1)]	-	2,283	-	2,965
Elektrárna Počerady, a. s.	2,787	6,117	7,384	11,687
Elektrociepłownia Chorzów ELCHO sp. z o.o.	101	181	-	-
Elektrownia Skawina S.A.	194	318	1,022	1,158
Energotrans, a.s.	920	606	1,216	1,126
LOMY MOŘINA spol. s r.o.	-	-	186	174
OSC, a.s.	-	-	124	97
Ovidiu Development S.R.L.	244	1	276	664
SD-Kolejová doprava, a.s.	13	11	790	675
Severočeské doly a.s.	105	95	4,438	5,098
ŠKODA PRAHA Invest s.r.o.	90	51	8,987	17,228
Teplárna Trmice, a.s. [2)]	-	60	-	154
Tomis Team, S.R.L.	92	122	348	930
ÚJV Řež, a. s.	2	1	476	467
Other	337	280	193	96
Total	43,691	55,023	38,043	53,957

[1)] As at September 2, 2013 Elektrárna Chvaletice, a.s. was sold.
[2)] In 2013 Teplárna Trmice, a.s. merged with the succession company ČEZ, a. s. with the legal effective date of October 1, 2013.

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 18).

27. Segment Information

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

28. Earnings per Share

	2014	2013
Numerator – basic and diluted (CZK millions)		
Net profit	20,910	26,373
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	534,115	534,115
Dilutive effect of share options	64	7
Diluted:		
Adjusted weighted average shares	534,179	534,122
Net income per share (CZK per share)		
Basic	39.1	49.4
Diluted	39.1	49.4

29. Commitments and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2014 to total CZK 60.4 billion over the next five years, as follows: CZK 22.5 billion in 2015, CZK 10.6 billion in 2016, CZK 8.8 billion in 2017, CZK 8.7 billion in 2018 and CZK 9.8 billion in 2019. 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, 2014 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 the Czech Nuclear Insurance Pool) and European Liability Insurance for the Nuclear Industry.

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

Contingent Liabilities

The Company has a dispute with Sokolovská uhelná, právní nástupce, a.s. related to the quantity and price of coal supplied to the Company. In relation to this dispute there are proceedings with Specialized Tax Office and Anti-trust Office under way. Although the management believes the outflow of resources embodying economic benefits is not probable, the final outcome of these proceedings cannot be anticipated.

In 2012 Romanian company Electrica S.A. started the arbitration proceedings against the Company with the International Arbitration Tribunal for the deemed breach of privatization agreement from April 5, 2005 and claims the compensation of EUR 81.6 million. Based on this agreement the Company acquired a share in former subsidiary of the claimant Electrica Oltenia S.A. The Company considers the claim as ungrounded and in its response in October 2013 suggested to reject the claim. It is expected the arbitration proceedings will come to an end during first half of 2015. The final outcome of these arbitration proceedings cannot be anticipated.

These financial statements have been authorized for issue on March 2, 2015.

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