**ČEZ, a. s.**

FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2013

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, 2013, 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

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

Martin Skácelík
Auditor, License No. 2119

February 24, 2014
Prague, Czech Republic

**ČEZ, a. s.**
**BALANCE SHEET**
**AS OF DECEMBER 31, 2013**

**in CZK Millions**

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Property, plant and equipment: | | |
| Plant in service | 319,081 | 318,139 |
| Less accumulated provision for depreciation | (182,282) | (175,703) |
| Net plant in service (Note 3) | 136,799 | 142,436 |
| Nuclear fuel, at amortized cost | 10,627 | 9,698 |
| Construction work in progress (Note 3) | 86,512 | 68,318 |
| Total property, plant and equipment | 233,938 | 220,452 |
| Other non-current assets: | | |
| Investments and other financial assets, net (Note 4) | 192,512 | 197,658 |
| Intangible assets, net (Note 5) | 572 | 604 |
| Total other non-current assets | 193,084 | 198,262 |
| Total non-current assets | 427,022 | 418,714 |
| Current assets: | | |
| Cash and cash equivalents (Note 6) | 14,166 | 8,815 |
| Receivables, net (Note 7) | 56,480 | 56,232 |
| Income tax receivable | 807 | 1,044 |
| Materials and supplies, net | 4,535 | 4,129 |
| Fossil fuel stocks | 593 | 2,033 |
| Emission rights (Note 8) | 7,300 | 10,038 |
| Other financial assets, net (Note 9) | 37,206 | 36,869 |
| Other current assets (Note 10) | 1,148 | 999 |
| Total current assets | 122,235 | 120,159 |
| **Total assets** | 549,257 | 538,873 |

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

**ČEZ, a. s.**
**BALANCE SHEET**
**AS OF DECEMBER 31, 2013**

**continued**

| | 2013 | 2012 |
|---|---|---|
| **Equity and liabilities** | | |
| Equity: | | |
| Stated capital | 53,799 | 53,799 |
| Treasury shares | (4,382) | (4,382) |
| Retained earnings and other reserves | 155,826 | 161,494 |
| Total equity (Note 11) | 205,243 | 210,911 |
| Long-term liabilities: | | |
| Long-term debt, net of current portion (Note 12) | 162,746 | 161,307 |
| Accumulated provision for nuclear decommissioning and fuel storage (Note 15) | 43,641 | 42,227 |
| Other long-term liabilities (Note 16) | 10,321 | 5,405 |
| Total long-term liabilities | 216,708 | 208,939 |
| Deferred tax liability (Note 25) | 8,744 | 11,016 |
| Current liabilities: | | |
| Short-term loans (Note 17) | 2,230 | 2,735 |
| Current portion of long-term debt (Note 12) | 24,713 | 10,971 |
| Trade and other payables (Note 18) | 78,844 | 77,543 |
| Accrued liabilities (Note 19) | 12,775 | 16,758 |
| Total current liabilities | 118,562 | 108,007 |
| **Total equity and liabilities** | 549,257 | 538,873 |

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

**ČEZ, a. s.**
**STATEMENT OF INCOME**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**in CZK Millions**

| | 2013 | 2012 |
|---|---|---|
| **Revenues:** | | |
| Sales of electricity | 89,487 | 94,315 |
| Gains and losses from electricity, coal and gas derivative trading, net | 1,592 | 4,032 |
| Sales of gas, heat and other revenues | 10,565 | 9,800 |
| Total revenues (Note 20) | 101,644 | 108,147 |
| **Operating expenses:** | | |
| Fuel | (10,818) | (14,016) |
| Purchased power and related services | (35,231) | (24,826) |
| Repairs and maintenance | (3,242) | (3,504) |
| Depreciation and amortization | (13,358) | (13,261) |
| Impairment of property, plant and equipment and intangible assets | (2,467) | - |
| Salaries and wages (Note 21) | (6,071) | (6,113) |
| Materials and supplies | (1,500) | (1,694) |
| Emission rights, net (Note 8) | (1,104) | (1,196) |
| Other operating expenses (Note 22) | (7,758) | (8,284) |
| Total expenses | (81,549) | (72,894) |
| **Income before other income (expenses) and income taxes** | 20,095 | 35,253 |
| **Other income (expenses):** | | |
| Interest on debt, net of capitalized interest | (4,865) | (4,576) |
| Interest on nuclear and other provisions | (1,523) | (1,743) |
| Interest income (Note 23) | 1,928 | 2,583 |
| Foreign exchange rate gains (losses), net | 1,068 | 1,268 |
| Gain on sale of subsidiaries, associates and joint-ventures | 5,212 | - |
| Other income (expenses), net (Note 24) | 7,747 | 8,825 |
| Total other income (expenses) | 9,567 | 6,357 |
| **Income before income taxes** | 29,662 | 41,610 |
| Income taxes (Note 25) | (3,289) | (6,274) |
| **Net income** | 26,373 | 35,336 |
| **Net income per share** (CZK per share) (Note 28) | | |
| Basic | 49.4 | 66.2 |
| Diluted | 49.4 | 66.2 |
| Average number of shares outstanding (000s) | | |
| Basic | 534,115 | 534,115 |
| Diluted | 534,122 | 534,126 |

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

**ČEZ, a. s.**
**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**in CZK Millions**

| | 2013 | 2012 |
|---|---|---|
| **Net income** | 26,373 | 35,336 |
| **Other comprehensive income – items that may be reclassified subsequently to statement of income:** | | |
| Change in fair value of cash flow hedges recognized in equity | (9,483) | 7,867 |
| Cash flow hedges removed from equity | (3,059) | (104) |
| Change in fair value of available-for-sale financial assets recognized in equity | (410) | 733 |
| Deferred tax relating to other comprehensive income (Note 25) | 2,461 | (1,614) |
| Other comprehensive income, net of tax | (10,491) | 6,882 |
| **Total comprehensive income** | 15,882 | 42,218 |

**ČEZ, a. s.**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**In CZK Millions**

| | Stated capital | Treasury shares | Cash flow hedge reserve | Available-for-sale and other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| December 31, 2011 | 53,799 | (4,382) | (4,821) | 715 | 147,289 | 192,600 |
| Net income | - | - | - | - | 35,336 | 35,336 |
| Other comprehensive income | - | - | 6,288 | 594 | - | 6,882 |
| Total comprehensive income | - | - | 6,288 | 594 | 35,336 | 42,218 |
| Dividends | - | - | - | - | (23,982) | (23,982) |
| Share options | - | - | - | 75 | - | 75 |
| Transfer of exercised and forfeited share options within equity | - | - | - | (216) | 216 | - |
| December 31, 2012 | 53,799 | (4,382) | 1,467 | 1,168 | 158,859 | 210,911 |
| 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 exercised and forfeited share options within equity | - | - | - | (97) | 97 | - |
| December 31, 2013 | 53,799 | (4,382) | (8,692) | 772 | 163,746 | 205,243 |

**ČEZ, a. s.**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**In CZK Millions**

| | 2013 | 2012 |
|---|---|---|
| **Operating activities:** | | |
| Income before income taxes | 29,662 | 41,610 |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: | | |
| Depreciation, amortization and asset write-offs | 13,365 | 13,377 |
| Amortization of nuclear fuel | 3,065 | 2,786 |
| Gain on fixed asset retirements, net | (5,315) | (62) |
| Foreign exchange rate losses (gains), net | (1,068) | (1,268) |
| Interest expense, interest income and dividend income, net | (11,360) | (12,564) |
| Provision for nuclear decommissioning and fuel storage | (239) | (14) |
| Valuation allowances, other provisions and other adjustments | 6,118 | 1,722 |
| Changes in assets and liabilities: | | |
| Receivables | 1,886 | 731 |
| Materials and supplies | (457) | (518) |
| Fossil fuel stocks | (478) | (674) |
| Other current assets | (1,417) | (12,696) |
| Trade and other payables | (2,247) | 23 |
| Accrued liabilities | (4,580) | 5,113 |
| Cash generated from operations | 30,725 | 37,566 |
| Income taxes paid | (3,317) | (6,340) |
| Interest paid, net of capitalized interest | (4,582) | (4,323) |
| Interest received | 1,888 | 2,568 |
| Dividends received | 14,296 | 14,500 |
| Net cash provided by operating activities | 39,010 | 43,971 |
| **Investing activities:** | | |
| Acquisition of subsidiaries, associates and joint-ventures | (729) | (7,383) |
| Proceeds from disposal of subsidiaries, associates and joint-ventures | 4,449 | - |
| Additions to property, plant and equipment and other non-current assets, including capitalized interest | (29,127) | (29,700) |
| Proceeds from sale of fixed assets | 1,300 | 1,577 |
| Loans made | (7,769) | (21,150) |
| Repayment of loans | 5,623 | 11,496 |
| Change in restricted financial assets | (755) | (366) |
| Total cash used in investing activities | (27,008) | (45,526) |

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

**ČEZ, a. s.**
**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**continued**

| | 2013 | 2012 |
|---|---|---|
| **Financing activities:** | | |
| Proceeds from borrowings | 47,618 | 79,488 |
| Payments of borrowings | (46,119) | (67,859) |
| Proceeds from other long-term liabilities | 1,750 | 1 |
| Payments of other long-term liabilities | (86) | - |
| Change in payables/receivables from group cashpooling | 11,382 | 6,461 |
| Dividends paid | (21,336) | (23,995) |
| Net cash used in financing activities | (6,791) | (5,904) |
| Net effect of currency translation in cash | 140 | 344 |
| **Net increase (decrease) in cash and cash equivalents** | 5,351 | (7,115) |
| **Cash and cash equivalents at beginning of period** | 8,815 | 15,930 |
| **Cash and cash equivalents at end of period** | 14,166 | 8,815 |

**Supplementary cash flow information**

| | | |
|---|---|---|
| Total cash paid for interest | 8,004 | 7,492 |

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

## 1. Description of the Company

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

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

The average number of employees was 5,437 and 5,872 in 2013 and 2012, 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, 2013. The majority shareholder's share of the voting rights represented 70.3% at the same date.

Members of the statutory and supervisory bodies at December 31, 2013 were as follows:

| Board of Directors | | Supervisory Board | |
|---|---|---|---|
| Chair | Daniel Beneš | Vice-chair | Václav Pačes |
| Vice-chair | Martin Novák | Vice-chair | Vladimír Hronek |
| Member | Pavel Cyrani | Member | Milan Bajgar |
| Member | Ivo Hlaváč | Member | Jiří Kadrnka |
| Member | Michaela Chaloupková | Member | Jan Mareš |
| Member | Tomáš Pleskač | Member | Michal Mejstřík |
| Member | Ladislav Štěpánek | Member | Radek Mucha |
| | | Member | Jiří Novotný |
| | | Member | Lubomír Poul |
| | | Member | Vladimír Říha |
| | | Member | Drahoslav Šimek |
| | | Member | Jiří Volf |

## 2. Summary of Significant Accounting Policies

### 2.1. Basis of Presentation of the Financial Statements

Pursuant to the Accounting Law, the accompanying separate financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

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

The Company also compiled consolidated IFRS financial statements of the CEZ Group for the same period. The consolidated financial statements were authorized for issue on February 24, 2014.

### 2.2. Presentation Currency

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

### 2.3. Estimates

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

### 2.4. Revenue Recognition

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

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

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

Revenue from services is recognized when the services are rendered.

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

### 2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,065 million and CZK 2,786 million for the years ended December 31, 2013 and 2012, 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 339 million and CZK 241 million in 2013 and 2012, 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 3,500 million and CZK 3,218 million and an interest capitalization rate was 4.6% in 2013 and 2012.

### 2.7. Property, Plant and Equipment

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

Internally developed property, plant and equipment are recorded at their accumulated cost. The costs of completed technical improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment the cost and related accumulated depreciation of the disposed item or its replaced part are derecognized from the balance sheet. Any resulting gains or losses are included in profit or loss.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized.

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

Depreciation of plant in service was CZK 13,149 million and CZK 13,038 million for the years ended December 31, 2013 and 2012, which was equivalent to a composite depreciation rate of 4.1%. The tangible asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

## 2.8. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization and presented as part of property plant and equipment. Amortization of fuel in the reactor is based on the amount of power generated.

## 2.9. Intangible Assets

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful life of intangible assets ranges from 3 to 10 years. The intangible assets´ residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end. The costs of completed technical improvements are capitalized.

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item 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 owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plans 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. In the Czech Republic 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 at the cost of granted and purchased emission rights and credits up to the level of granted and purchased emission rights and credits held and then at the market price ruling at the balance sheet date. The amount of the gift tax on granted emission rights, which is charged to profit or loss as part of the charge of the provision, the eventual cost of emission rights sold or as part of the consumption of emission rights when the allowances are remitted from the register, is included in the line Other income (expenses), net.

The Company also holds emission rights for trading purposes. The portfolio of emission rights held for trading is measured at fair value. The changes in fair value of the emission rights held for trading are recognized directly in profit or loss.

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

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

The swaps of European emission rights (EUA) and certified emission reductions (CER or emission credits) are treated as derivatives in the period from the trade date to the maturity date. The swap is measured at fair value with any fair value changes being recognized in profit and loss. Any cash received before the EUA/CER swap matures would result in an offsetting change in the fair value of the swap. Upon the delivery of EUAs and CERs the difference between the total of cash received and the fair value of the CER received on one hand and the total of the carrying value of the EUA given up and the fair value of the EUA/CER-swap given up is recognized as a gain or loss.

### 2.11. Investments

Investments are classified into the following categories: held-to-maturity, loans and receivables, held for trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Held-to-maturity investments and loans and receivables are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if the Company intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the settlement date.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date.

Gains or losses on remeasurement to fair value of available-for-sale investments are recognized directly in other comprehensive income, until the investment is sold or otherwise disposed of, or until it is determined to be impaired. Equity securities classified as available-for-sale investments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost.

The carrying amounts of such available-for-sale investments are reviewed at each balance sheet date whether there is objective evidence for impairment. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

The Company evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management’s intent significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the entity has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intent to hold the financial asset until maturity.

Changes in the fair values of trading investments are included in Other income (expenses), net.

Held-to-maturity investments and loans and receivables are carried at amortized cost using the effective interest rate method.

Investments in subsidiaries, associates and joint-ventures are carried at cost. Impaired investments are provided for or written off.

Mergers with entities under common control are recorded using a method similar to pooling of interests. Assets and liabilities of the merged entities are included in separate financial statements of the Company at their book values. The difference between the cost of investment in subsidiaries and net assets merged from entities under common control is recorded directly in equity.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position 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 three months or less. Foreign currency deposits are translated using the exchange rates published as at the balance sheet date.

### 2.13. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown under non-current financial assets as restricted funds (see Note 4.2), relate to deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and financial guarantees given to transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Company.

## 2.14. Receivables, Payables and Accruals

Receivables are carried at their nominal value. Ceded receivables are valued at cost. Doubtful receivables are adjusted for uncollectible amounts through a provision account. Additions to the provision account are charged to income. As at December 31, 2013 and 2012 the allowance for short-term uncollectible receivables amounted to CZK 2,977 million and CZK 3,307 million, respectively.

Trade and other payables are recorded at invoiced values and accruals are reported at expected settlement values.

## 2.15. Material and Supplies

Purchased inventories are valued at actual cost, using the weighted average method. Costs of purchased inventories comprise expenditure which has been incurred in respect of the acquisition of material and supplies, transportation costs included. When put in use, inventories are charged to income or capitalized as part of property, plant and equipment. Work-in-progress is valued at actual cost. Costs of inventories produced internally include direct material and labor costs. Obsolete inventories are reduced to their realizable value by a provision account to the income statement.

## 2.16. Fossil Fuel Stock

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

## 2.17. Derivative Financial Instruments

The Company uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. In the attached balance sheet such derivatives are presented as part of Investments and other financial assets, net, Other financial assets, net, Other long-term liabilities and Trade and other payables.

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

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

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

Fair value hedge:

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

Cash flow hedge:

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in other comprehensive income and are presented as part of Cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognized in the income statement in the line item Other income (expenses), net.

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

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

Other derivatives:

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

### 2.18. Commodity Contracts

According to IAS 39, certain commodity contracts are treated as financial instruments and fall into the scope of the standard. Most commodity purchase and sales contracts entered into by the Company provide for physical delivery of quantities intended to be consumed or sold as part of its ordinary business; such contracts are thus excluded from the scope of IAS 39.

Forward purchases and sales for physical delivery of energy are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

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

The Company thus considers that transactions negotiated with a view to balancing the volumes between electricity purchases and sale commitments are part of its ordinary business as an integrated electric utility company and do not therefore come under the scope of IAS 39.

Commodity contracts which fall under the scope of IAS 39 are carried at fair value with changes in the fair value recognized in the income statement.

### 2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. differences between book and tax depreciation). Income tax due is provided at a rate of 19% for the years ended December 31, 2013 and 2012, 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 2014 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 calculated as the product of the tax rate that is expected to apply to the year when the asset is realized or the liability is settled and temporary differences between book and tax accounting.

Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

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

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

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

### 2.20. Long-term Debt

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

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

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

### 2.21. Nuclear Provisions

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

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.0% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. At December 31, 2013 and 2012 the estimate for the effect of inflation is 1.5%.

The decommissioning process is expected to continue for approximately a fifty-year period for Temelín power plant and sixty-year period for Dukovany power plant subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. While the Company has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Company's current estimates.

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

### 2.22. Treasury Shares

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

### 2.23. Share Options

Board of Directors and selected managers  have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted. In case of options which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases the expense is accrued over the vesting period of the equity instruments granted. The expense recognized reflects the best estimate of the number of share options which will ultimately vest. In 2013 and 2012 the expense recognized in respect of the share option plan amounted to CZK 33 million and CZK 75 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, 2013 and 2012 for the translation of assets and liabilities denominated in foreign currencies were as follows:

| | 2013 | 2012 |
|---|---|---|
| CZK per 1 EUR | 27.425 | 25.140 |
| CZK per 1 USD | 19.894 | 19.055 |
| CZK per 1 PLN | 6.603 | 6.172 |
| CZK per 1 BGN | 14.023 | 12.854 |
| CZK per 1 RON | 6.135 | 5.658 |
| CZK per 100 JPY | 18.957 | 22.130 |
| CZK per 1 TRY | 9.275 | 10.670 |
| CZK per 100 ALL | 19.590 | 18.053 |

### 2.25. Non-current Assets Held for Sale

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

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

### 2.26. Adoption of New IFRS Standards in 2013

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, 2013:

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment), effective July 1, 2012.
- IAS 19 Employee benefits (revised), effective January 1, 2013
- IFRS 7 Financial Instruments: Disclosures (Amendment), effective January 1, 2013
- IFRS 13 Fair Value Measurement, effective January 1, 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, effective January 1, 2013

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)
The amendment is effective for annual periods beginning on or after July 1, 2012. The amendment to IAS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) are presented separately from items that will never be reclassified. The amendment does not change the nature of the items that were recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit and loss in future periods. The amendment affects presentation only and there is no impact on the Company’s financial position or performance.

IAS 19 Employee benefits (revised)
The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed; there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption; termination benefits are recognized at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognized under IAS 37; the distinction between short-term and other long-term employee benefits is based on expected timing of settlement rather than the employee's entitlement to the benefits. This standard is effective for annual periods beginning on or after January 1, 2013. Revised standard has no significant impact on the Company.

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)
The amendment is effective for annual periods beginning on or after January 1, 2013. This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with IAS 32. The standard impacts some of the disclosures included in notes to financial statements (see Note 13).

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted.

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

The standard provides clarification on a number of areas, including the following:

- Concepts of 'highest and best use' and 'valuation premise' are relevant only for non-financial assets
- Adjustments for blockage factors (block discounts) are prohibited in all fair value measurements
- A description of how to measure fair value when a market becomes less active

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

The standard does not have material impact on the financial statements as most of the principles were already adopted in the past.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. If the benefit from the stripping activity is realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity recognizes these costs as a non-current asset, only if certain criteria are met. This is referred to as the 'stripping activity asset'. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The interpretation is effective for annual periods beginning on or after January 1, 2013. The new interpretation has no impact on the Company.

All other standards and interpretations whose application was mandatory for the period beginning on or after January 1, 2013 have no material impact on the Company's separate financial statements.

### 2.27. New IFRS Standards and Interpretations IFRIC not yet Effective or not yet Adopted by the EU

The Company is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2014 or later. Standards and interpretations most relevant to the Company's activities are detailed 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 financial position or performance of the Company.

IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)
In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practice. The amendment is effective for financial statements beginning on or after January 1, 2014. The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The IAS 32 offsetting criteria require the reporting entity to intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The amendment clarifies that only gross settlement mechanisms with features that eliminate or result in insignificant credit and liquidity risk and that process receivables and payables in a single settlement process or cycle would be, in effect, equivalent to net settlement and, therefore, meet the net settlement criterion. The Company does not expect the amendment will have an impact on the Company's financial statements.

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 Company does not expect the amendment will have an 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 Company does not expect the amendment will have an impact on the Company's financial statements.

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.

Hedge accounting
A 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.

The standard does not currently indicate the mandatory effective date. The IASB decided to defer the mandatory effective date of IFRS 9 until the date of the completed version of IFRS 9 is known. The standard has not yet been endorsed by EU.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets and liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities, 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 becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. The standard will not have an impact on Company's separate financial statements.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers.

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

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

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

This standard 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 will not have an impact on Company's separate financial statements.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarized financial information for each subsidiary with a material non-controlling interest; description of significant judgments used by management in determining control, joint control and significant influence, and the type of joint arrangement (i.e. joint operation or joint venture); provision of summarized financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities.

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

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)
In October 2012 IASB issued the amendments that are effective for annual periods beginning on or after January 1, 2014. These amendments will apply to investments in subsidiaries, joint ventures and associates held by a reporting entity that meets the definition of an investment entity. An investment entity will account for its investments in subsidiaries, associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as appropriate), except for investments in subsidiaries, associates and joint ventures that provide services that relate only to the investment entity, which would be consolidated or accounted for using the equity method, respectively. An investment entity will measure its investment in another controlled investment entity at fair value. Non-investment entity parents of investment entities will not be permitted to retain the fair value accounting that the investment entity subsidiary applies to its controlled investees. For non-investment entities, the existing option in IAS 28, to measure investments in associates and joint ventures at fair value through profit or loss, will be retained. The standard will have no impact on the 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 will have no impact on the Company.

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 consolidated financial statements.

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 |

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 |

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

### 3. Property, Plant and Equipment

Net plant in service at December 31, 2013 and 2012 was as follows (in CZK millions):

| | Buildings | Plant and Equipment | Land and Other | Total 2013 | Total 2012 |
|---|---|---|---|---|---|
| Cost at January 1 | 85,207 | 231,747 | 1,185 | 318,139 | 313,006 |
| Additions | 853 | 3,383 | 37 | 4,273 | 23,007 |
| Disposals | (133) | (500) | - | (633) | (7,031) |
| Change in capitalized part of the provision | (65) | 1,313 | - | 1,248 | 4,921 |
| Effect of merger | 2,262 | 1,483 | 250 | 3,995 | - |
| Non-monetary contribution and other movements | (2,494) | (5,377) | (70) | (7,941) | (15,764) |
| Cost at December 31 | 85,630 | 232,049 | 1,402 | 319,081 | 318,139 |
| Accumulated depreciation and impairment at January 1 | (40,714) | (134,989) | - | (175,703) | (184,124) |
| Depreciation | (2,111) | (11,038) | - | (13,149) | (13,038) |
| Net book value of assets disposed | - | - | - | - | (123) |
| Effect of merger | (345) | (415) | - | (760) | - |
| Non-monetary contribution and other movements | 1,790 | 4,943 | - | 6,733 | 14,556 |
| Disposals | 133 | 500 | - | 633 | 7,026 |
| Impairment losses recognized | (35) | (1) | - | (36) | - |
| Accumulated depreciation and impairment at December 31 | (41,282) | (141,000) | - | (182,282) | (175,703) |
| Net plant in service at December 31 | 44,348 | 91,049 | 1,402 | 136,799 | 142,436 |

Construction work in progress contains mainly refurbishments performed on Ledvice, Prunéřov, Počerady, Temelín and Dukovany power plants.

In 2013 the Company created an impairment provision of CZK 2,432 million against the gas-fired plant Počerady under construction based on the estimate of recoverable value.

## 4. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2013, and 2012 consist of the following (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Restricted debt securities available-for-sale | 8,632 | 8,809 |
| Restricted cash | 1,979 | 1,446 |
| Total restricted financial assets | 10,611 | 10,255 |
| Equity securities and interests, net | 163,580 | 162,125 |
| Investment in Dalkia | 3,166 | 3,166 |
| Loans granted | 10,568 | 16,358 |
| Derivatives | 4,552 | 2,770 |
| Other long-term receivables, including prepayments | 35 | 38 |
| Financial assets in progress | - | 2,946 |
| Total | 192,512 | 197,658 |

The balance of long-term financial assets in progress includes amounts paid in respect of ongoing acquisitions and increases of share capital of subsidiaries, associates and joint-ventures that was not yet registered at December 31.

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Equity securities and interests | Loans | Equity securities and interests | Loans |
| Opening balance | 14,884 | - | 13,810 | - |
| Additions | 5,973 | 768 | 1,104 | - |
| Reversals | (356) | - | (30) | - |
| Closing balance | 20,501 | 768 | 14,884 | - |

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 (see Note 30).

In 2012 the Company created an impairment provision against the investment in CEZ Shpërndarje Sh.A. at the amount CZK 698 million due to the negative equity position of this subsidiary.

In addition the Company created an impairment provision of CZK 290 million against the investment in CEZ Distributie S.A. in connection with the goodwill impairment recorded in the consolidated financial statements.

Loans granted and other long-term receivables at December 31, 2013, and 2012 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Loans granted | Other long-term receivables | Loans granted | Other long-term receivables |
| Due in 1 – 2 years | 2,602 | 27 | 8,329 | 38 |
| Due in 2 – 3 years | 1,979 | 5 | 1,320 | - |
| Due in 3 – 4 years | 1,438 | 3 | 1,489 | - |
| Due in 4 – 5 years | 1,437 | - | 1,320 | - |
| Due in more than 5 years | 3,112 | - | 3,900 | - |
| Total | 10,568 | 35 | 16,358 | 38 |

Loans granted and other long-term receivables at December 31, 2013 and 2012 have following effective interest rate structure (in CZK millions):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Loans granted | Other long-term receivables | Loans granted | Other long-term receivables |
| Less than 2.0% | 32 | 35 | - | 37 |
| From 2.0% to 2.99% | 2,299 | - | 6,436 | 1 |
| From 3.0% to 3.99% | 3,866 | - | 4,515 | - |
| From 4.0% to 4.99% | 64 | - | 36 | - |
| Over 4.99% | 4,307 | - | 5,371 | - |
| Total | 10,568 | 35 | 16,358 | 38 |

Loans granted and other long-term receivables at December 31, 2013 and 2012 according to currencies (in CZK millions):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Loans granted | Other long-term receivables | Loans granted | Other long-term receivables |
| CZK | 7,860 | 20 | 9,179 | 24 |
| EUR | 2,370 | 13 | 6,574 | 12 |
| PLN | 338 | 1 | 605 | 1 |
| USD | - | 1 | - | 1 |
| Total | 10,568 | 35 | 16,358 | 38 |

### 4.1. Investments in Subsidiaries, Associates and Joint-ventures

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.

Several subsidiaries were founded or acquired during 2012:

Energotrans, a.s. (100%), Elektrárna Mělník III, a. s. (100%), Elektrárna Tisová, a.s. (100%), Elektrárna Dětmarovice, a.s. (100%) and Elektrárna Počerady, a.s. (100%).

In 2012 the share capital of Elektrárna Počerady, a.s. was increased by non-monetary contribution of part of business.

As at October 1, 2012 part of Teplárna Trmice, a.s. was demerged from the entity and merged with ČEZ Teplárenská, a.s.

Due to the merger of eEnergy Ralsko a.s., eEnergy Ralsko – Kuřívody a.s., eEnergy Hodonín a.s., FVE Vranovská Ves a.s., GENTLEY a.s., 3 L invest a.s., AREA-GROUP CL a.s., DOMICA FPI s.r.o. and demerged part of ČEZ Obnovitelné zdroje, s.r.o. with ČEZ OZ uzavřený investiční fond a.s. as at November 1, 2012, the share in ČEZ OZ uzavřený investiční fond a.s. increased to 98.63 %.

In 2012 the share capital CEZ Hungary Ltd. was increased by cash contribution.

In 2012 the companies New Kosovo Energy L.L.C., CEZ Laboratories Bulgaria EOOD - in liquidation and CEZ FINANCE B.V. were deleted from the Commercial Register.

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

| As at December 31, 2013<br>Company | Country | Interest, net in CZK millions | % interest | 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.[1)] | 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. | 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. | 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 | | |

| As at December 31, 2012<br>Company | Country | Interest, net in CZK millions | % interest | Dividends in CZK millions |
|---|---|---|---|---|
| ČEZ Distribuce, a. s. | Czech Republic | 31,415 | 100.00 | 4,500 |
| Energotrans, a.s. | Czech Republic | 17,986 | 100.00 | - |
| Severočeské doly a.s. | Czech Republic | 14,312 | 100.00 | 1,707 |
| CEZ Distributie S.A. | Romania | 13,489 | 100.00 | 696 |
| CEZ Finance Ireland Ltd. | Ireland | 9,025 | 100.00 | - |
| Akenerji Elektrik Üretim A.S. | Turkey | 7,580 | 37.36 | - |
| CEZ Razpredelenie Bulgaria AD | Bulgaria | 7,551 | 67.00 | - |
| Tomis Team S.R.L. | Romania | 6,657 | 100.00 | - |
| Teplárna Trmice, a.s. 3) | Czech Republic | 5,013 | 100.00 | - |
| CEZ Poland Distribution B.V. | Netherlands | 4,709 | 100.00 | - |
| ČEZ Teplárenská, a.s. | Czech Republic | 4,452 | 100.00 | 350 |
| CEZ Silesia B.V. | Netherlands | 4,368 | 100.00 | - |
| ČEZ ICT Services, a. s. | Czech Republic | 4,236 | 100.00 | 1,796 |
| TEC Varna EAD | Bulgaria | 3,922 | 100.00 | 280 |
| ČEZ Bohunice a.s. | Czech Republic | 3,592 | 100.00 | - |
| ČEZ Správa majetku, s.r.o.1) | Czech Republic | 3,486 | 100.00 | 260 |
| ČEZ OZ uzavřený investiční fond a.s. | Czech Republic | 3,457 | 98.63 | - |
| Elektrárna Chvaletice a.s. | Czech Republic | 2,739 | 100.00 | 821 |
| Akcez Enerji A.S. | Turkey | 1,744 | 27.50 | - |
| Ovidiu Development S.R.L. | Romania | 1,643 | 95.00 | - |
| Elektrárna Počerady, a.s. | Czech Republic | 1,260 | 100.00 | - |
| ČEZ Prodej, s.r.o. | Czech Republic | 1,100 | 100.00 | 1,688 |
| CEZ Bulgarian Investments B.V. | Netherlands | 973 | 100.00 | - |
| CM European Power International B.V. | Netherlands | 949 | 50.00 | - |
| CEZ Vanzare S.A. | Romania | 817 | 100.00 | - |
| ČEZ Distribuční služby, s.r.o. | Czech Republic | 728 | 100.00 | 469 |
| Energetické centrum s.r.o. | Czech Republic | 679 | 100.00 | 39 |
| ČEZ Slovensko, s.r.o. | Slovakia | 557 | 100.00 | - |
| ČEZ Energetické služby, s.r.o. | Czech Republic | 422 | 100.00 | - |
| ŠKODA PRAHA a.s. | Czech Republic | 421 | 100.00 | 100 |
| 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 | - |
| ČEZ Měření, s.r.o.2) | Czech Republic | 217 | 100.00 | 203 |
| ČEZ Logistika, s.r.o.2) | Czech Republic | 200 | 100.00 | 385 |
| ÚJV Řež, a. s. | Czech Republic | 185 | 52.46 | - |
| LOMY MOŘINA spol. s r.o. | Czech Republic | 169 | 51.05 | 6 |
| CEZ Hungary Ltd. | Hungary | 158 | 100.00 | - |
| PPC Úžín, a.s. | Czech Republic | 107 | 100.00 | - |
| CEZ Romania S.A. | Romania | 91 | 100.00 | - |
| ČEZ Obnovitelné zdroje, s.r.o. | Czech Republic | 85 | 99.90 | - |
| VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s. | Czech Republic | 55 | 39.25 | - |
| NERS d.o.o. | 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 | - |
| Other | | 345 | - | 993 |
| Total, net | | 162,125 | | |

1) In 2013 ČEZ Správa majetku, s.r.o. changed its name to ČEZ Korporátní služby, s.r.o.
2) ČEZ Měření, s.r.o. and ČEZ Logistika, s.r.o. merged with the succession company ČEZ Distribuční služby, s.r.o. with the effective date of January 1, 2013.
3) Teplárna Trmice, a.s. merged with the succession company ČEZ, a. s. with the legal effective date of October 1, 2013.

### 4.2. Restricted Financial Assets

At December 31, 2013 and 2012, restricted balances of financial assets totaled CZK 10,611 million and CZK 10,255 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, 2013 and 2012, restricted funds representing accumulated provision for waste storage and reclamation totaled CZK 306 million and CZK 268 million, respectively, while restricted funds representing accumulated provision for nuclear decommissioning totaled CZK 10,244 million and CZK 9,932 million, respectively.

## 5. Intangible Assets, Net

Intangible assets, net, at December 31, 2013 and 2012 were as follows (in CZK millions):

| | Software | Rights and Other | Total 2013 | Total 2012 |
|---|---|---|---|---|
| Cost at January 1 | 1,333 | 1,135 | 2,468 | 2,230 |
| Additions | 35 | 76 | 111 | 283 |
| Disposals | (41) | (8) | (49) | (32) |
| Effect of merger | 5 | - | 5 | - |
| Non-monetary contribution and other movements | (45) | - | (45) | (13) |
| Cost at December 31 | 1,287 | 1,203 | 2,490 | 2,468 |
| Accumulated amortization at January 1 | (1,117) | (863) | (1,980) | (1,801) |
| Amortization | (113) | (96) | (209) | (223) |
| Disposals | 41 | 8 | 49 | 32 |
| Effect of merger | (3) | - | (3) | - |
| Non-monetary contribution and other movements | 42 | - | 42 | 12 |
| Accumulated amortization at December 31 | (1,150) | (951) | (2,101) | (1,980) |
| Intangible assets, net | 137 | 252 | 389 | 488 |

At December 31, 2013 and 2012, intangible assets presented in the balance sheet included intangible assets in progress in the amount of CZK 183 million and CZK 116 million, respectively.

## 6. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2013 and 2012 were as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Cash on hand and current accounts with banks | 5,541 | 1,641 |
| Short-term securities | 600 | - |
| Term deposits | 8,025 | 7,174 |
| Total | 14,166 | 8,815 |

At December 31, 2013 and 2012, cash and cash equivalents included foreign currency deposits of CZK 2,129 million and CZK 2,723 million, respectively.

Average interest rates on term deposits at December 31, 2013 and 2012 were 0.71% and 1.17%, respectively. The weighted average interest rate for 2013 and 2012 was 0.93% and 1.52%, respectively.

## 7. Receivables, Net

The composition of receivables, net, at December 31, 2013 and 2012 is as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Trade receivables | 34,152 | 36,099 |
| Short-term loans granted | 20,482 | 21,162 |
| Taxes and fees excl. income tax | 1,024 | 353 |
| Other receivables | 3,799 | 1,925 |
| Allowance for doubtful receivables | (2,977) | (3,307) |
| Total | 56,480 | 56,232 |

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

At December 31, 2013 and 2012 the ageing analysis of receivables, net is as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Not past due | 56,210 | 55,739 |
| Past due but not impaired [1)] | | |
| less than 3 months | 159 | 393 |
| 3 – 6 months | 1 | 25 |
| 6 – 12 months | 110 | 75 |
| Total | 56,480 | 56,232 |

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):

| | 2013 | 2012 |
|---|---|---|
| Opening balance | 3,307 | 1,750 |
| Additions | 1,398 | 1,809 |
| Reversals | (1,950) | (220) |
| Non-monetary contribution | (10) | - |
| Currency translation difference | 232 | (32) |
| Closing balance | 2,977 | 3,307 |

## 8. Emission Rights

The following table summarizes the movements and balances of emission rights and credits in measurement units (thousands of tons) in 2013 and 2012 and as at December 31, 2013 and 2012, respectively, and their valuation presented in the accompanying financial statements:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | in thousands tons | in millions CZK | in thousands tons | in millions CZK |
| Emission rights and credits (CERs, ERUs) granted and purchased for own use: | | | | |
| Granted and purchased emission rights and credits at January 1 | 42,800 | 8,070 | 33,678 | 4,968 |
| Emission rights granted | - | - | 31,992 | 1,901 |
| Effect of merger with Teplárna Trmice, a.s. | 209 | 6 | - | - |
| Non-monetary contribution to Elektrárna Dětmarovice, a.s. | (2,456) | (197) | (6,697) | (538) |
| Settlement of prior year actual emissions with register | (17,834) | (1,128) | (29,107) | (2,471) |
| Emission rights purchased | - | - | 8,058 | 4,389 |
| Emission rights sold | (10,370) | (822) | (2,996) | (241) |
| Emission credits purchased | 3,524 | 191 | 13,970 | 1,249 |
| Emission credits sold | (1,228) | (42) | (5,662) | (1,016) |
| Reclassified to emission rights and credits held for trading | - | - | (436) | (171) |
| Granted and purchased emission rights and credits at December 31 | 14,645 | 6,078 | 42,800 | 8,070 |
| Emission rights and credits held for trading: | | | | |
| Emission rights held for trading at January 1 | 16,584 | 1,968 | 297 | 39 |
| Settlement of prior year actual emissions with register | - | - | (296) | (29) |
| Emission rights purchased | 6,119 | 835 | 22,949 | 5,082 |
| Emission rights sold | (8,950) | (1,059) | (11,349) | (2,680) |
| Emission credits purchased | 10 | - | 4,557 | 22 |
| Emission credits sold | (4,553) | (20) | (10) | (1) |
| Reclassified from emission rights and credits for own use | - | - | 436 | 171 |
| Fair value adjustment | - | (502) | - | (636) |
| Emission rights and credits held for trading at December 31 | 9,210 | 1,222 | 16,584 | 1,968 |

In 2013 and 2012, total emissions of greenhouse gases made by the Company amounted to an equivalent of 16,389 thousand tons and 17,834 thousand tons of $CO_2$, respectively. At December 31, 2013 and 2012 the Company recognized a provision for $CO_2$ emissions in total amount of CZK 2,924 million and CZK 1,580 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, 2013 and 2012 (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Gain on sales of granted emission rights | 1,337 | 488 |
| Net gain from trading with emission rights | 578 | 83 |
| Net loss from emission credits sold | (37) | (320) |
| Net gain (loss) from derivatives | 710 | (783) |
| Remitted emission rights and credits | (292) | (197) |
| Fair value adjustment | (502) | (636) |
| Creation of provisions for emission rights | (2,898) | - |
| Settlement of provisions for emission rights | - | 169 |
| Net loss from emission rights and credits | (1,104) | (1,196) |

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, 2013 and 2012 were as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Derivatives | 21,451 | 26,793 |
| Equity securities available-for-sale | 278 | 737 |
| Debt securities held-to-maturity | 15,477 | 9,339 |
| Total | 37,206 | 36,869 |

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

Equity securities available-for-sale comprise mainly the money market mutual funds denominated in EUR.

Debt securities held-to-maturity are denominated in CZK and bear an interest rate up to 1%.

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, 2013 and 2012 were as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Prepayments | 668 | 402 |
| Advances granted | 480 | 597 |
| Total | 1,148 | 999 |

## 11. Equity

As at December 31, 2013, the share capital of the Company registered in the Commercial Register totaled CZK 53,798,975,900 and consisted of 537,989,759 shares with a nominal value of CZK 100 per share. All shares are bearer shares that are fully paid and listed and do not convey any special rights.

Treasury shares remaining at end of period (3,875,021 pieces at December 31, 2013 and 2012) are presented at cost as a deduction from equity.

In accordance with Czech regulations, joint stock companies are required to establish a non-distributable reserve fund for contingencies against possible future losses. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit each year thereafter, until the fund reaches at least 20% of stated capital. The fund can only be used to offset losses. As at December 31, 2013 and 2012, the balance was CZK 16,227 million and CZK 16,227 million, respectively and is presented as part of retained earnings. The reserve fund also includes amounts equal to the purchase price of treasury shares held by the Company. At December 31, 2013 and 2012 such balances amounted to CZK 4,382 million and CZK 4,382 million, respectively, and were recorded against distributable retained earnings.

Dividends paid per share were CZK 40 and CZK 45 in 2013 and 2012, respectively. Dividends from 2013 profit will be declared on the general meeting which will be held in the first half of 2014.

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 and long-term debt securities available-for-sale. 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 and this year's EBITDA does not include impairment of property, plant and equipment and gain on sale of property, plant and equipment. Prior year figures were amended accordingly.

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

| | 2013 | 2012 |
|---|---|---|
| Total long-term debt | 196,500 | 188,111 |
| Total short-term loans | 2,716 | 4,784 |
| Total debt | 199,216 | 192,895 |
| Less: | | |
| Cash and cash equivalents | (25,118) | (17,957) |
| Highly liquid financial assets: | | |
| Short-term equity securities available-for-sale | (278) | (736) |
| Short-term debt securities available-for-sale | (49) | (566) |
| Short-term debt securities held-to-maturity | (16,627) | (10,889) |
| Long-term debt securities available-for-sale | (633) | (1,719) |
| Total net debt | 156,511 | 161,028 |
| Income before income taxes and other income (expenses) | 45,755 | 57,083 |
| Depreciation and amortization | 27,944 | 27,696 |
| Impairment of property, plant and equipment and intangible assets including goodwill | 8,422 | 1,184 |
| Gain on sale of property, plant and equipment | (67) | (145) |
| EBITDA | 82,054 | 85,818 |
| Total equity attributable to equity holders of the parent | 258,076 | 250,235 |
| Total debt | 199,216 | 192,895 |
| Total capital | 457,292 | 443,130 |
| Net debt to EBITDA ratio | 1.91 | 1.88 |
| Total debt to total capital ratio | 43.6% | 43.5% |

## 12. Long-term Debt

Long-term debt at December 31, 2013 and 2012 was as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| 4.125% Eurobonds, due 2013 (EUR 372 million) | - | 9,345 |
| 6.000% Eurobonds, due 2014 (EUR 600 million) | 16,421 | 15,048 |
| 3.005% Eurobonds, due 2038 (JPY 12,000 million) | 2,267 | 2,653 |
| 5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million) | 39 | 34 |
| 5.750% Eurobonds, due 2015 (EUR 600 million) | 16,408 | 15,054 |
| 2.845% Eurobonds, due 2039 (JPY 8,000 million) | 1,512 | 1,770 |
| 5.000% Eurobonds, due 2021 (EUR 750 million) | 20,480 | 18,804 |
| 6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million) | 1,364 | 1,253 |
| 4.875% Eurobonds, due 2025 (EUR 750 million) | 20,469 | 18,755 |
| 4.500% Eurobonds, due 2020 (EUR 750 million) | 20,381 | 18,656 |
| 2.160% Eurobonds, due in 2023 (JPY 11,500 million) | 2,180 | 2,545 |
| 4.600% Eurobonds, due in 2023 (CZK 1,250 million) | 1,248 | 1,247 |
| 3.625% Eurobonds, due 2016 (EUR 500 million) | 13,653 | 12,493 |
| 2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) | 2,742 | 2,514 |
| 4.102% Eurobonds, due 2021 (EUR 50 million) | 1,366 | 1,252 |
| 4.375% Eurobonds, due 2042 (EUR 50 million) | 1,343 | 1,230 |
| 4.500% Eurobonds, due 2047 (EUR 50 million) | 1,343 | 1,230 |
| 4.383% Eurobonds, due 2047 (EUR 80 million) | 2,194 | 2,011 |
| 3M Euribor + 0.36% Eurobonds, due 2014 (EUR 150 million) | 4,114 | 3,771 |
| 3.000% Eurobonds, due 2028 (EUR 500 million) | 13,492 | - |
| 4.250% U.S. bonds, due 2022 (USD 700 million) | 13,790 | 13,193 |
| 5.625% U.S. bonds, due 2042 (USD 300 million) | 5,900 | 5,649 |
| 4.500% Registered bonds, due 2030 (EUR 40 million) | 1,072 | 982 |
| 4.750% Registered bonds, due 2023 (EUR 40 million) | 1,083 | 991 |
| 4.700% Registered bonds, due 2032 (EUR 40 million) | 1,090 | 999 |
| 4.270% Registered bonds, due 2047 (EUR 61 million) | 1,643 | 1,506 |
| 3.550% Registered bonds, due 2038 (EUR 30 million) | 819 | - |
| 9.220% Debentures, due 2014 (CZK 2,500 million) [1)] | 2,500 | 2,499 |
| Total bonds and debentures | 170,913 | 155,484 |
| Less: Current portion | (23,035) | (9,345) |
| Bonds and debentures, net of current portion | 147,878 | 146,139 |
| Bank loans (less than 2.00% p. a.) | 16,546 | 16,794 |
| Less: Current portion | (1,678) | (1,626) |
| Bank loans, net of current portion | 14,868 | 15,168 |
| Total long term debt | 187,459 | 172,278 |
| Less: Current portion | (24,713) | (10,971) |
| Total long-term debt, net of current portion | 162,746 | 161,307 |

1) 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 and 2012 was 5.6% and 6.6%, respectively.

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

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.17.

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

| | 2013 | 2012 |
|---|---|---|
| Current portion | 24,713 | 10,971 |
| Between 1 and 2 years | 18,817 | 22,856 |
| Between 2 and 3 years | 16,062 | 17,262 |
| Between 3 and 4 years | 2,409 | 14,701 |
| Between 4 and 5 years | 2,409 | 2,208 |
| Thereafter | 123,049 | 104,280 |
| Total long-term debt | 187,459 | 172,278 |

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Foreign currency | CZK | Foreign currency | CZK |
| EUR | 5,763 | 158,062 | 5,668 | 142,486 |
| USD | 990 | 19,690 | 989 | 18,842 |
| JPY | 31,435 | 5,959 | 31,487 | 6,968 |
| CZK | - | 3,748 | - | 3,982 |
| Total long-term debt | | 187,459 | | 172,278 |

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, 2013 and 2012 without considering interest rate hedging (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Floating rate long-term debt | | |
| with interest rate fixed from 1 to 3 months | 4,114 | 4,006 |
| with interest rate fixed from 3 months to 1 year | 20,410 | 20,311 |
| Total floating rate long-term debt | 24,524 | 24,317 |
| Fixed rate long-term debt | 162,935 | 147,961 |
| Total long-term debt | 187,459 | 172,278 |

Fixed rate long-term debt exposes the Company to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Note 13 and Note 14.

The Company has entered into loan agreements, which contain restrictive financial covenants relating to indebtedness and liquidity. In 2013 and 2012 the Company has complied with all required covenants.

## 13. Fair Value of Financial Instruments

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

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

**Cash and cash equivalents**

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

**Securities held for trading**

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

**Investments**

The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices. For equity instruments for which there are no quoted market prices the Company considered use of valuation models and concluded that the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore unquoted equity instruments are carried at cost, the carrying amount approximates the fair value of such investments.

**Receivables and payables**

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

**Short-term loans**

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

**Long-term debt**

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

**Derivatives**

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

Carrying amounts and the estimated fair values of financial instruments at December 31, 2013 and 2012 are as follows (in CZK millions):

| | Category | 2013 Carrying amount | 2013 Fair value | 2012 Carrying amount | 2012 Fair value |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Investments: | | | | | |
| Equity securities and interests, net | SaA | 163,580 | 163,580 | 162,125 | 162,125 |
| Restricted debt securities available-for-sale | AFS | 8,632 | 8,632 | 8,809 | 8,809 |
| Restricted cash | LaR | 1,979 | 1,979 | 1,446 | 1,446 |
| Other long-term financial assets, net | LaR | 13,769 | 13,769 | 22,508 | 22,508 |
| Current assets: | | | | | |
| Receivables | LaR | 52,681 | 52,681 | 54,307 | 54,307 |
| Cash and cash equivalents | LaR | 14,166 | 14,166 | 8,815 | 8,815 |
| Short-term debt securities held-to-maturity | HTM | 15,477 | 15,477 | 9,339 | 9,339 |
| Short-term equity securities available-for-sale | AFS | 278 | 278 | 737 | 737 |
| Other current assets | LaR | 480 | 480 | 597 | 597 |
| Liabilities: | | | | | |
| Long-term debt including the current portion | AC | (187,459) | (200,439) | (172,278) | (193,413) |
| Short-term loans | AC | (2,230) | (2,230) | (2,735) | (2,735) |
| Current liabilities | AC | (64,115) | (64,115) | (57,498) | (57,498) |
| Derivatives: | | | | | |
| Cash flow hedges: | | | | | |
| Short-term receivables | HFT | 6 | 6 | 19 | 19 |
| Long-term receivables | HFT | 3,934 | 3,934 | 2,499 | 2,499 |
| Short-term liabilities | HFT | (65) | (65) | (287) | (287) |
| Long-term liabilities | HFT | (4,799) | (4,799) | (1,868) | (1,868) |
| Total cash flow hedges | | (924) | (924) | 363 | 363 |
| Electricity, coal and gas trading contracts: | | | | | |
| Short-term receivables | HFT | 19,637 | 19,637 | 25,735 | 25,735 |
| Short-term liabilities | HFT | (14,038) | (14,038) | (19,266) | (19,266) |
| Total electricity, coal and gas trading contracts | | 5,599 | 5,599 | 6,469 | 6,469 |
| Other derivatives: | | | | | |
| Short-term receivables | HFT | 1,808 | 1,808 | 1,039 | 1,039 |
| Long-term receivables | HFT | 618 | 618 | 271 | 271 |
| Short-term liabilities | HFT | (626) | (626) | (492) | (492) |
| Long-term liabilities | HFT | (1,501) | (1,501) | (1,351) | (1,351) |
| Total other derivatives | | 299 | 299 | (533) | (533) |

SaA Subsidiaries and associates at cost
LaR Loans and receivables
AFS Available-for-sale investments
HTM Held-to-maturity instruments
HFT Held for trading or hedging instruments
AC Financial liabilities at amortized cost

**Fair Value Hierarchy**

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

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

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

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

There were no transfers between the levels in 2013 and 2012.

At December 31, 2013, the Company held the following financial instruments measured at fair value (in CZK millions):

Assets measured at fair value

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | 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) | - |

At December 31, 2012, the Company held the following financial instruments measured at fair value (in CZK millions):

Assets measured at fair value

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | 25,735 | 133 | 25,602 | - |
| Cash flow hedges | 2,518 | - | 2,518 | - |
| Other derivatives | 1,310 | 562 | 748 | - |
| Available-for-sale restricted debt securities | 8,809 | 8,809 | - | - |
| Available-for-sale short-term equity securities | 737 | 737 | - | - |

Liabilities measured at fair value

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Electricity, coal and gas contracts | (19,266) | (232) | (19,034) | - |
| Cash flow hedges | (2,155) | (96) | (2,059) | - |
| Other derivatives | (1,843) | (50) | (1,793) | - |

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, 2013 and 2012 (in CZK millions):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Financial asset | Financial liability | Financial asset | Financial liability |
| Derivatives | 26,003 | (21,029) | 29,564 | (23,263) |
| Other financial instruments * | 25,410 | (20,623) | 28,004 | (25,531) |
| Collaterals paid (received) ** | 3,112 | (400) | 512 | (104) |
| Gross financial assets / liabilities | 54,525 | (42,052) | 58,080 | (48,898) |
| Assets / liabilities set off under IAS 32 | - | - | - | - |
| Amounts presented in the balance sheet | 54,525 | (42,052) | 58,080 | (48,898) |
| Effect of master netting agreement | (35,969) | 35,969 | (42,402) | 42,402 |
| Net amount after master netting agreement | 18,556 | (6,083) | 15,678 | (6,496) |

* 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 cashflow 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 for risk management is the Risk Management Committee (the ČEZ, a. s. CEO's committee). Except for approval of the aggregate annual budget risk limit (Profit@Risk) within the competence of the ČEZ, a. s. Board of Directors), the Risk Management Committee makes decisions on the development of an integrated system of risk management, makes decisions on an overall allocation of risk capital to the individual risks and organizational units, approves obligatory rules, responsibilities and limit structure for the management of partial risks, and it continuously monitors an overall risk impact on the Group, including Group 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 cashflow 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 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 utilisation)
- Business plan risks (EBITDA@Risk based on MonteCarlo simulation)
- Debt capacity (actual deviation from the optimal debt within 5 years horizon, derived from rating agency requirements on debt indicators in order to preserve the ČEZ rating.

### 14.1. Qualitative description of ČEZ, a. s. risks associated with financial instruments

Commodity risks

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

Market financial risks (currency and interest risks)

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

Credit risks

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

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

Liquidity risks

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

## 14.2. Quantitative description of ČEZ, a. s. risks associated with financial instruments

Commodity risks

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

- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) or Monte-Carlo VaR for the commodity options which expresses a potential change in fair value of contracts classified as derivatives under IAS 39 (the underlying commodities in the Company‘s derivative transactions are: electricity, EUA and CER/ERU emission allowances, gas, coal ARA, Richards Bay, Newcastle and Brent crude oil)
- highly probable forecasted future electricity generation sales with the delivery in the CZ power grid are included in the VAR calculation to reflect the hedging character of significant portion of the existing derivative sales of electricity with delivery in Germany
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series
- the source of market data is mainly EEX, PXE and ICE.

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

| | 2013 | 2012 |
|---|---|---|
| Monthly VaR (95%) – impact of changes in commodity prices | 688 | 556 |

Currency risks

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

- the indicator of currency risk is defined as the monthly parametric VaR (95% confidence)
- for the calculation of volatility and internal correlations of each currency, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant currency position is defined as a discounted value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs expected in 2013 and from highly probable forecasted foreign currency revenues, 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):

| | 2013 | 2012 |
|---|---|---|
| Monthly currency VaR (95% confidence) | 331 | 194 |

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 relevant interest positions reflect all significant interest-sensitive positions
- the source of market interest rates is mainly IS Reuters and IS Bloomberg

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

| | 2013 | 2012 |
|---|---|---|
| IR sensitivity* to parallel yield curve shift (+10bp) | - | (4) |

* 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)

| | 2013 | 2012 |
|---|---|---|
| Guarantees provided to subsidiaries, associates and joint-ventures* | 13,232 | 19,575 |

* Some of the guarantees could be called until March 2027 at the latest.

Liquidity risk

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 maturity profile of financial liabilities at December 31, 2012 (in CZK millions):

| | Bonds and debentures | Loans | Derivatives * | Trade and other payables | Guarantees issued ** |
|---|---|---|---|---|---|
| Less than 1 year | 16,582 | 4,540 | 270,483 | 57,498 | 19,575 |
| Between 1 and 2 years | 28,161 | 1,699 | 44,106 | - | - |
| Between 2 and 3 years | 20,810 | 2,354 | 18,195 | - | - |
| Between 3 and 4 years | 17,382 | 2,336 | 155,554 | - | - |
| Between 4 and 5 years | 4,434 | 2,317 | 2,480 | - | - |
| Thereafter | 134,775 | 7,286 | 68,957 | - | - |
| Total | 222,144 | 20,532 | 559,775 | 57,498 | 19,575 |

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Company will receive corresponding consideration. For fair values of derivatives see Note 13.

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

### 14.3. Hedge accounting

The Company enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2014 to 2018. The hedging instruments as at December 31, 2013 and 2012 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 5.0 billion and EUR 5.3 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (4,531) million and CZK (1,778) million at December 31, 2013 and 2012, 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 2014 to 2016. The hedging instruments as at December 31, 2013 and 2012 are the futures contracts for the purchase of allowances equivalent to 12.5 million tons and 2.9 million tons of $CO_2$ emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (273) million and CZK (98) million at December 31, 2013 and 2012, respectively.

The Company also enters into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2015 to 2019. The hedging instruments are the futures and forward contracts electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK 3,880 million and CZK 2,239 million at December 31, 2013 and 2012, respectively.

In 2013 and 2012 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 2013 and 2012 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (126) million and CZK (778) million, respectively. The ineffectiveness in 2013 and 2012 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 and have been refurbished and enhanced later. The second nuclear power plant, Temelín, has two units which have started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act (“Act”) which defines certain obligations for the decontamination and dismantling (“decommissioning”) of nuclear facilities and the disposal of radioactive waste and spent fuel (“disposal”). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant’s operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. A 2013 Dukovany and a 2009 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 22.4 billion and CZK 14.6 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet as part of Investments and other financial assets, net (see Note 4).

The Ministry of Industry and Trade established the Radioactive Waste Repository Authority (“RAWRA”) as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a “nuclear account” funded by the originators of radioactive waste. Contribution to the nuclear account was stated by a government resolution at 50 CZK per MWh produced at nuclear power plants. In 2013 and 2012, respectively, the payments to the nuclear account amounted to CZK 1,537 million and CZK 1,516 million, respectively. The originator of radioactive waste directly covers all costs associated with interim storage of spent fuel and disposal of radioactive waste. Actual costs incurred are charged against the accumulated provision for interim storage of spent nuclear fuel.

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

The following is a summary of the provisions for the years ended December 31, 2013 and 2012 (in CZK millions):

| | Accumulated provisions | | | |
|---|---|---|---|---|
| | Nuclear decommis-sioning | Spent fuel storage | | |
| | | Interim | Long-term | Total |
| Balance at December 31, 2011 | 8,957 | 6,430 | 21,672 | 37,059 |
| Movements during 2012: | | | | |
| Discount accretion and effect of inflation | 403 | 289 | 976 | 1,668 |
| Provision charged to income statement | - | 453 | - | 453 |
| Effect of change in estimate charged to income statement | - | 364 | - | 364 |
| Effect of change in estimate added to fixed assets | 2,490 | - | 2,451 | 4,941 |
| Current cash expenditures | - | (742) | (1,516) | (2,258) |
| Balance at December 31, 2012 | 11,850 | 6,794 | 23,583 | 42,227 |
| 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 |

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

In 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.

In 2012 the Company recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage cost and change in discount rate, the change in estimate in provision for nuclear decommissioning due to change in discount rate and the change in long-term spent fuel storage due to the modification of the expected output of the nuclear power plants and change in discount rate.

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, 2013 and 2012 are as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Derivatives | 6,300 | 3,219 |
| Provision for waste storage reclamation | 1,320 | 1,277 |
| Employee benefits liabilities | 950 | 909 |
| Other * | 1,751 | - |
| Total | 10,321 | 5,405 |

* 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, 2013 and 2012 (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Balance at January 1 | 1,277 | 1,762 |
| Discount accretion and effect of inflation | 44 | 76 |
| Effect of change in estimate deducted from fixed assets | (65) | (106) |
| Current cash expenditures | (43) | (105) |
| Effect of merger | 107 | - |
| Non-monetary contribution | - | (350) |
| Balance at December 31 | 1,320 | 1,277 |

## 17. Short-term loans

Short-term loans at December 31, 2013 and 2012 were as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Short-term bank loans | 1,813 | 2,481 |
| Bank overdrafts | 143 | 254 |
| Short-term debentures | 274 | - |
| Total | 2,230 | 2,735 |

Interest on short-term loans is variable. The weighted average interest rate was 0.5% and 1.0% at December 31, 2013 and 2012, respectively. For the years 2013 and 2012 the weighted average interest rate was 0.7% and 1.6%, respectively.

## 18. Trade and Other Payables

Trade and other payables at December 31, 2013 and 2012 were as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Trade payables | 29,295 | 30,212 |
| Derivatives | 14,729 | 20,045 |
| Payables from Group cashpooling and similar intra-group loans | 33,403 | 26,043 |
| Other | 1,417 | 1,243 |
| Total | 78,844 | 77,543 |

## 19. Accrued Liabilities

Accrued liabilities at December 31, 2013 and 2012 consist of the following (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Provisions | 3,588 | 3,460 |
| Deferred variation margin on “own use” electricity futures | 436 | 220 |
| Accrued interest | 3,716 | 3,299 |
| Unbilled goods and services | 4,627 | 9,579 |
| Taxes and fees, except income tax | 408 | 200 |
| Total | 12,775 | 16,758 |

In 2012 the Company recognized a provision of CZK 895 million for the guarantee for a loan granted by International Financial Corporation and the European Bank for Reconstruction and Development to CEZ Shpërndarje. On February 7, 2013, the Company paid CEZ Shpërndarje’s liabilities of EUR 35.2 million to the International Financial Corporation and the European Bank for Reconstruction and Development related to the loan agreement made by and between the two banks and CEZ Shpërndarje in June 2011 and in accordance with the written arrangement between the Company and the two banks signed on July 20, 2012. The Company thus has become CEZ Shpërndarje’s creditor. As a result the provision was replaced by the impairment provision for loan granted (see Notes 4 and 30).

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, 2013 and 2012, the provision totaled CZK 393 million and CZK 342 million, respectively.

In 2013 and 2012, the Company recognized provision of CZK 2,924 million and CZK 1,580 million, respectively, for emissions (see Note 8).

Deferred variation margin represents the net variation margin paid to or by energy exchange POWER EXCHANGE CENTRAL EUROPE, a.s. (PXE) in respect of the electricity future contracts treated as own use, which will be delivered after balance sheet date.

## 20. Revenues

Revenues for the years ended December 31, 2013 and 2012 were as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Sale of electricity: | | |
| Electricity sales – domestic: | | |
| ČEZ Prodej, s.r.o. | 29,316 | 33,961 |
| POWER EXCHANGE CENTRAL EUROPE, a.s. (PXE) | 2,036 | 2,013 |
| Other | 35,920 | 38,556 |
| Total electricity sales – domestic | 67,272 | 74,530 |
| Electricity sales – foreign | 13,828 | 11,582 |
| Effect of hedging (see Note 14.3) | 2,687 | 1,908 |
| Sales of ancillary and other services | 5,700 | 6,295 |
| Total sales of electricity | 89,487 | 94,315 |
| Electricity, coal and gas derivative trading: | | |
| Sales domestic | 16,746 | 18,861 |
| Sales foreign | 197,932 | 241,579 |
| Purchases domestic | (15,779) | (18,585) |
| Purchases foreign | (191,629) | (239,074) |
| Effect of hedging | 13 | 297 |
| Changes in fair value of commodity derivatives | (5,691) | 954 |
| Total gains and losses from electricity, coal and gas derivative trading, net | 1,592 | 4,032 |
| Sales of gas, heat and other revenues: | | |
| Sales of gas | 5,268 | 4,270 |
| Sales of heat | 1,855 | 1,759 |
| Other | 3,442 | 3,771 |
| Total sales of gas, heat and other revenues: | 10,565 | 9,800 |
| Total revenues | 101,644 | 108,147 |

## 21. Salaries and Wages

Salaries and wages for the years ended December 31, 2013 and 2012 were as follows (in CZK millions):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Total | Key management personnel [1)] | Total | Key management personnel [1)] |
| Salaries and wages | (4,183) | (256) | (4,226) | (235) |
| Remuneration of board members, including royalties | (35) | (35) | (39) | (39) |
| Share options | (33) | (33) | (75) | (75) |
| Social and health security | (1,321) | (47) | (1,286) | (29) |
| Other personal expenses | (499) | (25) | (487) | (26) |
| Total | (6,071) | (396) | (6,113) | (404) |

1) Members of Supervisory Board and Board of Directors, Chief Executive Officer, divisional directors and selected managers of departments with group field of activity. The remuneration of former members of company bodies is included in personal expenses.

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

If the Company terminates a contract with a member of Board of Directors before his/her term of office expires, the Director is entitled to a severance pay that amounts to all monthly remuneration he/she would receive until the end of the originally agreed term of office. This provision does not apply if a Director resigns.

At December 31, 2013 and 2012, the aggregate number of share options granted to members of Board of Directors and selected managers was 2,388 thousand and 2,443 thousand, respectively. The share option plan for members of the Supervisory Board was canceled prospectively by the decision of the shareholders on General Meeting held in June 2005.

Members of the Board of Directors and selected managers are entitled to receive share options based on the conditions stipulated in the share option agreement. Pursuant to the resolution of the May 2008 General Meeting, members of the Board of Directors and selected managers are granted certain quantity of share options each year of their tenure. The exercise price for the granted options is based on the average quoted market price of the shares on the regulated exchange in the Czech Republic during one-month period preceding the grant date each year. Options granted could be exercised at the earliest 2 years and latest 3.5 years after each grant date. Option right is limited so that the profit per share option will not exceed 100% of exercise price and the beneficent has to hold at his account such number of shares exercised through options granted which is equivalent to 20% of profit made on exercise date until the end of share option plan.

In 2013 and 2012 the Company recognized a compensation expense of CZK 33 million and CZK 75 million, respectively, related to the granted options.

The following table shows changes during 2013 and 2012 in the number of granted share options and the weighted average exercise price of these options:

| | Number of share options | | | Weighted average exercise price |
|---|---|---|---|---|
| | Board of Directors 000s | Selected managers 000s | Total 000s | (CZK per share) |
| Share options at December 31, 2011 | 1,903 | 760 | 2,663 | 1,011.70 |
| Options granted | 664 | 256 | 920 | 727.80 |
| Options forfeited | (910) | (230) | (1,140) | 1,122.90 |
| Share options at December 31, 2012 [1)] | 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 |

[1)] At December 31, 2013 and 2012 the number of exercisable options was 947 thousand and 900 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 809.74 per share and CZK 992.65 per share at December 31, 2013 and 2012, 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:

| | 2013 | 2012 |
|---|---|---|
| Weighted average assumptions: | | |
| Dividend yield | 6.7% | 5.6% |
| Expected volatility | 22.4% | 22.4% |
| Mid-term risk-free interest rate | 0.8% | 1.1% |
| Expected life (years) | 1.4 | 1.4 |
| Share price (CZK per share) | 549.7 | 733.6 |
| Weighted average grant-date fair value of options (CZK per 1 option) | 37.5 | 63.4 |

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, 2013 and 2012 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

| | 2013 | 2012 |
|---|---|---|
| CZK 450 – 700 per share | 909 | 169 |
| CZK 700 – 900 per share | 1,279 | 1,519 |
| CZK 900 – 1,400 per share | 200 | 755 |
| Total | 2,388 | 2,443 |

The options granted, which were outstanding as at December 31, 2013 and 2012 had an average remaining contractual life of 1.9 years and 1.9 years, respectively.

## 22. Other Operating Expenses

Other operating expenses for the years ended December 31, 2013 and 2012 consist of the following (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Services | (6,657) | (6,819) |
| Change in provisions and valuation allowances | 2,533 | 782 |
| Taxes and fees | (1,943) | (1,887) |
| Write-off of bad debts and cancelled investment | (1,476) | (12) |
| Travel expense | (88) | (87) |
| Gifts | (180) | (219) |
| Gain on sale of property, plant and equipment | 13 | 23 |
| Gain on sale of material | 100 | 44 |
| Fines, penalties and penalty interest, net | 440 | 490 |
| Other, net | (500) | (599) |
| Total | (7,758) | (8,284) |

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, 2013 and 2012 was as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Loans and receivables | 1,225 | 1,735 |
| Held-to-maturity investments | 135 | 111 |
| Available-for-sale investments | 291 | 318 |
| Bank accounts | 277 | 419 |
| Total | 1,928 | 2,583 |

## 24. Other Income (Expenses), Net

Other income (expenses), net, for the years ended December 31, 2013 and 2012 consist of the following (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Dividends received | 14,296 | 14,557 |
| Derivative gains (losses), net | 8 | (1,621) |
| Gains on sale of available-for-sale financial assets | 212 | 12 |
| Gift tax on emission rights | (226) | (1,493) |
| Impairment of financial investments (Note 4) | (5,617) | (1,074) |
| Other, net | (926) | (1,556) |
| Total | 7,747 | 8,825 |

## 25. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2013 and 2012. The Czech corporate income tax rate enacted for 2014 and on is 19%.

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

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

| | 2013 | 2012 |
|---|---|---|
| Current income tax charge | (3,603) | (5,632) |
| Adjustments in respect of current income tax of previous periods | (7) | (38) |
| Deferred income taxes | 321 | (604) |
| Total | (3,289) | (6,274) |

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

| | 2013 | 2012 |
|---|---|---|
| Income before income taxes | 29,662 | 41,610 |
| Statutory income tax rate | 19% | 19% |
| “Expected” income tax expense | (5,636) | (7,906) |
| Tax effect of: | | |
| Non-deductible provisions and allowances, net | (1,013) | (598) |
| Non-deductible expenses related to shareholdings | (27) | (27) |
| Other non-deductible items, net | (261) | (156) |
| Non-taxable revenue from dividends | 2,714 | 2,826 |
| Non-deductible share based payment expense | (6) | (14) |
| Non-taxable gain on sale of subsidiary | 990 | - |
| Gift tax on emission allowances | (43) | (361) |
| Adjustments in respect of current income tax of previous periods | (7) | (38) |
| Income tax | (3,289) | (6,274) |
| Effective tax rate | 11% | 15% |

Deferred income tax liability, net, at December 31, 2013 and 2012 was calculated as follows (in CZK millions):

| | 2013 | 2012 |
|---|---|---|
| Accumulated provision for nuclear decommissioning and spent fuel storage | 6,847 | 6,649 |
| Other provisions | 1,054 | 480 |
| Allowances | 509 | 64 |
| Deferred tax recognized in equity | 2,039 | - |
| Other temporary differences | 178 | 156 |
| Total deferred tax assets | 10,627 | 7,349 |
| Tax depreciation in excess of financial statement depreciation | (18,400) | (17,548) |
| Penalty receivables | (155) | (86) |
| Deferred tax recognized in equity | (142) | (564) |
| Other temporary differences | (674) | (167) |
| Total deferred tax liability | (19,371) | (18,365) |
| Total deferred tax liability, net | (8,744) | (11,016) |

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | 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 | (9,483) | 1,802 | (7,681) | 7,867 | (1,495) | 6,372 |
| Cash flow hedges removed from equity | (3,059) | 581 | (2,478) | (104) | 20 | (84) |
| Change in fair value of available-for-sale financial assets recognized in equity | (410) | 78 | (332) | 733 | (139) | 594 |
| Total | (12,952) | 2,461 | (10,491) | 8,496 | (1,614) | 6,882 |

## 26. Related Parties

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

At December 31, 2013 and 2012, the receivables from related parties and payables to related parties were as follows (in CZK millions):

| | Receivables | | Payables | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Akcez Enerji A.S. | 104 | 89 | - | 33 |
| Akenerji Elektrik Üretim A.S. | 19 | 22 | - | 648 |
| CEZ Bulgaria EAD | 249 | 137 | - | - |
| CEZ Distributie S.A. | 29 | - | - | 210 |
| CEZ Hungary Ltd. | 209 | 256 | 23 | 155 |
| CEZ Chorzow B.V. | - | - | 71 | 987 |
| CEZ International Finance B.V. | - | - | 947 | 715 |
| CEZ MH B.V. | 8,754 | 6,669 | 651 | 210 |
| CEZ Polska sp. z o.o. | 19 | 12 | 957 | 401 |
| CEZ Romania S.A. | 170 | 109 | 629 | 1,500 |
| CEZ Shpërndarje Sh.A. [4)] | - | 976 | - | - |
| CEZ Silesia B.V. | - | 10 | 1,308 | - |
| ČEZ Slovensko, s.r.o. | 392 | 637 | 24 | 177 |
| ČEZ Bohunice a.s. | - | - | 210 | 194 |
| ČEZ Distribuce, a. s. | 9,045 | 10,375 | 7,594 | 2,978 |
| ČEZ Distribuční služby, s.r.o. [1)] | 23 | 20 | 4,810 | 4,263 |
| ČEZ Energetické produkty, s.r.o. | - | 1 | 249 | 182 |
| ČEZ ENERGOSERVIS spol. s r.o. | 4 | 2 | 570 | 121 |
| ČEZ ICT Services, a. s. | 11 | 287 | 543 | 472 |
| ČEZ Korporátní služby, s.r.o. [2)] | 12 | 5 | 611 | 419 |
| ČEZ Obnovitelné zdroje, s.r.o. | 11 | 1 | 181 | 40 |
| ČEZ OZ uzavřený investiční fond a.s. | 51 | 9,471 | - | 171 |
| ČEZ Prodej, s.r.o. | 1,723 | 1,760 | 7,914 | 7,240 |
| ČEZ Teplárenská, a.s. | 205 | 231 | 259 | 244 |
| ČEZ Zákaznické služby, s.r.o. | 2 | 4 | 120 | 202 |
| CM European Power International B.V. | 401 | 519 | - | - |
| CM European Power Slovakia s.r.o. | 642 | 697 | - | - |
| Eco-Wind Construction S.A. | 312 | 154 | - | - |
| Elektrárna Dětmarovice, a.s. | 56 | - | 1,594 | 1 |
| Elektrárna Chvaletice, a.s.[5)] | - | 578 | - | 3,965 |
| Elektrárna Počerady, a.s. | 1,339 | 273 | 7,372 | 2,150 |
| Elektrociepłownia Chorzów ELCHO sp. z o.o. | 642 | 844 | - | 6 |
| Elektrownia Skawina S.A. | 88 | 3 | 113 | 145 |
| Energetické centrum, s.r.o. | 201 | 216 | - | - |
| Energotrans, a.s. | 86 | 41 | 225 | 1,052 |
| M. W. Team Invest S.R.L. | 1,128 | 12 | - | - |
| Ovidiu Development S.R.L. | 8,451 | 8,143 | 75 | 87 |
| Severočeské doly a.s. | 768 | 268 | 490 | 424 |
| Shared Services Albania Sh. A. | 91 | 340 | - | 2 |
| ŠKODA PRAHA a.s. | - | - | - | 246 |
| ŠKODA PRAHA Invest s.r.o. | 210 | 9 | 3,161 | 3,256 |
| Telco Pro Services, a. s. | 1 | - | 241 | - |
| Teplárna Trmice, a.s. [3)] | - | 3 | - | 1,413 |
| Tomis Team S.R.L. | 674 | 141 | 103 | 105 |
| ÚJV Řež, a. s. | 1 | - | 217 | 224 |
| Other | 411 | 516 | 509 | 668 |
| Total | 36,534 | 43,831 | 41,771 | 35,306 |

The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2013 and 2012 (in CZK millions):

| | Sales to related parties | | Purchases from related parties | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Akcez Enerji A.S. | 32 | 34 | - | - |
| CEZ Bulgaria EAD | 244 | 272 | - | - |
| CEZ Hungary Ltd. | 1,259 | 1,709 | 47 | 106 |
| CEZ MH B.V. | 110 | 139 | - | - |
| CEZ Romania S.R.L. | 185 | 197 | - | - |
| CEZ Shpërndarje Sh.A. [4)] | - | 1 | - | 273 |
| ČEZ Slovensko, s.r.o. | 3,710 | 2,117 | 353 | 861 |
| CEZ Srbija d.o.o. | 131 | 90 | 354 | 217 |
| CEZ Trade Bulgaria EAD | 149 | 28 | 282 | 460 |
| CEZ Trade Polska sp. z o.o. | 424 | 269 | 15 | 28 |
| CEZ Trade Romania S.R.L. | 478 | 486 | 258 | 555 |
| CEZ Vanzare S.A. | 938 | 1,101 | - | 8 |
| ČEZ Distribuce, a. s. | 186 | 378 | 126 | 117 |
| ČEZ Distribuční služby, s.r.o. [1)] | 130 | 170 | 8 | 15 |
| ČEZ Energetické produkty,s.r.o. | 5 | 13 | 492 | 984 |
| ČEZ Energetické služby, s.r.o. | 8 | 14 | 106 | 108 |
| ČEZ ENERGOSERVIS spol. s r.o. | 22 | 16 | 767 | 479 |
| ČEZ ICT Services, a. s. | 61 | 77 | 1,981 | 1,905 |
| ČEZ Korporátní služby, s.r.o. [2)] | 47 | 49 | 719 | 648 |
| ČEZ Obnovitelné zdroje, s.r.o. | 9 | 11 | 264 | 258 |
| ČEZ Prodej, s.r.o. | 34,612 | 39,391 | 2,482 | 3,789 |
| ČEZ Teplárenská, a.s. | 1,583 | 1,504 | 98 | 120 |
| Elektrárna Dětmarovice, a.s. | 482 | - | 3,086 | - |
| Elektrárna Chvaletice, a.s. [5)] | 2,283 | 2,396 | 2,965 | 5,153 |
| Elektrárna Počerady, a. s. | 6,117 | 573 | 11,687 | 2,620 |
| Elektrociepłownia Chorzów ELCHO sp. z o.o. | 181 | 215 | - | 512 |
| Elektrownia Skawina S.A. | 318 | 262 | 1,158 | 1,814 |
| Energotrans, a.s. | 606 | 286 | 1,126 | 606 |
| LOMY MOŘINA spol. s r.o. | - | - | 174 | 174 |
| OSC, a.s. | - | - | 97 | 100 |
| SD-Kolejová doprava, a.s. | 11 | 14 | 675 | 670 |
| Severočeské doly a.s. | 95 | 48 | 5,098 | 5,269 |
| ŠKODA PRAHA Invest s.r.o. | 51 | 57 | 17,228 | 17,390 |
| TEC Varna EAD | - | - | - | 281 |
| Teplárna Trmice, a.s. [3)] | 60 | 64 | 154 | 515 |
| Tomis Team, S.R.L. | 122 | 141 | 930 | 956 |
| ÚJV Řež, a. s. | 1 | 1 | 467 | 460 |
| Other | 373 | 431 | 760 | 291 |
| Total | 55,023 | 52,554 | 53,957 | 47,742 |

[1)] In 2013 the companies ČEZ Měření, s.r.o. and ČEZ Logistika, s.r.o. merged with ČEZ Distribuční služby, s.r.o. with the effective date of January 1, 2013.
[2)] In 2013 the company ČEZ Správa majetku, s.r.o. was renamed in ČEZ Korporátní služby, s.r.o.
[3)] In 2013 Teplárna Trmice, a.s. merged with the succession company ČEZ, a. s. with the legal effective date of October 1, 2013.
[4)] In 2013 ČEZ, a. s. lost control over CEZ Shpërndarje Sh.A.
[5)] As at September 2, 2013 was Elektrárna Chvaletice, a.s. sold.

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 and operates mainly in the European Union markets. The Company has not identified any other separate operating segments.

## 28. Earnings per Share

| | 2013 | 2012 |
|---|---|---|
| Numerator – basic and diluted (CZK millions) | | |
| Net profit | 26,373 | 35,336 |
| Denominator (thousands shares) | | |
| Basic: | | |
| Weighted average shares outstanding | 534,115 | 534,115 |
| Dilutive effect of share options | 7 | 11 |
| Diluted: | | |
| Adjusted weighted average shares | 534,122 | 534,126 |
| Net income per share (CZK per share) | | |
| Basic | 49.4 | 66.2 |
| Diluted | 49.4 | 66.2 |

## 29. Commitments and Contingencies

### Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2013 to total CZK 88.5 billion over the next five years, as follows: CZK 27.4 billion in 2014, CZK 17.2 billion in 2015, CZK 15.2 billion in 2016, CZK 13.9 billion in 2017 and CZK 14.8 billion in 2018. 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, 2013 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 fossil, hydro and nuclear power plants and general third party liability insurance in connection with main operations of the Company.

## 30. Situation in Albania

In May 2009, ČEZ acquired a 76% shareholding in the sole Albanian distribution company OSSh - currently CEZ Shpërndarje ("CEZ SH"). The remaining 24% is owned by the Albanian government. Part of the contractual documentation is the Regulatory Statement, which has set a particular form of regulation and anticipated acceptance of a series of independent studies that would reflect all eligible costs in tariffs and other regulatory conditions for meeting CEZ SH´s obligations as the license holder. In December 2011, the Albanian regulator (ERE) made decisions as to tariffs for the period 2012 – 2014 and increased regulated prices of electricity purchases without any corresponding modification of regulated prices for CEZ SH´s end customers. ČEZ filed a claim with ERE against the decisions that were adopted in conflict with the Regulatory Statement and, consequently brought a legal action. The regulator's decisions together with other unfavorably set conditions by the Albanian government institutions negatively affected CEZ SH´s results of operations and gradually caused problems with liquidity resulting in CEZ SH´s critical financial situation and insolvency.

In the course of 2012 ČEZ repeatedly notified the ERE in writing of the issues and CEZ SH´s deteriorating financial position and also of the necessity to take immediate action toward CEZ SH´s inability to meet its license-related obligations. The ERE repeatedly did not respond to ČEZ notifications and calls but rather adopted restrictive measures making the cut offs of power non-payers more difficult, changed the method of reporting of revealed power thefts and did not approve terms enabling withdrawal of an investment loan. In addition, the Albanian tax administration changed its approach to assessments of additional tax payments and penalties. During negotiations the Albanian side started to publicly proclaim its own, closely unspecified financial claims towards ČEZ. The Albanian side has never sufficiently backed up, legally specified and unanimously quantified these claims and, above all, never brought them to any court or arbitrary institution. For sake of prudence ČEZ has always a priori rejected in writing all the Albanian side assertions as untrue and ungrounded and get an independent legal opinion prepared. Considering all relevant circumstances and the valid Albanian legislation, the Albanian side success in bringing the alleged claims cannot be anticipated, the possible legal grounds of these claims are, as per the Albanian law, very weak and the obligation to prove its assertions is fully at the plaintiff´s side. Under the current circumstances these claims can be regarded as ungrounded and purpose-made assertions and therefore ČEZ created no provision against them as at December 31, 2013 and 2012.

Considering the CEZ SH´s negative equity and financial position ČEZ created 100% allowances against the financial investment, trade receivables and the extended borrowings. In addition, ČEZ made a provision for guarantee for a loan plus interest and other charges. The provision was cancelled in full amount after paying (see Note 19).

On January 21, 2013 the regulator decided to revoke the CEZ SH´s license for the distribution and sale of electricity to tariff customers and appointed the administrator of CEZ SH. The administrator took control over the company including the decision making powers and responsibility for its operations. Both the rights of CEZ SH statutory bodies and the ČEZ shareholder rights transferred to the administrator and thus ČEZ lost control over CEZ SH. To prevent interests of its shareholders ČEZ appealed against setting up of the administrator and against its powers and on February 7, 2013 it officially notified the Albanian government of its intention to launch international arbitration proceedings.

On February 7, 2013, ČEZ paid CEZ SH´s liabilities in the amount of EUR 35.2 million to the International Financial Corporation and the European Bank for Reconstruction and Development related to the loan agreement made by and between the two banks and CEZ SH in June 2011 and in accordance with the written arrangement between ČEZ and the two banks signed on July 20, 2012. ČEZ thus has become CEZ SH´s creditor. In addition, the two banks (EBRD on February 14, 2013 and IFC on February 15, 2013) also cancelled the unused line of credit which was originally contracted at EUR 100 million.

In February 2013, ČEZ notified the Albanian party by sending a “Notice of Dispute” of its intention to seek compensation for damage incurred due to its non-protected investment in the power distribution company CEZ SH, with the International Arbitration Tribunal according to the Energy Charter Treaty. The Treaty, negotiated in 1995 and ratified by both the Czech Republic and Albania, governs the protection of international investments in the energy sector. After the three months period for conciliatory resolution of the dispute expired, the arbitration proceedings have been formally initiated by sending a “Notice of Arbitration” in May 2013. However, this does not prevent a potential out-of-court settlement between the parties.

## 31. Legal Disputes

As of December 31, 2013 ČEZ, a. s. is a defendant in a lawsuit related to the realization of squeeze-out of minority shareholders in a subsidiary. The plaintiffs challenged the share prices established by valuators nominated by courts. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation.

## 32. Events after the Balance Sheet Date

On February 4, 2014 the Company, through its 100% subsidiary CEZ MH B.V. issued EUR 470.2 million guaranteed exchangeable bonds due 2017 exchangeable for existing ordinary shares of MOL Hungarian Oil and Gas PLC. The guarantee was issued by the Company. The deal has been priced on January 28, 2014 with a coupon of 0.00% and initial exchange price has been set at EUR 61.25 per share, reflecting a premium of 35%. Bondholders will have the right to exchange the bonds for shares from January 25, 2017, subject to the issuer’s right to elect to deliver an equivalent amount in cash for all or part of the shares.

In January 2014 the Company repaid the debentures of CZK 2,500 million with coupon based on consumer price index in the Czech Republic plus 4.20% and short-term debentures of EUR 10 million.

These financial statements have been authorized for issue on February 24, 2014:

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