ČEZ, a. s.

FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2011

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, 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. For details on ČEZ, a. s. see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

Board of Directors of ČEZ, a. s. is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ, a. s. as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

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

Josef Pivoňka
Auditor, License No. 1963

February 27, 2012
Prague, Czech Republic

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2011

in CZK Millions

	2011	2010
Assets		
Property, plant and equipment:		
Plant in service	313,006	305,523
Less accumulated provision for depreciation	(184,124)	(172,285)
Net plant in service (Note 3)	128,882	133,238
Nuclear fuel, at amortized cost	8,839	7,005
Construction work in progress (Note 3)	68,982	54,929
Total property, plant and equipment	206,703	195,172
Other non-current assets:		
Investments and other financial assets, net (Note 4)	192,428	181,973
Intangible assets, net (Note 5)	578	706
Total other non-current assets	193,006	182,679
Total non-current assets	399,709	377,851
Current assets:		
Cash and cash equivalents (Note 6)	15,930	16,142
Receivables, net (Note 7)	46,281	48,205
Income tax receivable	374	1,457
Materials and supplies, net	3,737	3,217
Fossil fuel stocks	1,359	883
Emission rights (Note 8)	5,007	2,152
Other financial assets, net (Note 9)	28,247	15,472
Other current assets (Note 10)	1,985	1,043
Assets classified as held for sale (Notes 4 and 4.1)	1,031	2,739
Total current assets	103,951	91,310
Total assets	503,660	469,161

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

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2011

continued

	2011	2010
Equity and liabilities		
Equity:		
Stated capital	53,799	53,799
Treasury shares	(4,382)	(4,619)
Retained earnings and other reserves	143,183	140,308
Total equity (Note 11)	192,600	189,488
Long-term liabilities:		
Long-term debt, net of current portion (Note 12)	145,293	135,097
Accumulated provision for nuclear decommissioning and fuel storage (Note 15)	37,059	36,619
Other long-term liabilities (Note 16)	5,274	4,292
Total long-term liabilities	187,626	176,008
Deferred tax liability (Note 24)	8,798	10,533
Current liabilities:		
Short-term loans	3,624	6,455
Current portion of long-term debt (Note 12)	18,668	12,298
Trade and other payables (Note 17)	79,347	65,722
Accrued liabilities (Note 18)	12,997	8,657
Total current liabilities	114,636	93,132
Total equity and liabilities	503,660	469,161

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

ČEZ, a. s.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

in CZK Millions

	2011	2010
Revenues:		
Sales of electricity	97,246	98,894
Gains and losses from electricity, coal and gas derivative trading, net	5,904	5,376
Sales of gas, heat and other revenues	10,291	5,928
Total revenues (Note 19)	113,441	110,198
Operating expenses:		
Fuel	(15,609)	(17,320)
Purchased power and related services	(29,540)	(18,528)
Repairs and maintenance	(3,431)	(3,583)
Depreciation and amortization	(12,840)	(13,178)
Salaries and wages (Note 20)	(5,951)	(6,470)
Materials and supplies	(1,837)	(1,740)
Emission rights, net (Note 8)	3	1,585
Other operating expenses (Note 21)	(7,386)	(5,955)
Total expenses	(76,591)	(65,189)
Income before other income (expenses) and income taxes	36,850	45,009
Other income (expenses):		
Interest on debt, net of capitalized interest	(5,019)	(4,245)
Interest on nuclear and other provisions (Note 15)	(1,713)	(1,740)
Interest income (Note 22)	2,608	2,507
Foreign exchange rate gains (losses), net	(244)	(2,550)
Loss on sale of subsidiaries, associates and joint-ventures	-	(128)
Other income (expenses), net (Note 23)	11,414	3,468
Total other income (expenses)	7,046	(2,688)
Income before income taxes	43,896	42,321
Income taxes (Note 24)	(6,559)	(7,559)
Net income	37,337	34,762
Net income per share (CZK per share) (Note 27)		
Basic	69.9	65.1
Diluted	69.9	65.1
Average number of shares outstanding (000s)		
Basic	534,041	533,811
Diluted	534,054	533,849

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

ČEZ, a. s.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

in CZK Millions

	2011	2010
Net income	37,337	34,762
Other comprehensive income:		
Change in fair value of cash flow hedges recognized in equity	(7,360)	9,009
Cash flow hedges removed from equity	(2,306)	(2,634)
Change in fair value of available-for-sale financial assets recognized in equity	44	163
Deferred tax relating to other comprehensive income (Note 24)	1,828	(1,242)
Other comprehensive income, net of tax	(7,794)	5,296
Total comprehensive income	29,543	40,058

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

ČEZ, a. s.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

In CZK Millions

	Stated capital	Treasury shares	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total equity
December 31, 2009	53,799	(5,151)	(2,155)	520	130,447	177,460
Net income	-	-	-	-	34,762	34,762
Other comprehensive income	-	-	5,163	133	-	5,296
Total comprehensive income	-	-	5,163	133	34,762	40,058
Transaction costs related to business combinations	-	-	-	-	(211)	(211)
Dividends	-	-	-	-	(28,256)	(28,256)
Sale of treasury shares	-	532	-	-	(195)	337
Share options	-	-	-	100	-	100
Transfer of exercised and forfeited share options within equity	-	-	-	(97)	97	-
December 31, 2010	53,799	(4,619)	3,008	656	136,644	189,488
Net income	-	-	-	-	37,337	37,337
Other comprehensive income	-	-	(7,829)	35	-	(7,794)
Total comprehensive income	-	-	(7,829)	35	37,337	29,543
Dividends	-	-	-	-	(26,673)	(26,673)
Sale of treasury shares	-	237	-	-	(68)	169
Share options	-	-	-	73	-	73
Transfer of exercised and forfeited share options within equity	-	-	-	(49)	49	-
December 31, 2011	53,799	(4,382)	(4,821)	715	147,289	192,600

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

In CZK Millions

	2011	2010
Operating activities:		
Income before income taxes	43,896	42,321
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	12,858	13,201
Amortization of nuclear fuel	3,225	3,697
Loss (gain) on fixed asset retirements, net	(68)	45
Foreign exchange rate losses (gains), net	244	2,550
Interest expense, interest income and dividend income, net	(13,062)	(6,340)
Provision for nuclear decommissioning and fuel storage	(68)	(1,300)
Valuation allowances, other provisions and other adjustments	1,039	4,756
Changes in assets and liabilities:		
Receivables	(10,551)	4,105
Materials and supplies	(575)	(202)
Fossil fuel stocks	(476)	649
Other current assets	(17,667)	10,459
Trade and other payables	16,991	(16,949)
Accrued liabilities	1,628	(1,026)
Cash generated from operations	37,414	55,966
Income taxes paid	(5,382)	(9,372)
Interest paid, net of capitalized interest	(4,446)	(3,475)
Interest received	2,354	2,111
Dividends received	13,237	8,078
Net cash provided by operating activities	43,177	53,308
Investing activities:		
Acquisition of subsidiaries, associates and joint-ventures	(6,470)	(6,126)
Proceeds (refunds) from disposal of subsidiaries, associates and joint- ventures	-	(16)
Additions to property, plant and equipment and other non-current assets, including capitalized interest	(23,908)	(30,883)
Proceeds from sale of fixed assets	654	1,310
Loans made	(10,787)	(33,542)
Repayment of loans	18,215	13,881
Change in restricted financial assets	(682)	(888)
Total cash used in investing activities	(22,978)	(56,264)

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

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

continued

	2011	2010
Financing activities:		
Proceeds from borrowings	57,676	161,191
Payments of borrowings	(49,785)	(133,640)
Change in payables/receivables from group cashpooling	(1,296)	4,970
Dividends paid	(26,655)	(28,234)
Sale of treasury shares	169	337
Net cash provided by (used in) financing activities	(19,891)	4,624
Net effect of currency translation in cash	(520)	(93)
Net increase (decrease) in cash and cash equivalents	(212)	1,575
Cash and cash equivalents at beginning of period	16,142	14,567
Cash and cash equivalents at end of period	15,930	16,142

	2011	2010
Supplementary cash flow information		
Total cash paid for interest	6,968	5,671

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

ČEZ, a. s.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011

1. Description of the Company

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

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

The average number of employees was 5,934 and 6,134 in 2011 and 2010, respectively.

The Czech Republic, represented by the Ministry of Finance and, to a small degree by the Ministry of Labor and Social Affairs, is a majority shareholder holding 69.8% of the Company's share capital at December 31, 2011. The majority shareholder's share of the voting rights represented 70.3% at the same date.

Members of the statutory and supervisory bodies at December 31, 2011 were as follows:

Board of Directors		Supervisory Board	
Chair	Daniel Beneš	Chair	Martin Roman
Vice-chair	Martin Novák	Vice-chair	Ivo Foltýn
Member	Peter Bodnár	Vice-chair	Lubomír Klosík
Member	Pavel Cyrani	Member	Liběna Dobrovolná
Member	Vladimír Hlavinka	Member	Ján Dzvoník
Member	Michaela Chaloupková	Member	Petr Gross
Member	Tomáš Pleskač	Member	Lukáš Hampl
		Member	Vladimír Hronek
		Member	Jiří Kadrnka
		Member	Jan Kohout
		Member	Drahoslav Šimek

2. Summary of Significant Accounting Policies

2.1. Basis of Presentation of the Financial Statements

Pursuant to the Accounting Law, the accompanying separate financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. IFRS as adopted by the EU which are relevant to and used by the Company do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

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

The Company also compiled consolidated IFRS financial statements of the CEZ Group for the same period. The consolidated financial statements were authorized for issue on February 27, 2012.

2.2. Presentation Currency

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

2.3. Estimates

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

2.4. Revenue Recognition

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

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

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

Revenue from services is recognized when the services are rendered.

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

2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,225 million and CZK 3,697 million for the years ended December 31, 2011 and 2010, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel (see Note 15). Such charges amounted to CZK 470 million and CZK 468 million in 2011 and 2010, respectively.

2.6. Interest

The Company capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 2,661 million and CZK 2,526 million and an interest capitalization rate was 4.5% and 4.5% in 2011 and 2010, respectively.

2.7. Property, Plant and Equipment

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

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

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

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

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

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

	Useful lives (years)
Buildings and structures	20 – 50
Machinery and equipment	4 – 25
Vehicles	4 – 20
Furniture and fixtures	8 – 15

Average depreciable lives based on the functional use of property, plant and equipment are as follows:

	Average life (years)
Hydro plants	
Buildings and structures	48
Machinery and equipment	16
Fossil fuel plants	
Buildings and structures	33
Machinery and equipment	15
Nuclear power plant	
Buildings and structures	36
Machinery and equipment	17

Depreciation of plant in service was CZK 12,624 million and CZK 12,976 million for the years ended December 31, 2011 and 2010, which was equivalent to a composite depreciation rate of 4.1% and 4.3%, respectively. The tangible asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2.8. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization and presented as part of property plant and equipment. Amortization of fuel in the reactor is based on the amount of power generated. Nuclear fuel includes capitalized costs of related provisions (see Note 2.21). At December 31, 2011 and 2010 capitalized costs at net book value amounted to CZK 0 million and CZK 114 million, respectively.

2.9. Intangible Assets

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

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item of Other operating expenses. At each reporting date an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount.
A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the line item of Other operating expenses.

2.10. Emission Rights

Right to emit greenhouse gasses (hereinafter "emission right") represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plan in 2011 and 2010 the Company was granted emission rights free of charge.

The Company is responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.
On April 30 of the following year, at latest, the Company is required to remit a number of allowances representing the number of tones of CO_2 actually emitted in previous year. Should the Company not fulfill this requirement and remit necessary number of emission rights, it would have to pay a penalty of EUR 100 per 1 ton of CO_2.

In the financial statements until 2010, the emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. Since 2011 the subject of a gift tax in the Czech Republic has been the allocation of emission rights granted free of charge to an entity operating certain electricity generation facilities specified by the law. As a result, granted emission rights are initially recognized at the amount of related gift tax as of the grant date. Purchased emission rights are carried at cost (except for emission rights for trading). The Company recognizes a provision to cover emissions made which is measured at the cost of granted and purchased emission rights and credits up to the level of granted and purchased emission rights and credits held and then at the market price ruling at the balance sheet date. The amount of the gift tax on granted emission rights, which is charged to profit or loss as part of the charge of the provision, the eventual cost of emission rights sold or as part of the consumption of emission rights when the allowances are remitted from the register, is included in the line Other income (expenses), net.

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

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

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

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

2.11. Investments

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

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

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

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

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

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

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

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

subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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

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

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

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

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

2.12. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less. Foreign currency deposits are translated using the exchange rates published as at the balance sheet date.

2.13. Financial Assets Restricted in Use

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

2.14. Receivables, Payables and Accruals

Receivables are carried at their nominal value. Ceded receivables are valued at cost. Doubtful receivables are adjusted for uncollectible amounts through a provision account. Additions to the provision account are charged to income. As at December 31, 2011 and 2010 the allowance for short-term uncollectible receivables amounted to CZK 1,750 million and CZK 1,622 million, respectively.

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

2.15. Material and Supplies

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

2.16. Fossil Fuel Stock

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

2.17. Derivative Financial Instruments

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

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

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

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

Fair value hedge:

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

Cash flow hedge:

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

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

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

Other derivatives:

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

2.18. Commodity Contracts

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

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

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

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

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

2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. differences between book and tax depreciation). Income tax due is provided at a rate of 19% and 19% for the years ended December 31, 2011 and 2010, respectively, from income before income taxes after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate for 2012 and on will be 19%.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is calculated as the product of the tax rate that is expected to apply to the year when the asset is realized or the liability is settled and temporary differences between book and tax accounting.

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

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

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

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

2.20. Long-term Debt

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

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

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

2.21. Nuclear Provisions

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

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation for the years ended 2011 and 2010 is 2.0% and 2.0%, respectively.

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

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

2.22. Treasury Shares

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

2.23. Share Options

Board of Directors and selected managers (and in the past also the Supervisory Board members) have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted.

In case of options which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases the expense is accrued over the vesting period of the equity instruments granted.

The expense recognized reflects the best estimate of the number of share options which will ultimately vest. In 2011 and 2010 the expense recognized in respect of the share option plan amounted to CZK 73 million and CZK 100 million, respectively.

2.24. Foreign Currency Transactions

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns using the exchange rate prevailing at the date of the transaction, as published by the Czech National Bank. In the accompanying financial statements, monetary assets and liabilities are translated at the rate of exchange ruling at December 31. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equity instruments held for trading are reported as part of the fair value gain or loss. Translation differences on available-for-sale equity securities are included in equity.

Exchange rates used as at December 31, 2011 and 2010 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2011	2010
CZK per 1 EUR	25.800	25.060
CZK per 1 USD	19.940	18.751
CZK per 1 PLN	5.789	6.308
CZK per 1 BGN	13.191	12.813
CZK per 1 RON	5.969	5.869
CZK per 100 JPY	25.754	23.058
CZK per 1 TRY	10.550	12.105
CZK per 100 ALL	18.644	18.108

2.25. Non-current Assets Held for Sale

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

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

2.26. Adoption of New IFRS Standards in 2011

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Company has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2011:

-IAS 24 Related Party Disclosures (amendment) effective January 1, 2011
-IAS 32 Financial Instruments: Presentation (amendment) effective February 1, 2010
-IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective January 1, 2011
-IFRIC 17 Distributions of Non-cash Assets to Owners effective July 1, 2010
-IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective July 1, 2010
-Improvements to IFRSs (May 2010)

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

IAS 24 Related Party Disclosure
The amendments to IAS 24 Related Party Disclosures become effective for financial years beginning on or after January 1, 2011 and must be applied retrospectively. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. As a result, such a reporting entity is exempt from the general disclosure requirements in relation to transactions and balances with the government and government-related entities. In addition, the revised standard amends the definition of a related party where the associate of an investor is now considered to be a related party to both the investor and its subsidiary whereas two associates of an entity are not regarded as related parties to each other. The Amendment does not have significant effect on the financial statements of the Company.

IAS 32 Financial Instruments: Presentation (Classification of Rights Issues)
In October 2009, the IASB issued an amendment to IAS 32 on the classification of rights issues. The amendment is effective for annual periods beginning on or after February 1, 2010. For rights issues offered for a fixed amount of foreign currency current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment has had no effect on the financial position or performance of the Company because the Company does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Company is not subject to minimum funding requirements; therefore the amendment of the interpretation has no effect on the financial position or performance of the Company.

IFRIC 17 Distributions of Non-cash Assets to Owners
This interpretation is effective for annual periods beginning on or after July 1, 2010. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. This interpretation does not have an impact on the consolidated financial statements as the Company does not make non-cash distributions to shareholders.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
This interpretation is effective for annual periods beginning on or after July 1, 2010. The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This interpretation does not have an impact on the consolidated financial statements as the Company currently does not have any such transactions.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments – Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Company reflects the revised disclosure requirements.

IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

All other standards and interpretations whose application was mandatory for the period beginning on or after January 1, 2011 have no material impact on the Company's separate financial statements.

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

The Company is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2012 or later. Standards and interpretations most relevant to the Company's activities are detailed below:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and there is no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012. The Company does not currently have any investment property as well as is not using revaluation model therefore this will not affect its financial position or performance.

IFRS 7 Financial Instruments: Disclosures (Transfers of Financial Assets)
In October 2010, IASB issued an amendment to IFRS 7, which changes the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The Company does not expect that the amendment will have an impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)
In December 2011, IASB issued an amendment to IFRS 7, which requires an entity to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The Company is currently assessing the impact of this amended IFRS.

IAS 32 Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)
In December 2011, IASB issued an amendment to IAS 32, which is intended to clarify existing application issues relating to the offsetting rules and reduce level of diversity in current practise. The Company is currently assessing the impact of this amended IFRS.

IFRS 9 Financial Instruments – Classification and measurement
The IFRS 9 was issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities that must be applied starting January 1, 2015. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs. The standard also eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The requirements related to the fair value option for financial liabilities were changed to address own credit risk. As a result, the changes in liability's credit risk will not affect profit or loss unless the liability is held for trading. The completion of this project is expected in 2012. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets and liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013 and does not have any effect on Company's separate financial statements.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013 and does not have any effect on Company's separate financial statements.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Some of the more extensive qualitative and quantitative disclosures of IFRS 12 include: provision of summarised financial information for each subsidiary with a material non-controlling interest; description of significant judgements used by management in determining control, joint control and significant influence,and the type of joint arrangement (i.e., joint operation or joint venture); provision of summarised financial information for each individually material joint venture and associate; and description of the nature of the risks associated with an entity's interests in unconsolidated structured entities. This standard becomes effective for annual periods beginning on or after January 1, 2013 and does not have any effect on Company's separate financial statements.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IAS 19 Employee benefits (revised)
The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The more significant changes include the following: for defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed; there are new or revised disclosure requirements which include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption; termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37; the distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits. This standard becomes effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of this revised standard, but does not expect any significant impact on its financial position or performance.

IAS 28 Investments in Associate and Joint Ventures (revised)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013 and does not have any effect on Company's separate financial statements.

Improvements to IFRSs
In May 2010 the IASB issued improvement to IFRS 3. The improvement is effective for annual periods beginning on or after July 1, 2011.
IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of NCI are to be measured at their acquisition date fair value.

3. Property, Plant and Equipment

Net plant in service at December 31, 2011 and 2010 was as follows (in CZK millions):

	Buildings	Plant and Equipment	Land and Other	Total 2011	Total 2010
Cost at January 1	81,733	222,872	918	305,523	298,600
Additions	937	6,616	276	7,829	21,053
Disposals	(63)	(734)	(2)	(799)	(1,530)
Change in capitalized part of the provision	416	37	-	453	250
Non-monetary contribution and other movements	6	(6)	-	-	(12,850)
Cost at December 31	83,029	228,785	1,192	313,006	305,523
Accumulated depreciation and impairment at January 1	(38,709)	(133,576)	-	(172,285)	(170,808)
Depreciation	(2,273)	(10,351)	-	(12,624)	(12,976)
Net book value of assets disposed	(26)	(1)	-	(27)	(49)
Non-monetary contribution and other movements	(4)	4	-	-	10,042
Disposals	63	734	-	797	1,529
Impairment losses recognized	15	-	-	15	(23)
Accumulated depreciation and impairment at December 31	(40,934)	(143,190)	-	(184,124)	(172,285)
Net plant in service at December 31	42,095	85,595	1,192	128,882	133,238

At December 31, 2011 and 2010, machinery and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2011	2010
Cost	19,225	19,188
Accumulated depreciation	(6,423)	(6,037)
Net book value	12,802	13,151

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

4. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2011, and 2010 consist of the following (in CZK millions):

	2011	2010
Restricted debt securities available-for-sale	8,237	7,091
Restricted debt securities held to maturity	-	17
Restricted cash	909	1,355
Total restricted financial assets	9,146	8,463
Equity securities and interests, net	144,360	139,063
Investment in Dalkia	3,166	3,166
Investment in Pražská teplárenská	11,963	11,963
Loans granted	20,706	16,150
Derivatives	3,030	1,653
Other long-term receivables, including prepayments	57	82
Financial assets in progress	-	1,433
Total	192,428	181,973

The balance of long-term financial assets in progress includes amounts paid in respect of ongoing acquisitions and increases of subsidiaries' capital that was not yet registered on December 31.

In July 2011, all relevant bodies of CEZ Group approved the transaction in which CEZ Group plans to sell its 50% stake in the German mining company MIBRAG (owned through subsidiary Severočeské doly a.s.) to Energetický a průmyslový holding, a.s. As part of the assets belonging to MIBRAG the Company will also sell a project for the construction of new coal-fired power plant Profen and at the same time plans to acquire 100% interest in Energotrans, a.s., which supplies heat from Mělník to Prague. The completion of these transactions after approval by relevant competition authorities is expected to occur in the second quarter of 2012. As a result, at December 31, 2011 the Company classified project Profen of CZK 1,031 million originally included in financial assets in progress as an asset classified as held for sale.

In 2010 the Company acquired 15% equity interest in Dalkia Česká republika, a.s. The investment is classified as available-for-sale.

In 2009 the Company agreed with J&T Group and paid for the equity interest of 49% in Pražská teplárenská (Prague's major heat supplier). The Company does not exercise any significant influence and therefore the investment is classified as available-for-sale. Following the agreement between the parties from 2011, upon the completion of the acquisition of 100% stake in Energotrans, a.s., the amount will be off-set with the liability arising from this acquisition.

Movements in impairment provisions (in CZK millions):

	2011	2010
Opening balance	11,363	5,292
Additions	2,447	6,071
Reversals	-	-
Closing balance	13,810	11,363

In 2011, the Company created an impairment provision against the investment in CEZ Shpërndarje Sh.A. at the amount of CZK 2,330 million in connection with the goodwill impairment recorded in the consolidated financial statements.

In 2010, the Company created an impairment provision of CZK 1,137 million against the investment in CEZ Razpredelenie Bulgaria AD and an impairment provision of CZK 4,934 million against the investment in TEC Varna EAD in connection with the goodwill impairment recorded in the consolidated financial statements.

Loans granted and other long-term receivables at December 31, 2011, and 2010 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	2011		2010	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Due in 1 – 2 years	1,909	55	1,143	80
Due in 2 – 3 years	5,530	-	1,275	-
Due in 3 – 4 years	805	2	1,201	-
Due in 4 – 5 years	805	-	1,158	2
Due in more than 5 years	11,657	-	11,373	-
Total	20,706	57	16,150	82

Loans granted and other long-term receivables at December 31, 2011 and 2010 have following effective interest rate structure (in CZK millions):

	2011		2010	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
Less than 2.0%	-	57	82	82
From 2.0% to 2.99%	214	-	118	-
From 3.0% to 3.99%	741	-	-	-
From 4.0% to 4.99%	4,283	-	19	-
Over 4.99%	15,468	-	15,931	-
Total	20,706	57	16,150	82

Loans granted and other long-term receivables at December 31, 2011 and 2010 according to currencies (in CZK millions):

	2011		2010	
	Loans granted	Other long-term receivables	Loans granted	Other long-term receivables
CZK	14,879	31	14,512	43
EUR	5,037	25	114	37
PLN	790	-	1,524	1
USD	-	1	-	1
Total	20,706	57	16,150	82

4.1. Investments in Subsidiaries, Associates and Joint-ventures

Several subsidiaries were founded or acquired during 2011:

ČEZ Energo, s.r.o. (50.10 %), DOMICA FPI s.r.o. (99.92 %), 3 L invest a.s. (99.64 %), AREA-GROUP CL a.s. (99.61 %) a ČEZ OZ uzavřený investiční fond a.s. (50 %) with its registered seat in Prague and CEZ Bulgarian Investments B.V. (100 %) with its registered seat in Amsterdam.

In 2011 the Company acquired non-controlling interest in Teplárna Trmice, a.s. and increased its share to 100%.

In 2011 the share capital of GENTLEY a.s., eEnergy Hodonín a.s. and NERS d.o.o. was increased by cash contribution.

In 2010 the Company classified its investment in subsidiary Elektrárna Chvaletice a.s. (100%) of CZK 2,739 million as a disposal group held for sale. Elektrárna Chvaletice a.s. operates a coal fired power plant in East Bohemia. The Company has concluded a triangular agreement with Dalkia and EPH to continue restructuring of its source portfolio in the Czech Republic. According to the previously reported plans the Company wanted to sell the Chvaletice power plant to EPH and acquire the heat distribution system in North Bohemia (Most and Litvínov agglomerations) from EPH. The sale of Elektrárna Chvaletice a.s. was expected to be finalized in 2011. In 2011 the Company reassessed this previously announced plan. Due to this decision the Group ceased to classify subsidiary Elektrárna Chvaletice a.s. as held for sale as of July 1, 2011 and reclassified it back to investments.

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

As at December 31, 2011 Company	Country	Interest in CZK millions	% interest	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	32,180	100.00	5,900
Severočeské doly a.s.	Czech Republic	14,312	100.00	1,507
CEZ Distributie S.A.	Romania	13,780	100.00	1,044
CEZ Finance Ireland Ltd.	Ireland	9,025	100.00	-
TEC Varna EAD	Bulgaria	8,847	100.00	1,167
CEZ Razpredelenie Bulgaria AD	Bulgaria	8,688	67.00	-
Akenerji Elektrik Üretim A.S.	Turkey	7,580	37.36	-
Tomis Team S.R.L.	Romania	6,657	100.00	-
CEZ Poland Distribution B.V.	Netherlands	6,240	100.00	65
CEZ Silesia B.V.	Netherlands	5,788	100.00	289
Teplárna Trmice, a.s.	Czech Republic	5,700	100.00	-
ČEZ Správa majetku, s.r.o.	Czech Republic	4,960	100.00	844
ČEZ ICT Services, a. s.	Czech Republic	4,391	100.00	750
ČEZ Teplárenská, a.s.	Czech Republic	3,764	100.00	-
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	-
CEZ Shpërndarje Sh.A.	Albania	3,028	76.00	-
Elektrárna Chvaletice a.s.	Czech Republic	2,739	100.00	-
Akcez Enerji A.S.	Turkey	1,744	27.50	-
Ovidiu Development S.R.L.	Romania	1,643	95.00	-
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	1,529
ŠKODA PRAHA a.s.	Czech Republic	987	100.00	150
CEZ Bulgarian Investments B.V.	Netherlands	973	100.00	-
CM European Power International B.V.	Netherlands	949	50.00	-
GENTLEY a.s.	Czech Republic	870	100.00	-
CEZ Vanzare S.A.	Romania	817	100.00	-
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	791	99.90	-
ČEZ Distribuční služby, s.r.o.	Czech Republic	728	100.00	533
Energetické centrum s.r.o.	Czech Republic	679	100.00	-
3 L invest a.s.	Czech Republic	559	99.64	-
ČEZ Energetické služby, s.r.o.	Czech Republic	422	100.00	-
ČEZ Energo, s.r.o.	Czech Republic	401	50.10	-
ŠKODA PRAHA Invest s.r.o.	Czech Republic	389	100.00	-
eEnergy Ralsko a.s.	Czech Republic	348	100.00	-
CEZ Slovensko, s.r.o.	Slovakia	302	100.00	-
CM European Power Slovakia s.r.o.	Slovakia	295	24.50	-
AREA-GROUP CL a.s.	Czech Republic	255	99.61	-
DOMICA FPI s.r.o.	Czech Republic	252	99.92	-
FVE Vranovská Ves a.s.	Czech Republic	224	100.00	-
PPC Úžín, a.s.	Czech Republic	220	100.00	-
ČEZ Měření, s.r.o.	Czech Republic	217	100.00	179
ČEZ Logistika, s.r.o.	Czech Republic	200	100.00	504
Ústav jaderného výzkumu Řež a.s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	-
NERS d.o.o.	Bosnia and Herzegovina	152	51.00	-
eEnergy Ralsko – Kuřívody a.s.	Czech Republic	134	100.00	-
CEZ Romania S.A. [1)]	Romania	91	100.00	-
eEnergy Hodonín a.s.	Czech Republic	77	100.00	-
Other		726	-	275
Total		158,170		
Provision		(13,810)		
Total, net		144,360		

As at December 31, 2010

Company	Country	Interest in CZK millions	% interest	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,386	100.00	-
Severočeské doly a.s.	Czech Republic	14,112	100.00	1,907
CEZ Distributie S.A.	Romania	13,780	100.00	-
CEZ Finance Ireland Ltd.	Ireland	9,025	100.00	-
TEC Varna EAD	Bulgaria	8,847	100.00	2,375
CEZ Razpredelenie Bulgaria AD	Bulgaria	8,688	67.00	683
Akenerji Elektrik Üretim A.S.	Turkey	7,600	37.36	-
Tomis Team S.R.L.	Romania	6,657	100.00	-
CEZ Poland Distribution B.V.	Netherlands	6,240	100.00	-
CEZ Silesia B.V.	Netherlands	5,788	100.00	-
ČEZ Správa majetku, s.r.o.	Czech Republic	4,960	100.00	73
Teplárna Trmice, a.s.	Czech Republic	4,845	85.00	-
ČEZ ICT Services, a. s.	Czech Republic	4,391	100.00	405
ČEZ Teplárenská, a.s.	Czech Republic	3,764	100.00	240
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	-
CEZ Shpërndarje Sh.A.	Albania	3,028	76.00	-
Akcez Enerji A.S.	Turkey	1,744	27.50	-
Ovidiu Development S.R.L.	Romania	1,643	95.00	-
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	-
ŠKODA PRAHA a.s.	Czech Republic	987	100.00	50
CM European Power International B.V.	Netherlands	949	50.00	-
CEZ Vanzare S.A.	Romania	817	100.00	-
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	791	99.90	-
ČEZ Distribuční služby, s.r.o.	Czech Republic	728	100.00	302
Energetické centrum s.r.o	Czech Republic	679	100.00	-
eEnergy Ralsko a.s	Czech Republic	544	100.00	-
ČEZ Energetické služby, s.r.o.	Czech Republic	422	100.00	-
ŠKODA PRAHA Invest s.r.o.	Czech Republic	389	100.00	182
GENTLEY a.s.	Czech Republic	374	100.00	-
CM European Power Slovakia s.r.o.	Slovakia	295	24.50	-
FVE Vranovská Ves a.s.	Czech Republic	224	100.00	-
PPC Úžín, a.s.	Czech Republic	220	100.00	-
ČEZ Měření, s.r.o.	Czech Republic	217	100.00	287
ČEZ Logistika, s.r.o.	Czech Republic	200	100.00	496
Ústav jaderného výzkumu Řež a.s.	Czech Republic	185	52.46	-
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	-
eEnergy Ralsko – Kuřívody a.s.	Czech Republic	143	100.00	-
NERS d.o.o.	Bosnia and Herzegovina	107	51.00	-
CEZ Servicii S.A. [1)]	Romania	87	100.00	9
CEZ RUS OOO	Russia	73	100.00	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	39.25	-
CEZ FINANCE B.V.	Netherlands	53	100.00	26
CEZ Polska sp. z o.o.	Poland	50	100.00	-
CEZ Deutschland GmbH	Germany	47	100.00	-
STE – obchodní služby spol. s r.o. v likvidaci	Czech Republic	47	100.00	-
CEZ Srbija d.o.o.	Serbia	46	100.00	-
Other		338	-	706
Total		150,426		
Provision		(11,363)		
Total, net		139,063		

[1)] CEZ Servicii S.A. merged with the succession company CEZ Romania S.A. with the effective date of January 1, 2011.

4.2. Restricted Financial Assets

At December 31, 2011 and 2010, restricted balances of financial assets totaled CZK 9,146 million and CZK 8,463 million, respectively, and represented accumulated provision for the decommissioning, reclamation and maintenance of waste storages after they are put out of services, escrow accounts securing the Company's liquidity (pursuant to contracts entered into with the respective banks) from significant financial market volatility affecting market prices of designated hedging transactions, and accumulated provision for nuclear decommissioning in compliance with the Nuclear Act. Since 2007 restricted financial assets comprise not only restricted cash balances, but also term deposits and government bonds.

At December 31, 2011 and 2010, restricted funds representing accumulated provision for waste storage and reclamation totaled CZK 436 million and CZK 446 million, respectively, while restricted funds representing accumulated provision for nuclear decommissioning totaled CZK 8,522 million and CZK 7,831 million, respectively.

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2011 and 2010 were as follows (in CZK millions):

	Software	Rights and Other	Total 2011	Total 2010
Cost at January 1	1,119	1,040	2,159	2,007
Additions	66	44	110	181
Disposals	(24)	-	(24)	(14)
Other	-	(15)	(15)	(15)
Cost at December 31	1,161	1,069	2,230	2,159
Accumulated amortization at January 1	(999)	(611)	(1,610)	(1,436)
Amortization	(81)	(134)	(215)	(202)
Disposals	24	-	24	14
Other	-	-	-	14
Accumulated amortization at December 31	(1,056)	(745)	(1,801)	(1,610)
Intangible assets, net	105	324	429	549

At December 31, 2011 and 2010, intangible assets presented in the balance sheet included intangible assets in progress in the amount of CZK 149 million and CZK 157 million, respectively.

6. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2011 and 2010 were as follows (in CZK millions):

	2011	2010
Cash on hand and current accounts with banks	1,822	2,564
Short-term securities	660	1,560
Term deposits	13,448	12,018
Total	15,930	16,142

At December 31, 2011 and 2010, cash and cash equivalents included foreign currency deposits of CZK 4,010 million and CZK 8,953 million, respectively.

Average interest rates on term deposits at December 31, 2011 and 2010 were 1.64% and 1.97%, respectively. The weighted average interest rate for 2011 and 2010 was 1.76% and 1.04%, respectively.

7. Receivables, Net

The composition of receivables, net, at December 31, 2011 and 2010 is as follows (in CZK millions):

	2011	2010
Trade receivables	35,437	26,948
Short-term loans granted	8,266	21,724
Taxes and fees excl. income tax	1,253	184
Other receivables	3,075	971
Allowance for doubtful receivables	(1,750)	(1,622)
Total	46,281	48,205

The information about receivables from related parties is included in Note 25.

At December 31, 2011 and 2010 the ageing analysis of receivables, net is as follows (in CZK millions):

	2011	2010
Not past due	45,818	47,329
Past due but not impaired [1]:		
less than 3 months	256	683
3 – 6 months	138	83
6 – 12 months	69	36
more than 12 months	-	74
Total	46,281	48,205

1) Past due, but not impaired receivables include net receivables, for which the Company recorded an impairment allowance based on the collective assessment of impairment of receivables that are not individually significant.

Movements in allowance for doubtful receivables (in CZK millions):

	2011	2010
Opening balance	1,622	1,774
Additions	906	222
Reversals	(832)	(298)
Currency translation difference	54	(76)
Closing balance	1,750	1,622

8. Emission Rights

The following table summarizes the movements and balances of emission rights and credits in measurement units (thousands of tons) in 2011 and 2010 and as at December 31, 2011 and 2010, respectively, and their valuation presented in the accompanying financial statements:

	2011		2010	
	in thousands tons	in millions CZK	in thousands tons	in millions CZK
Emission rights and credits (CERs, ERUs) granted and purchased for own use:				
Granted and purchased emission rights and credits at January 1	28,470	1,681	31,882	724
Emission rights granted	31,992	3,296	34,712	-
Non-monetary contribution to Elektrárna Chvaletice a.s.	-	-	(2,719)	-
Settlement of prior year actual emissions with register	(29,829)	(1,292)	(32,595)	(38)
Emission rights purchased	6,505	2,591	1,910	1,026
Emission rights sold	(1,235)	(485)	(4,635)	-
Emission credits purchased	-	-	25	12
Emission credits sold	-	-	(6)	(2)
Reclassified to emission rights and credits held for trading	(2,225)	(823)	(104)	(41)
Granted and purchased emission rights and credits at December 31	33,678	4,968	28,470	1,681
Emission rights and credits held for trading:				
Emission rights held for trading at January 1	1,569	471	-	-
Emission rights purchased	4,351	1,652	10,949	4,049
Emission rights sold	(6,550)	(2,277)	(10,949)	(4,052)
Emission credits purchased	3,822	1,288	2,675	1,056
Emission credits sold	(5,120)	(1,716)	(1,210)	(467)
Reclassified from emission rights and credits for own use	2,225	823	104	41
Fair value adjustment	-	(202)	-	(156)
Emission rights and credits held for trading at December 31	297	39	1,569	471

In 2011 and 2010, total emissions of greenhouse gases made by the Company amounted to an equivalent of 29,840 thousand tons and 29,829 thousand tons of CO_2, respectively. At December 31, 2011 and 2010 the Company recognized a provision for CO_2 emissions in total amount of CZK 3,198 million and CZK 2,180 million, respectively (see Note 2.10).

The following table shows the impact of transactions with emission rights and credits on income for the year ended December 31, 2011 and 2010 (in CZK millions):

	2011	2010
Gain on sales of granted emission rights	-	1,628
Net gain (loss) from emission rights trading	(169)	473
Net loss from emission rights purchased for own use	(265)	-
Net loss from emission credits sold	(649)	(158)
Net gain from derivatives	303	1,074
Remitted emission rights	(1,026)	(38)
Fair value adjustment	(202)	(156)
Creation of provisions for emission rights	(169)	(2,180)
Settlement of provisions for emission rights	2,180	942
Total gain from emission rights and credits	3	1,585

9. Other Financial Assets, Net

Other financial assets, net, at December 31, 2011 and 2010 were as follows (in CZK millions):

	2011	2010
Derivatives	20,543	11,920
Equity securities available-for-sale	4,538	3,151
Debt securities held-to-maturity	3,166	401
Total	28,247	15,472

Derivatives balance is mainly composed of positive fair value of electricity trading contracts.

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

Debt secturities held-to-maturity are denominated in CZK and bear an interest rate of 1 - 2%.

10. Other Current Assets

Other current assets at December 31, 2011 and 2010 were as follows (in CZK millions):

	2011	2010
Prepayments	1,633	774
Prepaid variation margin on “own use” electricity futures	11	-
Advances granted	341	269
Total	1,985	1,043

Prepaid variation margin represents the net variation margin paid to or by Prague Energy Exchange in respect of the electricity future contracts treated as own use, which will be delivered after balance sheet date. This prepaid variation margin resulted in net liability in 2010 and therefore is presented as part of Accrued liabilities (see Note 18).

11. Equity

As at December 31, 2011, the share capital of the Company registered in the Commercial Register totaled CZK 53,798,975,900 and consisted of 537,989,759 shares with a nominal value of CZK 100 per share. All shares are bearer shares that are fully paid and listed.

Movements of treasury shares in 2011 and 2010 (in pieces):

	2011	2010
Number of treasury shares at beginning of period	4,085,021	4,555,021
Sales of treasury shares	(210,000)	(470,000)
Number of treasury shares at end of period	3,875,021	4,085,021

Treasury shares remaining at end of period are presented at cost as a deduction from equity.

In accordance with Czech regulations, joint stock companies are required to establish a non-distributable reserve fund for contingencies against possible future losses. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit each year thereafter, until the fund reaches at least 20% of stated capital. The fund can only be used to offset losses. As at December 31, 2011 and 2010, the balance was CZK 16,227 million and CZK 16,464 million, respectively and is presented as part of retained earnings. The reserve fund also includes amounts equal to the purchase price of treasury shares held by the Company. At December 31, 2011 and 2010 such balances amounted to CZK 4,382 million and CZK 4,619 million, respectively, and were recorded against distributable retained earnings.

Dividends paid per share were CZK 50 and CZK 53 in 2011 and 2010, respectively. Dividends from 2011 profit will be declared on the general meeting which will be held in the first half of 2012.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains current credit rating and healthy capital ratios in order to support its business and maximize value for shareholders. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Company primarily monitors capital using the ratio of net debt to EBITDA. The Company's goal is to keep this ratio below 2.3. In addition, the Company also monitors capital using a total debt to total capital ratio. The Company's policy is to keep the total debt to total capital ratio below 50%.

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization. The Company includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid financial assets. Total capital is total equity attributable to equity holders of the parent plus total debt.

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

	2011	2010 (restated*)
Total long-term debt	183,949	154,826
Total short-term loans	5,500	9,618
Total debt	189,449	164,444
Less: Cash and cash equivalents	(22,062)	(22,163)
Less: Highly liquid financial assets	(8,024)	(7,743)
Total net debt	159,363	134,538
Income before income taxes and other income (expenses)	61,542	64,788
Plus: Depreciation and amortization	25,770	24,060
EBITDA	87,312	88,848
Total equity attributable to equity holders of the parent	226,713	221,431
Total debt	189,449	164,444
Total capital	416,162	385,875
Net debt to EBITDA ratio	1.83	1.51
Total debt to total capital ratio	45.5%	42.6%

* Certain numbers shown were restated due to the final purchase price allocation of Teplárna Trmice, a.s. as of the acquisition date and do not correspond to the 2010 financial statements.

12. Long-term Debt

Long-term debt at December 31, 2011 and 2010 was as follows (in CZK millions):

	2011	2010
4.625% Eurobonds, due 2011 (EUR 154 million) [1]	-	3,850
4.125% Eurobonds, due 2013 (EUR 500 million)	12,863	12,474
5.125% Eurobonds, due 2012 (EUR 500 million)	12,891	12,510
6.000% Eurobonds, due 2014 (EUR 600 million)	15,419	14,954
3.005% Eurobonds, due 2038 (JPY 12,000 million)	3,087	2,764
5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million)	33	30
4.270% Zero Coupon Eurobonds due 2011 (CZK 1,400 million)	-	1,379
4.450% Zero Coupon Eurobonds due 2011 (CZK 1,600 million)	-	1,573
5.750% Eurobonds, due 2015 (EUR 600 million)	15,436	14,980
2.845% Eurobonds, due 2039 (JPY 8,000 million)	2,060	1,844
5.000% Eurobonds, due 2021 (EUR 750 million) [2]	19,292	18,733
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,285	1,248
3M Euribor + 0.45% Eurobonds, due 2011 (EUR 110 million)	-	2,756
3M Libor + 0.70% Eurobonds, due 2012 (USD 100 million)	1,992	1,871
3M Euribor + 0.50% Eurobonds, due 2011 (EUR 100 million)	-	2,505
6M Pribor + 0.62% Eurobonds, due 2012 (CZK 3,000 million)	2,999	2,998
4.875% Eurobonds, due 2025 (EUR 750 million)	19,239	18,679
4.500% Eurobonds, due 2020 (EUR 750 million)	19,119	18,544
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,962	-
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,247	-
3.625% Eurobonds, due 2016 (EUR 500 million)	12,798	-
2.150%*IRp Eurobonds, due 2021 (EUR 100 million)	2,580	-
4.105% Eurobonds, due 2021 (EUR 50 million)	1,284	-
4.500% Registered bonds, due 2030 (EUR 40 million)	1,006	976
4.750% Registered bonds, due 2023 (EUR 40 million)	1,016	-
9.220% Debentures, due 2014 (CZK 2,500 million) [3]	2,499	2,498
Total long term bonds and debentures	151,107	137,166
Less: Current portion	(17,882)	(12,063)
Long-term bonds and debentures, net of current portion	133,225	125,103
Long-term bank loans:		
less than 2.00 % p. a.	470	3,964
2.00% to 2.99% p. a.	12,384	6,265
Total long term loans	12,854	10,229
Less: Current portion	(786)	(235)
Long-term loans, net of current portion	12,068	9,994
Total long term debt	163,961	147,395
Less: Current portion	(18,668)	(12,298)
Total long-term debt, net of current portion	145,293	135,097

[1] These Eurobonds have been issued through the subsidiary, CEZ FINANCE B.V. The Company was granted a loan by CEZ FINANCE B.V., corresponding to the nominal value of the bonds. In December 2010, the original nominal value of the issue (EUR 400 million) was reduced by bought back own bonds at a nominal value of EUR 246 million.

[2] In February 2010, the original nominal value of the issue (EUR 600 million) was increased by EUR 150 million.

[3] Since 2006 the interest rate has changed to consumer price index in the Czech Republic plus 4.20%. The interest rate as at December 31, 2011 and 2010 was 6.5% and 5.2%, respectively.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Company. For the fair values of hedging instruments see Note 13.

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

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

	2011	2010
Current portion	18,668	12,298
Between 1 and 2 years	14,525	18,149
Between 2 and 3 years	19,496	13,948
Between 3 and 4 years	17,014	18,690
Between 4 and 5 years	14,376	16,219
Thereafter	79,882	68,091
Total long-term debt	163,961	147,395

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

	2011		2010	
	Foreign currency	CZK	Foreign currency	CZK
EUR	5,684	146,645	5,258	131,762
USD	100	1,992	100	1,871
JPY	31,487	8,109	19,986	4,609
CZK	-	7,215	-	9,153
Total long-term debt		163,961		147,395

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2011 and 2010 without considering interest rate hedging (in CZK millions):

	2011	2010
Floating rate long-term debt		
with interest rate fixed from 1 to 3 months	471	7,838
with interest rate fixed from 3 months to 1 year	21,159	16,266
Total floating rate long-term debt	21,630	24,104
Fixed rate long-term debt	142,331	123,291
Total long-term debt	163,961	147,395

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

The Company has entered into loan agreements, which contain restrictive financial covenants relating to indebtedness and liquidity. In 2011 and 2010 the Company has complied with all required covenants.

13. Fair Value of Financial Instruments

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

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

Cash and cash equivalents

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

Securities held for trading

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

Investments

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

Receivables and payables

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

Short-term loans

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

Long-term debt

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

Derivatives

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

Carrying amounts and the estimated fair values of financial instruments at December 31, 2011 and 2010 are as follows (in CZK millions):

	Category	2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
Assets:					
Investments:					
Equity securities and interests, net	SaA	144,360	144,360	139,063	139,063
Restricted debt securities available-for-sale	AFS	8,237	8,237	7,091	7,091
Restricted debt securities held-to-maturity	HTM	-	-	17	17
Restricted cash	LaR	909	909	1,355	1,355
Other long-term financial assets, net	LaR	35,892	35,892	32,794	32,794
Current assets:					
Receivables	LaR	46,281	46,281	48,205	48,205
Cash and cash equivalents	LaR	15,930	15,930	16,142	16,142
Short-term debt securities held-to-maturity	HTM	3,166	3,166	401	401
Short-term equity securities available-for-sale	AFS	4,538	4,538	3,151	3,151
Other current assets	LaR	341	341	269	269
Liabilities:					
Long-term debt including the current portion	AC	(163,961)	(170,079)	(147,395)	(152,863)
Short-term loans	AC	(3,624)	(3,624)	(6,455)	(6,455)
Current liabilities	AC	(57,799)	(57,799)	(53,372)	(53,372)
Derivatives:					
Cash flow hedges:					
Short-term receivables	HFT	132	132	131	131
Long-term receivables	HFT	1,822	1,822	554	554
Short-term liabilities	HFT	(3,093)	(3,093)	(569)	(569)
Long-term liabilities	HFT	(1,541)	(1,541)	(964)	(964)
Total cash flow hedges		(2,680)	(2,680)	(848)	(848)
Electricity, coal and gas trading contracts:					
Short-term receivables	HFT	17,527	17,527	10,642	10,642
Short-term liabilities	HFT	(16,257)	(16,257)	(11,192)	(11,192)
Total electricity, coal and gas trading contracts		1,270	1,270	(550)	(550)
Other derivatives:					
Short-term receivables	HFT	2,884	2,884	1,147	1,147
Long-term receivables	HFT	1,208	1,208	1,099	1,099
Short-term liabilities	HFT	(2,198)	(2,198)	(589)	(589)
Long-term liabilities	HFT	(1,056)	(1,056)	(714)	(714)
Total other derivatives		838	838	943	943

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

Fair Value Hierarchy

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

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

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

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

There were no transfers between the levels in 2011 and 2010.

At December 31, 2011, the Company held the following financial instruments measured at fair value (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	17,527	124	17,403	-
Cash flow hedges	1,954	3	1,951	-
Other derivatives	4,092	1,480	2,612	-
Available-for-sale restricted debt securities	8,237	8,237	-	-
Available-for-sale short-term equity securities	4,538	4,538	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(16,257)	(442)	(15,815)	-
Cash flow hedges	(4,634)	(1,339)	(3,295)	-
Other derivatives	(3,254)	(1,072)	(2,182)	-

At December 31, 2010, the Company held the following financial instruments measured at fair value (in CZK millions):

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	10,642	144	10,498	-
Cash flow hedges	685	88	597	-
Other derivatives	2,246	214	2,032	-
Available-for-sale restricted debt securities	7,091	7,091	-	-
Available-for-sale short-term equity securities	3,151	3,151	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(11,192)	(35)	(11,157)	-
Cash flow hedges	(1,533)	(203)	(1,330)	-
Other derivatives	(1,303)	(87)	(1,216)	-

14. Financial Risk Management

Risk management approach

An integrated risk management system is being successfully developed in order to increase CEZ Group's fundamental value while taking the level of risk acceptable for the shareholders. In the Group, the risk is defined as a potential difference between the actual and the expected (planned) developments and is measured by means of the extent of such difference in CZK and the likelihood with which such a difference may occur.

Since 2005 a risk capital concept has been applied within the Group. The concept allows the setting of basic caps for partial risk limits and, in particular, the unified quantification of all kinds of risks. The value of aggregate annual risk limit (Profit@Risk) is approved by the Board of Directors based on the Risk Management Committee proposal for every financial year. The proposed limit value is derived from historical volatility of profit and revenues of the Group (the top-down method). The approved value in CZK is set on the basis of a 95% confidence level and expresses a maximum profit decrease, which is the Group willing to take in order to reach the planned annual profit.

The bottom-up method is used for setting and updating the Risk frames. The Risk frames include the definition of risk and departments/units of the Group for which the frame is obligatory; definition of rules and responsibilities for risk management; permitted instruments and methods of risk management and actual risk limits, including a limit which expresses the share in the annual Profit@Risk limit.

Since 2009 the main Business Plan market risks are quantified (EBITDA@Risk based on MonteCarlo simulation in Y+1 to Y+5 horizon). The market risks are actively managed through gradual electricity sale in the following 3-year horizon, total CEZ Group CO_2 position management in NAP III allocation period context and the FX and IR risk hedging in medium-term horizon.

Risk management organization

The supreme authority for risk management is the Risk Management Committee (the ČEZ, a. s. CEO's committee). Except for approval of the aggregate annual budget risk limit (within the competence of the ČEZ, a. s. Board of Directors), the Risk Management Committee makes decisions on the development of an integrated system of risk management, makes decisions on an overall allocation of risk capital to the individual risks and organizational units, approves obligatory rules, responsibilities and limit structure for the management of partial risks, and it continuously monitors an overall risk impact on the Group, including Group debt capacity utilization and rating requirement fulfillment.

Overview and methods of risk management

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

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

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

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

For all risks quantified on a unified basis, a partial risk limit is set whose continuous utilization is evaluated at least once a month and is usually defined as a sum of the actually expected deviation of expected annual profit from the plan and the potential risk of loss on a 95% confidence. The Group's methodologies and data provide for a unified quantification of the following risks:

- Market risks: financial (currency, interest and stock price) risks, commodity prices (electricity, emission allowances, coal, gas), volume (heat supply volume, volume of electricity buy-out produced by solar power plants)
- Credit risks: financial and business counterparty risk and electricity, gas and heat end customer risk
- Operational risks: risks of nuclear and fossil power plants operation, investment risks.

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

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

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

Commodity risks

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

Market financial risks (currency and interest risks)

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

Credit risks

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

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

Liquidity risks

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

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

Commodity risks

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

- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a potential change in fair value of contracts classified as derivatives under IAS 39 (the underlying commodities in the Company‘s derivative transactions are: electricity, EUA and CER/ERU emission allowances, gas and coal API2 and API4)
- highly probable forecasted future electricity generation sales with the delivery in the CZ power grid are included in the VAR calculation to reflect the hedging character of significant portion of the existing derivative sales of electricity with delivery in Germany
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series
- the source of market data is mainly EEX, PXE and ICE.

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

	2011	2010
Monthly VaR (95%) – impact of changes in commodity prices	1,330	743

Currency risks

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

- the indicator of currency risk is defined as the monthly parametric VaR (95% confidence),
- for the calculation of volatility and internal correlations of each currency, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant currency position is defined as a discounted value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs expected in 2012 and from highly probable forecasted foreign currency revenues or capital expenditures that are being hedged by financial instruments
- the relevant currency positions reflect all significant foreign-currency flows in the monitored basket of foreign currencies
- the source of market FX and interest rate data is mainly IS Reuters and IS Bloomberg.

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

	2011	2010
Monthly currency VaR (95% confidence)	437	276

Interest risks

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

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

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

	2011	2010
IR sensitivity* to parallel yield curve shift (+10bp)	9	(13)

* positive result denotes higher increase in interest revenues than in interest costs and vice versa

Credit exposure from provided guarantees at December 31 (in CZK millions)

	2011	2010
Guarantees provided to subsidiaries, associates and joint-ventures	29,118	12,270
Guarantees provided to external parties	12	481
Total *	29,130	12,751

* Some of the guarantees could be called until June 2025 at the latest.

Liquidity risk

Contractual maturity profile of financial liabilities at December 31, 2011 (in CZK millions):

	Bonds and debentures	Loans	Derivatives *	Trade and other payables	Guarantees issued **
Less than 1 year	24,974	4,721	340,060	57,799	29,130
Between 1 and 2 years	19,207	1,946	73,918	-	-
Between 2 and 3 years	23,730	1,824	15,514	-	-
Between 3 and 4 years	20,151	1,785	755	-	-
Between 4 and 5 years	16,623	1,746	748	-	-
Thereafter	97,188	5,962	13,474	-	-
Total	201,873	17,984	444,469	57,799	29,130

Contractual maturity profile of financial liabilities at December 31, 2010 (in CZK millions):

	Bonds and debentures	Loans	Derivatives *	Trade and other payables	Guarantees issued **
Less than 1 year	18,363	6,895	222,821	53,372	12,751
Between 1 and 2 years	23,436	975	44,397	-	-
Between 2 and 3 years	17,805	1,656	3,544	-	-
Between 3 and 4 years	22,264	1,394	358	-	-
Between 4 and 5 years	18,759	1,368	342	-	-
Thereafter	85,826	5,534	8,336	-	-
Total	186,453	17,822	279,798	53,372	12,751

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

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

14.3. Hedge accounting

The Company enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2012 to 2016. The hedging instruments as at December 31, 2011 and 2010 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 5.6 billion and EUR 4.7 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (1,684) million and CZK 379 million at December 31, 2011 and 2010, respectively.

The Company also enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur between 2012 and 2014. The hedging instruments as at December 31, 2011 and 2010 are the futures and forward contracts for the purchase of allowances equivalent to 14.5 million tons and 14.7 million tons of CO_2 emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (2,799) million and CZK (1,227) million at December 31, 2011 and 2010, respectively.

In 2011 the Company started to enter into cash flow hedges of highly probable future sales of electricity in the Czech Republic from 2012 to 2014. The hedging instruments are the derivative electricity sales in Germany. The fair value of these derivative hedging instruments amounted to CZK 1,803 million at December 31, 2011.

In 2011 and 2010 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the lines Sales of electricity, Gains and losses from electricity, coal and gas derivative trading, net, Emission rights, net and Other income (expenses), net. In 2011 and 2010 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (579) million and CZK 61 million, respectively. The ineffectiveness in 2011 and 2010 mainly relates to transactions for which the hedged items are no more highly probable to occur.

15. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of one 440MW unit and three 510MW units which were put into service from 1985 to 1987 and have been refurbished and enhanced later. The second nuclear power plant, Temelín, has two 1,000 MW units which have started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act (“Act”) which defines certain obligations for the decontamination and dismantling (“decommissioning”) of nuclear facilities and the disposal of radioactive waste and spent fuel (“disposal”). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant’s operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. A 2008 Dukovany and a 2009 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 17.3 billion and CZK 14.6 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet as part of Investments and other financial assets, net (see Note 4).

The Ministry of Industry and Trade established the Radioactive Waste Repository Authority ("RAWRA") as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a "nuclear account" funded by the originators of radioactive waste. Contribution to the nuclear account was stated by a government resolution at 50 CZK per MWh produced at nuclear power plants. In 2011 and 2010, respectively, the payments to the nuclear account amounted to CZK 1,414 million and CZK 1,400 million, respectively. The originator of radioactive waste directly covers all costs associated with interim storage of spent fuel and disposal of radioactive waste. Actual costs incurred are charged against the accumulated provision for interim storage of spent nuclear fuel.

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

The following is a summary of the provisions for the years ended December 31, 2011 and 2010 (in CZK millions).

	Accumulated provisions			
	Nuclear decommis-sioning	Spent fuel storage		Total
		Interim	Long-term	
Balance at December 31, 2009	8,202	6,780	21,950	36,932
Movements during 2010:				
Discount accretion and effect of inflation	369	305	988	1,662
Provision charged to income statement	-	605	-	605
Effect of change in estimate credited to income statement	-	(797)	-	(797)
Effect of change in estimate added to fixed assets	-	-	519	519
Current cash expenditures	-	(902)	(1,400)	(2,302)
Balance at December 31, 2010	8,571	5,991	22,057	36,619
Movements during 2011:				
Discount accretion and effect of inflation	386	270	992	1,648
Provision charged to income statement	-	688	-	688
Effect of change in estimate charged to income statement	-	95	-	95
Effect of change in estimate added to fixed assets	-	-	37	37
Current cash expenditures	-	(614)	(1,414)	(2,028)
Balance at December 31, 2011	8,957	6,430	21,672	37,059

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

In 2011 and 2010 the Company recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage cost and the change in estimate in provision for long-term spent fuel storage due to the modification of the expected output of the nuclear power plants.

The actual decommissioning and spent fuel storage costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased costs of labor, materials and equipment and/or the actual time required to complete all decommissioning, disposal and storage activities.

16. Other Long-term Liabilities

Other long-term liabilities at December 31, 2011 and 2010 are as follows (in CZK millions):

	2011	2010
Derivatives	2,597	1,678
Provision for waste storage reclamation	1,762	1,457
Employee benefits liabilities	915	1,157
Total	5,274	4,292

The following table shows the movements of the provision for waste storage reclamation for the years ended December 31, 2011 and 2010 (in CZK millions):

	2011	2010
Balance at January 1	1,457	1,740
Discount accretion and effect of inflation	65	78
Effect of change in estimate added to (deducted from) fixed assets	416	(270)
Current cash expenditures	(176)	(91)
Balance at December 31	1,762	1,457

17. Trade and Other Payables

Trade and other payables at December 31, 2011 and 2010 were as follows (in CZK millions):

	2011	2010
Trade payables	36,332	29,216
Derivatives	21,548	12,350
Payables from Group cashpooling and similar intra-group loans	20,383	23,053
Other	1,084	1,103
Total	79,347	65,722

18. Accrued Liabilities

Accrued liabilities at December 31, 2011 and 2010 consist of the following (in CZK millions):

	2011	2010
Provisions	4,844	2,606
Deferred variation margin on “own use” electricity futures	-	602
Accrued interest	3,256	2,780
Unbilled goods and services	4,642	2,448
Taxes and fees, except income tax	223	201
Other	32	20
Total	12,997	8,657

The Company is by law liable for damages caused by pollution and establishes a provision for environmental claims, which is based on the current estimates of its future liabilities. At December 31, 2011 and 2010, the provision totaled CZK 363 million and CZK 312 million, respectively.

In 2011 and 2010, the Company recognized provision in total amount of CZK 3,198 million and CZK 2,180 million, respectively, for insufficient amount of granted allowances to cover actual emissions (see Note 8).

In 2011 and 2010, the Company established a provision for restructuring of CZK 47 million and CZK 113 million, respectively.

19. Revenues

Revenues for the years ended December 31, 2011 and 2010 were as follows (in CZK millions):

	2011	2010
Sale of electricity:		
Electricity sales – domestic:		
ČEZ Prodej, s.r.o.	36,746	41,888
Prague Energy Exchange (PXE)	4,265	4,158
Other	30,108	34,737
Total electricity sales – domestic	71,119	80,783
Electricity sales – foreign	16,942	8,423
Effect of hedging (see Note 14.3)	2,579	2,336
Sales of ancillary and other services	6,606	7,352
Total sales of electricity	97,246	98,894
Electricity, coal and gas derivative trading:		
Sales domestic	31,724	22,256
Sales foreign	197,061	136,986
Purchases domestic	(19,433)	(12,763)
Purchases foreign	(204,577)	(141,335)
Changes in fair value of commodity derivatives	1,129	232
Total gains and losses from electricity, coal and gas derivative trading, net	5,904	5,376
Sales of gas, heat and other revenues:		
Sales of gas	5,715	1,569
Sales of heat	1,789	1,965
Other	2,787	2,394
Total sales of gas, heat and other revenues:	10,291	5,928
Total revenues	113,441	110,198

20. Salaries and Wages

Salaries and wages for the years ended December 31, 2011 and 2010 were as follows (in CZK millions):

	2011		2010	
	Total	Key management personnel [1)]	Total	Key management personnel [1)]
Salaries and wages	(4,244)	(300)	(4,274)	(262)
Remuneration of board members, including royalties	(39)	(39)	(39)	(39)
Share options	(73)	(73)	(100)	(100)
Social and health security	(1,306)	(31)	(1,336)	(29)
Other personal expenses	(289)	(36)	(721)	(28)
Total	(5,951)	(479)	(6,470)	(458)

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

The members of Board of Directors and selected managers were entitled to use company cars for both business and private purposes in addition to the personal expenses in 2011 and 2010.

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

At December 31, 2011 and 2010 the aggregate number of share options granted to members of Board of Directors, Supervisory Board members and selected managers was 2,663 thousand and 2,365 thousand, respectively.

The share option plan for members of the Supervisory Board was canceled prospectively by the decision of the shareholders on General Meeting held in June 2005.

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

In 2011 and 2010 the Company has recognized a compensation expense of CZK 73 million and CZK 100 million, respectively, related to the granted options. The Company has settled all options exercised using treasury shares. The gains or losses on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2011 and 2010 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options			
	Board of Directors 000s	Selected managers 000s	Total 000s	Weighted average exercise price (CZK per share)
Share options at December 31, 2009	1,770	555	2,325	1,028.03
Options granted	275	255	530	865.33
Options exercised [1]	(425)	(45)	(470)	716.47
Options forfeited	-	(20)	(20)	833.32
Share options at December 31, 2010 [2]	1,620	745	2,365	1,055.13
Options granted	343	345	688	836.56
Movements	60	(60)	-	833.17
Options exercised [1]	(120)	(90)	(210)	806.74
Options forfeited	-	(180)	(180)	1,152.49
Share options at December 31, 2011 [2]	1,903	760	2,663	1,011.70

[1] In 2011 and 2010 the weighted average share price at the date of the exercise for the options exercised was CZK 936.76 and CZK 905.73, respectively.

[2] At December 31, 2011 and 2010 the number of exercisable options was 1,485 thousand and 1,115 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 1,142.30 per share and CZK 1,156.54 at December 31, 2011 and 2010, respectively.

The fair value of the options is estimated on the date of grant using the binomial option-pricing model. Because these stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock options.

At the grant dates, the underlying assumptions and the resulting fair values per option were as follows:

	2011	2010
Weighted average assumptions:		
Dividend yield	4.4%	5.9%
Expected volatility	34.0%	40.2%
Mid-term risk-free interest rate	1.5%	1.6%
Expected life (years)	1.4	1.4
Share price (CZK per share)	851.5	848.1
Weighted average grant-date fair value of options (CZK per 1 option)	121.1	123.5

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

At December 31, 2011 and 2010 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

	2011	2010
CZK 700 – 900 per share	883	645
CZK 900 – 1,400 per share	1,780	1,720
Total	2,663	2,365

The options granted, which were outstanding as at December 31, 2011 and 2010 had an average remaining contractual life of 1.6 years and 1.9 years, respectively.

21. Other Operating Expenses

Other operating expenses for the years ended December 31, 2011 and 2010 consist of the following (in CZK millions):

	2011	2010
Services	(6,687)	(6,410)
Change in provisions and valuation allowances	1,792	3,089
Taxes and fees	(1,660)	(1,697)
Write-off of bad debts and cancelled investment	(104)	(28)
Travel expense	(85)	(92)
Gifts	(202)	(259)
Gain (loss) on sale of property, plant and equipment	34	(8)
Gain (loss) on sale of material	(39)	100
Fines, penalties and penalty interest, net	35	131
Other, net	(470)	(781)
Total	(7,386)	(5,955)

Taxes and fees include the contributions to the nuclear account (see Note 15). The settlement of the provision for long-term spent fuel storage is accounted for at the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions and valuation allowances.

22. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2011 and 2010 was as follows (in CZK millions):

	2011	2010
Loans and receivables	1,791	1,704
Held-to-maturity investments	87	35
Available-for-sale investments	302	316
Bank accounts	428	452
Total	2,608	2,507

23. Other Income (Expenses), Net

Other income (expenses), net, for the years ended December 31, 2011 and 2010 consist of the following (in CZK millions):

	2011	2010
Dividends received	15,474	8,078
Derivative gains (losses), net	816	668
Gains (lossed) on sale of available-for-sale financial assets	85	(131)
Gift tax on emission rights	(3,296)	-
Impairment of financial investments (Note 4)	(2,447)	(6,071)
Other, net	782	924
Total	11,414	3,468

24. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2011 and 2010. The Czech corporate income tax rate for 2012 and onwards shall be 19%.

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

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

	2011	2010
Current income tax charge	(6,379)	(7,340)
Adjustments in respect of current income tax of previous periods	(87)	351
Deferred income taxes	(93)	(570)
Total	(6,559)	(7,559)

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

	2011	2010
Income before income taxes	43,896	42,321
Statutory income tax rate	19%	19%
"Expected" income tax expense	(8,340)	(8,041)
Tax effect of:		
Non-deductible provisions and allowances, net	(414)	(1,126)
Non-deductible expenses related to shareholdings	(16)	(35)
Other non-deductible items, net	(58)	(282)
Non-taxable revenue from dividends	2,996	1,593
Non-deductible share based payment expense	(14)	(19)
Gift tax on emission allowances	(626)	-
Adjustments in respect of current income tax of previous periods	(87)	351
Income tax	(6,559)	(7,559)
Effective tax rate	15%	18%

Deferred income tax liability, net, at December 31, 2011 and 2010 was calculated as follows (in CZK millions):

	2011	2010
Accumulated provision for nuclear decommissioning and spent fuel storage	5,729	5,708
Other provisions	615	887
Allowances	90	41
Deferred tax recognized in equity	1,131	-
Other temporary differences	162	34
Total deferred tax assets	7,727	6,670
Tax depreciation in excess of financial statement depreciation	(16,178)	(15,965)
Penalty receivables	(14)	(16)
Deferred tax recognized in equity	(81)	(778)
Other temporary differences	(252)	(444)
Total deferred tax liability	(16,525)	(17,203)
Total deferred tax liability, net	(8,798)	(10,533)

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

	2011			2010		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Change in fair value of cash flow hedges recognized in equity	(7,360)	1,399	(5,961)	9,009	(1,712)	7,297
Cash flow hedges removed from equity	(2,306)	438	(1,868)	(2,634)	501	(2,133)
Change in fair value of available-for-sale financial assets recognized in equity	44	(9)	35	163	(31)	132
Total	(9,622)	1,828	(7,794)	6,538	(1,242)	5,296

25. Related Parties

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

At December 31, 2011 and 2010, the receivables from related parties and payables to related parties were as follows (in CZK millions):

	Receivables		Payables	
	2011	2010	2011	2010
3 L invest a.s.	3,125	3,192	72	-
Akcez Enerji A.S.	55	161	73	84
Akenerji Elektrik Üretim A.S.	1,414	761	-	-
AREA-GROUP CL, a.s.	1,456	1,653	95	-
CEZ Bulgaria EAD	240	147	-	-
CEZ Distributie S.A.	-	-	920	1,802
CEZ Elektroproizvodstvo Bulgaria AD	114	112	-	-
CEZ Finance B.V.	-	-	47	4,143
CEZ Hungary Ltd.	295	217	98	108
CEZ International Finance B.V.	-	-	434	543
CEZ MH B.V.	4,469	11,626	297	320
CEZ Romania S.A.	48	51	904	874
CEZ Shpërndarje Sh.A	396	741	-	-
CEZ Slovensko, s.r.o.	728	714	189	309
ČEZ Bohunice a.s.	-	-	198	170
ČEZ Distribuce, a. s.	6,883	7,092	1,915	6,499
ČEZ Distribuční služby, s.r.o.	10	11	2,941	2,515
ČEZ Energetické produkty, s.r.o.	2	24	345	234
ČEZ ICT Services, a. s.	11	10	1,243	656
ČEZ Logistika, s.r.o.	8	-	289	311
ČEZ Měření, s.r.o.	1	-	423	287
ČEZ Obnovitelné zdroje, s.r.o.	1,625	1,985	97	101
ČEZ Prodej, s.r.o.	1,540	2,476	5,720	4,756
ČEZ Správa majetku, s.r.o.	5	7	267	743
ČEZ Teplárenská, a.s.	91	164	525	411
ČEZ Zákaznické služby, s.r.o.	4	4	237	225
DOMICA FPI, s.r.o.	968	1,287	6	-
eEnergy Ralsko, a.s.	199	208	-	-
Elektrárna Chvaletice, a.s.	508	269	3,163	1,487
Elektrociepłownia Chorzów ELCHO sp. z o.o.	1,111	1,893	4	1
Elektrownia Skawina S.A.	81	66	105	106
Energetické centrum, s.r.o.	240	265	12	1
GENTLEY, a.s.	1,932	2,616	58	-
Ovidiu Development S.R.L.	3,438	459	1	-
Severočeské doly a.s.	1,356	52	500	1,588
ŠKODA PRAHA a.s.	-	-	257	448
ŠKODA PRAHA Invest s.r.o.	18	18	4,305	3,951
Taidane Limited	-	-	2,634	2,559
Teplárna Trmice, a.s.	1	12	739	474
Tomis Team S.R.L.	209	3,461	108	120
Ústav jaderného výzkumu Řež a.s.	-	35	375	177
Other	2,328	1,191	1,745	680
Total	34,909	42,980	31,341	36,683

The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2011 and 2010 (in CZK millions):

	Sales to related parties		Purchases from related parties	
	2011	2010	2011	2010
Akcez Enerji A.S.	112	49	-	-
CEZ Bulgaria EAD	285	193	-	-
CEZ Finance B.V.	-	-	-	118
CEZ Hungary Ltd.	1,535	1,337	198	14
CEZ MH B.V.	85	45	-	-
CEZ Romania S.R.L.	168	143	-	-
CEZ Shpërndarje Sh.A	550	538	-	-
CEZ Slovensko, s.r.o.	3,235	2,228	1,594	1,001
CEZ Srbija d.o.o.	863	212	762	625
CEZ Trade Bulgaria EAD	35	41	239	169
CEZ Trade Polska sp. z o.o.	150	1,230	23	343
CEZ Trade Romania S.R.L.	235	560	555	245
CEZ Vanzare S.A.	655	241	-	-
ČEZ Distribuce, a. s.	601	595	146	99
ČEZ Distribuční služby, s.r.o.	89	110	-	-
ČEZ Energetické produkty,s.r.o.	15	21	1,083	807
ČEZ Energetické služby, s.r.o.	21	22	121	145
ČEZ ENERGO SERVIS spol. s r.o.	12	10	435	418
ČEZ ICT Services, a. s.	74	77	1,868	1,898
ČEZ Obnovitelné zdroje, s.r.o.	10	11	227	268
ČEZ Prodej, s.r.o.	40,539	45,255	7,098	4,430
ČEZ Správa majetku, s.r.o.	50	57	648	694
ČEZ Teplárenská, a.s.	1,113	1,199	165	72
Elektrárna Chvaletice, a.s.	2,117	1,072	4,342	1,910
Elektrociepłownia Chorzów ELCHO sp. z o.o.	3	143	208	253
Elektrownia Skawina S.A.	98	127	1,508	1,603
LOMY MOŘINA spol. s r.o.	-	-	175	148
OSC, a.s.	-	-	88	104
SD-Kolejová doprava, a.s.	10	6	522	143
Severočeské doly a.s.	63	64	5,623	5,518
ŠKODA PRAHA Invest s.r.o.	57	87	14,970	19,426
TEC Varna EAD	678	-	1,706	2
Teplárna Trmice, a.s.	63	19	505	262
Tomis Team, S.R.L.	98	89	704	273
Ústav jaderného výzkumu Řež a.s.	1	1	546	362
Other	767	438	195	179
Total	54,387	56,220	46,254	41,529

In 2010 the Company made non-monetary contributions to several subsidiaries (see Note 3 for amounts of contributed assets).

The Company and some of its subsidiaries are included in the cash-pool system. Payables to subsidiaries related to cash-pooling and similar borrowings are included in Trade and other payables (see Note 17).

26. Segment Information

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

27. Earnings per Share

	2011	2010
Numerator – basic and diluted (CZK millions)		
Net profit	37,337	34,762
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	534,041	533,811
Dilutive effect of share options	13	38
Diluted:		
Adjusted weighted average shares	534,054	533,849
Net income per share (CZK per share)		
Basic	69.9	65.1
Diluted	69.9	65.1

28. Commitments and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2011 to total CZK 136.2 billion over the next five years, as follows: CZK 39.3 billion in 2012, CZK 30.3 billion in 2013, CZK 28.3 billion in 2014, CZK 18.3 billion in 2015 and CZK 20.0 billion in 2016. These figures do not include the expected acquisitions of subsidiaries, associates and joint-ventures, which will depend on the number of future investment opportunities, for which the Company will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2011 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

The Nuclear Act sets limits for liabilities for nuclear damages so that the operator of nuclear installations is liable for up to CZK 8 billion per incident. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Nuclear Act also requires an operator to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). The Company has obtained all insurance policies with minimal limits as required by the law. The Company concluded the above mentioned insurance policies with Česká pojišťovna a.s. (representing Czech nuclear insurance pool) and European Liability Insurance for the Nuclear Industry.

The Company also maintains the insurance policies covering the assets of its fossil, hydro and nuclear power plants general third party liability insurance in connection with main operations of the Company.

29. Legal Disputes

In 2005 and 2006 a number of lawsuits were filed against ČEZ, a. s. relating to the realization of takeover offers and squeeze-outs of minority shareholders in the former regional electricity distribution companies, Severočeské doly a.s. and ČEZ Teplárenská, a.s. The plaintiffs challenged the share prices established by valuators nominated by courts. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the outcome of the litigation.

30. Events after the Balance Sheet Date

In January 2012 the Company accepted offers to repurchase bonds issued under the EUR 500 million issue 5.125% due in 2012 in the total nominal amount of EUR 222 million. Offers to repurchase bonds issued under the EUR 500 million issue 4.125% due in 2013 were accepted in the total nominal amount of EUR 128 million. The settlement date of the repurchase of bonds was January 20, 2012.

These financial statements have been authorized for issue on February 27, 2012:

Daniel Beneš
Chairman of Board of Directors
Chief Executive Officer

Martin Novák
Vice-chairman of Board of Directors
Chief Financial Officer