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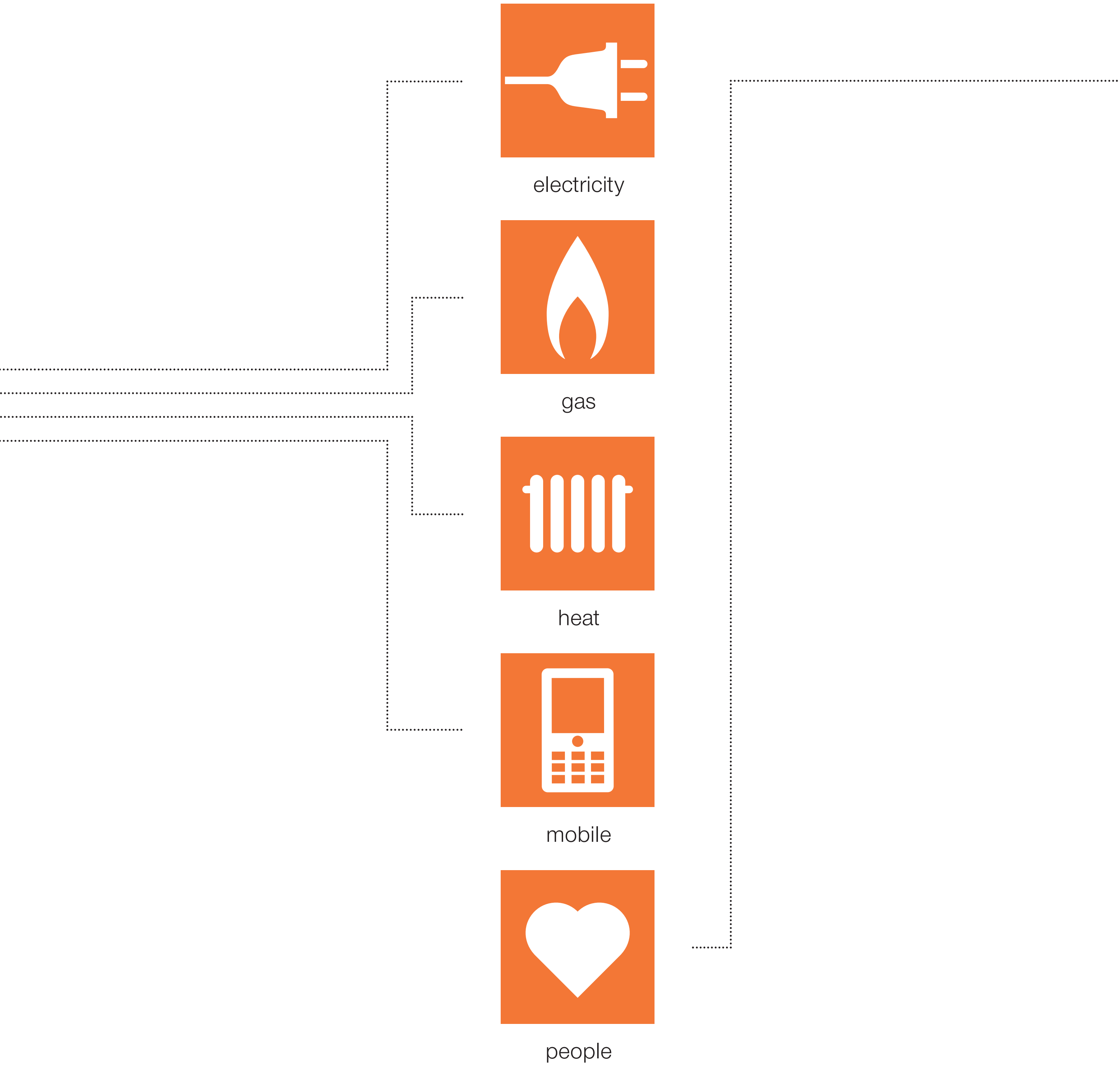
CEZ Group Annual Report 2013

I am 25 years old 25

My name is Petr PN Novák

I am a blogger

We are



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We thank all our customers for the energy we share with them; for the energy they put into all their activities, vocations, and hobbies, by which they change and create the world around us; for their positive comments confirming that we are on the right course, and for their constructive criticism, which never lets us fall behind the times and which inspires us to innovate and perform better; for the warmth of their homes that makes us go to work each day and light up hundreds of thousands of Czech households so that peace and comfort prevail there; we thank the cooks and the bakers, chimneysweeps, drivers, doctors, and builders who, like everyone else, every day put their energy into making the world around us work; we thank the model builders, collectors, fans, and all the others who so enthusiastically build their own small universes that, together, make up the colorful spectrum of human joys; we thank the writers, musicians, sculptors, directors, painters, and architects for the beauty they create and share with us; we thank the philosophers, scientists, teachers, and everyone who strives to ensure every way has its goal... We thank everyone whose energy powers this land and its people.

And we also thank Radek Čihák (RČ), Marie Kostková (MK), Jakub Novotný (JN), Jana Dvořáková (JD), Ivan Černý (IČ), Josef Procházka (JP), Tomáš Kučera (TK), Pavel Horák (PH), Anna Veselá (AV), Martin Němec (MN), Ludmila Pokorná (LP), Eva Marková (EM), Miroslav Pospíšil (MP), Zdeněk Hájek (ZH), Jaroslav Jelínek (JJ), František Král (FK), Kateřina Růžičková (KR), Věra Benešová (VB), Hana Fialová (HF), Lenka Sedláčková (LS), Petra Doležalová (PD), Alena Zemanová (AZ), Antonín Kolář (AK), Viola Mahlerová (VM), Michal Krejčí (MK), Lucie Navrátilová (LN), Jarmila Čermáková (JČ), Petr Urban (PU), David Vaněk (DV), Lukáš Blažek (LB), Veronika Jílková (VJ), Ondřej Kratochvíl (OK), Karel Kovář (KK), Daniel Bartoš (DB), Václav Polák (VP), Marek Vlček (MV), Martina Kopecká (MK), Vladimír Musil (VM), Stanislav Šimek (SŠ), Eva Konečná (EK), Filip Čech (FČ), Helena Malá (HM), Jana Kadlecová (JK), Markéta Štěpánková (MŠ), Ivana Holubová (IH), Tereza Sýkorová (TS), Ladislav Mareš (LM), Dagmar Šťastná 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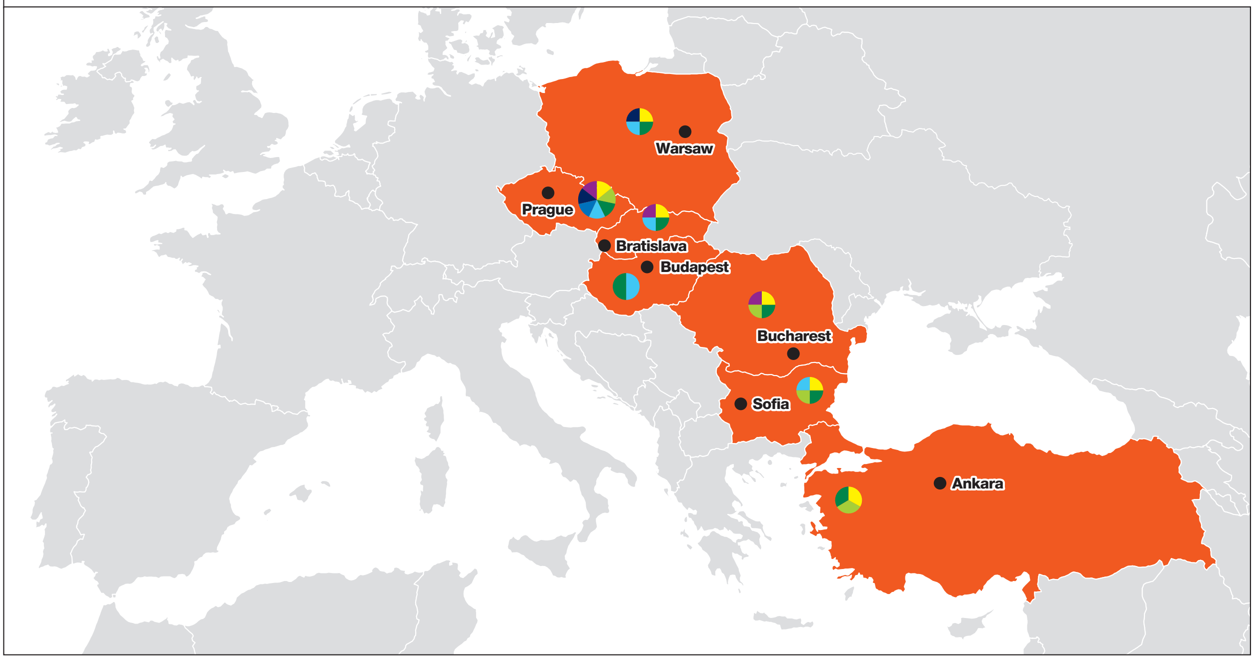
CEZ Group: An Introduction

CEZ Group is an established, integrated electricity conglomerate with operations in a number of countries in Central and Southeastern Europe and Turkey, headquartered in the Czech Republic. Its principal businesses encompass generation, distribution, trading, and sale of power and heat, trading and sales of natural gas, and coal mining. CEZ Group has 27,000 employees.
The largest shareholder of the parent company, ČEZ, a. s., is the Czech Republic with a stake (as at December 31, 2013) of nearly 70% of the Company's stated capital. The shares of ČEZ, a. s. are traded on the Prague and Warsaw Stock Exchanges, where they form part of the PX and WIG-CEE stock exchange indexes.
CEZ Group's primary mission is to maximize investment returns and ensure long-term growth in shareholder value.
The corporate culture is focused on safety, performance, and continual improvement of internal efficiency. At the same time, CEZ Group's business activities are governed by strict ethical standards – this includes acting responsibly toward employees, society, and the environment. In pursuing its business activities, CEZ Group upholds principles of sustainable development, supports energy efficiency, rolls out new technologies, contributes to the development of society as a whole, and creates an environment favorable to its employees' professional growth.
In the Czech Republic, CEZ Group companies mine and sell coal, generate and distribute electricity and heat, trade in electricity and other commodities, sell electricity, heat, and natural gas to end customers, and provide other services. The generation portfolio consists of nuclear, coal, gas, hydro, and other renewable sources. To ensure continued success in the Czech Republic marketplace, which is crucial to CEZ Group in terms of its business interests, the Group is carrying out an extensive program of renewal, upgrades, and development of its generation portfolio, including preparations for building new nuclear sources, as well as upgrades and development of its distribution networks.
In forming its strategy, CEZ Group responds to new power industry trends. It enters new business areas and offers customers innovative products and services tailored to their needs.

CEZ Group Energy Operations, by Country



Electricity
- generation
- distribution
- sale to end customers

Natural gas
- sale to end customers

Heat
- generation
- distribution
- sale to end customers

At the international level, CEZ Group focuses in particular on markets in Central and Southeastern Europe, where it operates primarily in electricity distribution, generation, trading, and sales. Members of the CEZ Group in the Netherlands and Ireland act as holding companies and provide certain financing functions.

CEZ Group owns or co-owns generation and distribution assets in Poland, Romania, Bulgaria, Hungary, Slovakia, and Turkey. In Poland, CEZ Group operates two black coal-fired power plants and two hydro power plants near the country's border with the Czech Republic, and owns a development company that is preparing to build wind power plants. In Romania, CEZ Group is involved in the generation of electricity from renewable sources of energy, as well as electricity distribution and sales operations. In Bulgaria, it distributes and sells electricity in the western part of the country and generates power in a coal-fired power plant. In Turkey, CEZ Group, together with a local partner, operates a distribution and sales company and generates electricity in gas, hydro, and wind power plants.

CEZ Group conducts wholesale trading operations in electricity and other commodities in a number of European countries.

CEZ Group sells electricity and natural gas to end customers in places such as Romania, Bulgaria, Turkey, Hungary, Poland, and Slovakia, in addition to the Czech Republic.

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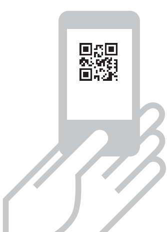

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Statutory Declaration by Persons Responsible for the CEZ Group Annual Report

Statutory Declaration

With the use of all reasonable care, to the best of our knowledge the consolidated Annual Report provides a true and fair description of the financial situation, business activities, and results of operations of the issuer and its consolidated group for the year 2013 and of the outlook for the future development of the financial situation, business activities, and results of operations of the issuer and its consolidated group, and no facts have been omitted that could change the meaning of this report.

Prague, April 14, 2014

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

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

Building a better working world

Independent Auditor's Report

To the Shareholders of ČEZ, a. s.:

I. We have audited the consolidated financial statements of CEZ Group as at December 31, 2013 presented in the annual report of ČEZ, a. s. ("the Company") on pages 192—247 on which we have issued an auditors' report dated February 24, 2014, presented in the annual report on pages 190—191. We have also audited the separate financial statements of the Company as at December 31, 2013 presented in the annual report of the Company on pages 250–291 on which we have issued an auditors' report dated February 24, 2014, presented in the annual report on pages 248–249 (both referred further as "financial statements").

II. We have also audited the consistency of the annual report with the financial statements described above. The management of ČEZ, a. s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respects, with the financial statements. We have checked that the accounting information presented in the annual report on pages 1—189 is consistent with that contained in the audited financial statements as at December 31, 2013. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements described above.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of ČEZ, a. s. for the year ended December 31, 2013 presented in the annual report of the Company on pages 178—181. The management of ČEZ, a. s. is responsible for the preparation and accuracy of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with the applicable International Standard on Review Engagements and the related Czech standard No. 56 issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of ČEZ, a. s. for the year ended December 31, 2013 is materially misstated.

Ernst & Young

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Represented by partner

Martin Skácelík
Auditor, License No. 2119

April 14, 2014
Prague, Czech Republic

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

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

Dear shareholders,

While summing up and briefly evaluating the past year might seem like an easy task, it is not possible in a mere introduction even to mention everything that made a difference – just because so much happened at CEZ Group in 2013. The reason for this is that 2013 was another challenging time for the power market in Europe and we had to actively respond to the situations that arose. I dare say that, despite all the difficulties we had to face, we can consider the past year a successful one from CEZ Group's perspective. CEZ Group posted net income of CZK 35.2 billion; measured by return on equity, this represents a net return on equity of 14.1%.

The European power industry is in a deep crisis. Overall, electricity prices for customers and companies in Europe are steadily growing, due in particular to massive, guaranteed support for renewable sources. On the other hand, wholesale electricity prices have been declining significantly for a number of years now, as electricity generated from renewable sources (which does not compete in the marketplace) displaces the output of conventional power plants. This, combined with the overall uncertainty surrounding power industry regulation in Europe, is causing businesses to severely limit new investment in power sources, regardless of type. As a result of the ongoing deterioration of business conditions in the power industry, all the large utilities in Europe are having difficulty achieving a positive return on a portion of their assets. To address this, they have had to recognize considerable impairment losses on property, plant and equipment, which has further exacerbated the decline in their profits. From 2010 to September 2013, leading European utilities recognized impairment allowances and write-offs on 3–16% of their fixed assets, representing tens or even hundreds of billions of Czech Korunas. In the case of CEZ Group, the figure was just 2.7%, and that includes the last quarter of 2013.

CEZ Group is weathering the European power industry crisis better than its competition in terms of financial stability, as well. As one of few European utilities, we have managed to keep our indebtedness within prudent limits, and this is confirmed by our credit rating from Standard & Poor's, which remains at A–, its highest level ever. We accomplished this not only by leveraging our competitive generation portfolio, but also through timely identification of threats, active implementation of measures, and, in particular, ongoing adaptation of our growth strategy to our financial means in accordance with our conservative financing policy. We are responding to energy market turbulence primarily by optimizing our portfolio, putting emphasis on internal efficiency, and developing new growth opportunities.

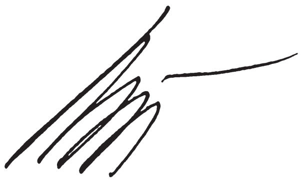
In 2013 we took a number of crucial steps that will contribute substantially to the future stability of ČEZ and of coal and electricity markets in the Czech Republic. The first is a long-term agreement on supplies of coal for Počerady Power Station. The second was the successful sale of the Chvaletice power plant, which had the additional benefit of ending a European Commission investigation – which had gone on for years – through a settlement agreement. I am pleased to report that we managed during the past year to further increase the output of our nuclear power plants and, at the same time, reaffirm the high level of our safety management in the OSART CORPORATE review carried out by the International Atomic Energy Agency.

We also made progress in developing new business opportunities and jump-started a very aggressive program to increase CEZ Group's customer focus. We successfully entered a completely new market for us – mobile services – where we very quickly acquired nearly 54,000 customers by the end of March 2014. In the Czech Republic, we reinforced our positions as the leader in the small-scale cogeneration market and the biggest alternative natural gas supplier. Through major acquisitions, we are developing our domestic operations in the traditional district heat market.

CEZ Group also demonstrated its social responsibility. In the interests of ensuring safety and the security of electricity supplies, we became part of a joint initiative by major European power utilities that aims to contribute to finding a solution to the industry's current crisis. Together, we want to help renew a functional power market and restore a level playing field for investment in new power sources in Europe. We consider this aim to be extremely important, not only for our energy sector, but for the entire European economy and its competitiveness, which we believe is a necessary precondition for lowering Europe's high unemployment rate.

An important indicator of the power sector's further development will be provided by the debate, within the European Union, on Europe's climate and energy policy until the year 2030. This is a process in which we intend to play an active role in 2014, within the framework of the joint initiative of European utilities. We will continue to pursue our ambitious greenhouse gas emissions reduction goals, but in a way that will not damage the electricity market and will prefer competitive, low-emission power sources.

In conclusion I would like to assure you, dear shareholder, that in the past year we capitalized on CEZ Group's potential to ensure long-term growth in shareholder value in the most effective way possible under the conditions that prevailed in the power market. I am confident that our strong team of nearly 27,000 employees will continue to drive our success in future years, as well.



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

Selected Indicators of CEZ Group

Selected Indicators of CEZ Group in Accordance with IFRS

	Unit	2009	2010	2011	2012	2013	Index 2013/2012 (%)
Installed capacity	MW	14,395	15,018	15,122	15,781	15,199	96.3
Electricity generated (gross)	GWh	65,344	68,433	69,209	68,832	66,709	96.9
Electricity sold [1]	GWh	43,817	44,594	42,846	41,867	36,593	87.4
Heat sold [1]	TJ	13,040	16,918	15,249	19,467	25,176	129.3
Gas sold [1]	GWh	–	–	3,514	5,895	5,868	99.5
Work force head count as at December 31	persons	32,985	32,627	31,420	31,308	26,647	85.1
Operating revenues	CZK millions	196,352	198,848	209,761	215,095	217,273	101.0
of which: sales of electricity	CZK millions	173,494	175,277	181,793	186,797	189,657	101.5
EBITDA	CZK millions	91,005	88,800	87,350	85,818	82,054	95.6
EBIT	CZK millions	64,936	61,962	61,250	57,083	45,755	80.2
Net income	CZK millions	51,855	46,941	40,753	40,153	35,234	87.7
Earnings per share – basic	CZK/share	96.7	88.1	76.3	77.6	67.2	86.6
Dividend per share (gross) [2]	CZK/share	50.0	53.0	50.0	45.0	40.0	88.9
Net cash provided by operating activities	CZK millions	87,354	77,165	61,773	64,612	72,556	112.3
Capital expenditure (CAPEX) [3]	CZK millions	(56,622)	(61,715)	(51,113)	(50,449)	(44,070)	87.4
Investments [4]	CZK millions	(38,075) [5]	(11,128) [6]	(927)	(5,323)	(962)	18.1
Total assets	CZK millions	530,259	544,375	598,301	636,070	641,136	100.8
of which: property, plant and equipment [7]	CZK millions	328,805	362,510	386,837	419,754	426,560	101.6
Equity (including non-controlling interests)	CZK millions	206,675	227,052	232,190	254,219	263,125	103.5
Net debt	CZK millions	124,062	134,137	156,197	161,028	156,511	97.2
Return on Invested Capital (ROIC)	%	16.0	13.8	12.5	10.5	7.8	74.5
Return on Equity, net (ROE)	%	27.6	22.3	18.2	17.4	14.1	81.0
Net debt / EBITDA	1	1.36	1.51	1.79	1.88	1.91	101.6

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

The composition of EBIT and EBITDA has changed in comparison to the presentation in previous years. In 2013, EBIT and EBITDA do not include impairment of property, plant and equipment or proceeds from sale of property, plant and equipment. The figures for previous years have been adjusted accordingly.

Credit Ratings

The credit ratings of ČEZ, a. s. remained unchanged in 2013. On October 10, 2013, Standard & Poor's Credit Market Services Europe Limited reaffirmed the long-term credit rating of A– with stable outlook. On March 27, 2013, Moody's Investors Service Ltd. reaffirmed its credit rating of A2, outlook negative. Both agencies are in the list of credit rating agencies pursuant to Regulation (EC) No. 1060/2009 of the European Parliament and of the Council, as amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council.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OD
painter
BASICS
ACRYLIC

Energy creates
You use your energy to give form to ideas that nobody has ever thought of before. You bring images out of your own imagination into the real world, making it more colorful.

Shares

Four CEZ Group companies have publicly traded shares.

1. ČEZ, a. s.

As at December 31, 2013, the stated capital of ČEZ, a. s. totaled CZK 53,798,975,900. The Company's stated capital consisted of 537,989,759 shares, each with a nominal value of CZK 100.

Shares

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

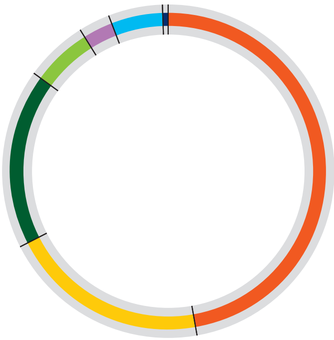
Structure of Shareholders – by Entity Type (%)

	Stake in stated capital	Stake in voting rights	Stake in stated capital	Stake in voting rights
	as at December 31, 2012		as at December 31, 2013	
Legal entities, total	93.33	93.28	92.70	92.65
of which: Czech Republic	69.78	70.29	69.78	70.29
ČEZ, a. s.	0.72	–	0.72	–
other legal entities	22.83	22.99	22.20	22.36
Private individuals, total	6.67	6.72	7.30	7.35

Source: Central Securities Depository

Structure of Identified Institutional Shareholders – by Geography

	%
North America	47.4
Continental Europe (other than Czech Republic and Poland)	20.2
United Kingdom and Ireland	17.6
Poland	6.1
Czech Republic	3.0
Asia	5.3
Other	0.4
Total	100.0



Explanation of methodology:
The shareholder structure by geographic regions is based on a survey conducted by Ipreo amongst institutional investors and securities managers from all over the world. The survey yielded information on 68% of the overall number of shares held by institutional investors. The figures in the table represent the relative weightings of institutional investors from various parts of the world within the overall number of identified institutional investors. Shares owned by the Czech Republic and treasury shares were not included in the results.

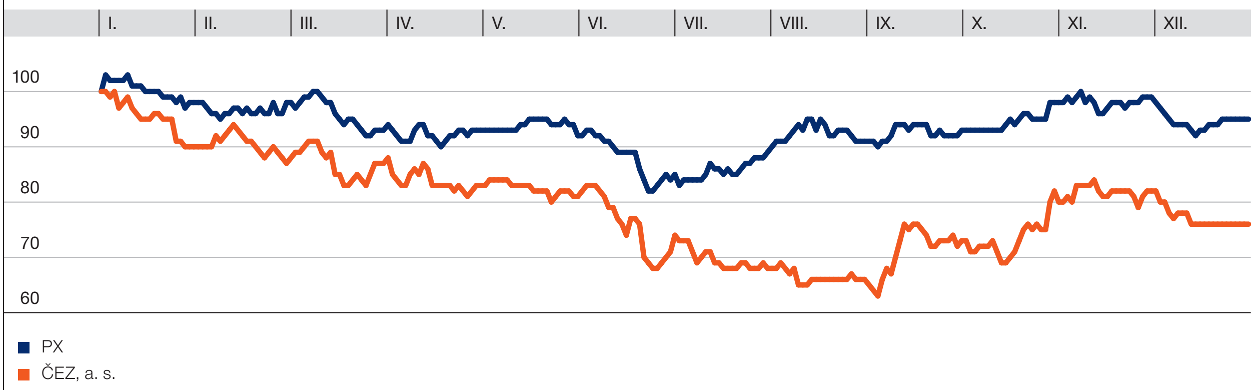
Treasury Shares

At the beginning of 2013, there were 3,875,021 treasury shares, or 0.72% of the stated capital, on ČEZ's asset account with the Central Securities Depository.

No beneficiaries of the motivational stock options program exercised claims to shares during 2013.

At year end 2013, there were 3,875,021 treasury shares, or 0.72% of the stated capital, on ČEZ's asset account with the Central Securities Depository.

ČEZ, a. s. Share Price in Comparison with PX (%)



Share-Related Indicators

	Unit	2012	2013	Index 2013/2012 (%)
Net income per share – basic (EPS)	CZK/share	77.6	67.2	86.6
Dividend per share (gross) [1] (DPS)	CZK/share	45.0	40.0	88.9
Dividends declared	CZK billions	24.0	21.4	88.9
Dividend as percentage of previous year's consolidated net income (DPR)	%	59.0	53.2	90.2
Share price – high for year	CZK	840.0	680.2	81.0
Share price – low for year	CZK	622.5	427.9	68.7
Share price – at year end (December 31)	CZK	680.0	517.0	76.0
ČEZ share trading volume on the PSE	CZK billions	94.8	69.3	73.1
ČEZ volume as proportion of overall PSE trading volume	%	37.6	37.3	99.2
Number of registered shares (at December 31)	thousands	537,990	537,990	100.0
Number of treasury shares (at December 31)	thousands	3,875	3,875	100.0
Number of shares in circulation (at December 31)	thousands	534,115	534,115	100.0
Price-to-earnings ratio (P/E)	1	8.8	7.7	87.8
Book value per share (BV)	CZK	468.5	483.2	103.1
Price-to-book value ratio (P/BV)	%	145.1	107.0	73.7
Total shareholder return (TSR)	%	(7.8)	(18.1)	233.1
Market capitalization (at December 31)	CZK billions	363.2	276.1	76.0

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

Payment of Dividends to Shareholders

The General Meeting held on June 19, 2013 approved a CZK 40/share dividend (before tax). Eligible for the dividend are persons who were ČEZ, a. s. shareholders as of the dividend strike date, i.e. June 25, 2013.
The dividends became payable as of August 1, 2013 and can be claimed until August 1, 2017.
As at the strike date, the total number of shares entitling their owners to dividends was 534,114,738.
In 2013, it was decided to pay dividends to shareholders in an amount of CZK 21.4 billion out of the net income of ČEZ, a. s. for the year 2012, which equated to CZK 40 per share for a dividend payout ratio of 53.2% calculated from CEZ Group consolidated net income.

ČEZ, a. s. Dividend Policy

ČEZ's long-term dividend policy, applied during the past six years, has been to pay out an amount corresponding to 50–60% of each year's CEZ Group consolidated net income. The CEZ Group business plan for the next five years was drawn up in accordance with this policy. The specific dividend amount is decided and approved by the General Meeting.

ČEZ, a. s. Shareholder and Investor Relations

ČEZ, a. s. upholds the principle of equal access for all shareholders in accordance with the provisions of the Civil Code and the Corporations Act (up until the end of 2013 in accordance with the Commercial Code). On dates planned and announced in advance, quarterly reports on the financial and commercial performance of CEZ Group are made available to the Company's shareholders. The Company also informs shareholders on an ad hoc basis of material events and circumstances that may affect the share price.
Above and beyond the statutory requirements, the Company aims to be as transparent as possible and to engage all capital market players in an open dialog. The Company's senior executives and employees in charge of investor relations meet regularly with potential and current investors at dozens of roadshows, as well as at individual meetings hosted by ČEZ, a. s. Also, the Company regularly participates in investor conferences in the world's major financial centers.

2. Akenerji Elektrik Üretim A.S.

The company's shares are freely tradable on the stock exchange. A portion corresponding to a 25.3% stake in the stated capital has been traded on the Istanbul Stock Exchange since July 3, 2000. The ISIN is TRAAKENR91L9. These shares are not traded in any other public markets.

3. CEZ Elektro Bulgaria AD

The company's shares are freely tradable on the stock exchange. A portion corresponding to a 33% stake in the stated capital has been traded on the Bulgarian Stock Exchange (Българска Фондова Борса) since October 29, 2012. The ISIN is BG1100024113. These shares are not traded in any other public markets. At December 31, 2013, the Himimport group held a 26.82% stake in the company's stated capital.
On February 19, 2013, following a public announcement by then-Prime Minister of the Republic of Bulgaria Boyko Metodiev Borisov, according to which the company's license was to be revoked the very same day, trading in the shares was suspended in accordance with Section 65(1)(1) of the Stock Exchange Rules. Trading was suspended February 19–27, 2013. In a decision dated November 13, 2013, the Bulgarian regulator terminated the license withdrawal proceedings for lack of evidence of any wrongdoing.

4. CEZ Razpredelenie Bulgaria AD

The company's shares are freely tradable on the stock exchange. A portion corresponding to a 33% stake in the stated capital has been traded on the Bulgarian Stock Exchange (Българска Фондова Борса) since October 29, 2012. The ISIN is BG1100025110. These shares are not traded in any other public markets.
On February 19, 2013, following a public announcement by then-Prime Minister of the Republic of Bulgaria Boyko Metodiev Borisov, according to which the company's license was to be revoked the very same day, trading in the shares was suspended in accordance with Section 65(1)(1) of the Stock Exchange Rules. Trading was suspended February 19–27, 2013. In a decision dated November 13, 2013, the Bulgarian regulator terminated the license withdrawal proceedings for lack of evidence of any wrongdoing.

Selected Events of 2013 and 2014 Up to Annual Report Closing Date

Selected Events of 2013

January

- Standard & Poor's reaffirms A– credit rating with stable outlook
- control over Albanian subsidiary CEZ Shpërndarje Sh.A. lost due to revocation of license by Albanian regulator and subsequent appointment of an administrator
- Ministry of the Environment of the Czech Republic issues positive opinion in Environmental Impact Assessment (EIA) process for construction of two reactor units at Temelín Nuclear Power Station.

February

- proceedings commenced on revocation of electricity distribution and sale licenses held by Bulgarian companies of CEZ Group, in conjunction with political instability in the country.

March

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

- agreement on sale of Chvaletice Power Station to Litvínovská uhelná a.s. (name changed to Severní energetická a.s. as of August 2, 2013) signed
- Bulgarian regulator decides to lower price of electricity for residences
- complaint against Republic of Bulgaria filed to European Commission over proceedings to revoke licenses of Bulgarian companies of CEZ Group in breach of European law
- preliminary evaluation of bids to build out new reactor units 3 and 4 of Temelín Nuclear Power Station completed and delivered to bidders.

April

- first place in District Heating Project of the Year competition in category "District Heating Systems Development". Award was won by ČEZ Teplárenská, a.s. for project to supply heat from Ledvice Power Station to the City of Bílina.

May

- international arbitration commences against Republic of Albania: in the proceedings, ČEZ, a. s. seeks to collect damages resulting from failure to protect its investment in distribution and sales company CEZ Shpërndarje Sh.A.
- memorandum signed with Moravia-Silesia Regional Authority (as first regional authority to sign) and Statutory City of Ostrava on their participation in CEZ Group Electromobility project

- Moody's reaffirms A2 credit rating; outlook changes from stable to negative.

June

- Annual General Meeting of ČEZ, a. s. held
- Romania imposes restrictions on support for renewable sources, including deferral of negotiability of green certificates already granted
- process of selling Dětmarovice Power Station halted in its concluding phase when GASCONTROL withdraws from tender.

July

- report published on deferral of decision on signing of contract with supplier of new reactor units 3 and 4 of Temelín Nuclear Power Station
- termination of proceedings before Office for the Protection of Competition in matter of bidder AREVA NP's exclusion from tender to build new nuclear reactor units. Office denied bidder's motion against its exclusion. Court injunction preventing ČEZ, a. s. from signing contract with tender winner not affected.

- unified dispatch covering ČEZ Distribuce's entire distribution area comes on-line
- Bulgarian regulator decides to lower electricity prices for residences.

August
- complaint and motion filed against Romania to European Commission in matter of restriction of support for generation from renewable sources.

September
- sale of Chvaletice power plant completed; plant handed over to new owner
- agreement signed between Elektrociepłownia Chorzów ELCHO sp. z o.o. and Tauron Ciepło S.A., valid from October 1, 2013 to September 30, 2024, for supply of heat corresponding to 170 MW_t of heat generation output
- ČEZ announces biggest ever electricity price cut for customers. In FIX product line, prices of electric power cut by 20% effective immediately; in COMFORT product line, 15% price cut takes effect from January 1, 2014
- output capacity increased on both units of Temelín Nuclear Power Station.

October
- International Atomic Energy Association implements first-ever OSART Corporate review covering ČEZ's central units and management. Result is a final report describing ten good safety management practices at ČEZ, a. s. to be recommended for adoption by other nuclear power plant operators, as well as six proposals and three recommendations for further improvement of processes.

- ČEZ, a. s. accedes to joint initiative of major European power utilities aiming to initiate discussion amongst producers, investors, and political representatives of individual countries and European Union on solution to current crisis in power markets of European Union countries
- ČEZ begins providing mobile telephony services in Czech Republic as a virtual mobile network operator, under Mobile from ČEZ brand.

November
- ČEZ Teplárenská launches new energy consultancy and energy auditing services
- license revocation proceedings commenced by Bulgarian regulator DKEVR against two Bulgarian companies of CEZ Group terminated for lack of evidence of wrongdoing.

December
- first bonds issued in domestic bond program – first EUR-denominated bond issue to be settled via Central Securities Depository
- Reşiţa complex of small-scale hydro power plants in Romania upgraded
- Bulgarian regulator decides to lower electricity prices for residences.

Selected Events of 2014 Up to Annual Report Closing Date

January
- allocation of free-of-charge emission rights for generation of electricity and heat in the Czech Republic for 2013 approved by European Commission.

February
- issue of convertible bonds that can be exchanged for shares of MOL Nyrt.

March
- proceedings on revocation of a Bulgarian subsidiary's electricity sales license commence
- first fire of turbine at Egemer power plant in Turkey.

April
- repurchase of ČEZ, a. s. bonds maturing in 2015 and 2016 in total volume of EUR 300 million settled without option to exchange for newly issued bonds
- on April 10, 2014, ČEZ, a. s. cancels tender for build-out of two new reactor units at Temelín Nuclear Power Station.

Developments in World Markets

Developments in World Energy Markets in 2013

Electricity

Electricity Spot Prices

	Czech Republic – OTE	Germany – EEX
Average baseload price (EUR/MWh)	36.74	37.78
Year-on-year change (%)	(13.3)	(11.3)
Average peakload price (EUR/MWh)	42.66	43.13
Year-on-year change (%)	(11.8)	(11.1)

Electricity prices continued to exhibit a downward trend in 2013 – a trend that has prevailed since 2011. Wholesale prices in the Czech Republic are linked to prices in Germany due to the close interconnection of these two markets. The price of a forward contract for electricity in Germany with delivery in 2014 fell from 45 EUR/MWh early in the year down to under 37 EUR/MWh. As a result, electricity prices approached their lowest levels in the past eight years.

Electricity prices are influenced by the following principal factors:
- prices of commodities – in particular, coal, natural gas, and emission rights, which are the direct cost inputs for electricity producers – in world markets
- macroeconomic developments
- growing generation capacity in Europe – renewable sources in particular
- changes in the regulatory environment in Europe.

In addition to the negative effect of falling commodity prices, other unfavorable factors in electricity prices included the ongoing expansion of generation from renewable sources and the commissioning of new, higher-efficiency power plants in Germany. At the same time, electricity consumption fell slightly, price support was not forthcoming on the demand side, either.

Prices of Electricity (One-Year Band 2014)

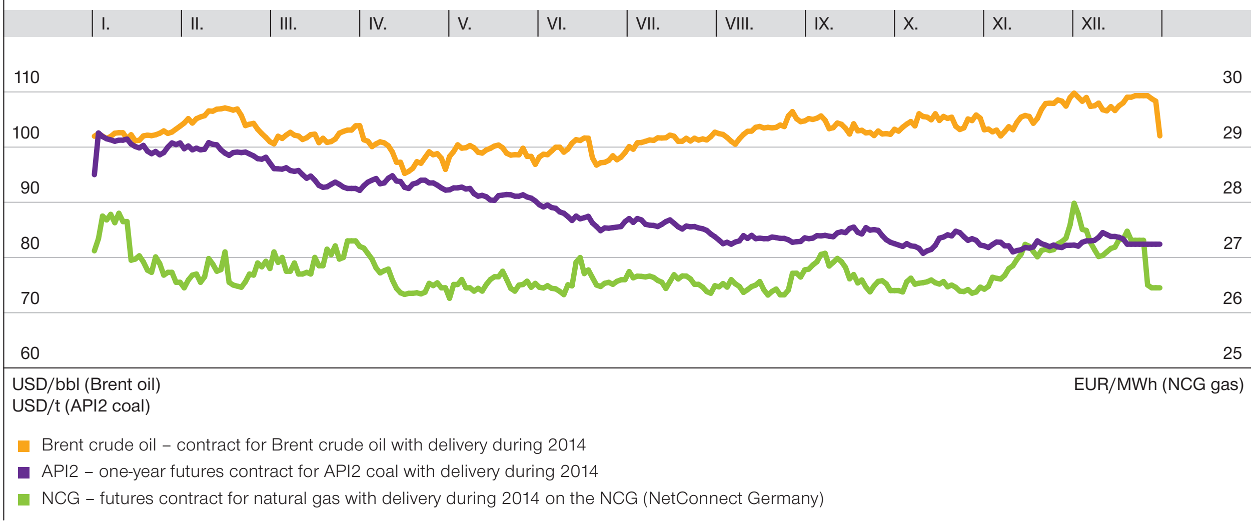
Coal, Emission Rights, and Natural Gas

European black coal API2 continued along a downward trajectory: forward prices fell 13% to 82 USD/metric ton. In the United States power generation mix, black coal is being replaced by very cheap natural gas obtained from shale formations. This is enabling black coal to be exported and offered in global markets. Additionally, unlike past years, the amount of coal imported by China is not growing as the Chinese economy is slowing and domestic mining capacity is being better utilized.

The prices of emission rights also came under distinct pressure when the proposal for backloading (i.e. temporary withdrawal) failed – contrary to expectations – to pass the European Parliament in its first vote (in April). Their price fell to below 3 EUR/t. In the end, discussions at the European Union level yielded a compromise, and in late 2013 backloading was approved, but even so emission rights recouped only part of their losses – closing the year at 5 EUR/t, i.e. down 26% from the beginning of the year. To permanently remove the emission rights surplus, a deeper reform of the system would be necessary.

Forward gas prices for 2014 remained stable during 2013, in the 26–28 EUR/MWh range.

Prices of Natural Gas, Coal, and Crude Oil (2014 Forward)



Prices of Emission Rights (2014 Forward)

Energy wanders
You explore new corners of the earth – places
that call out to you with the energy of the unknown.
You enjoy walking well-traveled paths to places you love.


Litomě
34
NH
breeder

Governing Bodies of ČEZ, a. s.

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

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

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

General Meeting

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

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

General Meeting Rules of Order

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

How the General Meeting Makes Decisions

The General Meeting makes decisions by a simple majority of the votes of shareholders present, unless a different majority is required by law or the Articles of Association. Each CZK 100 face value Company share carries one vote.

1 www

A majority of at least two thirds of the votes of shareholders present is required for the General Meeting to make decisions concerning, *inter alia*:

- amendments to the Articles of Association, unless the amendment in question arose out of an increase in the stated capital by the Board of Directors or took place on the basis of other legal circumstances
- increases and/or decreases in the stated capital
- decreases of the stated capital and issue of convertible and/or priority bonds
- winding-up of the Company with liquidation and proposed allocation of the liquidation remainder
- approval of agreements on transfer or encumbrance of an undertaking or part thereof.

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

- exclusion or restriction of preferential rights to acquire convertible and/or priority bonds
- exclusion or restriction of preferential rights to subscribe new shares
- increase of the stated capital through non-monetary contributions.

General Meeting decisions regarding changes in the class and/or form of shares, changes to rights adhering to a certain class of shares, and/or withdrawal of shares from trading on a European regulated market or foreign market similar to a regulated market also require a three-quarters majority vote of shareholders present and holding the shares in question. General Meeting decisions on mergers of shares require the consent of all shareholders whose shares are to be merged. General Meeting minutes along with the General Meeting announcement and the attendance list, including submitted powers of attorney, shall be stored in the Company archive for as long as the Company shall exist.

General Meeting in 2013

The 21st Annual General Meeting of ČEZ, a. s. was held on June 19, 2013. Among other things, it:

- Heard the Report of the Board of Directors on the Company's Business Operations and the State of its Assets in 2012, the Summary Report Pursuant to Section 118(8) of the Act on Doing Business in the Capital Market, the Report of the Supervisory Board on the Results of Its Oversight Activities, and the Report of the Audit Committee on the Results of Its Activities.
- Approved the ČEZ, a. s. financial statements and CEZ Group consolidated financial statements as at December 31, 2012.
- Approved the distribution of 2012 income as follows:
  - a CZK 40/share dividend, before tax
  - overall dividend amount: CZK 21,519,590,000 (CZK 21,364,590,000 after deduction of dividends on treasury shares)
  - bonuses to members of the Board of Directors and Supervisory Board: CZK 25,500,000
  - retained earnings: CZK 13,790,630,000.

  The dividend strike date is June 25, 2013. Persons who were Company shareholders as of that date are entitled to dividends. The dividends will be paid out during the period from August 1, 2013 to August 1, 2017.
  The dividend applicable to treasury shares held by the Company as of the strike date will not be paid. An amount corresponding to the dividends that would otherwise be paid for treasury shares held by the Company as of the dividend strike date will be transferred to the Retained Earnings account.
  The General Meeting of ČEZ, a. s. approved the distribution of bonuses equally among members of the Board of Directors and Supervisory Board. Each statutory and supervisory board member's share was determined according to the duration of his or her membership of the relevant body during 2012. Members of the Supervisory Board are not entitled to bonuses in cases where the provision of bonuses is not permitted by law.
- Designated the audit company Ernst & Young Audit, s.r.o. to carry out the mandatory audit for the accounting period corresponding to the calendar year 2013.
- Approved the overall 2014 sponsorship expenditure (CZK 221 million).
- Confirmed Václav Pačes as a member of the ČEZ, a. s. Supervisory Board.
- Removed Robert Vacek from the ČEZ, a. s. Supervisory Board.
- Elected Jiřina Vorlová a member of the ČEZ, a. s. Supervisory Board.
- Elected Radek Neužil and Alena Kochová members of the ČEZ, a. s. Audit Committee.
- Approved the Supervisory Board membership contracts between ČEZ, a. s. and Lubomír Poul, Václav Pačes, Radek Mucha, and Jiří Novotný, and Amendment No. 1 to the Supervisory Board membership contract between ČEZ, a. s. and Vladimír Hronek.
- Approved the Audit Committee membership contract between ČEZ, a. s. and Jiřina Vorlová.

Supervisory Board

The Supervisory Board is the Company's oversight body, which oversees the Board of Directors' exercise of authority and the conduct of the Company's business. It reports to the General Meeting on the results of its oversight activity.

The Supervisory Board's powers include, *inter alia*, the following:

- vetting compliance with generally binding legislation, the Articles of Association, and resolutions of the General Meeting
- verifying how the Board of Directors exercises ownership rights in legal entities in which the Company holds equity stakes
- reviewing annual, extraordinary, consolidated, and/or interim financial statements, proposals on distribution of income, including stipulation of the amount and manner of payment of dividends and Board member bonuses, or settlement of losses, and the Board of Directors' report on related parties; and presenting its conclusions to the General Meeting
- discussing quarterly financial performance results, half-yearly and yearly reports pursuant to the Act on Doing Business in the Capital Market, and annual reports pursuant to the Accounting Act
- presenting statements, recommendations, and proposals to the General Meeting and the Board of Directors
- electing and removing members of the Board of Directors
- approving Board of Directors membership contracts (including remuneration).

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

- acquisition, divestiture, encumbrance, or lease of real property and/or movables (except for inventories and securities held for liquidity-management purposes) that are, or are to be, included in the Company's business assets and whose book value exceeds CZK 500 million
- Company capital projects with a value exceeding CZK 500 million
- disposition of ownership stakes in other legal entities, provided the value of the stake in question exceeds CZK 500 million
- transfer and encumbrance of the Company's treasury shares
- staffing of the supervisory boards of companies in which ČEZ, a. s. holds an ownership stake exceeding CZK 500 million in stated capital as well as companies where the Supervisory Board has reserved the right of prior consent
- draft contract with the auditor designated by the General Meeting to conduct the mandatory audit
- origination of any loan (credit) to a third party or acceptance of any Company guarantee for third-party obligations, provided the loan, credit, or guarantee exceeds CZK 200 million
- acceptance of any long-term loan (credit) from a third party for a term longer than one year, or any similar financial transaction (other than hedging transactions), in excess of CZK 500 million
- issue of bonds other than those for which the consent of the General Meeting is required
- granting of options on Company shares
- enabling the conduct of due diligence (legal, commercial, technical, and/or environmental audit) of ČEZ, a. s. or any of its organizational units
- entering into management contracts with executives who are also members of the Board of Directors and with Chief Officers (division heads) of ČEZ, a. s., and on appointment to the office of Chief Executive Officer
- stipulation and evaluation of tasks assigned to the Company's division heads
- distribution of Request For Proposal (RFP) documentation to bidders in public tenders pursuant to the Public Procurement Act, provided the anticipated value of the tender is higher than one third of the equity figure given by the latest consolidated financial statements.

Supervisory Board Composition and Operation

The Supervisory Board has 12 members. Two thirds are elected and removed by the General Meeting and one third are elected and removed by the Company's employees. To be eligible for election to the Supervisory Board by the Company's employees, a candidate must be an employee of the Company, a labor representative, or a labor organization member under a special regulation. The rules for electing members of the Supervisory Board will be modified, in conjunction with changes in applicable law (the new Corporations Act), to the effect that all members of the Supervisory Board will be elected and removed by the General Meeting. The Supervisory Board itself elects and removes its Chairman and two Vice Chairmen. Members of the Supervisory Board serve for four-year terms and re-election is possible.
The Supervisory Board meets once per month, as a rule. In 2013, 13 meetings were held: 11 regularly scheduled meetings and two extraordinary meetings. The work address of members of the Supervisory Board is the Company's headquarters: Duhová 2/1444, 140 53 Prague 4, Czech Republic.

How the Supervisory Board Makes Decisions

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

Members of the Supervisory Board

Václav Pačes

Vice Chairman since May 29, 2013,
co-opted member since March 20, 2013
(confirmed a member of the Supervisory Board
by the General Meeting on June 19, 2013)

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

Number of ČEZ, a. s. shares at December 31, 2013: nil.

- HANUŠ GOLDSCHEIDER FOUNDATION FOR CZECH GOLF – member of the Board of Trustees since June 1, 2011 (four-year term)
- University of Economics, Prague – member of the Board of Trustees since March 1, 2012 (four-year term).

Vladimír Hronek

Vice Chairman since March 20, 2013,
member elected by the employees since September 30, 2010

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

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- Basic organization of the ECHO Temelín Nuclear Power Station Labor Union – Chairman since 2006, re-elected since 2010 (four-year term)
- CEZ Group European Works Council – Vice Chairman since June 15, 2011.

Milan Bajgar

Member since June 26, 2012

A graduate of the Palacký University, Olomouc, Faculty of General Medicine.
He gained managerial and professional experience in the position of Managing Director and Company Director of Beskydské rehabilitační centrum, spol. s r.o.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- Beskydské rehabilitační centrum, spol. s r.o. – Managing Director and Partner since December 13, 2000
- PATRIOT 2004 o.p.s. – Founder and Chairman of the Board of Trustees since July 28, 2004
- Apartmánový dům u lázeňského parku s.r.o. – Managing Director since March 1, 2006
- Apartmánový dům KRISTIÁN s.r.o. – Managing Director since May 12, 2008
- Kněhyně o.s. – Chairman of the Executive Council since 2011
- Rozhledna, o.s. – Chairman of the Executive Council since 2010
- ■ TALEGA, a.s. – Member of the Supervisory Board from September 7, 2007 to February 24, 2014
- ■ AD Landek 2011 s.r.o. – Managing Director in 2007–2011.

Jiří Kadrnka

Member since November 22, 2010

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

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- MOSS logistics s.r.o. – Managing Director since September 24, 1997 (no term specified), Partner since February 5, 1998; Head of MOSS logistics s.r.o. Slovak Republic organizational unit since December 4, 2009
- Janáček Academy of Music and Performing Arts in Brno – member of the Board of Trustees since October 2011 (six-year term)
- ■ MOSS plus s.r.o. – Managing Director in 1997–2009, Head of Field Office of MOSS plus s.r.o., Slovak Republic organizational unit in 2007–2009
- ■ Energo Hustopeče s.r.o. – Member of the Supervisory Board in 2000–2010.

Jan Mareš

Member since October 25, 2013

A graduate of the University of West Bohemia in Pilsen, Faculty of Education.
He gained managerial and professional experience in positions such as Chairman of the Council of the Power and Electrical Engineering Education Association, Principal of the Secondary Vocational School of Power and Civil Engineering in Chomutov, Mayor of the Statutory City of Chomutov, positions within the Czech Association of Employers in the Power Industry, and Vice Chairman of the Union of Towns and Municipalities of the Czech Republic for education, energy, transportation, and culture.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- Union of Towns and Municipalities of the Czech Republic Fund in Support of Local Government – Member and Chairman of the Board of Trustees since January 22, 2012
- Dopravní podnik měst Chomutova a Jirkova a.s. – Member of the Board of Directors since June 19, 2009, re-elected June 17, 2011
- ■ KULTURA A SPORT CHOMUTOV s.r.o. (formerly Správa sportovních zařízení Chomutov, s.r.o.) – Member of the Supervisory Board in 2007–2009
- ■ CHOMUTOVSKÁ BYTOVÁ a.s. – Member of the Board of Directors in 2007–2011
- ■ Centrum uznávání a celoživotního učení Ústeckého kraje o. p. s. – Member of the Board of Trustees in 2009–2012, Chairman of the Board of Trustees in 2009–2011.

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

Michal Mejstřík

Member since October 26, 2013

A Professor of Economics at the Charles University in Prague, a graduate of the University of Economics, Prague, Faculty of Macroeconomics, major in quantitative analysis, Candidate of Sciences in Economics (Evaluation of Project Effectiveness) at the Institute of Economics of the Czechoslovak Academy of Sciences, and a graduate of the London School of Economics and Political Science, T. G. Masaryk Scholarship.

He gained managerial and professional experience in positions such as Vice Chairman of the Supervisory Board of Východočeská plynárenská, a.s., member of the Supervisory Boards of Západočeská plynárenská, a.s. and Severomoravská plynárenská, a.s., director of the consultancy firm EEIP, a.s. which has been the lead consultant in developing and restructuring of dozens of companies, including RWE Group CZ, Nafta Gbely, ČKD DOPRAVNÍ SYSTÉMY,a.s., AE&E CZ s.r.o., Dr. Oetker spol. s r.o., etc., external consultant to international organizations (USAID, World Bank, EU) at the international level, and to the Czech Government – member of the National Economic Council, Director of the Institute of Economics Studies of the Faculty of Social Sciences, Charles University in Prague.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- EEIP, a.s. – sole owner and Chairman of the Board of Directors since May 10, 1991
- Český Aeroholding, a.s. – member and Chairman of the Supervisory Board since March 11, 2011, re-elected since January 23, 2014 (five-year term)
- National Committee of the International Chamber of Commerce of the Czech Republic – member and Chairman since January 1, 2011 (four-year term)
- PESTRO spol. s r.o. – Partner since August 1993
- Czech Republic for Finance o.p.s. – member of the Board of Trustees since June 22, 2011 (three-year term)
- FAnn Children’s Foundation – member and Chairman of the Supervisory Board since January 4, 2014 (ten-year term)
- Budějovický Budvar, n.p. – member of the Supervisory Board in 2011–2013
- České aerolinie a.s. – member and Chairman of the Supervisory Board in 2009–2011.

Radek Mucha

Member elected by the employees since April 11, 2013

A graduate of the Secondary Industrial School of Electrical Engineering in Mohelnice.

He gained professional experience in positions such as Occupational Safety and Health Coordinator at ČEZ, a. s. and member of the CEZ Group European Works Council.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- Hydro Power Plants basic organization of the Czech Union of Power Industry Employees – Dlouhé Stráně power plant – Chairman since 1999, re-elected in 2009 (five-year term)
- CEZ Group European Works Council – member of the Council in 2008–2013.

Jiří Novotný

Member elected by the employees since April 11, 2013

A graduate of the Secondary Industrial School of Mechanical Engineering in Loket, near Sokolov.

He gained professional experience in positions such as Equipment Maintenance Technologist at the State enterprise Chemické závody Sokolov, státní podnik and Technologist at ČEZ, a. s.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- CEZ Group European Works Council – member of the Council since March 16, 2011 (four-year term)
- Labor Union of Power Industry and Mining Employees – member of the Steering Committee since June 28, 2006, re-elected February 27, 2013 (four-year term).

Lubomír Poul

Member since December 18, 2012

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

He gained managerial and other professional experience in positions such as head of the Office of the Ministry of Industry and Trade of the Czech Republic, Acting Director of the Ministry Office, and Head of the Office of the Government of the Czech Republic.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

Vladimír Říha

Co-opted member of the Supervisory Board since August 1, 2013 (by Supervisory Board decision of June 27, 2013)

A graduate of the Fachhochschule Wiesbaden (Federal Republic of Germany), Faculty of Electrical Engineering.

He gained managerial and other professional experience in positions such as Sales Director for Europe, Director of Installation and Maintenance, and Director of the Energy Division at Siemens and Chairman of the Board of Directors and Chief Executive Officer of COFELY a.s.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- Siemens Engineering a.s. – member of the Supervisory Board in 2006–2010
- COFELY a.s. – Chairman of the Board of Directors and Chief Executive Officer in 2011–2013
- COFELY REN s.r.o. – Managing Director in 2011–2013.

Drahoslav Šimek

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

A graduate of the Secondary Vocational School in Domažlice (electrician) and the Secondary Vocational School in Chomutov (workshop fitter).

He gained professional experience in positions such as Reactor Technician at Dukovany Nuclear Power Station.

Number of ČEZ, a. s. shares as at December 31, 2013: 2,230.

- Basic Labor Organization of the Czech Labor Union of Power Industry Workers, Labor Organization of Shift Workers at Dukovany Power Plant – Chairman since May 1, 2012
- Basic Labor Organization of the Czech Labor Union of Power Industry Workers, Labor Organization of Shift Workers at Dukovany Power Plant – Vice Chairman in 1995–2012.

Jiří Volf

Member since June 26, 2012

A graduate of the University of Economics, Prague, Faculty of Industrial Economics, Mr. Volf did graduate work at the Brno University of Technology, where he was appointed senior lecturer.

He gained managerial and professional experience in positions such as department director, Deputy Minister, and State Secretary of the Ministry of Finance of the Czech Republic; an outside member of a consulting body to the Energy Regulatory Office; adviser to the Minister of Finance; member of consulting bodies to the Government of the Czech Republic and other government agencies; and Vice Chairman of the Supervisory Board of MERO ČR.

Number of ČEZ, a. s. shares as at December 31, 2013: 3,040.

- Kongresové centrum Praha, a.s. – member of the Supervisory Board since September 11, 2013, Chairman since December 16, 2013
- THERMAL-F, a.s. – member of the Board of Directors since April 6, 2011 (five-year term)
- Národní vzdělávací fond, o.p.s. – Chairman of the Board of Trustees since January 30, 2006 (three-year term, re-election possible)
- University of Economics, Prague – Chairman of the Board of Trustees since 2004
- Charles University, Prague – member of the Board of Trustees since 2008
- Tomas Bata University, Zlín – member of the Board of Trustees since 2006
- Academy of Performing Arts, Prague – member of the Board of Trustees since 2007
- Academy of Sciences of the Czech Republic – member of the Academic Congress since 2005
- MERO ČR, a.s. – member and First Vice Chairman of the Supervisory Board in 2011–2012
- Vzdělávací centrum pro veřejnou správu ČR, o.p.s. – member of the Board of Trustees in 2005–2009
- Daňová akademie s.r.o. in liquidation – Managing Director in 2008–2011
- Palacký University, Olomouc – member of the Board of Trustees in 2006–2012.

Members of the ČEZ, a. s. Supervisory Board whose memberships ceased in 2013 or before the Annual Report closing date:

Martin Roman

Member and Chairman of the Supervisory Board since September 15, 2011; resigned and left the Supervisory Board on October 25, 2013

Lubomír Klosík

Vice Chairman of the Supervisory Board from January 27, 2011 to April 11, 2013, member of the Supervisory Board elected by the employees from January 22, 2009 to April 11, 2013 (expiration of member term)

Petr Gross

Member of the Supervisory Board elected by the employees from January 22, 2009 to April 11, 2013 (expiration of member term)

Jan Kohout

Member of the Supervisory Board from November 22, 2010 to August 22, 2013 (resigned on July 9, 2013)

Robert Vacek

Member of the Supervisory Board from June 26, 2012 to June 19, 2013 (removed from office at the Annual General Meeting on June 19, 2013)

Jiřina Vorlová

Member of the Supervisory Board from June 19, 2013 to July 31, 2013 (resigned on June 27, 2013)

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

Committees of the Supervisory Board

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

How Committees of the Supervisory Board Make Decisions

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

Strategy Committee of the Supervisory Board

The committee's mission is to facilitate the Supervisory Board's decision-making process in matters concerning the Company's strategic development. The committee is involved, *inter alia*, in evaluating proposals for major business activities in the following areas:

- investment, acquisition, and divestment projects (in particular, purchases and sales of material assets and/or equity stakes in the Czech Republic and abroad)
- establishing or winding up ČEZ, a. s. subsidiaries
- building new generation facilities
- shutting down, selling, and renewing generation capacity.

Members of the Strategy Committee of the Supervisory Board:

Václav Pačes
Chairman since August 22, 2013,
Member since April 30, 2013

Vladimír Hronek
Member since February 24, 2012

Jan Mareš
Member since December 19, 2013

Vladimír Říha
Member since December 19, 2013

Jiří Volf
Member since August 9, 2012

Members of the Strategy Committee of the ČEZ, a. s. Supervisory Board whose memberships ceased in 2013 or before the Annual Report closing date:

Jan Kohout
Vice Chairman from March 20, 2012 to August 22, 2013,
Member from December 2, 2010 to August 22, 2013

Martin Roman
Member from September 21, 2011 to October 25, 2013

Personnel Committee of the Supervisory Board

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

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

Members of the Personnel Committee of the Supervisory Board:

Jiří Kadrnka
Chairman since April 30, 2013,
Vice Chairman from December 16, 2010 to April 30, 2013,
Member since December 2, 2010

Vladimír Hronek
Vice Chairman since April 30, 2013,
Member since December 2, 2010

Milan Bajgar
Member since August 9, 2012

Radek Mucha
Member since April 30, 2013

Members of the Personnel Committee of the Supervisory Board whose memberships ceased in 2013 or before the Annual Report closing date:

Petr Gross
Chairman from December 16, 2010 to April 11, 2013,
Vice Chairman from March 26, 2009 to December 15, 2010,
Member from May 21, 2009 to April 11, 2013

Audit Committee

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

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

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

Audit Committee Composition and Operation

The Audit Committee has five members, all of whom are elected and removed by the General Meeting from among the members of the Supervisory Board or third parties. Members of the Audit Committee may not be members of the Board of Directors or Company proxies. The Audit Committee itself elects a Chairman and a Vice Chairman. Members serve for terms of four years. The work address of members of the Audit Committee is the Company's headquarters: Duhová 2/1444, 140 53 Prague 4, Czech Republic. The Audit Committee meets bimonthly, as a rule. Six regular meetings were held in 2013.

Members of the Audit Committee:

Ján Dzvoník
Chairman since March 8, 2012,
Member since June 1, 2011
A graduate of the University of Economics in Bratislava, Faculty of Management, major in automated financial management systems.
He gained managerial and professional experience in positions such as Deputy Minister of Defense and member of the Executive Committee of the National Property Fund of the Czech Republic.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- MERO ČR, a.s. – member of the Supervisory Board since June 25, 2008, re-elected on September 19, 2012 (four-year term); Chairman of the Supervisory Board since August 5, 2008, re-elected on November 2, 2012; member of the Audit Committee since September 16, 2009, re-elected December 17, 2013 (four-year term)
- MERO Germany AG – member of the Supervisory Board since September 16, 2009; Chairman of the Supervisory Board since June 28, 2012 (four-year term)
- Poštovní tiskárna cenin Praha a.s. – member of the Board of Directors since October 11, 2012 (five-year term)
- ALIATROS spol. s r.o. – Partner and Managing Director in 2008–2010
- Česká pošta, s.p. – member of the Supervisory Board in 2007–2009.

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

Jiřina Vorlová

Vice Chairwoman since November 28, 2013,
Member since December 18, 2012

A graduate of the University of Economics, Prague, Faculty of Commerce, major in economics of internal commerce.
She gained managerial and professional experience in positions such as Head of the Environmental Documentation department at the National Property Fund of the Czech Republic and Head of the Business Support department at the Ministry of Finance of the Czech Republic.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

- ČEPRO, a.s. – member of the Supervisory Board since February 23, 2011; First Vice Chairwoman of the Supervisory Board from March 31, 2011 to January 23, 2014; Vice Chairwoman of the Supervisory Board since January 30, 2014 (five-year-term); member of the Audit Committee since January 23, 2014 (five-year term)
- CENTRUM – F, a.s. (formerly PPP Centrum a.s.) – member of the Board of Directors since March 1, 2012, re-elected January 23, 2014 (four-year term)
- MERO ČR, a.s. – member of the Supervisory Board since January 23, 2014 (five-year term)
- THERMAL-F, a.s. – member of the Supervisory Board since October 21, 2013 (five-year term)
- Kongresové centrum Praha, a.s. – member of the Supervisory Board since December 3, 2013 (five-year term).

Alena Kochová

Designated independent expert since November 28, 2013,
Member since June 19, 2013

A graduate of the University of Economics, Prague, major in economic reporting and audit.
She gained managerial and professional experience in positions such as Head of Financial Accounting and Asset Records at the Directorate General of Finance, Head of the Accounting department at the Services Facility of the Ministry of the Interior of the Czech Republic, and Director of the Economic Reporting department of the Ministry of Finance of the Czech Republic.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.

Radek Neužil

Member since June 19, 2013

A graduate of the Brno University of Technology, Faculty of Mechanical Engineering (major in economics and machinery production management) and Masaryk University in Brno, Faculty of Law (LL.M. – Master of Laws).
He gained managerial and professional experience in positions such as Secretary of the Chamber of Tax Advisers and Chairman of the Supervisory Board and, subsequently, Managing Director of Daňová akademie s.r.o.

Number of ČEZ, a. s. shares as at December 31, 2013: 476.

- Council for Public Audit Supervision – member of the Board of Trustees since 2009
- KDP – DATEV Cooperative – Acting Executive Member of the Board of Trustees since 2010
- Charles University in Prague – member of the Board of Trustees since 2011
- PASKI CLUB, v.o.s. – Vice Chairman of statutory body since 1994, Partner since 1995
- Eláán – Chairman since 2002
- ■ Daňová akademie s.r.o. in liquidation – Chairman of the Supervisory Board in 2008–2011, Managing Director in 2011–2012.

Members of the ČEZ, a. s. Audit Committee whose memberships ceased in 2013 or before the Annual Report closing date:

Lubomír Klosík

Vice Chairman from March 8, 2012 to June 19, 2013,
Member from May 13, 2009 to June 19, 2013
(expiration of mandate)

Drahoslav Šimek

Member from May 13, 2009 to June 19, 2013

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

Remuneration of Supervisory Board and Audit Committee Members

Remuneration of members of the Supervisory Board and Audit Committee, including all consideration, is subject to General Meeting approval. In accordance with resolutions passed by the General Meeting, the Company enters into a membership contract with each member of the Supervisory Board and Audit Committee.

Members of the Supervisory Board and Audit Committee receive the following remuneration and benefits:

- fixed remuneration for members of the Supervisory Board – was paid each calendar month in arrears. In the event a member of the Supervisory Board was temporarily incapacitated due to sickness or long-term absence, the member was entitled to remuneration for the period in question, provided he or she delivered to the Chairman of the Supervisory Board a written statement on the agenda items of missed meetings before such meetings took place, unless the Supervisory Board decided otherwise. Granting of remuneration in the event of temporary incapacitation was decided by the Supervisory Board.
- remuneration for members of the Audit Committee – was paid regularly, following the end of each calendar month. In the event a member was temporarily incapacitated due to sickness or long-term absence, the member was entitled to remuneration provided he or she delivered to the Committee Chairman a written statement on the agenda items of missed meetings before the meetings took place, unless the Audit Committee decided otherwise. Granting of remuneration in the event of temporary incapacitation was decided by the Audit Committee.
- board membership bonuses – were paid to members of the Supervisory Board by General Meeting decision. The amount of the bonus for individual members of the Supervisory Board was determined pursuant to rules approved by the General Meeting.
- insurance – at Company expense, endowment life insurance is taken out for members of the Supervisory Board. Upon termination of office or the Company's withdrawal from the endowment life insurance contract, the policy in question is transferred free of charge to the member of the Supervisory Board.
- company car – cars may be provided to members of the Supervisory Board to use in the course of discharging duties of office. Terms and conditions for lending and use of company cars are set forth in separate agreements. Should a member of the Supervisory Board use his or her own car in the course of discharging duties of office, the costs associated with such use on company business are paid by the Company in accordance with applicable law. Members of the Audit Committee may use their own cars in the course of discharging duties of office. In this case, reimbursement of related expenditures is provided in the amounts stipulated by the Labor Code.
- reimbursement of travel expenses – when traveling on business, members of the Supervisory Board receive meal announces and per diem at rates above those set forth in applicable laws and regulations; other expenses and insurance premiums are reimbursed at face value. In the case of work-related travel by Audit Committee members, meal allowances are provided in the amount stipulated by the Labor Code; other expenses and insurance premiums are reimbursed at face value. For work-related travel abroad, per diem is provided in the maximum amount stipulated by the Labor Code.

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

Board of Directors

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

The Board of Directors, *inter alia*:

- sees to commercial management, including keeping of proper accounts
- convenes and organizes the General Meeting, and presents to it, *inter alia*, the following:
  - the Company's draft business policy and draft amendments thereto
  - draft amendments to the Articles of Association
  - proposals to increase/decrease the stated capital, proposals for issue of convertible and/or priority bonds
  - annual, extraordinary, consolidated, and/or interim financial statements
  - income distribution proposals including stipulation of dividend amount, manner of pay-out, and due date; amount of Board member bonuses; amounts to be allocated to reserves; and/or manner of settling Company losses
  - yearly report on the Company's business operations and the state of its assets
  - proposals to wind up the Company
  - summary explanatory report pursuant to Section 118(8) of the Act on Doing Business in the Capital Market
  - nomination of auditor to conduct the mandatory audit, including the audit of the Company's financial statements and consolidated financial statements, as recommended by the Audit Committee
- implements resolutions of the General Meeting
- grants and revokes the power to sign on behalf of the Company
- approves and amends the ČEZ, a. s. Signature Rules and, with the consent of the labor organizations operating within the Company, the ČEZ, a. s. Work Rules
- removes Company executives pursuant to Section 73 of the Labor Code
- signs agreements on membership of Company governing bodies with individual members of said bodies.

No later than by May 15 of the calendar year, the Board of Directors submits to the Supervisory Board for review the annual and consolidated financial statements together with income distribution proposals, the related parties report, the manner of payment and due date of dividends, the amount of Board member bonuses, and the proposal for settlement of the Company's losses, if any. The Board of Directors also submits any extraordinary financial statements to the Supervisory Board for review.

Board of Directors Composition and Operation

The Board of Directors has seven members, all of whom are elected and removed by the Supervisory Board. The Board of Directors itself elects and removes its Chairman and Vice Chairman. Members of the Board of Directors serve for four-year terms; re-election is possible. The work address of members of the Board of Directors is the Company's headquarters: Duhová 2/1444, 140 53 Prague 4, Czech Republic. The Board of Directors meets at least once per month. As a rule, meetings take place weekly. In 2013, a total of 40 meetings were held: 34 regular meetings and six extraordinary meetings.

How the Board of Directors Makes Decisions

The Board of Directors represents a quorum when a simple majority of its members is present at a meeting. Each member of the Board of Directors has one vote. In order for the Board of Directors to adopt a resolution, a simple majority of the votes of all its members is necessary.
Minutes of meetings are kept, including descriptions of all resolutions adopted, and when members vote against any resolution of the Board of Directors, or abstain from voting, they must be mentioned in the minutes by name. When necessary in urgent matters, a decision may be made without holding a meeting – such decisions are referred to as *per rollam*. In such cases, the resolution is deemed to have been adopted if at least a two-thirds majority of all members took part in the voting and, at the same time, a simple majority of all members voted in favor of the resolution in question. Decisions taken without holding a meeting must be included in the minutes of the next Board of Directors meeting. At its discretion, the Board of Directors may invite to its meetings members of the Company's other governing bodies, Company employees, or other persons.

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

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

In seeing to the Company's commercial management, the Board of Directors decides in matters such as, *inter alia*:

- use of the Company's non-distributable reserve fund, unless stipulated otherwise by law
- increase of the Company's stated capital in accordance with Section 210 of the Commercial Code, and the issuance of Company shares booked to owner in conjunction therewith
- price proposals submitted to the regulatory body
- draft purchase agreements relating to electricity, heat, natural gas, and greenhouse gas emission rights; distribution, transmission and ancillary services; commodity derivatives; and commodity commercial services – if called for by the ČEZ, a. s. Signature Rules
- capital projects and their implementation, subject to the Articles of Association
- acceptance of long-term loans (credits) with maturities longer than one year and other similar long-term financial transactions of the Company, except for hedging transactions – if called for by the ČEZ, a. s. Signature Rules
- the content of the annual report pursuant to the Accounting Act and of the half-yearly and yearly reports pursuant to the Act on Doing Business in the Capital Market
- allocation of bonuses determined by the General Meeting between the Board of Directors and Supervisory Board pursuant to rules approved by the General Meeting
- agreements on formation of business companies or interest associations of legal entities, and/or acquisition by the Company of ownership stakes in another legal entity, as well as on the winding up of a business company or interest association of legal entities and/or on the sale, by the Company, of an ownership stake in another legal entity
- divestiture of real property, and/or lease thereof in cases when the lease term would exceed three years
- acquisition, divestiture, encumbrance, and/or lease of real property and/or movables (except for inventories and securities used for liquidity management purposes), provided they are, or are intended to be, part of the Company's business assets and their book value exceeds CZK 500 million
- capital projects with values in excess of CZK 500 million
- disposition of equity holdings in other legal entities headquartered in the Czech Republic or abroad under the conditions set forth in the Company's Articles of Association
- transfers and/or encumbrance of the Company's treasury shares
- staffing of the supervisory boards of companies in which ČEZ, a. s. holds an equity stake exceeding CZK 500 million of the basic share capital, or of other predetermined companies
- issuance of bonds except in cases when the consent of the General Meeting is required
- granting of options on Company shares
- enabling the conduct of due diligence (legal, commercial, technical, and/or environmental audit) of the Company and/or any of its organizational units
- entering into manager contracts with the Company's division heads
- stipulation and evaluation of tasks assigned to the division heads
- distribution of Request For Proposal (RFP) documentation to bidders in public tenders pursuant to the Public Procurement Act, provided the anticipated value of the tender is higher than one third of the equity figure given by the latest consolidated financial statements
- drafting the Company's business plan within the framework of the business policy approved by the General Meeting
- drafting the business policies (and amendments thereto) of controlled entities with stated capital in excess of CZK 500 million.

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

Furthermore, the Board of Directors may delegate powers and responsibilities in certain areas of management to its individual members according to their positions in the organization structure, as set forth in Sections 2.2 and 2.3 of the ČEZ, a. s. Organization Rules (typically to the Chief Executive Officer and division heads). In such cases, the member of the Board of Directors is authorized, within the scope of the powers and responsibilities delegated to him or her, to manage the division in question and carry out the rights and obligations of the employer towards that division's employees. In conjunction with such authorization, the member of the Board of Directors is also entitled to use the title of the position so delegated (Chief Executive Officer, division head). When acting on behalf of the Company in legal matters (e.g. signing of contracts), however, the words "member / Vice Chairman / Chairman of the Board of Directors" shall be used exclusively. Delegation of powers and responsibilities in a certain area of management to an individual member of the Board of Directors does not exempt the remaining members of the Board of Directors from their duty to oversee how the Company's affairs are administered.

In conjunction with the new Civil Code (89/2012 Sb.) and Corporations Act (90/2012 Sb.) which took effect as of January 1, 2014, it is no longer permissible for executives who are also members of the Board of Directors to have concurrent labor- and business-law relations with the Company. As a result, the employment contracts of these employees were terminated by agreement as of December 31, 2013. No consideration was paid in relation to this.

At the same time, amendments to the Board of Directors membership contracts were signed to bring these contracts into compliance with the new legislation taking effect from January 1, 2014, under which all agreements between the Company and members of the Board of Directors regarding their office – in particular, all provisions relating to remuneration (i.e., including existing provisions ensuing from the Labor Code in the Board membership contracts, stock option agreements, agreements on endowment life insurance, non-compete agreements, etc.) and certain other existing labor-law provisions – are to be merged into a single Board membership contract.

Members of the ČEZ, a. s. Board of Directors

Daniel Beneš

Martin Novák

Michaela Chaloupková

Ladislav Štěpánek

Tomáš Pleskač

Ivo Hlaváč

Pavel Cyrani

Daniel Beneš

Chairman since September 15, 2011,
re-elected effective from December 17, 2013,
First Vice Chairman from May 21, 2008 to June 29, 2010,
Vice Chairman from May 10, 2006 to May 20, 2008
and from June 29, 2010 to September 15, 2011,
Member continuously since December 15, 2005,
re-elected effective from December 17, 2013

A graduate of the Technical University of Ostrava, Faculty of Mechanical Engineering, and the Brno International Business School Nottingham Trent University (MBA).
He gained managerial and professional experience in positions such as Director, Procurement Section, Chief Administration Officer, and Chief Operating Officer of ČEZ, a. s.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.
Number of ČEZ, a. s. share options as at December 31, 2014: 562,602.
Number of ČEZ, a. s. share options as at March 31, 2014: 562,602.

- VŠB-Technical University of Ostrava – member of the Board of Trustees since August 14, 2009 (six-year term)
- University of South Bohemia in České Budějovice – member of the Board of Trustees since April 20, 2011 (six-year term)
- Nadace CEZ foundation – member of the Board of Trustees since March 26, 2007 (term expires July 16, 2015), Chairman of the Board of Trustees since May 31, 2007
- Coal Energy, a.s. in liquidation – member and Chairman of the Supervisory Board in 2006–2009; company stricken from the Commercial Register in 2009
- Jadrová energetická spoločnosť Slovenska, a. s. – member and Vice Chairman of the Supervisory Board in 2009–2013.

Martin Novák

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

A graduate of the University of Economics, Prague, Faculty of International Relations, major in international trade and business law. In 2007 Mr. Novák completed an Executive Master of Business Administration (MBA) program at the KATZ School of Business, University of Pittsburgh, specializing in the power industry.
He has been a member of the Chamber of Tax Advisers since 1996.
He gained managerial and professional experience particularly during his almost ten-year career in petroleum processing and fuel production and distribution. In recent years, he held managerial positions at the world headquarters of ConocoPhillips in Houston and at its regional headquarters in London, as well as at ConocoPhillips Czech Republic, s.r.o., where he served as Director of Finance with responsibility for Central & Eastern Europe (in this position he also served as statutory representative for several regional branches of ConocoPhillips), and at ČEZ, a. s. as Director, Accounting Section.

Number of ČEZ, a. s. shares as at December 31, 2013: 900.
Number of ČEZ, a. s. share options as at December 31, 2013: 283,497.
Number of ČEZ, a. s. share options as at March 31, 2014: 283,497.

Pavel Cyrani

Member since October 20, 2011

A graduate of the University of Economics, Prague, major in international trade, and the Kellogg School of Management in Evanston, Illinois (USA), where he was awarded an MBA in Finance.
He gained managerial and professional experience in McKinsey & Company and ČEZ, a. s., where he held the positions of Director, Planning & Controlling and Director, Asset Management.

Number of ČEZ, a. s. shares as at December 31, 2013: 216.
Number of ČEZ, a. s. share options as at December 31, 2013: 186,256.
Number of ČEZ, a. s. share options as at March 31, 2014: 186,256.

- CM European Power International B.V. – Member of the Board of Directors since November 19, 2011 (three-year term)
- Loyalty management CZ, a.s. – Vice Chairman of the Board of Directors in 2003–2009
- Loyalty Consulting s.r.o. – Partner and Managing Director in 2003–2012
- Dalkia Česká republika, a.s. – member of the Supervisory Board in 2010–2012.

Ivo Hlaváč

Member since December 19, 2013

A graduate of Palacký University, Olomouc, Faculty of Arts, major in sociology.

He gained managerial and professional experience in positions such as manager for the energy area at Deloitte, First Deputy Minister of the Environment, First Deputy Minister of Agriculture, Deputy Minister of Local Development, and Head of the Public Affairs Unit at ČEZ, a. s.

Number of ČEZ, a. s. shares as at December 31, 2013: nil.
Number of ČEZ, a. s. share options as at December 31, 2013: nil.
Number of ČEZ, a. s. share options as at March 31, 2014: 60,000.

- Povodí Ohře, státní podnik – Vice Chairman of the Supervisory Board in 2011–2013
- Exportní garanční a pojišťovací společnost,a.s. – member of the Supervisory Board in 2007–2009
- Česká exportní banka, a.s. – member of the Supervisory Board in 2007–2009.

Michaela Chaloupková

Member since October 20, 2011

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

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

Number of ČEZ, a. s. shares as at December 31, 2013: nil.
Number of ČEZ, a. s. share options as at December 31, 2013: 184,153.
Number of ČEZ, a. s. share options as at March 31, 2014: 184,153.

Tomáš Pleskač

Member since January 26, 2006,
re-elected effective from January 28, 2014,
Second Vice Chairman from May 21, 2008 to June 29, 2010,
Vice Chairman from February 11, 2008 to May 20, 2008

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

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

Number of ČEZ, a. s. shares as at December 31, 2013: nil.
Number of ČEZ, a. s. share options as at December 31, 2013: 180,000.
Number of ČEZ, a. s. share options as at March 31, 2014: 240,000.

- Akenerji Elektrik Üretim A.S. – member of the Board of Directors since May 13, 2009 (term expires June 27, 2016), Vice Chairman of the Board of Directors since June 20, 2012
- Akcez Enerji A.S. – member of the Board of Directors since July 1, 2013 (term expires March 25, 2016)
- CM European Power International B.V. – member of the Board of Directors since July 17, 2008, re-elected since July 17, 2011 (three-year term); Chairman of the Board of Directors since August 5, 2011; Vice Chairman of the Board of Directors from September 5, 2008 to August 4, 2011
- Mitteldeutsche Braunkohlengesellschaft mbH – member of the Supervisory Board in 2009–2012 (company sold).

Ladislav Štěpánek

Member since June 27, 2013

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

He gained managerial and professional experience in positions such as director of the Office of the Chief Executive Officer and the Board of Directors and director of the Fuel Cycle unit of ČEZ, a. s.

Number of ČEZ, a. s. shares as at December 31, 2013: 15,000.
Number of ČEZ, a. s. share options as at December 31, 2013: 60,000.
Number of ČEZ, a. s. share options as at March 31, 2014: 60,000.

Members of the ČEZ, a. s. Board of Directors whose memberships ceased in 2013 or before the Annual Report closing date:

Peter Bodnár

Member from August 21, 2009 to November 21, 2013

Vladimír Hlavinka

Member from January 1, 2008 to January 31, 2013

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

Committees of the Board of Directors

The Board of Directors may set up working groups, teams, and committees to facilitate its work. No such committees or teams were formed in 2013.

Remuneration of Members of the Board of Directors

Remuneration of members of the Board of Directors, including all consideration, was provided on the basis of signed Board of Directors membership contracts approved by the Supervisory Board pursuant to Section 66d(3) of the Commercial Code (513/1991 Sb.).

Members of the Board of Directors received the following remuneration and consideration:

- fixed remuneration for members of the Board of Directors – was paid monthly in arrears. In the event a member of the Board of Directors was incapacitated due to sickness, he or she was entitled to full monthly remuneration for the first 30 days. In the event the incapacitation lasted for an uninterrupted period of longer than 30 days, the amount of the monthly remuneration for the period following the 31st day of incapacitation to the end thereof was decided by the Board of Directors under the condition that said monthly remuneration was not allowed to be less than 50% of the full monthly remuneration amount.
- target-based remuneration – based on fulfillment of specific tasks assigned by the General Meeting, a member of the Board of Directors might receive target remuneration up to six times the amount of his or her monthly remuneration. Details, including amount and due date of the target remuneration, were set by the Board of Directors after discussing the matter with the Supervisory Board, subject to principles laid down by the General Meeting.
- board membership bonuses – were paid to members of the Board of Directors by General Meeting decision. The amount of the bonus for individual members of the Board of Directors was set pursuant to rules approved by the General Meeting.
- stock options – members of the Board of Directors were entitled to Company stock options under the conditions set forth in the relevant option contract.
- insurance – at Company expense, endowment life insurance was taken out for members of the Board of Directors. Upon termination of office or upon the Company withdrawing from the endowment life insurance contract, the policy in question is transferred free of charge to the member of the Board of Directors.
- company car – members of the Board of Directors were entitled to a company car for business and personal use. Terms and conditions for lending and use of company cars are set forth in separate agreements. Company cars provided for business and personal use are subject to taxation, and fuel consumed for personal use is paid for by the member of the Board of Directors through income withholding. In cases where a member of the Board of Directors used his or her own car on Company business, the costs associated with such use were paid by the Company in accordance with applicable laws and regulations.
- severance pay – in the event their membership of the Board of Directors was terminated before the end of the four-year term (except in cases of resignation), members of the Board of Directors were entitled, under conditions set forth in their contract, to severance pay in the aggregate total of the monthly remuneration payments the member would otherwise have received, had he remained in office until the end of his or her term. The terms and conditions for payment of severance pay were set forth in the membership contract.
- reimbursement of travel expenses – when traveling on business, members of the Board of Directors were entitled to receive meal allowances and per diem at rates above those set forth in applicable laws and regulations; other expenses and insurance premiums were reimbursed at face value.

Members of the Board of Directors – Remuneration Principles for 2014

In conjunction with the new Civil Code (89/2012 Sb.) and Corporations Act (90/2012 Sb.) which took effect as of January 1, 2014, it is no longer permissible for executives who are also members of the Board of Directors to have concurrent labor- and business-law relations with the Company. As a result, the employment contracts of these employees were terminated by agreement as of December 31, 2013. Effective from January 1, 2014, amendments to the membership contracts were signed with each member of the Board of Directors, under which all agreements between the Company and members of the Board of Directors regarding their office – in particular, all provisions relating to remuneration (i.e., including existing provisions ensuing from the Labor Code in the Board membership contracts, stock option agreements, agreements on endowment life insurance, non-compete agreements, etc.) and certain other existing labor-law provisions – are merged into a single Board membership contract, which as a whole, including all consideration, is subject to Supervisory Board approval. Members of the Board of Directors are authorized to manage the various divisions and organizational units.

Members of the Board of Directors receive the following remuneration and benefits:

- monthly remuneration for members of the Board of Directors – paid monthly in arrears. In the event a member of the Board of Directors is incapacitated due to sickness, or maternity/parental leave, he or she is entitled to the full monthly remuneration for the first 30 calendar days. In the event the incapacitation lasts for an uninterrupted period of longer than 30 calendar days, the amount of the monthly remuneration for the period following the 31st calendar day of incapacitation is 50% of the stipulated monthly remuneration amount for each calendar month for as long as the incapacitation shall last.
- annual remuneration – in addition to the monthly remuneration, members of the Board of Directors are entitled to annual remuneration in an amount that is dependent on fulfillment of criteria set by a decision of the Supervisory Board, which shall also assess the degree of fulfillment. Each month, together with the member's pay, advances toward the annual bonus are paid. The aggregate total of the advances may not exceed 45% of the maximum annual remuneration.
- target-based remuneration – based on fulfillment of specific tasks assigned by the General Meeting, a member of the Board of Directors may receive target remuneration up to six times the amount of his or her monthly remuneration. Details, including amount and due date of the target remuneration, are set by the Board of Directors after discussing the matter with the Supervisory Board, subject to principles laid down by the General Meeting.
- board membership bonuses – are paid to members of the Board of Directors by General Meeting decision. The amount of the bonus for individual members of the Board of Directors is set pursuant to rules approved by the General Meeting.
- stock options – members of the Board of Directors are entitled to Company stock options under the conditions set forth in the relevant option contract.
- insurance – at Company expense, endowment life insurance is taken out for members of the Board of Directors. Upon termination of office or upon the Company withdrawing from the endowment life insurance contract, the policy in question is transferred free of charge to the member of the Board of Directors.
- company car – members of the Board of Directors are entitled to a company car for business and personal use. Terms and conditions for lending and use of company cars are set forth in separate agreements. Company cars provided for personal and business use are subject to taxation, and fuel consumed for personal use is paid for by the member of the Board of Directors through income withholding. In cases where a member of the Board of Directors uses his or her own car on Company business, the costs associated with such use are paid by the Company in accordance with applicable laws and regulations.
- severance pay – in the event their membership of the Board of Directors is terminated before the end of the four-year term (except in cases of resignation), members of the Board of Directors are entitled, under conditions set forth in their contract, to severance pay. The severance pay amount is determined, using the monthly amount of the member's fixed remuneration that the member would have been entitled to until the end of 2013, as the sum of these fixed remuneration amounts that would have been paid, had the member remained in office until the end of his or her term. The terms and conditions for payment of severance pay are set forth in the Board of Directors membership contract.
- reimbursement of travel expenses – when traveling on business, members of the Board of Directors receive meal allowances and per diem at rates above those set forth in applicable laws and regulations; other expenses and insurance premiums are reimbursed at face value.
- benefits – members of the Board of Directors receive premium health care as well as other benefits corresponding to the benefits provided to Company employees in accordance with the valid Collective Agreement.
- cash settlement for compliance with member's obligation under non-compete clause – with regard to the character of the information, knowledge, and expertise gained by the member of the Board of Directors during the course of his or her membership of the Board of Directors, the Company agrees to provide him or her a cash settlement upon termination of membership, for a period and subject to conditions set forth in the contract.

Persons with Executive Authority at ČEZ, a. s.

At ČEZ, a. s. the following are deemed to be persons with executive authority as that term is defined by the Act on Doing Business in the Capital Market: members of the Board of Directors, members of the Supervisory Board, the Chief Executive Officer, and the division heads. The work address of all these persons is the corporate headquarters of ČEZ, a. s.: Duhová 2/1444, 140 53 Prague 4, Czech Republic.
In conjunction with the new Civil Code (89/2012 Sb.) and Corporations Act (90/2012 Sb.) which took effect as of January 1, 2014, it is no longer permissible for executives who are also members of the Board of Directors to have concurrent labor- and business-law relations with the Company. As a result, the employment contracts of these employees were terminated by agreement as of December 31, 2013. Effective from January 1, 2014, the offices of the Chief Executive Officer and the division heads (with the exception of the Chief Sales Officer and the Chief Investment Officer) are held by members of the Board of Directors with authority delegated by the Board of Directors. In conjunction with this, addenda to the Board of Directors membership contracts of these members were signed as at January 1, 2014. In these contracts, the members of the Board of Directors are authorized to manage their respective divisions and carry out the rights and duties of the employer towards the employees of said divisions, including the Chief Executive Officer's division.

Chief Executive Officer

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

Committees of the Chief Executive Officer

- The Senior Management Council, which operates within the Company as a senior management advisory body to the Chief Executive Officer, assesses major CEZ Group projects and initiatives in various phases of their life cycles. The Senior Management Council meets every week, as a rule. Special "strategy meetings" of the Senior Management Council consider among other things market developments, strategic projects, site plans, management of assets in the various business segments, composition of capital expenditures, and proposals concerning Company strategy, all of which are subsequently submitted to the relevant Company bodies for decision. Strategy meetings of the Senior Management Council are held at least four times per year.
- The Risk Management Committee develops and administers the integrated risk management system in accordance with the CEZ Group strategy, manages venture capital, continually monitors the overall impact of various risks, and oversees risk management within CEZ Group.
- The Committee for ČEZ, a. s. Plant Safety assesses the overall level and condition of ČEZ, a. s. plant safety, as well as the quality and safety aspects of the corporate culture, current and potential safety problems, quality issues, and their optimal solutions.
- The CEZ Group Security Committee, which was formed in conjunction with the establishment of a new area of management and security, deals with matters such as CEZ Group security concepts, strategies and objectives; threats; risks; analyses of security incidents; proposed security requirements; and corrective measures, as well as the priorities/conditions for their implementation.

Division Heads

Peter Bodnár
Chief Investment Officer since January 1, 2008
A graduate of the Slovak Technical University, Bratislava, Slovak Republic, Faculty of Mechanical Engineering, where he majored in thermal and nuclear power engineering.
He gained managerial and professional experience in positions such as Managing Director and Chief Executive Officer at ALSTOM Power Slovakia, s.r.o., ALSTOM Power CZ, s.r.o., ALSTOM Group, as well as Director, Quality and Process Improvement Division at Slovenské elektrárne, a.s., Bratislava, Slovak Republic (ENEL Produzione S.P.A., Republic of Italy).

Number of ČEZ, a. s. shares as at December 31, 2013: nil.
Number of ČEZ, a. s. share options as at December 31, 2013: 195,000.
Number of ČEZ, a. s. share options as at March 31, 2014: 150,000.

- Akenerji Elektrik Üretim A.S. – member of the Board of Directors since May 12, 2009, re-elected June 27, 2013 (three-year term)
- Jadrová energetická spoločnosť Slovenska, a. s. – member of the Supervisory Board in 2009–2013.

Pavel Cyrani
Chief Strategy Director since October 1, 2011
For personal data, see entry under Board of Directors, above.

Michaela Chaloupková
Chief Administration Officer since January 1, 2014,
Chief Procurement Officer from January 1, 2012 to December 31, 2013
For personal data, see entry under Board of Directors, above.

Martin Novák
Chief Finance Officer since January 1, 2008
For personal data, see entry under Board of Directors, above.

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

Alan Svoboda
Chief Sales Officer since January 4, 2005
A graduate of the University of West Bohemia, Pilsen, major in information and financial management, Mr. Svoboda also holds an MBA in Finance and an MA in Economics from the University of Missouri in Kansas City.
He gained managerial and other professional experience in positions such as Partner at McKinsey & Company, where he focused on the power industry.

Number of ČEZ, a. s. shares as at December 31, 2013: 4,223 (all shares sold on March 28, 2014).
Number of ČEZ, a. s. share options as at December 31, 2013: 150,000.
Number of ČEZ, a. s. share options as at March 31, 2014: 150,000.

- Eurelectric, the international association based in Brussels – member of the Board of Directors since June 4, 2012 (indefinite term)
- EFET, the international association of electricity traders based in Amsterdam – member of the Board of Directors since November 20, 2007; re-elected on November 1, 2012 (term expires October 31, 2014)
- University of Economics, Faculty of Business Administration – member of the Science Council since July 1, 2010 (four-year term)
- Charles University, Faculty of Social Sciences, Institute of Economic Studies – member of the Science Pedagogy Council since December 9, 2009 (indefinite term)
- University of West Bohemia, Pilsen – member of the Board of Trustees since May 21, 2013 (indefinite term)
- Foratom, the international association based in Brussels – member of the General Assembly and Executive Committee in 2005–2009
- Eurelectric, the international association based in Brussels – deputy member of the Board of Directors in 2005–2012.

Ladislav Štěpánek
Chief Production Officer since July 1, 2013,
Acting Chief Production Officer from February 1, 2013 to June 30, 2013
For personal data, see entry under Board of Directors, above.

Members of ČEZ, a. s. senior management whose membership ceased in 2013 or before the Annual Report closing date:

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

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

Powers and Responsibilities as at January 1, 2014

In conjunction with the new Civil Code (89/2012 Sb.) and Corporations Act (90/2012 Sb.) which took effect as of January 1, 2014, it is no longer permissible for executives who are also members of the Board of Directors to have concurrent labor- and business-law relations with the Company. As a result, the employment contracts of these employees were terminated by agreement as of December 31, 2013.

In accordance with the new legislation, addenda to the Board of Directors membership contracts of these members were signed as at January 1, 2014. In these contracts, the members of the Board of Directors are authorized to manage their respective divisions and carry out the rights and duties of the employer towards the employees of said divisions, including the Chief Executive Officer's division.

The Company's senior management consists of the Board of Directors, the Chief Executive Officer, and the other chief officers (division heads).

Chief Executive Officer

The Chief Executive Officer carries out decisions of the Board of Directors and decides in Company matters that are not reserved for the General Meeting, the Supervisory Board, or the Board of Directors.

The Chief Executive Officer directs and coordinates the activities of the Chief Finance Officer, the Chief Strategy Officer, the Chief Distribution and International Affairs Officer, the Chief Sales Officer, the Chief Production Officer, the Chief Investment Officer, and the Chief Administration Officer, as well as conducting senior management of the units that comprise the Chief Executive Officer's division.

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

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

Division Heads

Chief Finance Officer

The Chief Finance Officer is responsible for commercial and financial management, the effective configuration and functioning of support services, management of equity stakes, and management of M&A activity.

The Chief Finance Officer is responsible for the following areas: financing, central controlling, accounting, taxes, risk management, information and communication technology management, M&A, and equity stakes.

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

Chief Production Officer

The Chief Production Officer is responsible for efficient generation of electricity and heat in accordance with safety standards and, further, for maintaining a functional system of power plant maintenance, including maintaining power plant personnel at the required level of fitness.

The Chief Production Officer is responsible for managing power sources (process management) and central engineering services.

The Chief Production Officer carries out substantive management of subsidiaries involved in the generation of electricity and heat.

Chief Strategy Officer

The Chief Strategy Officer is in charge of developing strategy; proposing and evaluating opportunities and directions for business development; capital allocation; strategic asset management; optimization of CEZ Group performance; and management of projects and project know-how. He is responsible for preparing and managing strategic projects in the areas of new nuclear sources, waste-to-energy, cogeneration, and other decentralized energy projects.

The Chief Strategy Officer coordinates scientific research within CEZ Group.

The Chief Strategy Officer carries out substantive management of subsidiaries in the area of emerging energy services.

Chief Investment Officer

The Chief Investment Officer is responsible for building new and comprehensively renewing existing generating units in conventional power plants both in the Czech Republic and abroad, and providing technical support for acquisition projects.

The Chief Investment Officer is responsible for seeing to it that nuclear safety, radiation protection, and general safety requirements are complied with in the course of these activities.

The Chief Investment Officer carries out substantive management of subsidiaries involved in the areas of capital projects and engineering.

Chief Distribution and International Affairs Officer

The Chief Distribution and International Affairs Officer is in charge of international business (except for electricity wholesaling and trading in natural gas), the distribution segment, transfer of best practices among distribution companies, and managing of renewable sources of energy.

The Chief Distribution and International Affairs Officer is responsible for the substantive management of international equity holdings.

The Chief Distribution and International Affairs Officer sees to the substantive management of subsidiaries involved in the areas of electricity distribution to end customers, distribution grid maintenance and repair, and electricity metering-related activities.

Chief Sales Officer

The Chief Sales Officer is in charge of selling generated electricity, trading, and substantive management of international sales representations.

The Chief Sales Officer is responsible for securing long-term contracts for fixing margins on electricity generation, portfolio optimization, and sales support.

The Chief Sales Officer carries out the substantive management of subsidiaries involved in selling electricity, natural gas, and mobile services to end customers and providing end-customer services.

Chief Administration Officer

The Chief Administration Officer is in charge of all aspects of purchasing and sale; sales support; logistics and storage; and logistics methodology management for the Company and for CEZ Group in the Czech Republic (other than purchasing and sale of electricity, heat, selected operational substances, and financial services).

At the international level, the Chief Administration Officer is responsible for procurement operations related to the construction of new and the comprehensive renewal of existing power plants, as well as coordinating other purchasing, selling, and logistics activities.
Furthermore, the Chief Administration Officer is responsible for managing human resources.

Principles Governing Remuneration of the Chief Executive Officer and Division Heads in 2013
The manager contracts of executives who are also members of the Board of Directors and/or division heads of the Company ("Executives"), as well as the stipulation and evaluation of tasks assigned to the division heads, were subject to the prior consent of the Supervisory Board. Task assignments to individual Executives who are also members of the Board of Directors, as well as evaluation of task fulfillment, were decided by the Supervisory Board.
The remuneration principles for these Executives were set forth in manager contracts entered into between the Company and the Executive in question for the period during which they are to remain in office.

Executives received the following consideration:

- the base monthly wage – was paid regularly for each calendar month. The base monthly wage was paid for hours worked.
- the annual bonus – to which the Executive is entitled in addition to the base monthly wage, is dependent on fulfillment of criteria stipulated in advance. Expressed as a percentage of annual income (base wage and annual bonus), the annual bonus was 50.0–66.7% in the case of the Chief Officers (division heads), including the Chief Executive Officer but excluding the Chief Investment Officer. Conditional advances toward the annual bonus were paid out each month along with the base wage. The sum total of conditional advances could not exceed 45% of the maximum annual bonus.
  The criteria for granting an individual annual bonus to an Executive are based on the Company's strategic priorities and principal objectives, which are set each year by the Chief Executive Officer in an executive order. For 2013, the weightings of the individual criteria were stipulated as follows:
  - 10% for the CEZ Group economic indicator (ROIC)
  - 20% for an economic indicator linked to expenses and income of the unit managed
  - 70% for specifically stated and deadlined tasks.

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

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

Supplementary Information on Persons with Executive Authority at ČEZ, a. s.

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

	Unit	Supervisory Board	Board of Directors	Other persons with executive authority
Information on cash and in-kind income				
Base wage [1]	CZK '000	2,125	–	57,551
Bonus linked to Company performance and wage compensation [1]	CZK '000	116	–	57,831
Remuneration to members of Company governing bodies	CZK '000	5,909	5,213	343
2012 bonus paid to members of governing bodies	CZK '000	12,740	11,152	–
Severance pay and cash settlement	CZK '000	–	–	10,814
Other cash income	CZK '000	4,985	1,867	4,166
of which: Supplemental Pension Insurance contributions [1]	CZK '000	59	–	87
endowment life insurance	CZK '000	4,881	1,867	3,784
use of employee personal account [1]	CZK '000	45	–	133
life jubilee bonus [1]	CZK '000	–	–	–
domestic business travel reimbursement above limit	CZK '000	–	–	2
international business travel reimbursement above limit	CZK '000	–	–	160
other cash income	CZK '000	–	–	–
Other in-kind income [1]	CZK '000	931	2,372	371
of which: company car for business and personal use	CZK '000	924	2,344	360
mobile telephone for business and personal use	CZK '000	7	28	5
mobility program	CZK '000	–	–	6
other in-kind income	CZK '000	–	–	–
Income from entities controlled by the issuer	CZK '000	–	–	9,791
of which: remuneration to members of governing bodies of controlled companies	CZK '000	–	–	9,789
endowment life insurance	CZK '000	–	–	2
company car for business and personal use [1]	CZK '000	–	–	–
other cash and in-kind income	CZK '000	–	–	–
Information on loans and securities				
Loans originated by the issuer	CZK '000	–	–	–
Loans originated by entities controlled by the issuer	CZK '000	–	–	–
Number of options held at December 31, 2012	number	–	1,656,508	150,000
average option price	CZK	–	859.08	859.14
Number of options to which claim arose in 2013	number	–	550,000	80,000
average option price	CZK	–	560.12	551.57
Number of shares on which option was exercised	number	–	–	–
average option price	CZK	–	–	–
resulting in-kind income taxed	CZK millions	–	–	–
Number of shares on which option expired or was otherwise terminated	number	–	(585,000)	(50,000)
average option price	CZK	–	1,037.11	909.80
Number of options with transfer of beneficiaries between categories	number	–	(165,000)	165,000
average option price	CZK	–	792.28	792.28
Number of options held at December 31, 2013	number	–	1,456,508	345,000
average option price	CZK	–	682.26	748.50
Number of Company shares at December 31, 2013 held by members of governing bodies and other persons with executive authority [2]	number	5,270	16,116	4,699

[1] Cash and in-kind income of Supervisory Board members in these items includes income from their present and/or past employment with the Company.
[2] Figures are for all persons who were members of governing bodies or classified as other persons with executive authority at December 31, 2013.

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

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

Bankruptcy proceedings, administration, and/or liquidation during the past five years:
Radek Neužil was Chairman of the Supervisory Board (in 2008–2011) and Managing Director (in 2011–2012) of Daňová akademie s.r.o. in liquidation.
In 2008–2011, Jiří Volf was Managing Director of Daňová akademie s.r.o. in liquidation.
In 2006–2009, Daniel Beneš was a member and Chairman of the Supervisory Board of Coal Energy, a.s. in liquidation.
In 2010–2013, Martin Novák was a member of the Board of Directors of the Vyhlídka Housing Cooperative, in liquidation. The liquidation was successfully completed on May 13, 2013.

Official public charges or sanctions brought/imposed by statutory or regulatory authorities (including designated professional bodies) and court-ordered declarations of incompetence to act as a member of the administative, management, or supervisory bodies:
In 2006, Alan Svoboda was charged with abuse of information in business relations pursuant to Section 128(1) and (3) of the Penal Code. By a decision of the Municipal Court in Prague dated March 18, 2009, the criminal charges were dropped and the matter was forwarded to the Czech National Bank for completion of an investigation into a possible misdemeanor. In administrative proceedings, the Czech National Bank decided that a misdemeanor had occurred in the course of trading ČEZ, a. s. shares in 2005. Alan Svoboda filed an administrative complaint seeking reversal of the Czech National Bank's decision. On April 3, 2012, the Municipal Court in Prague reversed, with full legal force, the Czech National Bank's decision on the misdemeanor.

Information on employment or other contracts with the issuer and/or its subsidiaries along with a description of benefits received upon termination of employment:
Members of the Supervisory Board carry out the duties of their office under an Agreement on Membership of the ČEZ, a. s. Supervisory Board, and members of the Audit Committee do so under an Agreement on Membership of the ČEZ, a. s. Audit Committee. These agreements include a non-compete clause. Certain members of the Supervisory Board and Audit Committee have agreements on use of a company car.
In conjunction with the new Civil Code (89/2012 Sb.) and Corporations Act (90/2012 Sb.) which took effect as of January 1, 2014, it is no longer permissible for members of the Board of Directors to have concurrent labor- and business-law relations with the Company. As a result, their employment contracts were terminated by agreement as of December 31, 2013. No consideration was paid in this respect.
Those division heads who are not also members of the Board of Directors carry out their duties of office under employment contracts. One of the division heads has an agreement on bonus upon completion of a particular task, which sets forth a special target-based bonus. The agreements do not treat any special benefits in the event of termination of employment.
Both division heads who are not members of the Board of Directors have stock option agreements.

Potential conflicts of interest:
No person with executive authority has any conflict of interest in conjunction with his or her role at ČEZ, a. s.

Agreements with key shareholders and/or other entities concerning selection for current job position:
No prior agreement with any person with executive authority exists concerning the selection of that person for his or her current position. Members of the Supervisory Board who are not employees of ČEZ, a. s. are appointed to their offices by a decision of the General Meeting, which is usually taken at the behest of the majority shareholder. Members of the Supervisory Board who are employees of ČEZ, a. s. are elected in regular elections.

Agreement with issuer concerning restrictions on disposition of its securities:
Beneficiaries of the stock options program, the parameters of which were approved by the General Meeting in May 2008, must upon each exercise of stock options maintain a number of ČEZ, a. s. shares corresponding to the value of 20% of the gain achieved on the day when they exercised the options in question. The beneficiaries are obligated to hold these shares until the termination or expiration of their stock options program.
A portion of stock option program beneficiaries whose stock option agreement was entered into during the period between the General Meeting held in May 2006 and the General Meeting held in May 2008 are subject, in their stock option agreements, to an obligation to hold 10% of shares acquired in each exercise of stock options until the termination or expiration of their stock options program.
Prior to the General Meeting of May 2006, the parameters of the stock options program did not include a requirement that beneficiaries hold any specific number of shares acquired from exercising their stock options.

Fulfillment of Corporate Governance Codices

Our corporate governance is based on the recommendations of the 2004 Corporate Governance Codex, in the drafting of which in the Czech Republic ČEZ, a. s. took part and whose provisions we comply with in all material respects. The Codex was compiled under the patronage of the erstwhile Securities Commission and it can be found on the website of the Ministry of Finance of the Czech Republic under the link www.mfcr.cz/cs/archiv/agenda-byvaleho-fnm/sprava-majetku/kodex-spravy-a-rizeni-spolecnosti-corpor/kodex-spravy-a-rizeni-spolecnosti-zaloze-14620 [1].

Important information on the Company's governing bodies, a description of how they are established, their current composition, a description of how their members are remunerated, and a summary of Supervisory Board committees can be found on pages 24–43 of this Annual Report. ČEZ, a. s. complies with all statutory provisions (in particular, those of the Commercial Code valid until December 31, 2013 and those of the Corporations Act effective from January 1, 2014) regarding shareholder rights, convening its General Meetings and ensuring equal treatment of all shareholders.

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

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

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

In its activities, ČEZ, a. s. takes into account all material rules of the GPW Codex. Nevertheless, for the reasons set out below, certain aspects of ČEZ's practices in 2013 departed from the provisions of the GPW Codex in the following cases:

1) The GPW Codex requires General Meeting announcements to include biographical and other information on persons nominated for membership of the Supervisory Board. These persons are nominated by the shareholders, and ČEZ, a. s. has no means of obtaining the information on nominees from the shareholders.
2) In terms of the manner of replacing the audit firm charged with auditing the financial statements, ČEZ, a. s. is governed by the valid Act No. 93/2009 Sb. on Auditors, which comprehensively treats this matter, and therefore ČEZ, a. s. deems it superfluous to set rules on the matter in question by an internal directive which, according to the GPW Codex, is to be published on the Company website.
3) ČEZ, a. s. requires members of the Supervisory Board to disclose, each year in a sworn statement to the Company, any possible conflicts of interest which, in the opinion of ČEZ, a. s., also includes their relationships (financial, family) with shareholders controlling at least 5% of the voting rights at the General Meeting, the identification of which is required by the GPW Codex.

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4) Under the GPW Codex, members of the Supervisory Board are not to resign from their positions in cases when doing so could threaten the Supervisory Board's viability or cause it to not make quorum. At ČEZ, however, there is an effective mechanism that prevents such a situation from arising: the Supervisory Board is authorized to appoint substitute Supervisory Board members to serve until the next General Meeting. This procedure can only be used under the condition that the proportion of members elected by the General Meeting has not fallen below one half, i.e. usually four persons.
5) The GPW Codex requires that at least two members of the Supervisory Board be independent of ČEZ and affiliated entities. As at December 31, 2013 this criterion was fulfilled; however, as a general rule the Company has no means to secure its fulfillment, since the members of the Supervisory Board are elected by the shareholders and employees and hence ČEZ, a. s. has no influence over the Supervisory Board's composition.
6) In general, ČEZ, a. s. does not prohibit representatives of the mass media from being present at the ČEZ, a. s. General Meeting. If these representatives are not company shareholders, however, their presence at the General Meeting is subject to approval by the Board of Directors.
7) Under the GPW Codex, the beginning of dividend pay-out is to come as soon as possible after the dividend strike date, and the time delay should be at most 15 business days. As this matter is not addressed by ČEZ, a. s. internal directives, the company always deals with it on a one-time basis, in the General Meeting decision on dividend pay-out.
8) The GPW Codex requires that shareholders be allowed to attend the General Meeting electronically, through one or more of the following:
   - direct broadcast of the proceedings of the General Meeting
   - bidirectional communication in real time, enabling the shareholder to enter the debate, even if he or she is not present where the General Meeting is taking place
   - voting at the General Meeting, either in person or through an authorized representative.

   Shareholders have the option of being represented by an authorized agent who attends the General Meeting directly, in person. To enable shareholders to participate in the General Meeting remotely, the Commercial Code effective until December 31, 2013 required and, similarly, the Corporations Act effective from January 1, 2014 also requires that this method of participation be treated in the Articles of Association. For technical and organizational reasons related to organizing the General Meeting, ČEZ has decided not to include in the Articles of Association the possibility for shareholders to participate in the General Meeting by the above mentioned remote access methods.
9) In terms of providing and publishing answers to questions posed by shareholders, ČEZ is governed by applicable law, which requires that it provide answers to such questions at the General Meeting. Explanations on individual agenda items may also be provided to shareholders by publishing them on the Company website no later than the day prior to the General Meeting and, subsequently, these are made available at the General Meeting itself as well. Questions and answers are included in the minutes of the General Meeting proceedings, which are available to shareholders upon request. Despite the GPW Codex's requirement, ČEZ, a. s. does not publish them on its website. ČEZ, a. s. deems this manner of providing answers to questions posed by shareholders to be sufficient.

Approach to Risks in Relation to Financial Reporting

As required by the Accounting Act, ČEZ, a. s. maintains accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The obligation under the Income Tax Act to also report figures without the influence of international accounting standards is met by maintaining a parallel general ledger pursuant to Czech Accounting Standards (CAS). The results from the CAS general ledger are used for tax purposes only.
Until December 31, 2012, ČEZ also provided accounting services to selected subsidiaries headquartered in the Czech Republic, which together with ČEZ, a. s. and other companies make up the CEZ Consolidated Group.
Effective from January 1, 2013, a substantial portion of this accounting services function was transferred to the subsidiary ČEZ Korporátní služby, s.r.o. The books of these selected subsidiaries are kept in accordance with Czech accounting regulations and, at the same time, documentation is prepared according to IFRS for consolidation, evaluation, and planning purposes. Dual general ledgers (CAS and IFRS) functionality is implemented for most of these selected subsidiaries as well.
Accounting processes at ČEZ and in the selected subsidiaries are governed by joint directives issued by ČEZ, a. s., which are valid also in said subsidiaries, or by directives issued by the parent company and subsidiaries individually, but based on unified rules. The principles contained in these directives are then elaborated in work procedures and methodological materials, which describe specific parts of the accounting function.
Unified accounting policies at ČEZ and its subsidiaries are set, in full compliance with generally binding laws and regulations, in the CEZ Group Accounting Standards. These standards are further supplemented by a set of lower-level methodological materials focusing in more detail on specific areas of the accounting process. Consolidation rules and other general principles used to prepare the CEZ Group consolidated financial statements are stipulated in the Rules of Consolidation.
Accounting transactions are processed in accordance with a directive issued by each company individually, subject to the general principle that all accounting transactions are recorded only on the basis of approved documentation. Approval takes place either in writing for documents forwarded to the accounting department in paper form, or electronically through the SAP (enterprise information system) approvals process for documents forwarded in electronic form. The scope of each approving officer's signature authority is set forth in the management directives of the company in question.
In terms of the organization, the accounting function is separated from the process of managing business partners, including management of bank account information and settlement of accounts payable. This rules out any possibility of a single employee entering a business partner in the database, recording a payable with respect to that partner, and issuing a payment order. Accounts are paid only when approved by the employee authorized to purchase the goods or services in question and by an employee authorized to confirm that the goods and/or services have been received.
Only users with the necessary authorization have access to the accounting system. The process of granting access to the system takes place through a software application and is subject to approval by a superior and by the owner of the accounting process. Access is authorized according to the employee's job position. Access for active operations (recording of transactions) in the accounting system is limited to employees of the relevant accounting department only. All logins to the accounting system are recorded in a database and can be searched retroactively. For each accounting document in the system there are records on who created it, as well as who changed it or reversed it, if applicable.
Inventory-taking of assets and liabilities is an integral part of the system of accounting controls. The inventory-taking process verifies whether all predictable risks and potential losses associated with assets have been reflected in the accounts, whether the assets are properly protected and maintained, and whether records of assets and liabilities are accurate.
The correctness of the accounts and the financial statements is checked on an ongoing basis by the Accounting Section. In addition, they are audited by an external auditor, who carries out the audit of the individual and consolidated financial statements as at the balance sheet date, i.e. December 31.
Selected accounting areas are also subjected to an internal audit to determine whether the procedures used are in compliance with applicable legislation and the Company's internal directives. Where discrepancies are found, corrective measures are immediately proposed and implemented in the shortest possible time.
The effectiveness of ČEZ's system of internal controls and the process of compiling the financial statements of ČEZ, a. s. and the consolidated financial statements of CEZ Group, as well as of the external audit process on the mentioned financial statements, is also verified by the Audit Committee which, as a Company governing body, conducts these activities without prejudicing the responsibilities of members of the Board of Directors and Supervisory Board.

Summary Report Pursuant to Section 118(8) of the Act on Doing Business in the Capital Market, on Certain Aspects of the Shareholders' Equity of ČEZ, a. s.

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

As at December 31, 2013, the Company's stated capital as recorded in the Commercial Register totaled CZK 53,798,975,900. It was composed of 537,989,759 shares, each with a face value of CZK 100. The issue price of all shares had been fully paid in. All the shares were booked to owner, and were listed.

The Company's stated capital is allocated exclusively to common shares, with no special rights attached. All of the Company's shares are accepted for trading on the Prague Stock Exchange and the Warsaw Stock Exchange in the Republic of Poland and are negotiable without limitations.

No other securities issued by ČEZ, a. s. are limited in their negotiability, nor are any special rights attached thereto.

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

Retained earnings and other reserves totaled CZK 155,826,323,000.

As of December 31, 2013, the following entities were recorded as having stakes of at least 1% of the stated capital of ČEZ, a. s.:

- The Czech Republic, represented by the Ministry of Finance of the Czech Republic, the Ministry of Labor and Social Affairs of the Czech Republic, and the Office for Government Representation in Property Affairs, with a combined total stake of 69.78% of the stated capital.
  The Czech Republic's equity stake allows it to exercise direct control over ČEZ using conventional means, i.e. in particular by voting at General Meetings. Other shareholders are informed of any negative influence the controlling entity may have on the Company through the Related Parties Report, which is a public document under Czech law and is attached to the Annual Report.
- Clearstream Banking, s.a., whose stake is 3.39% of the stated capital.
- Chase Nominees Limited, whose stake is 2.46% of the stated capital.
- Brown Brothers Harriman, whose stake is 1.73% of the stated capital.
- Nortrust Nominees Limited, whose stake is 1.09% of the stated capital.

These entities hold the rights set forth in Sections 365 et seq. of the Corporations Act.

In terms of restrictions on voting rights associated with certain shares, the following applies: the voting rights associated with treasury shares acquired by ČEZ, a. s. on the basis of a General Meeting resolution are not exercised by the Company. As at December 31, 2013, ČEZ, a. s. held 3,875,021 such treasury shares, i.e. 0.72%.

ČEZ is not aware of any contracts among its shareholders that could result in any limitations on the negotiability of shares or voting rights.

Amendments to the Articles of Association are decided by the General Meeting by a qualified, two-thirds majority of votes present.

As the statutory body, the Board of Directors runs the Company and acts in its name. In accordance with the Articles of Association, the Supervisory Board elects members to and removes them from the Board of Directors by a simple majority vote. It decides in all Company matters not reserved for the General Meeting or the Supervisory Board by law or the Articles of Association. Except as described above, the Board of Directors has no other special powers.

ČEZ, a. s. has entered into material contracts that take effect, change, or are voided in the event control over ČEZ changes as a result of a takeover offer. They are: the 6th, 7th, 8th, 11th, 12th, 13th, 14th, 19th, 20th, 21st, 23rd, 24th, and 30th Eurobond issues; the 1st, 2nd, and 4th Namensschuldverschreibung issues; the 1st and 2nd US bond issues; the convertible bonds issue of February 4, 2014; the bill of exchange program; loan agreements with the EIB for EUR 300 million signed in 2009, for EUR 100 million signed in 2010, for EUR 180 million signed in 2011, and for EUR 100 million signed in 2012; and a EUR 200 million loan guarantee agreement with the EIB signed in 2010 for the benefit of a subsidiary in Romania. In all of these contracts, should there be a change in the controlling entity of ČEZ, the counterparty would be entitled, but not required, to demand early repayment.

At the same time, however, this right can be exercised only if either Standard & Poor's or Moody's publicly declares or communicates to ČEZ in writing that it has reduced ČEZ's credit rating due, in full or in part, to the change in controlling entity. A reduction in the existing credit rating is defined as a change from investment to non-investment grade, any rating lower than an originally non-investment-grade rating, or non-determination of investment grade if no rating was assigned at all. The above reduction would have to take place in the period from when the step that could result in the change in controlling entity was made public until 180 days after the notification of the change in controlling entity. The counterparty could not exercise its right to early repayment if, following a factual change in the controlling entity, the rating agency in question re-evaluated its position and, within the period defined above, either returned ČEZ to investment grade or restored the previous non-investment-grade rating.
The contractual provisions on a change in control over ČEZ should be seen in the context of ČEZ's credit rating, which in 2013 was A– (with stable outlook) from Standard & Poor's and A2 from Moody's (with negative outlook), i.e. four and five levels, respectively, above the agencies' highest non-investment-grade ratings. The change-of-rating condition mentioned above does not apply to the EIB loan agreements, representing a total of EUR 880 million, as in the case of these agreements the counterparty's right is already fulfilled by the change in control over ČEZ, a. s.
At ČEZ, remuneration of senior executives includes an incentive program that enables these executives to acquire Company shares. Members of the Board of Directors and selected executives were/are entitled to options on the Company's common shares under the conditions set forth in a stock option contract.

Under the rules for granting stock options approved by the General Meeting in May 2008, members of the Board of Directors and selected employees receive options for a certain number of the Company's shares on an annual basis for as long as they remain in office. The purchase price of one share is set as the weighted average of the prices at which trades in the Company's shares took place in a regulated market in the Czech Republic during the month before the annual option granting date. Option beneficiaries are entitled to call upon the Company to transfer a number of shares no larger than the given option grant, no earlier than two years and no later than the mid-point of the fourth year after each option grant. The option right is restricted in that the appreciation of the Company's shares may be at most 100% compared to the purchase price and the option beneficiary is obligated to hold in his or her asset account such a number of shares obtained on the basis of a call to transfer that corresponds to the value of 20% of the gain achieved at the date of the call, for as long as the stock option program shall last.
In 2013, among employees and members of the Board of Directors there were six persons who had obtained shares through the stock options program and also owned shares during that year. Of this number, one person exercised their right to attend the General Meeting of ČEZ, a. s. as a Company shareholder and request explanations of matters related to CEZ Group. A total of five persons exercised their right to dividends. According to information submitted to the Company for the purpose of drafting this report, no beneficiary of the stock options program transferred any separately negotiable right attaching to their shares to any third party.

CEZ Group Strategic Objectives

The regular review of CEZ Group strategy reaffirmed the objective of protecting the Group's value and ensuring its sustainable growth. At the same time, the review examined the principal factors affecting CEZ Group's business: commodity prices deteriorated and in most countries the energy markets model is changing as doing business in regulated sectors becomes less attractive and decentralized energy gains traction at the expense of centralized. Decentralized energy is defined as the generation of electricity (as well as heat, where possible) at high efficiency close to where it is consumed, regardless of output, fuel type, or technique. This is associated with lower electricity transmission losses, since the sources are located closer to the point of consumption.

The strategic initiatives in place from 2011 to 2013 were evaluated as follows:

- Nuclear sources: preparations to expand Temelín Nuclear Power Station continue, and in the matter of ensuring the long-term operation of Dukovany Nuclear Power Station we are negotiating the conditions of economic feasibility
- Fuel procurement: successfully completed – the principal objective of ensuring long-term fuel supplies for the brown coal-fired power plants in the portfolio of ČEZ, a. s. was met
- Performance: the current phase has been a success – the principal objectives have been met; further work will take place under a new program, Performance and Enterprise
- Regional power: the activities originally undertaken under Regional power have been reallocated amongst the various divisions of ČEZ, a. s. and they will continue under a new strategic program, New Energy
- Renewable sources: the short-term objective was narrowed to building only the most effective part of the portfolio and optimizing the existing portfolio by selling off selected assets and stakes.

With regard to the latest developments, in 2013 CEZ Group decided to update the strategic programs with an emphasis on the end customer, achieving financial targets, and increasing the role that each employee plays in terms of increasing CEZ Group's value. The assets structure is not being changed significantly; instead, the basic assignment is for ČEZ to operate the highest-quality assets in each group, in stable countries.

The result of the CEZ Group strategy update is a modified set of strategic programs and their associated assignments:

1) New Nuclear Sources
   - Secure conditions for economic and financing feasibility for the build-out of units 3 and 4 of Temelín Nuclear Power Station and, possibly, other nuclear projects.

2) Long-Term Operation of Dukovany Nuclear Power Station
   - Extend the lifetime of Dukovany Nuclear Power Station to at least 2025 while ensuring the required safety and investment return.

3) International Consolidation
   - Reduce international exposure in non-promising markets and increase our focus on countries with higher political and economic stability; optimize the capital structure of individual companies.

4) Renewable Sources
   - Optimize the existing portfolio by selling off selected projects and/or stakes in assets.
   - Develop, build, and operate a portfolio of renewable sources with an attractive Internal Rate of Return (IRR).

5) Customer Orientation
   - Improve the customer experience across CEZ Group.
   - Leverage the existing customer base to sell new products and services.
   - Improve perception of the CEZ Group brand.

6) New Energy
   - Build new business in areas such as decentralized and "small-scale" energy (sources with lower output) focused on end customers.

7) Performance and Enterprise
   - Reinforce enterprise and financial management while achieving additional cost savings.
   - Set up an employee development program for increasing the performance and value of CEZ Group.


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Energy brings people together
Nothing energizes like meeting wonderful people that always bring a smile to your face and share life's joys with you.

Report on Operations
Financial Performance of CEZ Group

For accounting purposes, the CEZ Consolidated Group consisted of a total of 105 companies at December 31, 2013. Of this number 87 were fully consolidated, and 18 associates and joint-ventures were consolidated by the equity method.

CEZ Consolidated Group as at December 31, 2013
For accounting purposes, the companies of the CEZ Consolidated Group are divided into seven operational segments.

Power Production & Trading Central Europe
ČEZ, a. s.
A.E. Wind sp. z o.o.
Areál Třeboradice, a.s.
Baltic Green I sp. z o.o.
Baltic Green II sp. z o.o.
Baltic Green III sp. z o.o.
Baltic Green IV sp. z o.o.
CEZ Bosna i Hercegovina d.o.o.
CEZ Deutschland GmbH
CEZ Chorzow B.V.
CEZ MH B.V.
CEZ Poland Distribution B.V.
CEZ Produkty Energetyczne Polska sp. z o.o.
CEZ Silesia B.V.
CEZ Srbija d.o.o.
CEZ Towarowy Dom Maklerski sp. z o.o.
CEZ Trade Albania Sh.P.K.
CEZ Trade Romania S.R.L.
ČEZ Bohunice a.s.
ČEZ Energetické produkty, s.r.o.
ČEZ Energo, s.r.o.
ČEZ Obnovitelné zdroje, s.r.o.
ČEZ OZ uzavřený investiční fond a.s.
ČEZ Teplárenská, a.s.
Eco-Wind Construction S.A.
Elektrárna Dětmarovice, a.s.
Elektrárna Mělník III, a. s.
Elektrárna Počerady, a.s.
Elektrárna Tisová, a.s.
Elektrociepłownia Chorzów ELCHO sp. z o.o.
Elektrownia Skawina S.A.
Elektrownie Wiatrowe Lubiechowo sp. z o.o.
Energetické centrum s.r.o.
Energotrans, a.s.
Farma Wiatrowa Leśce sp. z o.o.
Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.
MARTIA a.s.
Mega Energy sp. z o.o.
PPC Úžín, a.s.
Tepelné hospodářství města Ústí nad Labem s.r.o.
CM European Power International B.V. *)
CM European Power Slovakia, s. r. o. *)
Jadrová energetická spoločnosť Slovenska, a. s. *)
JESS Invest, s. r. o. *)
MOL - CEZ European Power Hungary Kft. *)

Power Production & Trading Southeastern Europe
Bara Group OOD
CEZ Bulgarian Investments B.V.
ECO Etropol AD
Free Energy Project Oreshets EAD
M.W. Team Invest S.R.L.
NERS d.o.o.
Ovidiu Development S.R.L.
Taidana Limited
TEC Varna EAD
TMK Hydroenergy Power S.R.L.
Tomis Team S.R.L.
Aken B.V. in liquidation *)
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S. *)
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S. *)
Akenerji Elektrik Üretim A.S. *)
Akkur Enerji Üretim Ticaret ve Sanayi A.S. *)
AK-EL Kemah Elektrik Üretim ve Ticaret A.S. *)
AK-EL Yalova Elektrik Üretim A.S. *)
Egemer Elektrik Üretim A.S. *)
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S. *)

Distribution & Sale Central Europe
CEZ Magyarország Kft.
CEZ Slovensko, s.r.o.
CEZ Trade Polska sp. z o.o.
ČEZ Distribuce, a. s.
ČEZ Prodej, s.r.o.

Distribution & Sale Southeastern Europe
CEZ Distributie S.A.
CEZ Elektro Bulgaria AD
CEZ Razpredelenie Bulgaria AD
CEZ Trade Bulgaria EAD
CEZ Vanzare S.A.
Shared Services Albania Sh.A.
Akcez Enerji A.S. *)
Sakarya Elektrik Dagitim A.S. *)
Sakarya Elektrik Perakende Satis A.S. *)

Mining Central Europe
CEZ International Finance B.V.
Severočeské doly a.s.
LOMY MOŘINA spol. s r.o. *)

Other Central Europe
Centrum výzkumu Řež s.r.o.
CEZ Finance Ireland Ltd.
CEZ International Finance Ireland Ltd.
CEZ Polska sp. z o.o.
ČEZ Distribuční služby, s.r.o.
ČEZ Energetické služby, s.r.o.
ČEZ ENERGOSERVIS spol. s r.o.
ČEZ ICT Services, a. s.
ČEZ Korporátní služby, s.r.o.
ČEZ Nová energetika, a.s.
ČEZ Zákaznické služby, s.r.o.
PRODECO, a.s.
Revitrans, a.s.
SD - Kolejová doprava, a.s.
SD - KOMES, a.s.
ŠKODA PRAHA a.s.
ŠKODA PRAHA Invest s.r.o.
Telco Pro Services, a. s.
ÚJV Řež, a. s.

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

*) Associate or joint-venture.

CEZ Group Financial Performance Results

Operating income before depreciation and amortization, impairment allowances, and sale of property, plant, and equipment and intangibles (herein referred to as EBITDA) decreased by CZK 3.8 billion year-on-year, to CZK 82.1 billion. Net income was down CZK 5.0 billion year-on-year, to CZK 35.2 billion. The main factor influencing the year-on-year decline in income was a major reduction in wholesale electricity prices due to massive support for renewable sources of energy together with rising uncertainty concerning energy regulatory conditions in Europe. These factors caused the generation margin to fall substantially, and – like all big power utilities in Europe – CEZ Group was forced to recognize impairment adjustments on its plant and equipment.

Positive influences on CEZ Group results included the removal of the Albanian distribution and sales company, CEZ Shpërndarje, from the CEZ Consolidated Group in January 2013, the takeover of administration of renewable sources and combined heat and power generation purchasing by OTE (the Czech electricity market operator) in the Czech Republic, and extraordinary revenues from the sale of the Chvaletice power plant in September 2013.

Selected Indicators of CEZ Group in Accordance with IFRS

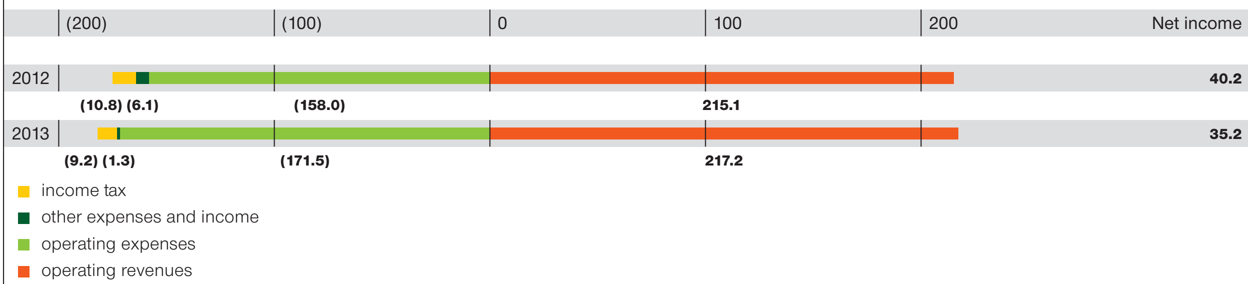
	Unit	2012	2013	Index 2013/2012 (%)
Installed capacity	MW	15,781	15,199	96.3
Electricity generated (gross)	GWh	68,832	66,709	96.9
Electricity sold [1]	GWh	41,867	36,593	87.4
Heat sold [1]	TJ	19,467	25,176	129.3
Gas sold [1]	GWh	5,895	5,868	99.5
Work force head count at December 31	persons	31,308	26,647	85.1
Operating revenues	CZK millions	215,095	217,273	101.0
of which: sales of electricity	CZK millions	186,797	189,657	101.5
EBITDA	CZK millions	85,818	82,054	95.6
EBIT	CZK millions	57,083	45,755	80.2
Net income	CZK millions	40,153	35,234	87.7
Earnings per share – basic	CZK/share	77.6	67.2	86.6
Dividend per share (gross) [2]	CZK/share	45.0	40.0	88.9
Net cash provided by operating activities	CZK millions	64,612	72,556	112.3
Capital expenditure (CAPEX) [3]	CZK millions	(50,449)	(44,070)	87.4
Financial investments [4]	CZK millions	(5,323)	(962)	18.1
Assets	CZK millions	636,070	641,136	100.8
of which: property, plant and equipment [5]	CZK millions	419,754	426,560	101.6
Equity (including non-controlling interests)	CZK millions	254,219	263,125	103.5
Net debt	CZK millions	161,028	156,511	97.2
Return on Invested Capital (ROIC)	%	10.5	7.8	74.5
Return on Equity, net (ROE)	%	17.4	14.1	81.0
Net debt / EBITDA	1	1.88	1.91	101.6

[1] Sales to end customers (outside CEZ Group).
[2] Approved in the given year; paid out of the previous year's income.
[3] Additions to property, plant and equipment and intangibles.
[4] Acquisition of subsidiaries, associates, and joint-ventures, net of cash acquired.
[5] Property, plant and equipment (including nuclear fuel and construction work in progress).

The composition of EBIT and EBITDA has changed in comparison to the presentation in previous years. In 2013, EBIT and EBITDA do not include impairment of property, plant and equipment or proceeds from sale of property, plant and equipment. The figures for previous years have been adjusted accordingly.

Revenues, Expenses, and Income

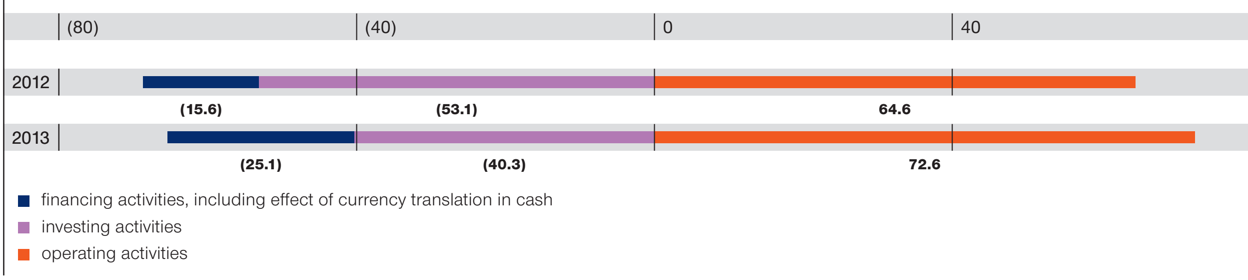
CEZ Group Net Income Breakdown (CZK billions)



Operating revenues were up CZK 2.1 billion year-on-year, with major growth seen in income from distribution and sale of electricity in the Czech Republic (+ CZK 11.3 billion), which was attributable in particular to correction factors for mandatory purchasing of energy from renewable sources in years past, while coal sales revenues also rose (due to increased sales volume). Factors that had a negative impact on revenues included a decline in generation and trading income (– CZK 5.5 billion), attributable in particular to ongoing declines in electricity selling prices and lower distribution and sales revenues in Southeastern Europe (– CZK 3.8 billion), due in particular to the removal of the Albanian distribution and sales company from the CEZ Consolidated Group in January 2013.
Operating expenses were up CZK 13.5 billion year-on-year on recognition of impairment adjustments to property, plant and equipment and write-offs of goodwill (– CZK 7.2 billion), which reflected deteriorating business conditions in the European power sector. Furthermore, in conjunction with the above mentioned year-on-year growth in distribution and sales revenues in the Czech Republic, the Group incurred higher expenses for purchasing electricity and related services (– CZK 7.2 billion). On the other hand, lower generation in coal-fired sources had a positive influence on expenses in 2013.
Other expenses and income improved income by CZK 4.8 billion year-on-year. The principal factors in the year-on-year improvement were: the positive effect of the sale of the Chvaletice power plant (+ CZK 3.0 billion), the removal of CEZ Shpërndarje from the CEZ Consolidated Group (+ CZK 1.8 billion), and a decreased impact of the gift tax on emission rights (+ CZK 1.7 billion). Of negative influence, on the other hand, was a decline in the financial performance of the Turkish companies, resulting in particular from foreign currency losses on restatement of USD-denominated loans (– CZK 1.4 billion).
Income taxes fell CZK 1.6 billion on lower income before income taxes.

Cash Flows

CEZ Group Cash Flows (CZK billions)

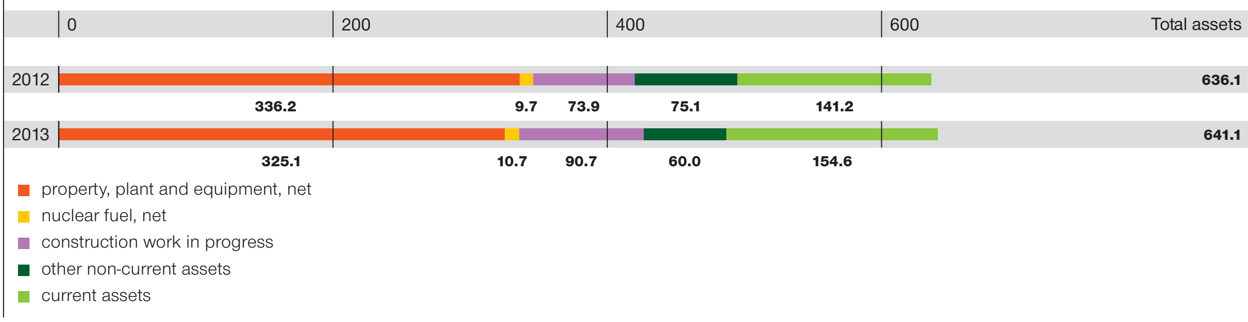


Net cash provided by operating activities was up CZK 8.0 billion year-on-year. Income before income taxes was down year-on-year (– CZK 6.5 billion) and income tax paid decreased, thereby increasing operating cash flow (+ CZK 2.5 billion). The year-on-year change in working capital was highly positive (+ CZK 11.9 billion), increasing cash provided by operating activities in 2013. The primary factors driving the positive change in working capital were a reduction in emission rights and certificates on hand due to settlement of a partial trading strategy in 2013 (+ CZK 9.1 billion) and, furthermore, a reduction in stocks of fossil fuels, materials, and supplies.
Cash used in investing activities was down CZK 12.8 billion year-on-year. Capital expenditures (CAPEX) declined year-on-year (+ CZK 6.4 billion), and the effect of the sale of the Chvaletice power plant in September 2013 was + CZK 4.1 billion. Cash outlays related to the acquisition of a 100% stake in Energotrans in 2012 totaled + CZK 4.1 billion. Net proceeds from/repayments of loans, on the other hand, had a negative impact on the year-on-year comparison.
Cash used in financing activities, including the effect of currency translation in cash, grew CZK 9.5 billion year-on-year. The principal factor here was a year-on-year drop in net proceeds from/repayments of credit facilities and loans (– CZK 13.7 billion). Positive factors, on the other hand, included a year-on-year decrease in dividends paid (+ CZK 2.7 billion), the change in long-term liabilities (+ CZK 1.3 billion), and currency translation (+ CZK 0.2 billion).

Structure of Assets, Liabilities and Equity

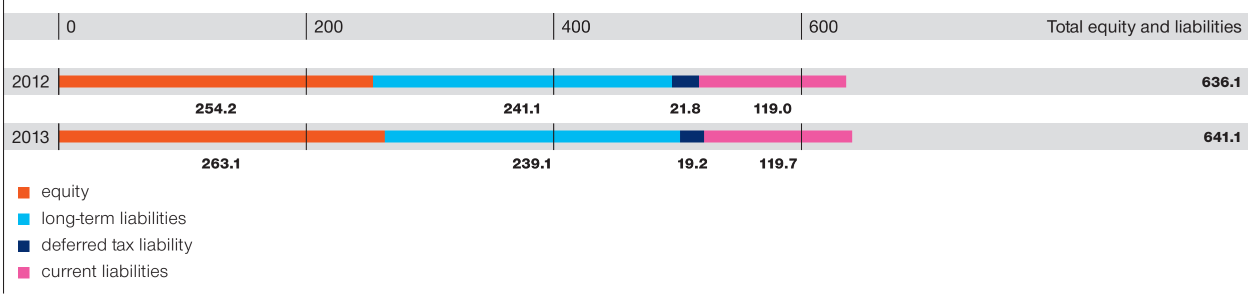
The value of CEZ Group's consolidated assets was up CZK 5.0 billion year-on-year, to CZK 641.1 billion.

CEZ Group Structure of Assets as at December 31 (CZK billions)



Fixed assets contracted CZK 8.4 billion to CZK 486.5 billion.
The value of property, plant and equipment (including nuclear fuel and construction work in progress) was up CZK 6.7 billion year-on-year.
A CZK 16.8 billion increase in property, plant and equipment due to construction work in progress, including advance payments, was partially offset by a CZK 11.1 billion decline in net plant in service, including the removal of the Albanian distribution company from the consolidation and the sale of the Chvaletice power plant, in addition to standard depreciation charges. Nuclear fuel was up CZK 1.0 billion year-on-year.
Current assets grew CZK 13.4 billion in 2013, to CZK 154.6 billion. Receivables were up CZK 12.7 billion, primarily on the reclassification, to current liabilities, of a long-term receivable from MOL, which was partially offset by the deduction of CEZ Shpërndarje Sh.A.'s receivables when that company was removed from the consolidated group. Cash and cash equivalents were up CZK 7.2 billion year-on-year, while liquid securities grew CZK 4.8 billion. Stocks of emission rights, fossil fuels, materials, and supplies were down CZK 4.7 billion. Receivables from derivatives trading declined CZK 5.8 billion, while other items fell by CZK 0.8 billion.

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



The value of CEZ Group consolidated equity and liabilities grew CZK 5.0 billion year-on-year, to CZK 641.1 billion.
Equity, including non-controlling interests, was up CZK 8.9 billion year-on-year, to CZK 263.1 billion. Net income generated in 2013 caused equity to rise by CZK 35.2 billion, while dividends decreased equity by CZK 21.3 billion. Other comprehensive income decreased equity by CZK 6.5 billion, while other factors, including the removal of CEZ Shpërndarje Sh.A. from the consolidated group, increased equity by CZK 1.5 billion.
Other comprehensive income decreased equity by CZK 6.5 billion, primarily on the change in the fair value of cash-flow hedge instruments carried in equity (– CZK 12.6 billion) and the change in the fair value of available-for-sale securities carried in equity (– CZK 0.7 billion). Equity rose, on the other hand, under the influence of currency translation (+ CZK 4.1 billion), deferred tax on items in other comprehensive income (+ CZK 2.5 billion), and other items (+ CZK 0.2 billion).
Long-term liabilities were down CZK 2.0 billion, to CZK 239.1 billion. Long-term bank and other loans declined CZK 9.6 billion on repayments, while on the other hand liabilities under bonds outstanding (including treasury bonds) were up CZK 1.9 billion and other liabilities grew CZK 4.3 billion, particularly on derivatives trading. Nuclear provisions rose CZK 1.4 billion.
The value of deferred tax liability decreased CZK 2.6 billion, to CZK 19.2 billion, due in particular to deferred tax relating to other comprehensive income.
The CZK 0.7 billion increase in short-term liabilities, to CZK 119.7 billion, was caused in particular by a CZK 14.0 billion increase in the current portion of long-term debt, including short-term loans. Declining items included trade payables (down CZK 7.6 billion on the removal of CEZ Shpërndarje Sh.A. from the consolidated group and lower ČEZ, a. s. payables) and liabilities from short-term derivatives, including options (down CZK 3.7 billion). Short-term provisions were down CZK 1.8 billion on the removal of CEZ Shpërndarje Sh.A. from the consolidated group. Other factors caused short-term liabilities to fall CZK 0.2 billion.

Comprehensive Income

Total comprehensive income, net of tax, fell CZK 17.2 billion year-on-year, to CZK 28.7 billion, while net income was down CZK 5.0 billion year-on-year. The principal factors in the year-on-year decline in other components of comprehensive income were the change in the fair value of cash-flow hedges, the reclassification of hedges from equity to the income statement, and the change in the fair value of available-for-sale securities. On the other hand, other comprehensive income was increased by currency translation differences in equity and by deferred tax.

CEZ Group Net Debt (CZK billions)

	2012	2013
Long-term debt, net of current portion	176.1	168.4
Current portion of long-term debt	12.0	28.1
Short-term bank loans	4.8	2.7
Financial debt	192.9	199.2
Cash and cash equivalents	18.0	25.1
Highly liquid financial assets	13.9	17.6
Net debt	161.0	156.5
EBITDA	85.8	82.1
Net debt / EBITDA	1.88	1.91

CEZ Group Financial Performance Results, by Segment

Segments by Their Contributions to Overall CEZ Group Financial Performance

	Sales other than intersegment sales (CZK millions)	Intersegment sales (CZK millions)	Total revenues (CZK millions)	EBITDA (CZK millions)	EBIT (CZK millions)	Income tax (CZK millions)	Net income (CZK millions)	CAPEX (CZK millions)	Work force head count as at December 31 (persons)
Power Production & Trading CE									
2012	68,224	47,651	115,875	56,987	40,754	(7,032)	41,235	26,103	7,790
2013	63,904	43,152	107,056	46,859	27,764	(5,083)	31,103	29,058	7,391
Distribution & Sale CE									
2012	101,010	5,884	106,894	17,596	14,019	(2,577)	11,111	8,304	1,459
2013	112,379	4,245	116,624	19,478	15,919	(2,846)	12,717	7,693	1,486
Mining CE									
2012	4,632	5,905	10,537	4,551	2,255	(443)	2,502	3,741	3,432
2013	5,145	6,466	11,611	5,090	2,951	(594)	2,933	2,438	2,984
Other CE									
2012	3,170	39,171	42,341	5,575	3,452	(718)	2,676	23,289	8,631
2013	2,787	39,371	42,158	5,357	3,256	(700)	2,590	23,029	9,250
Power Production & Trading SEE									
2012	2,243	1,184	3,427	2,966	1,640	(60)	603	6,947	480
2013	1,026	1,724	2,750	2,021	(2,989)	36	(4,529)	556	421
Distribution & Sale SEE									
2012	35,799	847	36,646	(1,773)	(4,889)	(3)	(4,562)	3,151	8,328
2013	32,006	770	32,776	2,968	(1,188)	(8)	336	2,961	3,960
Other SEE									
2012	17	2,304	2,321	154	90	(11)	92	973	1,188
2013	26	2,475	2,501	155	67	(17)	53	1,071	1,155
Elimination									
2012	–	(102,946)	(102,946)	(238)	(238)	40	(13,504)	(22,059)	–
2013	–	(98,203)	(98,203)	126	(25)	6	(9,969)	(22,736)	–
Consolidated									
2012	215,095	–	215,095	85,818	57,083	(10,804)	40,153	50,449	31,308
2013	217,273	–	217,273	82,054	45,755	(9,206)	35,234	44,070	26,647

CE = Central Europe
SEE = Southeastern Europe

The definition of the EBITDA indicator (see the section “Method Used to Calculate CEZ Group Key Indicators”) was modified in 2013. The year 2012 has been adjusted for comparability.

At the overall Group level, operating income before depreciation and amortization, impairment allowances, and sale of property, plant, and equipment and intangibles (EBITDA) was down CZK 3.8 billion, to CZK 82.1 billion.

The biggest segment, Power Production & Trading Central Europe, saw its EBITDA fall CZK 10.1 billion. The principal factors in the EBITDA decline in the Czech Republic were: lower selling price of generated electricity, including the impact of currency hedging rates (– CZK 6.7 billion), lower generation volume (– CZK 2.0 billion), lower sales of ancillary services, and restatement of derivatives. The year-on-year decline in EBITDA in Poland was negatively impacted by the sale of excess emission rights in 2012 (– CZK 1.3 billion) and lower market prices on color certificates.
The 1.7 TWh (2.7%) decrease in generation volume in the Czech Republic was related to a 3.1 TWh drop in generation in coal-fired power plants (sale of Chvaletice power plant, outage of Prunéřov II Power Station due to ongoing renewal), which was partially offset by a 0.5 TWh increase in generation from renewable sources (favorable hydrological conditions), a 0.4 TWh increase on higher nuclear generation output and reliable operation of nuclear sources, and a 0.5 TWh increase in generation from natural gas (attributable to the testing operation of the CCGT power plant in Počerady and an increase in the number of cogeneration units).
Supplies of heat from CEZ Group sources in the Czech Republic were up nearly 6,000 TJ (39.7%) year-on-year on the Energotrans acquisition that took place in late June 2012. Electricity generation in Poland was up 0.3 TWh (12.9%).

The Distribution & Sale Central Europe segment achieved year-on-year EBITDA growth of CZK 1.9 billion. Electricity distribution improved by CZK 3.2 billion, year-on-year, due in particular to correction factors for past years' mandatory purchasing of energy from renewable sources and growing revenues from sales of reserved distribution grid capacity, since the overall volume of distributed electricity remained practically unchanged year-on-year. EBITDA in the sales area in the Czech Republic and Slovakia, on the other hand, was down year-on-year due to settlement of unbilled electricity in 2012. The volume of electricity sold to end customers in the Czech Republic and Slovakia was down 0.6 TWh (2.9%) and 0.1 TWh (6.1%), respectively, in year-on-year terms. Sales of gas in these two countries were up, year-on-year, on higher market prices of gas and a structural change in the customer base; overall sales volume, 5.9 TWh, remained at 2012's level.

The Mining Central Europe segment saw its EBITDA rise CZK 0.5 billion, year-on-year, on a 0.9 million ton increase in overall coal sales volume and higher coal haulage revenues.

The EBITDA of the Other Central Europe segment fell CZK 0.2 billion, year-on-year, in conjunction with one-off merger expenses and a restructuring of ancillary operations with regard to other changes in the structure of CEZ Group.
The EBITDA of the Power Production & Trading Southeastern Europe segment was down CZK 0.9 billion year-on-year due to unfavorable developments in the regulatory environments of Romania and Bulgaria. The negative development of financial performance in Bulgaria was caused, in particular, by lower generation volume and the creation of a provision for reclamation of an ash disposal facility. The financial performance of the Romanian wind farms Fântânele and Cogealac was unfavorably impacted by a lower market price of green certificates, the deferral of the granting of the second green certificate for both farms in July 2013, and the suspension of the granting of certificates for Fântânele Vest (262.5 MW, i.e. 44% of the installed capacity of both farms) in November 2013, due to a notification delay on the part of the European Commission.

The Distribution & Sale Southeastern Europe segment posted a CZK 4.7 billion year-on-year improvement in EBITDA, driven in particular by the removal of the Albanian distribution and sales company from the CEZ Group consolidated results in January 2013 (+ CZK 6.0 billion). On the other hand, the operating incomes of companies in Bulgaria and Romania declined year-on-year. The volume of electricity sold and distributed in Bulgaria was down 0.3 TWh (3.1%) and 0.2 TWh (1.9%), respectively, year-on-year. The financial performance was further influenced by negative price decisions in 2013 and higher impairment adjustments on receivables from NEK, the Bulgarian state-owned power utility. Electricity sold and distributed in Romania was down 0.3 TWh (−9.3%) and 0.5 TWh (−7.5%), respectively, year-on-year. Despite this, however, the electricity sales margin grew CZK 0.5 billion. However, the overall year-on-year comparison was influenced by the extraordinary 2012 income result, which was related to the payment of receivables by companies from the Romanian state-owned rail group.

The year-on-year difference in eliminations (CZK 0.4 billion) is related to inter-segment sales of emission rights in 2012 and their ongoing consumption.

Commercial and Financial Outlook for 2014

As at February 27, 2014, CEZ Group expected to post 2014 consolidated operating income before depreciation and amortization, impairment allowances, and sale of property, plant, and equipment and intangibles (EBITDA) of CZK 70.5 billion and consolidated net income of approximately CZK 27.5 billion. The net income of the parent company, ČEZ, a. s., was expected to be approximately CZK 20 billion, the bulk of which consists of anticipated dividends from subsidiaries of ČEZ, a. s. The forecast reflects, in particular, unfavorable developments in European energy markets accompanied by an ongoing declining trend in wholesale electricity prices and deteriorating regulatory conditions in the European power industry.

The overall structure of assets, from which the 2014 income will be generated, will not change. Therefore, the factors listed below, that will affect the year-on-year change in financial performance results, are of principal importance for a forecast of the Group's commercial outlook for 2014.

A year-on-year drop in EBITDA by a total of CZK 11.6 billion is anticipated, caused in particular by the following factors: a decline in selling prices of electricity generated in the Czech Republic, including the impact of currency hedging rates (– CZK 6.6 billion), the posting of extraordinary revenues from trading in emission rights in 2013 and lower allocation of emission rights for generation in NAP III (– CZK 3.5 billion), a contraction in the margin on generation and distribution in Southeastern Europe due to lower regulated tariffs for 2014 in Bulgaria and the deferred granting of green certificates in Romania (– CZK 1.5 billion), a declining margin on mining due to lower coal prices linked to movements in electricity prices (– CZK 1.0 billion), and other factors such as, in particular, the effect of the divestiture of the Chvaletice power plant in 2013 (– CZK 0.4 billion).

Positive factors in the year-on-year EBITDA forecast include, in particular, higher efficiency and margins of upgraded power plants in the Czech Republic (+ CZK 0.7 billion), savings on external fixed operating expenses in generation and distribution in Southeastern Europe (+ CZK 0.3 billion), and savings on external fixed operating expenses in the Czech Republic outside of ČEZ, a. s. (+ CZK 0.4 billion).

The overall year-on-year comparison at the net income level was additionally affected by several major extraordinary revenues and expenses in 2013, and naturally these are not included in the 2014 income forecast. They included impairment adjustments to property, plant and equipment and write-offs of goodwill, which increased expenses by CZK 8.4 billion in 2013. Extraordinary revenues in 2013, on the other hand, were generated by the sale of the Chvaletice power plant (+ CZK 3.0 billion) and the removal of CEZ Shpërndarje Sh.A. from the consolidated group (+ CZK 1.8 billion).

CEZ Group sees the following material risks applying to the 2014 income forecast set forth above: developments in regulatory and legislative conditions in the power sector in Southeastern Europe and, potentially, impairment adjustments to property, plant and equipment in the event of unfavorable developments in European regulation and the power market.

We expect CEZ Group 2014 capital expenditure to be at a similar level to 2013, i.e. approximately CZK 44 billion, most of which is planned to be invested in generation sources.

In terms of 2014 cash flow, CEZ Group anticipates that it will be able to cover planned investing and financing expenditures, including dividends, from cash provided by operating activities. For this reason, no material change in CEZ Group's overall debt is expected in 2014.

CEZ Group Financing

Solvency in 2013

CEZ Group's solvency in 2013 was good and the companies of CEZ Group had no difficulties meeting their obligations, with the exception of the distribution and sales company in Albania, CEZ Shpërndarje, which however is no longer a part of the CEZ Consolidated Group as of January 2013 (the Albanian State has taken over control of the company).

2013 was the second-to-last year of the extensive program of capital expenditures to renew CEZ Group's portfolio of brown coal-fired power plants. Thus, overall CAPEX was at a level comparable to that of the past several years. ČEZ, a. s. increased the capital of its Turkish associate Akenerji Elektrik Üretim in the course of financing the construction of the Egemer gas-fired power plant. A total of CZK 21.3 billion in dividends was paid out for 2012. The agreement to sell the Chvaletice power plant had a positive impact on CEZ Group's liquidity and settlement of the CZK 4.1 billion transaction took place in September 2013.

In light of an expected slowing of monetary expansion in the USA, 2013 saw gradual growth in interest rates in USD, EUR, and other major currencies. This, however, was accompanied by a decline in credit margins and, particularly in the first half of the year, investors had a large appetite to buy bonds with longer times-to-maturity. ČEZ, a. s. took advantage of this to issue EUR 500 million (approximately CZK 12.9 billion) in 15-year bonds, the coupon on which reached 3.0% – the lowest ever in CEZ Group history for such a long transaction. Early in the year, ČEZ, a. s. issued EUR 30 million (approximately CZK 0.8 billion) in 25-year registered bonds (Namensschuldverschreibung). In October 2013, ČEZ repaid EUR 372 million (approximately CZK 9.5 billion) of bonds that it had not repurchased and canceled in past buy-backs.

In June 2013, ČEZ, a. s. contacted the holders of all its bonds issued before the year 2010 and requested their consent to a modification of the bonds' issue terms. Specifically, the modification limited the set of subsidiaries whose default on loan and other similar agreements would trigger premature repayment of ČEZ, a. s. bonds so that it extends to only material companies, i.e. those whose turnover exceeds 10% of CEZ Group consolidated revenues or whose assets exceed 10% of CEZ Group consolidated assets. This was CEZ Group's first such activity in the eurobond market. The requested modification was approved by a majority vote of bondholders. This unified the issue terms of bonds issued before 2010 with those of bonds issued after that date, which already contain a material subsidiaries clause.

In 2013, ČEZ, a. s. signed two bilateral committed credit lines as part of its CZK bond issue program, newly enabling foreign banks without a physical presence in the Czech Republic to participate in CEZ Group's financing. The first issue in this new program took place in December 2013; it was an issue on the basis of a bilateral committed credit line. As at December 31, 2013, the volume of bills of exchange and short-term bonds outstanding was CZK 2.1 billion, of which CZK 1.9 billion was under bilateral committed credit lines.

At December 31, 2013, the volume of long-term bank and other loans stood at CZK 25,387 million. Loans provided by the European Investment Bank accounted for CZK 21,855 million of this figure.

In 2013, CEZ Group succeeded in maintaining the average maturity of its financial debts at levels exceeding eight years. At year end 2013 ČEZ, a. s. had drawn approximately 7% of committed credits.

Bond Repurchase Offer

On March 31, 2014, ČEZ, a. s. offered to repurchase bonds maturing in 2015 and 2016 from the bondholders, without an option to exchange them for newly issued bonds. The aggregate total volume of the two issues as of the offer date was EUR 1.1 billion (approximately CZK 30.2 billion). ČEZ, a. s. agreed to repurchase a total volume of nearly EUR 0.3 billion (approximately CZK 8.2 billion) and settled the transaction on April 10, 2014.

List of Bonds Outstanding as at December 31, 2013 Issued by CEZ Group

Security	Issuer	ISIN	Issue date	Volume	Interest	Maturity	Form
7th bond issue [1]	ČEZ, a. s.	CZ0003501058	January 26, 1999	CZK 2.5 billion	CPI + 4.2%	2014	booked to owner
6th Eurobond issue	ČEZ, a. s.	XS0376701206	July 18, 2008	EUR 600 million	6.00%	2014	booked to owner
7th Eurobond issue [2]	ČEZ, a. s.	XS0384970652	September 17, 2008	JPY 12 billion	3.005%	2038	booked to owner
8th Eurobond issue [3]	ČEZ, a. s.	XS0387052706	September 22, 2008	EUR 6 million	zero coupon	2038	booked to owner
11th Eurobond issue	ČEZ, a. s.	XS0430082932	May 26, 2009	EUR 600 million	5.75%	2015	booked to owner
12th Eurobond issue [2]	ČEZ, a. s.	XS0447067843	September 8, 2009	JPY 8 billion	2.845%	2039	booked to owner
13th Eurobond issue [4]	ČEZ, a. s.	XS0458257796	October 19, 2009	EUR 750 million	5.00%	2021	booked to owner
14th Eurobond issue	ČEZ, a. s.	XS0462797605	November 4, 2009	EUR 50 million	6M Euribor + 1.25%	2019	booked to owner
19th Eurobond issue	ČEZ, a. s.	XS0502286908	April 16, 2010	EUR 750 million	4.875%	2025	booked to owner
20th Eurobond issue [5]	ČEZ, a. s.	XS0521158500	June 28, 2010	EUR 750 million	4.500%	2020	booked to owner
1st NSV (Namensschuldverschreibungen)	ČEZ, a. s.	XF0000NS9FM8	November 29, 2010	EUR 40 million	4.500%	2030	Global Depositary Receipt (GDR)
2nd NSV (Namensschuldverschreibungen)	ČEZ, a. s.	XF0000NS9TZ1	January 31, 2011	EUR 40 million	4.75%	2023	Global Depositary Receipt (GDR)
21st Eurobond issue [6]	ČEZ, a. s.	XS0592280217	February 17, 2011	JPY 11.5 billion	2.160%	2023	booked to owner
22nd Eurobond issue	ČEZ, a. s.	XS0622499787	May 3, 2011	CZK 1.25 billion	4.600%	2023	booked to owner
23rd Eurobond issue	ČEZ, a. s.	XS0630397213	May 27, 2011	EUR 500 million	3.625%	2016	booked to owner
24th Eurobond issue [7]	ČEZ, a. s.	XS0635263394	June 21, 2011	EUR 100 million	2.15% * Index Ratio CPI	2021	booked to owner
25th Eurobond issue	ČEZ, a. s.	XS0713866787	December 5, 2011	EUR 50 million	4.102%	2021	booked to owner

[1] Bonds issued with a rate of 9.22%; converted to variable rate of CPI + 4.2% in 2006.
[2] Proceeds of issue in Japanese Yen were swapped for Euros through a credit linked swap.
[3] Yield is determined by difference between issue price (EUR 1,071,696) and face value (EUR 6,000,000) of the bond.
[4] In February 2010, EUR 60 million and, subsequently, EUR 90 million in bonds was issued and added to the EUR 600 million issue of October 19, 2009, increasing the issue volume to EUR 750 million.
[5] In December 2010, EUR 250 million in bonds was issued and added to the EUR 500 million bond issue of June 28, 2010, increasing the issue volume to EUR 750 million.
[6] Proceeds of issue converted to EUR via a swap.
[7] Through a swap, the coupon linked to inflation was pegged to a value that ensures a fixed interest expense for ČEZ, regardless of movements in inflation.

Face value	Manager	Administrator	Market	Traded since	Issue rating (S&P/ Moody's)
CZK 1,000,000	ING Barings Capital Markets	Citibank, a.s.	PSE Official Free Market RM-System	January 26, 1999 December 5, 2001	–/–
EUR 50,000	BNP Paribas, Deutsche Bank AG, ING Bank N.V., Erste Bank	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	July 18, 2008	A–/A2
JPY 1,000,000,000	Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 17, 2008	A–/A2
EUR 100,000	Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 22, 2008	–/–
EUR 50,000	Banca IMI S.p.A., Citigroup Global Markets Limited, HSBC Bank plc, ING Bank N.V., Erste Group Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	May 26, 2009	A–/A2
JPY 1,000,000,000	Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 8, 2009	A–/A2
EUR 50,000	BNP Paribas, Société Générale, The Royal Bank of Scotland plc, Erste Group Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	October 19, 2009	A–/A2
EUR 50,000	Citigroup Global Markets Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	November 4, 2009	A–/A2
EUR 50,000	Bayerische Landesbank, Erste Group Bank AG, HSBC Bank plc, Société Générale, UniCredit Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	April 16, 2010	A–/A2
EUR 50,000	Citigroup Global Markets Limited, Crédit Agricole Corporate and Investment Bank, Deutsche Bank AG, London Branch, Erste Group Bank AG, The Royal Bank of Scotland plc	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	June 28, 2010	A–/A2
EUR 500,000	–	–	–	–	–/–
EUR 500,000	–	–	–	–	–/–
JPY 100,000,000	Credit Agricole Corporate and Investment Bank	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	February 17, 2011	A–/A2
CZK 5,000,000	Česká spořitelna, a.s.	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	May 3, 2011	A–/A2
EUR 100,000	Banka IMI S.p.A., BNP Paribas, Erste Group Bank AG, HSBC Bank plc, UniCredit Bank AG, Commerzbank Aktiengesellschaft	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	May 27, 2011	A–/A2
EUR 100,000	Barclays Bank plc	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	–	–	A–/A2
EUR 100,000	UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	December 5, 2011	–/–

Security	Issuer	ISIN	Issue date	Volume	Interest	Maturity	Form
3rd NSV (Namensschuldverschreibungen)	ČEZ, a. s.	XF0000B03489	April 2, 2012	EUR 40 million	4.7%	2032	Global Depositary Receipt (GDR)
1st U.S. bond issue [8), 9)]	ČEZ, a. s.	US157214AA57	April 3, 2012	USD 700 million	4.25%	2022	booked to owner
2nd U.S. bond issue [8), 9)]	ČEZ, a. s.	US157214AB31	April 3, 2012	USD 300 million	5.625%	2042	booked to owner
26th Eurobond issue	ČEZ, a. s.	XS0814711775	August 8, 2012	EUR 50 million	4.375%	2042	booked to owner
27th Eurobond issue	ČEZ, a. s.	XS0818793209	August 20, 2012	EUR 50 million	4.5%	2047	booked to owner
28th Eurobond issue [10)]	ČEZ, a. s.	XS0822571799	September 3, 2012	EUR 80 million	4.383%	2047	booked to owner
29th Eurobond issue	ČEZ, a. s.	XS0840265739	October 9, 2012	EUR 150 million	3M Euribor + 0.36%	2014	booked to owner
4th NSV (Namensschuldverschreibungen) [11)]	ČEZ, a. s.	XFCA00H08349 XFCA00H08356 XFCA00H08364	December 10, 2012	EUR 61 million	4.27%	2047	Global Depositary Receipt (GDR)
5th NSV (Namensschuldverschreibungen) [12)]	ČEZ, a. s.	XS0920182374 XS0920710570	March 26, 2013	EUR 30 million	3.55%	2038	Global Depositary Receipt (GDR)
30th Eurobond issue	ČEZ, a. s.	XS0940293763	June 5, 2013	EUR 500 million	3.00%	2028	booked to owner
1st issue in the domestic bond program	ČEZ, a. s.	CZ0003511057	December 3, 2013	EUR 10 million	zero coupon	2014	booked to owner
Bond issue [13)]	ČEZ Energo, s.r.o.	CZ0003510992	October 16, 2013	CZK 650 million	3.14%	2016–2020	documentary to owner

8) Issue was executed via a non-public bond offering to qualified institutional buyers under Rule 144A of the Securities Act of 1933 (USA), as amended (the "Securities Act") and, outside the United States of America, to certain non-American entities pursuant to Regulation S of the Securities Act.
9) Proceeds of issue converted to EUR via a swap.
10) In November 2012, EUR 20 million in bonds was issued and added to the EUR 60 million issue of September 3, 2012, increasing the issue volume to EUR 80 million.
11) The issue volume was divided into three certificates.
12) The issue volume was divided into two certificates.
13) Outstanding debt on bond issue was CZK 200 million at December 31, 2013.

ČEZ, a. s. has not issued any convertible bonds. Under the issue terms, the bonds are not guaranteed by the State or by any bank.
The 5th issue of NSV (Namensschuldverschreibungen) was issued in March 2013.
The 30th Eurobond issue was issued through the EMTN Eurobond program in June 2013.
The 1st issue in the domestic bond program was issued in December 2013.

Face value	Manager	Administrator	Market	Traded since	Issue rating (S&P/ Moody's)
EUR 1,000,000	Commerzbank AG	–	–	–	–/–
USD 200,000	Barclays Bank plc, Citigroup Global Markets Inc., Goldman Sachs International, SG Americas Securities, LLC	Citibank, N.A., London Branch	Bourse de Luxembourg	April 3, 2012	A–/A2
USD 200,000	Barclays Bank plc, Citigroup Global Markets Inc., Goldman Sachs International, SG Americas Securities, LLC	Citibank, N.A., London Branch	Bourse de Luxembourg	April 3, 2012	A–/A2
EUR 100,000	UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	August 8, 2012	A–/A2
EUR 100,000	UBS Limited	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	August 20, 2012	A–/A2
EUR 100,000	UniCredit Bank AG	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	September 3, 2012	A–/A2
EUR 100,000	Československá obchodní banka, a. s.	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	October 9, 2012	A–/A2
EUR 500,000	UniCredit Bank AG	–	–	–	–/–
EUR 1,000,000	Citigroup Global Markets Limited	–	–	–	–/–
EUR 100,000	Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, Erste Group Bank AG, ING Bank N.V., The Royal Bank of Scotland plc, Banca IMI S.p.A., Crédit Agricole Corporate and Investment Bank	Deutsche Bank Luxembourg S.A., Deutsche Bank AG	Bourse de Luxembourg	June 5, 2013	A–/A2
EUR 100,000	Barclays Bank PLC	Komerční banka, a.s.	–	–	–/–
CZK 1,000,000	Česká spořitelna, a.s.	Česká spořitelna, a.s.	–	–	–/–

Energy accomplishes
You plan your future, set goals that you look forward to, and achieve them with the energy that is unique to you.

CEZ Group Capital Expenditures

Capital Expenditures (CZK millions)

	2012	2013
Additions to property, plant and equipment and other non-current assets, including capitalized interest	53,518	46,076
Additions to property, plant and equipment	49,465	43,128
of which: nuclear fuel procurement	3,361	4,797
Additions to intangibles	984	942
Additions to long-term financial assets	832	2,149
Change in balance of liabilities attributable to capital expenditure	2,237	(143)
Investments	5,323	962
Capital expenditures, total	58,841	47,038

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

	Central Europe		Southeastern Europe		Total	
	2012	2013	2012	2013	2012	2013
Nuclear energy (including fuel procurement)	7,633	10,063	–	–	7,633	10,063
Coal and CCGT power plants	17,459	17,643	10	1	17,469	17,644
of which: new-build	10,446	7,189	–	–	10,446	7,189
renewal and other	7,013	10,454	10	1	7,023	10,455
Hydro sources, not including renewables	238	197	–	–	238	197
Renewables	356	48	6,944	541	7,300	589
Distribution of electricity	8,276	7,667	3,145	2,963	11,421	10,630
Distribution of heat	260	476	–	–	260	476
Mining	3,307	2,074	–	–	3,307	2,074
Environmental	527	402	–	–	527	402
Information systems	956	956	42	65	998	1,021
Other	1,246	892	50	82	1,296	974
Total	40,258	40,418	10,191	3,652	50,449	44,070

CAPEX Outlook for 2014–2018

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

Planned CEZ Group CAPEX, by Type (CZK billions)

	2014	2015	2016	2017	2018
Generation	25.3	16.3	14.7	12.7	13.5
of which: construction and comprehensive renewal of conventional and nuclear plants	14.4	5.2	4.8	5.0	5.7
maintenance of existing plants and other	10.9	11.1	9.9	7.7	7.8
Distribution and sale	9.8	9.1	10.0	10.1	10.6
Mining	2.6	2.0	2.9	2.5	3.1
Other CAPEX	6.0	4.1	3.5	3.5	3.5
CAPEX, total	43.7	31.5	31.1	28.8	30.7

CEZ Group Energy Procurement and Disposition

Procurement and Disposition of Electricity

Electricity Procured and Sold (GWh)

	2012	2013	Index 2013/2012 (%)
Electricity procured	62,217	60,183	96.7
Generated in-house	68,832	66,709	96.9
In-house and other consumption, including pumping in pumped-storage plants	(6,615)	(6,526)	98.7
Sold to end customers	(41,867)	(36,593)	87.4
Wholesale balance	(12,148)	(18,556)	152.7
Sold in the wholesale market	(230,122)	(187,781)	81.6
Purchased in the wholesale market	217,974	169,225	77.6
Grid losses	(8,202)	(5,034)	61.4

Electricity Generation, by Source of Energy (GWh)

	Czech Republic		Poland		Bulgaria		Romania		Total	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Nuclear	30,324	30,745	–	–	–	–	–	–	30,324	30,745
Coal	31,038	28,009	1,745	2,237	1,536	566	–	–	34,319	30,812
Hydro	2,066	2,659	5	9	–	–	31	5	2,102	2,673
Biomass	422	294	509	304	–	–	–	–	931	598
Photovoltaic	135	121	–	–	5	6	–	–	140	127
Wind	9	9	–	–	–	–	966	1,250	975	1,259
Natural gas	40	493	–	–	–	–	–	–	40	493
Biogas	1	2	–	–	–	–	–	–	1	2
Total	64,035	62,332	2,259	2,550	1,541	572	997	1,255	68,832	66,709

Electricity Sold to End Customers (GWh)

	Czech Republic		Poland		Bulgaria	
	2012	2013	2012	2013	2012	2013
Large end-customers	10,148	10,297	217	381	2,983	2,914
Retail – commercial	3,181	2,783	–	–	2,804	2,642
Residential	8,017	7,656	–	–	4,311	4,227
Total	21,346	20,736	217	381	10,098	9,783

Heat

Heat Supplied and Sold (TJ)

	Heat supply [4]		External heat sales (outside CEZ Group)	
	2012	2013	2012	2013
ČEZ, a. s.	10,275	10,293	1,043	790
ČEZ Energetické služby, s.r.o.	77	73	66	64
ČEZ Energo, s.r.o.	464	642	378	543
ČEZ Teplárenská, a.s.	331	427	8,457	8,426
Elektrárna Dětmarovice, a.s. [1]	–	575	–	12
Elektrárna Chvaletice a.s. [2]	163	92	8	5
Elektrárna Počerady, a.s.	77	219	16	66
Energetické centrum s.r.o.	108	119	104	111
Teplárna Trmice, a.s. [3]	2,977	2,139	–	–
Energotrans, a.s.	4,333	10,328	4,332	10,102
Czech Republic, total	18,805	24,907	14,404	20,119
Elektrociepłownia Chorzów ELCHO sp. z o.o.	2,370	2,393	2,319	2,342
Elektrownia Skawina S.A.	2,787	2,764	2,739	2,714
Republic of Poland, total	5,157	5,157	5,058	5,056
TEC Varna EAD	5	1	5	1
Republic of Bulgaria, total	5	1	5	1
Central Europe, total	23,962	30,064	19,462	25,175
Southeastern Europe, total	5	1	5	1
CEZ Group, total	23,967	30,065	19,467	25,176

[1] Company split off from ČEZ, a. s. on February 1, 2013.
[2] Company sold on September 2, 2013.
[3] Company merged into ČEZ, a. s. effective October 1, 2013; sales of heat to outside customers taken over by ČEZ Teplárenská, a.s.
[4] Heat for use inside power-heating plants.

Natural Gas

Natural Gas Procured and Sold (GWh)

	2012	2013	Index 2013/2012 (%)
Procured	117,256	427,682	364.7
of which: outside suppliers	116,971	427,176	365.2
OTE	285	506	177.5
Removed from storage	1,289	1,785	138.5
Sold	(116,388)	(425,510)	365.6
of which: trading	(110,224)	(419,216)	380.3
external large end-customers	(2,369)	(1,226)	51.8
medium-sized end-customers	(610)	(643)	105.4
small end-customers	(644)	(793)	123.1
residential	(2,272)	(3,206)	141.1
OTE	(269)	(426)	158.4
Placed in storage	(1,656)	(2,290)	138.3
Consumed in-house	(501)	(1,667)	332.7

Romania		Albania		Other countries		Total	
2012	2013	2012	2013	2012	2013	2012	2013
1,171	951	880	–	2,547	2,121	17,946	16,664
929	917	816	–	72	75	7,802	6,417
1,611	1,498	2,075	–	105	131	16,119	13,512
3,711	3,366	3,771	–	2,724	2,327	41,867	36,593

Financial Performance of ČEZ, a. s.

The principal businesses of ČEZ, a. s. are generation of electricity, trading in electricity, generation and distribution of heat, and trading in gas and other commodities.

The EBITDA indicator declined CZK 12.7 billion year-on-year, to CZK 35.9 billion. Net income was down CZK 9.0 billion to CZK 26.4 billion. The year-on-year decline in income was primarily attributable to a major drop in wholesale electricity prices and rising uncertainty concerning the regulatory conditions in the European power industry. These factors led to a substantial contraction of the generation margin and forced the Company, along with all other big power utilities in Europe, to increase recognition of impairment adjustments on long-term assets.

On the other hand, the sale of the Chvaletice power plant in September 2013 had a positive impact on ČEZ, a. s. financial performance. The achieved results and year-on-year comparison are further affected by changes in the structure of CEZ Group. For example, the impact of the split-offs of Počerady Power Station and Dětmarovice Power Station into separate companies on ČEZ, a. s. EBITDA and net income was CZK −4.3 billion and CZK −3.2 billion, respectively, in year-on-year terms.

Key Figures of ČEZ, a. s. in Accordance with IFRS

	Unit	2012	2013	Index 2013/2012 (%)
Installed capacity	MW	10,700	10,239	95.7
Electricity generated (gross)	GWh	57,757	50,662	87.7
Heat sold (including sales within CEZ Group)	TJ	8,699	8,922	102.6
Work force head count at December 31	persons	5,722	5,678	99.2
Operating revenues	CZK millions	108,147	101,644	94.0
EBITDA	CZK millions	48,605	35,907	73.9
EBIT	CZK millions	35,253	20,095	57.0
Net income	CZK millions	35,336	26,373	74.6
Dividend per share (gross) [1]	CZK/share	45.0	40.0	88.9
Net cash provided by operating activities	CZK millions	43,971	39,010	88.7
Capital expenditure (CAPEX)	CZK millions	26,133	28,718	109.9
Total assets	CZK millions	538,873	549,257	101.9
Equity	CZK millions	210,911	205,243	97.3
Net debt	CZK millions	156,122	159,768	102.3
Return on Assets (ROA), net	%	6.8	4.8	70.6
Return on Equity (ROE), net	%	17.5	12.7	72.6
Net debt / EBITDA	1	3.22	4.45	138.2

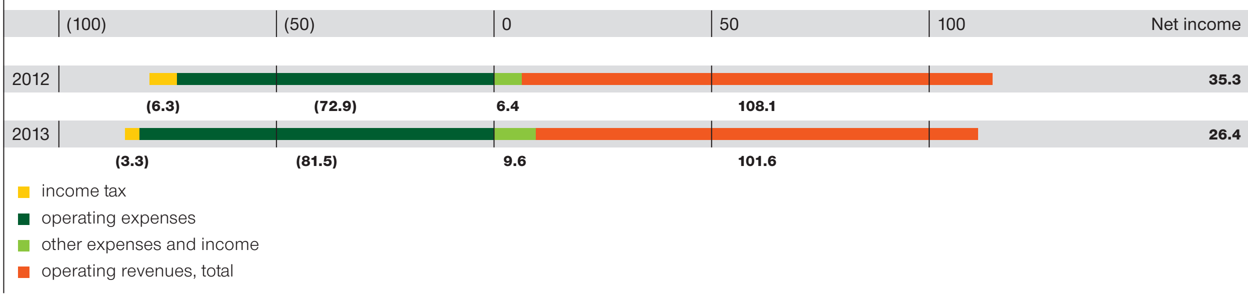
[1] Approved in the given year; paid out of the previous year's income.

The composition of EBIT and EBITDA has changed in comparison to the presentation in previous years. In 2013, EBIT and EBITDA do not include impairment of property, plant and equipment or proceeds from sale of property, plant and equipment. The figures for previous years have been adjusted accordingly.

ČEZ, a. s. electricity generation volume in 2013 was down 7.1 TWh from 2012, to 50.7 TWh. This decline was caused, in particular, by the split-off of Počerady Power Station in October 2012 (total impact 4.5 TWh) and the split-off of Dětmarovice Power Station into a separate company in February 2013 (generation output from split-off date: 2.1 TWh). A further 1.8 TWh decline in generation in coal-fired power plants was attributable to the comprehensive renewal of Prunéřov II Power Station, a higher plant failure rate (Mělník III Power Station), and lower heat content of combusted coal. The reduced generation in coal-fired plants was partially offset by higher generation and reliable operation in nuclear plants (0.4 TWh), increased generation from natural gas in conjunction with the process of commissioning a CCGT installation in Počerady (0.4 TWh), and increased generation in hydro power plants due to higher precipitation (0.6 TWh), while generation in other renewable sources declined 0.1 TWh.

Revenues, Expenses, and Income

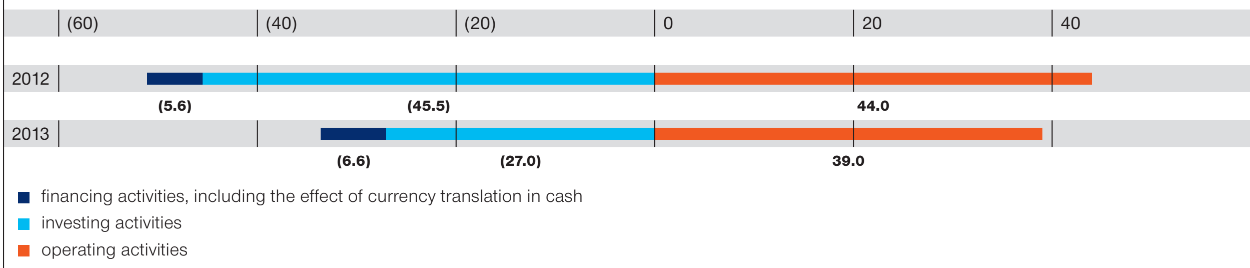
Net Income Breakdown ČEZ, a. s. (CZK billions)



Operating revenues fell CZK 6.5 billion year-on-year, particularly on a CZK 7.3 billion decline in electricity sales revenues, including commodity derivatives, due to lower market prices of electricity accompanied by a decline in generation volume and the split-offs of the Počerady and Dětmarovice Power Stations into separate companies. Revenues from sales of gas, heat, and other revenues, on the other hand, increased operating revenues by CZK 0.8 billion, due in particular to higher gas revenues.
Overall operating expenses were up CZK 8.6 billion, particularly on higher expenses for purchasing electricity and related services (up CZK 10.4 billion), which are attributable to the split-offs of the Počerady and Dětmarovice Power Stations, and recognition of impairment adjustments on long-term assets (particularly the CCGT installation in Počerady), the impact of which was CZK 2.5 billion. On the other hand, one factor that caused operating expenses to decrease was fuel expenses, which were down CZK 3.2 billion on lower consumption of fossil fuels to generate electricity in coal-fired power plants resulting from the split-off of the Dětmarovice and Počerady Power Stations into subsidiaries. Other operating expenses were down CZK 1.0 billion.
Other income and expenses were up CZK 3.2 billion year-on-year, to CZK 9.6 billion. The principal positive year-on-year factor was the settlement of the sale of the Chvaletice power plant (+ CZK 5.2 billion).
In conjunction with issued bonds and the weaker CZK against the Euro, interest expenses grew by CZK 0.3 billion. Lower interest on nuclear and other provisions had a positive impact (+ CZK 0.2 billion). Interest income, predominantly from lendings and receivables, was down CZK 0.7 billion as lendings were paid down and interest rates fell. Other financial expenses and income improved by CZK 1.2 billion year-on-year.
Income tax was down CZK 3.0 billion year-on-year on lower income before income taxes.

Cash Flows

ČEZ, a. s. Cash Flows (CZK billions)



Cash provided by operating activities contracted CZK 5.0 billion year-on-year. Income before income taxes fell year-on-year (– CZK 11.9 billion), income taxes paid were down year-on-year (+ CZK 3.0 billion), net interest paid/received, net of capitalized interest was up year-on-year (– CZK 0.9 billion), and other factors had a positive impact (+ CZK 0.3 billion).

Changes in working capital had a positive year-on-year impact on cash (+ CZK 4.5 billion). The principal factors in the positive change in working capital were a reduction in emission rights and certificates on hand due to the settlement of part of the trading strategy in 2013 (+ CZK 8.1 billion) and, furthermore, a reduction in stocks of fossil fuels, materials, and supplies (+ CZK 1.2 billion). A year-on-year increase in net trade receivables and payables, including advance payments and accruals/deferrals (– CZK 7.6 billion), was partially offset by lower net receivables and payables from derivatives, including options (+ CZK 6.1 billion). Liquid securities reduced working capital (– CZK 3.3 billion).

Cash used in investing activities was down CZK 18.5 billion year-on-year, primarily on lower loans made and lower repayment of loans within CEZ Group (+ CZK 7.5 billion), lower investments in acquisitions (+ CZK 6.7 billion), particularly in light of the Energotrans acquisition in 2012, and higher proceeds from disposal of subsidiaries (+ CZK 4.4 billion) in conjunction with the sale of the Chvaletice power plant in 2013.

Net cash from financing activities, including the effect of currency translation in cash, grew slightly year-on-year (+ CZK 1.0 billion) on lower net proceeds from/payments of borrowings (– CZK 10.1 billion), offset in particular by higher liabilities from CEZ Group cash pooling (+ CZK 4.9 billion), lower dividends paid (+ CZK 2.7 billion), and growth in other long-term liabilities (+ CZK 1.7 billion) attributable to a security deposit received from Vršanská uhelná a.s. The effect of currency translation in cash was lower in year-on-year terms (– CZK 0.2 billion).

Structure of Assets, Equity and Liabilities

Total assets grew CZK 10.4 billion year-on-year, to CZK 549.3 billion.

Fixed assets increased CZK 8.3 billion year-on-year, to CZK 427.0 billion, primarily on capital expenditures. This increase was partially offset by recognition of impairment adjustments on equity stakes in subsidiaries and a year-on-year drop in long-term lendings within CEZ Group (transfer to short-term).

Current assets were up CZK 2.1 billion in 2013, to CZK 122.2 billion, primarily on a CZK 5.4 billion increase in cash and cash equivalents and CZK 5.7 billion growth in liquid securities. Receivables from derivatives were down CZK 5.3 billion year-on-year. Other declining items were emission rights, down CZK 2.7 billion, and stocks of fossil fuels, materials, and supplies, which were down CZK 1.0 billion.

Equity was down CZK 5.7 billion to CZK 205.2 billion. The net income generated in 2013 contributed CZK 26.4 billion to the increase in equity. Dividends reduced equity by CZK 21.3 billion, while a merger reduced equity further, by CZK 0.3 billion. Changes in equity in conjunction with other comprehensive income – hedge accounting especially – caused equity to fall CZK 10.5 billion.

Long-term liabilities were up CZK 7.8 billion, to CZK 216.7 billion, primarily on a CZK 3.1 billion increase in payables from derivatives and a CZK 1.8 billion rise in long-term payables attributable in particular to a security deposit received from Vršanská uhelná a.s. Also contributing to the increase in long-term liabilities were bonds outstanding (+ CZK 1.7 billion) and nuclear provisions (+ CZK 1.4 billion). On the other hand, long-term bank loans fell slightly, by – CZK 0.3 billion.

Deferred tax liability was down CZK 2.3 billion, to CZK 8.7 billion, on factors such as deferred tax relating to other comprehensive income. Current liabilities grew CZK 10.6 billion, to CZK 118.6 billion, on a CZK 13.2 billion increase in the current portion of long-term debt, including short-term bank loans. Furthermore, payables from group cash pooling were up CZK 7.8 billion. On the other hand, payables from derivatives, including options, were down CZK 5.3 billion, and estimated items relating to unbilled electricity fell CZK 5.0 billion. Other factors accounted for another CZK 0.1 billion decrease in current liabilities.

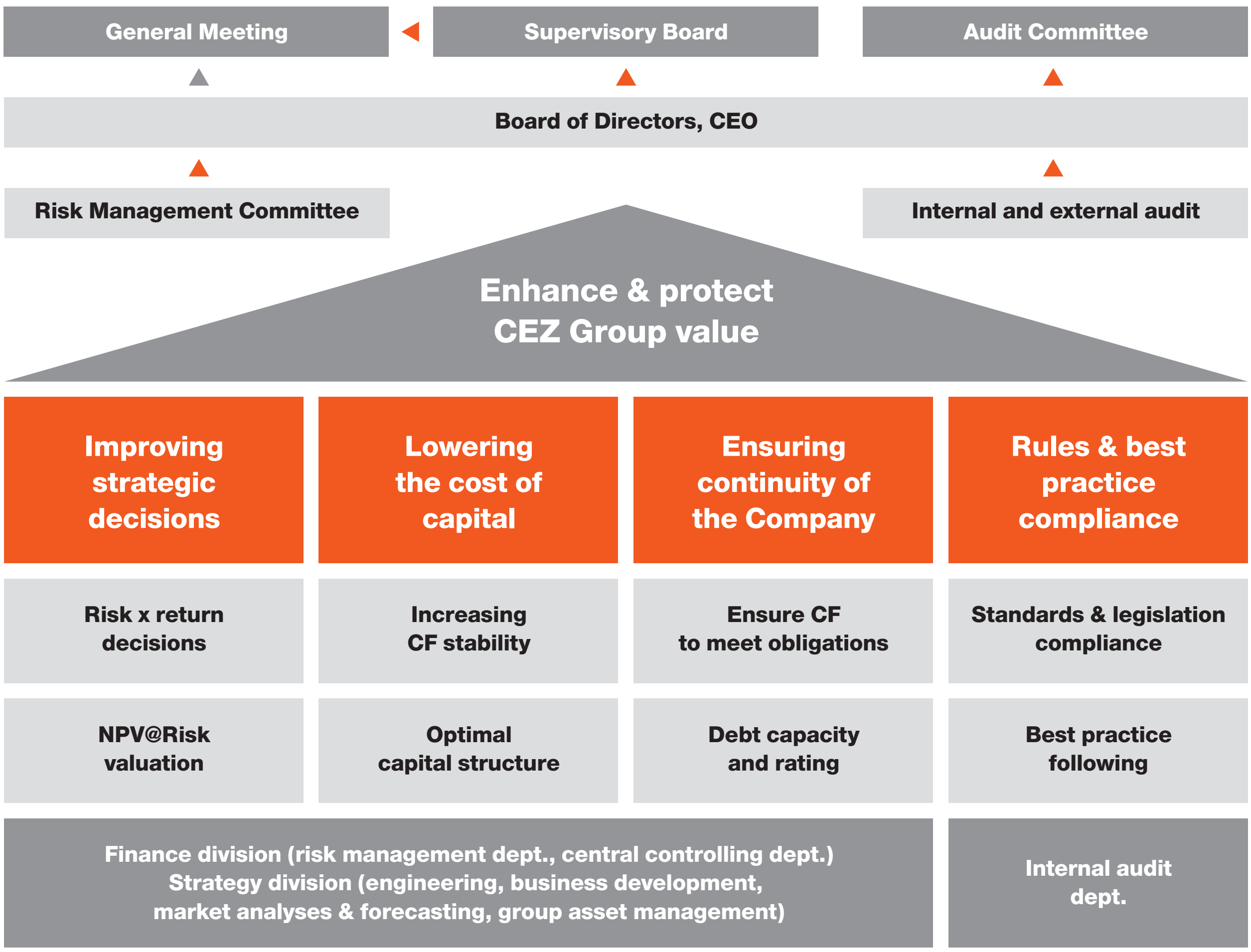
Comprehensive Income

The comprehensive income, net of tax, was down CZK 26.3 billion year-on-year, to CZK 15.9 billion. Net income declined CZK 9.0 billion year-on-year, while other comprehensive income fell CZK 17.3 billion year-on-year.

Negative factors included, primarily, the change in the fair value of cash flow hedges (– CZK 20.3 billion) and the year-on-year change in the fair value of available-for-sale securities in equity (– CZK 1.1 billion). On the other hand, deferred tax relating to comprehensive income had a positive effect (+ CZK 4.1 billion).

Risk Management and Insurance at CEZ Group

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



Risk Management

An important risk management body is the Risk Management Committee, an advisory body to the Chief Executive Officer of ČEZ, a. s. which, with the exception of approving the risk limit in the one-year plan (in the competency of the ČEZ, a. s. Board of Directors), proposes how the integrated risk management system will be developed; proposes the overall allocation of risk capital to individual risks and organization units; proposes binding rules, accountability, and a structure of limits for individual risks; and monitors the overall impact of risks on CEZ Group, including the degree to which CEZ Group's debt capacity is drawn down, and fulfillment of rating requirements. The aim of the risk management system is to increase the value of CEZ Group while taking on an acceptable level of risk. Centralized risk management is based on the perception of risk as a measurable degree of uncertainty (potential deviation between actual and planned developments), expressed in Czech Korunas at the chosen unified reliability level (enabling various types of risk to be compared and priorities to be set accordingly).

Centralized risk management relies on tools and models for managing and quantifying risk in one-year and medium-term time frames. Along with the CEZ Group budget, an aggregate risk limit (Profit at Risk) is approved, expressing CEZ Group's risk profile for the given year, and subsequently the Risk Management Committee allocates this limit among the various operations.

Risks in the form of specific threats and/or events are managed in a decentralized manner, with only the most significant of them being reported centrally, in unified fashion, within the process of updating the CEZ Group business plan. The monthly reports for the Risk Management Committee quantify unified development scenarios for selected risk factors and their impact on the current year, the business plan period, and the debt capacity.

These tools and processes allow CEZ Group to:

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

During 2013 these tools were updated to reflect structural changes in markets caused by growing generation in renewable sources of electricity and declines in the prices of black coal and emission rights.

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

1. Market risk

- commodity risks threatening the generation margin associated with power plant operation (managed through sliding sales of electricity from nuclear power plants and/or fixing of coal plant gross margins 3–6 years in advance, long-term electricity sales contracts and/or fixing of coal plant gross margins, and ongoing management of the overall CO_2 position)
- commodity risks ensuing from trading in electricity, emission rights, natural gas, black coal, petroleum and petroleum products (managed by setting financial limits on deviations from plan, position limits, and rules)
- currency and interest rate risks hedged by maintaining balanced operating, investing, and financing cash flows denominated in foreign currencies while utilizing standard financial instruments in accordance with risk limits and bounds for sliding fixation of generation revenues five years in advance
- volume risk for electricity generated from renewable sources abroad.

In 2013, the basic mathematical model EBITDA@Risk (used to measure the sensitivity of cash flow to market risk over the next five years) was expanded to include modeling of the prices of black coal and natural gas and utilization of implied volatilities of electricity options.

2. Credit risk

- credit risk linked to CEZ Group's trading and financing counterparties is managed by setting individual limits; due to the ongoing crisis and uncertainty in Europe, conservative rules are still in place for entering into trading transactions. Strict credit rules are applied when entering into long-term contracts for hedging the margins of generation installations in the Czech Republic
- electricity and gas end-customer credit risk is managed by setting payment terms on the basis of the customer's internally determined credit (in 2013 the average credit of large customers improved slightly, which was also reflected in a decrease in overall bad debt-related losses).

In 2013, regular assessments continued of supplier credibility in major CEZ Group CAPEX projects, and treatment of supplier credit risk when entering into material contracts with suppliers was given higher priority.

3. Operational risk

- the risk that actual output of nuclear and Czech coal-fired power plants will deviate from plan is quantified and reported on a monthly basis, and the long-term results are utilized to optimize the scope of maintenance work undertaken at these installations
- another material operational risk is the plant construction and renewal program (which is approaching completion) including, in particular, upgrades and construction of coal- and gas-fired power installations in the Czech Republic. Risks posed by the preparation and implementation of these CAPEX projects are quantified in a unified fashion and reported on a quarterly basis according to the unified Group methodology for managing CAPEX risk.

4. Business risk

- strategic, regulatory, and legislative business risks are evaluated on an ongoing basis and taken into account when updating the acquisition and investment strategy, with the aim of respecting CEZ Group's current debt capacity and financial means
- due to the European debt crisis, CEZ Group is more exposed to risks posed by new taxes and decisions of European Union anti-trust and regulatory authorities, as well as political risks in all countries where it operates.

2013 saw continuation of the process of ongoing, central quantification and coordination of the management of the ten biggest risks to CEZ Group cash flows over the business plan period, including clear allocation of accountability for managing these predominantly business risks, with regular reporting to the Risk Management Committee.

Insurance at CEZ Group

At CEZ Group, a number of risk categories are dealt with through an insurance program that covers ČEZ, a. s. to a substantial extent. The most important classes of insurance carried are:

- liability insurance on operation of nuclear power plants pursuant to the Nuclear Act. There are separate insurance contracts for Dukovany Nuclear Power Station and for Temelín Nuclear Power Station. Each contract is for the statutory limit of CZK 2 billion. The insurers are Česká pojišťovna a.s., representing the Czech Nuclear Insurance Pool, and European Liability Insurance for the Nuclear Industry.
- insurance of liability risks arising in the transport of nuclear fuel pursuant to the Nuclear Act. The insurance covers transports of nuclear fuel for both nuclear power plants, subject to the statutory limit of CZK 300 million. The insurers are Česká pojišťovna a.s., representing the Czech Nuclear Insurance Pool, and European Liability Insurance for the Nuclear Industry.
- property insurance for the nuclear power plants, covering natural hazard and machinery risks, including damages arising out of a nuclear accident. The insurers are Česká pojišťovna a.s., representing the Czech Nuclear Insurance Pool, and European Liability Insurance for the Nuclear Industry.
- property insurance for coal-fired and hydro power plants, providing insurance protection against natural hazards and machinery risks; for projects in the ČEZ, a. s. coal-fired plant renewal program, comprehensive construction-installation insurance has been taken out, including coverage of lost profits due to construction delays.
- property insurance covering the assets of ČEZ Distribuce, a. s., including insurance of distribution power lines.
- property insurance for selected ČEZ, a. s. subsidiaries.
- general third-party liability insurance covering companies of CEZ Group against financial losses that may arise from damages sustained by third parties relating to each company's operations and/or resulting from a defective product.
- statutory and supervisory board liability insurance covering the statutory and supervisory board members of the Company as well as those of subsidiaries.

Severočeské doly a.s. and its subsidiaries are covered by a set of insurance contracts against chance and unexpected events, including both acts of nature and liability. The most significant classes of insurance carried are the following:

- insurance of liability arising out of the insured's operations and product liability, including liability for subsequent financial damages, including damage to the environment, within the framework of CEZ Group insurance cover. The underwriter is XL Insurance Company Limited.
- property insurance for immovable and movable property utilized in mining and mining-related operations (particularly overburden removal, spoilbank formation, coal extraction and processing, and all conveyor belt operations). The underwriter is Kooperativa pojišťovna, a.s., Vienna Insurance Group.
- property insurance for immovable and movable property not directly designated and utilized in mining or mining-related operations. The underwriter is Kooperativa pojišťovna, a.s., Vienna Insurance Group.
- third-party liability and contractual insurance of vehicles. The underwriter is Kooperativa pojišťovna, a.s., Vienna Insurance Group.
- insurance of executives, group accident insurance, and travel insurance.
- property insurance for subsidiaries.
- liability insurance covering members of the Company's statutory and supervisory boards. This insurance also covers subsidiaries of Severočeské doly a.s.

Subsidiaries in the Republic of Bulgaria carry property insurance, general third-party liability insurance, and insurance against occupational injuries and illnesses, in compliance with the provisions of licenses for the generation and distribution of electricity.
In Romania, standard property and machinery risks insurance is carried, including interruption of operation cover, for the Fântânele and Cogealac wind farms. General liability insurance is carried for the local subsidiaries.
In Poland, the ELCHO and Skawina power plants carry insurance covering property and machinery risks, including interruption of operation. They also have general liability insurance cover.
For other companies, territories, and risks, we are gradually applying CEZ Group standards in line with the development of the CEZ Group insurance program and in compliance with applicable legislation.

Internal Audit

The Internal Audit section of ČEZ, a. s. reports directly to the Company's Board of Directors and submits the results of its auditing activities to the ČEZ, a. s. Audit Committee and to the statutory bodies of the respective subsidiaries within CEZ Group as well. The Director of the Internal Audit Section of ČEZ, a. s. has direct access to meetings of the Board of Directors, which he attends, and he also participates as a guest in meetings of the Safety Committee, the Risk Management Committee, the Security Committee, and the Senior Management Council.
The section's independence and the compliance of its activities with the Standards of Professional Internal Audit Practice were vetted by an external quality assessment in late 2011.
The internal audit activity plan is compiled on the basis of an assessment of the risk inherent in individual processes utilizing suggestions provided by CEZ Group executives, and integrates follow-up audits. In 2013, a total of 41 audits were conducted: 16 at ČEZ, a. s. and 25 in the subsidiaries, including seven audits in international holdings, where they are conducted by the Internal Audit Section of ČEZ, a. s. under contract. Concurrently, internal audit also monitored certain operations, particularly in accounting (under Service Level Agreement for subsidiaries).
ČEZ's audit operations are coordinated with the separate audit departments that exist in certain CEZ Group companies (ČEZ Distribuce, a. s., Severočeské doly a.s., as well as separate audit units in Bulgaria, Romania, and the distribution company in Turkey).
Based on the results of audits, Final Reports are drafted in which all objective findings are documented, and recommendations given in cases where shortcomings are found. These reports are discussed with the management of the audited entities, which subsequently takes corrective measures. Implementation of these measures is verified by the Internal Audit Section through follow-up audits (four of the above mentioned 41 audits conducted in 2013) or monitoring (another 15 in 2013).
On a quarterly basis, the Board of Directors and Audit Committee of ČEZ, a. s. are informed of the results of the audit activities, including any modifications to the audit plan. In the event of serious findings or shortcomings whose solution exceeds the competency of the audited entity, the Board of Directors of ČEZ, a. s. orders corrective measures by passing a resolution.

Corporate Compliance

In accordance with best practices, ČEZ, a. s. added a new element – Corporate Compliance – to its internal management and control system. The Corporate Compliance department reports directly to the Board of Directors, and it is tasked with spearheading a robust compliance program within CEZ Group, the goal of which is to mitigate key compliance risks, i.e. risks associated with breaches of laws, regulations, and/or other binding measures ensuing from administrative decisions, court decisions, and contractual relationships, in the event such a breach could have a material impact on CEZ Group (financial damage, reputation damage, etc.). Another task of Corporate Compliance is to enforce rules of business ethics.
The compliance program includes tools for preventing, detecting, and responding to both impending incidents and those that have already occurred. Prevention tools include, in particular, a set of anti-corruption and anti-cartel measures, other rules of ethical business supported by a system of training for employees and other target groups, as well as consulting activity (compliance help line). Detection tools include a new whistleblowing line and regular, on-line monitoring of key compliance risks (according to a compliance risk map). Response tools include procedures for running internal investigations of incidents and stipulating consequences for responsible parties. The Compliance Program is also designed to protect ČEZ to the maximum possible extent from the risk of incurring criminal liability as a legal entity.

Safety and Quality Management at CEZ Group

Safety and Quality Management

The CEZ Group management system is operated in the context of an approved Quality-of-Management Policy, which sets forth the fundamental principles by which quality is to be perceived by all employees. Correct set-up of the management system creates conditions for effective process-based and line management in all areas. At ČEZ, a. s., the management system is perceived as consisting of the following key elements: the Company's process-based model; the organization structure, including the stipulation of responsibilities and powers; and the system of internal directives and work documentation. The management system as a whole is regularly reviewed through the system of internal controls. Based on the results of the periodic reviews, measures are taken for the purpose of continual improvement.

The ČEZ, a. s. Board of Directors is fully aware of, and accepts without reservation, its responsibility under both applicable law and the international obligations of the Czech Republic to ensure the safety and security of generation sources and protect individuals, the public, and the environment.

Safety management is treated by internal directives in accordance with national legislation and international recommendations so as to give safety top priority in all processes and operations. This system is subject to an internal, three-tier system of regular checks: self-evaluation, a check by the Safety Department, and a check at the headquarters level by the CEZ Group Safety Inspectorate.

Another integral part of how safety and environmental protection are managed is the utilization of systems certified for compliance with ISO 14001, the Safe Enterprise program, and/or OHSAS standards.

The Company evaluates the management system through established, internal, integrated quality, EMS, and OSH audits, through a system of self-evaluation, and through periodic reviews of the integrated management system. At the same time, continual checks are conducted to determine the extent to which the stipulated goals and requirements, including requirements of the public, are being fulfilled.

All tasks assigned for 2013 by the National Action Plan to reinforce the safety of nuclear installations in the Czech Republic in conjunction with the events at the Fukushima nuclear power plant in Japan were successfully completed. The aim of completing these and future measures is to increase the nuclear safety and resistance of nuclear power plants to internal and external influences, in the form of both technical and organizational measures as well as by improving the safety management system, particularly in the areas of accident preparedness and fire protection.

A strategic task for 2013 ensuing from systematic work with CEZ Group's top-level safety document – the Safety and Environmental Protection Policy – was a design-level increase in the level of safety in the area of deviation management. The entire year's effort was evaluated and the results, in the form of binding tasks for further improving the deviation management system, will be discussed at the first ČEZ Plant Safety Committee meeting in 2014.

The most significant event in the area of safety management was the world premiere OSART CORPORATE mission of the International Atomic Energy Agency (IAEA) that took place in late September and early October. The mission's objective was to verify the level of safety management and compliance with IAEA documentation in corporate processes, and their links to nuclear safety in the operation of both nuclear power plants, Dukovany and Temelín. Nine experts from France, Finland, the USA, Romania, and the IAEA vetted seven areas of management: organization and management, independent supervision, human resources, communications, procurement, technical support, and maintenance. The mission's conclusions were summarized in a final report containing ten safety management best practices at ČEZ, a. s. which will be recommended to other nuclear operators, as well as six proposals and three recommendations for further process improvements, the implementation of which will be verified by a follow-up mission to take place in 18 months.

The suitability and correctness of systems' set-up were also verified by international delegations that visited the Temelín and Dukovany Nuclear Power Stations in 2013. The management system received positive marks from these delegations, which declared the system to be in accordance with worldwide best practices.

Other important activities that took place in 2013 in terms of improvement were the following: optimization of the Organization Management and Administration area, modifications to the process of carrying out organizational changes, including communication with the supervising authority (SÚJB), and optimization of documentation important from the perspective of nuclear safety and radiation protection. Based on in-house evaluations, benchmarking, and sector best practices, activities were commenced to change the approach to process performance evaluation.

Nuclear Plant Operational Safety

In 2013, both ČEZ, a. s. nuclear power plants were operated in compliance with applicable nuclear energy legislation and the conditions of all valid permits were fulfilled. The impact of safe operation of nuclear power plants on the environment and the populace is negligible. The Czech Republic National Report drawn up for purposes of the Convention on Nuclear Safety states that ČEZ, a. s. complies with all articles of the Convention.

Various activities and measures assigned after the accident at the nuclear power plant in Fukushima, Japan, as well as measures from the Periodic Safety Assessment, the project to extend the lifetime of Dukovany Nuclear Power Station (LTO EDU), and measures to eliminate identified risks, are included in the programs for improving the safety of the Dukovany and Temelín plants. Implementation of the various items called for by the National Action Plan for improving the safety of nuclear installations is supervised by the State Office for Nuclear Safety, and all items due by the end of 2013 were implemented.

In conjunction with the events in Fukushima, the international community and the IAEA and WANO organizations intensified their reviews of the operational safety of nuclear power plants and the companies that own and operate them.

During the period February 25–March 1, 2013 a Follow-up WANO Peer Review took place at Temelín Nuclear Power Station. Its objective was to verify how the plant dealt with the proposals it received in November 2011. Seven specialists from Slovakia, Russia, Hungary, and Armenia compared the plant with worldwide best practices and confirmed that, in terms of the implementation of the previous mission's recommendations, the plant is moving in the right direction. The international specialists looked at a total of ten areas at Temelín, including, for example, operations, maintenance, radiation protection, and fire protection.

On April 15–19, 2013, an IAEA Follow-Up mission was conducted in the Czech Republic to evaluate the seismic threat to nuclear power plants, with special focus on Temelín Nuclear Power Station. The principal objective of the IAEA mission was to assess the fulfillment of the various recommendations, and in particular the correctness and timeliness of the methodology currently in use to assess seismic risks at nuclear power plant sites in the Czech Republic. The IAEA team assessed the state of fulfillment of recommendations from the IAEA's previous seismic mission in February 2003, and compared the methodology used by Czech experts with IAEA standards and current worldwide best practices. The mission found sufficient progress being made in terms of implementing the previous seismic mission's recommendations. Three of the six areas of evaluation were closed, another three were designated "partially resolved", and progress toward resolution was found in all.

On June 24–28, 2013, a team of IEAE experts visited Dukovany Nuclear Power Station. This was another follow-up mission, tasked with verifying progress in the implementation of proposals made by an OSART team in June 2011. The expert team expressed appreciation for the approach taken to the analyses and findings, and gave a positive assessment to the status of and progress being made toward implementation of the previous commission's recommendations.

In December 2013, the Environmental Management System (EMS) was successfully recertified and the nuclear power plants defended their Safe Enterprise designation. Both nuclear plants commenced an extensive Safety Improvement Project and, at the same time, recorded their lowest injury rates ever: no work-related injury of an employee took place at either of the nuclear power plants.

Supplier Audits

Suppliers of items and services with security relevance are subject to repeated customer audits carried out by ČEZ, a. s. Customer audits examine the extent to which the suppliers comply with the requirements of nuclear legislation. The quality of the suppliers' work is monitored and evaluated on an ongoing basis, in accordance with predetermined criteria. 2013 saw a substantial increase in the number of customer audits carried out, thanks to the roll-out of a new system of joint audits with CEZ Group's biggest suppliers.

Energy strives

Whatever you happen to be doing, you always focus your energy on what matters most.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aspiring architect

CEZ Group in the Czech Republic

Business Environment in the Power Industry

The Czech power market is fully liberalized. Access to the transmission and distribution grids is regulated. The wholesale market in the Czech Republic is a part of the larger Central European market, thanks primarily to extensive cross-border transmission capacities between the Czech Republic and the transmission grids of other countries. The region's primary price-setting market is Germany and its exchange in Leipzig. Prices in the wholesale market are set on the POWER EXCHANGE CENTRAL EUROPE (PXE) and through bilateral contracts. Various instruments can be traded on the Czech Republic's exchange, from one-year contracts down to one-day contracts. Anonymous single-day trades can also be realized through the organized markets of OTE, a.s., where intra-day trading is also possible. For several years now, around 30 traders have been active in the wholesale market, and 58 electronic broker platforms, with various levels of liquidity, were in operation at year end 2013.

Since 2009, the single-day electricity market in the Czech Republic has been "coupled" with its counterpart in the Slovak Republic. This market coupling brought increased liquidity to the single-day market run by OTE, a.s. and de facto unification of Czech and Slovak wholesale electricity prices. In 2012, the coupling was expanded to include the Hungarian market as well. In 2013, a decision was taken to extend the market coupling to include Romania, with implementation scheduled for November 2014. Since 2011, offering of capacity on individual cross-border transmission lines is coordinated by a joint auction house run by a group of transmission grid operators, CAO (Central Auction Office GmbH headquartered in Freising, Germany), for all of the Czech Republic's borders except the Czech-Slovak border. There, thanks to the market coupling arrangement, capacity is allocated on a single-day basis, along with traded electricity, through spot markets.

In the period in question, ČEZ, a. s. reaffirmed its role as an active trader in the European context, and especially within Central and Southeastern Europe. It trades electricity in 14 countries, as well as trading in natural gas, black coal, and emission rights, and is a provider of ancillary services to transmission grid operators in the Czech Republic, Poland, Bulgaria, and Slovakia.

CEZ Group is an advocate of market liberalization and endeavors through its business activities to contribute to increased market transparency. In 2013, the Group reaffirmed this position in the ongoing formulation of new rules for allocation of cross-border transmission capacities in the region of Central Europe. It continues to support these positions through its memberships in the professional associations EURELECTRIC, EFET, and IETA.

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

Ancillary services are purchased by transmission grid operators at auction, through a wide range of products and various time bands. In this segment, the Czech market is one of the most competitive in Europe, with independent producers outside of CEZ Group offering approximately half of the necessary ancillary services capacity. Expressed in technical units, ČEZ's share in supplies of ancillary services in 2013 was 54.9% (compared to 62.3% in 2012).

There are currently approximately 52 traders (with over 100 connection points registered with OTE, a.s.) active in the retail market, supplying electricity to end customers. Substantial numbers of residential customers began migrating between electricity suppliers in 2009, and 2010–2011 saw a massive upswing in their numbers, which culminated in 2012. In 2013 the number of migrations declined. According to OTE, a.s. figures, the total number of migrations in the electricity retail market at all voltage levels for the entire Czech Republic in 2013 was 374,440, down from 473,128 in 2012, 448,860 in 2011, 249,181 in 2010, and 96,744 in 2009. That means that approximately 6.5% of connection points changed electricity suppliers in 2013 (2012: approximately 8.3% of connection points).

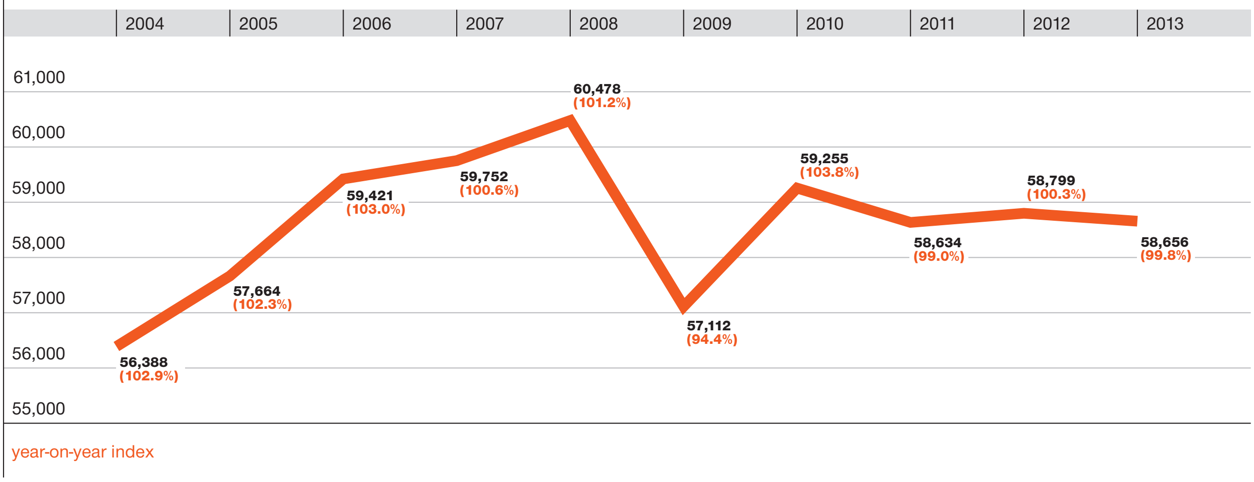
Thanks to the fully liberalized and transparent wholesale electricity market in the Czech Republic (functioning PXE exchange), the capabilities of producers outside of CEZ Group, and the transmission capacities of cross-border lines, over half of electricity consumption in the Czech Republic can be covered by producers other than ČEZ, a. s. CEZ Group's shares in the market for supplies of electricity to end customers are: approximately 28.3% in the large end-customers segment (connected to the high- and medium-voltage grids) and approximately 34% and 52% in the retail – commercial and retail – residential customer segments, respectively.

In the electricity distribution area, all prices are regulated by the Energy Regulatory Office. Price decisions were promulgated for eligible customers; concerning purchasing to support generation of electricity from renewable sources of energy, combined generation of power and heat, and secondary energy sources; prices of electricity and related services over the transmission grid; payments among distribution companies; prices for OTE's activities; and other regulated payments. As at December 31, 2013 a total of 3,575,188 sites (connection points) were connected to the grid.
2013 was the last year in which renewable power sources newly connected to the grid could obtain operational support for power generated during their useful lifetime, either in the form of mandatory purchasing or the green bonus for electricity. The reason for this fact was Act No. 310/2013 Sb. (imposing measures to stabilize the impacts of support for renewable sources), which amended Act No. 165/2012 Sb. on supported sources of energy and amending certain acts, which terminated operational support in its then-current form, effective from January 1, 2014. In terms of absolute numbers, photovoltaics outnumber other renewable power sources connected to the distribution grid operated by ČEZ Distribuce, a. s. As of December 31, 2013 there were 17,132 photovoltaic power plants connected, with an aggregate total of 1,014 MW of installed capacity.
Cumulatively for the entire year 2013, net electricity consumption totaled 58,656 GWh (down 0.2% year-on-year). After adjustment for the effect of temperature the figure was 58,420 GWh (–0.4% year-on-year) and after calendar adjustment –0.3% year-on-year. In the Czech Republic, the recession caused domestic electricity consumption to decline in 2009 only. Starting from January 2010, the statistics (after weather- and calendar-related adjustments) once again showed a 2.4% year-on-year growth in consumption. Then, in 2011, consumption grew by 0.3% compared to 2010. The 2012 figures indicated that the economic crisis had returned, with consumption falling by 0.7% year-on-year, and this was confirmed by the 2013 consumption figures, which again showed a 0.3% year-on-year contraction. While the overall cross-border export capacity remained the same, in 2013 there was a moderate increase in the average wholesale price spread between the Czech Republic and the Federal Republic of Germany, from 0.21 EUR/MWh in 2012 to 1.04 EUR/MWh (difference between EPEX and OKO spot markets).

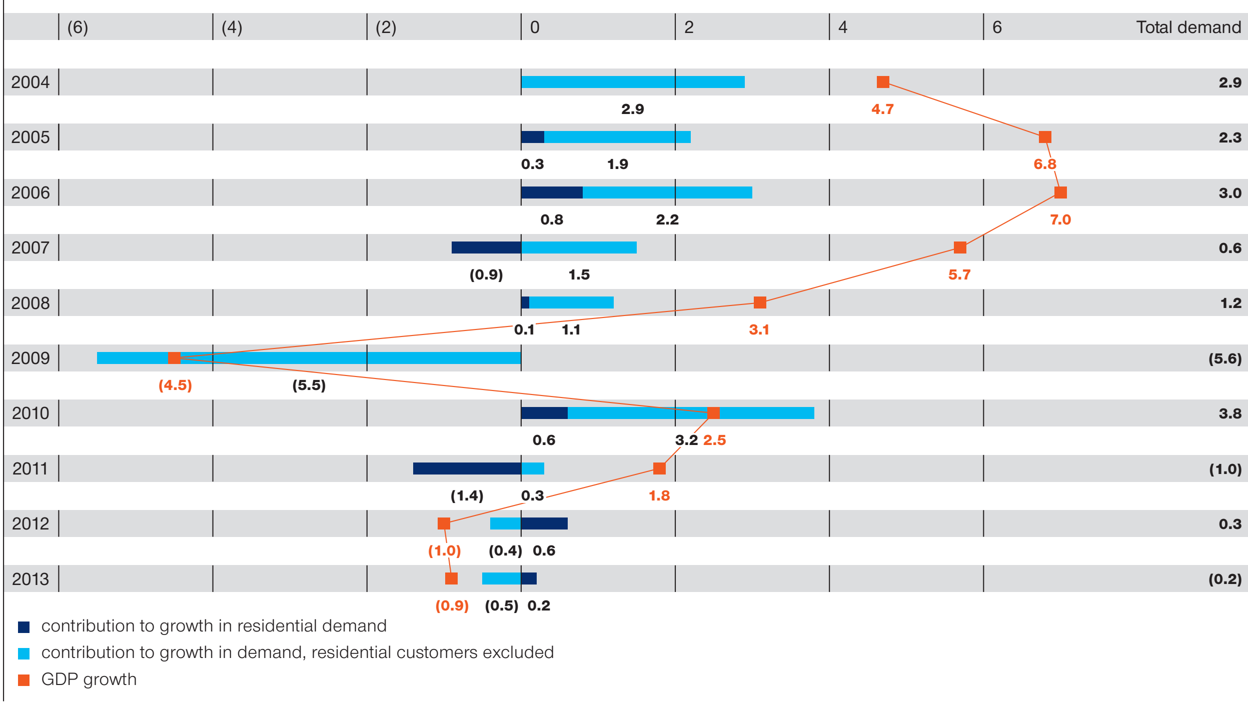
The natural gas market in the Czech Republic, too, is fully liberalized and the basic rules governing its functioning are similar to those in the electricity market. Although the gas market was liberalized later than that of electricity, on the other hand all its key players were already experienced, making the pace of liberalization and development of a competitive environment much faster. The two markets exhibited comparable levels of competition in 2013. Market convergence is evident in the behavior of most active traders, who offer their customers both commodities, and indeed customers are more and more frequently sourcing both electricity and natural gas from a single supplier. Through its member company ČEZ Prodej, s.r.o., CEZ Group further reinforced its position as a major gas supplier in 2013. At year end it was supplying gas to 321,718 connection points, up from 244,934 connection points at year-end 2012, and it is the biggest alternative supplier of natural gas in the Czech Republic. In the retail market for supplies of natural gas, as with electricity, there are approximately 52 active traders (i.e. traders that have over 100 connection points registered with OTE, a.s.). 297,281 customer migrations were recorded throughout the Czech Republic in 2013, which is the second decline in a row after 348,056 were recorded in 2012, and 361,941 were recorded in 2011, while 84,424 migrations occurred in 2010 and the number for 2009 was just 33,327. In 2013, then, approximately 7.1% of connection points migrated to a different supplier, which is approximately 0.6 percentage points more than the comparable electricity customer migration figure.

Selected Indicators – Czech Republic

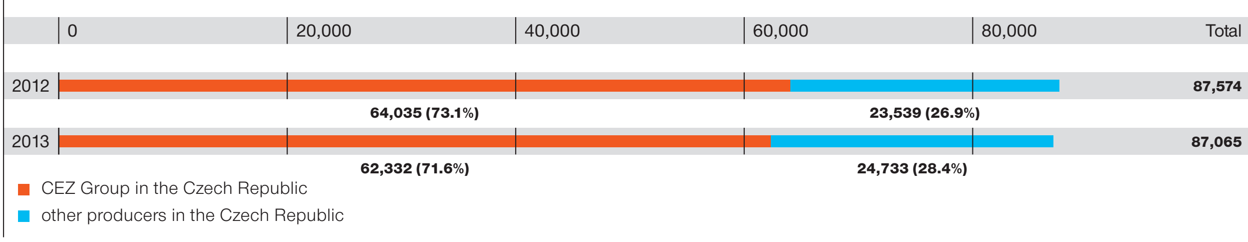
Electricity Demand in the Czech Republic (GWh)



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



Electricity Generation in the Czech Republic, Gross (GWh)



Brief Power Industry Development Forecast from the Perspective of CEZ Group

Prices on wholesale markets continued to exhibit a declining trend in 2013. They were negatively impacted by factors such as weak black coal prices in global markets, lower prices of emission rights caused by the uncertain direction of emissions regulation, and ongoing growth in generation from subsidized renewable sources. Dynamic growth in generation from subsidized renewable sources, particularly in Germany, along with other regulatory interventions, is leading to a situation in which the future functioning of the European wholesale market is uncertain.

The European power industry will continue to be influenced by the macroeconomic situation in the region, European Union policies, and developments in global energy commodities.

The economic situation in Europe is gradually stabilizing. Thanks in particular to recoveries in the two biggest economies, Germany and France, the Eurozone is no longer in a recession. In the near future, however, only moderate growth can be expected. This is for two reasons: high government indebtedness and ongoing fiscal restrictions that are putting a damper on economic activity. Economic growth then influences the pace of growth in electricity consumption.

In the electric power area, the European Union is working to liberalize and integrate markets and pursue a climate policy ("decarbonization"). As part of its decarbonization agenda, in January 2014 the European Commission released its draft policy for the period until 2030, which is linked to the goals package for the period until 2020 (reduced emissions, lower consumption, growth in generation from renewable sources). The European Council is to discuss the draft policy during 2014. The Commission is proposing a binding goal to achieve a 40% reduction in greenhouse gas emissions, compared to 1990, by the year 2030. The Commission's draft further calls for an EU-wide commitment to generate 27% of its energy from renewable sources, by the same year. Also part of the framework is a reform of the emissions trading scheme starting from 2021. A reserve is to be added to the scheme to increase the scheme's resistance to large shocks by changing the amounts of emission rights offered at auctions. The current low prices of emission rights result from a growing glut of emission rights due to lower economic activity over the past few years. Their price is also being negatively impacted by uncertainty over the future set-up of emissions regulation. Today's price levels do not motivate players to invest in low-emission technologies or fuel substitution, which is in conflict with the EU's long-term emission reduction goals, which call for a reduction by up to 80%, relative to 1990, by the year 2050.

By 2016, regulation of SO_X and NO_X emissions under the Large Combustion Plant Directive (LCPD) will force the decommissioning of major quantities of generation capacity in the United Kingdom, Poland, and Romania. Then, over the longer term, emissions standards will be made even stricter by the Industrial Emissions Directive (IED), and possibly by the Best Available Technique Reference Documents (BREF), the implementation of which will lead to the decommissioning of many old power sources throughout the European Union.

Besides the macroeconomic situation, electricity consumption will begin to be influenced more and more by the implementation of the Energy Efficiency Directive (EED), which calls for the achievement, each year, of new energy savings equal in volume to 1.5% of average consumption during the three years prior to implementation of the directive.

The electricity market will continue to be heavily influenced by the development of generation from renewable sources. In 2013, renewable sources covered over 20% of electricity consumed in Europe, and this percentage will continue to grow: by 2020 generation from renewable sources is to rise by another 50%. As the share of renewables increases, the playing field for conventional energy will get smaller. Moreover, growth in photovoltaic generation reduces prices of electric power during peak hours. Unstable supplies of electricity, dependent on the weather, also give rise to a large need for flexible reserve capacity. In a situation where the market is deformed by a continual onslaught of new regulatory measures, however, the necessary stability for making long-term investment decisions on a market basis is absent. In the meantime, tens of gigawatts of conventional generation installations are being decommissioned throughout Europe because they cannot compete economically.

In light of the above, a number of European countries are considering introducing "capacity payments" or markets that should ensure sufficient available capacity. In most cases, however, these plans are at the national level, not too coordinated among states, and thus the roll-out of these support mechanisms may have a negative impact on the functioning of the wholesale market.

Rapid growth in generation, particularly in unstable photovoltaic power plants and wind farms, is also giving transmission grid operators cause for concern. Their European association (ENTSO-E) has come out with a plan for the necessary grid upgrades, but the progress on the ground has been much slower than is needed.

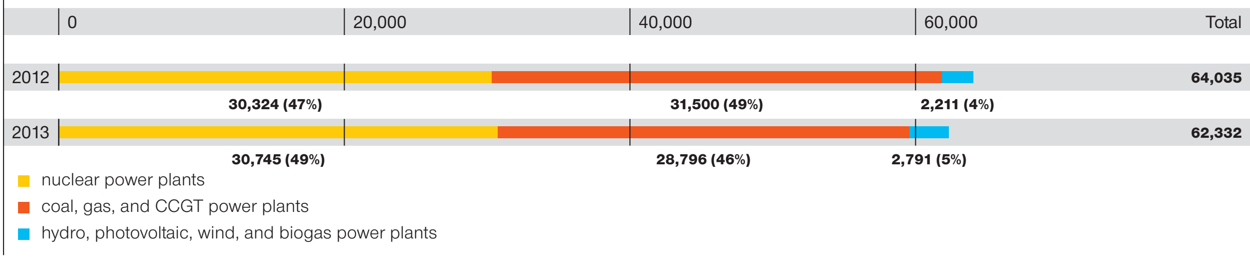
The technological revolution associated with hydraulic fracturing in oil and gas wells continues in the global commodity markets. The success of this technique in the USA has indirectly caused prices in Europe to decline by creating a black coal glut and depressing its price in world markets. American coal producers cannot compete against cheap domestic shale gas and are forced to export. Due to the constant progress in extraction techniques and the discovery of new sites where energy raw materials are found, world markets will continue to have sufficient supply of raw materials for power generation in the foreseeable future.

Electricity and Heat Generation

Electricity Generation

CEZ Group power plants generated a total of 62,332 GWh of electricity in 2013, down 1,703 GWh from 2012.

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

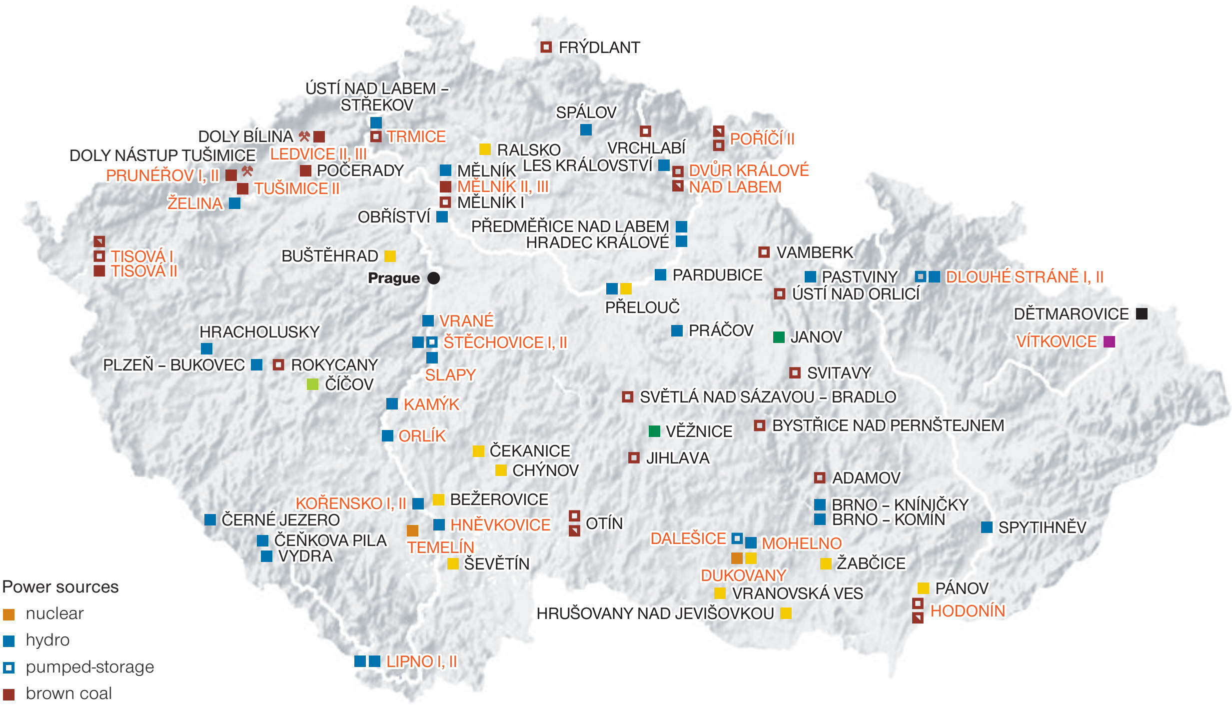


The increased generation volume in nuclear power plants was due to shorter outages and increased capacity at Dukovany Nuclear Power Station. The factors accounting for the decline in generation volume in coal-fired power plants included the comprehensive renewal of three generating units at Prunéřov II Power Station, limited coal supplies from Sokolovská uhelná, a higher failure rate of power sources (mainly outages of power plants in the Mělník area), and sale of the Chvaletice power plant in September 2013.

Installed Capacity

As at December 31, 2013, CEZ Group owned generating sources in the Czech Republic with an aggregate total installed capacity of 12,631.4 MW. This represents a 536.7 MW (–4%) year-on-year decrease:
During 2013, Elektrárna Chvaletice a.s. (Chvaletice Power Plant) was sold to Severní energetická a.s., a company from the Czech Coal group. That represents an 800 MW decrease in overall installed capacity. Capacity increases took place primarily at Temelín Nuclear Power Station (installed capacity of both units grew to a total of 2,250 MW) and in the course of the installation of new cogeneration units at ČEZ Energo, s.r.o.
Over the past few years, certain ČEZ, a. s. power plants were split off into separate legal entities, while other legal entities were merged into ČEZ, a. s. The Chvaletice power plant was split off on September 1, 2010, and the already operational Počerady Power Station followed on October 1, 2012, with the generation facility that is currently under construction at the Počerady site remaining in the hands of ČEZ, a. s. Dětmarovice Power Station was split off on February 1, 2013. On September 2, 2013, the Chvaletice power station was sold to a buyer outside of CEZ Group and on October 1, 2013 the company Teplárna Trmice, a.s., which operates a power-heating plant Trmice, was merged into ČEZ, a. s.

Location of CEZ Group Power Sources in the Czech Republic



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

Mines
- brown coal

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

List of CEZ Group Power Plants and Power-Heating Plants in the Czech Republic as at December 31, 2013

Nuclear Power Plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Dukovany	ČEZ, a. s.	4 x 510	1985–1987, overhaul 2009, 2010, 2011, 2012
Temelín	ČEZ, a. s.	2 x 1,125	2002–2003
Nuclear power plants, total		4,290.0	

Coal-Fired Power Plants

Plant	Owner	Type of fuel	Installed capacity (MW) as at December 31, 2013	Year commissioned	Desulfurized since
Ledvice II	ČEZ, a. s.	brown coal	2 x 110	1966	1996
Ledvice III	ČEZ, a. s.	brown coal	1 x 110	1968	1998
Mělník II	ČEZ, a. s.	brown coal	2 x 110	1971	1998
Mělník III	ČEZ, a. s.	brown coal	1 x 500	1981	1998
Prunéřov I	ČEZ, a. s.	brown coal	4 x 110	1967–1968	1995
Prunéřov II [1)]	ČEZ, a. s.	brown coal	5 x 210	1981–1982	1996
Tisová II	ČEZ, a. s.	brown coal	1 x 112	1961	1997
Tušimice II	ČEZ, a. s.	brown coal	4 x 200	1974–1975, comprehensive retrofit 2007–2012	1997
Dětmarovice	Elektrárna Dětmarovice, a.s.	black coal, brown coal	4 x 200	1975–1976	1998
Počerady	Elektrárna Počerady, a.s.	brown coal	5 x 200	1970–1971, 1977	1994, 1996
Coal-fired power plants, total			5,252.0		

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

Power-Heating Plants

Plant	Owner	Type of fuel	Installed capacity (MW) as at December 31, 2013	Year commissioned	Desulfurized since
Dvůr Králové nad Labem	ČEZ, a. s.	brown coal	1 x 3.5; 1 x 3.8	1955, 2011	1997
Hodonín	ČEZ, a. s.	brown coal	1 x 50; 1 x 55	1954–1958	1996–1997
Poříčí II	ČEZ, a. s.	black coal, brown coal	3 x 55	1957–1958	1996, 1998
Tisová I	ČEZ, a. s.	brown coal	3 x 57; 1 x 12.8	1959–1960	1996–1997
Trmice	ČEZ, a. s.	brown coal	2 x 20; 3 x 16; 1 x 1	1970, 2013	1997
Vítkovice	ČEZ, a. s.	black coal	2 x 16; 1 x 25; 1 x 22	1983–1995	
Mělník I	Energotrans, a.s.	brown coal	4 x 60; 2 x 56	1959–1961	1995
Otín, near Jindřichův Hradec	Energetické centrum s.r.o.	biomass	1 x 5.6	2008	
Fórum Třebíč	ČEZ Energo, s.r.o.	gas	1 x 0.03	1997	
Boiler Unit – Adamov, Nádražní	ČEZ Energo, s.r.o.	gas	1 x 2	2012	
Boiler Unit – Bojkovice, Tovární	ČEZ Energo, s.r.o.	gas	1 x 0.999	2013	
Boiler Unit – Brtnice, Nad Práchovnou	ČEZ Energo, s.r.o.	gas	1 x 0.266	2012	
Boiler Unit – Bystřice nad Pernštejnem	ČEZ Energo, s.r.o.	gas	1 x 2	2012	
Boiler Unit – Havlíčkův Brod, Na Výšině	ČEZ Energo, s.r.o.	gas	1 x 0.4	2013	
Boiler Unit – Havlíčkův Brod, Smetanovo náměstí	ČEZ Energo, s.r.o.	gas	1 x 0.4	2013	
Boiler Unit – Havlíčkův Brod, Žižkov II	ČEZ Energo, s.r.o.	gas	1 x 0.4	2013	
Boiler Unit – Hodkovice nad Mohelkou, Mánesova	ČEZ Energo, s.r.o.	gas	1 x 0.8	2013	
Boiler Unit – Humpolec, Na Rybníčku	ČEZ Energo, s.r.o.	gas	1 x 0.6	2013	
Boiler Unit – Jihlava, U Břízek	ČEZ Energo, s.r.o.	gas	1 x 2.014	2010	
Boiler Unit – Kladruby, areál RÚ	ČEZ Energo, s.r.o.	gas	1 x 0.8	2013	
Boiler Unit – Kroměříž	ČEZ Energo, s.r.o.	gas	1 x 0.15	2013	
Boiler Unit – Moravský Krumlov	ČEZ Energo, s.r.o.	gas	1 x 0.8	2012	
Boiler Unit – Nové Město nad Metují, Sokolská	ČEZ Energo, s.r.o.	gas	1 x 0.4	2013	
Boiler Unit – Nové Město nad Metují, Družstevní	ČEZ Energo, s.r.o.	gas	1 x 0.4	2013	
Boiler Unit – Nýřany, Komenského	ČEZ Energo, s.r.o.	gas	1 x 0.6	2013	
Boiler Unit – Nýřany, Luční	ČEZ Energo, s.r.o.	gas	1 x 0.8	2013	
Boiler Unit – Polička, Hegerova	ČEZ Energo, s.r.o.	gas	1 x 0.4	2013	
Boiler Unit – Polička, Svépomoc	ČEZ Energo, s.r.o.	gas	1 x 0.4	2013	
Boiler Unit – Postoloprty, Draguš	ČEZ Energo, s.r.o.	gas	1 x 0.2	2013	
Boiler Unit – Postoloprty, Dvořákova	ČEZ Energo, s.r.o.	gas	1 x 0.8	2013	
Boiler Unit – Rokycany, Kotelská	ČEZ Energo, s.r.o.	gas	1 x 1.56	2013	
Boiler Unit – Sušice, Kaštanová	ČEZ Energo, s.r.o.	gas	2 x 0.175	2010	
Boiler Unit – Sušice, Na Hrázi	ČEZ Energo, s.r.o.	gas	2 x 0.178	2012	
Boiler Unit – Sušice, Pravdova	ČEZ Energo, s.r.o.	gas	2 x 0.178	2012	
Boiler Unit – Sušice, Sirkařská	ČEZ Energo, s.r.o.	gas	1 x 0.34	2010	
Boiler Unit – Ústí nad Orlicí, Mazánkova	ČEZ Energo, s.r.o.	gas	1 x 1.56	2013	
Boiler Unit – Vamberk, Palackého	ČEZ Energo, s.r.o.	gas	1 x 1.56	2013	
Boiler Unit – Votice, Malé náměstí	ČEZ Energo, s.r.o.	gas	1 x 0.6	2012	
Boiler Unit – Vrchlabí, Fügnerova	ČEZ Energo, s.r.o.	gas	1 x 0.8	2012	
Boiler Unit – Vrchlabí, Liščí kopec	ČEZ Energo, s.r.o.	gas	1 x 1.56	2012	
Boiler Unit – Vysoké Mýto, Generála Svatoně	ČEZ Energo, s.r.o.	gas	1 x 0.6	2013	
Boiler Unit – Vysoké Mýto, Prokopa Velikého	ČEZ Energo, s.r.o.	gas	1 x 0.4	2013	
Bradlo, Světlá nad Sázavou Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 2.014	2009	
Frýdlant, Bělíkova Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 1.169; 1 x 0.18	2010, 2013	
Humpolec, Fügnerova Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.13	1995	
Příbor Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.265; 2 x 0.022	1998	
Smiřice, Govorova Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.170; 1 x 0.008	2008, 2009	
Světlá nad Sázavou Boiler Installation – (Světlá – Bradlo)	ČEZ Energo, s.r.o.	gas	1 x 0.022	2002	
Svitavy – Dimitrovova Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.01; 1 x 0.140	1996, 2000	
Svitavy – Tovární Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.01; 1 x 0.266	1996, 2000	
Svitavy – Větrná Boiler Installation	ČEZ Energo, s.r.o.	gas	2 x 0.022; 1 x 2.000	1996, 2000, 2013	
Volyně, Karla Čapka Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.19; 1 x 0.035; 1 x 0.009	1999	
Votice, Malé náměstí Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.150	2000	
Zruč – Okružní Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.408; 1 x 0.022	2004, 2007	
Zruč – Na Výsluní Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.390; 2 x 0.022	1999	
ZŠ Jiráskova – Smiřice Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.008	2010	
ZŠ Velká Chuchle Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.03	2011	
Železná Ruda – Krátká Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.170; 1 x 0.008	2008, 2009	
ÚSP Jindřichov ve Slezsku Boiler Installation	ČEZ Energo, s.r.o.	gas	1 x 0.022	2000	
Power-heating plants, total			1,020.4		

Hydro Power Plants

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

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Kamýk	ČEZ, a. s.	4 x 10	1961
Lipno I	ČEZ, a. s.	2 x 60	1959
Orlík	ČEZ, a. s.	4 x 91	1961–1962
Slapy	ČEZ, a. s.	3 x 48	1954–1955
Štěchovice I	ČEZ, a. s.	2 x 11.25	1943–1944
Vrané	ČEZ, a. s.	2 x 6.94	1936
Střekov	ČEZ OZ uzavřený investiční fond a.s. [1]	3 x 6.5	1936
Accumulation and run-of-river hydro power plants, total		723.9	

2. Small-scale hydro power plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Dlouhé Stráně II	ČEZ, a. s.	1 x 0.163	2000
Hněvkovice	ČEZ, a. s.	2 x 4.8	1992
Kořensko I	ČEZ, a. s.	2 x 1.9	1992
Kořensko II	ČEZ, a. s.	1 x 0.94	2000
Lipno II	ČEZ, a. s.	1 x 1.5	1957
Mohelno	ČEZ, a. s.	1 x 1.2; 1 x 0.56	1977, 1999
Želina	ČEZ, a. s.	2 x 0.315	1994
Brno – Kníničky	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 3.1	1941
Brno – Komín	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 0.106; 1 x 0.140	1923, overhaul 2008
Čeňkova Pila	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 0.096	1912
Černé jezero	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 1.5; 1 x 0.04; 1 x 0.37	1930, 2004, 2005
Hradec Králové	ČEZ OZ uzavřený investiční fond a.s. [1]	3 x 0.25	1926
Hracholusky	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 2.55	1964
Les Království	ČEZ OZ uzavřený investiční fond a.s. [1]	2 x 1.105	1923, overhaul 2005
Mělník	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 0.590	2010
Obříství	ČEZ OZ uzavřený investiční fond a.s. [1]	2 x 1.679	1995
Pardubice	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 1.998	1978, overhaul 2012
Pastviny	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 3	1938, overhaul 2003
Pilsen – Bukovec	ČEZ OZ uzavřený investiční fond a.s. [1]	2 x 0.315	2007
Práčov	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 9.75	1953, overhaul 2001
Předměřice nad Labem	ČEZ OZ uzavřený investiční fond a.s. [1]	1 x 2.6	1953, overhaul 2009
Přelouč	ČEZ OZ uzavřený investiční fond a.s. [1]	2 x 0.68; 2 x 0.49	1927, overhaul 2005
Spálov	ČEZ OZ uzavřený investiční fond a.s. [1]	2 x 1.2	1926, overhaul 1999
Spytihněv	ČEZ OZ uzavřený investiční fond a.s. [1]	2 x 2	1951, overhaul 2009
Vydra	ČEZ OZ uzavřený investiční fond a.s. [1]	2 x 3.2	1939
Small-scale hydro power plants, total		66.3	

3. Pumped-storage hydro power plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Dalešice	ČEZ, a. s.	4 x 112.5	1978
Dlouhé Stráně I	ČEZ, a. s.	2 x 325	1996
Štěchovice II	ČEZ, a. s.	1 x 45	1947–1949, overhaul 1996
Pumped-storage hydro power plants, total		1,145.0	

Hydro power plants, total		1,935.2	

[1] Generation licence holder is ČEZ Obnovitelné zdroje, s.r.o.

Photovoltaic Power Plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Dukovany	ČEZ, a. s.	0.01	1998, 2003
Bežerovice	ČEZ OZ uzavřený investiční fond a.s. [1)]	3.013	2009
Buštěhrad	ČEZ OZ uzavřený investiční fond a.s. [1)]	2.396	2010
Čekanice u Tábora	ČEZ OZ uzavřený investiční fond a.s. [1)]	4.48	2009
Hrušovany nad Jevišovkou	ČEZ OZ uzavřený investiční fond a.s. [1)]	3.802	2009
Chýnov u Tábora	ČEZ OZ uzavřený investiční fond a.s. [1)]	2.009	2009
Pánov	ČEZ OZ uzavřený investiční fond a.s. [1)]	2.134	2010
Přelouč	ČEZ OZ uzavřený investiční fond a.s. [1)]	0.021	2009
Ralsko	ČEZ OZ uzavřený investiční fond a.s. [1)]	55.762	2010
Ševětín	ČEZ OZ uzavřený investiční fond a.s. [1)]	29.902	2010
Vranovská Ves	ČEZ OZ uzavřený investiční fond a.s. [1)]	16.033	2010
Žabčice	ČEZ OZ uzavřený investiční fond a.s. [1)]	5.6	2009
Photovoltaic power plants, total		125.2	

Wind Power Plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Janov	ČEZ OZ uzavřený investiční fond a.s. [1)]	2 x 2	2009
Věžnice	ČEZ OZ uzavřený investiční fond a.s. [1)]	2 x 2.08	2009
Wind power plants, total		8.2	

Biogas Stations

Plant	Owner	Type of fuel	Installed capacity (MW) as at December 31, 2013	Year commissioned
BPS Číčov	ČEZ OZ uzavřený investiční fond a.s. [1)]	biogas	1 x 0.526	2011
Biogas stations, total			0.5	

[1)] Generation license holder is ČEZ Obnovitelné zdroje, s.r.o.

Fuel

Nuclear Fuel

Fuel for Dukovany Nuclear Power Station is sourced under a long-term contract with Russia-based OAO TVEL, which not only fabricates the fuel, but also provides conversion and enrichment services as well as some of the base raw material (uranium). In 2013, the EURATOM Supply Agency approved an addendum to the contract, which secures fuel for another ten years. Work commenced on a development program and licensing for a new fuel specified in 2012 in an addendum to the contract. The new fuel is to be first loaded into the reactor no earlier than 2014. In 2013, deliveries continued of the improved, latest version of VVER 440 second generation fuel. All four units of Dukovany Nuclear Power Station with this fuel are operating at an increased output of over 500 MW.

In 2013, Temelín Nuclear Power Station continued to operate with OAO TVEL fuel in both units. It was confirmed that the fuel works reliably and enables faster fuel reloading during outages. 2013 also saw the culmination of a development and licensing process enabling the generating capacity of both units to be increased. The fuel currently loaded enables switch to operation at an increased output of 104%. The TVSA-T fuel that both units are currently running on has the potential to enable safe operation of the units in a four- to five-year work cycle.

Raw uranium necessary to fabricate nuclear fuel, and processing thereof (conversion and enrichment services), were sourced under long-term contracts. Nearly one third of our uranium needs is covered over a long period by supplies from the domestic uranium producer DIAMO, státní podnik, with the remainder purchased from international suppliers or through direct deliveries of fuel (mostly for Dukovany Nuclear Power Station). In 2013, ČEZ, a. s. leveraged a favorable market situation to purchase a portion of its raw uranium requirement on the spot market.

Based on the change in the supplier of fuel for Temelín Nuclear Power Station, in late 2010 ČEZ, a. s. began implementing physical deliveries to Russia of enriched uranium processed by suppliers of conversion and enrichment services in the European Union. As recommended by the supply management policy of the EURATOM Supply Agency, this will maintain the desirable diversification of the supply base. In 2013, ČEZ, a. s. conducted a tender and selected a supplier to cover the remaining portion of the requirement for uranium and conversion services in the period 2015–2019. In order to mitigate the risk of an interruption or other endangerment of timely supplies of nuclear fuel, ČEZ, a. s. also maintains, at supplier sites, a strategic inventory of uranium in various stages of processing.

Solid Fossil Fuels and Sorbents

Supplies of solid fuels for ČEZ, a. s. coal-fired power plants in 2013 were dominated by brown coal, at 24.1 million tons, accounting for 95.2% of total coal supplies. The biggest suppliers of brown power generation coal to ČEZ, a. s. in 2013 were Severočeské doly a.s., Vršanská uhelná a.s., and Sokolovská uhelná, právní nástupce, a.s.

Long-term coal supply contracts are in effect with Severočeské doly a.s. (agreement on future purchase agreements; valid until 2052), Sokolovská uhelná, právní nástupce, a.s. (purchase agreement; valid until 2027), and Vršanská uhelná a.s., which supplies coal to Počerady Power station (agreement valid until the earlier of 2062 or the exhaustion of the Vršany mine).

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

Black coal volume supplied to CEZ Group power plants in the Czech Republic totaled 1.2 million tons (4.8% of overall coal supplies). The bulk, 0.9 million tons (70.0%), was supplied by OKD, a.s., and the remaining 0.3 million tons (30.0%) was imported from Poland.

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

Supplies of sorbents for running flue gas desulfurization equipment at CEZ Group coal-fired power plants in the Czech Republic totaled 1.12 million tons in 2013.

Biomass Combustion and Co-Combustion

Biomass consumption within CEZ Group in 2013 totaled 372,100 tons. Most frequently, biomass is combusted in the form of wood chip, as well as biomass from plant matter in the form of pellets made of straw, sugar beet, and sunflower.

Within CEZ Group, biomass was combusted in the existing power-heating plants Hodonín, Poříčí II, Tisová I, Dvůr Králové nad Labem, and at Elektrárna Dětmarovice, a.s.

Energetické centrum s.r.o. consumed a total of 48,400 tons of phytomass in 2013 for its power-heating plant in Otín, near Jindřichův Hradec.

Natural Gas

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

Electricity Generation Outlook

2014 will see turbo-aggregate modifications made on unit 1 of Temelín Nuclear Power Station. The modifications will include, in particular, the replacement of three low-pressure rotors, including stator parts, and the turbine's regulation system. The modifications are to increase the unit's achievable capacity by 22 MW_e. On unit 2, a standard outage will take place for fuel replacement; turbine modifications to increase capacity will not be undertaken on this machine until 2015. Some of the work to be undertaken during outages will be in relation to recommendations ensuing from the recent stress tests.

Dukovany Nuclear Power Station will see standard, planned outages and other fuel replacement-related work on all four units. These outages will also include work ensuing from the stress test results: among other things, this will include increasing the resistance of selected buildings to the effects of extreme weather conditions and seismicity.

Overall, nuclear generation volume is expected to grow by 0.1 TWh year-on-year.

At CEZ Group's coal-fired power plants, major work will be undertaken at Počerady I Power Station (environmental improvements to four generating units) and Dětmarovice Power Station, where environmental improvements will be made to two generating units. The comprehensive renewal of three units at Prunéřov II Power Station continues, with the first unit to be recommissioned in the second half of 2014. In conjunction with the comprehensive renewal of all four units of Tušimice II Power Station, work will continue to stabilize their operation. Important milestones of 2014 will be the commissioning of a new, 660 MW coal-fired generating unit at Ledvice Power Station and the commissioning of a new, 838 MW CCGT unit at Počerady II Power Station.

The Group's fossil fuel-based (coal- and gas-fired) power plants, including CCGT power sources, are expected to generate 0.4 TWh more electricity in 2014 than they did in 2013. Growth in generation volume is expected primarily from the new source at Ledvice Power Station and from Prunéřov II Power Station, where the first unit is to be recommissioned following comprehensive renewal. Decreases, on the other hand, will result from the already closed sale of the Chvaletice power plant and the environmental modifications currently taking place at Počerady Power Station.

Major repairs are planned at the Lipno I, Kamýk, Dalešice, and Dlouhé Stráně Hydro Power Stations. At Dlouhé Stráně Power Station, the cladding of the upper reservoir will undergo planned repairs. Hydro generation is expected to be approximately 0.6 TWh lower than the actual 2013 figure, which was affected by high availability and flow rates.

Heat

CEZ Group heat generation sources in the Czech Republic supplied a total of 20,119 TJ in 2013. In year-on-year terms, this represents a 5,715 TJ (40%) increase in supplies.

This major increase was caused by the full inclusion in CEZ Group of Energotrans, a subsidiary that generates electricity and heat at a cogeneration facility, Mělník I. This heat is supplied especially to the Capital City of Prague via a unique heat feeder line. These supplies cover the majority of heat and hot-water consumption on the right bank of the Vltava River in Prague. Mělník I is the biggest power-heating source in the Czech Republic and by acquiring it CEZ Group substantially reinforced its position in the district heat industry, in accordance with its corporate strategy.

Heat Generation Outlook

Two new companies, Teplo Klášterec s.r.o. and TEPLO KRKONOŠE a.s., became part of CEZ Group in 2013 via acquisition through ČEZ Teplárenská, a.s. This deal will grow annual heat sales by approximately 220 TJ. Amongst other things the acquisition of TEPLO KRKONOŠE a.s. supports the Smart Region project, which CEZ Group is implementing in the city of Vrchlabí, a major population center in the Krkonoše Mountains area.

In 2014, CEZ Group continues to prepare other M&A deals and is preparing to connect new heat customers to its heat supply network. The objectives of these activities include keeping our heat prices competitive and growing heat sales volume, or at least offsetting sales declines caused by cost-cutting measures undertaken by customers.

Capital Expenditure

In 2013, CEZ Group incurred capital expenditures totaling CZK 40.3 billion in the Czech Republic.

Nuclear Energy

Dukovany Nuclear Power Station

Work was undertaken pursuant to the National Action Plan for improving safety and Dukovany Nuclear Power Station's own safety improvement programs (in conjunction with stress tests prescribed following the accident at the Fukushima power plant in Japan). In order to improve safety, the Group invested in an alternative power source for the plant while at the same time continuing to invest in upgrades with the objective of increasing generation efficiency and extending the operation of Dukovany Nuclear Power Station beyond the year 2015. The ongoing I&C systems renewal project entered another phase. Planned outages connected with fuel replacement took place on all four of the plant's reactors.

Construction of a New Unit at Dukovany Nuclear Power Station

The approved long-term plan for the Dukovany site includes the possibility of expanding Dukovany Nuclear Power Station by building a new unit, with installed capacity of either 1,200 MW or 1,700 MW and an optimal commissioning date in 2035.

In terms of linking the new nuclear source (EDU 5) with the transmission and distribution grids, a Zoning Technical Study was completed for 400 kV and 110 kV power lines between EDU 5 and the Slavětice substation.

Activity in the project is currently focused on completing paperwork for commencing the Environmental Impact Assessment process. This includes, in particular, the preparation of detailed documentation. The assessment process is to commence in early 2016.

Temelín Nuclear Power Station

Work was undertaken pursuant to the National Action Plan for improving safety and Temelín Nuclear Power Station's own safety improvement programs (pursuant to the results of stress tests prescribed following the accident at the Fukushima power plant in Japan). Also, preparations took place for upgrading the flow-through portion of low-pressure turbine components – this is part of a program of upgrades to increase generation efficiency. Planned outages connected with fuel replacement took place on both of the plant's reactors.

Construction of New Units at Temelín Nuclear Power Station

Preparations for the permit and licensing process continued in 2013, as did the preparation of related and induced CAPEX projects, some of which are already in the implementation phase. In the ongoing EIA (Environmental Impact Assessment) process, comments on the assessment were reviewed by the Ministry of the Environment and, subsequently, a consenting opinion was issued. The actual EIA contains 90 conditions and requirements divided into three phases: preparation, implementation, and operation.

On November 30, 2012, an application for placement of a nuclear installation was submitted to the State Office for Nuclear Safety (SÚJB) and the relevant fee pursuant to the Nuclear Act was paid. Currently, consultations are being held regarding the SÚJB's comments on items from the resolution and an addendum thereto issued on June 21, 2013.

In the ongoing EPC supplier tender, bids prepared according to the Request For Proposal (RFP) documentation were submitted within the planned timeline by three qualified bidders. Due to failure to meet exclusion criteria, AREVA NP's bid was excluded from further consideration. The tender continued with two bidders (the Czech-Russian consortium MIR 1200 and the U.S.-Japanese Westinghouse). The first round of bid evaluation was completed with the announcement of preliminary results on March 25, 2013. In July 2013, with regard to developments in the power market, the decision on a deadline for project execution was deferred, and it was stated that the final decision can only be made after two basic pre-conditions are met: confirmation of accordance with the final, approved State energy master plan of the Czech Republic and fulfillment of conditions for achieving a positive return on invested funds.

On April 9, 2014, the Government of the Czech Republic adopted a resolution stating that, with regard to the ongoing debate within the EU on the future of the power industry, it does not plan at this time to provide guarantees or any stabilization mechanism for build-out of low-carbon sources. At the same time, the resolution declared the Government's interest in further developing nuclear energy in the Czech Republic: by the end of 2014 it will draw up a comprehensive plan for this area. Subsequently, on April 10, 2014, ČEZ, a. s. cancelled the RFP proceedings for construction of two new units of Temelín Nuclear Power Station and, at the same time, confirmed that preparation of the project as such is going forward.

Conventional Power

CAPEX projects implemented in 2013 in the conventional energy area were focused on meeting objectives in the area of ensuring safety and availability, while also meeting all legislative requirements for the operation of generating facilities. Amongst the most important projects were those in the areas of work safety, environmental protection, and support for the utilization of renewable sources of energy. Work commenced on projects involving environmental measures for achieving compliance with emission limits after the year 2016 (Počerady Power Station, Dětmarovice Power Station, Energotrans).

In the case of hydro power plants, our attention was focused on maintaining the installations in a good state of repair. Overhauls of individual aggregates not only ensure long-term operation, but at the same time bring increased efficiency.

Comprehensive Renewal of Prunéřov II Power Station

The comprehensive renewal of EPR II (Prunéřov II Power Station) began on September 1, 2012. During 2013, work was completed on the pressure assembly of steam generator no. 23, while assembly works continue on the remaining units. In the back portion of the fuel cycle, work is ongoing on the internal assemblies of absorbers, flue gas desulfurization equipment is being installed, and cooling tower no. 22 is undergoing renovations. Work progressed on installing the turbo-aggregate and machine room equipment. Construction work on the substations was completed, including installation of equipment and laying of cables. Also completed was the overhaul of coal loading line A, which is currently being returned to operation. The overhaul of coal loading line B is in the preparation phase.

All permits necessary under applicable legislation for construction of the project were obtained. Subsequently, lawsuits against the permit decisions were filed with the administrative court. Despite this complication, the comprehensive renewal project is running on time and should be completed according to plan, in February 2015.

Construction of CCGT Installation at Počerady Power Station

The project is nearing completion. Part two of comprehensive testing is ready to begin. In 2013, stabilization work took place on the turbine, communications was completed, equipment tests were carried out, and final inspections of anti-flood measures were conducted.

Construction of a New 660 MW Source at Ledvice Power Station

Equipment installation was completed and functional tests took place on selected equipment: in particular, the air blower, the flue gas fan, feeders, condensate pumps, FGD absorber circulation pumps, transport routes, and limestone milling equipment. The cooling tower and cooling water pumping station also underwent functional tests. An initial test lighting of the stabilizing gas burners in the boiler also took place successfully.

During November and December, chemical cleaning of the condensate system in the machine room took place, followed by cleaning of the boiler and the main steam circuits. The boiler was prepared for the next phase in the ramping up process – brickwork drying and blow-through.

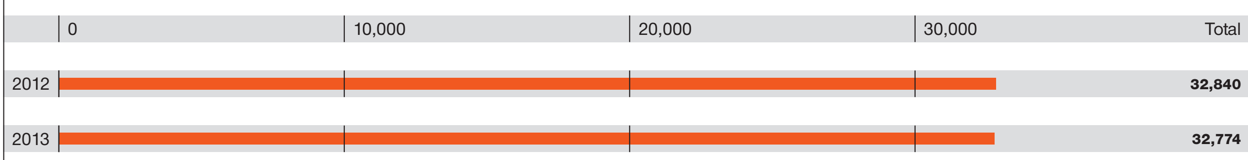
The plant is slated for completion in November 2014.

Distribution and Sale

Electricity Distribution

In the Czech Republic, electricity is distributed by ČEZ Distribuce, a. s., which arranged for 32,774 GWh of electricity to be supplied to customers in 2013. The year-on-year decrease of 66 GWh was caused, in particular, by lower demand for electricity at the high- and medium-voltage levels (down 134 GWh and 13 GWh, respectively). Demand at the low-voltage level, on the other hand, rose 81 GWh on weather-related factors.

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



Electricity Distribution Outlook for 2014

In 2014, ČEZ Distribuce, a. s. expects to supply 32,709 GWh of electricity to customers.

Capital Expenditure

CEZ Group capital expenditures in the distribution area in the Czech Republic in 2013 totaled CZK 7.9 billion, which represents an 8% year-on-year decline. The principal objectives of investing in renewal and development of the distribution grid are to increase and improve distribution grid quality, reliability, and safety, and automate the management of grid operation. CAPEX went primarily on the low- and medium-voltage grids and construction of transformer stations. CAPEX on projects initiated by customers reached a total of CZK 2.8 billion. Once again, CAPEX also flowed into the Smart Region project, in which a smart distribution grid is being rolled out in a selected geographical area, which will enable conventional and alternative power sources to be combined effectively. Smart grids are capable of responding to impending overloads by redirecting the flow of electricity to prevent possible outages, leading to increased end customer satisfaction.

Some of the most important CAPEX projects were the following: the construction of the new Holýšov 110/22 kV transformer station, a new 22 kV substation in Mladá Boleslav, the Studénka – Třebovice 2x110 kV power line, and phase two of the renovation of the Mírovka 110 kV substation.

Sales

In 2013, CEZ Group offered end customers in the Czech Republic, *inter alia*, the following commodities and related services:

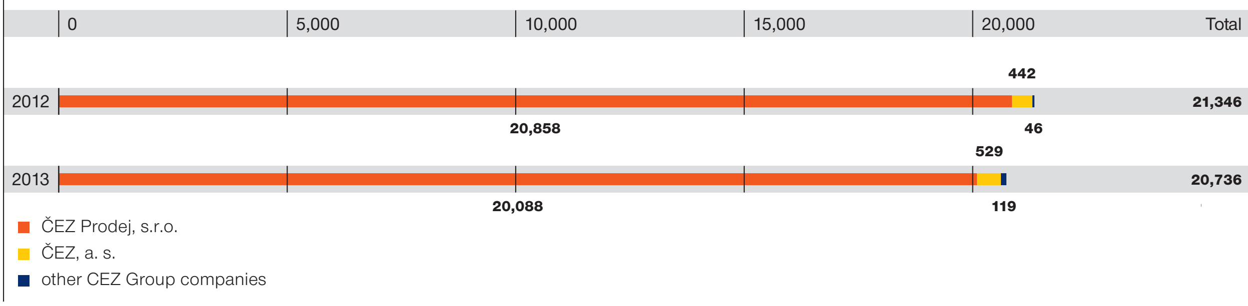
- electricity (ČEZ Prodej, s.r.o., ČEZ, a. s., ČEZ Energo, s.r.o.)
- natural gas (ČEZ Prodej, s.r.o., ČEZ Energetické služby, s.r.o.)
- heat/thermal energy (ČEZ, a. s., ČEZ Teplárenská, a.s., ČEZ Energo, s.r.o., Energetické centrum s.r.o., ČEZ Energetické služby, s.r.o., Energotrans, a.s., Elektrárna Počerady, a.s., Elektrárna Dětmarovice, a.s., and for part of the year also Teplárna Trmice, a.s. and Elektrárna Chvaletice a.s.)
- electricity distribution (ČEZ Distribuce, a. s.).

Sales of Electricity to End Customers

The retail electricity market (i.e. the market consisting of electricity supplies to end customers) in the Czech Republic is fully liberalized and on a par with advanced European markets in terms of its competitiveness. The pro-active approach of several dozen electricity traders ensures a highly competitive environment that gives customers a sufficiently varied and broad offering of electric power products.

The CEZ Group company in charge of selling electricity to end customers in the Czech Republic is ČEZ Prodej, s.r.o. which, despite growing competitive pressures, is holding the position of market leader in all customer segments: large end-customers, retail – commercial customers, and residential customers.

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



In 2013, ČEZ Prodej, s.r.o. supplied an aggregate total of 20.088 TWh of electricity to its customers for a market share of 35.3%. Compared to 2012, this figure is down 0.8 TWh, particularly on customer migration; nevertheless, we managed in 2013 to reduce it significantly in year-on-year terms. To ensure even better results in the future we began offering a new tariff, ČEZ FIX, to which 20% of potential residential and small commercial customers had switched by year end 2013.

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

Sales of Natural Gas

At CEZ Group, gas sales to end customers in the Czech Republic are handled primarily by ČEZ Prodej, s.r.o., which offers all customers (large end-customers, medium end-customers, small end-customers, and residential customers) a complete portfolio of natural gas products. Since its successfull launch in 2010, the company has steadily grown its market share in the residential category, where 77,000 new contracts were acquired in 2013. Out of 347,000 contracted connection points, supplies have commenced at 321,700 connection points. For the remainder, the change of supplier is still pending.

In addition to high-quality services, the customer offering of ČEZ Prodej, s.r.o. is advantageous financially, as well. CEZ Group's supplies of natural gas to large end-customers are based on the latest, best prices in the wholesale market (exchange/commodity formulas). Residential and retail – commercial customers who have Integrated Gas Supply Contracts with ČEZ Prodej enjoy a price guaranteed to be no less than 5% lower (CEZ Group buys natural gas at lower prices) than that offered by the dominant natural gas supplier in the given distribution area; alternatively, these customers can take advantage of our attractive offer of fixed-price products.

In 2013, ČEZ Prodej, s.r.o. supplied its end customers (including customers from CEZ Group) an aggregate total of 4.8 TWh of natural gas, giving CEZ Group a 5.7% share in overall end-customer gas supplies. Its share of the residential segment alone was approximately 10.2%. The comparable figures in 2012 were 5.1 TWh and 5.9% overall market share. The year-on-year lower figure was due to a decline in the large end-customers segment. As at December 31, 2013, ČEZ Prodej, s.r.o. had a total of 321,700 connection points, making it the largest alternative gas supplier.

Besides ČEZ Prodej, s.r.o., the company ČEZ Energetické služby, s.r.o. also sold natural gas to end customers, though in substantially smaller amounts: its gas sales volume in 2013 was 0.07 TWh.

Sale of Telecommunication Services

In October 2013, ČEZ Prodej, s.r.o. officially entered the Czech telecommunications market as a new nationwide mobile virtual network operator (MVNO). Using numbers starting with 705, ČEZ Prodej, s.r.o. is a full-fledged virtual network operator with its own product offering. In other words, it does not merely resell the products of existing operators. In terms of the scope of its services, it belongs to the Light-MVNO category. Its offering is straightforward and transparent, without any interdependencies or hidden fees. Unlike most of the other virtual network operators, ČEZ was in a position to offer a high level of customer care through its broad network of sales and service locations. Residential electricity and natural gas customers are the primary target group.

From the start of sales in mid-October until the end of 2013, nearly 36,000 customers expressed interest in ČEZ Prodej's offer of telecommunications services. Of these, nearly 60% came with their own telephone number, by which they declared that they are not coming merely to try out ČEZ's Mobile service, but to actively use it. The typical customer spends CZK 200–300 per month. This confirms the existence of a substantial number of customers in the market who are not attracted to unlimited tariffs, the onset of which in April 2013 was a major development in the Czech telecommunications market.

Sales Outlook for 2014

In the corporate customers segment, CEZ Group expects electricity supply volume to be the same as in 2013. In the small commercial and residential customer segments, the declining trend in market share is expected to persist as competitive pressures continue unabated.

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

The outlook for 2014 also calls for the Group to obtain over 100,000 customers for its telecommunications services. To this end, several new offerings are being prepared to round out the existing array of products.

Trading in Electricity and Other Commodities

Trading in the Wholesale Market for Electricity and Other Energy Commodities

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

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

In their operations in individual country markets, CEZ Group companies must respect the local situation, which is determined by local energy legislation, the state of market liberalization, the relative balance between supply and demand, possibilities for cross-border electricity supplies, and other factors.

In 2013, ČEZ, a. s. sold electricity for delivery in 2014–2019, particularly through standard products (one-year, one-quarter, one-month) in the OTC market. ČEZ, a. s. continued to sell the ancillary services provided by its power plants, mostly to the transmission grid operator, ČEPS, a.s.

Proprietary Trading

Among other uses, proprietary trading serves to generate additional profits by leveraging arbitrage opportunities and other forms of speculative trading in the wholesale markets. To a certain extent, it serves as a hedge for future sales of electricity generated within the Group (up until the year 2023) and for future procurement of electricity for end customers, as well as to make up for electricity shortfalls in the event of outages in one or more of the Group's own plants.

The commodities in which the Group engages in proprietary trading are primarily traditional ones for ČEZ, a. s., such as electricity and emission rights. Other traded commodities included natural gas, which is traded through futures products on the ICE (IntercontinentalExchange) in London, the EEX (European Energy Exchange) in Leipzig, and other trading platforms. Last but not least, ČEZ, a. s. trades in black coal products of the futures type on the ICE in London as well as coal commodity swaps in the OTC market. In 2013 ČEZ, a. s. began to trade in options with electricity or EUAs as the underlying asset.

For all trading and commercial activities, specific risk frameworks are in place that define permissible products, time frames, counterparties and, in particular, market- and credit-related bounds and limits on a stop-loss (position closed when a certain loss level is reached), value-at-risk, current credit exposure, and future credit exposure basis. Compliance with the limits is checked daily and any excesses are dealt with in the applicable risk framework.

As of 2011, proprietary trading is also subject to regulation by the European Union, as a consequence of wholesale markets regulation (see chapter Development of the Power Industry Legislative Framework in the Czech Republic).

Mining

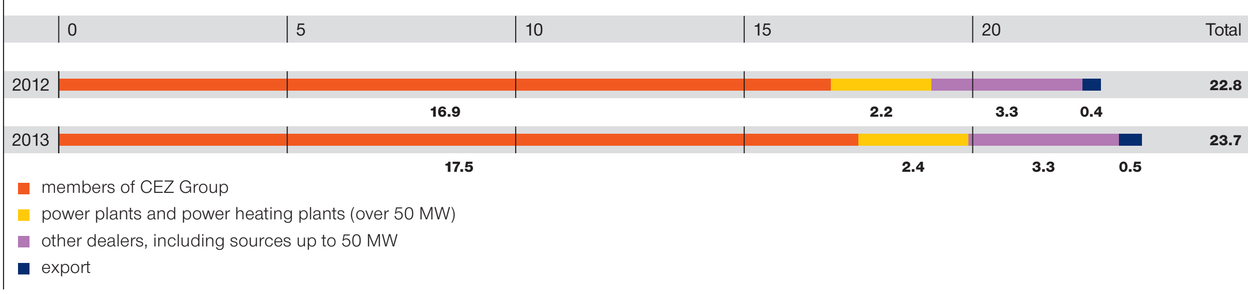
Severočeské doly

The core business of Severočeské doly a.s. is coal mining (**www.sdas.cz** 1). In 2013, the company maintained its position as the largest Czech brown coal company in terms of coal production volume. However, since a large majority of its production is consumed within CEZ Group, Severočeské doly, a.s. is just a small player in the free coal market. The company has two coal mining operations: Bílina Mines and Nástup Tušimice Mines.
Bílina Mines, operating in the Teplice-Bílina area, mines coal that is characterized by a high heat content and a low proportion of hazardous substances. It supplies power generation coal primarily to the Ledvice and Mělník III Power Stations and other big power-heating plants. Coal extraction volume in 2013 totaled 9.8 million tons, and in addition 53.7 million m³ of overburden was removed. A significant part of the mix is Bílina sorted coal, of which the company sold 2.2 million tons.
The Nástup Tušimice Mines brown coal-mining operation is located in the westernmost portion of the Ústí Region, amidst the towns of Černovice, Spořice, Droužkovice, and Březno. Coal extraction volume in 2013 totaled 13.9 million tons. All coal produced was shipped to the Tušimice and Prunéřov Power Stations, which are local to the plant; to the Chvaletice, Mělník, and Počerady Power Stations; or to the Komořany power-heating plant. Overburden removal volume reached 17.4 million m³.

Coal Sales

Severočeské doly a.s. sold a total of 23.7 million tons of fuel in 2013, a 0.9 million ton increase in sales volume compared to the year 2012.

Coal Sales, by Customer (millions of tons)



Brown Coal Mining Outlook for 2014

Severočeské doly a.s. plans to produce 25.1 million tons of coal in 2014. Fuel deliveries will be determined primarily by the needs of coal-fired power plants, which are in turn based on electricity demand and are also related to average winter temperatures.

Capital Expenditure

In 2013 Severočeské doly a.s. incurred CZK 2.4 billion of capital expenditure. The biggest CAPEX projects were in the areas of mining equipment, water management, and mining operation-related construction projects. At Bílina Mines, the year saw completion of construction on the second overburden cut, bucket-wheel tip renovation on the KU 800/K99 excavator, and refurbishment of long-distance belt conveyor drive and return stations. At Nástup Tušimice Mines, the ball housing of the SchRs 1320 excavator was refurbished and process equipment was sourced for the third coal hauler.
In the water management area, the year saw the completion of the “Expansion of the Emerán Minewater Treatment Plant” project and commencement of construction on pumping stations at Bílina Mines. Stabilization measures were another major area of CAPEX at both sites in 2013.
In the environmental area, Bílina Mines continued in 2013 with construction projects designed to protect cities and towns by mitigating the negative impacts of mining activity, primarily noise and dust. Here, the biggest project was the construction of the Ledvice protective embankment. Two projects commenced in 2013 – “Reduction of Emissions at the Coal Powder Loading Operation” and “Reduction of Emissions at the Sorted Coal Loading Operation at the Ledvice Coal Processing Plant” – are expected to lead to substantial environmental improvements.

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LOMY MOŘINA spol. s r.o.
ČEZ, a. s. owns a 51.05% stake in LOMY MOŘINA spol. s r.o. The company's core business is the mining and processing of rock matter for use in the construction industry and high-percentage limestones utilized in flue-gas desulfurization (FGD) systems. The company is a major supplier of limestone for the FGD systems of CEZ Group coal-fired power plants, to which it delivers approximately 500,000–700,000 tons of limestone per year, covering approximately half of their annual consumption of this commodity. In 2013, supplies to ČEZ, a. s. power plants totaled approximately 590,000 tons of limestone. The forecast for 2014 is 570,000 tons. A second significant commodity produced by the company is construction rock. All of the company's customers for this commodity are from outside CEZ Group, and the company supplies them 250,000–300,000 tons per year, with a moderately declining year-on-year trend. Verified limestone reserves provide good prospects for sustained, long-term extraction operations.

FutureMotion

In 2013, the FutureMotion platform continued to innovate in areas that are of strategic importance to CEZ Group, related to the development of progressive technologies that are easy on the environment and natural resources while at the same time increasing personal living comfort. These are long-term focus areas associated with emerging modern technologies that are nearing the phase of commercial deployment. CEZ Group's objective is to be prepared for the emergence of such technologies and to quickly find the most appropriate way to further develop them.

Electromobility
Phase one of the electromobility pilot project was completed in 2013. At year end there were 34 public standard charging stations and one fast-charging station in operation, and more stations were in the planning and construction stages. More partners joined the pilot project. In addition to auto manufacturers these included regional authorities – specifically, Moravia-Silesia and Ústí – and selected municipalities such as Ostrava. CEZ Group grew its fleet of electric vehicles by newly acquiring several Nissan Leafs with the objective of testing various types of vehicles in real operation.
In late 2013, the pilot project was cleared to continue into its second phase, planned for the years 2014 and 2015. The objective is to continue building out the charging infrastructure grid, with emphasis on fast charging and expanding our electromobility services offering for end customers.

Smart Region
2013 saw the Smart Region project in Vrchlabí enter the implementation phase, which included primarily modifications to the distribution grid (ongoing replacement of medium-voltage cables and technological equipment upgrades in transformer stations) and installation of new technologies (e.g. protector terminals) that underwent testing in communication technology laboratories. One of the cogeneration units that have been operating in Vrchlabí since 2012 is newly equipped for automatic island operation and is prepared for functional tests. Another project that is prepared for functional tests is an automation concept at the low-voltage level, where circuit breaker boxes equipped with remote-controlled breaker elements were installed in a pre-defined area. Another important accomplishment was successful compliance with the terms of the international Grid4EU project, from which Smart Region is co-financed. CEZ Group also newly leads Grid4EU's island operation working group.

AMM (Automated Meter Management – smart metering systems)
As of year-end 2013, all 33,000 smart meters – located in the selected areas of Pardubice region, Jeřmanice region, and the Smart Region in Vrchlabí – were in everyday operation. The operational parameters of the metering technologies and the reliability and performance of IT systems were evaluated on an ongoing basis. After a group of selected customers had utilized a special testing tariff for one full year, evaluations were conducted to determine their ability to take advantage of the new AMM-based products and services – for example, by changing their behavior in line with differing prices during the day – and thereby save on their electric bill. Research, tests, and analyses continued to explore the potential of Time of Day (TOD) metering and related products, with the objective of identifying the customer groups that stand to gain the most from AMM in terms of savings. Should the results be positive, a commercial offering phase will follow.

Energy invigorates
You live life to the fullest. Even at times when you're low on energy, you know what to do to get it back.


52
DH
accountant
63
BV
mushroom picker
65
FD
driver

CEZ Group Abroad

Republic of Poland

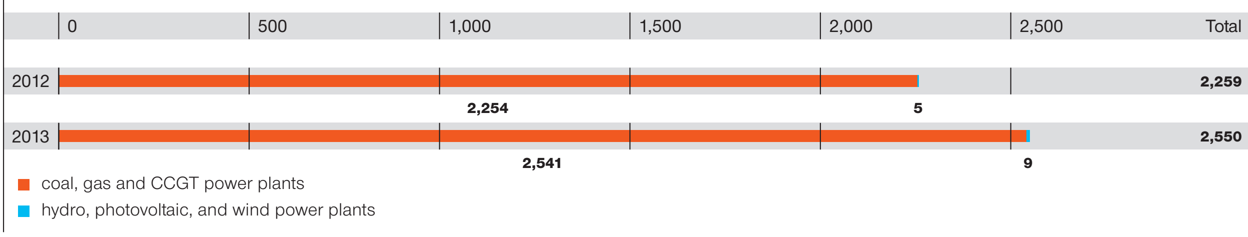
Business Environment in the Power Industry

The Polish power market is almost fully liberalized. Only residential electricity tariffs, i.e. distribution and trading fees, are regulated. In preparation for the third greenhouse gas emission rights allocation period, Poland obtained an exception and the option to allocate emission rights for electricity generation free-of-charge in the period 2013–2020 against capital expenditures toward upgrading existing sources with the objective of lowering greenhouse gas emissions. Furthermore, Poland is to be granted free-of-charge heat generation emission rights for the same period. These emission rights are to be credited to power companies' accounts by April 30.
In view of the country's large degree of dependence on coal for power generation, Poland vetoed a proposal for a greater reduction in European Union-wide emissions after 2020 as well as Roadmap 2050, the European Union's long-term plan for cutting emissions, and has come out against any reform of the EU ETS, even if it is implemented before 2020.
In the context of reducing its power industry's emission intensity, Poland is endeavoring to develop nuclear energy. Two nuclear power plants, with 6,000 MW total capacity, are planned to be built after the year 2020.
In Poland, combined power and heat generation is supported by a system of red and yellow certificates, depending on whether heat is generated from coal or from gas. This system was updated and the country formally requested the European Commission to keep the system in effect for another two years (2014 and 2015).
Generation of energy from renewable sources is supported through a system of green certificates. A new law, expected to be adopted in 2015, is to clarify support for biomass co-combustion, wind energy, and other renewable sources.

CEZ Group in Poland

Electricity Generation

Electricity Generated in Poland, Gross (GWh)



In 2013, CEZ Group power plants in Poland generated 2,550 GWh of electricity, up 291 GWh (+12.9%) year-on-year. The increase was attributable, in particular, to negotiation of a lower price on coal for the Skawina power plant. May 2013 saw the commissioning of a new small-scale hydropower plant, Borek Szlachecki, with 0.9 MW of installed capacity, which by year-end had generated 4.2 GWh of electricity. The Skawinka small-scale power plant generated 4.7 GWh of electricity in 2013.
Using biomass combustion techniques, Polish power plants generated 304.2 GWh of electricity in 2013, down 205 GWh (40%) from 2012. The reduction in the amount of electricity generated from biomass combustion was caused by deteriorating market conditions.

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Installed Capacity

As at December 31, 2013, CEZ Group companies in the Republic of Poland owned generating facilities with a combined total installed capacity of 681 MW. Of this figure, 678 MW was attributable to coal-fired power plants and 3 MW to hydro power plants. On December 10, 2013, a turbo-aggregate with 50 MW of installed capacity at the Skawina power plant was decommissioned for economic ineffectiveness.

Location of CEZ Group Power Sources in Poland

List of CEZ Group Power Plants in Poland

Coal-Fired Power Plants

Plant	Owner	Type of fuel	Installed capacity (MW) as at December 31, 2013	Year commissioned	Desulfurized since
ELCHO	Elektrociepłownia Chorzów ELCHO sp. z o.o.	black coal	2 x 119.2	2003	[1]
Skawina	Elektrownia Skawina S.A.	black coal	4 x 110	1957	2008
Coal-fired power plants, total			678.4		

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

Small-Scale Hydro Power Plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Skawina/Skawinka	Elektrownia Skawina S.A.	1 x 1.6	1961
Skawina/Borek Szlachecki	Elektrownia Skawina S.A.	1 x 0.885	2013
Small-scale hydro power plants, total		2.485	

Solid Fossil Fuels and Sorbents

In 2013, the Skawina and ELCHO power plants consumed a total of 1,292,000 tons of black coal, sourced from mining companies in their vicinity. ELCHO purchases coal under a long-term contract with Kompania Węglowa S.A. In 2013, Skawina sourced coal from Kompania Węglowa S.A., Katowicki Holding Węglowy S.A., and PG Silesia Sp. z o.o.

The Polish power plants also utilize biomass as a power generation fuel. The Skawina and ELCHO power plants consumed 212,000 tons of biomass in 2013.

Electricity Generation Outlook for 2014

In 2014, CEZ Group power plants in Poland are projected to generate 2.36 TWh of electricity.

Electricity Sales

Electricity is sold by CEZ Trade Polska sp. z o.o. as a supplementary activity to support electricity trading. In 2013, a total of 381 GWh was supplied to customers in the large end-customers and retail – commercial segments.

Electricity Sales Outlook for 2014

In 2014 we expect to further grow supply volume on an increased number of customers in the portfolio. Already at year-end 2013 the volume of electricity sold for 2014 had reached 455 GWh.

Heat

The Polish power plants of CEZ Group sold a total of 5,056 TJ of heat in 2013. Of this figure, the Skawina power plant accounted for 2,714 TJ and the ELCHO power plant 2,342 TJ.

Skawina supplied heat to one distribution company, MPEC (Miejskie Przedsiebiorstwo Energetyki Cieplnej S.A. w Krakowie), which supplies heat to Cracow, and to three end customers. In 2013, Skawina signed new heat customers representing a 12.5 MW_t incremental increase in heat output.

The ELCHO power plant supplied heat to three distribution companies. As in the past, the biggest customer was Tauron Ciepło S.A. in Katowice (formerly Przedsiębiorstwo Energetyki Cieplnej Katowice S.A.), which supplies heat to the cities of Katowice, Chorzów, Świętochłowice, and Siemianowice Śląskie. In 2013, ELCHO connected new heat customers corresponding to a 5.75 MW_t increase in heat output.

Heat Sales Outlook for 2014

In 2014, heat sales volume is expected to total 4,993 TJ.

Capital Expenditure

Capital expenditures in Poland totaled CZK 0.1 billion in 2013.
The Skawina power plant completed an investment into the Borek Szlachecki small-scale hydro power plant. During the course of 2013 it also completed a project to terminate wet slag removal.
Eco-Wind Construction S.A. continues to develop an optimized portfolio of wind farm projects.

Republic of Bulgaria

Business Environment in the Power Industry

The liberalization of the country's electricity market continued. The effective degree of market openness is estimated at 30–35% of end consumption, which is the ratio of eligible customers (i.e., those who have the option of migrating to a different electricity supplier at any time) to total consumption. Regulated tariffs are in place for households and small businesses, through a system of quotas pursuant to the Energy Act, and prices are set by the Bulgarian regulator – the State Energy and Water Regulation Commission (DKEVR).
Electricity volumes in the wholesale market grew in the second half, driven by a reduction in the energy export fee. Cross-border capacity auctions continued in 2013, and are organized between Bulgaria and neighboring states.
On September 1, 2012, the Bulgarian market operator (ESO) adopted a system for settling deviations. Major state-owned power plants continue to sell standardized projects in organized public tenders. In August 2013, a "supplier of last resort" model was unveiled for customers at the medium-voltage level who have not shifted to the free market for electricity.
On February 19, 2013, the DKEVR promulgated a decision commencing a process of revoking the electricity distribution license of CEZ Razpredelenie Bulgaria AD and the electricity sales license of CEZ Elektro Bulgaria AD. These companies were alleged to have violated the Energy Act by breaching obligations associated with replacement of metering equipment, failing to comply with disclosure requirements toward the DKEVR, and not adhering to certain public procurement rules. Both companies submitted their objections and written opinions to the regulator within the time period given by law. On April 16, 2013, a public hearing of CEZ Group's representatives was held before the DKEVR. Letters were distributed to all national and local government bodies, requesting that they provide their opinion on the impact of a potential license revocation. On November 13, 2013, the DKEVR terminated the license revocation proceedings for lack of evidence of wrongdoing.
On February 27, 2013, the public prosecutor commenced an investigation of all three distribution companies in the country (CEZ Group, ENERGO - PRO, and EVN) and also of the DKEVR itself and the state-owned power company NEK EAD.
On February 28, 2013, Parliament passed an amendment to the Energy Act, authorizing the regulator to adjust approved electricity prices during the price period. Effective from March 5, 2013, the DKEVR decided to lower residential electricity prices in the CEZ Razpredelenie Bulgaria AD distribution area by 7.17%. The price reduction was implemented entirely at the the distribution companies' expense. This tariff decision was to remain in effect until June 30, 2013, but following a resolution of the National Assembly the price/regulation period was extended until July 31, 2013.
On March 26, 2013, the Commission for the Protection of Competition, Bulgaria's anti-trust authority, opened an investigation into all three distribution companies in the country (CEZ Group, ENERGO - PRO, and EVN) on the suspicion that they colluded to make it difficult for consumers to migrate to a different electricity supplier. The proceedings are still pending.
On March 29, 2013, ČEZ sent a complaint to the European Commission containing a list of facts that, in its opinion, demonstrate that licenses in the power sector are granted and revoked, and certain other official procedures conducted, in ways that violate Bulgarian law, European Union law, and the Treaty on the Functioning of the European Union (provisions regarding freedom of establishment and free movement of capital). The complaint applies, in particular, to the manner in which the process of license revocation was commenced, as it was instigated by the Prime Minister – with the public prosecutor calling for it as well – and not by the independent energy regulator. In ČEZ's opinion, such an action is a breach of European Union law, various measures of which have not, however, yet been integrated into Bulgarian law. In addition, most of the alleged misconduct by Bulgarian members of CEZ Group cannot be deemed grounds for revocation of license under Bulgarian law. The European Commission is currently reviewing the complaint.

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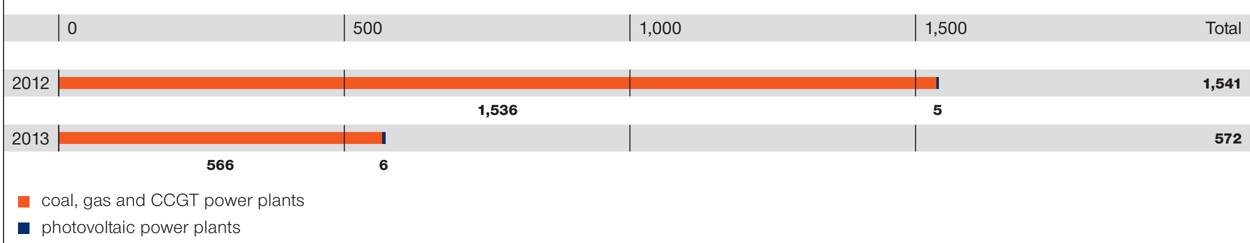
On July 29, 2013, the regulator promulgated a new price decision effective from August 1, 2013, reducing end electricity prices for ČEZ's residential customers by 4.4%. This reduction is distributed amongst all market participants and the end impact on CEZ Group companies is neutral, provided purchasing of electricity generated from renewable sources is offset in accordance with valid methodological guidelines. This was the second time in 2013 that the level of distribution company recognized technical costs was lowered by decision of the regulator. Furthermore, the decision significantly changed the principles governing how capital expenditures are reflected in electricity prices – after the change, they will not be reflected until implementation. Another new regulatory development is that suppliers (sales companies) now have a stipulated margin: in the case of CEZ Elektro Bulgaria AD it is 3%.
On December 30, 2013, the regulator promulgated new prices effective from December 30, 2013. In the decision the regulator once again, for the third time in 2013, reduced the level of distribution company recognized technical costs – this time down to 8%. The price for end customers in the CEZ Group distribution area was lowered by 2.44%.
The total price reduction in the distribution area for end consumers between January 1, 2013 and January 1, 2014 reached 9.9%, and the average distribution tariff in the CEZ Razpredelenie Bulgaria AD distribution area was reduced by 17.9% during the same period.
On January 2, 2014, the regulator commenced an audit of CEZ Razpredelenie Bulgaria AD covering licensed operations during the period July 1, 2008 to November 30, 2013. The audit is expected to be completed in late April 2014. Also participating in the regulatory audit is the National Security Agency, which is auditing CEZ Razpredelenie Bulgaria AD's compliance with standards for operation of electric power-related installations with national security significance.
In January 2014, the State Financial Inspection commenced an audit of Public Procurement Act compliance in supplies of materials, services, and construction work. The audit is also focusing on the selection of a contractor to build an underground cable line from the Hipodruma substation to the Sredets substation, and on the selection procedure for the underground cable line from TPP Sofia to the GM Dimitrof substation.
On January 17, 2014, the tax authority commenced a full tax audit of CEZ Razpredelenie Bulgaria AD covering the period from January 1, 2008 to December 31, 2012. In addition, tax audits are also underway at CEZ Elektro Bulgaria AD, CEZ Bulgaria EAD, and TEC Varna EAD.
On March 19, 2014, the Bulgarian regulator DKEVR initiated proceedings against CEZ Elektro Bulgaria AD on revocation of its license to supply electricity. CEZ Elektro Bulgaria considers the DKEVR's decision unjustified.

CEZ Group in Bulgaria

Electricity Generation

Electricity Generated in Bulgaria, Gross (GWh)



The coal-fired Varna power plant generated a total of 566 GWh of electricity in 2013, down 970 GWh (63%) from 2012. The decline was attributable primarily to lower generation for the regulated market, and in particular activation of the cold reserve by ESO, the market operator, and lower generation to meet quota (generation for the regulated portion of the market in an amount set by ESO, the market operator, at a price stipulated by DKEVR, the regulator). The photovoltaic power plant in Oreshets supplied 6 GWh of electricity to the grid. Here, generation was higher because the plant remained in operation throughout the entire year 2013, while in 2012 it was only operated from its commissioning, in the second quarter, until year end.

Installed Capacity

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

Location of CEZ Group Power Sources in Bulgaria

List of CEZ Group Power Plants in Bulgaria

Coal-Fired Power Plants

Plant	Owner	Type of fuel	Installed capacity (MW) as at December 31, 2013	Year commissioned
Varna	TEC Varna EAD	black coal	6 x 210	1968–1969 1977–1979
Coal-fired power plants, total			1,260.0	

Units 4 and 5 of the Varna power plant have been off-line since January 1, 2013 and January 1, 2014, respectively, due to non-compliance with environmental limits set in the integrated permit. Units 1, 2, and 3 are operating under a "derogation regime", with limited operating hours per year.

Photovoltaic Power Plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Oreshets	Free Energy Project Oreshets EAD	5	2012
Photovoltaic power plants, total		5.0	

Solid Fossil Fuels and Sorbents

In 2013, the Varna power plant consumed a total of 262,000 tons of coal. Coal is imported from Russia and Ukraine – transported by sea from Mariupol, Ukraine.

Electricity Generation Outlook for 2014

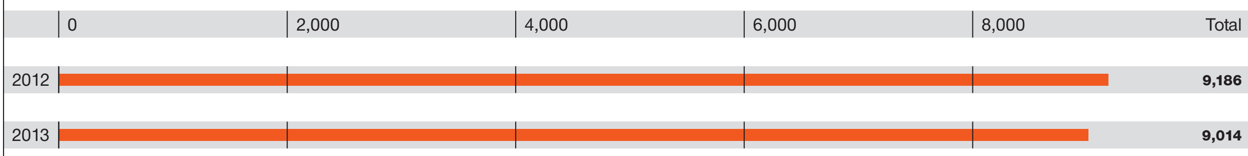
The Varna power plant, a CEZ Group coal-fired generation facility, plans to increase electricity generation volume in 2014.

Heat

Varna generated and supplied only a small amount of heat to sites in its vicinity (Town of Ezerovo). Revenue from this commodity, approximately CZK 0.2 million, was only of marginal importance.

Electricity Distribution

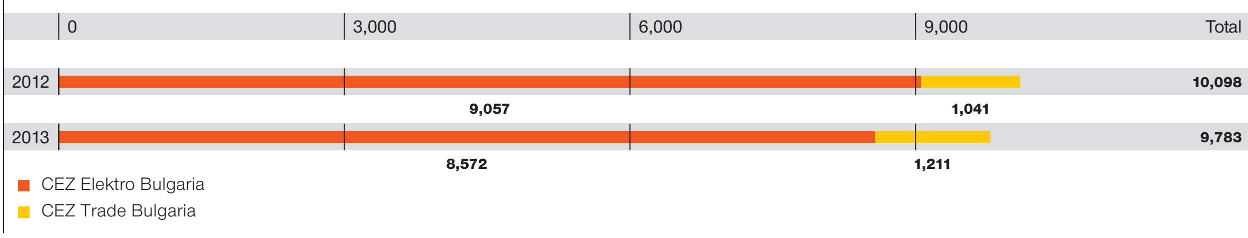
Electricity Distributed to End Customers in Bulgaria (GWh)



The volume of electricity distributed to end customers in the area served by CEZ Group in 2013 fell 172 GWh (–2%) year-on-year. The decline in residential consumption in 2013 was attributable to weather-related factors (a milder winter in January–March and November–December, and a chillier summer), while a slight drop in commercial consumption reflected the country's economic stagnation. In year-on-year terms, CEZ Group in Bulgaria succeeded in reducing losses in the distribution grid, with reductions seen in both technical losses due to targeted investments in distribution infrastructure (transformer replacements and upgrades, replacement of electric meters) and non-technical losses thanks to further optimization of their management process.

Electricity Sales

Electricity Sold to End Customers in Bulgaria (GWh)



The sales company CEZ Elektro Bulgaria AD sold a total of 8,572 GWh of electricity to end customers in 2013, down 485 GWh year-on-year. The decline in the volume of electricity sold to residential customers was attributable to weather-related factors in 2013, while lower sales to corporate customers at the medium- and low-voltage levels were due to economic stagnation as well as the departure of 446 corporate customers to a different electricity dealer in the free market.
CEZ Trade Bulgaria sold 1,211 GWh of electricity to end customers in the free market in 2013.

Electricity Distribution and Sales Outlook for 2014

In 2014 CEZ Group anticipates moderate growth in electricity distribution volume, driven by new distribution grid connections as well as by moderate growth in consumption in both the residential and commercial segments. In terms of electricity sales, the Group expects to see a decline, compared to 2013, at CEZ Elektro Bulgaria due in particular to the loss of large corporate accounts to a different dealer.
An electricity price reduction that took effect from December 30, 2013 had a negative impact on the income result, permitted distribution revenues were down 7.9% on lower recognized grid losses, and the companies are endeavoring to offset negative developments in the gross margin area through increased efficiency, particularly in expenses.

Capital Expenditures

Capital expenditures in Bulgaria reached CZK 1.5 billion in 2013. Distribution CAPEX went primarily on improving distribution grid quality, replacing electric meters, critical infrastructure in Sofia, building out new connections to the distribution grid, and purchasing power infrastructure-related buildings pursuant to the Energy Act. CAPEX will be directed into these areas in 2014 as well.
We are currently considering a retrofit of the Varna power plant to improve its environmental profile as a necessary pre-condition for operating the plant beyond December 31, 2014. Realization of this project would reduce the plant's SO_X, NO_X and dust emissions in accordance with an obligation undertaken by Bulgaria when the country joined the European Union.
In November 2013, a 100% stake in Bara Group OOD, a company that owns a project to build a biomass combustion power plant (BCPP) with a maximum installed capacity of 4.5 MW, was acquired through CEZ Bulgarian Investments B.V. The investment in a gasification-based biomass power plant near the town of Etropole was suspended in 2013. Any investments in these power plants would take place in conjunction with an obligation set forth in the agreement on purchase of the Varna coal-fired power plant.

Romania

Business Environment in the Power Industry

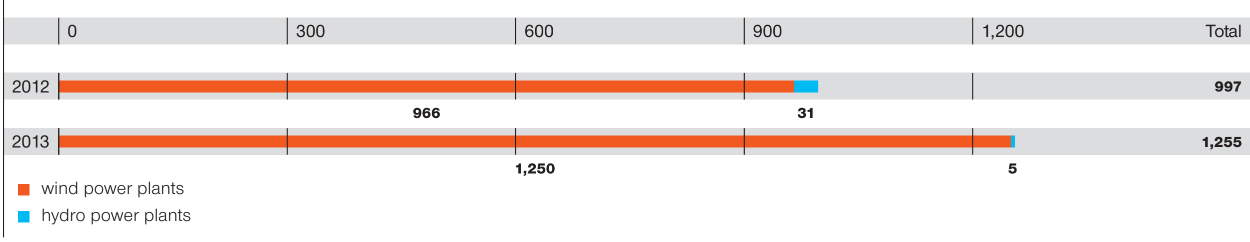
The legal framework for the energy sector is compatible with the model prevailing in European Union Member States. Individual functions have already been legally separated (unbundled) and partially privatized. Most generation assets are concentrated in State-owned companies. Key producers include state-owned Hidroelectrica, Nuclearelectrica, and Termoelectrica as well as several private entities, of which the Fântânele and Cogealac wind farms owned by CEZ Group are the largest. Certain municipal and local power-heating plants are under municipal ownership. The transmission grid is administered by Compania Națională de Transport al Energiei Electrice "TRANSELECTRICA" S.A. Privatization has advanced the most in the distribution segment – three regions are served by state-owned Electrica, while another five have been privatized into the hands of foreign investors. Within the next few years minority shares in several state-owned distribution companies are to be privatized.
Regulatory activity is carried out by Autoritatea Națională de Reglementare în domeniul Energiei (ANRE).
Full market liberalization for the commercial customer segment was completed in 2013; for the residential segment it is to be completed in 2017.
A substantial share of generation output is traded through one-year contracts and single-day supplies. The organizer of the electricity market is Societatea Comercială Operatorul Pieței de Energie Electrică - OPCOM S.A.
Effective from July 1, 2013, the regulator (ANRE) lowered average electricity prices by 1.3% for customers subject to regulated tariffs (i.e., residential customers and others without access to the free market). The reasons for the reduction were not disclosed.
On July 11, 2013, a memorandum of understanding was signed concerning a plan for Romania and Poland to accede to the common daily market for electricity ("market coupling") that currently includes the Czech Republic, Hungary, and the Slovak Republic. The target model calls for the market coupling to extend to single-day electricity trades and implicit allocation of cross-border transmission capacity.
In December 2013, the Romanian regulator (ANRE) issued Directive No. 72/2013 approving guidelines for the third regulatory period, i.e. 2014–2018.
Effective from January 1, 2014, the ANRE increased distribution tariffs by 10% for customers at the high-voltage level and by 5% for customers at the medium-voltage level. At the same time, it decreased the tariff for customers at the low-voltage level by 4%. For CEZ Distributie S.A. this means an overall average tariff increase of 1.3%.
Romania supports the generation of electricity from renewable sources of energy through "green certificates" pursuant to Act No. 220/2008 on Renewable Sources. On July 14, 2011 the European Commission approved the scheme for granting a second green certificate. On October 12, 2011, the Romanian Government approved a decree implementing the Act on Renewable Sources and the granting of a second green certificate for generation from wind power plants, effective from November 1, 2011. Until that time, generation from wind power plants was supported by a single certificate for each MWh generated. The Cogealac wind farm was granted its first green certificate on October 1, 2012, and the second followed on December 1, 2012. The Fântânele wind farm was entitled to both certificates throughout 2012.
On June 4, 2013, pursuant to Government Emergency Ordinance (EO) 57/2013, the Government of Romania approved a change in support for electricity generation from renewable sources, effective from July 1, 2013. Among other things the change, which applies to both newly planned and already operating power sources, involves deferring the negotiability of a portion of the "green certificates" granted. Temporarily, wind farms may sell only one of the two certificates granted per MWh generated; new small-scale hydro power plants (up to 10 MW) may sell two green certificates/MWh out of the three granted; and photovoltaic power plants may sell four green certificates/MWh out of the six granted. The deferred certificates are to become negotiable as of January 1, 2018 in the case of wind farms, and as of April 1, 2017 in the remaining cases, and they are to remain negotiable until the end of 2020.

From the year 2014 on, the Government newly has the authority, at the request of the Ministry of Energy, to annually set a percentage quota expressing the maximum volume of subsidized electricity generated from renewable sources as a proportion of overall power generation; previously, these quotas had been fixed by law up until the year 2020. Producers may no longer trade their green certificates directly now that the central market operated by OPCOM, the market operator, has become the sole platform for their sale. Also, green certificates are no longer being provided to photovoltaic power plants built on agricultural land (according to land classification as of July 1, 2013) and renewable sources with installed capacity higher than 10 MW (photovoltaics higher than 5 MW) for electricity that causes an imbalance in the power grid: this could have a substantial impact on generation from wind power plants. Suppliers of electricity to end customers, who are required by law to purchase green certificates, may no longer include in amounts billed to customers any fines imposed on them for insufficient purchasing.
On August 16, 2013, CEZ Group filed a formal complaint and request to the European Commission against Romania's restrictions on support for generation from renewable sources through green certificates. The new regulation EO 57/2013 changes the existing public support scheme to such an extent that it impinges on investors' legitimate expectations and violates the Treaty on the Functioning of the European Union (provisions regarding freedom of establishment and free movement of capital), as well as other principles upon which the European Union is founded. CEZ Group called upon the European Commission to investigate whether the implementation of the new public support scheme is in accordance with European law. The European Commission is currently reviewing the complaint and request.
October 31, 2013 saw the expiration of a temporary, two-year accreditation for granting of green certificates for a portion of the Fântânele wind farm, called "Fântânele Vest", which includes 105 wind turbines with 262.5 MW of installed capacity. Pursuant to Act No. 220/2008 on Renewable Sources of Energy, individual notification (i.e., approval) by the European Commission is required for renewable power sources with installed capacity higher than 125 MW.
The materials for individual notification were prepared by CEZ Group within the statutory time limts and submitted to the Romanian authorities in January 2012. During the process of approving the individual notification for Fântânele Vest, however, the scheme of support for renewable sources was modified by EO 57/2013 and the European Commission requires notification of that before it will approve the individual notification for Fântânele Vest. As at March 31, 2014 the notification of EO 57/2013 had not yet been approved by the European Commission.
The second part of the Fântânele wind farm, called "Fântânele Est" with 34 wind turbines and 85 MW of installed capacity, is not subject to this condition and its green certificate accreditation, valid for 15 years, has already been issued.
Individual notification is required for the Cogealac wind farm as well. The validity of the temporary, two-year accreditation for granting of green certificates will expire in October 2014.
December 2013 saw the completion of a series of small-scale power plant upgrades by TMK Hydroenergy Power S.R.L. As of December 20, 2013 these sources are accredited for 10 years to receive two green certificates per MWh generated.
In December 2013, EO 57/2013 was approved by the Romanian Parliament and subsequently sent to the President for signature. In January 2014, the President refused to sign the Government Measure and returned it to Parliament for more debate. In late February 2014, Parliament reaffirmed the change in renewable sources support scheme (EO 57/2013). In the second half of February, the President filed a constitutional complaint against the legislation, but subsequently signed it, as a result of which it entered into force on March 13, 2014.

CEZ Group in Romania

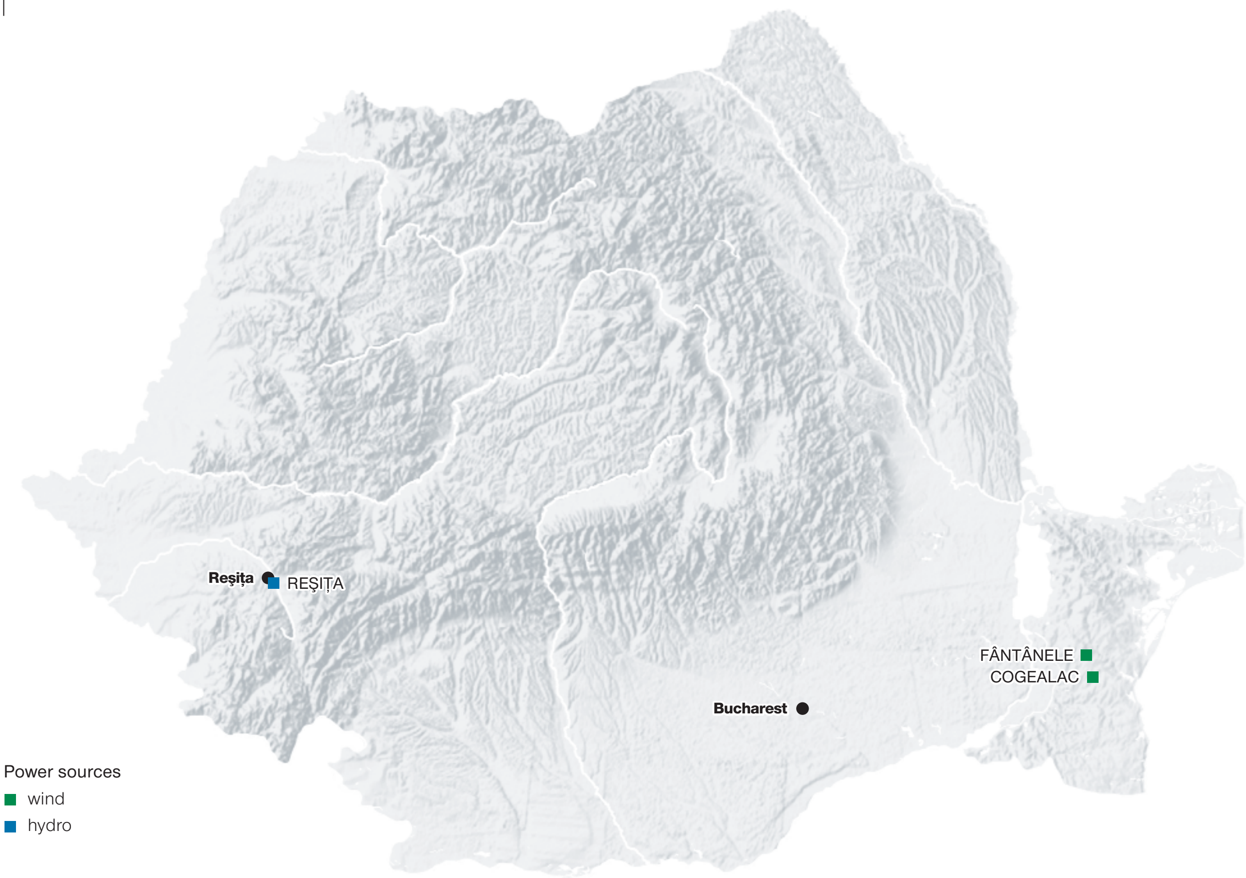
Electricity Generation

Electricity Generated in Romania, Gross (GWh)



The principal factor driving the year-on-year increase in generation in Romania was the fact that 2013 was the Fântânele and Cogealac wind farms' first full year in operation. The year-on-year decline in generation from hydro power sources operated by TMK Hydroenergy Power S.R.L. was attributable to the upgrades that took place in 2013.

Location of CEZ Group Power Sources in Romania



CEZ Group companies in Romania had a total of 622 MW of installed capacity at December 31, 2013.

List of CEZ Group Power Plants in Romania

Hydro Power Plants – Reşiţa Site

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Breazova	TMK Hydroenergy Power S.R.L.	0.656	1977, overhauled in 2013
Crainicel 1	TMK Hydroenergy Power S.R.L.	4.160	1950, overhauled in 2013
Crainicel 2	TMK Hydroenergy Power S.R.L.	9.200	1997, overhauled in 2013
Grebla	TMK Hydroenergy Power S.R.L.	7.968	1970, overhauled in 2013
Hydro power plants, total		21.984	

Wind Power Plants

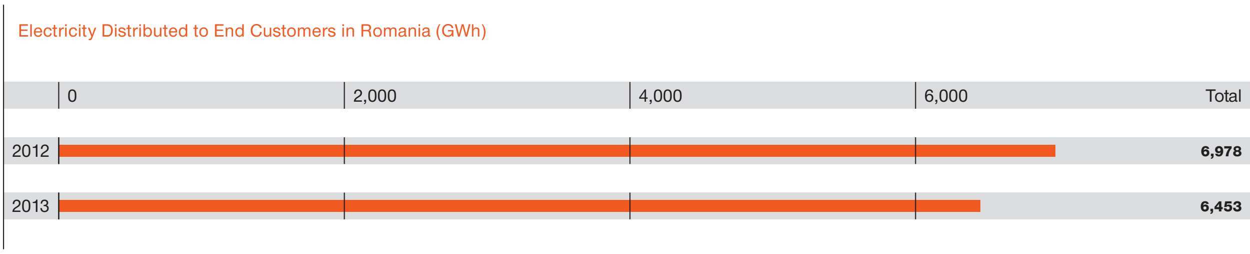
Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Cogealac	Ovidiu Development S.R.L.	252.5	2012
Fântânele	Tomis Team S.R.L. MW Team Invest S.R.L.	347.5	2010
Wind power plants, total		600.0	

In 2013, work continued on upgrading small-scale hydro power plants belonging to TMK Hydroenergy Power S.R.L., which are located in the southwestern portion of Romania in Caraş-Severin County near the city of Reşiţa. By year end the upgrades had been completed and installed capacity was increased from the original 18 MW to 21.984 MW. The plants were already partially in operation during the last two months of the year, during which they generated 5 GWh of electricity.

Electricity Generation Outlook for 2014

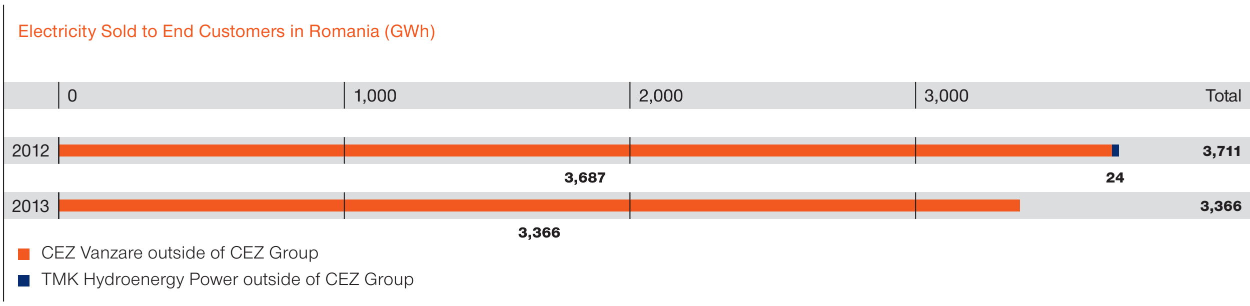
The Fântânele wind farm is expected to generate a total of 0.8 TWh, while the neighboring Cogealac farm's output is predicted to reach 0.5 TWh. The Reşiţa complex of hydro power plants is to generate 0.1 TWh of electricity.

Electricity Distribution



The Romanian distribution company, CEZ Distributie S.A., distributed 6,453 GWh of electricity in 2013, down 525 GWh year-on-year. The main reason was lower electricity consumption at a major industrial customer, a state-owned industrial enterprise.

Electricity Sales



The Romanian sales company, CEZ Vanzare S.A., sold 3,366 GWh of electricity to end customers in 2013, down 321 GWh year-on-year. This development was attributable to warmer weather in 2013, lower consumption by large industrial customers, and to some degree also by migration of certain customers to a different supplier.

Electricity Distribution and Sales Outlook for 2014

The plan calls for 3.4 TWh of electricity to be sold to end customers. Electricity distribution volume to end customers in 2014 is planned at 6.6 TWh.

Capital Expenditures

Capital expenditures in Romania continued in 2013, and were directed particularly toward improving distribution grid parameters at all voltage levels and completing upgrades of small-scale hydro power plants belonging to TMK Hydroenergy Power S.R.L. Another part of the capital expenditures went toward completing infrastructure at the Fântânele and Cogealac wind farms. Overall CAPEX in electricity distribution and generation in 2013 reached CZK 2.1 billion.

Republic of Turkey

Business Environment in the Power Industry

In 2013, the Turkish Lira depreciated by 20% against the U.S. Dollar. This had a negative impact on most local companies, which are financed mostly in the U.S. currency. The depreciation was caused by sustained inflation, exacerbated by growing labor costs, a high balance of payments (current account) deficit, a lower pace of currency easing in the USA – which gave rise to concerns over foreign capital inflow – and a destabilization of the political situation, which caused a cooling in foreign investor interest in the Turkish market.

2013 also saw a change in the structure of GDP growth as household and government consumption became the fastest-growing components. This was reflected in substantially slower growth in electricity demand, which was up just 1.3% year-on-year. At the same time, 6,986 MW of new power generation capacity came on-line in 2013, roughly half of which was in gas-fired thermal power plants and the remainder in renewable sources – mainly hydro. The new supply-demand ratio had a negative impact on electricity prices and substantially decreased the profitability of power sources, especially those in gas-fired plants.

Unbundling, i.e. separating the ownership of electricity distribution and sales, became mandatory in 2013. At the same time, the electricity market for end customers was further liberalized. At present, nearly all entities that are not households or the smallest of commercial sites are eligible to choose their supplier, and particularly in the second half of the year this was reflected in a growing number of migrations. This new situation is proving most beneficial to wholesalers and certain producers; for trading companies split off from the original distribution companies, it represents a threat of sorts, as it is putting downward pressure on market share.

Privatization of distribution was completed in 2013 as the distribution companies were taken over by new, private owners. Most generation capacity is still controlled by the state, either by direct ownership or in the form of long-term electricity sales contracts. This ratio is gradually declining, however, as a result of private sector investment.

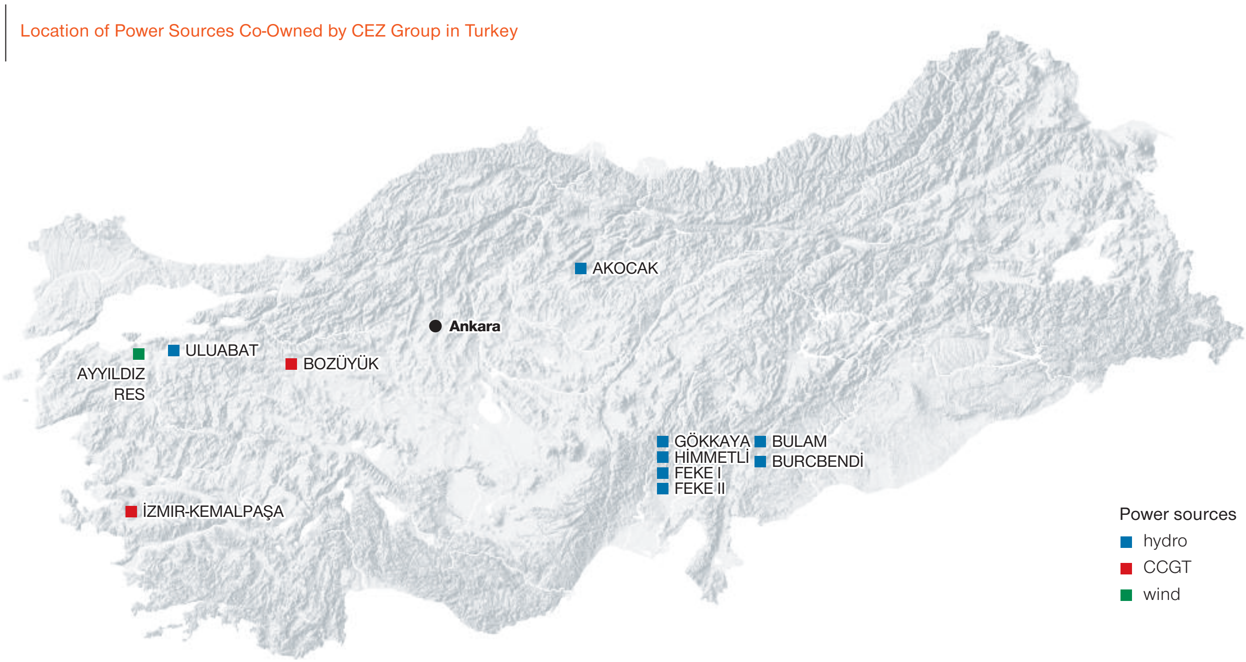
CEZ Group in Turkey

Electricity Generation

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

In total, these companies generated 1,931 GWh of electricity in 2013. Generation volume was lower compared to the previous year (2,585 GWh), due to the shutdown and subsequent successful sale of gas-fired Çerkezköy power plant as well as extraordinarily dry weather, which caused low generation in hydro power plants.

Location of Power Sources Co-Owned by CEZ Group in Turkey



List of Power Plants Co-Owned by CEZ Group in Turkey

Gas-Fired Power Plants

Plant	Owner	Type of fuel	Installed capacity (MW) as at December 31, 2013	Year commissioned
Bozüyük	Akenerji Elektrik Üretim A.S.	natural gas	1 x 45 2 x 43.5	1997 1997
İzmir-Kemalpaşa	Akenerji Elektrik Üretim A.S.	natural gas	2 x 43.6 1 x 40	2005 2005
Gas-fired power plants, total			259.2	

Wind Power Plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Ayyıldız RES	Akenerji Elektrik Üretim A.S.	5 x 3	2009
Wind power plants, total		15.0	

Hydro Power Plants

Plant	Owner	Installed capacity (MW) as at December 31, 2013	Year commissioned
Akocak	Akenerji Elektrik Üretim A.S.	81	2010
Bulam	Mem Enerji Elektrik Üretim A.S.	7.03	2010
Burcbendi	Akkur Enerji Üretim Ticaret ve Sanayi A.S.	27.33	2010
Feke I	Akkur Enerji Üretim A.S.	2 x 14.5	2012
Feke II	Akkur Enerji Üretim Ticaret ve Sanayi A.S.	69.35	2010
Gökkaya	Mem Enerji Elektrik Üretim A.S.	2 x 14	2012
Himmetli	Mem Enerji Elektrik Üretim A.S.	2 x 13.5	2012
Uluabat	Akenerji Elektrik Üretim A.S.	97.02	2010
Hydro power plants, total		365.7	

Electricity Generation Outlook for 2014

Overall electricity generation volume is expected at 3,483 GWh. The substantial year-on-year increase is caused by the anticipated commissioning of the Egemer power plant in the second half of the year. Since hydrological conditions have been unfavorable so far, however, we cannot rule out the possibility that generation in hydro power plants, and hence total electricity generation volume as well, will be lower than anticipated.

Electricity Distribution and Sale

Sakarya Elektrik Dagitim A.S. distributed a total of 7,952 GWh of electricity and Sakarya Elektrik Perakende Satis A.S. sold 7,826 GWh of electricity to end customers in 2013. The volume of distributed electricity grew moderately year-on-year (from 7,859 GWh in 2012), while sales were down 5% (from 8,217 GWh in 2012). The growth in electricity distribution volume was caused by growing demand on the part of local households, industrial enterprises, and commercial customers. The fluctuating volume of electricity sold was caused by eligible customers migrating back and forth between Sakarya Elektrik Perakende Satis A.S. and wholesale dealers in response to developments in market prices.

Electricity Distribution and Sales Outlook for 2014

In 2014 we expect to see electricity distribution volume of 8,170 GWh and electricity sales volume of 6,556 GWh. The anticipated year-on-year drop in electricity sales volume reflects the price situation in the Turkish electricity market, described above.

Capital Expenditures

Capital expenditure totaled TRY 0.5 billion (approximately CZK 5.4 billion) in 2013.
The biggest CAPEX project is the construction of the 872 MW Egemer CCGT plant at Hatay on the southeastern coast of Turkey, commenced in 2011. This is an extraordinarily efficient power plant (over 57% efficiency) with a minimum lifetime of 30 years. First fire of gas turbine no. 1 took place on March 29, 2014. This marked the beginning of the “hot tests” phase. Commissioning of this source is planned for the second half of 2014.
In the distribution segment, CAPEX was directed toward increasing grid capacity and efficiency.

Republic of Albania

Business Environment in the Power Industry

The electricity market is regulated. Limited liberalization of electricity supplies is offered only to big electricity consumers in the mining industry, producers of steel and other metals, and to cement producers in particular. Construction of new power sources, large and small, has been liberalized and in the case of hydro power plants is governed by a statutory process involving the granting of concessions. 2013 saw the completion of the privatization of the Bistrica and Ulëz-Shkopet hydro power plants. Economic growth in Albania is very fragile due to the debt crisis in Europe, and the situation in the energy sector was exacerbated by the negative impacts of prior dry years. As a result, hydro generation was severely limited and the high price of imported electricity combined with the poor solvency of the country's populace and economy gave rise to major liquidity problems throughout Albania's energy sector, which still persist.

CEZ Group in Albania

Operations in the Country

CEZ Group entered the Albanian market in May 2009 when it acquired a 76% stake in the Albanian distribution company Operatori i Sistemit të Shpërndarjes Sh.A., subsequently renamed to CEZ Shpërndarje (hereinafter also referred to as CEZ SH). The remaining 24% was owned by the Albanian government. Right from the beginning, however, the Albanian authorities breached many of the mutual agreements. First, in 2009 the ERE failed to accept an independent Initial Level of Losses Study. In 2010, it refused to accept a Study of Losses and related recommendations for reducing losses, and did not reflect it in the distribution company's tariffs, thereby breaching the regulatory framework. In December 2011, the ERE promulgated decisions setting tariffs for the 2012–2014 period (Decision No. 147 of December 15, 2011 for the distribution tariff and Decision No. 148 for the RPS sales tariff), which increased the regulated prices at which CEZ SH buys electricity by 91%, without any corresponding adjustment in the regulated prices for end customers. What is more, the ERE also failed to accept a Study on the Amount of Bad Debts, which CEZ SH submitted in accordance with the Declaration on Regulation. The study's conclusions were not reflected in the tariff calculations. CEZ SH appealed to the ERE against the decisions and the tariff calculations that were issued in violation of the Declaration on Regulation, and subsequently resorted to filing suit in court as well. These decisions and other unfavorable steps by Albanian institutions had a negative impact on CEZ SH's financial performance and caused liquidity problems that eventually gave rise to a critical financial situation and insolvency.
Throughout 2012, the ERE was repeatedly notified in writing of the problems and deteriorating financial situation of CEZ SH, as well as of the necessity of taking immediate steps to prevent CEZ SH from becoming incapable of meeting obligations under its licenses. The ERE failed to respond to these repeated notices and calls on the part of ČEZ. Furthermore, the Albanian tax administration changed its stance, leading to the imposition of additional tax amounts and penalties.
In December 2012, the ERE commenced a procedure to revoke the distribution license of CEZ Shpërndarje Sh.A. (76% owned by ČEZ, a. s. and 24% owned by the Albanian state) on the grounds of alleged breaches of the license conditions. On January 21, 2013 the ERE issued a decision revoking CEZ Shpërndarje's licenses to distribute and sell electricity to tariff customers and, at the same time, appointed an "administrator" of CEZ Shpërndarje. The administrator took over running the company, including all decision-making powers and responsibility for its day-to-day operation. The rights of CEZ Shpërndarje's statutory bodies and of its shareholders passed to the administrator, thereby causing a de facto loss of control by ČEZ over CEZ Shpërndarje. The company was also removed from the CEZ Consolidated Group.
In addition to the stake in CEZ Shpërndarje Sh.A., which it does not in fact control, ČEZ, a. s. holds 100% equity stakes in the companies Shared Services Albania Sh.A. and CEZ Trade Albania Sh.P.K. The latter has been in liquidation since September 30, 2013.

Arbitration with Albania

See the information presented in the chapter Litigation.

Electricity Distribution and Sale

The Albanian side does not provide any official electricity distribution or sales figures. Since the entity was removed from the consolidated group in January 2013, the values reported for 2013 are nil. In 2012, CEZ Shpërndarje distributed and sold 3,771 GWh of electricity to end customers.

Other Countries with CEZ Group Operations

Hungary

Heat Generation
Process steam for the Danube refinery was generated by MOL - CEZ European Power Hungary Kft. (one of several ČEZ and MOL joint-ventures). In 2013 the company generated 1,837 TJ of heat from gas and heating oil purchased from MOL Energiakereskedő Zrt.

Electricity Sales
Electricity was sold through CEZ Magyarország Kft., which supplied 845 GWh of electricity to large end-customers in 2013. This company is one of the largest alternative suppliers of electricity to this segment. The company's income result was negatively affected by a change in regulatory conditions in the area of renewable sources: the proportion of green electricity allocated to households was reduced, causing the proportion allocated to large customers to increase.

Electricity Sales Outlook for 2014
The total supply volume for 2014 is projected at 1,093 GWh.

Shares of MOL Nyrt.
ČEZ holds a 7.3% equity stake in the Hungarian petrochemical company MOL Nyrt. An option held by MOL to buy out this stake expired on January 23, 2014, without being exercised. On February 4, 2014 CEZ MH B.V., a member of CEZ Group, issued convertible bonds in a nominal value corresponding to the market price of this equity stake. As of January 25, 2017 the owners of these convertible bonds will be able to exchange them for shares of MOL Nyrt. at a price of 61.25 EUR. However, CEZ MH B.V. will have the option of paying cash in lieu of shares for all or part of the shares demanded by bondholders.

Capital Expenditures
2012 saw work suspended on the project to build a 850 MW CCGT power plant at Százhalombatta – the site of the most important refinery of MOL Nyrt. The only expenses incurred in the project were those necessary to maintain it in a suspended state, pending a decision to either go forward or sell.

Slovak Republic

Electricity and Heat Generation
The company CM European Power Slovakia, s. r. o. (one of several ČEZ and MOL joint-ventures) generates process steam and electricity, which are sold to the Slovnaft refinery, part of MOL Group. In 2013, CM European Power Slovakia, s. r. o. generated 429 GWh of electricity and 4,576 TJ of heat.
CM European Power Slovakia, s. r. o. buys heating oil and refinery gas from the Slovnaft refinery.

Sale of Electricity and Natural Gas
Electricity and gas are sold by CEZ Slovensko, s.r.o. In 2013, this company supplied electricity and gas to entities in both the large and small end-customer segments, i.e. to residences as well as small and mid-sized companies. In 2013, 1,482 GWh in electricity and 1,534 GWh in natural gas were supplied to end customers in all segments.
On February 15, 2014, in cooperation with the local branch of the Swiss-German publishing house Ringier Axel Springer, sales of electricity to residential customers commenced in the form of a product entitled "Nový čas Energie" (New Time of Energy), offered to customers by the daily newspaper Nový čas. Customers enter into indefinite-term contracts directly with CEZ Slovensko, s.r.o.

www.cez.hu

www.cez.sk

Electricity and Natural Gas Sales Outlook for 2014
In 2014, the volume of supplies in the large end-customer segment is expected to be similar to 2013, and any growth in volume in the small end-customer segment will be dependent on developments in price regulation. We will continue to actively pursue growth in our market share.

Capital Expenditures
CM European Power Slovakia, s. r. o. worked to upgrade its other process (boiler house and turbine) installations to gain the ability to increase capacity of supplies of process heat and electricity to the Slovnaft refinery.
In 2013, work began on a power-heating plant denitrification study. The project is slated for completion in 2015.
The project for a new nuclear source at the Jaslovské Bohunice site continued as well. Activities were carried out leading to the drafting of EIA documentation and obtaining of a permit from the Ministry of the Economy to build a power generation facility, which is necessary for connecting the future plant to the grid. An analysis was conducted of the project's preparedness for an IAEA inspection. Over 90% of the land parcels necessary for construction of the nuclear source have been purchased. Early in the year, ČEZ decided to test interest in its stake in the company Jadrová energetická spoločnosť Slovenska. A memorandum of understanding was signed, on the basis of which Russian state-owned Rosatom undertook due diligence at the company. Negotiations with Rosatom on its investment in the project were terminated at year end.

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

Bosnia and Herzegovina
As at December 31, 2013, CEZ Bosna i Hercegovina d.o.o. entered into liquidation.
Information on ongoing arbitration is presented in the chapter Litigation.

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

Ireland
CEZ Group has no energy-related business activities in Ireland. The principal business of its subsidiaries here relates to CEZ Group's financing. The company CEZ Finance Ireland Ltd. entered into liquidation as at October 31, 2013.

Federal Republic of Germany
CEZ Group's presence in the German energy market is limited to trading in electricity and other commodities.

Russian Federation
Operations in the country have been wound down, and liquidation of the sole Russian subsidiary, CEZ RUS OOO, is to be completed in 2014.

Ukraine
Operations in the country have been wound down, and liquidation of the sole Ukrainian subsidiary, CEZ Ukraine LLC, is to be completed in 2014.

Cyprus
CEZ Group has no energy-related business activities in Cyprus. Operations in the country are minimized, and liquidation of Taidana Limited, which is 100% owned by Tomis Team S.R.L., is to be completed in 2014.


ÇGU
URES
2011-2012
VE HOUSING
DICK VAN GAMEREN [NL]
RUDY UYTENHAAK [NL]
JAVIER ARPA [E]
PETER LORENZ [A]
DIETMAR EBERLE [A]

Energy explores
You put your energy into keeping up on what is going on in the world, and you expand your horizons.

Changes in CEZ Group Ownership Interests

Czech Republic

2013

- **January 1** ČEZ Správa majetku, s.r.o. renamed to ČEZ Korporátní služby, s.r.o. in conjunction with expansion of its principal businesses.
- **January 1** ČEZ ICT Services, a. s. establishes 100% subsidiary Telco Pro Services, a. s.
- **January 1** ČEZ Teplárenská, a.s. purchases 50% equity stake in ENERGIE KRUPKA, s.r.o. from City of Krupka, thereby increasing its stake in company to 100%.
- **February 1** Share capital of Elektrárna Dětmarovice, a.s. increased to CZK 1.35 billion by ČEZ, a. s. capital contribution: the Dětmarovice Power Station organizational unit.
- **April 12** ČEZ, a. s. purchases 0.1% stake in ČEZ Obnovitelné zdroje, s.r.o. from ČEZ Korporátní služby, s.r.o., thereby increasing stake in former to 100%.
- **April 30** Severočeské doly a.s. acquires additional 7.35% stake in SD - KOMES, a.s., thereby increasing its overall stake in company to 100%.
- **June 28** Energotrans, a.s. purchases 85% stake in Areál Třeboradice, a.s. from Pražská teplárenská a.s.
- **July 1** ČEZ Měření, s.r.o. merged into ČEZ Distribuční služby, s.r.o.
- **July 1** SD - Rekultivace, a.s. merged into SD - Autodoprava, a.s.
- **July 1** SD - 1.strojírenská, a.s. merged into PRODECO, a.s.
- **July 22** ČEZ ICT Services, a. s. splits off its telecommunication equipment operations into Telco Pro Services, a. s.
- **July 29** Energotrans, a.s. sells 10% equity stake in Energotrans SERVIS, a.s., thereby decreasing its stake to 5%.
- **August 1** ČEZ Teplárenská, a.s. purchases 100% stake in VRCHLABSKÁ TEPLÁRENSKÁ, s.r.o.
- **September 1** ČEZ Nová energetika, a.s. formed as 100% subsidiary of ČEZ, a. s.
- **September 2** ČEZ, a. s. sells 100% stake in Elektrárna Chvaletice a.s.
- **September 18** ČEZ Teplárenská, a.s. purchases 82% stake in TEPLO KRKONOŠE a.s.
- **October 1** Teplárna Trmice, a.s. merged into ČEZ, a. s.
- **November 1** ČEZ Logistika, s.r.o. merged into ČEZ Distribuční služby, s.r.o.
- **November 1** ENERGIE KRUPKA, s.r.o. merged into ČEZ Teplárenská, a.s.
- **November 1** ČEZ Teplárenská, a.s. purchases 100% stake in Teplo Klášterec s.r.o.
- **November 13** STE - obchodní služby spol. s r.o. (abbreviated name STE-OS s.r.o.) in liquidation dissolved.
- **December 1** SD - Autodoprava, a.s. renamed to Revitrans, a.s.

2014

- **April 1** ČEZ Inženýring, s.r.o. formed as 100% subsidiary of ČEZ, a. s.

Republic of Albania

- **March 21** CEZ Albania Sh.A. renamed to Shared Services Albania Sh.A.

Republic of Bulgaria

- **November 21** CEZ Bulgarian Investments B.V. becomes 100% owner of Bara Group OOD.

Republic of Poland

- **April 19** Baltic Green I sp. z o.o., Baltic Green II sp. z o.o., and Baltic Green III sp. z o.o. change ownership, with Eco-Wind Construction S.A. becoming their sole owner in place of CEZ Poland Distribution B.V.
- **December 11** F.W. Tolkowiec sp. z o.o. renamed to Baltic Green IV sp. z o.o.
- **December 31** CEZ Nowa Skawina S.A. merged into Elektrownia Skawina S.A. after ownership of company passed from ČEZ, a. s. to CEZ Poland Distribution B.V. on September 30.

Republic of Turkey

- **February 21** Akenerji Elektrik Üretim A.S. increases stake in Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S. from 99.99 % to 100%.
- **March 5** Akenerji Elektrik Üretim A.S. increases stake in AK-EL Kemah Elektrik Üretim ve Ticaret A.S. from 99.99% to 100%.
- **March 5** Akenerji Elektrik Üretim A.S. increases stake in Akkur Enerji Üretim Ticaret ve Sanayi A.S. from 99.4% to 100%.
- **March 12** Akenerji Elektrik Üretim A.S. increases stake in Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S. from 90% to 100%.
- **April 26** consolidation of shareholder structure and change in ownership structure of Akcez Enerji A.S. Partners: ČEZ, a. s. and AKKÖK Group (acting through Akkök Sanayi Yatırım ve Geliştirme A.Ş.) divide up a 45% stake in share capital of Akcez Enerji A.S. owned, until then, by jointly held Akenerji Elektrik Üretim A.S. After deal, ČEZ, a. s. and AKKÖK Group each own 50% of Akcez Enerji A.S. share capital.
- **October 24** Akenerji Elektrik Üretim A.S. increases stake in Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S. from 99.28% to 100%.
- **December 25** Akka Elektrik Üretim A.S. in liquidation dissolved.

Slovak Republic

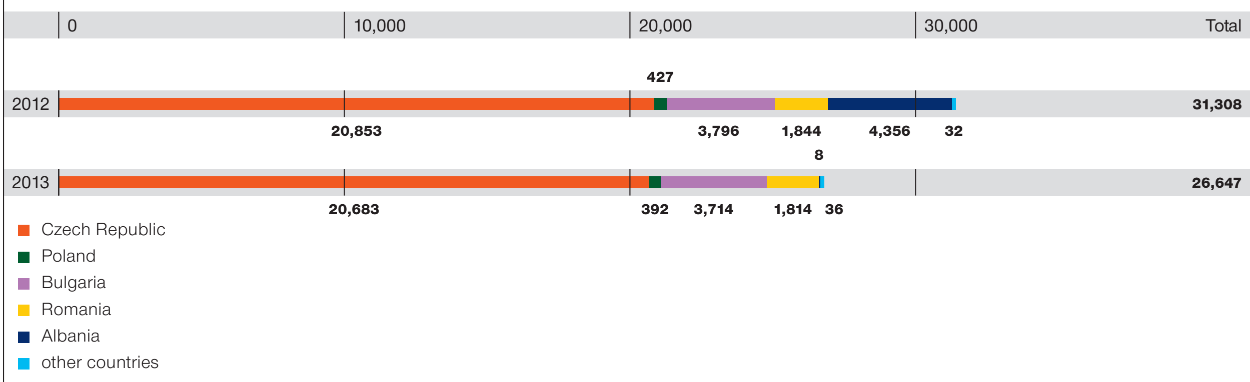
- **June 1** CM European Power International s. r. o. merged into CM European Power Slovakia, s. r. o.

Human Resources

Number of Employees

As at December 31, 2013, the members of the CEZ Consolidated Group employed a total of 26,647 persons, i.e. 4,661 persons less than in 2012. The reduction is largely attributable to the reclassification of employees in a foreign acquisition in Albania, due to the removal of CEZ Shpërndarje from the consolidated group.

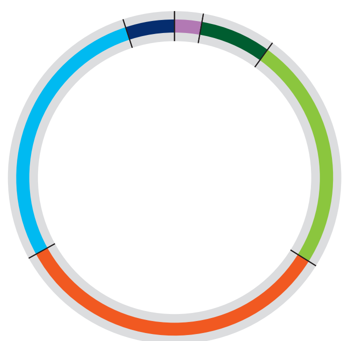
Work Force Head Count (persons) as at December 31, by Location



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

Work Force by Age as at December 31, 2013

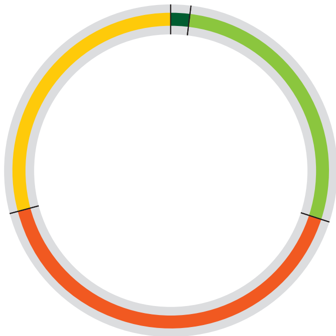
	%
25 years and under	3
26–30 years	7
31–40 years	24
41–50 years	33
51–60 years	28
61 and more years	5
Total	100



The education structure of the work force, by highest level of education achieved, changed only slightly compared to the previous year. There was a slight decrease in the number of employees with primary education and apprenticeships, while the number of employees with secondary and university education grew.

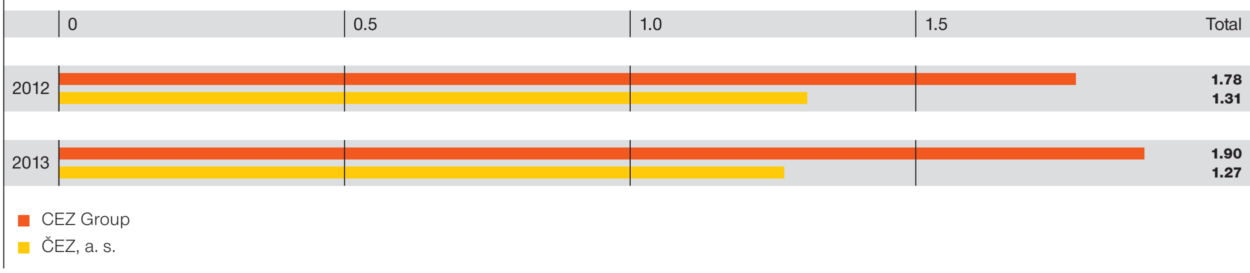
Work Force by Highest Level of Education Achieved at December 31, 2013

	%
primary	2
apprenticeship	28
secondary	41
university	29
Total	100



Low employee turnover attests to employees' high degree of loyalty and dedication.

Employee Turnover (%)



Remark: Attrition (number of terminated employees excluding forced terminations, but including, e.g., retirements and parental leave) in the given year x 100 / Average number of employees in the given year.

Strategic Recruiting

In 2013, CEZ Group defended its top placements in surveys in which university students designate their most sought-after employers. This is confirmation that our recruitment initiatives are aimed in the right direction and are eliciting a response. Thanks to these initiatives, we are meeting management's personnel requirements, despite the complicated situation in the labor market, particularly in positions that require technical expertise.

Strategic recruiting activity is founded upon cooperation with a network of partner schools. In 2013, this network was partially revised and expanded with the addition of more secondary schools, which have expressed great interest in collaboration. Currently, we are working with 50 secondary schools and 13 faculties of seven universities with technical focus.

CEZ Group has been endeavoring to bring about a change in the attitude of today's younger generation and their parents toward studying in technical fields, among other ways through cooperation with partner schools. The situation in secondary schools in the fields of electrical and mechanical engineering is still highly unfavorable. For this reason, in addition to supporting Mathematics and Physics Olympics, the company prepared and implemented the "I know why" project focused on popularizing and supporting the teaching of physics in primary and secondary schools.

2013 was highly successful in terms of recruiting talented students for certain positions through the scholarship program. We also succeeded in launching implementation of a program to renew human resources at ČEZ Distribuční služby, s.r.o.

Training Program

The core business and strategic objectives of CEZ Group place high demands on the know-how, experience, and skills of its employees. In addition to providing employees with all the training they need to meet qualification requirements, CEZ Group introduced a strategic competency model and focused in particular on developing executives through a manager growth program, as well as on developing and motivating key employees. The Group provides its talented new employees with long-term support for their year-round development through the ČEZ Potentials program. It is continually developing its portfolio of e-learning products. It created and put into operation a system entitled "Basic Preparation for Technical Professions at Hydro Power Plants" and newly implemented an "Observation and Coaching" training program for Dukovany Nuclear Power Station. It supports the sharing of employees' important know-how and experience (knowledge management). As a result of the OSART Corporate visit in 2013, ČEZ, a. s. obtained "good practice" status in the area of Nuclear Knowledge Management.

In the area of CEZ Group's nuclear operations, continuous improvement of specialized training and skills of employees is a necessary condition for the safe and reliable operation of nuclear power plants. One of the key activities in 2013 was the creation of a system of specialized training for selected nuclear power plant personnel according to the requirements of the National Action Plan for reinforcing the nuclear safety of nuclear installations in the Czech Republic, based on the assessment of the stress tests undertaken under the patronage of the European Union.

Social Policy

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

The basic principles of the CEZ Group social policy also apply to employees working for our international acquisitions.

Labor Relations

In 2013, the total number of basic labor organizations at ČEZ, a. s. was 26, and approximately 1,700 employees, or 31% of the Company's total work force, were unionized.

At the integrated subsidiaries of CEZ Group, a total of 42 basic labor organizations were in operation, and approximately 3,300 employees, or 47% of the total work force, were unionized. 35 of these basic labor organizations were members of four regional Associations of Basic Organizations.

The labor organizations are organized into two labor unions: the ECHO Labor Union and the Czech Union of Power Industry Employees. There is also one labor organization at CEZ Group that is a member of the KOVO Labor Union.

During 2013, regular meetings were held between the employer and labor representatives, at which the labor organizations received information and discussions were held concerning reorganizations and other topics set forth by the Labor Code and the Collective Agreement.

At ČEZ, a. s. and the integrated subsidiaries, the current Collective Agreements expire on December 31, 2014. In the second half of 2013, collective bargaining took place on amendments to all valid collective agreements, relating primarily to wage growth for 2014. Collective bargaining culminated in November with the signing of amendments to the collective agreements of the integrated subsidiaries, and in December with the signing of Amendment No. 11 to the ČEZ, a. s. Collective Agreement.

16 basic labor organizations operate within the Severočeské doly Group. The current collective agreements are valid until December 31, 2014, while the subsidiary SD - KOMES, a.s. has a collective agreement valid until June 30, 2014.

At CEZ Group's international production and distribution companies, in most cases over 70% of the work force is unionized.

In Romania, collective agreements are entered into at CEZ Distributie, CEZ Romania, CEZ Vanzare, and TMK Hydroenergy Power. At CEZ Vanzare and TMK Hydroenergy Power, the current collective agreements are valid until December 31, 2014. At CEZ Romania, an agreement covering the period January 1, 2014 – December 31, 2015 was signed on December 19, 2013. In March 2013, a new collective agreement was signed at CEZ Distributie, valid from April 1, 2013 for a period of two years.

In Poland, a total of four labor organizations operated within CEZ Group in 2013. The collective agreement for employees of the ELCHO power plant was set to expire at year end 2013. Therefore, in November 2013 a new collective agreement was signed for the period 2014–2016. The collective agreement for employees of the Skawina power plant, signed in 1995, has no fixed term.

Three labor organizations operated at the Varna power station in Bulgaria. The collective agreement there is valid until the end of 2014.

At CEZ Razpredelenie Bulgaria AD there were four labor organizations, while CEZ Bulgaria EAD and CEZ Elektro Bulgaria AD had four and two labor organizations, respectively. The collective agreements at these companies are valid until December 31, 2014.

In 2013, during the CEZ Group European Works Council's second term, two meetings were held in Prague. Topics included primarily CEZ Group's strategy, its organization and asset structure, its economic and financial situation, and recruitment of new employees.

Development of the Power Industry Legislative Framework in the Czech Republic

Act No. 89/2012 Sb., the Civil Code, was promulgated in the Collection of Laws on March 22, 2012, and effective from January 1, 2014 it constitutes the basic set of statutes regulating private-law relationships in the Czech Republic, replacing the previous Civil Code (Act No. 40/1964 Sb., the Civil Code), which had been in effect for nearly 50 years. Also promulgated on that date was Act No. 90/2012 Sb. on Commercial Companies and Cooperatives (the Corporations Act), which effective from January 1, 2014 replaces Act No. 513/1991 Sb., the Commercial Code. Act No. 91/2012 Sb. on Private International Law was promulgated as well. This recodification of private law in the Czech Republic, which also saw the amendment of a large number of related laws and regulations, represents a change in the fundamental set of private-law statutes regulating the economic and commercial aspects of CEZ Group's business operations. During 2013 CEZ Group took steps to ensure due and proper implementation of all measures necessary to adapt to this major change. As an issuer of publicly-traded securities, ČEZ continues to be subject to Act No. 256/2004 Sb. on Doing Business in the Capital Market. In selecting its suppliers, ČEZ, a. s. is bound by Act No. 137/2006 Sb. on Public Procurement. During 2013, Act No. 513/1991 Sb., the Commercial Code, and Act No. 256/2004 Sb. on Doing Business in the Capital Market were amended in conjunction with the passage of Act No. 134/2013 Sb. on Certain Measures to Increase the Transparency of Joint-Stock Companies and amending certain acts.

Alongside this general legislative framework described above, also of key importance for CEZ Group is legislation specifically treating the power industry, consisting of the following:

- Act No. 458/2000 Sb. on the Conditions for Doing Business and Exercising State Administration in the Energy Sectors and amending certain acts (the Energy Act)
- Act No. 18/1997 Sb. on the Peaceful Use of Nuclear Energy and Ionizing Radiation and amending certain acts (the Nuclear Act)
- Act No. 406/2000 Sb. on Energy Management
- Act No. 165/2012 Sb. on Supported Energy Sources and amending certain acts.

In addition to these four core acts that govern the power sector, the energy business in general – and the generation of electricity and heat in particular – is being affected more and more by environmental legislation.

Of this legislation, the following acts are of key importance:

- Act No. 201/2012 Sb. on Air Protection
- Act No. 695/2004 Sb. on Conditions for Trading in Greenhouse Gas Emission Rights and amending certain acts
- Act No. 383/2012 Sb. on Conditions for Trading in Greenhouse Gas Emission Rights (repealed Part One of Act No. 695/2004 Sb., containing conditions for trading in greenhouse gas emission rights, effective from January 1, 2013).

During 2013, the following amendments to these laws were adopted:

- Act No. 406/2000 Sb. on Energy Management was modified by an indirect amendment, Act No. 310/2013 Sb. – the modifications address eligibility to install selected types of equipment that generate energy from renewable sources and the effectiveness of a direct amendment by Act No. 318/2012 Sb. (effective from January 1, 2014)
- Act No. 165/2012 Sb. on Supported Energy Sources and amending certain acts, was modified by a direct amendment, Act No. 310/2013 Sb. – implementation of measures to stabilize impacts of support for renewable sources (effective from October 2, 2013; January 1, 2014; June 1, 2014).

The following lower-level regulations were promulgated in 2013 that implement the above acts or amend other implementing regulations concerning:

- Act No. 458/2000 Sb. on the Conditions for Doing Business and Exercising State Administration in the Energy Sectors and amending certain acts (the Energy Act):
  - Decree No. 325/2013 Sb. amending Decree No. 19/2010 Sb. on the compilation of reports concerning natural gas procured and sold and the scope of information disclosed in the natural gas industry to the market operator (effective from October 15, 2013)
  - Decree No. 289/2013 Sb. amending Decree No. 108/2011 Sb. on natural gas metering and the method for determining damage compensation in the event of unauthorized offtake, supply, storage, transportation, and/or distribution of natural gas (effective from October 31, 2013)
  - new Decree No. 436/2013 Sb. on price regulation methods and procedures in the power and heat industries and amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures, as amended (effective from January 1, 2014)
- Act No. 406/2000 Sb. on Energy Management:
  - new Decree No. 78/2013 Sb. on the energy efficiency of buildings (effective from April 1, 2013)
  - new Decree No. 118/2013 Sb. on energy specialists (effective from June 1, 2013)
  - new Decree No. 194/2013 Sb. on inspections of boilers and heat supply infrastructure (effective from August 1, 2013)
- Act No. 165/2012 Sb. on Supported Energy Sources and amending certain acts:
  - Government Regulation No. 338/2013 Sb. stipulating a limit on State budget funds for providing subsidies to partially cover the price of electricity for customers and to fund operational support of heat for 2014 (effective from October 29, 2013)
  - Decree No. 350/2013 Sb. amending Decree No. 347/2012 Sb. stipulating technical and economic parameters of renewable sources for generation of electricity and the useful lifetime of facilities for generating electricity from renewable sources (effective from November 8, 2013)
  - new Decree No. 436/2013 Sb. on price regulation methods and procedures in the power and heat industries and amending Decree No. 140/2009 Sb. on price regulation in the energy sectors and on price regulation procedures, as amended (effective from January 1, 2014).

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

At the European Union level, 2013 was another year in which amendments and new legislation were adopted that are significant in terms of CEZ Group's business:

- Council Directive 2013/59/Euratom of December 5, 2013 laying down basic safety standards for protection against the dangers arising from exposure to ionizing radiation, and repealing Directives 89/618/Euratom, 90/641/Euratom, 96/29/Euratom, 97/43/Euratom, and 2003/122/Euratom
- Regulation (EU) No. 347/2013 of the European Parliament and of the Council of April 17, 2013 on guidelines for trans-European energy infrastructure and repealing Decision No. 1364/2006/EC and amending Regulations (EC) No. 713/2009, (EC) No. 714/2009, and (EC) No. 715/2009 (text with European Economic Area relevance)
- Commission Regulation (EU) No. 543/2013 of June 14, 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No. 714/2009 (text with European Economic Area relevance)
- Council Regulation (EURATOM) No. 1314/2013 of December 16, 2013 on the Research and Training Program of the European Atomic Energy Community (2014–2018) complementing the Horizon 2020 Framework Program for Research and Innovation
- Commission Regulation (EU) No. 984/2013 of October 14, 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No. 715/2009 (text with European Economic Area relevance)
- Regulation (EU) No. 347/2013 of the European Parliament and of the Council of April 17, 2013 on guidelines for trans-European energy infrastructure and repealing Decision No. 1364/2006/EC and amending Regulations (EC) No. 713/2009, (EC) No. 714/2009, and (EC) No. 715/2009 (text with European Economic Area relevance)
- Regulation (EU) No. 1315/2013 of the European Parliament and of the Council of December 11, 2013 on Union guidelines for the development of the trans-European transport network and repealing Decision No. 661/2010/EU (text with European Economic Area relevance)
- Regulation (EU) No. 1316/2013 the European Parliament and of the Council of December 11, 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No. 913/2010, and repealing Regulations (EC) No. 680/2007 and (EC) No. 67/2010 (text with European Economic Area relevance)
- Regulation (EU) No. 1300/2013 of the European Parliament and of the Council of December 17, 2013 on the Cohesion Fund and repealing Council Regulation (EC) No. 1084/2006
- Regulation (EU) No. 1293/2013 of the European Parliament and of the Council of December 11, 2013 on the establishment of a Program for the Environment and Climate Action (LIFE) and repealing Regulation (EC) No. 614/2007 (text with European Economic Area relevance)
- Commission Regulation (EU) No. 1143/2013 of November 13, 2013 amending Regulation (EU) No. 1031/2010 on the timing, administration, and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading within the Community in particular to list an auction platform to be appointed by Germany
- Commission Regulation (EU) No. 389/2013 of May 2, 2013 establishing a Union Registry pursuant to Directive 2003/87/EC of the European Parliament and of the Council, Decisions No. 280/2004/EC and No. 406/2009 of the European Parliament and of the Council, and repealing Commission Regulations (EU) No. 920/2010 and No. 1193/2011
- Commission Regulation (EU) No. 1123/2013 of November 8, 2013 on determining international credit entitlements pursuant to Directive 2003/87/EC of the European Parliament and of the Council (text with European Economic Area relevance)
- Decision No. 1359/2013/EU of the European Parliament and of the Council of December 17, 2013 amending Directive 2003/87/EC clarifying provisions on the timing of auctions of greenhouse gas allowances
- Commission Decision of September 5, 2013 concerning national implementation measures for the transitional free allocation of greenhouse gas emission allowances in accordance with Article 11(3) of Directive 2003/87/EC of the European Parliament and of the Council
- Commission Decision of September 5, 2013 on the standard capacity utilization factor pursuant to Article 18(2) of Decision 2011/278/EU
- Commission Decision of December 18, 2013 amending Decisions No. 2010/2/EU and 2011/278/EU as regards the sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage (notified under document C(2013) 9186; text with European Economic Area relevance)

- Commission Delegated Regulation (EU) No. 148/2013 of December 19, 2012 supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties, and trade repositories with regard to regulatory technical standards on the minimum details of the data to be reported to trade repositories
- Commission Delegated Regulation (EU) No. 149/2013 of December 19, 2012 supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on indirect clearing arrangements, the clearing obligation, the public register, access to trading venue, non-financial counterparties, and risk mitigation techniques for OTC derivatives contracts not cleared by a CCP
- Commission Implementing Regulation (EU) No. 1247/2012 of December 19, 2012 laying down implementing technical standards with regard to the format and frequency of trade reports to trade repositories according to Regulation (EU) No. 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties, and trade repositories.

Wholesale Market Regulation

Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency (REMIT), which took effect on December 28, 2011, imposed regulation of wholesale energy markets at the European Union level. Market participants are required to publicly disclose, in an effective and timely manner, certain internal information concerning their undertakings. These disclosures include information on the capacity and utilization of equipment for the generation, consumption, and transmission of electricity. At the web address www.cez.cz/cs/vyroba-elektriny/remit.html [1], ČEZ, a. s. has been publicly disclosing information on generation sources in the Czech Republic, including outages thereof, right from the first day the regulation went into effect. As of August 16, 2012, the information is also disclosed, to a certain extent, on the EEX Transparency platform (www.transparency.eex.com [2]). The disclosures covered ČEZ, a. s., Elektrárna Počerady, a.s., Elektrárna Dětmarovice, a.s., and Energotrans, a.s. Information on CEZ Group's power plants located in other countries is presented on the relevant national websites www.cez.bg/bg/za-nas/kompaniite-v-balgariya/tets-varna/remit.html [3]; www.cezpolska.pl/pl/cez-w-polsce ec-elcho-s-a/remit.html [4].

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

Regulation (EU) No. 648/2012 of the European Parliament and of the Council of July 4, 2012 on OTC derivatives, central counterparties, and trade repositories (EMIR) took effect on August 16, 2012. Its objective is to mitigate the risks inherent in OTC derivatives trading. In a series of steps, the regulation is introducing mandatory clearing of selected OTC derivative contracts through central counterparties, as well as mandatory disclosures concerning derivative contracts to trade repositories (i.e. registers of trading data). In 2013 ČEZ, a. s. began preparing to comply with the above obligations within the corresponding legislative deadlines. As of February 12, 2014, CEZ Group reports to the trade repository REGIS-TR – on a daily basis in accordance with the above Regulation – its exchange-traded commodity, OTC commodity, interest rate, and currency derivative transactions.

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

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school caretaker
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cook

Energy relaxes

You enjoy your free time, and you recharge your energy in motion, in nature. And then you return to your work well-rested and full of ideas.

Protection of the Environment

Air Protection

Czech Republic

Air emissions from CEZ Group sources are continually monitored. In 2013, emission limits were complied with at all CEZ Group combustion sources – this includes the ČEZ-wide emission sum ceiling and all other technical conditions for operation relating to air protection, as imposed upon our power sources in the operation permits issued by the relevant administrative authorities. ČEZ also meets its commitments under a joint declaration with the Ministry of the Environment of the Czech Republic, in which it pledged to implement emission reductions beyond those required by existing legislation. This is achieved directly at power plants operated by ČEZ, a. s. in the Czech Republic.

In operating coal-fired power plants and power-heating plants, CEZ Group conducts long-term, systematic monitoring of their impact on air pollution through its own in-house network for measuring ground-level concentrations. In 2013, eleven measurement stations were in operation, all located in the vicinity of coal-fired power plants and power-heating plants. The stations measure gaseous pollutants (SO_2, NO_X) and five of the stations also measure suspended dust particles (PM_{10}, $PM_{2.5}$).

The public is kept informed of the results of emissions and ground-level concentration monitoring conducted in conjunction with the operation of combustion sources through the website, where the results of emissions and ground-level concentration measurements are published, along with figures calculated for individual sources expressing the proportion of the air pollution in their vicinity attributable to them.

All ČEZ, a. s. coal-fired power plants, with the exception of the Dvůr Králové Power-Heating Plant, have implemented continuous measurement of dust, NO_X, SO_2, and CO_2 concentrations.

Monitoring stations are located in the towns affected by Severočeské doly operations, providing continuous measurements of ground-level concentrations of dust, and in particular of PM_{10} fraction suspended particles. The stations are operated by an independent, accredited laboratory and the data they generate is gathered via computer network. The results of the monitoring are provided to the affected towns in the form of data reports sent at regular monthly intervals.

Poland

Both CEZ Group combustion sources complied with emission limits in 2013.

Bulgaria

The Varna power station complied with emission limits in 2013.

Greenhouse Gas Emission Rights

Listed by CEZ Group Company

Emission Rights Granted and CO_2 Produced in 2013 (tons)

	Emission rights granted	CO_2 produced
ČEZ, a. s.	12,681,604	16,622,448
ČEZ Teplárenská, a.s.	14,048	20,792
Elektrárna Dětmarovice, a.s.	1,741,139	2,068,701
Elektrárna Chvaletice a.s.	1,490,149	3,020,392
Elektrárna Počerady, a.s.	3,281,846	5,396,799
Energetické centrum s.r.o.	6,706	1,050
Energotrans, a.s.	1,058,484	1,866,481
Czech Republic, total	20,273,976	28,996,663
Republic of Poland, total	–	2,440,778
Republic of Bulgaria, total	–	589,582
Total	20,273,976	32,027,023

The Czech Republic, along with another eight European Union Member States, received an exemption from the requirement to grant greenhouse gas emission rights exclusively at auction as of 2013. The Czech Republic's application of September 2011 for partial free-of-charge allocation of rights to generate electricity ("derogation") was approved by the European Commission. The emission rights for generation of electricity and heat for the year 2013 were credited to the respective account in 2014. The applications filed by Bulgaria and Poland, where CEZ Group also has operations, were approved in 2012 by the Directorate-General for Climate Change (European Commission); however, final granting of the exemption was conditional upon its approval by the Directorate-General for Competition (European Commission), which in 2013 issued its approval for Bulgaria only. Poland's application was finally granted by the European Commission in January 2014, and in April the Polish state issued emission rights for 2013, which will be credited to the accounts of the respective operators.

Under derogation, CEZ Group can obtain 70.2 million tons of emission rights (not including the emission rights for Elektrárna Chvaletice a.s., which is no longer a part of CEZ Group) in the years 2013–2020 in exchange for investments in reducing greenhouse gas emissions. These investments must at least equal the value of the emission rights granted through derogation. The value of the emission rights is determined on the basis of their market prices in the preceding year.

In 2013, CEZ Group submitted to the Ministry of the Environment of the Czech Republic its "Report on Realization of Investments" for the period October 1, 2012 to September 30, 2013, in which independent financial and power industry auditors confirmed that the Group had invested over CZK 4.3 billion in clean, environmentally friendly technologies.

Water Protection

Water use and wastewater discharge is governed by conditions set forth in integrated permits issued by the relevant authorities and in decisions handed down by water regulation bodies. In the period in question, all CEZ Group generation facilities complied with the water protection-related technical terms and conditions of operation imposed in the operation permits issued by the relevant administrative bodies. Within the supply chain, a degreasing agent leak was recorded during the construction of the new source in Ledvice. Thanks to a quick response, the impact on water quality was minimized and no corrective measures were needed on the part of the authorities.

2013 saw the completion of an expansion of the Emerán Minewater Treatment Plant at the Bílina Mines site of Severočeské doly, in which new plant and equipment was built out to ensure that released minewater complies with emission limits. Trial operation took place. In order to improve the quality of water released into the environment, the construction of the South Slopes 3 pumping station is planned for 2014, along with the related drainage system in the area of the pit located downhill from the town of Braňany.

Protection and Support of Fauna

Czech Republic

With regard to ČEZ Distribuce's legal obligation to secure all medium-voltage power lines against bird injury by the year 2024, measures are currently being prepared to conduct a safety audit of these power lines. Unusually wet weather, during which the risk of electric shocks increases, caused the number of bird injuries to rise in the spring months of 2013. The Nadace CEZ foundation helped to fund professional care for injured birds. Throughout the year, we conducted 24-hour monitoring of flying bird collisions with outdoor medium-voltage power lines in the section where the lines cross the Elbe River. The monitoring has been ongoing since 2011 and so far no bird collision resulting in physical injury to the bird has been detected.

CEZ Group takes great interest in protecting fauna in and around its power plant compounds. This includes animals such as bats, who have decided to spend their winters in the immediate vicinity of the plant.

In 2013, Severočeské doly undertook targeted ornithological surveys focused on assessing the prevalence of valuable bird species in and around the company's mines. These include a total of four bird species: the protected Tawny Pipit, the critically endangered Ortolan Bunting, the seriously endangered Northern Wheater, and the endangered Sand Martin. These species are interesting in that their preferred habitat is what we humans consider devastated land, with a minimum of vegetation. Just such an environment is provided by surface mines, and especially by spoilbanks in the early phases of their existence when they are covered by only sparse vegetation. Also, an ornithologically focused effort to increase the biodiversity of reclaimed land continued, especially on land being reclaimed for agriculture and forestry. These new forests are dominated by younger trees, where birds that nest in hollowed-out trunks of old trees cannot find suitable nesting grounds. To accommodate them, appropriate nesting birdhouses were installed, and their occupancy rate reached up to 80% in certain locations, which is considered a success.

Romania

CEZ Distributie S.A. continued in a project equipping power lines with devices designed to protect birds from injury. In the Fântânele – Cogealac – Grădina area, where CEZ Group has wind farms, a specialized company conducted ecosystem monitoring, focusing on birds, their migratory patterns, feeding, reproduction, and behavior. No changes in the lives of birds or other fauna were detected in 2013 at that location.

Bulgaria

Preparatory work for installation of bird protection devices on power lines continued at the Dolno Ozirovo site.

Land Clean-Up and Reclamation

Czech Republic

In 2013, reclamation work continued at sites in the vicinity of CEZ Group conventional power plants (ash and other waste dumps, settling ponds, etc.). In 2013, over 7.5 million tons of certified power generation by-products (PGBPs) were utilized in land reclamation. These power generation by-products are primarily ash, products of the semi-dry flue gas desulfurization process, and synthetic gypsum from the wet limestone scrubbing process of flue gas purification.
CEZ Group produced a total of over 9.0 million tons of PGBPs in the course of generating power and heat in 2013. Of the total amount of PGBPs, over 99% was used in the form of certified products (over 83% in land reclamation and landscape creation), while a negligible amount was disposed of as waste in accordance with the Waste Act.

Consumption and Emissions

CEZ Group Consumption and Emissions in the Czech Republic

	Units	2012	2013	Index 2013/2012 (%)
Total electricity	GWh	5,232	4,964	94.9
Total water consumption	m^3 '000	618,338	536,640	86.8
of which: surface water	m^3 '000	618,087	536,461	86.8
underground water	m^3 '000	251	179	71.6
Emissions and unit emissions of air pollutants				
Solids	tons	2,293	2,168	94.6
Sulfur dioxide	tons	48,164	41,848	86.9
Nitrogen oxides	tons	45,028	38,121	84.7
Carbon monoxide	tons	5,666	5,522	97.5
Carbon dioxide	tons	31,552,076	28,996,680	91.9
Radioactive waste				
Solid waste *	m^3	168	200	119.0
Liquid discharges	m^3	60,104	52,496	87.3
Gaseous discharges	m^3 millions	15,806	15,705	99.4

* Low- and medium-activity; high-activity waste is not generated.

Research and Development

The companies of CEZ Group reported aggregate total research and development (R&D) expenditures of CZK 1,057.2 million in 2013.

CEZ Group Expenditures Relating to Research and Development, 2013 (CZK millions)

Company	R&D expenditure	Of which, subsidized
ČEZ, a. s.	226.7	0.2
Centrum výzkumu Řež s.r.o.	519.6	430.6
ČEZ Distribuce, a. s.	7.7	1.7
ČEZ Energetické produkty, s.r.o.	13.1	9.6
PRODECO, a.s.	4.5	–
Severočeské doly a.s.	3.2	0.6
ÚJV Řež, a. s.	282.4	163.3
Total	1,057.2	606.0

ČEZ, a. s.

The centralized research and development system contributes to the Company's goal of becoming a major domestic center of know-how in the area of innovative energy-related technologies. R&D operations are focused in areas to which CEZ Group gives high priority and, at the same time, on projects that have a strong applied focus. By implementing R&D projects, ČEZ, a. s. endeavors to reinforce the key areas of its core businesses while at the same time developing promising new directions in energy.

International

At the international level, ČEZ, a. s. is a member of the Electric Power Research Institute, Inc. (EPRI) – our collaboration with this institution, which had focused on the nuclear area, was expanded to include fossil-based energy as well. ČEZ, a. s. continues to be a member of VGB PowerTech, e.V. – here, our role lies primarily in fossil fuel-based energy.
ČEZ, a. s. is a member of several European technology platforms such as, for example, the Sustainable Nuclear Energy technology platform and the Zero Emission Platform. ČEZ, a. s. is a member of the NUGENIA association focused on second- and third-generation nuclear energy R&D. The Czech Republic equivalent of the European technology platforms is the "Sustainable Energy Czech Republic" technology platform, the Executive Committee of which is chaired by a ČEZ, a. s. representative.

Nuclear Energy

Through its membership in the nuclear sector of EPRI (Electric Power Research Institute), ČEZ, a. s. intensively draws on the shared know-how and results of R&D projects undertaken at the EPRI at the request of its members, i.e. operators of nuclear installations from all over the world. The EPRI R&D program covers a broad range of areas, from fuel reliability, corrosion of materials, and safety aspects to new nuclear technologies.
The expenditures of ČEZ, a. s. include a specimen surveillance program, which aims to obtain information on the current state of reactor pressure vessels and provide a scientific basis for predicting their useful lifetimes.
Other significant projects in the nuclear area are focused on qualifying new additive materials for welding and repairing the pressure vessel of the VVER1000 reactor, and on developing qualified procedures for repairing critical heterogeneous welded joints in nuclear power plants. Other ČEZ, a. s. R&D projects in the nuclear area are focused on further improving the safety, environmental, and economic parameters of nuclear power plants in operation.

Fossil Fuel-Based Energy

EPRI membership was expanded to other programs; the anticipated benefits of membership are primarily in the area of generation unit start-up and prevention of major problems that can arise, *inter alia*, when operating conditions are modified. Another advantage of membership is expanded knowledge of new methods, procedures for managing mechanical equipment life cycles, and materials.
A project to optimize coal combustion conditions in the fluidized-bed boiler at the Poříčí power heating plant through application of a mathematical validation model was completed, yielding benefits in the form of reduced NO_X and increased operating efficiency of the generation unit.
Also completed was a project focused on fire-safety characteristics of alternative fuels (transport, storage, manipulation).

Renewable Sources of Energy

Work got underway on the pilot installation of a conceptually new type of hydro turbine that can be deployed in low-head applications. Also, possibilities were identified for increasing the generation potential of existing photovoltaic power plants.

Energy Storage and Distribution Grid Development

ČEZ, a. s. continually evaluates promising directions and applications of energy storage technologies, among others in conjunction with the development of distributed energy and also with the ongoing development of electricity generation from intermittent renewable sources. ČEZ, a. s. is also participating in the Grid4EU project, which is part of the 7th Framework Program. ČEZ, a. s. built a communications technology laboratory in the Smart Region, where the demands and functionalities of various communications technologies are being tested.

Projects Supported by National Public Funds

As an industrial partner, ČEZ, a. s. is an active participant in projects supported by the Technology Agency of the Czech Republic. The first project is exploring corrosion-stressed construction materials that use supercritical water and high-temperature steam as work media. ČEZ, a. s. is newly involved in another two projects focused on developing a sensor for continuous flue gas dew point measurement and recovery of boric acid using membrane processes, with potential applications in nuclear power plants. All three of the projects were supported through the ALFA program.
A comprehensive project with ČEZ, a. s. participation, entitled “Center for Reliable Energy Research and Experimental Development” (a Center of Competence program), aims to contribute to the increased efficiency, prolonged lifetime, operational reliability, safety, and economic effectiveness of both coal-fired and nuclear power plants.

Fees Relating to Registration of ČEZ, a. s. Trademarks in 2013 (CZK ’000)

Fees to Industrial Property Office in Prague for registration and extension of trademarks in the Czech Republic	157.2
Payments to patent representative	196.0
Total	353.2

ČEZ Energetické produkty, s.r.o.

The company participated in three projects with funding from the Ministry of Industry and Trade of the Czech Republic (TIP program). The projects, successfully completed in 2013, helped increase the potential for utilization of power generation fly-ash: the first project led to the proposal of a technique for manufacturing high-value porous rock; the second project studied in detail the potential of fly-ash as an alternative adhesive in the production of environmentally friendly cement composites; and the third project aims to improve the utilization of fluidized-bed fly-ash from low-temperature combustion in the production of construction materials – e.g., as a low-density rock additive.

ČEZ Distribuce, a. s.

The predominant focus of ČEZ Distribuce, a. s. was on implementation of pilot projects of new medium- and low-voltage grid technologies, primarily in the Smart Region of Vrchlabí.
Participation continued in the GRID4EU project, which is a part of a wider European Union program in support of innovation in energy networks. Other activities included, for example, gathering basic data and developing empirical methods for assessing the reliability of individual distribution grid components (component reliability) and evaluation of renewable power source operation, feasibility, and impact on the Czech Republic Power System. Attention was also paid to stabilizing voltages in medium- and low-voltage distribution grid segments with high prevalence of renewables and distributed generation, with the objective of assessing the influence of these sources on voltage quality.

ÚJV Řež a. s. (ÚJV)

ÚJV focuses its activites primarily on providing development and design services for operators and vendors of power installations, and nuclear power plants in particular. Significant is its participation in R&D at the international level, particularly in IAEA and OECD/NEA projects focused on increasing the safety of nuclear power plants with VVER-type reactors and in projects within the 7th Framework Program (EURATOM) such as, for example, CP-ESFR (European Sodium Fast Reactor), LONGLIFE (Irradiation embrittlement of reactor pressure vessels), and GETMAT (materials for Generation IV reactors).
ÚJV holds R&D-related equity stakes, for example, in Výzkumný a zkušební ústav Plzeň s.r.o. (research and testing of equipment in electrical power and transport systems), Centrum výzkumu Řež s.r.o. (see below), and Ústav aplikované mechaniky Brno, s.r.o. (research and provision of services in the area of mechanical engineering and structural design).
ÚJV is a member of a number of European technology platforms (TP), consortia, and specialized professional networks such as SNETP (TP for sustainable nuclear energy), HTR–TN (technology network for high-temperature reactors), the JHR consortium (construction and operation of a high-performance research reactor), IGD-TP (platform for applied research into geological disposal of high-activity nuclear waste), and NUGENIA.
ÚJV is actively involved in a number of R&D projects that receive funding from the Czech Republic's national budget. Most of these are focused on safety (e.g., as a consequence of the accident at the Fukushima power plant) and reliability of nuclear energy (long-term operation of existing generating units, increasing generating capacity by utilizing full design potential, processing and storage of radioactive waste, acquiring of new nuclear know-how). In addition to these, the institute is involved in projects for alternative utilization of nuclear energy in the production of hydrogen, as well as small-scale nuclear reactors for combined heat and power generation.

These projects include, for example, the following:

Ministry of Industry and Trade of the Czech Republic
- a reliable and safe new-generation nuclear source for the Czech Republic's power industry
- research into the attributes of materials for safe storage of radioactive waste and development of procedures for their assessment
- research and development of methods and technologies for capture of CO_2 from fossil fuels and its storage in geological formations within the Czech Republic
- risk studies, safety analyses, and proposals for utilizing the full design capacity of VVER reactor units
- safety of a new generation of nuclear reactors
- research and development of advanced control systems for hydrogen technologies
- R&D of technologies and systems for handling radioactive waste in conjunction with a new nuclear source
- R&D of a technology and system for radioactive waste disposal in conjunction with a new nuclear source
- a small-scale nuclear reactor for generation of power and heat in the Czech Republic
- methods and tools for non-invasive, on-line cabling diagnostics in I&C systems of complex industrial installations.

Technology Agency of the Czech Republic
- research and development of an innovative alkaline electrolysis technology for producing hydrogen from water for use in storage of energy from renewable sources
- a new, robotic, remote-controlled technology for diagnostics and repair of submerged equipment
- development of a penetration testing-based methodology for assessing degradation in the parameters of irradiated materials of difficult-to-replace nuclear power plant components.

Other providers
- participation in joint research projects of OECD Nuclear Energy Agency (HALDEN, CABRI, ROSA, SCIP, and others)
- participation in and utilization of results of EDFA program (nuclear fusion)
- a new method for measuring the acoustic response of the reactor's containment building for ensuring the safety of nuclear power plants even in the event of serious accidents
- utilization of nanotechnologies to minimize radionuclide contamination of the environment
- development of basic chemistry of new separation processes for a Czech site for disposal of highly radioactive waste.

Centrum výzkumu Řež s.r.o. (CVŘ)

Centrum výzkumu Řež s.r.o. is a non-profit organization that implements research projects in the areas of nuclear energy and safety. It pursues its research activities using in-house infrastructure consisting of reactors and experimental loops. Its R&D activities can be roughly divided into the following areas:

R&D for nuclear reactors in operation

Research was completed of the influence of changes in fuel enrichment on irradiation conditions in the reactor's active zone, in its reflector, and in horizontal channels. Spectral conditions in the positions of specimens in the cases of VVER1000 generation units were analyzed and compared with conditions in those depths of the reactor pressure vessel that are defined for assessment of irradiation embrittlement of materials. A device for measuring deformation of VVER 1000 fuel matrices was newly developed.

Generation IV reactor research

Materials in general are a critical area in fourth-generation nuclear reactors. Frequently, knowledge of the possible applications of suitable materials is lacking; however, the use of experimental loops is one way to eliminate this deficit. CVŘ operates such experimental loops, thereby contributing to research into corrosion and water regimes in Generation IV reactors. The information so obtained can also be used for materials in supercritical coal-fired generating units.
A proposal was drawn up, supported by experiments and calculations, for insertable zones of the LR – 0 reactor, enabling research into the active zones of GIV reactors.

Nuclear fusion research

CVŘ is focusing on research into technologies for producing tritium and on removing heat generated by the fusion reaction. A proposal and assignment were drawn up for equipment to study materials for the first wall of the ITER reactor, enabling temperature cycling. This work culminated in the irradiation of the first wall materials in the LVR – 15 reactor, and post-irradiation research work commenced in hot chambers.

Large-scale infrastructure – SUSEN

The SUSEN project is being realized as the Regional Research & Development Center of the Operational Program "Research and Development for Innovation". Intensive construction activity is underway, certain tenders were carried out, and the qualification rounds of competition dialogs were commenced for the most extensive project technologies.

Severočeské doly a.s.

Research and development traditionally encompasses technical innovations of mining, transportation, and processing equipment, as well as research and evaluation of mining conditions and the issue of mitigating environmental burdens. This is a whole group of projects, focused not only on increasing operating reliability in the production process, but also reducing the negative impacts of pit operations (dust and noise) on work and municipal environments. The company continues in the project "Increasing the lifetime of conveyor belts subject to impact wear" (TIP program, Ministry of Industry and Trade of the Czech Republic): measurements of belt puncture resistance were conducted.

PRODECO, a.s.

Research and development activities were focused on exploring the potential application of a unique underground coal mining method ("room and pillar") within the Nástup Tušimice Mines area. The company is also involved in developing improvements to mining machinery and equipment, for example, refurbishment of excavator bucket-wheel axle mounts, a new shape of excavator bucket, and an improved structural design for a tracked stacker.

Energy pleases
You try your best to brighten up your surroundings and days of gray. You are here for others – even on chilly days you know how to warm your loved ones' hearts.


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JP
café owner

Litigation

Litigation Before Courts

Czech Republic

1. ČEZ, a. s. is a party to suits relating to the exercise of its right to squeeze out minority shareholders:
   - Suit seeking review of consideration paid and stipulation of a different consideration amount in the squeeze-out of minority shareholders from Severočeské doly a.s. The proceedings are pending before the court of first instance. Should the complainants win, the total additional payment could be up to approximately CZK 1,800 million. The result of the proceedings is impossible to predict.
   - A suit against ČEZ Teplárenská, a.s. seeking review of past consideration paid in the squeeze-out of minority shareholders from United Energy, a.s. The proceedings are pending before the court of first instance. The possible impact of this suit on ČEZ Teplárenská, a.s. and ČEZ, a. s. is impossible to determine at this phase of the proceedings. The result of the proceedings is impossible to predict.
   - A suit seeking nullification of the resolution of the General Meeting of Severočeské doly a.s. that decided on the squeeze-out. The proceedings were terminated in binding fashion when the suit was dismissed; nevertheless, a constitutional complaint was filed in the matter. The result of the proceedings is impossible to predict.
   - A suit seeking nullification of the resolution of the General Meeting of United Energy, a.s. (of which ČEZ Teplárenská, a.s. is the legal successor) that decided on the squeeze-out.
2. In an insolvency proceeding ongoing against Lignit Hodonín, s.r.o., ČEZ, a. s. registered a receivable exceeding CZK 115 million, CZK 23 million of which is a loss resulting from failure to pay for electricity supplied. The remainder of the receivable consists of penalty interest under valid contracts. The receivable was confirmed in full. In March 2013, an allocation resolution was handed down, on the basis of which only receivables for principal were satisfied. The bankruptcy proceedings were subsequently terminated, in September 2013, on the grounds that the debtor's assets were absolutely insufficient to satisfy creditors. As a result, the receivable of ČEZ, a. s. was not satisfied at all. In the same matter, in August 2010 the insolvency administrator filed suit against ČEZ, a. s. for CZK 196.2 million in damages for alleged abuse by ČEZ, a. s. of its dominant position in determining the purchase price for supplies of brown coal and the amount of the maximum discount for defective performance. ČEZ, a. s. denies said claim in full. Under a resolution of the Municipal Court in Prague issued in May 2012, a new complainant, UVR Mníšek pod Brdy a.s., entered the proceedings in place of the previous complainant on the grounds that it purchased the debtor's undertaking. The receivable in question was subsequently assigned several times. The name of the receivable's new owner is not yet known and for the time being the court has not decided on legal successorship. To date, no hearing in the matter has been called.
3. Lesy České republiky, s.p. has filed 18 suits against the Company, all identical in substance. The complainant is seeking compensation for damage to forests caused by ČEZ, a. s. operations in 1997 and in 1999–2010. The oldest suit is from 1999 and the latest was filed in 2012. The total amount sought in all the suits is CZK 237.3 million, plus interest.
4. Since June 2010, ČEZ Prodej, s.r.o. has been involved in litigation with Správa železniční dopravní cesty, státní organizace (SŽDC), in which it is seeking CZK 805 million in damages. The dispute is currently before the Municipal Court in Prague, with ČEZ Prodej, s.r.o. as the complainant. So far in the matter, a payment order has been issued, which was appealed by SŽDC and court proceedings are underway. The subject matter of the dispute is breach of an electricity supply contract by SŽDC – failure to take delivery of the agreed amount of electricity in 2010 and damages resulting therefrom.

5. Since January 2013, ČEZ Prodej, s.r.o. has been involved in litigation with Správa železniční dopravní cesty, státní organizace (SŽDC), in which it is seeking CZK 857 million in damages. The dispute is currently before the Municipal Court in Prague, with ČEZ Prodej, s.r.o. as the complainant. So far, no hearings have been called in the matter. The subject matter of the dispute is breach of an electricity supply contract by SŽDC – failure to take delivery of the agreed amount of electricity in 2011 and damages resulting therefrom.
6. In May 2012, ČEZ Prodej, s.r.o. filed suit against VÍTKOVICE, a.s. before the Regional Court in Ostrava, seeking payment of CZK 407 million in damages from the breach of an electricity supply contract in 2011 and CZK 10 million for electricity used in 2011, but not paid. So far in the case, the court has issued a payment order, which was appealed by the respondent. The case is still pending.
7. In insolvency proceedings against MORAVIA ENERGO, a.s. "in liquidation", ČEZ, a. s. registered a receivable of CZK 1,505.9 million, which was confirmed in full. In August 2011 a partial allocation decision was issued, based upon which ČEZ's receivable was satisfied in the amount of CZK 71.3 million. By a decision issued in November 2012, the bankruptcy court approved the final report, on the basis of which it issued an allocation resolution in April 2013, and in accordance with it ČEZ, a. s. was paid an amount of CZK 64 million from the allocation. In July 2013 the insolvency proceedings were terminated by a resolution ending the bankruptcy.
8. In insolvency proceedings against PLP a.s., the company Teplárna Trmice, a.s. registered an unsecured receivable of CZK 191 million, consisting of losses arising out of failure to pay for electricity, heat, and raw water supplied, as well as a CZK 59 million receivable for a contractual penalty. In review proceedings that took place in the first half of 2011, both of these receivables were confirmed. In March 2013, an agreement on sale of undertaking was signed in the course of converting the debtor's assets into cash in the insolvency proceedings. The undertaking of the debtor PLP a.s. was sold, in accordance with the instructions of secured creditor Československá obchodní banka and a resolution of the Regional Court in Ústí nad Labem, for an amount of USD 10 million. In July 2013, the proceeds of the sale were released to the secured creditor. It can be assumed that satisfaction for Teplárna Teplice, a.s. will be nil.
9. On October 15, 2010, ČEZ, a. s. filed suit against Czech Coal a.s., Czech Coal Services a.s., and Vršanská uhelná a.s. seeking protection against unfair competition and seeking reasonable satisfaction in the amount of CZK 11 billion and, at the same time, filed contractual penalty claims totaling approximately CZK 336 million and a claim of approximately CZK 14 million in damages. In March 2013 the parties agreed on a settlement, the terms of which include a retraction of the suit filed on October 15, 2010. In response to this retraction, the court proceedings were terminated in binding fashion in May 2013.
10. A dispute is ongoing between ČEZ, a. s. and Sokolovská uhelná, právní nástupce, a.s. ("SU") regarding the quantity and price of brown coal supplied by SU to ČEZ, a. s. under a long-term purchase agreement (valid until the earlier of 2027 or exhaustion of the coal reserves in SU mines). SU is challenging the validity of said long-term purchase agreement. So far in conjunction with this dispute, ČEZ, a. s. initiated one suit against SU in July 2011, in which ČEZ, a. s. is demanding, in relation to payments for supplies of brown coal from January to May 2011, the surrender of approximately CZK 56 million, with interest, of unjust enrichment by SU. The proceedings are pending before the Regional Court in Pilsen, which has not yet decided in the matter.
11. In December 2010, Údržba krajin s.r.o. filed suit against ČEZ Distribuční služby, s.r.o., seeking payment of CZK 396 million, including interest, in damages (alleged lost profits) caused by an alleged breach of a framework agreement on renewal of forest clear-cuts in the protective zones of power lines. The proceedings took place before the Regional Court in Ostrava. In October 2013, the Regional Court in Ostrava terminated the proceedings in binding fashion after Údržba krajin s.r.o. failed to pay the lawsuit filing fee to the court.

Austria, Bulgaria, Romania, Turkey

12. In a suit commenced in 2001 – The State of Upper Austria vs. ČEZ, a. s., demanding cease-and-desist from generating alleged ionizing radiation from Temelín Nuclear Power Station – first-instance deliberations of the matter were completed in October 2011, and in January 2012 the Linz Regional Court issued a decision rejecting the suit in the light of ČEZ's arguments, relying in particular upon prior decisions of the European Court of Justice and documents relating to the Melk Protocol. The State of Upper Austria appealed the decision to the High Regional Court in Linz, as the appeals court, which rejected the appeal in April 2012. Within the legal time limit, the State of Upper Austria filed another appeal, this time to the Supreme Court in Vienna, and it too was rejected in September 2012. At this point, the complainant decided to seek extraordinary recourse: renewal of proceedings. In November 2012, the Linz Regional Court refused to renew the proceedings.The State of Upper Austria appealed this decision to the High Regional Court in Linz, which denied the appeal in February 2013. Within the relevant time period, the State of Upper Austria filed an "extraordinary appeal" in the matter, to the Supreme Court in Vienna. In May 2013, the Supreme Court in Vienna dismissed the State of Upper Austria's appeal, thereby definitively concluding the litigation.
13. CEZ Razpredelenie Bulgaria AD appealed a decision of the State Energy and Water Regulation Commission (DKEVR) setting prices valid from March 5, 2013. By this decision, the Commission reduced the company's prices and recognized technical costs from 15% to 12%. On February 18, 2014 the Supreme Administrative Court, as the final instance, decided that the appeal against the price decision is inadmissable.
14. CEZ Elektro Bulgaria AD and TEC Varna EAD appealed a decision of the State Energy and Water Regulation Commission (DKEVR) that set prices for the period August 1, 2013–July 31, 2014. The Commission failed to approve the prices and required revenues proposed by said companies and, in their opinion, committed a number of procedural violations of the law in the course of its decision-making. The Supreme Administrative Court opened two separate court proceedings on the basis of these companies' suits. The first court hearing on the merits will take place in 2014.
15. CEZ Elektro Bulgaria AD, CEZ Razpredelenie Bulgaria AD, and TEC Varna EAD appealed a decision of the State Energy and Water Regulation Commission (DKEVR) that set prices valid from December 30, 2013. The Commission failed to approve the prices and required revenues proposed by said companies and, in their opinion, committed a number of procedural violations of the law in the course of its decision-making. By said decision, the Commission reduced the recognized level of CEZ Razpredelenie Bulgaria AD's technical costs to 8%.
16. In 2012, CEZ Razpredelenie Bulgaria AD was named as a party to the proceedings in 62 legal disputes before the Supreme Administrative Court, commenced on the basis of appeals filed by producers of energy from renewable sources against a decision of the State Energy and Water Regulation Commission (DKEVR), dated September 14, 2012, stipulating temporary prices of transmission and distribution grid access for producers of electricity from renewable sources who sell energy at preferential prices. Most of the court cases were terminated at the end of 2013 when the court nullified the relevant portion of the price decision. On March 13, 2014, the DKEVR approved a new decision stipulating final prices of transmission and distribution grid access for producers of electricity from renewable sources and a decision stipulating a compensation mechanism, since the final access prices differ from the temporary ones. CEZ Razpredelenie Bulgaria AD appealed both decisions.
17. The Sofia Municipal Court commenced court proceedings against CEZ Bulgaria EAD on the basis of a suit filed by shareholders of CEZ Razpredelenie Bulgaria AD – Doverie Supplemental Pension Fund, Doverie Professional Pension Fund, and Doverie Universal Pension Fund – for alleged violation of the Act on Public Offerings of Securities (APOS). The funds are asking that SLAs (Service Level Agreements) entered into by and among CEZ Bulgaria EAD and CEZ Razpredelenie Bulgaria AD be declared null and void on the grounds that CEZ Razpredelenie Bulgaria AD became a publicly traded company since, according to the APOS, transactions exceeding two percent of the value of a company's assets entered into between related parties are subject to General Meeting approval.
18. In the course of conducting on-site investigations in 2013, particularly at CEZ Razpredelenie Bulgaria AD and, to a lesser extent, at CEZ Elektro Bulgaria AD as well, the State Energy and Water Regulation Commission (DKEVR) found violations of the terms of electricity distribution and sale licenses. As a consequence, in 2013 the Commission issued a total of 18 penalization papers against the companies (17 against CEZ Razpredelenie Bulgaria AD and one against CEZ Elektro Bulgaria AD) and imposed fines totaling BGN 4.7 million (approximately CZK 66 million) against CEZ Razpredelenie Bulgaria AD and BGN 0.3 million (approximately CZK 4 million) against CEZ Elektro Bulgaria AD. The companies have filed judicial appeals against the administrative decisions.
19. By its decision of March 26, 2013, the Competition Protection Commission commenced proceedings to investigate possible violations of the Act on Protection of Economic Competition and Articles 101 and 102 of the Treaty on Functioning of the European Union (cartel agreements consisting of concerted practices and for abuse of dominant position) on the part of CEZ, EVN, and ENERGO-PRO in Bulgaria in conjunction with the opening of the electricity market. The proceedings are still pending.

20. In March 2014, a company called NEK announced the initiation of arbitration proceedings against CEZ Elektro Bulgaria AD before the Court of Arbitration of the Bulgarian Chamber of Commerce and Industry (Българска търговско-промишлена палата). The subject matter in dispute is an alleged BGN 10 million (approximately CZK 140 million) receivable for supplies of energy in the years 2011–2012. CEZ Elektro Bulgaria AD intends to defend itself against the allegations, since it considers the receivable non-existent and the claim unjustified.
21. CEZ Elektro Bulgaria AD challenged in court a decree stipulating a methodology for payment of the purchase price for energy generated from renewable sources and combined heat and power generation ("cogeneration") promulgated by the State Energy and Water Regulation Commission (DKEVR), which ensues from the obligation to purchase, at preferential prices, energy generated from renewable sources. Based on this methodology, CEZ Elektro Bulgaria AD did not receive full compensation of costs incurred to purchase energy. In a final decision dated November 5, 2013, the Supreme Administrative Court struck down the decree stipulating the methdology. To date, the DKEVR has not taken any remedial measures in accordance with the court's decision.
22. Arbitration proceedings are pending before the International Court of Arbitration at the International Chamber of Commerce (ICC) in Paris which were initiated in 2012 by Romania-based Electrica S.A. against ČEZ, a. s. Based on a motion by the complainant approved by the court in September 2013, the amount originally sought, EUR 18.8 million (approximately CZK 517 million), was increased to EUR 81.6 million (approximately CZK 2.2 billion). Electrica S.A. alleges that ČEZ, a. s. breached its obligations (e.g. the obligation to disclose specific matters to the complainant) under the Privatization Agreement of April 5, 2005, on the basis of which ČEZ, a. s. acquired a stake in the complainant's subsidiary, Electrica Oltenia S.A., and, at the same time, that it failed to pay Electrica S.A. a dividend out of the profits of the privatized company Electrica Oltenia S.A. for the year 2004. ČEZ, a. s. continues to hold the position that the complaint is groundless and, in its response to the suit filed in October 2013, moved for the suit to be dismissed. The arbitration proceedings are expected to be concluded in 2014.
23. The European Human Rights Court is currently deciding the permissibility of a suit filed by complainants Diaconescu et al. (Corneliu Diaconescu and Elena Diaconescu) against the Romanian State in the matter of unauthorized placement of electrical equipment on lands owned by them. The court has not yet handed down a decision.
24. Several disputes that arose in conjunction with the construction of the Fântânele and Cogealac Wind Farm in Romania are pending. The most important dispute, concerning ownership of the land plot under a transformer station, is currently suspended.
25. A dispute before the Sakarya Area Labor Court that began when Sakarya Elektrik Dagitim A.S. disagreed with the conclusions of the Inspection of the Ministry of Labor and Social Affairs was terminated by a decision of January 15, 2013. For the purpose of eliminating future risks of violation of labor regulations in the future, Sakarya Elektrik Dagitim A.S. subsequently insourced all key activities in accordance with applicable law.

Albania

26. CEZ Shpërndarje Sh.A. was a party to several court cases concerning, in particular, relations with the energy regulator and other government entities. In view of the fact that, on January 21, 2013, the regulator ERE issued decisions revoking the license of CEZ Shpërndarje Sh.A. to operate a distribution grid and sell electricity to end customers, and appointed an administrator who, pursuant to said decisions took over all authority of the company's governance bodies and its shareholders and hence de facto has the company under his administration, as of the closing date of this Annual Report no up-to-date information is available regarding the status and history of disputes involving CEZ Shpërndarje Sh.A.

Arbitration with Albania

ČEZ, a. s. officially notified the Government of Albania of its intent to initiate arbitration proceedings for failure to protect ČEZ's investment in the distribution company. This notification took the form of a "Notice of Dispute" which was delivered to the Albanian side on February 11, 2013. ČEZ, a. s. also expressed its readiness to deal with the dispute in question amicably, even through mediation. The delivery date marked the beginning of a three-month cooling-off period, during which it was possible to negotiate an amicable resolution to the dispute. This period ended on May 12, 2013 without any resolution being reached. On May 16, 2013, a "Notice of Arbitration" was delivered to the Albanian side, by which ČEZ, a. s. officially commenced arbitration proceedings against the Albanian State under the Energy Charter Treaty pursuant to the rules of the United Nations Commission on International Trade Law (UNCITRAL). Currently the arbitration tribunal is being formed. The determination and documentation of the arbitration claim will be submitted together with the complete complaint on the merits after the arbitration tribunal is formally constituted and the detailed procedural rules are finalized, along with a timeline of the arbitration, including individual milestones.

Bosnia and Herzegovina

Arbitration

Due to the breach of the Implementation Agreement of the Gacko project in the Republic of Serbia in Bosnia and Herzegovina and MH ERS's failure to accept the put option, ČEZ, a. s. initiated arbitration proceedings against the Government of the Republic of Serbia in Bosnia and Herzegovina, MH ERS, and RiTE Gacko in 2009, in which it is seeking payment of over EUR 50 million for lost profits, damages, and the value of its stake in the joint enterprise NERS, d.o.o., in which ČEZ, a. s. held a 51% stake and MH ERS a 49% stake. In 2011, an interim decision of the arbitration court excluded the Republic of Serbia in Bosnia and Herzegovina from the proceedings. The other defendants remain parties to the proceedings, which are taking place in Vienna before the International Court of Arbitration of the International Chamber of Commerce. Oral arguments on the merits took place during 2013. Due to the complicated nature of the proceedings, a decision in the dispute is expected no later than late June/early July 2014.

Other Proceedings

1. The investigation of ČEZ, a. s. conducted by the European Commission was ended in 2013 in the form of a settlement. The proceedings in question commenced on the basis of a decision of November 2009, which ordered ČEZ, a. s. and its subsidiaries and other controlled enterprises to submit to inspections under Article 20, paragraph 4 of Council Regulation (EC) No. 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty (now Articles 101 and 102 of the Treaty on the Functioning of the European Union). A similar inspection was also conducted at Severočeské doly a.s. The conclusion of the investigation in the form of a settlement is common practice in European competition law. In such a case, the Commission accepts commitments offered by the investigated entity, and concludes the entire proceedings, provided it reaches the conclusion that the settlement will lead to a sufficient increase in competition in the market such that it is no longer necessary to continue the investigation. ČEZ, a. s. thereby eliminated the risk of a prolonged and expensive effort to prove that it did not commit any anti-competitive acts and, at the same time, it sold off a plant in line with its own strategy for developing coal-fired sources: i.e., to operate only modern, low-emission sources for which fuel supplies have been secured.
   Of the possible alternatives for fulfilling the commitment in question, ČEZ, a. s. chose to sell the Chvaletice power plant. In June 2013, ČEZ, a. s. submitted to the European Commission a "proposal with justification" for approval of the buyer, Litvínovská uhelná a.s., and transaction documentation for the sale of the Chvaletice power plant. The European Commission approved the buyer in late July 2013. The necessary consent of the Office for the Protection of Competition was already issued in late May 2013. The Chvaletice power plant was handed over in early September 2013 to its new owner, Litvínovská uhelná a.s, which had undergone a name change to Severní energetická a.s. in August 2013.
2. In November 2012, AREVA NP SAS filed to the Office for the Protection of Competititon asking it to review the procurer's actions in light of Section 113 of the Public Procurement Act in the matter of the Request for Proposal (RFP) for the public contract "Completion of the Temelín Nuclear Power Station", calling into question the correctness of the decision by ČEZ, a. s. to exclude the bidder AREVA NP SAS from participation in the RFP proceedings.
   In February 2013, the Office for the Protection of Competition promulgated a decision on the request for review of the procurer's actions. The decision terminated the proceedings on the grounds that certain parts of the request were not filed by an authorized person, and in the remaining parts no basis was found to order any corrective measures. In July 2013, this decision was confirmed by a decision of the Chairman of the Office for the Protection of Competition.
   In September 2013, AREVA NP SAS challenged the above mentioned decision of the Chairman of the Office for the Protection of Competition by filing an administrative motion for an injunction ordering ČEZ to suspend the RFP or to refrain from entering into a contract on the basis of the RFP. In the course of these proceedings, ČEZ, a. s. exercised its rights as a party to the proceedings.
   In October 2013, the Regional Court in Brno issued an injunction that, for the time being, ordered ČEZ to refrain, within the RFP, from entering into a contract for performance of the subject matter of the RFP. This injunction was rendered irrelevant on April 10, 2014, when ČEZ decided to cancel the RFP proceedings. The administrative suit filed by AREVA NP SAS to the Office for the Protection of Competition is still pending, and no hearing has been scheduled in the matter.

CEZ Group Donorship and Advertising Partnerships

An integral part of our corporate culture, philanthropy, characterizes CEZ Group as a long-term supporter of education, culture, sports, and community life through corporate donorship.

Donorship

Once again in 2013, CEZ Group continued to fulfill one of the pillars of its social responsibility through active donorship. We gained two number-one rankings in an independent, national competition that highlights responsible and sustainable business, defended our number-one position in the TOP Responsible Corporation ranking in the Biggest Corporate Donor 2013 category by volume of funding, and placed first in the project category "Most Helpful Company to Seniors 2013".

Financial Donorship

In 2013, CEZ Group companies donated a total of CZK 370.5 million. Of this amount, direct donations accounted for CZK 207.3 million and contributions to the Nadace CEZ foundation totaled CZK 163.2 million.

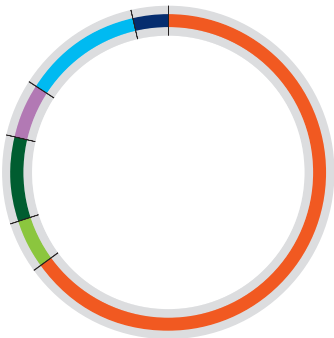
Direct Donations by CEZ Group Companies (CZK millions)

Company	Total value
Czech Republic	
ČEZ, a. s.	116.4
ČEZ Distribuce, a. s.	2.4
ČEZ ICT Services, a. s.	0.9
ČEZ Korporátní služby, s.r.o.	0.4
ČEZ Prodej, s.r.o.	0.2
ČEZ Teplárenská, a.s.	0.6
ČEZ Zákaznické služby, s.r.o.	0.8
Energetické centrum s.r.o.	*)
Energotrans, a.s.	0.9
MARTIA a.s.	*)
PRODECO, a.s.	0.8
SD - Kolejová doprava, a.s.	*)
Severočeské doly a.s.	80.8
ÚJV Řež, a. s.	0.4
Republic of Poland	
CEZ Polska sp. z o.o.	0.1
CEZ Trade Polska sp. z o.o.	1.3
Elektrociepłownia Chorzów ELCHO sp. z o.o.	0.3
Elektrownia Skawina S.A.	0.7
Republic of Bulgaria	
CEZ Elektro Bulgaria AD	*)
CEZ Razpredelenie Bulgaria AD	0.2
TEC Varna	*)
Hungary	
CEZ Magyarország Kft.	*)
Slovak Republic	
CEZ Slovensko, s.r.o.	0.1
Total	207.3

*) Less than CZK 0.1 million.

Direct Donations by CEZ Group Companies, by Area

Area	CZK millions	%
municipal infrastructure and regional development	135.0	65.1
culture, the arts, and the environment	10.3	5.0
education, science, and youth	18.1	8.7
healthcare	11.4	5.5
sport	25.3	12.2
needy and handicapped	7.2	3.5
Total	207.3	100.0



Nadace CEZ Foundation

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

Company	Contribution
ČEZ, a. s.	65.0
ČEZ Distribuce, a. s.	66.0
ČEZ Distribuční služby, s.r.o.	7.4
ČEZ Prodej, s.r.o.	21.6
ČEZ Zákaznické služby, s.r.o.	3.2
Total	163.2

Over its eleven-year history, the Nadace CEZ foundation (www.nadacecez.cz 1) has distributed donations totaling CZK 1.63 billion to over 4,900 public-benefit projects.

In 2013, the foundation supported 646 projects with a total amount of CZK 159.2 million. Funding support focused on the following long-term grant programs that respond to society's current needs:

Orange Playgrounds – support for building and renewing children's playgrounds and sports fields.

Support for Regions – support for activities that help to improve the life of residents in municipalities throughout the entire Czech Republic, particularly in the areas of healthcare, children and youth, social work, science and education, protection of human health and human rights, culture, and the environment.

Orange Stairs – support for barrier-free modifications enabling physically handicapped primary and secondary school students and teachers to gain better integration into the learning process.

Orange Classroom – support for the purchase of equipment and aids that help improve physics teaching and get students more involved in the subject.

Trees – support for planting rows of trees, primarily along roadways (both new planting and renewal of existing rows).

In addition to the above, the interactive project Orange Bicycle continued to travel to various cultural, social, and sports events to offer visitors the opportunity to support non-profit organizations by pedaling for one minute on a specially outfitted stationary bicycle.

Two new grant programs were added in 2013 to the regular line-up. Orange Crossing brought lighting to pedestrian crossings in 35 municipalities throughout the Czech Republic, and the public had a say in the selection of crossings. In the first year of Employee Grants, contributions were distributed to a full 107 non-profit organizations where CEZ Group employees do volunteer work during their time off.

For the fifth time, the Nadace CEZ foundation was a partner of "Making Wishes Come True, Thinking of Others", a charity initiative of CEZ Group, employees of CEZ Group companies, and the Nadace CEZ foundation. In 2013, the initiative helped to fund training of assistance dogs for the handicapped. The Nadace CEZ foundation was also a partner to an extraordinary charity project of CEZ Group employees launched in the aftermath of the catastrophic floods of June 2013.

Support for Education

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

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Advertising Partnerships

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

Support in regions: NATO Days in Ostrava, Porcelain Festival in Karlovy Vary, Czech Patron in Prague, City by Bicycle 2013 in Prague, A Day with the Police of the Czech Republic in Prague, Hejnice Festival, "České středohoří" International Folklore Festival in Ústí nad Labem.

Culture and the arts: AniFest international film festival of animated film in Teplice, Duchcov and Krupka, FINÁLE Pilsen film festival, "Janáček's May" International Music Festival in Ostrava, Colours of Ostrava music festival, Karlovy Vary International Film Festival, Vysmáté léto (Summer Laughs) Kadaň, Concentus Moraviae International Festival of 13 Moravian cities, Folk Vacation international multigenre festival in Náměšť nad Oslavou, Magnesia Litera 2013 in Prague, 7th annual Mental Power Prague international film festival.

Amateur sports: the Czech Youth Biathlon Cup, ČEZ STREET HOCKEY Ostrava, the European Handbike Circuit in Louny, ČEZ CUP Sněžník 2013 in Jílové, Horácká Slávia Třebíč, the Czech Cycling Federation, the Czech Aquathlon (swimming and running) Cup for adults and the Czech Cup for primary school students, adolescents and juniors, Maratonul Olteniei mountain bike race, the Via Sport project in Romania.

Professional sports: the Czech Republic Cyclocross Championships, the Golden Spike (Zlatá tretra) in Ostrava, the Gracia women's international cycling race (World Cup event) in Orlová, Tour de Feminin – Czech Switzerland Prize in Česká Lípa, general partner of the Czech Olympic Team 2001–2016, ČEZ Basketball Nymburk basketball team, BK Týn nad Vltavou basketball team, HC Rytíři Kladno (Kladno Knights) ice hockey team.

Education: "Electric Power Engineering" international scientific conference in Ostrava, Quality 2013 international conference in Ostrava, Power Engineer study path at the Secondary Industrial School in Třebíč, "Nuclear School-Leaving Exams" ("Jaderná maturita"), "Orange class" in all primary schools in the vicinity of the Dukovany Nuclear Power Station, "The future of the power industry is not sci-fi" education program at schools in Prague, the VVER 2013 international conference, information page at www.energiainfo.hu [1], a book and exposition on the architect Karel Liman who worked for the Romanian royal court.

Help for the needy: Czech Republic table tennis championships for the wheelchair-bound in Ostrava, "Beauty Helps Children" project in Ústí nad Labem, Republic-side support for social automobile projects, "Gift Brick" nationwide fundraising event for the needy, Sports Day for those with and without handicaps in Třebíč, Sports Against Drugs nationwide program, track and field meet for new and beginner wheelchair-bound athletes in Nymburk.

The environment: maintenance of cross-country ski trails in Šumava, nationwide support for endangered animal species preservation programs, Nature in Our Life nationwide program, maintenance of the spring and autumn trail in the protected Mohelno Serpentine Steppe, Czech Union for Nature Protection.

Healthcare: Třebíč Hospital, Vysočina Regional Healthcare Rescue Service, Třebíč blood center, Craiova Area Hospital, Cogealac health clinic.

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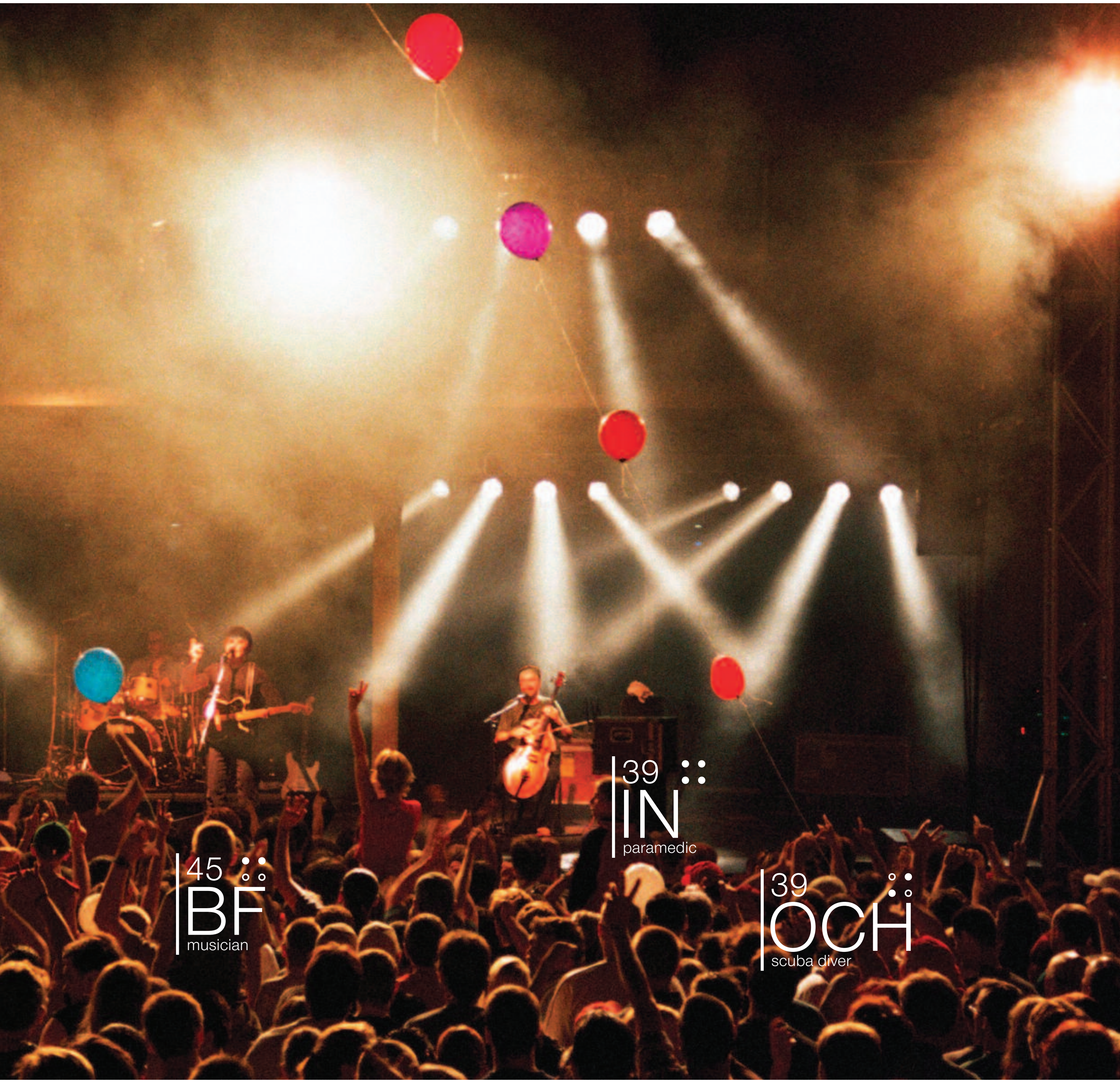
production
manager



Energy excites

You're enthusiastic about things you really enjoy.
You support those who put their energy into bringing you new and exciting experiences.

Basic Organization Chart of ČEZ, a. s. as at April 10, 2014

General Meeting

Board of Directors

901000000
Chief Executive Officer's Division
Daniel Beneš

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

90B000000
Strategy Division
Pavel Cyrani

- **90B001000** Engineering
- **90B002000** Business Development
- **90B003000** Markets Analysis and Forecasting
- **90B004000** Group Asset Management
- **90B005000** Nuclear Power Plant Construction
- **90B008000** Cogeneration

90A000000
Distribution and International Affairs Division
Tomáš Pleskač

- **90A001000** Management of International Equity Stakes
- **90A003000** International Acquisitions – Romania
- **90A005000** International Acquisitions – Turkey
- **90A007000** Performance Management
- **90A002000** International Acquisitions – Bulgaria
- **90A004000** International Acquisitions – Poland
- **90A006000** International Acquisitions – Albania
- **90A000500** International Acquisitions – MOL

904000000
Sales Division
Alan Svoboda

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

At its meeting of March 27, 2014, the Supervisory Board of ČEZ, a. s. approved a new organization structure that is planned to take effect from May 1, 2014. The objective of the new organization structure is to evenly distribute responsibility for the Company's various divisions and management areas amongst all members of the Board of Directors. Significant changes include:

1) existing Sales Division to be merged into Strategy Division, which will be renamed the Sales and Strategy Division and headed by Pavel Cyrani
2) distribution and International Affairs Division to be changed into the International Affairs Division, which will continue to be headed by Tomáš Pleskač
3) new External Relations and Regulation Division to be formed, headed by Ivo Hlaváč.

Supervisory Board

Audit Committee

905000000
Production Division
Ladislav Štěpánek

- **905002000** Safety
- **905004000** Production Management
- **905005000** Asset Management
- **905006000** Central Engineering
- **905007000** Supplier System Management
- **905009000** Personnel Training Center
- **905000100** Production Division Analytical Support

- **9053DU000** Dukovany Nuclear Power Station
- **9053TE000** Temelín Nuclear Power Station
- **9053ME000** Mělník Conventional Power Station
- **9053PL000** Počerady and Ledvice Conventional Power Stations
- **9053TP000** Tušimice and Prunéřov Conventional Power Stations
- **9053VD000** Hydro Power Stations
- **9053VT000** Hodonín, Poříčí, Tisová, and Trmice Power-Heating Plants
- **9053VI000** Vítkovice Power-Heating Plant
- **905000001** Office of the Chief Production Officer

909000000
Investment Division
Peter Bodnár

- **909001000** Commercial Management of Projects
- **909004000** Conventional Power Plant Construction

908000000
Administration Division
Michaela Chaloupková

- **908001000** Power Plant Procurement, Construction, and Renewal
- **908002000** Production-Related Procurement
- **908003000** Distribution-Related Procurement
- **908004000** Procurement of Non-Core Services and Supplies
- **908007000** Fuel Cycle
- **908008000** Procurement Support
- **908009000** Human Resources

902000000
Finance Division
Martin Novák

- **902001000** Accounting
- **902002000** Central Controlling
- **902003000** Financing
- **902004000** Taxes
- **902005000** Risk Management
- **902006000** ICT Management
- **902009000** Mergers, Acquisitions & Equity Stakes

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Štěchovice hydro power plant	
Type of exhibit	run-of-river and pumped-storage hydro power plant, information center
Operator	ČEZ, a. s.
Street and street number	Prof. Vl. Lista 329
Postcode and city	252 07 Štěchovice
Telephone	602 107 453 608 308 759 211 026 111
Fax	211 026 577
E-mail	cez@cez.cz
Opening hours	year round
Advance reservation necessary	yes (on weekdays 8:00 a.m.–3:00 p.m.)
Name of nearest public transportation station/stop	Štěchovice (bus)

Dalešice hydro power plant	
Type of exhibit	pumped-storage hydro power plant and information center
Operator	ČEZ, a. s.
Postcode and city	675 77 Kramolín
Telephone	561 105 519
E-mail	infocentrum.edu@cez.cz
Opening hours	July–August: Sunday–Saturday 9:00 a.m.–4:00 p.m.; September–June: Monday–Friday by advance reservation only
Advance reservation necessary	September–June, write to infocentrum.edu@cez.cz
Name of nearest public transportation station/stop	Kramolín (bus)

Lipno hydro power plant	
Type of exhibit	information center
Operator	ČEZ, a. s.
Postcode and city	382 78 Lipno nad Vltavou
Telephone	731 562 835 725 614 409 607 666 928 607 673 651 380 746 621
E-mail	infocentrum.eli@cez.cz
Opening hours	June 15–September 15: seven days a week, tours begin on the hour (first tour 10:00 a.m., last tour 4:00 p.m.); tours in German language each Wednesday and Friday 4:00 p.m.–5:00 p.m.
Advance reservation necessary	September 16–June 14
Name of nearest public transportation station/stop	Lipno nad Vltavou, žel. st. (bus); Lipno nad Vltavou (train)

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

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

Vydra and Čeňkova Pila hydro power plants	
Type of exhibit	permanent exhibition “Energy of the Bohemian Forest” on utilization of Bohemian Forest water resources in past and present; small-scale hydro power plant
Operator	ČEZ Obnovitelné zdroje, s.r.o.
Street and street number	Čeňkova Pila
Postcode and city	341 92 Kašperské Hory
Telephone	376 599 237
E-mail	cez@cez.cz
Opening hours	tours begin at 9:00 a.m., 11:00 a.m., 1:00 p.m. and 3:00 p.m. June–September: Sunday and Tuesday–Saturday; May, October: Wednesdays and Saturdays only
Advance reservation necessary	no
Name of nearest public transportation station/stop	Srní, Čeňkova Pila (bus)

Dlouhé Stráně pumped-storage hydro power plant	
Type of exhibit	pumped-storage hydro power plant, information center
Operator	K3 SPORT, s.r.o.
Street and street number	Přečerpávací vodní elektrárna Dlouhé Stráně
Postcode and city	788 11 Kouty nad Desnou
Telephone	602 322 244 583 283 282
E-mail	infocentrum.eds@cez.cz info@k3-sport.cz
Opening hours	year round, seven days a week, including state holidays, 8:00 a.m.–5:00 p.m.
Advance reservation necessary	yes, **www.dlouhe-strane.cz** 1
Name of nearest public transportation station/stop	Kouty nad Desnou/Loučná nad Desnou, restaurace (bus)

Renewable Sources Information Center	
Type of exhibit	information center, Hradec Králové small-scale hydro power plant
Operator	ČEZ Obnovitelné zdroje, s.r.o.
Street and street number	Křižíkova 233
Postcode and city	500 03 Hradec Králové
Telephone	492 122 660 725 781 564 725 781 565
E-mail	infocentrum.oze@cez.cz
Opening hours	information center: seven days a week 9:00 a.m.–4:00 p.m. power plant tours: Saturdays, Sundays and state holidays at 2:00 p.m. and by advance reservation (Sun–Sat) Closed: every first Monday of the month, January 1, Easter Monday, December 24, and December 31
Advance reservation necessary	groups of over 10 persons power plant tours information center guide
Name of nearest public transportation station/stop	Labská kotlina – Obří akvárium (bus, trolleybus)

1

www

ÚJV Řež, a. s.	
Type of exhibit	LVR – 15 and LR – 0 reactors, experimental hall
Operator	ÚJV Řež, a. s., Centrum výzkumu Řež s.r.o.
Street and street number	Hlavní 130, Řež
Postcode and city	250 68 Husinec
Telephone	266 173 463
Fax	220 940 840
E-mail	scr@ujv.cz
Opening hours	by advance reservation
Advance reservation necessary	yes
Name of nearest public transportation station/stop	Husinec, Řež, závod (bus)

Dukovany Nuclear Power Station	
Type of exhibit	information center, nuclear power plant grounds and machine room
Operator	ČEZ, a. s.
Street and street number	Jaderná elektrárna Dukovany 269
Postcode and city	675 50 Dukovany 2
Telephone	561 105 519
E-mail	infocentrum.edu@cez.cz
Opening hours	year round, seven days a week, including state holidays: 9:00 a.m.–4:00 p.m.; in July and August extended hours until 5:00 p.m.; closed January 1, Easter Monday, December 24–26, and on the first Monday of each month
Advance reservation necessary	only for groups of more than five persons, **www.cez.cz** [1]
Name of nearest public transportation station/stop	Dukovany, EDU (bus)

Temelín Nuclear Power Station	
Type of exhibit	information center, nuclear power plant grounds and machine room
Operator	ČEZ, a. s.
Street and street number	Jaderná elektrárna Temelín (Vysoký Hrádek Chateau, next to power station)
Postcode and city	373 05 Temelín – elektrárna
Telephone	381 102 639
Fax	381 104 900
E-mail	infocentrum.ete@cez.cz
Opening hours	year round, seven days a week, including state holidays: 9:00 a.m. to 4:00 p.m.; in July and August extended hours until 5:30 p.m.; closed January 1, December 24–26, December 31
Advance reservation necessary	only for groups of more than five persons
Name of nearest public transportation station/stop	Temelín, Březí u Týna, JE (bus)

Ledvice coal-fired power plant	
Type of exhibit	information center
Operator	ČEZ Korporátní služby, s.r.o.
Street and street number	Bílina 141
Postcode and city	418 48 Bílina
Telephone	411 102 313
E-mail	infocentrum.ele@cez.cz
Opening hours	Monday–Friday 7:00 a.m.–3:00 p.m.; closed on state holidays
Advance reservation necessary	only for groups of more than ten persons
Name of nearest public transportation station/stop	Chudeřice, závod (bus); Chotějovice (train)

Tušimice coal-fired power plant	
Type of exhibit	power plant tour
Operator	ČEZ, a. s.
Street and street number	Elektrárny Tušimice, Kadaň 9
Postcode and city	432 01 Kadaň
Telephone	720 733 105 724 551 232
E-mail	marie.tuckova@cez.cz
Opening hours	year round, seven days a week, including state holidays: 9:00 a.m. to 4:00 p.m.; in July and August extended hours until 5:30 p.m.; closed January 1, December 24–26, December 31
Advance reservation necessary	yes
Name of nearest public transportation station/stop	Tušimice, I. ELNA (bus)

[1] www

Severočeské doly a.s. Information Center	
Type of exhibit	information center
Operator	Severočeské doly a.s.
Street and street number	Boženy Němcové 5359
Postcode and city	430 01 Chomutov
Telephone	474 604 636
E-mail	infocentrum@sdas.cz (www.infocentrumsdas.cz [1])
Opening hours	Monday–Friday 8:00 a.m.–11:30 a.m., 12:10 p.m.–3:00 p.m. closed on state holidays
Advance reservation necessary	only for groups
Name of nearest public transportation station/stop	Chomutov, Palackého (municipal and regional buses, trolleybus); Chomutov, autobusové nádraží (long-distance bus)

Nástup Tušimice Mines	
Type of exhibit	surface mine
Operator	Severočeské doly a.s.
Postcode and city	432 01 Kadaň
Telephone	474 602 956
Fax	474 602 957
E-mail	hoffmanova@sdas.cz
Opening hours	Monday–Friday 6:00 a.m.–2:00 p.m.
Advance reservation necessary	yes
Name of nearest public transportation station/stop	Tušimice, důl Merkur (bus)

Bílina Mines	
Type of exhibit	surface mine
Operator	Severočeské doly a.s.
Street and street number	Důlní 375/89
Postcode and city	418 29 Bílina
Telephone	417 805 012 723 467 035
Fax	417 804 002
E-mail	bila@sdas.cz
Opening hours	Monday–Friday 6:00 a.m.–2:00 p.m.
Advance reservation necessary	yes
Name of nearest public transportation station/stop	Bílina, aut. nádr. (bus); Bílina (train)

ELCHO power plant	
Type of exhibit	power plant tour
Operator	Elektrociepłownia Chorzów ELCHO sp. z o.o.
Street and street number	M. Skłodowskiej-Curie 30
Postcode and city	41-503 Chorzów
Telephone	+48 327 714 001
Fax	+48 327 714 020
E-mail	anna.kotlarska@cezpolska.pl
Opening hours	by advance reservation
Advance reservation necessary	yes
Name of nearest public transportation station/stop	Chorzów, plac Jana (bus)

Skawina power plant	
Type of exhibit	power plant tour
Operator	Elektrownia Skawina S.A.
Street and street number	Piłsudskiego 10
Postcode and city	32-050 Skawina
Telephone	+48 122 772 000
Fax	+48 122 778 618
E-mail	teresa.detyna@cezpolska.pl
Opening hours	by advance reservation
Advance reservation necessary	yes
Name of nearest public transportation station/stop	Skawina, Elektrownia (bus)

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www

Information for Shareholders and Investors

Financial Calendar	Date
CEZ Group audited consolidated financial statements for the year 2013	February 27, 2014
ČEZ, a. s. audited financial statements for the year 2013	February 27, 2014
CEZ Group consolidated financial figures for the year 2013	February 27, 2014
Press conference	February 27, 2014
Conference call (in English)	February 27, 2014
CEZ Group 2013 Annual Report – electronic version in Czech and English; Czech version in print	April 30, 2014
CEZ Group non-audited consolidated financial figures for Q1 2014	May 13, 2014
Interim consolidated financial statements	May 13, 2014
Press conference	May 13, 2014
Conference call (in English)	May 13, 2014
ČEZ, a. s. non-audited financial figures for Q1 2014	May 13, 2014
Accounting statements	May 13, 2014
CEZ Group 2013 Annual Report – English version in print	May 15, 2014
CEZ Group non-audited consolidated financial figures for H1 2014	August 12, 2014
Interim consolidated financial statements	August 12, 2014
Press conference	August 12, 2014
Conference call (in English)	August 12, 2014
ČEZ, a. s. non-audited financial figures for H1 2014	August 12, 2014
Accounting statements	August 12, 2014
CEZ Group 2014 Half-Year Report	September 1, 2014
CEZ Group non-audited consolidated financial figures for Q1–Q3 2014	November 13, 2014
Interim consolidated financial statements	November 13, 2014
Press conference	November 13, 2014
Conference call (in English)	November 13, 2014
ČEZ, a. s. non-audited financial figures for Q1–Q3 2014	November 13, 2014
Accounting statements	November 13, 2014
CEZ Group audited consolidated financial statements for the year 2014	February 26, 2015
ČEZ, a. s. audited financial statements for the year 2014	February 26, 2015

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Area contact list for the Czech Republic	www.cez.cz/cs/kontakty/pro-media.html [1]	
Investor Relations		
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Tereza Goeblová	tereza.goeblova@cez.cz	+420 211 042 292
Website	www.cez.cz [2]	
Pavel Foršt	pavel.forst@cez.cz	+420 211 043 362
Martin Schreier	martin.schreier@cez.cz	+420 211 042 612
Nadace CEZ Foundation	www.nadacecez.cz [3]	+420 211 046 720
Customer line for the Czech Republic		
ČEZ Zákaznické služby, s.r.o.		
by postal mail: ČEZ Zákaznické služby, s.r.o.		
Guldenerova 2577/19, 326 00 Pilsen		
Czech Republic		+420 840 840 840
Customer line in Bulgaria	zaklienta@cez.bg	0700 10 010 (when calling from Bulgaria)
Customer line in Hungary	sales@cez.hu	+36 1 266 9324
Customer line in Romania	cez_crc@cez.ro	0251-929 (when calling from Romania)
Customer line in Slovakia		
ČEZ Slovensko, s.r.o.	cez@cez.sk	0850 888 444 (when calling from Slovakia)
Slovakia	info@ncenergie.sk	0850 777 555 (when calling from Slovakia)
Web Sales Office	www.cez.cz/cs/sluzby/cez-online.html [4]	
CEZ Group Ombudsman in the Czech Republic	www.cez.cz/edee/qf/cs/quickforms/ombudsman [5]	
Josef Sedlák		
by postal mail: Ombudsman ČEZ		
Hvězdova 1716/2b, 140 62 Prague 4		cannot be contacted by telephone
Czech Republic		fax: +420 371 101 383
CEZ Group Ombudsman in Bulgaria	cez.ombudsman@cez.bg	
Radoslav Dimitrov		
by postal mail:		
G. S. Rakovski 140, 1000 Sofia		+359 (0)2 8958 450
Republic of Bulgaria		fax: +359 (0)2 8959 770

Glossary of Selected Terms and Abbreviations

Term	Commentary
Basel II	The second of the Basel Accords; contains the Basel Committee on Banking Supervision's recommendations for banking law and regulativ.
CER	Certified Emission Reductions
EMS	Environmental Management System A systemic approach to managing care for the environment representing a path to accomplishing and managing an organization's environmental profile, including ongoing improvement.
ERE	Enti Rregullator i Energjise The Energy market regulator in Albania
EU ETS	The European Union Emissions Trading Scheme
EUA	A greenhouse gas emission right
GPW	Giełda papierów wartościowych w Warszawie SA Warsaw Stock Exchange
IAEA	International Atomic Energy Agency
NAP	National Allocation Plan A document showing the granting of CO_2 emission rights for the trading period in the country in question, for individual CO_2 producing installations. The first trading period covers the years 2005–2007, the second 2008–2012, and the third 2013–2020.
OHSAS	Occupational health and safety management systems
OSART	Operational Safety Review Team A review of nuclear power plant operation and development. Takes place every ten years at the recommendation of the IAEA and at the invitation of the Government of the Czech Republic. Serves to compare the reviewed plant's practices with international standards and IAEA recommendations in nine areas, as well as to monitor the attitudes and approaches of all participants to the culture of safety.
OSH	Occupational Safety and Health
Photovoltaic power plant	Photovoltaic (solar) power plants consist of photovoltaic (solar) panels, where solar radiation is converted into electricity. Particles of light, called photons, falling upon the surface of the solar panel cause electrons to be released, thereby generating electrical current.
PSE	Prague Stock Exchange
SÚJB	Státní úřad pro jadernou bezpečnost The State Office for Nuclear Safety
WANO	The World Association of Nuclear Operators

List of Units and Abbreviations Used

Unit	Commentary
t	metric ton; a unit of mass
TJ	terajoule; a unit of work (energy)
V	volt; a unit of electrical potential (voltage)
W	watt; a unit of power (load)
Wh	watt-hour; a unit of work

Method Used to Calculate CEZ Group Key Indicators

Indicator	Calculation
Net debt	Long-term debt, net of current portion + Current portion of long-term debt + Short-term loans – (Cash and cash equivalents + Highly liquid financial assets [1])
Dividend per share (gross)	Dividend granted in current year, before tax, on shares outstanding (paid in the year in question, out of previous year's income)
EBIT	Income before income taxes and other expenses/income
EBITDA	Income before income taxes and other expenses/income + Depreciation and amortization + Impairment of property, plant and equipment + Gain on sale of property, plant and equipment [2]
Invested capital	Total property, plant and equipment + Non-current intangible assets + Net working capital
Return on assets (ROA), net	Net income / Average total assets
Return on invested capital (ROIC)	EBIT * (1 – Income tax / EBIT) / (Averaged invested capital)
Return on equity (ROE), net	Net income attributable to equity holders of the parent / Average equity attributable to equity holders of the parent
	[3] Net income / Average equity

[1] In 2012, the definition of highly liquid financial assets was expanded to include the current portion of debt securities held to maturity. The change was applied to past years as well.
[2] The definition of the EBITDA indicator was modified in 2013. In addition to depreciation and amortization, the definition now includes selected other, primarily non-monetary transactions relating to long-term assets (in particular, impairment allowances and gains/losses from sale of long-term assets).
[3] Definition applied to ČEZ, a. s. if it differs from definition for CEZ Group.

Average value = (Value at end of previous year + Value at end of current year) / 2.

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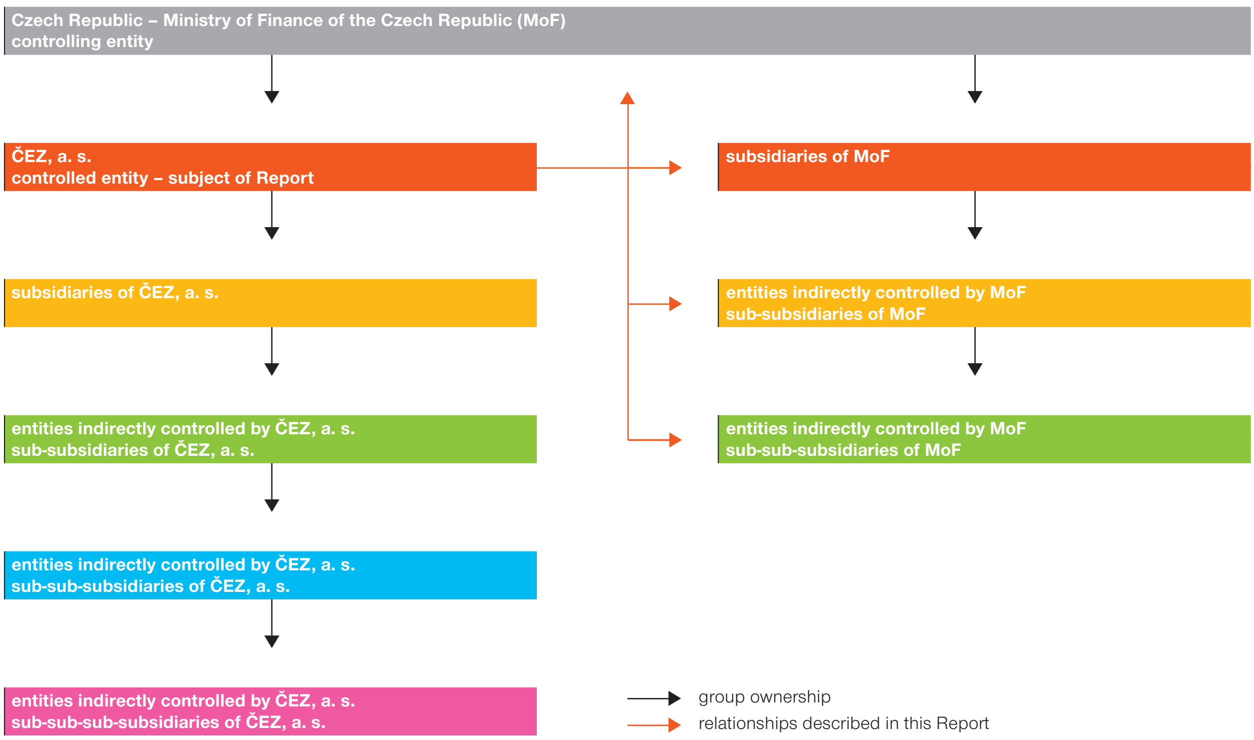
ČEZ, a. s.
Related Parties Report
for the Year 2013

1. Legend



2. Group Structure Chart

See insert under back cover flap.

3. Controlling Entity and Compiler of the Related Parties Report

Czech Republic – Ministry of Finance – controlling entity	
Name	Ministry of Finance of the Czech Republic
With its seat at	Letenská 525/15, 118 10 Prague 1
ID Number	00006947

ČEZ, a. s. – controlled entity – compiler of the Report	
Company	ČEZ, a. s.
With its seat at	Duhová 2/1444, 140 53 Prague 4
ID Number	45274649

Incorporated in the Commercial Register maintained by the Municipal Court in Prague (Part B, insert 1581).

Size of equity interest	At December 31, 2013 the controlling entity, MoF, owned a 69.37% equity interest in ČEZ, a. s.

The Related Parties Report has been compiled in accordance with Section 66a(9) of the Commercial Code for the period January 1, 2013 – December 31, 2013.

4. Alphabetical List of Companies – Group Members

See insert under back cover flap.

5. Contractual Relations

In the period in question, the following agreement remained in effect between ČEZ, a. s. and related parties, i.e. between the controlling entity and a controlled entity or between a controlled entity and other entities controlled by the same controlling entity:

ČEPRO, a.s.
Agreement no. 4400011154, the subject matter of which is the supply of diesel fuel on a consignment basis, including costs associated with delivery of the diesel fuel, in the Temelín and Dukovany Nuclear Power Plant complexes.

The above agreement was entered into at arm’s length: the consideration and counter-consideration provided was in line with customary business terms. This business relation did not damage ČEZ, a. s. in any way.

6. Other Relations

ČEZ, a. s. did not take any legal actions in the interests of related parties nor did it accept or perform any other measures in the interests of related parties or at their behest.

7. Other Information

7.1. Confidentiality

Within the Group, information and facts are considered confidential if they constitute part of a business secret of related parties or if they have been declared confidential by any entity that is part of the Group. Also considered confidential is all commercial information that could be, by itself or in conjunction with other information, injurious to any of the entities constituting the Group. For this reason, Part 5 of this Report does not contain information on prices or quantities.

7.2. Auditor’s review of the Related Parties Report for the Year 2013

This Related Parties Report has been reviewed by the auditor, Ernst & Young Audit, s.r.o., License No. 401. The auditor’s statement is given in the 2013 Annual Report of CEZ Group.

7.3. Companies that did not provide information

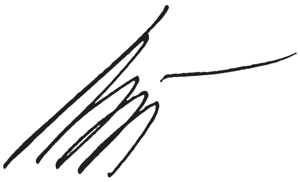
Despite the use by the compiler of this Report of the best efforts that can be fairly expected of it to obtain the information necessary for inclusion in this Report, the following companies belonging to the Czech Republic’s Group failed to provide the requested information:

- Hotelinvest a.s. (in bankruptcy)
- HOLDING KLADNO a.s. “in liquidation”
- Severočeské mlékárny, a.s. Teplice (in bankruptcy)
- Ormilk, a.s. in liquidation
- PORCELÁN HOLDING a.s. in liquidation
- THERMAL-F, a.s.

8. Conclusion

The compilation of the Related Parties Report was secured by the statutory body of ČEZ, a. s. within the time stipulated by law.
The Related Parties Report was compiled according to the best knowledge and awareness of the compliler, based on available materials and documents, and with the use of best efforts.
The definition of the Czech Republic's Group was prepared from information provided by the majority shareholder.
The auditor's statement is included in the 2013 Annual Report of CEZ Group.
The Report has been submitted to the Supervisory Board for review. The Supervisory Board will present its opinion at the Company's General Meeting.

Prague, March 13, 2014



Daniel Beneš
Chairman of the Board of Directors

Martin Novák
Vice Chairman of the Board of Directors

Supplementary Information on CEZ Group Members

Individual Results of Fully Consolidated Companies

Fully consolidated companies	Operating revenues		Operating expenses		EBITDA	
	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)
Czech Republic						
ČEZ, a. s.	101,644	94	(81,549)	112	35,907	74
Areál Třeboradice, a.s.	12	–	(155)	–	3	–
Centrum výzkumu Řež s.r.o.	289	135	(285)	131	25	141
ČEZ Bohunice a.s.	–	33	(3)	87	(3)	88
ČEZ Distribuce, a. s.	58,626	112	(49,262)	107	15,828	126
ČEZ Distribuční služby, s.r.o.	9,388	214	(8,168)	212	2,009	155
ČEZ Energetické produkty, s.r.o.	1,019	84	(956)	82	64	136
ČEZ Energetické služby, s.r.o.	714	131	(668)	130	74	122
ČEZ Energo, s.r.o.	622	–	(557)	163	107	139
ČEZ ENERGOSERVIS spol. s r.o.	923	136	(896)	144	30	52
ČEZ ICT Services, a. s.	4,544	102	(3,894)	105	1,864	83
ČEZ Nová energetika, a.s.	–	–	–	–	–	–
ČEZ Obnovitelné zdroje, s.r.o.	2,173	239	(2,195)	245	(18)	–
ČEZ OZ uzavřený investiční fond a.s.	1,469	–	(1,027)	83	1,341	94
ČEZ Prodej, s.r.o.	83,642	109	(80,131)	111	3,890	85
ČEZ Korporátní služby, s.r.o.	2,382	108	(1,889)	117	698	93
ČEZ Teplárenská, a.s.	3,238	103	(3,158)	104	402	101
ČEZ Zákaznické služby, s.r.o.	1,131	94	(1,094)	101	38	32
Elektrárna Dětmarovice, a.s.	3,298	–	(2,510)	> 500	926	–
Elektrárna Mělník III, a. s.	–	–	(2)	302	(2)	302
Elektrárna Počerady, a.s.	11,770	–	(7,436)	> 500	4,882	326
Elektrárna Tisová, a.s.	–	–	(2)	308	(2)	308
Energetické centrum s.r.o.	169	98	(146)	111	46	69
Energotrans, a.s.	3,852	–	(2,389)	100	1,697	96
MARTIA a.s.	355	110	(344)	110	15	129
PPC Úžín, a.s.	–	62	(4)	8	(47)	> 500
PRODECO, a.s.	3,005	333	(2,881)	322	177	> 500
Revitrans, a.s.	1,567	243	(1,320)	221	437	262
SD - Kolejová doprava, a.s.	1,193	132	(777)	121	477	152
SD - KOMES, a.s.	629	59	(623)	59	11	224
Severočeské doly a.s.	11,611	110	(8,687)	105	5,096	112
ŠKODA PRAHA a.s.	99	105	(79)	91	20	248
ŠKODA PRAHA Invest s.r.o.	17,352	99	(16,965)	100	392	73
Telco Pro Services, a. s.	488	–	(409)	–	166	–
Tepelné hospodářství města Ústí nad Labem s.r.o.	567	107	(539)	106	43	120
ÚJV Řež, a. s.	1,453	98	(1,380)	104	164	66
Republic of Poland						
A.E. Wind sp. z o.o.	–	–	(1)	150	(1)	144
Baltic Green I sp. z o.o.	–	–	–	> 500	–	> 500
Baltic Green II sp. z o.o.	–	–	–	> 500	–	> 500
Baltic Green III sp. z o.o.	–	–	–	> 500	–	> 500
Baltic Green IV sp. z o.o.	–	–	–	116	–	116
CEZ Polska sp. z o.o.	205	121	(194)	121	21	98
CEZ Produkty Energetyczne Polska sp. z o.o.	94	150	(84)	147	9	167
CEZ Towarowy Dom Maklerski sp. z o.o.	8	–	(8)	431	–	3
CEZ Trade Polska sp. z o.o.	575	160	(560)	160	16	178
Eco-Wind Construction S.A.	155	–	(323)	> 500	(166)	> 500
Elektrociepłownia Chorzów ELCHO sp. z o.o.	2,356	103	(1,599)	160	983	66
Elektrownia Skawina S.A.	1,990	117	(2,470)	194	(56)	–
Elektrownie Wiatrowe Lubiechowo sp. z o.o.	–	–	–	120	–	120
Farma Wiatrowa Leśce sp. z o.o.	–	–	(8)	> 500	–	104
Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.	–	–	(10)	> 500	–	105
Mega Energy sp. z o.o.	–	–	–	103	–	103

	Depreciation and amortization		Net income		Total assets		Equity		Work force head count as at December 31	
	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (persons)	Index 2013/2012 (%)
	(13,358)	100	26,373	75	549,257	102	205,243	97	5,678	99
	(20)	–	(116)	–	379	–	310	–	–	–
	(21)	101	–	–	1,046	113	255	104	256	136
	–	–	14	–	3,225	100	3,223	100	–	–
	(6,520)	103	7,213	152	136,965	104	92,759	105	1,208	101
	(789)	105	983	225	8,903	122	6,936	117	2,852	152
	(3)	82	50	145	484	109	173	130	30	97
	(32)	101	36	158	697	127	485	106	283	108
	(42)	158	55	124	1,219	137	648	111	65	112
	(4)	99	21	48	1,052	475	81	99	461	119
	(1,207)	80	582	92	5,323	96	4,097	98	431	84
	–	–	–	–	8	–	8	–	–	–
	(4)	54	(14)	–	496	128	248	95	85	82
	(746)	101	242	–	12,242	92	12,083	333	–	–
	(379)	100	2,869	85	29,379	107	9,774	108	232	102
	(245)	94	412	85	4,948	103	4,485	100	423	175
	(323)	110	71	75	4,438	99	3,608	102	275	109
	–	112	27	30	380	99	49	44	845	98
	(139)	–	667	–	2,885	> 500	2,261	> 500	225	–
	–	300	(2)	226	18	91	18	91	–	–
	(549)	389	3,515	359	14,653	142	10,765	148	273	101
	–	300	(2)	232	18	91	17	91	–	–
	(23)	87	13	45	322	100	98	115	46	92
	(235)	80	1,319	64	5,144	73	4,566	72	148	77
	(4)	113	7	145	143	101	54	106	160	113
	–	–	(4)	8	103	96	103	96	3	100
	(31)	377	100	> 500	904	50	449	289	737	> 500
	(201)	163	198	> 500	1,848	282	996	180	943	213
	(61)	114	336	159	1,009	114	766	110	598	111
	(1)	58	2	176	121	31	77	40	13	87
	(2,464)	114	2,646	102	31,042	97	20,989	104	2,984	87
	–	–	25	> 500	456	92	248	111	25	119
	(5)	79	331	84	6,533	90	933	155	486	98
	(87)	–	63	–	927	–	669	–	94	–
	(15)	106	23	129	407	130	209	107	88	99
	(97)	99	40	37	2,518	101	1,411	103	730	96
	–	–	(1)	85	62	> 500	(2)	192	–	–
	–	–	–	> 500	3	106	3	104	–	–
	–	–	–	> 500	4	161	3	104	–	–
	–	–	–	> 500	3	105	3	104	–	–
	–	–	–	120	–	147	–	179	–	–
	(9)	87	9	105	1,389	168	61	126	73	112
	–	111	8	170	40	154	26	158	23	96
	–	46	2	–	132	365	40	112	–	–
	–	224	18	–	263	134	38	210	10	125
	(3)	105	(139)	377	621	102	270	69	22	138
	(226)	104	606	59	8,609	108	6,466	112	94	78
	(294)	100	(393)	–	5,413	99	3,722	100	170	88
	–	–	–	11	13	106	(2)	114	–	–
	–	–	(8)	> 500	1	15	(9)	> 500	–	–
	–	–	(10)	> 500	1	13	(11)	> 500	–	–
	–	–	–	108	–	150	–	171	–	–

Fully consolidated companies	Operating revenues		Operating expenses		EBITDA	
	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)
Republic of Bulgaria						
Bara Group OOD	–	–	–	–	–	–
CEZ Bulgaria EAD	1,664	106	(1,644)	108	95	100
CEZ Bulgarian Investments B.V.	–	–	(65)	140	(65)	140
CEZ Elektro Bulgaria AD	18,820	109	(19,066)	110	(246)	> 500
CEZ Razpredelenie Bulgaria AD	7,937	96	(7,670)	101	1,080	75
CEZ Trade Bulgaria EAD	1,655	108	(1,614)	104	41	–
ECO Etropol AD	–	–	(2)	> 500	(2)	> 500
Free Energy Project Oreshets EAD	38	–	(27)	177	29	103
TEC Varna EAD	1,030	47	(2,022)	87	(288)	–
Romania						
CEZ Distributie S.A.	5,139	103	(4,550)	115	1,536	84
CEZ Romania S.A.	837	110	(801)	111	49	110
CEZ Trade Romania S.R.L.	512	86	(514)	86	(2)	–
CEZ Vanzare S.A.	9,871	108	(9,592)	113	279	40
M.W. Team Invest S.R.L.	507	85	(216)	125	437	80
Ovidiu Development S.R.L.	698	310	(31)	247	1,079	338
TMK Hydroenergy Power S.R.L.	1	–	(46)	152	(29)	–
Tomis Team S.R.L.	986	92	(589)	–	862	49
Republic of Albania						
CEZ Trade Albania Sh.P.K.	12	12	26	–	39	–
Shared Services Albania Sh.A.	23	10	168	–	193	–
Federal Republic of Germany						
CEZ Deutschland GmbH	–	–	(1)	100	(1)	100
Kingdom of the Netherlands						
CEZ Chorzow B.V.	–	–	(4)	103	(4)	103
CEZ International Finance B.V.	–	–	(6)	127	(6)	127
CEZ MH B.V.	–	–	(4)	124	(4)	124
CEZ Poland Distribution B.V.	–	–	(75)	80	(75)	107
CEZ Silesia B.V.	–	–	(3)	101	(3)	101
Ireland						
CEZ Finance Ireland Ltd.	–	–	(3)	188	(3)	188
CEZ International Finance Ireland Ltd.	–	–	(2)	87	(2)	87
Slovak Republic						
CEZ Slovensko, s.r.o.	5,884	84	(6,135)	93	(251)	–
Hungary						
CEZ Magyarország Kft.	1,523	79	(1,554)	80	(31)	126
Russian Federation						
CEZ RUS OOO	–	–	(7)	210	(7)	209
Serbia						
CEZ Srbija d.o.o.	372	151	(371)	154	2	30
Bosnia and Herzegovina						
CEZ Bosna i Hercegovina d.o.o.	22	193	(22)	184	(1)	81
NERS d.o.o.	–	–	(1)	119	(1)	110
Ukraine						
CEZ Ukraine CJSC	–	–	–	–	–	–
Cyprus						
Taidana Limited	–	–	(1)	90	(1)	90

Depreciation and amortization		Net income		Total assets		Equity		Work force head count as at December 31	
2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (persons)	Index 2013/2012 (%)
–	–	–	–	5	–	2	–	–	–
(56)	107	15	44	1,043	145	79	142	651	96
–	–	(61)	153	1,074	104	951	101	–	–
–	122	(218)	–	3,430	100	773	84	65	96
(813)	105	239	39	11,984	111	8,648	112	2,608	100
–	91	35	–	396	194	104	169	9	180
–	–	(2)	420	4	92	(2)	–	–	–
(13)	139	6	45	219	100	20	164	–	–
(238)	82	(897)	> 500	2,801	78	2,326	77	381	86
(932)	116	518	52	15,869	109	13,106	109	1,226	98
(13)	111	29	164	2,277	86	135	88	504	99
–	–	(1)	–	62	52	10	97	4	80
–	–	183	22	2,533	90	690	126	44	98
(147)	116	133	67	3,508	98	668	111	–	–
(412)	386	141	236	12,270	107	151	> 500	–	–
(11)	123	(41)	> 500	1,150	148	157	86	26	104
(471)	106	(8)	–	14,325	95	2,698	106	14	100
–	81	35	–	3	4	2	–	–	–
(2)	92	197	–	36	28	(69)	27	8	3
–	–	0	74	37	107	37	108	–	–
–	–	304	33	1,159	53	1,159	85	–	–
–	–	228	62	10,278	112	1,090	140	–	–
–	–	(903)	–	16,112	108	(763)	–	–	–
–	–	(234)	220	3,078	102	1,916	91	–	–
–	–	546	> 500	1,633	162	1,612	162	–	–
–	–	(3)	188	8,289	100	8,284	100	–	–
–	–	(2)	88	9,183	109	9,177	109	–	–
–	114	(155)	–	1,019	49	435	79	28	117
–	98	(31)	121	283	79	10	25	8	100
–	> 500	(14)	412	19	61	19	61	–	–
–	96	–	4	39	52	9	110	2	100
–	108	–	55	20	106	20	107	–	–
–	–	(1)	119	12	96	12	96	–	–
–	–	–	–	–	–	–	–	–	–
–	–	(1)	90	1	59	1	59	–	–

Individual Results of Associates and Joint-Ventures

Associates and joint-ventures	Operating revenues		Operating expenses	
	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)
Czech Republic				
LOMY MOŘINA spol. s r.o.	222	100	(218)	99
Hungary				
MOL - CEZ European Power Hungary Kft.	20	93	(202)	> 500
Kingdom of the Netherlands				
CM European Power International B.V.	–	–	(4)	95
Slovak Republic				
CM European Power Slovakia, s. r. o.	6,002	161	(5,641)	160
Jadrová energetická spoločnosť Slovenska, a. s.	22	73	(143)	101
JESS Invest, s.r.o.	–	> 500	(4)	68
Republic of Turkey				
Akcez Enerji A.S.	120	> 500	(111)	> 500
Aken B.V. in liquidation	–	–	–	90
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	–	–	(1)	128
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	5,261	84	(5,262)	86
Akenerji Elektrik Üretim A.S.	3,516	81	(3,184)	81
Akkur Enerji Üretim A.S.	739	127	(392)	116
AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	–	–	(1)	45
AK-EL Yalova Elektrik Üretim A.S.	–	–	(1)	60
Egemer Elektrik Üretim A.S.	–	–	(38)	422
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	393	209	(168)	114
Sakarya Elektrik Dagitim A.S.	5,887	31	(5,805)	33
Sakarya Elektrik Perakende Satis A.S.	16,026	–	(15,322)	> 500

EBITDA		Depreciation and amortization		Net income		Total assets		Equity	
2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)	2013 (CZK millions)	Index 2013/2012 (%)
4	170	–	–	4	170	423	102	367	101
10	115	–	–	(178)	–	596	79	144	47
(4)	95	–	–	(78)	31	2,465	93	1,658	104
361	187	–	–	380	170	5,627	105	2,243	129
(95)	110	(26)	105	(112)	170	6,157	107	6,146	107
(4)	65	–	–	(4)	82	320	342	317	341
10	–	–	2	(45)	–	10,024	93	4,120	86
–	90	–	–	–	–	–	–	–	–
(1)	129	–	100	1	–	28	89	28	89
1	1	(2)	–	(8)	–	860	138	114	61
974	124	(324)	76	381	75	20,028	89	10,898	134
521	130	(174)	111	(263)	–	4,980	84	2,902	131
(1)	39	–	95	39	165	763	92	753	91
(1)	60	–	91	32	–	166	106	164	105
(38)	426	–	188	(801)	263	14,941	177	3,516	> 500
323	247	(94)	105	(374)	> 500	3,038	84	72	15
83	7	–	–	33	3	3,879	53	49	2
704	–	–	–	736	–	4,462	> 500	1,475	> 500

Fees Charged by External Auditors to Companies of the CEZ Consolidated Group in 2013 (CZK millions)

	Audit services	Tax consulting	Economic and organizational consulting	Other	Total
ČEZ, a. s.	23.0	2.8	22.0	–	47.8
Fully consolidated CEZ Group companies	48.6	3.6	8.9	10.1	71.2
CEZ Group, total	71.6	6.4	30.9	10.1	119.0

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Independent Auditor's Report

To the Shareholders of ČEZ, a. s.:

We have audited the accompanying consolidated financial statements of CEZ Group which comprise the consolidated balance sheet as at December 31, 2013, and consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of CEZ Group see Notes 1 and 8 to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CEZ Group as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

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

Martin Skácelík
Auditor, License No. 2119

February 24, 2014
Prague, Czech Republic

CEZ Group
Consolidated Balance Sheet in Accordance with IFRS as of December 31, 2013

(in CZK millions)

ASSETS	2013	2012
Property, plant and equipment		
Plant in service	666,082	656,757
Less accumulated provision for depreciation	(340,927)	(320,574)
Net plant in service (Note 3)	325,155	336,183
Nuclear fuel, at amortized cost	10,688	9,702
Construction work in progress (Note 3)	90,717	73,869
Total property, plant and equipment	426,560	419,754
Other non-current assets		
Investment in associates and joint-ventures	12,543	14,383
Investments and other financial assets, net (Note 4)	25,793	38,406
Intangible assets, net (Note 5)	20,798	21,604
Deferred tax assets (Note 28)	824	750
Total other non-current assets	59,958	75,143
Total non-current assets	486,518	494,897
Current assets		
Cash and cash equivalents (Note 9)	25,118	17,957
Receivables, net (Note 10)	67,509	54,763
Income tax receivable	1,066	1,798
Materials and supplies, net	8,054	7,671
Fossil fuel stocks	2,555	4,032
Emission rights (Note 11)	8,505	12,153
Other financial assets, net (Note 12)	38,400	39,476
Other current assets (Note 13)	3,411	3,323
Total current assets	154,618	141,173
TOTAL ASSETS	641,136	636,070

EQUITY AND LIABILITIES	2013	2012
Equity		
Equity attributable to equity holders of the parent		
Stated capital	53,799	53,799
Treasury shares	(4,382)	(4,382)
Retained earnings and other reserves	208,659	200,818
Total equity attributable to equity holders of the parent (Note 14)	258,076	250,235
Non-controlling interests	5,049	3,984
Total equity	263,125	254,219
Long-term liabilities		
Long-term debt, net of current portion (Note 15)	168,396	176,106
Accumulated provision for nuclear decommissioning and fuel storage (Note 18)	43,827	42,415
Other long-term liabilities (Note 19)	26,848	22,559
Total long-term liabilities	239,071	241,080
Deferred tax liability (Note 28)	19,224	21,828
Current liabilities		
Short-term loans (Note 20)	2,716	4,784
Current portion of long-term debt (Note 15)	28,104	12,005
Trade and other payables (Note 21)	63,423	73,267
Income tax payable	1,719	1,615
Accrued liabilities (Note 22)	23,754	27,272
Total current liabilities	119,716	118,943
TOTAL EQUITY AND LIABILITIES	641,136	636,070

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

CEZ GROUP
Consolidated Statement of Income in Accordance with IFRS for the Year Ended December 31, 2013

(in CZK millions)

	2013	2012 (restated *)
Revenues		
Sales of electricity and related services	189,657	186,797
Gains and losses from electricity, coal and gas derivative trading, net	1,579	4,588
Sales of gas, coal, heat and other revenues	26,037	23,710
Total revenues (Note 23)	217,273	215,095
Operating expenses		
Fuel	(14,089)	(15,841)
Purchased power and related services	(78,878)	(71,656)
Repairs and maintenance	(5,498)	(5,511)
Depreciation and amortization	(27,944)	(27,696)
Impairment of property, plant and equipment and intangible assets including goodwill (Note 6)	(8,422)	(1,184)
Salaries and wages (Note 24)	(18,730)	(18,707)
Materials and supplies	(5,614)	(5,098)
Emission rights, net (Note 11)	(76)	476
Other operating expenses (Note 25)	(12,267)	(12,795)
Total expenses	(171,518)	(158,012)
Income before other income (expenses) and income taxes	45,755	57,083
Other income (expenses)		
Interest on debt, net of capitalized interest (Note 2.8)	(4,569)	(4,318)
Interest on nuclear and other provisions (Note 2.24, 18 and 19)	(1,802)	(2,051)
Interest income (Note 26)	1,439	1,745
Foreign exchange rate gains (losses), net	1,070	763
Gain on sale and loss of control of subsidiaries, associates and joint-ventures (Note 7)	4,750	–
Other income (expenses), net (Note 27)	(1,222)	(2,716)
Share of profit (loss) from associates and joint-ventures (Note 2.2)	(981)	451
Total other income (expenses)	(1,315)	(6,126)
Income before income taxes	44,440	50,957
Income taxes (Note 28)	(9,206)	(10,804)
Net income	35,234	40,153
Net income attributable to		
Equity holders of the parent	35,885	41,429
Non-controlling interests	(651)	(1,276)
Net income per share attributable to equity holders of the parent (CZK per share) (Note 31)		
Basic	67.2	77.6
Diluted	67.2	77.6

* Certain numbers in the Statement of Income were reclassified in 2013 and the prior year data were changed accordingly to provide comparative information on the same basis (see Note 2.1).

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

CEZ Group
Consolidated Statement of Comprehensive Income in Accordance with IFRS for the Year Ended December 31, 2013

(in CZK millions)

	2013	2012
Net income	35,234	40,153
Other comprehensive income – items that may be reclassified subsequently to statement of income		
Change in fair value of cash flow hedges recognized in equity	(9,543)	7,935
Cash flow hedges removed from equity	(3,018)	(127)
Change in fair value of available-for-sale financial assets recognized in equity	(588)	1,302
Available-for-sale financial assets removed from equity	(77)	(76)
Translation differences	3,910	(1,436)
Translation differences removed from equity	229	–
Share on equity movements of associates and joint-ventures	85	(82)
Deferred tax related to other comprehensive income (Note 28)	2,516	(1,706)
Net other comprehensive income that may be reclassified to statement of income in subsequent periods	(6,486)	5,810
Other comprehensive income – items not to be reclassified subsequently to statement of income		
Re-measurement losses on defined benefit plans	(33)	–
Deferred tax related to other comprehensive income (Note 28)	1	–
Net other comprehensive income not to be reclassified to statement of income in subsequent periods	(32)	–
Other comprehensive income, net of tax	(6,518)	5,810
Total comprehensive income, net of tax	28,716	45,963
Total comprehensive income attributable to		
Equity holders of the parent	29,004	47,339
Non-controlling interests	(288)	(1,376)

CEZ Group
Consolidated Statement of Changes in Equity in Accordance with IFRS for the Year Ended December 31, 2013

(in CZK millions)

	Attributable to equity holders of the parent								
	Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total	Non-controlling interests	Total equity
December 31, 2011	53,799	(4,382)	(10,647)	(4,826)	950	191,931	226,825	5,365	232,190
Net income	–	–	–	–	–	41,429	41,429	(1,276)	40,153
Other comprehensive income	–	–	(1,333)	6,332	993	(82)	5,910	(100)	5,810
Total comprehensive income	–	–	(1,333)	6,332	993	41,347	47,339	(1,376)	45,963
Dividends	–	–	–	–	–	(23,982)	(23,982)	(4)	(23,986)
Share options	–	–	–	–	75	–	75	–	75
Transfer of forfeited share options within equity	–	–	–	–	(216)	216	–	–	–
Capital contributions by non-controlling interests	–	–	–	–	–	–	–	1	1
Acquisition of non-controlling interests (Note 7)	–	–	3	–	–	(306)	(303)	(58)	(361)
Put options held by non-controlling interest	–	–	–	–	–	281	281	56	337
December 31, 2012	53,799	(4,382)	(11,977)	1,506	1,802	209,487	250,235	3,984	254,219
Net income	–	–	–	–	–	35,885	35,885	(651)	35,234
Other comprehensive income	–	–	3,779	(10,177)	(537)	54	(6,881)	363	(6,518)
Total comprehensive income	–	–	3,779	(10,177)	(537)	35,939	29,004	(288)	28,716
Dividends	–	–	–	–	–	(21,294)	(21,294)	(4)	(21,298)
Share options	–	–	–	–	33	–	33	–	33
Transfer of forfeited share options within equity	–	–	–	–	(97)	97	–	–	–
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	–	–	49	49
Acquisition of non-controlling interests (Note 7)	–	–	–	–	–	–	–	(14)	(14)
Loss of control over subsidiary (Note 7)	–	–	–	–	–	–	–	1,341	1,341
Put options held by non-controlling interest	–	–	–	–	–	98	98	(19)	79
December 31, 2013	53,799	(4,382)	(8,198)	(8,671)	1,201	224,327	258,076	5,049	263,125

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

CEZ Group
Consolidated Statement of Cash Flows in Accordance with IFRS for the Year Ended December 31, 2013

(in CZK millions)

	2013	2012
OPERATING ACTIVITIES		
Income before income taxes	44,440	50,957
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation, amortization and asset write-offs	28,442	28,571
Amortization of nuclear fuel	3,065	2,787
Gain on fixed asset retirements, net	(5,100)	(98)
Foreign exchange rate losses (gains), net	(1,070)	(763)
Interest expense, interest income and dividend income, net	2,786	2,267
Provision for nuclear decommissioning and fuel storage	(241)	5
Valuation allowances, other provisions and other adjustments	5,299	943
Share of (profit) loss from associates and joint-ventures	981	(451)
Changes in assets and liabilities		
Receivables	2,021	793
Materials and supplies	(614)	(845)
Fossil fuel stocks	1,518	(1,283)
Other current assets	3,065	(13,261)
Trade and other payables	(378)	2,838
Accrued liabilities	(15)	5,479
Cash generated from operations	84,199	77,939
Income taxes paid	(9,090)	(11,548)
Interest paid, net of capitalized interest	(4,307)	(4,069)
Interest received	1,410	1,978
Dividends received	344	312
Net cash provided by operating activities	72,556	64,612
INVESTING ACTIVITIES		
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired (Note 7)	(962)	(5,323)
Disposal of subsidiaries, associates and joint-ventures, net of cash disposed of (Note 7)	4,126	686
Additions to property, plant and equipment and other non-current assets, including capitalized interest	(46,076)	(53,518)
Proceeds from sale of fixed assets	3,465	3,433
Loans made	(1,008)	(543)
Repayment of loans	910	2,727
Change in restricted financial assets	(728)	(597)
Total cash used in investing activities	(40,273)	(53,135)
FINANCING ACTIVITIES		
Proceeds from borrowings	69,244	125,247
Payments of borrowings	(74,763)	(117,067)
Proceeds from other long-term liabilities	1,796	330
Payments of other long-term liabilities	(478)	(306)
Dividends paid to Company's shareholders	(21,336)	(23,995)
Dividends paid to non-controlling interests	(4)	(4)
Total cash used in financing activities	(25,541)	(15,795)
Net effect of currency translation in cash	419	213
Net increase (decrease) in cash and cash equivalents	7,161	(4,105)
Cash and cash equivalents at beginning of period	17,957	22,062
Cash and cash equivalents at end of period	25,118	17,957
Supplementary cash flow information		
Total cash paid for interest	7,920	7,637

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

CEZ Group
Notes to Consolidated Financial Statements as of December 31, 2013

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1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 69.8% (70.3% of voting rights) at December 31, 2013 by the Czech Republic represented by the Ministry of Finance. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

The Company is a parent company of the CEZ Group ("the Group"). Main business of the Group is the production, distribution, trade and sale of electricity and heat, trade and sale of natural gas and coal mining (see Notes 2.2 and 8). ČEZ is an electricity generation company, which in 2013 produced approximately 58% of the electricity and a portion of the district heating in the Czech Republic. In the Czech Republic the Company operates fourteen fossil fuel plants, sixteen hydroelectric plants and two nuclear plants. The Company also operates through its subsidiaries several power plants (fossil fuel, hydro, wind, solar, biomass, biogas, gas) in the Czech Republic, two fossil fuel plants and two hydroelectric plants in Poland, one fossil fuel plant and one solar plant in Bulgaria and a wind farm and a complex of hydroelectric plants in Romania. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria and Romania (see also Note 33). The average number of employees of the Company and its consolidated subsidiaries was 26,746 and 31,272 in 2013 and 2012, respectively.

Responsibility for public administration in the energy sector is exercised by the Ministry of Industry and Trade (the "Ministry"), the Energy Regulatory Office and the State Energy Inspection Board.

The Ministry, as the central public administration body for the energy sector, issues state approval to construct new energy facilities in accordance with specified conditions, develops the energy policy of the state and ensures fulfillment of obligations resulting from international treaties binding on the Czech Republic or obligations resulting from membership in international organizations.

The Energy Regulatory Office was established as the administrative office to exercise regulation in the energy sector of the Czech Republic, to support economic competition and to protect consumers' interests in sectors where competition is not possible. The Energy Regulatory Office decides on the granting of a license, imposition of the supply obligation beyond the scope of the license, imposition of the obligation to let another license holder use energy facilities in cases of emergency, to exercise the supply obligation beyond the scope of the license and price regulation based on special legal regulations. The State Energy Inspection Board is the inspection body supervising the activities in the energy sector. All customers can select their suppliers of electricity.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The accompanying consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

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

Certain numbers in the Statement of Income were reclassified in 2013 and the prior year figures were changed accordingly to provide comparative information on the same basis. The presentation of the Statement of Income was changed in connection with a change in the content of EBITDA to provide greater comparability with other companies in the energy sector. The change in the presentation of the Statement of Income includes new separate line Impairment of property, plant and equipment and intangible assets including goodwill. Impairment losses (and their reversals) of property, plant and equipment and intangible assets were presented in Other operating expenses in prior years' financial statements. Impairment losses of goodwill were presented in Goodwill impairment in prior years' financial statements. Amounts related to damages and gifts of fixed assets were transferred to Depreciation and amortization and were included in Other operating expenses in prior years' financial statements.

The reclassifications in the Statement of Income were as follows (in CZK millions):

	2012 as previously reported	Reclassification	2012 after reclassifications
Depreciation and amortization	(27,578)	(118)	(27,696)
Impairment of property, plant and equipment and intangible assets including goodwill	–	(1,184)	(1,184)
Other operating expenses	(13,249)	454	(12,795)
Goodwill impairment	(848)	848	–

2.2. Group Accounting

a. Group Structure

The financial statements of CEZ Group include the accounts of ČEZ, a. s., its subsidiaries, associates and joint-ventures, which are shown in the Note 8.

b. Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has a power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognized.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss.

A change in the ownership interest of a subsidiary, without loss of control, is accounted as an equity transaction.

Losses within a subsidiary incurred are attributed to the non-controlling interest even if that results in a deficit balance.

Put options held by non-controlling interests are recorded as a derecognition of non-controlling interest and recognition of a liability at the end of the reporting period. The liability is recognized at the present value of the amount payable on exercise, and any difference between the amount of non-controlling interest derecognized and this liability is accounted for within equity. Subsequent changes to the present value of the amount payable on exercise are recorded directly in equity.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

c. Associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method the Group's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of other post-acquisition movements in equity of associates is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated impairment losses) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

d. Joint-ventures
Joint-venture is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognizes its interest in the joint-venture using the equity method of accounting (see Note 2.2c).

The financial statements of the joint-venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies into line with those of the Group. Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

e. Transactions Involving Entities under Common Control
Acquisitions of subsidiaries from entities under common control are recorded using a method similar to pooling of interests.

The assets and liabilities of the acquired subsidiaries are included in the consolidated financial statements at their book values. The cost of acquisition of subsidiaries from entities under common control is recorded directly in equity.

Net gain on sale of a subsidiary, an associated company or a joint-venture to an entity controlled by the Group's majority shareholder is recognized directly in equity.

2.3. Changes in Accounting Policies

a. Adoption of New IFRS Standards in 2013
The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Group has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2013:
- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment), effective July 1, 2012
- IAS 19 Employee benefits (revised), effective January 1, 2013
- IFRS 7 Financial Instruments: Disclosures (Amendment), effective January 1, 2013
- IFRS 13 Fair Value Measurement, effective January 1, 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, effective January 1, 2013

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

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

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

IFRS 7 Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)
The amendment is effective for annual periods beginning on or after January 1, 2013. This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set-off in accordance with IAS 32. The standard impacts some of the disclosures included in notes to financial statements (see Note 16).

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

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

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

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

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

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

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

b. New IFRS Standards and Interpretations either not yet Effective or not yet Adopted by the EU
The Group is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2014 or later. Standards and interpretations most relevant to the Group's activities are detailed below:

IAS 28 Investments in Associate and Joint Ventures (revised)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.
The amendment does not have a significant impact on the financial position or performance of the Group. The Group has already been applying the equity method for investments in joint ventures prior to the issue of this revised standard.

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

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

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

The amendment is effective for financial statements beginning on or after January 1, 2014. The Group does not expect the amendment will have an impact on the Group's financial statements.

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

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

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

The amendment is effective for financial statements beginning on or after January 1, 2014. The Group does not expect the amendment will have an impact on the Group's financial statements.

IFRS 9 Financial Instruments – Classification and measurement

The IFRS 9 was originally issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Financial assets

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

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

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

Financial liabilities

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

Hedge accounting

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

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

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

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Control exists when an investor has:
- Power over the investee (defined in IFRS 10 as when the investor has existing rights that give it the current ability to direct the relevant activities)
- Exposure, or rights, to variable returns from its involvement with the investee and
- The ability to use its power over the investee to affect the amount of the investor's returns.

This standard is effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. The Group does not expect the standard will have a significant impact on current Group's interests in other entities, but may affect the treatment of future acquisitions.

IFRS 11 Joint Arrangements

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

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

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

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

This standard becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. The standard will have no significant impact on the Group.

IFRS 12 Disclosure of Involvement with Other Entities

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

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

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)

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

IFRIC 21 Levies

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual Improvements to IFRSs 2010–2012

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

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

Annual Improvements to IFRSs 2011–2013

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

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

These changes will have no significant impact on the Group’s consolidated financial statements.

2.4. Estimates

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

2.5. Revenues

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

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

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

Revenue from services provided to third parties is recognized when the services are rendered.

Connection fees received from customers are recognized in income in the period when the fees are received.

2.6. Unbilled Electricity

Electricity supplied to customers, which is not yet billed, is recognized in revenues at estimated amounts. The estimate of monthly change in unbilled electricity is derived from the measured delivery of electricity after deduction of invoiced consumption and estimated grid losses. The estimate of total unbilled electricity balance is also supported by extrapolation of consumption in the last measured period for individual locations. The ending balance of unbilled electricity is disclosed net in the balance sheet after deduction of advances received from customers and is included in the line item of Receivables, net or Trade and other payables.

2.7. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,065 million and CZK 2,787 million for the years ended December 31, 2013 and 2012, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 18). Such charges amounted to CZK 339 million and CZK 241 million in 2013 and 2012, respectively.

2.8. Interest

The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 3,691 million and CZK 3,616 million and the interest capitalization rate in 2013 and 2012 was 4.5%.

2.9. Property, Plant and Equipment

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

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

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

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

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

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

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

Depreciation of plant in service was CZK 26,339 million and CZK 26,073 million for the years ended December 31, 2013 and 2012, which was equivalent to a composite depreciation rate of 4.3% and 4.4%, respectively.

2.10. Nuclear Fuel

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

2.11. Intangible Assets, Net

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful life of intangible assets ranges from 3 to 25 years. The assets' residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end.

Research and development costs, net of grants and subsidies received, that are not eligible for capitalization have been expensed in the period incurred and amounted to CZK 372 million in 2013 and CZK 381 million in 2012.

Intangible assets are tested for impairment (for goodwill see Note 2.12) whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item Impairment of property, plant and equipment and intangible assets including goodwill.

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

2.12. Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed (see Note 2.2). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint-ventures is included in investments in associates and joint-ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.13. Emission Rights

Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plans certain companies of the Group have been granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

On April, 30 of the following year, at the latest, these companies are required to remit a number of allowances representing the number of tones of CO_2 actually emitted in previous year. If a company does not remit necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 100 per 1 ton of CO_2.

The emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. In the Czech Republic the allocation of emission rights granted free of charge to an entity operating certain electricity generation facilities specified by the law was the subject to a gift tax in 2011 and 2012. As a result, granted emission rights, which were subject to the gift tax, are initially recognized at the amount of related gift tax as of the grant date. Purchased emission rights are carried at cost (except for emission rights for trading). Emission rights acquired in a business combination are initially recognized at their fair value at the date of acquisition and subsequently treated similarly to purchased emission rights. The Group recognizes a provision to cover emissions made which is measured at the cost of granted and purchased emission rights and credits up to the level of granted and purchased emission rights and credits held and then at the market price ruling at the balance sheet date. The amount of the gift tax on granted emission rights, which is charged to profit or loss as part of the charge of the provision, the eventual cost of emission rights sold or as part of the consumption of emission rights when the allowances are remitted from the register, is included in the line Other income (expenses), net.

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

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

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

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

Green and similar certificates are initially recognized at fair value and subsequently treated similarly to purchased emission rights.

2.14. Investments

Investments are classified into the following categories: held-to-maturity, loans and receivables, held for trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading. All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

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

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

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

Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date.

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

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

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

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

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

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

2.15. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less. Foreign currency deposits are translated at December 31, 2013 and 2012 exchange rates, respectively.

2.16. Financial Assets Restricted in Use

Restricted balances of cash and other financial assets, which are shown under non-current financial assets as restricted funds (see Note 4), relate to mining reclamation and damages, deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and cash guarantees given to swap transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Group.

2.17. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts.

Payables are recorded at invoiced values and accruals are reported at expected settlement values.

2.18. Materials and Supplies

Materials and supplies are principally composed of maintenance materials and spare parts for repairs and maintenance of tangible assets. Materials and supplies are valued at actual cost using weighted average cost method. These materials are recorded in inventory when purchased and then expensed or capitalized to plant, as appropriate, when used. The Group records a provision for obsolete inventory as such items are identified. At December 31, 2013 and 2012 the provision for obsolescence amounted to CZK 459 million and CZK 355 million, respectively.

2.19. Fossil Fuel Stocks

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

2.20. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

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

a. Fair value hedge

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

b. Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement.

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

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

c. Other derivatives

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

2.21. Commodity Contracts

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

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

- A physical delivery takes place under such contracts;
- The volumes purchased or sold under the contracts correspond to the Group's operating requirements;
- The contract cannot be considered as a written option as defined by the standard IAS 39. In the specific case of electricity sales contracts, the contract is substantially equivalent to a firm forward sale or can be considered as a capacity sale.

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

Commodity contracts which fall under the scope of IAS 39 are carried at fair value with changes in the fair value recognized in the income statement. The Group presents revenues and expenses related to commodity trading net in the line Gains and losses from electricity, coal and gas derivative trading, net.

2.22. Income Taxes

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic income taxes are provided at a rate of 19% for the years ended December 31, 2013 and 2012, respectively, from income before income taxes after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate enacted for 2014 and on is 19%.

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

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities of Group companies are not offset in the balance sheet.

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

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

2.23. Long-term Debt

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

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

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

2.24. Nuclear Provisions

The Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors (see Note 18).

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

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

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

2.25. Provisions for Decommissioning and Reclamation of Mines and Mining Damages

The Group has recognized provisions for obligations to decommission and reclaim mines at the end of their operating lives (see Note 19). The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted at December 31, 2013 and 2012 using a long-term real rate of interest of 2.0% per annum, to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. At December 31, 2013 and 2012 the estimate for the effect of inflation is 1.5%.

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

2.26. Exploration for and Evaluation of Mineral Resources

Expenditures on exploration for and evaluation of mineral resources are charged to expense when incurred.

2.27. Leases

The determination of whether an arrangements is, or contains a lease is based on the substance of the arrangement at inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset. A reassessment is made after inception of the lease only if one of the following conditions applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in determination of whether fulfillment is dependent on a specified asset; or
- There is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

2.28. Treasury Shares

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

2.29. Share Options

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

2.30. Translation of Foreign Currencies

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

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

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements items of foreign subsidiaries are translated at average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate.

Exchange rates used as at December 31, 2013 and 2012 for the translation of assets and liabilities denominated in foreign currencies were as follows:

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

2.31. Non-current Assets Held for Sale

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

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

3. Property, Plant and Equipment

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

	Buildings	Plant and Equipment	Land and Other	Total 2013	Total 2012
Cost at January 1	247,726	401,654	7,377	656,757	605,063
Plant additions	8,850	12,221	150	21,221	51,699
Disposals	(867)	(1,556)	(71)	(2,494)	(12,326)
Reclassification to assets classified as held for sale	(3,905)	(7,213)	(38)	(11,156)	–
Acquisition of subsidiaries	265	63	71	399	8,759
Loss of control over subsidiary	(649)	(5,644)	(186)	(6,479)	–
Change in capitalized part of provisions	59	1,397	(451)	1,005	5,306
Reclassification and other	(25)	39	(8)	6	–
Currency translation differences	3,044	3,721	58	6,823	(1,744)
Cost at December 31	254,498	404,682	6,902	666,082	656,757
Accumulated depreciation and impairment at January 1	(98,711)	(221,029)	(834)	(320,574)	(305,813)
Depreciation	(7,082)	(19,224)	(33)	(26,339)	(26,073)
Net book value of assets disposed	(269)	(59)	–	(328)	(997)
Disposals	867	1,556	3	2,426	12,265
Reclassification to assets classified as held for sale	2,899	6,842	–	9,741	–
Loss of control over subsidiary	153	1,985	–	2,138	–
Reclassification and other	(7)	(16)	–	(23)	(8)
Impairment losses recognized	(2,361)	(3,873)	(119)	(6,353)	(505)
Impairment losses reversed	202	205	–	407	217
Currency translation differences	(862)	(1,150)	(10)	(2,022)	340
Accumulated depreciation and impairment at December 31	(105,171)	(234,763)	(993)	(340,927)	(320,574)
Net plant in service at December 31	149,327	169,919	5,909	325,155	336,183

Group's plant in service pledged as security for liabilities at December 31, 2013 and 2012 is CZK 562 million and CZK 223 million, respectively.

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

4. Investments and Other Financial Assets, Net

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

	2013	2012
Restricted debt securities available-for-sale	12,334	12,577
Restricted cash	3,164	2,504
Total restricted financial assets	15,498	15,081
Financial assets in progress, net	130	4
Debt securities held-to-maturity	105	106
Debt securities available-for-sale	633	1,719
Equity securities available-for-sale	614	651
Investment in Dalkia	3,166	3,166
Derivatives	4,551	2,769
Investment in MOL (see Note 10)	–	14,682
Other long-term receivables, net	1,096	228
Total	25,793	38,406

In January 2008 the Group acquired a 7% share in MOL. At that time the Group granted to MOL a call option, which enabled MOL to reacquire the shares in the following 3 years for the price HUF 20,000 per share. The amount paid to MOL after deduction of option premium received was EUR 560 million. The transaction was recorded as a receivable together with a written put option. In 2009 the terms of the call option were amended whereas now MOL can reacquire the shares in the period until January 2014 (see Note 35) which also resulted in the change in effective interest rate applied on recorded receivable. The purchase was originally financed through a new loan in the total amount of EUR 600 million. Within the scope of cooperation the Group together with MOL also established 50–50% joint-ventures in order to pursue jointly business opportunities and develop projects in the business of gas-fired power and heat plants in Central and South-Eastern Europe. The written put option is shown as a separate liability from derivatives in Trade and other payables (see Note 21).

Movements in impairment provisions (in CZK millions)

	2013		2012	
	Available-for-sale financial assets	Long-term receivables	Available-for-sale financial assets	Long-term receivables
Opening balance	44	–	43	16
Additions	–	768	1	–
Reversals	–	–	–	(16)
Closing balance	44	768	44	–

Debt instruments at December 31, 2013 are contracted to mature in the following periods after the balance sheet date (in CZK millions)

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 2015	361	–	106	467
Due in 2016	114	–	186	300
Due in 2017	102	105	341	548
Due in 2018	105	–	–	105
Thereafter	414	–	–	414
Total	1,096	105	633	1,834

Debt instruments at December 31, 2012 are contracted to mature in the following periods after the balance sheet date (in CZK millions)

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 2014	14,877	–	49	14,926
Due in 2015	3	–	496	499
Due in 2016	2	–	368	370
Due in 2017	6	106	806	918
Thereafter	22	–	–	22
Total	14,910	106	1,719	16,735

Debt instruments at December 31, 2013 have following effective interest rate structure (in CZK millions)

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.00%	154	–	186	340
From 2.00% to 2.99%	935	–	106	1,041
From 4.00% to 4.99%	–	105	341	446
From 5.00% to 5.99%	7	–	–	7
Total	1,096	105	633	1,834

Debt instruments at December 31, 2012 have following effective interest rate structure (in CZK millions)

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.00%	119	–	418	537
From 2.00% to 2.99%	–	–	215	215
From 3.00% to 3.99%	102	–	–	102
From 4.00% to 4.99%	–	106	1,086	1,192
From 5.00% to 5.99%	14,689	–	–	14,689
Total	14,910	106	1,719	16,735

The following table analyses the debt instruments at December 31, 2013 by currency (in CZK millions)

	CZK	EUR	USD	RON	PLN	Total
Long-term receivables	98	988	1	1	8	1,096
Debt securities held-to-maturity	105	–	–	–	–	105
Debt securities available-for-sale	633	–	–	–	–	633
Total	836	988	1	1	8	1,834

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

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

5. Intangible Assets, Net

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

	Software	Rights and Other	Goodwill	Total 2013	Total 2012
Cost at January 1	10,947	11,273	9,739	31,959	25,668
Additions	779	99	–	878	1,323
Disposals	(431)	(14)	–	(445)	(1,528)
Reclassification to assets classified as held for sale	(14)	(1)	–	(15)	–
Acquisition of subsidiaries	1	–	7	8	7,380
Loss of control over subsidiary	(5)	(83)	–	(88)	–
Impairment of goodwill	–	–	(452)	(452)	(848)
Reclassification and other	–	(4)	–	(4)	(8)
Currency translation differences	13	294	313	620	(28)
Cost at December 31	11,290	11,564	9,607	32,461	31,959
Accumulated amortization and impairment at January 1	(7,959)	(3,019)	–	(10,978)	(10,066)
Amortization	(1,127)	(478)	–	(1,605)	(1,623)
Net book value of assets disposed	(41)	–	–	(41)	(1)
Disposals	431	14	–	445	762
Reclassification to assets classified as held for sale	14	1	–	15	–
Loss of control over subsidiary	–	71	–	71	–
Impairment losses recognized	(33)	(100)	–	(133)	–
Currency translation differences	(8)	(137)	–	(145)	(50)
Accumulated amortization and impairment at December 31	(8,723)	(3,648)	–	(12,371)	(10,978)
Net intangible assets at December 31	2,567	7,916	9,607	20,090	20,981

At December 31, 2013 and 2012, intangible assets presented in the balance sheet include intangible assets in progress of CZK 708 million and CZK 623 million, respectively.

6. Impairment of Property, Plant and Equipment and Intangible Assets including Goodwill

At December 31, 2013 and 2012 goodwill allocated to cash-generating units is as follows (in CZK millions):

	2013	2012
Romanian distribution and sale	2,600	2,398
Czech distribution and sale	2,210	2,210
Energotrans	1,675	1,675
Polish power plants (ELCHO, Skawina)	1,295	1,211
ČEZ Teplárenská	727	727
Energetické centrum	396	507
Teplárna Trmice	–	325
TMK Hydroenergy Power	300	277
Other	404	409
Total carrying amount of goodwill	9,607	9,739

The following table summarizes the impairments of property, plant and equipment and intangible assets by cash-generating units in 2013 (in CZK millions):

	Impairment losses				Impairment reversals	
	Goodwill	Other intangible assets	Property, plant and equipment	Total	Property, plant and equipment	Total impairment, net
Romanian distribution and sale	–	–	77	77	(62)	15
Bulgarian distribution and sale	–	89	2,273	2,362	–	2,362
Czech distribution and sale	–	–	–	–	(55)	(55)
CCGT Počerady	–	–	1,905	1,905	–	1,905
Teplárna Trmice	325	–	–	325	–	325
Energetické centrum	111	–	–	111	–	111
Romanian wind power farms	–	–	2,946	2,946	(5)	2,941
TEC Varna	–	5	617	622	–	622
Polish power plants (ELCHO, Skawina)	–	–	130	130	–	130
Severočeské doly	–	–	33	33	(211)	(178)
ČEZ Korporátní služby	–	–	123	123	(120)	3
Other	16	52	181	249	(8)	241
Total	452	146	8,285	8,883	(461)	8,422

The following table summarizes the impairments of property, plant and equipment and intangible assets by cash-generating units in 2012 (in CZK millions):

	Impairment losses			Impairment reversals	
	Goodwill	Property, plant and equipment	Total	Property, plant and equipment	Total impairment, net
Romanian distribution and sale	788	30	818	(8)	810
Teplárna Trmice	–	18	18	–	18
Romanian wind power farms	–	5	5	–	5
TEC Varna	–	218	218	–	218
Severočeské doly	–	218	218	(80)	138
Other	60	59	119	(124)	(5)
Total	848	548	1,396	(212)	1,184

In 2013 and 2012 the Group performed impairment tests of goodwill and tests of other non-current assets where there was an indication that the carrying amounts could be impaired. Recognized impairments are mainly a result of the outlook for electricity distribution regulation and deterioration of current market conditions.

The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Values in use are determined based on cash flow budgets, which are based on the medium-term budget for a period of 5 years, which has been approved by the management and which is valid when the impairment test is performed. These budgets are based on the past experience, as well as on future market trends.

The medium-term budget is based on general economic data derived from macroeconomic and financial studies and makes assumptions primarily on the development of gross domestic product, consumer prices, interest rates and nominal wages.

The recoverable amount of Polish power plants has been determined based on a value in use calculation. Those cash flow projections are based on financial budgets approved by management covering a period until the end of useful life of power plants and discount rate of 5.6%. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The value in use calculation was also used to calculate the recoverable amount of Czech distribution and sale, Energotrans, ČEZ Teplárenská, Teplárna Trmice and Energetické centrum. Those cash flow projections are based on financial budgets approved by management covering a five-year period and discount rate of 5.1% for Energotrans, Teplárna Trmice, Energetické centrum and ČEZ Teplárenská and 5.0% for Czech distribution and sale. Cash flows beyond the five-year period for Czech distribution and sale is based on the terminal value of regulatory asset base. No growth rate is considered for cash flows beyond five-year period for Energotrans, ČEZ Teplárenská, Teplárna Trmice and Energetické centrum. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The value in use calculation was also used to calculate the recoverable amount of Romanian distribution and sale. Those cash flow projections are based on financial budgets approved by management covering a five-year period and discount rate of 8.2%. Cash flows beyond the five-year period are based on the terminal value of regulatory asset base.

The recoverable amount of TMK Hydroenergy Power has been determined based on a value in use calculation. Those cash flow projections are based on financial budgets approved by management covering a five-year period and discount rate of 7.7%. There is no growth rate considered for cash flows beyond five-year period. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The value in use calculation was also used to calculate the recoverable amount of Romanian wind power farms. Those cash flow projections are based on financial budgets approved by management covering the period of expected useful life of wind farms, considering approved renewable energy support in the form of granted green certificates and a discount rate of 8.2%. The projection of the cash flows includes assumption of partially deferred allocation of green certificates in the expected amount of 4.9 million pieces in the period from July 2013 to March 2017. The allocation is expected in the period from April 2017 to December 2020. One of the main factors influencing the value of future cash flows is the price of green certificates. Current value of the green certificate in the model is EUR 45 and expected growth for years from 2014 to 2027 is approximately 4.3%. Change of the expected growth rate by 1% will result in change of value in use by approximately CZK 230 million.

The value in use calculation was also used to calculate the recoverable amount of Bulgarian distribution and sale. Those cash flow projections are based on financial budgets approved by management covering a five-year period and discount rate of 6.7%. Cash flows beyond the five-year period do not consider any growth rate. Change of discount rate by 1% will result in change of value in use by approximately CZK 1,600 million.

The calculations of value in use for all cash-generating units are most sensitive to the following assumptions:
Gross margins – Gross margins are based on average volumes achieved in three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.
Raw materials price inflation – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is available, otherwise past actual raw material price movements have been used as an indicator of future price movements.
Discount rate – Discount rates reflect management's estimate of the risk specific to each unit. The basis used to determine the value assigned is weighted average cost of capital (WACC) of the related subsidiaries.
Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is the forecast of market and regulatory environment, where subsidiaries conduct the business.

7. Changes in the Group Structure

Acquisitions of subsidiaries from third parties in 2013

On June 28, 2013, the Group acquired 85% interest in Areál Třeboradice, a.s., which deals with the asset management of property mainly used as a reserve source of heat for Prague.

The fair values of acquired identifiable assets and liabilities as of the date of acquisition were as follows (in CZK millions):

	Areál Třeboradice
Share acquired in 2013	85%
Property, plant and equipment	399
Intangible assets	1
Cash and cash equivalents	6
Receivables, net	1
Deferred tax liability	(72)
Trade and other payables	(11)
Total net assets	**324**
Share of net assets acquired	275
Goodwill	7
Total purchase consideration	282
Less	
Cash and cash equivalents in the subsidiary acquired	(6)
Cash outflow on acquisition of the subsidiary	276

If the combination had taken place at the beginning of the year 2013, the profit for CEZ Group as of December 31, 2013 would have been CZK 35,221 million. The amount of goodwill recognized as a result of the business combination comprises the value of expected synergies arising from the acquisition.

Acquisitions of non-controlling interests from third parties in 2013

On March 19, 2013 the Group decided to acquire the non-controlling interest in company SD - KOMES, a.s. through the squeeze-out transaction which increased the ownership interest from 92.65% to 100%.

The following table summarizes the critical terms of this transaction (in CZK millions):

	SD - KOMES
Acquired share of net assets derecognized from non-controlling interests	14
Amount directly recognized in equity	–
Total purchase consideration	**14**

The following table summarizes the cash flows related to acquisitions during 2013 (in CZK millions):

Investment in subsidiaries	282
Acquisitions of non-controlling interests	14
Change in payables from acquisitions	676
Received cash and cash equivalents previously used on acquisitions in progress	(4)
Less cash acquired	(6)
Total cash outflows on acquisitions	**962**

Loss of control of subsidiary CEZ Shpërndarje Sh.A.

On January 21, 2013 the Albanian regulator decided to revoke the CEZ Shpërndarje Sh.A.'s license for the distribution and sale of electricity to tariff customers and appointed the administrator of CEZ Shpërndarje Sh.A. As a result, the Group lost control of CEZ Shpërndarje Sh.A. as of the same date. The administrator took control over the company including the decision making powers and responsibility for its operations. Both the rights of statutory bodies of CEZ Shpërndarje Sh.A. and the ČEZ shareholder rights were transferred to the administrator (see Note 33).

As a result of the loss of control, the Group has recognized the following items (in CZK millions):

Derecognized balance sheet items	
Plant in service	6,479
Less accumulated provision for depreciation	(2,138)
Net plant in service	4,341
Construction work in progress	77
Total property, plant and equipment	4,418
Intangible assets, net	26
Total non-current assets	4,444
Cash and cash equivalents	151
Receivables, net	2,699
Income tax receivable	396
Materials and supplies, net	64
Other current assets	456
Total current assets	3,766
Total assets	**8,210**
Long-term debt, net of current portion	2,114
Other long-term liabilities	2
Total long-term liabilities	2,116
Current portion of long-term debt	349
Trade and other payables	5,747
Accrued liabilities	4,253
Total current liabilities	10,349
Total liabilities	**12,465**
Net excess of derecognized liabilities over assets	**4,255**
Less	
Non-controlling interest	(1,341)
Translation differences	(229)
Recognition of provision for issued guarantee	(900)
Gain from loss of control of CEZ Shpërndarje Sh.A.	**1,785**

Cash and cash equivalents of CZK 151 million disposed of in relation to loss of control were presented in the Statement of Cash Flows in the line item Disposal of subsidiaries, associates and joint-ventures, net of cash disposed of.

Sale of subsidiary Elektrárna Chvaletice a.s.

In March 2013 ČEZ concluded an agreement to sell its 100% interest in the subsidiary Elektrárna Chvaletice a.s. which operates a coal fired power plant in East Bohemia. The sale transaction was realized on September 2, 2013.

As a result of the sale, the Group recorded the following items (in CZK millions):

Derecognized balance sheet items	
Net plant in service	1,414
Other non-current assets	14
Cash and cash equivalents	172
Receivables, net	289
Other current assets	473
Long-term debt, net of current portion	(57)
Deferred tax liability	(171)
Trade and other payables	(48)
Accrued liabilities	(166)
Net assets derecognized from balance sheet	1,920
Effect of intercompany balances	
Receivables, net	(180)
Trade and other payables	3,234
Accrued liabilities	11
Total cost of sale of the Group	4,985
Revenue on sale	7,950
Gain on sale	2,965

The following table summarizes the cash flows related to sale and loss of control of subsidiaries during 2013 (in CZK millions):

Current proceeds from the sale of the subsidiary Elektrárna Chvaletice a.s.	4,449
Cash disposed on sale	(172)
Cash disposed on loss of control	(151)
Total proceeds from disposal of subsidiaries	4,126

Acquisitions of subsidiaries from third parties in 2012

In June 2012, the Group acquired a 100% interest in Energotrans, a.s., which deals with the production and sale of electricity and supplies heat from Mělník to Prague.

The fair values of acquired identifiable assets and liabilities as of the date of acquisition were as follows (in CZK millions):

	Energotrans
Share acquired in 2012	100%
Property, plant and equipment	8,768
Investments and other financial assets	297
Intangible assets	5,706
Cash and cash equivalents	2,134
Receivables, net	1,869
Materials and supplies, net	12
Fossil fuel stocks	91
Emission rights	510
Other current assets	45
Other long-term liabilities	(6)
Deferred tax liability	(2,630)
Trade and other payables	(172)
Income tax payable	(15)
Accrued liabilities	(298)
Total net assets	16,311
Share of net assets acquired	16,311
Goodwill	1,675
Total purchase consideration	17,986
Less	
Cash and cash equivalents in the subsidiary acquired	(2,134)
Receivables from acquisition	243
Consideration paid in previous periods	(11,963)
Cash outflow on acquisition of the subsidiary	4,132

Acquisition-related costs of CZK 97 million have been recognized in the statement of income in line item Other operating expenses.

Total purchase consideration includes contingent arrangements in total amount of CZK 1,452 million related to future agreed swap of assets between the previous owner of Energotrans and the Group. The Group is obliged to pay all proceeds from the sale of 100% share in Energotrans SERVIS, a.s. to the seller of Energotrans and on the other hand, the Group is to receive proceeds from purchase of 100% share in Areál Třeboradice, a.s. The contingent arrangements have been recorded at estimated fair values of amounts to be paid or received.

From the date of acquisition, the newly acquired subsidiary has contributed the following balances to the Group's income statement for the year ended December 31, 2012 (in CZK millions):

	Energotrans
Revenues	618
Income before other income (expense) and income taxes	45
Net income	33

If the combination had taken place at the beginning of the year 2012, the profit for CEZ Group as of December 31, 2012 would have been CZK 40,598 million and revenues from continuing operations would have been CZK 216,230 million. The amount of goodwill recognized as a result of the business combination comprises the value of expected synergies arising from the acquisition.

Acquisitions of non-controlling interests from third parties in 2012

In May 2012 the Group increased its capital share in Eco-Wind Construction S.A. ("EWC") from 67% to 69.03%. In December 2012 the Group further increased its capital share in Eco-Wind Construction S.A. to 75%.

The following table summarizes the critical terms of these transactions (in CZK millions):

	EWC
Share of net assets acquired	58
Amount directly recognized in equity	303
Total purchase consideration	361

The following table summarizes the cash flows related to acquisitions during 2012 (in CZK millions):

Investment in subsidiary	6,023
Acquisitions of non-controlling interests	361
Cash outflows related to joint-ventures	809
Cash outflows on acquisitions in progress	4
Change in payables / receivables from acquisitions	260
Less cash acquired	(2,134)
Total cash outflows on acquisitions	5,323

8. Investments in Subsidiaries, Associates and Joint-ventures

The consolidated financial statements include the financial figures of ČEZ, a. s. and the subsidiaries, associates and joint-ventures listed in the following table:

Subsidiaries	Country of incorporation	% equity interest		% voting interest	
		2013	2012	2013	2012
Areál Třeboradice, a.s.	Czech Republic	85.00%	–	85.00%	–
A.E. Wind sp. z o.o.	Poland	75.00%	75.00%	100.00%	100.00%
Baltic Green I sp. z o.o.	Poland	75.00%	100.00%	100.00%	100.00%
Baltic Green II sp. z o.o.	Poland	75.00%	100.00%	100.00%	100.00%
Baltic Green III sp. z o.o.	Poland	75.00%	100.00%	100.00%	100.00%
Baltic Green IV sp. z o.o. [1)]	Poland	75.00%	75.00%	100.00%	100.00%
Bara Group OOD [2)]	Bulgaria	100.00%	–	100.00%	–
Centrum výzkumu Řež s.r.o.	Czech Republic	52.46%	52.46%	100.00%	100.00%
CEZ Bosna i Hercegovina d.o.o.	Bosnia and Herzegovina	100.00%	100.00%	100.00%	100.00%
CEZ Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Bulgarian Investments B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Deutschland GmbH	Germany	100.00%	100.00%	100.00%	100.00%
CEZ Distributie S.A.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ Elektro Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ Finance Ireland Ltd.	Ireland	100.00%	100.00%	100.00%	100.00%
CEZ Hungary Ltd.	Hungary	100.00%	100.00%	100.00%	100.00%
CEZ Chorzow B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ International Finance B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ International Finance Ireland Ltd.	Ireland	100.00%	100.00%	100.00%	100.00%
CEZ MH B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Nowa Skawina S.A. [3)]	Poland	–	100.00%	–	100.00%
CEZ Poland Distribution B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Produkty Energetyczne Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Razpredelenie Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ Romania S.A.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ RUS OOO	Russia	100.00%	100.00%	100.00%	100.00%
CEZ Shpërndarje Sh.A. [4)]	Albania	76.00%	76.00%	–	76.00%
CEZ Silesia B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Slovensko, s.r.o.	Slovakia	100.00%	100.00%	100.00%	100.00%
CEZ Srbija d.o.o.	Serbia	100.00%	100.00%	100.00%	100.00%
CEZ Towarowy Dom Maklerski sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Trade Albania Sh.P.K.	Albania	100.00%	100.00%	100.00%	100.00%
CEZ Trade Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Trade Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Trade Romania S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ Ukraine LLC	Ukraine	100.00%	100.00%	100.00%	100.00%
CEZ Vanzare S.A.	Romania	100.00%	100.00%	100.00%	100.00%
ČEZ Bohunice a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Distribuce, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Distribuční služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Energetické produkty, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Energetické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Energo, s.r.o.	Czech Republic	50.11%	50.11%	50.11%	50.11%
ČEZ ENERGOSERVIS spol. s r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ ICT Services, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Korporátní služby, s.r.o. [5)]	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Logistika, s.r.o. [6)]	Czech Republic	–	100.00%	–	100.00%
ČEZ Měření, s.r.o. [6)]	Czech Republic	–	100.00%	–	100.00%
ČEZ Nová energetika, a.s. [7)]	Czech Republic	100.00%	–	100.00%	–
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Prodej, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Teplárenská, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ECO Etropol AD	Bulgaria	100.00%	100.00%	100.00%	100.00%
Eco-Wind Construction S.A.	Poland	75.00%	75.00%	75.00%	75.00%
Elektrárna Dětmarovice, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrárna Chvaletice a.s.	Czech Republic	–	100.00%	–	100.00%
Elektrárna Mělník III, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrárna Počerady, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrárna Tisová, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Elektrociepłownia Chorzów ELCHO sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
Elektrownia Skawina S.A.	Poland	100.00%	100.00%	100.00%	100.00%
Elektrownie Wiatrowe Lubiechowo sp. z o.o.	Poland	75.00%	75.00%	100.00%	100.00%
Energetické centrum s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%

Subsidiaries	Country of incorporation	% equity interest		% voting interest	
		2013	2012	2013	2012
Energotrans, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Farma Wiatrowa Leśce sp. z o.o.	Poland	75.00%	75.00%	100.00%	100.00%
Farma Wiatrowa Wilkolaz-Bychawa sp. z o.o.	Poland	75.00%	75.00%	100.00%	100.00%
Free Energy Project Oreshets EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
MARTIA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Mega Energy sp. z o.o.	Poland	75.00%	75.00%	100.00%	100.00%
M.W. Team Invest S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
NERS d.o.o.	Bosnia and Herzegovina	51.00%	51.00%	51.00%	51.00%
Ovidiu Development S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
PPC Úžín, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
PRODECO, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Revitrans, a.s. [8)]	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - 1.strojírenská, a.s. [9)]	Czech Republic	–	100.00%	–	100.00%
SD - Kolejová doprava, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - KOMES, a.s.	Czech Republic	100.00%	92.65%	100.00%	92.65%
SD - Rekultivace, a.s. [10)]	Czech Republic	–	100.00%	–	100.00%
Severočeské doly a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Shared Services Albania Sh.A. [11)]	Albania	100.00%	100.00%	100.00%	100.00%
STE - obchodní služby spol. s r.o. v likvidaci	Czech Republic	–	100.00%	–	100.00%
ŠKODA PRAHA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA Invest s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Taidana Limited	Cyprus	100.00%	100.00%	100.00%	100.00%
TEC Varna EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
Telco Pro Services, a. s. [7)]	Czech Republic	100.00%	–	100.00%	–
Tepelné hospodářství města Ústí nad Labem s.r.o.	Czech Republic	55.83%	55.83%	55.83%	55.83%
Teplárna Trmice, a.s. [12)]	Czech Republic	–	100.00%	–	100.00%
TMK Hydroenergy Power S.R.L	Romania	100.00%	100.00%	100.00%	100.00%
Tomis Team S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
ÚJV Řež, a. s.	Czech Republic	52.46%	52.46%	52.46%	52.46%

Associates and joint-ventures	Country of incorporation	% equity interest		% voting interest	
		2013	2012	2013	2012
Akcez Enerji A.S.	Turkey	50.00%	50.00%	50.00%	50.00%
Aken B.V. in liquidation [13)]	Netherlands	37.36%	37.36%	50.00%	50.00%
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	Turkey	37.36%	33.63%	50.00%	45.00%
Akenerji Elektrik Üretim A.S.	Turkey	37.36%	37.36%	37.36%	37.36%
Akka Elektrik Üretim A.S.	Turkey	–	33.63%	–	45.00%
Akkur Enerji Üretim Ticaret ve Sanayi A.S.	Turkey	37.36%	37.15%	50.00%	49.71%
AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
AK-EL Yalova Elektrik Üretim A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
CM European Power International B.V.	Netherlands	50.00%	50.00%	50.00%	50.00%
CM European Power International s.r.o. [14)]	Slovakia	–	50.00%	–	50.00%
CM European Power Slovakia s.r.o.	Slovakia	50.00%	50.00%	50.00%	50.00%
Egemer Elektrik Üretim A.S.	Turkey	37.36%	37.36%	50.00%	50.00%
Jadrová energetická spoločnosť Slovenska, a. s.	Slovakia	49.00%	49.00%	50.00%	50.00%
JESS Invest, s. r. o.	Slovakia	49.00%	49.00%	50.00%	50.00%
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05%	51.05%	50.00%	50.00%
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	Turkey	37.36%	37.09%	50.00%	49.64%
MOL - CEZ European Power Hungary Ltd.	Hungary	50.00%	50.00%	50.00%	50.00%
Sakarya Elektrik Dagitim A.S.	Turkey	50.00%	50.00%	50.00%	50.00%
Sakarya Elektrik Perakende Sakis A.S.	Turkey	50.00%	50.00%	50.00%	50.00%

The equity interest represents effective ownership interest of the Group.

1) The former company name F.W. Tolkowiec sp. z o.o. was changed to Baltic Green IV sp. z o.o. in December 2013.
2) The share in the company was acquired in 2013, but the transaction was not a business combination.
3) The company merged with the succession company Elektrownia Skawina S.A. with the effective date of January 1, 2013.
4) The Group lost control over CEZ Shpërndarje Sh.A. on January 21, 2013.
5) The former company name ČEZ Správa majetku, s.r.o. was changed to ČEZ Korporátní služby, s.r.o. in January 2013.
6) The company merged with the succession company ČEZ Distribuční služby, s.r.o. with the effective date of January 1, 2013.
7) The company was newly established in 2013.
8) The former company name SD - Autodoprava, a.s. was changed to Revitrans, a.s. in December 2013.
9) The company merged with the succession company PRODECO, a.s. with the effective date of January 1, 2013.
10) The company merged with the succession company Revitrans, a.s. with the effective date of January 1, 2013.
11) The former company name CEZ Albania Sh.A. was changed to Shared Services Albania Sh.A. in March 2013.
12) The company merged with the succession company ČEZ, a. s. with the effective date of October 1, 2013.
13) The former company name Aken B.V. was changed to Aken B.V. in liquidation in July 2013.
14) The company merged with the succession company CM European Power Slovakia, s.r.o. with the effective date of June 1, 2013.

The following table illustrates summarized financial information of joint-ventures for the year ended December 31, 2013 (in CZK millions):

	Total current assets	Total non-current assets	Total current liabilities	Total non-current liabilities	Revenues	Expenses	Net income (loss)
Akcez Enerji A.S.	1,087	8,937	675	5,229	120	(165)	(45)
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	28	–	–	–	1	–	1
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	848	12	744	2	5,261	(5,269)	(8)
Akenerji Elektrik Üretim A.S.	4,251	15,777	1,883	7,247	3,517	(3,136)	381
Akkur Enerji Üretim Ticaret ve Sanayi A.S.	505	4,475	1,450	628	738	(1,001)	(263)
AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	589	174	10	–	39	–	39
AK-EL Yalova Elektrik Üretim A.S.	164	2	2	–	32	–	32
CM European Power International B.V.	1,688	777	807	–	–	(78)	(78)
CM European Power Slovakia s.r.o.	5,513	114	754	2,630	6,003	(5,623)	380
Egemer Elektrik Üretim A.S.	3,247	11,694	2,069	9,356	–	(801)	(801)
Jadrová energetická spoločnosť Slovenska, a. s.	2,304	3,853	11	–	21	(133)	(112)
JESS Invest, s. r. o.	34	286	3	–	–	(4)	(4)
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	444	2,594	723	2,243	393	(767)	(374)
MOL - CEZ European Power Hungary Ltd.	143	453	452	–	20	(198)	(178)
Sakarya Elektrik Dagitim A.S.	1,367	2,512	2,902	928	5,887	(5,854)	33
Sakarya Elektrik Perakende Sakis A.S.	4,250	212	2,420	567	16,026	(15,290)	736

The following table illustrates summarized financial information of joint-ventures for the year ended December 31, 2012 (in CZK millions):

	Total current assets	Total non-current assets	Total current liabilities	Total non-current liabilities	Revenues	Expenses	Net income (loss)
Akcez Enerji A.S.	550	10,281	571	5,474	1,088	–	1,088
Aken B.V. in liquidation	28	–	–	–	–	–	–
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	31	–	–	–	–	–	–
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	604	20	434	3	6,271	(6,194)	77
Akenerji Elektrik Üretim A.S.	6,263	16,271	4,168	10,242	4,331	(3,820)	511
Akka Elektrik Üretim A.S.	1	–	–	–	139	–	139
Akkur Enerji Üretim Ticaret ve Sanayi A.S.	682	5,211	2,581	1,096	583	(367)	216
AK-EL Kemah Elektrik Üretim ve Ticaret A.S.	704	126	3	–	23	–	23
AK-EL Yalova Elektrik Üretim A.S.	154	2	1	–	–	(1)	(1)
CM European Power International B.V.	1,838	800	1,042	–	–	(257)	(257)
CM European Power International s.r.o.	4	1	2	–	–	(210)	(210)
CM European Power Slovakia s.r.o.	2,756	2,580	3,590	7	3,727	(3,504)	223
Egemer Elektrik Üretim A.S.	5,081	3,382	1,771	6,010	–	(305)	(305)
Jadrová energetická spoločnosť Slovenska, a. s.	2,476	3,277	7	–	30	(96)	(66)
JESS Invest, s. r. o.	93	–	–	–	–	(5)	(5)
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	696	2,935	1,688	1,476	187	(214)	(27)
MOL - CEZ European Power Hungary Ltd.	137	619	447	–	22	(10)	12
Sakarya Elektrik Dagitim A.S.	5,387	1,942	3,893	1,249	18,937	(17,977)	960
Sakarya Elektrik Perakende Sakis A.S.	3	2	4	–	–	(2)	(2)

The associate LOMY MOŘINA spol. s r.o. is not listed on any public exchange. The following table illustrates summarized financial information of the associate for the year ended December 31, 2013 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
LOMY MOŘINA spol. s r.o.	423	56	367	222	4

The following table illustrates summarized financial information of the associate for the year ended December 31, 2012 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
LOMY MOŘINA spol. s r.o.	415	52	363	222	2

9. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2013 and 2012 is as follows (in CZK millions)

	2013	2012
Cash on hand and current accounts with banks	11,579	6,105
Short-term bank notes	856	256
Term deposits	12,683	11,596
Total	25,118	17,957

At December 31, 2013 and 2012, cash and cash equivalents included foreign currency deposits of CZK 5,811 million and CZK 6,577 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2013 and 2012 was 0.8% and 1.5%, respectively. For the years 2013 and 2012 the weighted average interest rate was 1.0% and 1.5%, respectively.

10. Receivables, Net

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

	2013	2012
Unbilled electricity supplied to retail customers	8,583	8,790
Received advances from retail customers	(7,005)	(6,023)
Unbilled supplies to retail customers, net	1,578	2,767
Trade receivables	48,035	57,962
Taxes and fees, excluding income taxes	3,105	3,657
Investment in MOL (see Note 4)	15,458	–
Other receivables	6,552	5,563
Allowance for doubtful receivables	(7,219)	(15,186)
Total	67,509	54,763

The information about receivables from related parties is included in Note 29.

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

	2013	2012
Not past due	64,580	51,521
Past due but not impaired [1]		
Less than 3 months	1,675	2,435
3–6 months	737	352
6–12 months	399	167
more than 12 months	118	288
Total	67,509	54,763

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

Movements in allowance for doubtful receivables (in CZK millions)

	2013	2012
Opening balance	15,186	15,372
Additions	4,290	4,303
Reversals	(3,082)	(4,007)
Acquisition of subsidiaries	–	4
Loss of control over subsidiary	(9,590)	–
Currency translation differences	415	(486)
Closing balance	7,219	15,186

11. Emission Rights

The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights and credits held by the Group during 2013 and 2012 (in CZK millions):

	2013		2012	
	in thousands tons	in millions CZK	in thousands tons	in millions CZK
Emission rights and credits (CERs, ERUs) granted and purchased for own use				
Granted and purchased emission rights and credits at January 1	60,281	9,374	43,656	5,257
Emission rights granted	326	–	43,079	2,099
Emission rights acquired in business combinations	–	–	2,427	510
Disposal of subsidiary	(1,776)	(143)	–	–
Settlement of prior year actual emissions	(30,440)	(2,341)	(38,148)	(2,866)
Emission rights purchased	2,492	268	8,168	4,426
Emission rights sold	(10,036)	(796)	(9,196)	(575)
Emission credits purchased	3,524	191	14,045	1,258
Emission credits sold	–	–	(3,750)	(747)
Currency translation differences	–	31	–	12
Granted and purchased emission rights and credits at December 31	24,371	6,584	60,281	9,374
Emission rights and credits held for trading				
Emission rights and credits held for trading at January 1	12,647	819	297	39
Settlement of prior year actual emissions	(4,571)	(23)	(296)	(29)
Emission rights purchased	817	236	13,232	2,677
Emission rights sold	(4,853)	(588)	(5,133)	(1,436)
Emission credits purchased	10	–	4,557	22
Emission credits sold	(5)	–	(10)	(1)
Fair value adjustment	–	(20)	–	(453)
Emission rights and credits held for trading at December 31	4,045	424	12,647	819

During 2013 and 2012 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 28,776 thousand tons and 35,011 thousand tons of CO_2, respectively. At December 31, 2013 and 2012 the Group recognized a provision for CO_2 emissions in total amount of CZK 3,920 million and CZK 3,527 million, respectively (see Notes 2.13 and 22).

At December 31, 2013 and 2012 the balance of emission rights presented in the balance sheet includes also green and similar certificates in total amount CZK 1,497 million and CZK 1,960 million, respectively.

The allocation of 2013 granted emission rights for companies in the Czech Republic in an equivalent of 18,784 thousand tons was approved by the European Union in January 2014 and this allocation was reflected when creating the provision for CO_2 emissions at December 31, 2013.

The following table shows the impact of transactions with emission rights and credits, green and similar certificates on income for the years ended December 31, 2013 and 2012 (in CZK millions):

	2013	2012
Gain on sales of granted emission rights	1,281	1,190
Net gain from trading with emission rights and credits	346	101
Gain on green and similar certificates	1,045	1,850
Net gain (loss) from derivatives	710	(783)
Creation of provisions for emission rights	(3,480)	(1,245)
Settlement of provisions for emission rights	1,116	56
Remitted emission rights	(1,074)	(240)
Fair value adjustment	(20)	(453)
Net gain (loss) related to emission rights, emission credits and green and similar certificates	(76)	476

The expense related to the gift tax on granted emission rights is included in the line Other income (expenses), net (see Notes 2.13 and 27).

12. Other Financial Assets, Net

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

	2013	2012
Debt securities held-to-maturity	16,627	10,889
Debt securities available-for-sale	49	566
Equity securities available-for-sale	278	736
Derivatives	21,446	27,285
Total	38,400	39,476

Derivatives balance comprises mainly the positive fair values of commodity trading contracts.

Short-term debt securities at December 31, 2013 have the following effective interest rate structure (in CZK millions)

	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.00%	15,623	49	15,672
From 7.00% to 7.99%	501	–	501
From 9.00% to 9.99%	503	–	503
Total	16,627	49	16,676

Short-term debt securities at December 31, 2012 have the following effective interest rate structure (in CZK millions)

	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 3.00%	10,889	462	11,351
From 4.00% to 4.99%	–	104	104
Total	10,889	566	11,455

ČEZ, a. s. concluded two put option agreements with Vršanská uhelná a.s. in March 2013. Under these contracts ČEZ, a. s. has the right to transfer 100% of the shares of its subsidiary Elektrárna Počerady, a.s. to Vršanská uhelná a.s. First option can be exercised in 2016 for cash consideration of CZK 8.5 billion less CZK 0.4 billion per each block of the power plant not modernized. Second option can be exercised in 2024 and for cash consideration of CZK 2 billion.

The contracts represent derivatives that will be settled by the delivery of unquoted equity instrument. Elektrárna Počerady, a.s. is not quoted on any market, there is no similar power plant in the Czech Republic for sale and also no similar transaction took place. There is also significant variability in the range of reasonable fair values for this equity instrument and it is difficult to reasonably assess the probabilities of various estimates. As a result the fair value cannot be reliably measured. Consequently, the put options will be measured at cost. There was no option premium paid on the options and therefore the cost of these instruments is zero.

13. Other Current Assets

The composition of other current assets at December 31, 2013 and 2012 is as follows (in CZK millions)

	2013	2012
Advances paid	2,276	1,767
Prepayments	1,135	1,556
Total	3,411	3,323

14. Equity

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

There were no changes in number of treasury shares in 2013 and 2012. Treasury shares remaining at end of period (3,875,021 pieces at December 31, 2013 and 2012) are presented at cost as a deduction from equity.

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

Capital management

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

The Group primarily monitors capital using the ratio of net debt to EBITDA. Considering the current structure and stability of cash flow of the Group, the goal is to keep this ratio below 2.3. In addition, the Group also monitors capital using a total debt to total capital ratio. The Group's policy is to keep the total debt to total capital ratio below 50% in the long term.

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets including goodwill and less gain (or loss) on sale of property, plant and equipment. The Group includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid financial assets. Highly liquid financial assets consist for capital management purposes of short-term equity and debt securities available-for-sale, short-term debt securities held-to-maturity and long-term debt securities available-for-sale. Total capital is total equity attributable to equity holders of the parent plus total debt.

The composition of EBITDA changed compared to prior year presentation and this year's EBITDA does not include impairment of property, plant and equipment and gain on sale of property, plant and equipment. Prior year figures were amended accordingly.

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

	2013	2012
Total long-term debt	196,500	188,111
Total short-term loans	2,716	4,784
Total debt	**199,216**	**192,895**
Less		
Cash and cash equivalents	(25,118)	(17,957)
Highly liquid financial assets:		
Short-term equity securities available-for-sale (Note 12)	(278)	(736)
Short-term debt securities available-for-sale (Note 12)	(49)	(566)
Short-term debt securities held-to-maturity (Note 12)	(16,627)	(10,889)
Long-term debt securities available-for-sale (Note 4)	(633)	(1,719)
Total net debt	**156,511**	**161,028**
Income before income taxes and other income (expenses)	45,755	57,083
Depreciation and amortization	27,944	27,696
Impairment of property, plant and equipment and intangible assets including goodwill	8,422	1,184
Gain on sale of property, plant and equipment (Note 25)	(67)	(145)
EBITDA	**82,054**	**85,818**
Total equity attributable to equity holders of the parent	258,076	250,235
Total debt	199,216	192,895
Total capital	**457,292**	**443,130**
Net debt to EBITDA ratio	**1.91**	**1.88**
Total debt to total capital ratio	**43.6%**	**43.5%**

15. Long-term Debt

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

	2013	2012
4.125% Eurobonds, due 2013 (EUR 372 million)	–	9,345
6.000% Eurobonds, due 2014 (EUR 600 million)	16,421	15,048
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,267	2,653
5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million)	39	34
5.750% Eurobonds, due 2015 (EUR 600 million)	16,408	15,054
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,512	1,770
5.000% Eurobonds, due 2021 (EUR 750 million)	20,480	18,804
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,364	1,253
3M Euribor + 0.36% Eurobonds, due 2014 (EUR 150 million)	4,114	3,771
4.875% Eurobonds, due 2025 (EUR 750 million)	20,469	18,755
4.500% Eurobonds, due 2020 (EUR 750 million)	20,381	18,656
2.160% Eurobonds, due 2023 (JPY 11,500 million)	2,180	2,545
4.600% Eurobonds, due 2023 (CZK 1,250 million)	1,248	1,247
3.625% Eurobonds, due 2016 (EUR 500 million)	13,653	12,493
2.150%*IRp Eurobonds, due 2021 (EUR 100 million)	2,742	2,514
4.102% Eurobonds, due 2021 (EUR 50 million)	1,366	1,252
4.250% U.S. bonds, due 2022 (USD 700 million)	13,790	13,193
5,625% U.S. bonds, due 2042 (USD 300 million)	5,900	5,649
4.375% Eurobonds, due 2042 (EUR 50 million)	1,343	1,230
4.500% Eurobonds, due 2047 (EUR 50 million)	1,343	1,230
4.383% Eurobonds, due 2047 (EUR 80 million)	2,194	2,011
3.000% Eurobonds, due 2028 (EUR 500 million)	13,492	–
4.500% registered bonds, due 2030 (EUR 40 million)	1,072	982
4.750% registered bonds, due 2023 (EUR 40 million)	1,083	991
4.700% registered bonds, due 2032 (EUR 40 million)	1,090	999
4.270% registered bonds, due 2047 (EUR 61 million)	1,643	1,506
3.550% registered bonds, due 2038 (EUR 30 million)	819	–
3.140% Debentures, due from 2016 to 2020 (CZK 650 million)	200	–
9.220% Debentures, due 2014 (CZK 2,500 million) [1]	2,500	2,499
Total bonds and debentures	171,113	155,484
Less: Current portion	(23,035)	(9,345)
Bonds and debentures, net of current portion	148,078	146,139
Long-term bank and other loans		
Less than 2.00% p. a.	24,811	28,231
2.00% to 2.99% p. a.	568	3,784
3.00% to 3.99% p. a.	8	286
4.00% to 4.99% p. a.	–	238
More than 4.99% p. a.	–	88
Total long-term bank and other loans	25,387	32,627
Less: Current portion	(5,069)	(2,660)
Long-term bank and other loans, net of current portion	20,318	29,967
Total long-term debt	196,500	188,111
Less: Current portion	(28,104)	(12,005)
Total long-term debt, net of current portion	168,396	176,106

[1] Since 2006 the interest rate has changed to consumer price index in the Czech Republic plus 4.20%. The interest rate as at December 31, 2013 and 2012 was 5.6% and 6.6%, respectively.

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

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.20.

The future maturities of long-term debt are as follows (in CZK millions)

	2013	2012
Current portion	28,104	12,005
Between 1 and 2 years	19,394	28,429
Between 2 and 3 years	16,632	18,244
Between 3 and 4 years	2,835	15,618
Between 4 and 5 years	2,784	2,975
Thereafter	126,751	110,840
Total long-term debt	196,500	188,111

The following table analyses the long-term debt at December 31, 2013 and 2012 by currency (in millions)

	2013		2012	
	Foreign currency	CZK	Foreign currency	CZK
EUR	6,063	166,270	6,225	156,489
USD	990	19,690	1,000	19,046
JPY	31,434	5,959	33,371	7,385
BGN	41	568	63	805
ALL	–	–	305	55
KRW	–	–	5,404	97
XDR	–	–	5	137
CZK	–	4,013	–	4,097
Total long-term debt		196,500		188,111

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2013 and 2012 without considering interest rate hedging (in CZK millions):

	2013	2012
Floating rate long-term debt		
with interest rate fixed for 1 month	39	73
with interest rate fixed from 1 to 3 months	7,011	8,561
with interest rate fixed from 3 months to 1 year	25,731	28,216
with interest rate fixed more than 1 year	568	805
Total floating rate long-term debt	33,349	37,655
Fixed rate long-term debt	163,151	150,456
Total long-term debt	196,500	188,111

Fixed rate long-term debt exposes the Group to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Note 16 and Note 17.

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

16. Fair Value of Financial Instruments

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

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

Cash and cash equivalents, current investments

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

Investments

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

Short-term receivables and payables

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

Short-term loans

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

Long-term debt

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

Derivatives

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

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

		2013		2012	
	Category	Carrying amount	Fair value	Carrying amount	Fair value
ASSETS					
Investments					
Restricted debt securities available-for-sale	AFS	12,334	12,334	12,577	12,577
Restricted cash	LaR	3,164	3,164	2,504	2,504
Financial assets in progress	LaR	130	130	4	4
Debt securities held-to-maturity	HTM	105	118	106	123
Debt securities available-for-sale	AFS	633	633	1,719	1,719
Equity securities available-for-sale	AFS	3,780	3,780	3,817	3,817
Long-term receivables	LaR	1,096	1,096	14,910	15,492
Current assets					
Receivables	LaR	64,404	64,404	51,106	51,106
Cash and cash equivalents	LaR	25,118	25,118	17,957	17,957
Debt securities held-to-maturity	HTM	16,627	16,627	10,889	10,889
Debt securities available-for-sale	AFS	49	49	566	566
Equity securities available-for-sale	AFS	278	278	736	736
Other current assets	LaR	2,276	2,276	1,767	1,767
LIABILITIES					
Long-term debt	AC	(196,500)	(209,480)	(188,111)	(209,246)
Short-term loans	AC	(2,716)	(2,716)	(4,784)	(4,784)
Accounts payable	AC	(43,454)	(43,454)	(49,586)	(49,586)
DERIVATIVES					
Cash flow hedges					
Short-term receivables	HFT	6	6	21	21
Long-term receivables	HFT	3,933	3,933	2,499	2,499
Short-term liabilities	HFT	(84)	(84)	(287)	(287)
Long-term liabilities	HFT	(4,799)	(4,799)	(1,868)	(1,868)
Total cash flow hedges		(944)	(944)	365	365
Electricity, coal and gas trading contracts					
Short-term receivables	HFT	19,639	19,639	26,227	26,227
Short-term liabilities	HFT	(14,020)	(14,020)	(19,387)	(19,387)
Total electricity, coal and gas trading contracts		5,619	5,619	6,840	6,840
Other derivatives					
Short-term receivables	HFT	1,801	1,801	1,037	1,037
Long-term receivables	HFT	618	618	270	270
Short-term liabilities	HFT	(5,865)	(5,865)	(4,007)	(4,007)
Long-term liabilities	HFT	(1,501)	(1,501)	(1,350)	(1,350)
Total other derivatives		(4,947)	(4,947)	(4,050)	(4,050)

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

Fair Value Hierarchy

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

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

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

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

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

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

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	19,639	245	19,394	–
Cash flow hedges	3,939	141	3,798	–
Other derivatives	2,419	322	2,097	–
Available-for-sale restricted debt securities	12,334	12,334	–	–
Available-for-sale debt securities	682	682	–	–
Available-for-sale equity securities*	649	649	–	–

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(14,020)	(58)	(13,962)	–
Cash flow hedges	(4,883)	(332)	(4,551)	–
Other derivatives	(7,366)	(66)	(7,300)	–

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

Assets measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	26,227	133	26,094	–
Cash flow hedges	2,520	1	2,519	–
Other derivatives	1,307	563	744	–
Available-for-sale restricted debt securities	12,577	12,577	–	–
Available-for-sale debt securities	2,285	2,285	–	–
Available-for-sale equity securities*	770	770	–	–

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(19,387)	(232)	(19,155)	–
Cash flow hedges	(2,155)	(97)	(2,058)	–
Other derivatives	(5,357)	(51)	(5,306)	–

* Most of the available-for-sale equity securities are carried at cost as the fair value cannot be reliably measured.

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

Offsetting of Financial Instruments

The following table shows the recognized financial instruments that are offset, or subject to enforceable master netting agreement or other similar agreements but not offset, as of December 31, 2013 and 2012 (in CZK millions):

	2013		2012	
	Financial asset	Financial liability	Financial asset	Financial liability
Derivatives	25,997	(26,269)	30,054	(26,899)
Other financial instruments*	25,076	(19,538)	27,597	(24,837)
Collaterals paid (received)**	3,137	(400)	512	(104)
Gross financial assets / liabilities	**54,210**	**(46,207)**	**58,163**	**(51,840)**
Assets / liabilities set off under IAS 32	–	–	–	–
Amounts presented in the balance sheet	**54,210**	**(46,207)**	**58,163**	**(51,840)**
Effect of master netting agreement	(35,932)	35,932	(42,340)	42,340
Net amount after master netting agreement	**18,278**	**(10,275)**	**15,823**	**(9,500)**

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

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

The information about offset of unbilled electricity supplied to retail customers with advances received is included in Note 10 and 21.

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

17. Financial Risk Management

Risk management approach

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

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

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

Since 2009 the main Business Plan market risks are quantified (EBITDA@Risk based on MonteCarlo simulation in Y+1 to Y+5 horizon). The market risks are actively managed through gradual electricity sales and emission allowances' purchases in the following 6-year horizon, closing long-term contracts for electricity sale and emission allowances purchase and the FX and IR risk hedging in medium-term horizon. In Business Plan horizon, the risk management is also based on Debt Capacity concept which enables to assess the impact of main Investment and other Activities (incl. the risk characteristics), on expected cash flow and total debt in order to maintain corporate rating. Risks of Investment Projects are also managed and monitored based on unified quantification of all kinds of risk according to Group methodology.

Risk management organization

The supreme authority for risk management in the Group is the Risk Management Committee (the ČEZ, a. s. CEO's committee). Except for approval of the aggregate annual budget risk limit (Profit@Risk) within the competence of the ČEZ, a. s. Board of Directors, the Risk Management Committee makes decisions on the development of an integrated system of risk management, makes decisions on an overall allocation of risk capital to the individual risks and organizational units, approves obligatory rules, responsibilities and limit structure for the management of partial risks, and it continuously monitors an overall risk impact on the Group, including Group risk limits utilization, status of risks linked to Business Plan horizon, hedging strategies status, assessment of impact of Investment and other Activities on potential Group debt capacity and cash flow in order to maintain corporate rating.

Overview and methods of risk management

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

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

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

For all risks quantified on a unified basis, a partial risk limit is set whose continuous utilization is evaluated at least once a month and is usually defined as a sum of the actually expected deviation of expected annual profit from the plan and the potential risk of loss on a 95% confidence. The Group's methodologies and data provide for a unified quantification of the following risks:
- Market risks: financial (currency, interest and stock price) risks, commodity prices (electricity, emission allowances, coal, gas, crude oil), volume (volume of electricity produced by wind power plants)
- Credit risks: financial and business counterparty risk and electricity, gas and heat end customer risk
- Operational risks: risks of nuclear and fossil power plants operation in the Czech Republic, investment risks.

The development of the Group's quantified risks is reported to the Risk Management Committee every month through 3 regular reports:
- Annual budget risks (annual Profit@Risk limit utilization)
- Business plan risks (EBITDA@Risk based on MonteCarlo simulation)
- Debt capacity (actual deviation from the optimal debt within 5 years horizon, derived from rating agency requirements on debt indicators in order to preserve the ČEZ rating).

17.1. Qualitative description of risks associated with financial instruments

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

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

Credit risks
With respect to the Group's activities managed on a centralized level, credit exposures of individual financial partners and wholesale partners are managed in accordance with individual credit limits. The individual limits are set and continuously updated according to the counterparty's credibility (in accordance with international rating and internal financial evaluation of counterparties with no international rating).

With respect to the electricity sales to end customers in the Czech Republic, the actual credibility is monitored for each business partner based on payment history (in addition, the financial standing is considered for selected partners). This credibility determines the payment conditions of partners (i.e. it indirectly determines an amount of an approved credit exposure) and also serves to quantify both the expected and the potential losses.

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

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

17.2. Quantitative description of risks associated with financial instruments

Commodity risks

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

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

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

	2013	2012
Monthly VaR (95%) – impact of changes in commodity prices	673	556

Currency risks

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

- the indicator of currency risk is defined as the monthly parametric VaR (95% confidence)
- for the calculation of volatility and internal correlations of each currency, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant currency position is defined as a discounted value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs expected in 2014 and from highly probable forecasted foreign currency revenues, costs or capital expenditures that are being hedged by financial instruments
- the relevant currency positions reflect all significant foreign-currency flows of the Group companies in the monitored basket of foreign currencies
- the source of market FX and interest rate data is mainly IS Reuters and IS Bloomberg.

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

	2013	2012
Monthly currency VaR (95% confidence)	1,289	1,205

Interest risks

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

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

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

	2013	2012
IR sensitivity* to parallel yield curve shift (+10bp)	(16)	(27)

* Negative result denotes higher increase in interest costs than in interest revenues.

Stock price risks

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

- monthly parametric VaR (95% confidence) was selected as the indicator of stock price risk
- the relevant stock position is defined as market value of stocks/stock options as at December 31
- the relevant stock positions reflect all significant stock-sensitive deals of the CEZ Group companies
- the relevant volatility and standard deviation is determined from risk module IS Bloomberg
- the source of market data is IS Bloomberg and ČNB data.

Potential impact of the stock price risk as at December 31 (in CZK millions)

	2013	2012
Monthly stock VaR (95% confidence)	1,027	1,561

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

	2013	2012
Guarantees provided to joint ventures	* 3,648	4,497

* Some of the guarantees could be called until August 2021 at the latest.

Liquidity risk

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

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives*	Guarantees issued**
Due in 2014	7,586	30,835	43,542	326,257	3,648
Due in 2015	3,046	23,295	1,952	58,288	–
Due in 2016	3,022	19,610	106	21,028	–
Due in 2017	2,854	5,508	11	5,326	–
Due in 2018	2,798	5,508	–	5,726	–
Thereafter	8,939	163,964	–	69,611	–
Total	28,245	248,720	45,611	486,236	3,648

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

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives*	Guarantees issued**
Due in 2013	7,748	16,582	49,772	268,921	4,497
Due in 2014	7,409	28,161	182	43,977	–
Due in 2015	3,452	20,810	146	18,194	–
Due in 2016	3,354	17,382	88	155,554	–
Due in 2017	3,171	4,434	8	2,480	–
Thereafter	14,235	134,775	–	68,957	–
Total	39,369	222,144	50,196	558,083	4,497

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Group will receive corresponding consideration. For fair values of derivatives see Note 16.
** Maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

17.3. Hedge accounting

The Group enters into cash flow hedges of future highly probable cash inflows from the sales denominated in EUR against the currency risk. The hedged cash flows are expected to occur in the period from 2014 to 2018. The hedging instruments as at December 31, 2013 and 2012 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 5.0 billion and EUR 5.3 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK (4,550) million and CZK (1,776) million at December 31, 2013 and 2012, respectively.

The Group enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur in the period from 2014 to 2016. The hedging instruments as at December 31, 2013 and 2012 are the futures and forward contracts for the purchase of allowances equivalent to 12.5 million tons and 2.9 million tons of CO_2 emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (273) million and CZK (98) million at December 31, 2013 and 2012, respectively.

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

In 2013 and 2012 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the lines Sales of electricity and related services, Gains and losses from electricity, coal and gas derivative trading, net, Emission rights, net and Other income (expenses), net. In 2013 and 2012 the Group recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (126) million and CZK (778) million, respectively. The ineffectiveness in 2013 and 2012 mainly relates to transactions for which the hedged items are no more highly probable to occur.

18. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of four units which were put into service from 1985 to 1987 and have been refurbished and enhanced later. The second nuclear power plant, Temelín, has two units which have started commercial operation in 2002 and 2003. The Czech parliament has enacted a Nuclear Act ("Act") which defines certain obligations for the decontamination and dismantling ("decommissioning") of nuclear facilities and the disposal of radioactive waste and spent fuel ("disposal"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. A 2013 Dukovany and a 2009 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 22.4 billion and CZK 14.6 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet as part of Investments and other financial assets, net (see Note 4).

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

The Group has established provisions as described in Note 2.24, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2013 and 2012 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommissioning	Spent fuel storage		Total
		Interim	Long-term	
Balance at December 31, 2011	9,183	6,430	21,672	37,285
Movements during 2012				
Discount accretion and effect of inflation	414	289	976	1,679
Provision charged to income statement	12	453	–	465
Effect of change in estimate charged to income statement	–	364	–	364
Effect of change in estimate added to fixed assets (Note 2.24)	2,432	–	2,451	4,883
Current cash expenditures	(3)	(742)	(1,516)	(2,261)
Balance at December 31, 2012	12,038	6,794	23,583	42,415
Movements during 2013				
Discount accretion and effect of inflation	421	238	825	1,484
Provision charged to income statement	–	460	–	460
Effect of change in estimate charged to income statement	–	249	–	249
Effect of change in estimate added to fixed assets (Note 2.24)	1,295	–	19	1,314
Current cash expenditures	(8)	(550)	(1,537)	(2,095)
Balance at December 31, 2013	13,746	7,191	22,890	43,827

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

In 2013 the Group recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage costs, the change in estimate in provision for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Dukovany and the change in long-term spent fuel storage due to the modification of the expected output of the nuclear power plants.

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

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

19. Other Long-term Liabilities

Other long-term liabilities at December 31, 2013 and 2012 are as follows (in CZK millions):

	2013	2012
Provision for decommissioning and reclamation of mines and mining damages	6,561	6,915
Provision for waste storage reclamation	1,518	1,739
Other long-term provisions	1,393	826
Deferred connection fees	6,131	6,674
Derivatives	6,300	3,218
Other	4,945	3,187
Total	26,848	22,559

The following table shows the movements of provisions for the years ended December 31, 2013 and 2012 (in CZK millions):

	Mine reclamation and damages	Waste storage
Balance at December 31, 2011	6,473	1,909
Movements during 2012		
Discount accretion and effect of inflation	280	79
Provision charged to income statement	75	–
Effect of change in estimate added to (deducted from) fixed assets (Note 2.25)	336	(21)
Current cash expenditures	(249)	(228)
Balance at December 31, 2012	6,915	1,739
Movements during 2013		
Discount accretion and effect of inflation	234	56
Provision charged to income statement	86	–
Effect of change in estimate deducted from fixed assets (Note 2.25)	(451)	(73)
Disposal of subsidiary	–	(21)
Reversal of provision	–	(140)
Current cash expenditures	(223)	(43)
Balance at December 31, 2013	6,561	1,518

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ. Severočeské doly a.s. operates an open pit coal mine and is responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. These provisions have been calculated using the best estimates of the expenditures required to settle the present obligation at the balance sheet date. Current cash expenditures represent cash payments for current reclamation of mining area and settlement of mining damages. Change in estimate represents change in provision as result of updated cost estimates in the current period, mainly due to changes in expected prices of reclamation activities.

20. Short-term Loans

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

	2013	2012
Short-term bank loans	1,965	4,304
Short-term debentures	274	–
Bank overdrafts	477	480
Total	2,716	4,784

Interest on short-term loans is variable. The weighted average interest rate was 0.6% and 0.7% at December 31, 2013 and 2012, respectively. For the years 2013 and 2012 the weighted average interest rate was 1.9% and 1.7%, respectively.

21. Trade and Other Payables

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

	2013	2012
Advances received from retail customers	14,457	13,978
Unbilled electricity supplied to retail customers	(10,329)	(11,283)
Received advances from retail customers, net	4,128	2,695
Trade payables	36,164	43,724
Fair value of option (see Note 4)	5,238	3,520
Derivatives	14,731	20,161
Other	3,162	3,167
Total	63,423	73,267

The information about payables to related parties is included in Note 29.

22. Accrued Liabilities

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

	2013	2012
Provision for CO_2 emissions	3,920	3,527
Other provisions	2,024	4,237
Accrued interest	3,741	3,341
Taxes and fees, except income tax	1,804	1,011
Unbilled goods and services	11,353	14,470
Contingent liabilities from acquisitions	89	163
Deferred variation margin on “own use” electricity futures	436	220
Deferred income	281	204
Other	106	99
Total	23,754	27,272

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

23. Revenues

The composition of revenues for the years ended December 31, 2013 and 2012 is as follows (in CZK millions)

	2013	2012
Sales of electricity and related services		
Sales of electricity to end customers	52,560	61,128
Sales of electricity through energy exchange	2,036	2,013
Sales of electricity to traders	38,170	42,511
Sales to distribution and transmission companies	743	1,308
Other sales of electricity	17,396	7,848
Effect of hedging (see Note 17.3)	2,627	1,921
Sales of ancillary, system, distribution and other services	76,125	70,068
Total sales of electricity and related services	189,657	186,797
Electricity, coal and gas derivative trading		
Sales	215,233	265,674
Purchases	(207,948)	(262,759)
Effect of hedging (see Note 17.3)	13	297
Changes in fair value of commodity derivatives	(5,719)	1,376
Total gains and losses from electricity, coal and gas derivative trading, net	1,579	4,588
Sales of gas, coal, heat and other revenues		
Sales of gas	7,213	6,342
Sales of coal	4,931	4,445
Sales of heat	6,883	5,371
Other	7,010	7,552
Total sales of gas, coal, heat and other revenues	26,037	23,710
Total revenues	217,273	215,095

24. Salaries and Wages

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

	2013		2012	
	Total	Key management personnel [1)]	Total	Key management personnel [1)]
Salaries and wages	(12,987)	(256)	(13,197)	(235)
Remuneration of the board members, including royalties	(127)	(35)	(145)	(39)
Share options	(33)	(33)	(75)	(75)
Social and health security	(4,185)	(47)	(4,045)	(29)
Other personal expenses	(1,398)	(25)	(1,245)	(26)
Total	(18,730)	(396)	(18,707)	(404)

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

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

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

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

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

	Number of share options			
	Board of Directors ’000s	Selected managers ’000s	Total ’000s	Weighted average exercise price (CZK per share)
Share options at December 31, 2011	1,903	760	2,663	1,011.70
Options granted	664	256	920	727.80
Options forfeited	(910)	(230)	(1,140)	1,122.90
Share options at December 31, 2012 [1)]	1,657	786	2,443	852.85
Options granted	550	295	845	559.43
Options forfeited	(585)	(315)	(900)	970.06
Share options at December 31, 2013 [1)]	1,622	766	2,388	704.84

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

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

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

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

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

As at December 31, 2013 and 2012 the exercise prices of outstanding options were in the following ranges (in thousand pieces):

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

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

25. Other Operating Expenses

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

	2013	2012
Services	(12,418)	(12,922)
Travel expenses	(206)	(220)
Gain on sale of property, plant and equipment	67	145
Gain on sale of material	209	156
Capitalization of expenses to the cost of assets and change in own inventory	4,989	5,575
Fines, penalties and penalty interest, net	873	929
Change in provisions and valuation allowances	1,763	560
Taxes and fees	(3,057)	(2,974)
Write-off of bad debts and cancelled investment	(2,179)	(1,199)
Gifts	(408)	(460)
Other, net	(1,900)	(2,385)
Total	(12,267)	(12,795)

Taxes and fees include the contributions to the nuclear account (see Note 18). The settlement of the provision for long-term spent fuel storage is accounted for at the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions and valuation allowances.

26. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2013 and 2012 is as follows (in CZK millions)

	2013	2012
Loans and receivables	797	949
Held-to-maturity investments	139	114
Available-for-sale investments	292	318
Bank accounts	211	364
Total	1,439	1,745

27. Other Income (Expenses), Net

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

	2013	2012
Derivative losses, net	(1,333)	(858)
Gains on sales of available-for-sale financial assets	405	88
Change in impairment of financial investments	(130)	(5)
Gift tax on emission allowances	(179)	(1,852)
Other, net	15	(89)
Total	(1,222)	(2,716)

28. Income Taxes

Companies resident in the Czech Republic calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2013 and 2012. The Czech corporate income tax rate enacted for 2014 and on is 19%. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have a potential effect on reported income.

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

	2013	2012
Current income tax charge	(9,455)	(10,316)
Adjustments in respect of current income tax of previous periods	21	(8)
Deferred income taxes	228	(480)
Total	(9,206)	(10,804)

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

	2013	2012
Income before income taxes	44,440	50,957
Statutory income tax rate in Czech Republic	19%	19%
"Expected" income tax expense	(8,444)	(9,682)
Tax effect of		
Change in tax rates and laws	(67)	(12)
Gain (loss) from derivatives	(265)	129
Non-deductible expenses related to shareholdings	(27)	(27)
Goodwill and other non-current assets impairment	(549)	(137)
Other non-deductible items, net	(732)	(358)
Non-deductible share based payment expense	(6)	(14)
Gift tax on emission allowances	(34)	(430)
Profit (loss) from associates and joint-ventures	(191)	91
Income already taxed or exempt	347	162
Tax credits	12	5
Gain on sale and loss of control over subsidiary	902	–
Adjustments in respect of current income tax of previous periods	21	(8)
Effect of different tax rate in other countries	(253)	(528)
Change in unrecorded deferred tax receivables	80	5
Income taxes	(9,206)	(10,804)
Effective tax rate	21%	21%

Deferred income taxes, net, at December 31, 2013 and 2012 consist of the following (in CZK millions)

	2013	2012
Accumulated provision for nuclear decommissioning and spent fuel storage	6,847	6,649
Financial statement depreciation in excess of tax depreciation	318	146
Revaluation of financial instruments	2,039	23
Allowances	1,162	986
Other provisions	2,293	1,840
Tax loss carry forwards	220	201
Other temporary differences	556	480
Unrecorded deferred tax asset	(70)	(361)
Total deferred tax assets	13,365	9,964
Tax depreciation in excess of financial statement depreciation	(29,549)	(28,843)
Revaluation of financial instruments	(247)	(820)
Other provisions	(805)	(706)
Penalty receivables	(165)	(95)
Other temporary differences	(999)	(578)
Total deferred tax liability	(31,765)	(31,042)
Total deferred tax liability, net	(18,400)	(21,078)
Reflected in the balance sheet as follows		
Deferred tax assets	824	750
Deferred tax liability	(19,224)	(21,828)
Total deferred tax liability, net	(18,400)	(21,078)

Movements in net deferred tax liability, net, in 2013 and 2012 were as follows (in CZK millions)

	2013	2012
Opening balance	21,078	16,200
Deferred tax recognized in profit or loss	(228)	480
Deferred tax charged directly to equity	(2,517)	1,706
Sale of subsidiaries	(171)	–
Acquisition of subsidiaries	72	2,630
Currency translation differences	166	62
Closing balance	18,400	21,078

At December 31, 2013 and 2012 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 42,847 million and CZK 27,936 million, respectively.

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

	2013			2012		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Change in fair value of cash flow hedges recognized in equity	(9,543)	1,810	(7,733)	7,935	(1,500)	6,435
Cash flow hedges removed from equity	(3,018)	574	(2,444)	(127)	24	(103)
Change in fair value of available-for-sale financial assets recognized in equity	(588)	113	(475)	1,302	(248)	1,054
Available-for-sale financial assets removed from equity	(77)	19	(58)	(76)	18	(58)
Translation differences	3,910	–	3,910	(1,436)	–	(1,436)
Translation differences removed from equity	229	–	229	–	–	–
Share on equity movements of associates and joint-ventures	85	–	85	(82)	–	(82)
Re-measurement losses on defined benefit plans	(33)	1	(32)	–	–	–
Total	(9,035)	2,517	(6,518)	7,516	(1,706)	5,810

29. Related Parties

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

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

	Receivables		Payables	
	2013	2012	2013	2012
Akcez Enerji A.S.	104	89	–	33
Akenerji Elektrik Üretim A.S.	19	22	–	648
CM European Power International B.V.	401	520	–	–
CM European Power Slovakia s.r.o.	642	698	–	–
LOMY MOŘINA spol. s r.o.	3	3	23	13
SINIT,a.s.	1	21	10	14
TI ENERGO, s.r.o.	38	38	5	1
Výzkumný a zkušební ústav Plzeň s.r.o.	–	–	10	22
Others	32	16	60	60
Total	1,240	1,407	108	791

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (in CZK millions)

	Sales to related parties		Purchases from related parties	
	2013	2012	2013	2012
Akcez Enerji A.S.	32	34	–	–
Akenerji Elektrik Üretim A.S.	70	90	–	–
In PROJEKT LOUNY ENGINEERING s.r.o.	30	–	45	3
LOMY MOŘINA spol. s r.o.	31	29	179	178
OSC, a.s.	–	–	99	108
SINIT,a.s.	5	5	87	41
TI ENERGO, s.r.o.	39	4	15	5
Ústav aplikované mechaniky Brno, s.r.o.	7	7	40	28
Others	121	134	75	98
Total	335	303	540	461

Information about compensation of key management personnel is included in Note 24.

30. Segment Information

The Group reports its result based on operating segments which are defined with respect to geographical location of the assets with similar economic environment and characteristics, e.g. similar long term average gross margins, similar nature of the products and services and with regard to regulatory environment.

According to geographical location, the Group distinguishes the following two regions that in combination with products and services form the reportable segments: Central Europe (CE) and South East Europe (SEE). The Central Europe region includes the Czech Republic, the Netherlands, Poland, Germany, Hungary, Ireland and Slovakia except for the Dutch company Aken B.V. in liquidation which is included in the South East Europe region. The South East Europe region consists of the operations of the Group in Bulgaria, Romania, Turkey, Albania, Cyprus, Serbia, Kosovo, Bosnia and Herzegovina, Russia and the Ukraine except for trading operations that are provided at the Group headquarters and therefore presented in the Central Europe region.

According to nature of the products and services the Group distinguishes four categories as follows:
(1) The power production and trading which includes production of electricity and heat and the commodity trading activities of the Group;
(2) The distribution and sale which sells electricity to end customers through the power distribution grid and provides power distribution services;
(3) The mining that produces coal and limestone used by the power production business operations or sold to third parties; and
(4) The other business activities.

The Group has seven reportable segments as a result of the combination of geographical location and nature of products and services as follows:
- Power Production and Trading / Central Europe
- Distribution and Sale / Central Europe
- Mining / Central Europe
- Other / Central Europe
- Power Production and Trading / South East Europe
- Distribution and Sale / South East Europe
- Other / South East Europe

The accounting policies of the operating segments are the same as those described in Note 2. The Group accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices or where the regulation applies at regulated prices. The Group evaluates the performance of its segments based on EBITDA (see Note 14).

The following tables summarize segment information by operating segments for the years ended December 31, 2013 and 2012 (in CZK millions):

Year 2013

	Power Production and Trading CE	Distribution and Sale CE	Mining CE	Other CE	Power Production and Trading SEE	Distribution and Sale SEE	Other SEE	Combined	Elimination	Consolidated
Sales other than intersegment sales	63,904	112,379	5,145	2,787	1,026	32,006	26	217,273	–	217,273
Intersegment sales	43,152	4,245	6,466	39,371	1,724	770	2,475	98,203	(98,203)	–
Total revenues	**107,056**	**116,624**	**11,611**	**42,158**	**2,750**	**32,776**	**2,501**	**315,476**	**(98,203)**	**217,273**
EBITDA	46,859	19,478	5,090	5,357	2,021	2,968	155	81,928	126	82,054
Depreciation and amortization	(16,496)	(3,620)	(2,431)	(2,094)	(1,438)	(1,796)	(69)	(27,944)	–	(27,944)
Impairment of property, plant and equipment and intangible assets including goodwill	(2,612)	55	179	(75)	(3,572)	(2,378)	(19)	(8,422)	–	(8,422)
EBIT	27,764	15,919	2,951	3,256	(2,989)	(1,188)	67	45,780	(25)	45,755
Interest on debt and provisions	(6,219)	(389)	(239)	(20)	(582)	(30)	(47)	(7,526)	1,155	(6,371)
Interest income	2,160	8	257	9	19	104	37	2,594	(1,155)	1,439
Gain on loss of control over subsidiary	–	–	–	–	–	1,785	–	1,785	–	1,785
Share of profit (loss) from associates and joint-ventures	(144)	–	2	–	(501)	(338)	–	(981)	–	(981)
Income taxes	(5,083)	(2,846)	(594)	(700)	36	(8)	(17)	(9,212)	6	(9,206)
Net income	31,103	12,717	2,933	2,590	(4,529)	336	53	45,203	(9,969)	35,234
Identifiable assets	267,536	76,444	20,962	11,066	28,405	24,530	103	429,046	(2,486)	426,560
Investment in associates and joint-ventures	4,522	–	187	–	5,022	2,812	–	12,543	–	12,543
Unallocated assets										202,033
Total assets										**641,136**
Capital expenditure	29,058	7,693	2,438	23,029	556	2,961	1,071	66,806	(22,736)	44,070
Average number of employees	7,484	1,476	3,257	8,929	443	3,998	1,159	26,746	–	26,746

Year 2012

	Power Production and Trading CE	Distri-bution and Sale CE	Mining CE	Other CE	Power Production and Trading SEE	Distri-bution and Sale SEE	Other SEE	Combined	Elimina-tion	Consoli-dated
Sales other than intersegment sales	68,224	101,010	4,632	3,170	2,243	35,799	17	215,095	–	215,095
Intersegment sales	47,651	5,884	5,905	39,171	1,184	847	2,304	102,946	(102,946)	–
Total revenues	**115,875**	**106,894**	**10,537**	**42,341**	**3,427**	**36,646**	**2,321**	**318,041**	**(102,946)**	**215,095**
EBITDA	56,987	17,596	4,551	5,575	2,966	(1,773)	154	86,056	(238)	85,818
Depreciation and amortization	(16,223)	(3,585)	(2,137)	(2,256)	(1,103)	(2,328)	(64)	(27,696)	–	(27,696)
Impairment of property, plant and equipment and intangible assets including goodwill	(116)	2	(138)	100	(222)	(810)	–	(1,184)	–	(1,184)
EBIT	40,754	14,019	2,255	3,452	1,640	(4,889)	90	57,321	(238)	57,083
Interest on debt and provisions	(6,197)	(297)	(295)	(14)	(502)	(166)	(26)	(7,497)	1,128	(6,369)
Interest income	2,272	18	388	19	25	144	7	2,873	(1,128)	1,745
Share of profit (loss) from associates and joint-ventures	(104)	–	27	–	171	357	–	451	–	451
Income taxes	(7,032)	(2,577)	(443)	(718)	(60)	(3)	(11)	(10,844)	40	(10,804)
Net income	41,235	11,111	2,502	2,676	603	(4,562)	92	53,657	(13,504)	40,153
Identifiable assets	258,548	72,390	21,838	13,366	30,391	28,027	76	424,636	(4,882)	419,754
Investment in associates and joint-ventures	4,243	–	185	–	6,413	3,542	–	14,383	–	14,383
Unallocated assets										201,933
Total assets										**636,070**
Capital expenditure	26,103	8,304	3,741	23,289	6,947	3,151	973	72,508	(22,059)	50,449
Average number of employees	7,668	1,459	3,454	8,467	526	8,484	1,214	31,272	–	31,272

Prices in certain intersegment transactions are regulated by the Energy Regulatory Office (see Note 1).

The following table shows the split of revenues according to the location of the entity where the revenues are originated (in CZK million):

	2013	2012
Czech Republic	173,500	165,833
Bulgaria	22,165	21,034
Romania	11,097	10,473
Poland	3,965	3,270
Albania	24	6,553
Other	6,522	7,932
Total revenues	217,273	215,095

The following table shows the split of property, plant and equipment according to the location of entity which they belong to at December 31, 2013 and 2012 (in CZK million):

	2013	2012
Czech Republic	364,239	352,014
Bulgaria	12,348	13,629
Romania	40,685	40,438
Poland	9,283	9,244
Albania	–	4,423
Other	5	6
Total property, plant and equipment	426,560	419,754

31. Net Income per Share

	2013	2012
Numerator (CZK millions)		
Basic and diluted		
Net income attributable to equity holders of the parent	35,885	41,429
Denominator (thousands shares)		
Basic		
Weighted average shares outstanding	534,115	534,115
Dilutive effect of share options	7	11
Diluted		
Adjusted weighted average shares	534,122	534,126
Net income per share (CZK per share)		
Basic	67.2	77.6
Diluted	67.2	77.6

32. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2013 to total CZK 165.8 billion over the next five years, as follows: CZK 43.7 billion in 2014, CZK 31.5 billion in 2015, CZK 31.1 billion in 2016, CZK 28.8 billion in 2017 and CZK 30.7 billion in 2018. These figures do not include the expected acquisitions of subsidiaries, associates and joint-ventures, which will depend on the number of future investment opportunities, for which the Group will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2013 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

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

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

33. Situation in Albania

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

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

The consolidated financial statements of the CEZ Group as at December 31, 2012 and for the year then ended include the following figures with respect to CEZ SH (in CZK million):

Balance Sheet	
Assets	8,210
Liabilities	(12,465)
Equity attributable to equity holders of the parent	(2,914)
of which translation differences	(229)
Non-controlling interest	(1,341)
Total equity	(4,255)
Statement of Income	
Loss attributable to equity holders of the parent	(4,919)
Loss attributable to non-controlling interest	(1,553)
Total loss	(6,472)

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

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

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

34. Legal Disputes

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

35. Events after the Balance Sheet Date

The call option to buy the MOL's shares was not exercised by MOL and the option period lapsed on January 23, 2014 (see Note 4).

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

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

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

Independent Auditor's Report

To the Shareholders of ČEZ, a. s.:

We have audited the accompanying financial statements of ČEZ, a. s., which comprise the balance sheet as at December 31, 2013, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. For details of ČEZ, a. s., see Note 1 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Building a better working world

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČEZ, a. s. as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Ernst & Young

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

Skácelík

Martin Skácelík
Auditor, License No. 2119

February 24, 2014
Prague, Czech Republic

ČEZ, a. s.
Balance Sheet in Accordance with IFRS as of December 31, 2013

(in CZK millions)

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

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

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

ČEZ, a. s.
Statement of Income in Accordance with IFRS for the Year Ended December 31, 2013

(in CZK millions)

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

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

ČEZ, a. s.
Statement of Comprehensive Income in Accordance with IFRS for the Year Ended December 31, 2013

(in CZK millions)

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

ČEZ, a. s.
Statement of Changes in Equity in Accordance with IFRS for the Year Ended December 31, 2013

(in CZK millions)

	Stated capital	Treasury shares	Cash flow hedge reserve	Available-for-sale and other reserves	Retained earnings	Total equity
December 31, 2011	53,799	(4,382)	(4,821)	715	147,289	192,600
Net income	–	–	–	–	35,336	35,336
Other comprehensive income	–	–	6,288	594	–	6,882
Total comprehensive income	–	–	6,288	594	35,336	42,218
Dividends	–	–	–	–	(23,982)	(23,982)
Share options	–	–	–	75	–	75
Transfer of exercised and forfeited share options within equity	–	–	–	(216)	216	–
December 31, 2012	53,799	(4,382)	1,467	1,168	158,859	210,911
Net income	–	–	–	–	26,373	26,373
Other comprehensive income	–	–	(10,159)	(332)	–	(10,491)
Total comprehensive income	–	–	(10,159)	(332)	26,373	15,882
Effect of merger	–	–	–	–	(289)	(289)
Dividends	–	–	–	–	(21,294)	(21,294)
Share options	–	–	–	33	–	33
Transfer of exercised and forfeited share options within equity	–	–	–	(97)	97	–
December 31, 2013	53,799	(4,382)	(8,692)	772	163,746	205,243

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

ČEZ, a. s.
Statement of Cash Flows in Accordance with IFRS for the Year Ended December 31, 2013

(in CZK millions)

	2013	2012
OPERATING ACTIVITIES		
Income before income taxes	29,662	41,610
Adjustments to reconcile income before income taxes to net cash provided by operating activities		
Depreciation, amortization and asset write-offs	13,365	13,377
Amortization of nuclear fuel	3,065	2,786
Gain on fixed asset retirements, net	(5,315)	(62)
Foreign exchange rate losses (gains), net	(1,068)	(1,268)
Interest expense, interest income and dividend income, net	(11,360)	(12,564)
Provision for nuclear decommissioning and fuel storage	(239)	(14)
Valuation allowances, other provisions and other adjustments	6,118	1,722
Changes in assets and liabilities		
Receivables	1,886	731
Materials and supplies	(457)	(518)
Fossil fuel stocks	(478)	(674)
Other current assets	(1,417)	(12,696)
Trade and other payables	(2,247)	23
Accrued liabilities	(4,580)	5,113
Cash generated from operations	30,725	37,566
Income taxes paid	(3,317)	(6,340)
Interest paid, net of capitalized interest	(4,582)	(4,323)
Interest received	1,888	2,568
Dividends received	14,296	14,500
Net cash provided by operating activities	39,010	43,971
INVESTING ACTIVITIES		
Acquisition of subsidiaries, associates and joint-ventures	(729)	(7,383)
Proceeds from disposal of subsidiaries, associates and joint-ventures	4,449	–
Additions to property, plant and equipment and other non-current assets, including capitalized interest	(29,127)	(29,700)
Proceeds from sale of fixed assets	1,300	1,577
Loans made	(7,769)	(21,150)
Repayment of loans	5,623	11,496
Change in restricted financial assets	(755)	(366)
Total cash used in investing activities	(27,008)	(45,526)
FINANCING ACTIVITIES		
Proceeds from borrowings	47,618	79,488
Payments of borrowings	(46,119)	(67,859)
Proceeds from other long-term liabilities	1,750	1
Payments of other long-term liabilities	(86)	–
Change in payables/receivables from group cashpooling	11,382	6,461
Dividends paid	(21,336)	(23,995)
Net cash used in financing activities	(6,791)	(5,904)
Net effect of currency translation in cash	140	344
Net increase (decrease) in cash and cash equivalents	5,351	(7,115)
Cash and cash equivalents at beginning of period	8,815	15,930
Cash and cash equivalents at end of period	14,166	8,815
Supplementary cash flow information		
Total cash paid for interest	8,004	7,492

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

ČEZ, a. s.
Notes to the Financial Statements as of December 31, 2013

1. Description of the Company

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

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

The average number of employees was 5,437 and 5,872 in 2013 and 2012, respectively.

The Czech Republic represented by the Ministry of Finance is a majority shareholder holding 69.8% of the Company's share capital at December 31, 2013. The majority shareholder's share of the voting rights represented 70.3% at the same date.

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

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

2. Summary of Significant Accounting Policies

2.1. Basis of Presentation of the Financial Statements

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

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

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

2.2. Presentation Currency

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

2.3. Estimates

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

2.4. Revenue Recognition

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

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

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

Revenue from services is recognized when the services are rendered.

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

2.5. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,065 million and CZK 2,786 million for the years ended December 31, 2013 and 2012, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel (see Note 15). Such charges amounted to CZK 339 million and CZK 241 million in 2013 and 2012, respectively.

2.6. Interest

The Company capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 3,500 million and CZK 3,218 million and an interest capitalization rate was 4.6% in 2013 and 2012.

2.7. Property, Plant and Equipment

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

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

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

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

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

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

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

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

	Average life (years)
Hydro plants	
Buildings and structures	45
Machinery and equipment	12
Fossil fuel plants	
Buildings and structures	39
Machinery and equipment	12
Nuclear power plant	
Buildings and structures	38
Machinery and equipment	13

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

2.8. Nuclear Fuel

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

2.9. Intangible Assets

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

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

2.10. Emission Rights

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

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

The emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. In the Czech Republic the allocation of emission rights granted free of charge to an entity operating certain electricity generation facilities specified by the law was the subject to a gift tax in 2011 and 2012. As a result, granted emission rights, which were subject to the gift tax, were initially recognized at the amount of related gift tax as of the grant date. Purchased emission rights are carried at cost (except for emission rights for trading). The Company recognizes a provision to cover emissions made which is measured at the cost of granted and purchased emission rights and credits up to the level of granted and purchased emission rights and credits held and then at the market price ruling at the balance sheet date. The amount of the gift tax on granted emission rights, which is charged to profit or loss as part of the charge of the provision, the eventual cost of emission rights sold or as part of the consumption of emission rights when the allowances are remitted from the register, is included in the line Other income (expenses), net.

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

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

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

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

2.11. Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.12. Cash and Cash Equivalents

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

2.13. Financial Assets Restricted in Use

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

2.14. Receivables, Payables and Accruals

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

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

2.15. Material and Supplies

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

2.16. Fossil Fuel Stock

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

2.17. Derivative Financial Instruments

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

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

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

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

Fair value hedge

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

Cash flow hedge

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

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

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

Other derivatives

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

2.18. Commodity Contracts

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

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

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

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

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

2.19. Income Taxes

The provision for corporate tax is calculated in accordance with the Czech tax regulations and is based on the income or loss reported under the Czech accounting regulations, increased or decreased by the appropriate permanent and temporary differences (e.g. differences between book and tax depreciation). Income tax due is provided at a rate of 19% for the years ended December 31, 2013 and 2012, respectively, from income before income taxes after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate enacted for 2014 and on is 19%.

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

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

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

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

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

2.20. Long-term Debt

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

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

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

2.21. Nuclear Provisions

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

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

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

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

2.22. Treasury Shares

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

2.23. Share Options

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

2.24. Foreign Currency Transactions

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

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

Exchange rates used as at December 31, 2013 and 2012 for the translation of assets and liabilities denominated in foreign currencies were as follows:

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

2.25. Non-current Assets Held for Sale

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

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

2.26. Adoption of New IFRS Standards in 2013

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Company has adopted the following new or amended and endorsed by EU IFRS and IFRIC interpretations as of January 1, 2013:

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

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

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

IAS 19 Employee benefits (revised)

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

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

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

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

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

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

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

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

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

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

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

IAS 28 Investments in Associate and Joint Ventures (revised)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment does not have an impact on the financial position or performance of the Company.

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

IAS 36 Impairment of Assets (Recoverable Amount Disclosure for Non-Financial Assets)

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

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

The amendment is effective for financial statements beginning on or after January 1, 2014. The Company does not expect the amendment will have an impact on the Company's financial statements.

IAS 39 Financial Instruments: Recognition and Measurement (Novation of Derivatives and Continuation of Hedge Accounting)

The amendment provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

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

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

The amendment is effective for financial statements beginning on or after January 1, 2014. The Company does not expect the amendment will have an impact on the Company's financial statements.

IFRS 9 Financial Instruments – Classification and measurement

The IFRS 9 was originally issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were carried forward unchanged to IFRS 9. The standard eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs.

Financial assets

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

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

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

Financial liabilities

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

Hedge accounting

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

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

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

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities, which resulted in SIC-12 being withdrawn. IAS 27, as revised, is limited to the accounting for investments in subsidiaries, joint ventures, and associates in separate financial statements.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Control exists when an investor has:

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

This standard becomes effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. The standard will not have an impact on Company's separate financial statements.

IFRS 11 Joint Arrangements

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

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

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

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

This standard is effective for annual periods beginning on or after January 1, 2013. The endorsement process within EU adopted the standard and decided that the standard should be applied, at the latest, as from the commencement date of a financial year starting on or after January 1, 2014. The standard will not have an impact on Company's separate financial statements.

IFRS 12 Disclosure of Involvement with Other Entities

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

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

Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28)

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

IFRIC 21 Levies

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

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

Annual Improvements to IFRSs 2010–2012

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

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

Annual Improvements to IFRSs 2011–2013

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

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

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

3. Property, Plant and Equipment

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

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

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

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

4. Investments and Other Financial Assets, Net

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

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

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

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

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

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

In 2013 the Company created an impairment provision of CZK 768 million against the loans granted to CEZ Shpërndarje Sh.A (see Note 30).

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

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

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

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

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

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

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

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

4.1. Investments in Subsidiaries, Associates and Joint-ventures

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

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

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

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

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

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

Several subsidiaries were founded or acquired during 2012:
Energotrans, a.s. (100%), Elektrárna Mělník III, a. s. (100%), Elektrárna Tisová, a.s. (100%), Elektrárna Dětmarovice, a.s. (100%) and Elektrárna Počerady, a.s. (100%).

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

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

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

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

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

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

As at December 31, 2013

Company	Country	Interest, net in CZK millions	% interest	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,415	100.00	3,000
Energotrans, a.s.	Czech Republic	17,986	100.00	3,088
Severočeské doly a.s.	Czech Republic	14,312	100.00	1,707
CEZ Distributie S.A.	Romania	13,489	100.00	485
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	12,874	99.60	1,199
Akenerji Elektrik Üretim A.S.	Turkey	9,043	37.36	–
CEZ Finance Ireland Ltd.	Ireland	9,025	100.00	–
CEZ Razpredelenie Bulgaria AD	Bulgaria	7,860	67.00	–
CEZ Poland Distribution B.V.	Netherlands	4,887	100.00	–
ČEZ Teplárenská, a.s.	Czech Republic	4,678	100.00	–
CEZ Silesia B.V.	Netherlands	4,368	100.00	–
ČEZ ICT Services, a. s.	Czech Republic	4,236	100.00	650
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	–
ČEZ Korporátní služby, s.r.o. [1)]	Czech Republic	3,486	100.00	401
Tomis Team S.R.L.	Romania	3,182	100.00	–
Akcez Enerji A.S.	Turkey	3,034	50.00	–
TEC Varna EAD	Bulgaria	2,310	100.00	–
Elektrárna Dětmarovice, a.s.	Czech Republic	2,196	100.00	–
Elektrárna Počerady, a.s.	Czech Republic	1,280	100.00	–
ČEZ Distribuční služby, s.r.o.	Czech Republic	1,145	100.00	1,058
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	2,143
CEZ Bulgarian Investments B.V.	Netherlands	973	100.00	–
CM European Power International B.V.	Netherlands	949	50.00	–
Ovidiu Development S.R.L.	Romania	821	95.00	–
CEZ Vanzare S.A.	Romania	817	100.00	91
Energetické centrum s.r.o.	Czech Republic	616	100.00	–
ČEZ Slovensko, s.r.o.	Slovakia	557	100.00	–
ČEZ Energetické služby, s.r.o.	Czech Republic	422	100.00	7
ŠKODA PRAHA a.s.	Czech Republic	421	100.00	–
ČEZ Energo, s.r.o.	Czech Republic	401	50.10	–
ŠKODA PRAHA Invest s.r.o.	Czech Republic	389	100.00	–
CM European Power Slovakia s.r.o.	Slovakia	295	24.50	–
ÚJV Řež, a. s.	Czech Republic	185	52.46	–
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	–
CEZ Hungary Ltd.	Hungary	158	100.00	–
PPC Úžín, a.s.	Czech Republic	107	100.00	–
CEZ Trade Albania Sh.P.K.	Albania	92	100.00	–
CEZ Romania S.A.	Romania	91	100.00	20
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	85	100.00	–
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	39.25	–
NERS d.o.o.	Bosnia and Herzegovina	50	51.00	–
CEZ Polska sp. z o.o.	Poland	50	100.00	–
CEZ Srbija d.o.o.	Serbia	46	100.00	–
CEZ Trade Polska sp. z o.o.	Poland	45	100.00	–
CITELUM, a.s.	Czech Republic	43	48.00	29
Other		245	–	147
Total, net		163,580		

As at December 31, 2012

Company	Country	Interest, net in CZK millions	% interest	Dividends in CZK millions
ČEZ Distribuce, a. s.	Czech Republic	31,415	100.00	4,500
Energotrans, a.s.	Czech Republic	17,986	100.00	–
Severočeské doly a.s.	Czech Republic	14,312	100.00	1,707
CEZ Distributie S.A.	Romania	13,489	100.00	696
CEZ Finance Ireland Ltd.	Ireland	9,025	100.00	–
Akenerji Elektrik Üretim A.S.	Turkey	7,580	37.36	–
CEZ Razpredelenie Bulgaria AD	Bulgaria	7,551	67.00	–
Tomis Team S.R.L.	Romania	6,657	100.00	–
Teplárna Trmice, a.s. 3)	Czech Republic	5,013	100.00	–
CEZ Poland Distribution B.V.	Netherlands	4,709	100.00	–
ČEZ Teplárenská, a.s.	Czech Republic	4,452	100.00	350
CEZ Silesia B.V.	Netherlands	4,368	100.00	–
ČEZ ICT Services, a. s.	Czech Republic	4,236	100.00	1,796
TEC Varna EAD	Bulgaria	3,922	100.00	280
ČEZ Bohunice a.s.	Czech Republic	3,592	100.00	–
ČEZ Správa majetku, s.r.o. 1)	Czech Republic	3,486	100.00	260
ČEZ OZ uzavřený investiční fond a.s.	Czech Republic	3,457	98.63	–
Elektrárna Chvaletice a.s.	Czech Republic	2,739	100.00	821
Akcez Enerji A.S.	Turkey	1,744	27.50	–
Ovidiu Development S.R.L.	Romania	1,643	95.00	–
Elektrárna Počerady, a.s.	Czech Republic	1,260	100.00	–
ČEZ Prodej, s.r.o.	Czech Republic	1,100	100.00	1,688
CEZ Bulgarian Investments B.V.	Netherlands	973	100.00	–
CM European Power International B.V.	Netherlands	949	50.00	–
CEZ Vanzare S.A.	Romania	817	100.00	–
ČEZ Distribuční služby, s.r.o.	Czech Republic	728	100.00	469
Energetické centrum s.r.o.	Czech Republic	679	100.00	39
ČEZ Slovensko, s.r.o.	Slovakia	557	100.00	–
ČEZ Energetické služby, s.r.o.	Czech Republic	422	100.00	–
ŠKODA PRAHA a.s.	Czech Republic	421	100.00	100
ČEZ Energo, s.r.o.	Czech Republic	401	50.10	–
ŠKODA PRAHA Invest s.r.o.	Czech Republic	389	100.00	–
CM European Power Slovakia s.r.o.	Slovakia	295	24.50	–
ČEZ Měření, s.r.o. 2)	Czech Republic	217	100.00	203
ČEZ Logistika, s.r.o. 2)	Czech Republic	200	100.00	385
ÚJV Řež, a. s.	Czech Republic	185	52.46	–
LOMY MOŘINA spol. s r.o.	Czech Republic	169	51.05	6
CEZ Hungary Ltd.	Hungary	158	100.00	–
PPC Úžín, a.s.	Czech Republic	107	100.00	–
CEZ Romania S.A.	Romania	91	100.00	–
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	85	99.90	–
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	Czech Republic	55	39.25	–
NERS d.o.o.	Bosnia and Herzegovina	50	51.00	–
CEZ Polska sp. z o.o.	Poland	50	100.00	–
CEZ Srbija d.o.o.	Serbia	46	100.00	–
Other		345	–	993
Total, net		162,125		

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

4.2. Restricted Financial Assets

At December 31, 2013 and 2012, restricted balances of financial assets totaled CZK 10,611 million and CZK 10,255 million, respectively, and represented accumulated provision for the decommissioning, reclamation and maintenance of waste storages after they are put out of services, escrow accounts securing the Company's liquidity (pursuant to contracts entered into with the respective banks), and accumulated provision for nuclear decommissioning in compliance with the Nuclear Act. Restricted financial assets comprise not only restricted cash balances, but also term deposits and government bonds.

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

5. Intangible Assets, Net

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

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

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

6. Cash and Cash Equivalents

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

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

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

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

7. Receivables, Net

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

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

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

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

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

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

Movements in allowance for doubtful receivables (in CZK millions)

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

8. Emission Rights

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

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

In 2013 and 2012, total emissions of greenhouse gases made by the Company amounted to an equivalent of 16,389 thousand tons and 17,834 thousand tons of CO_2, respectively. At December 31, 2013 and 2012 the Company recognized a provision for CO_2 emissions in total amount of CZK 2,924 million and CZK 1,580 million, respectively (see Notes 2.10 and 19).

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

The following table shows the impact of transactions with emission rights and credits on income for the year ended December 31, 2013 and 2012 (in CZK millions):

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

The expense related to the gift tax on granted emission rights is included in the line Other income (expenses), net (see Notes 2.10 and 24).

9. Other Financial Assets, Net

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

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

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

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

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

The Company concluded two put option agreements with Vršanská uhelná a.s. in March 2013. Under these contracts the Company has the right to transfer 100% of the shares of its subsidiary Elektrárna Počerady, a.s. to Vršanská uhelná a.s. First option can be exercised in 2016 for cash consideration of CZK 8.5 billion less CZK 0.4 billion per each block of the power plant not modernized. Second option can be exercised in 2024 for cash consideration of CZK 2 billion.

The contracts represent derivatives that will be settled by the delivery of unquoted equity instrument. Elektrárna Počerady, a.s. is not quoted on any market, there is no similar power plant in the Czech Republic for sale and also no similar transaction took place. There is also significant variability in the range of reasonable fair values for this equity instrument and it is difficult to reasonably assess the probabilities of various estimates. As a result the fair value cannot be reliably measured. Consequently, the put options will be measured at cost. There was no option premium paid on the options and therefore the cost of these instruments is zero.

10. Other Current Assets

Other current assets at December 31, 2013 and 2012 were as follows (in CZK millions)

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

11. Equity

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

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

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

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

Capital management

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

The Company primarily monitors capital using the ratio of net debt to EBITDA. Considering the current structure and stability of cash flow of the Group, the goal is to keep this ratio below 2.3. In addition, the Company also monitors capital using a total debt to total capital ratio. The Company's policy is to keep the total debt to total capital ratio below 50% in the long term.

EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets including goodwill and less gain (or loss) on sale of property, plant and equipment. The Company includes within total debt the long-term and short-term interest bearing loans and borrowings. Net debt is defined as total debt less cash and cash equivalents and highly liquid financial assets. Highly liquid financial assets consist for capital management purposes of short-term equity and debt securities available-for-sale, short-term debt securities held-to-maturity and long-term debt securities available-for-sale. Total capital is total equity attributable to equity holders of the parent plus total debt.

The composition of EBITDA changed compared to prior year presentation and this year's EBITDA does not include impairment of property, plant and equipment and gain on sale of property, plant and equipment. Prior year figures were amended accordingly.

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

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

12. Long-term Debt

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

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

[1] Since 2006 the interest rate has changed to consumer price index in the Czech Republic plus 4.20%. The interest rate as at December 31, 2013 and 2012 was 5.6% and 6.6%, respectively.

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

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

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

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

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

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

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2013 and 2012 without considering interest rate hedging (in CZK millions):

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

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

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

13. Fair Value of Financial Instruments

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

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

Cash and cash equivalents

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

Securities held for trading

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

Investments

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

Receivables and payables

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

Short-term loans

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

Long-term debt

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

Derivatives

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

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

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

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

Fair Value Hierarchy

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

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

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

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

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

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

Assets measured at fair value

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

Liabilities measured at fair value

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

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

Assets measured at fair value

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

Liabilities measured at fair value

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

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

Offsetting of Financial Instruments

The following table shows the recognized financial instruments that are offset, or subject to enforceable master netting agreement or other similar agreements but not offset, as of December 31, 2013 and 2012 (in CZK millions):

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

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

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

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

14. Financial Risk Management

Risk management approach

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

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

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

Since 2009 the main Business Plan market risks are quantified (EBITDA@Risk based on MonteCarlo simulation in Y+1 to Y+5 horizon). The market risks are actively managed through gradual electricity sales and emission allowances' purchases in the following 6-year horizon, closing long-term contracts for electricity sale and emission allowances' purchase and the FX and IR risk hedging in medium-term horizon. In Business Plan horizon, the risk management is also based on Debt Capacity concept which enables to assess the impact of main Investment and other Activities (incl. the risk characteristics), on expected cashflow and total debt in order to maintain corporate rating. Risks of Investment Projects are also managed and monitored based on unified quantification of all kinds of risk according to Group methodology.

Risk management organization

The supreme authority for risk management is the Risk Management Committee (the ČEZ, a. s. CEO's committee). Except for approval of the aggregate annual budget risk limit (Profit@Risk) within the competence of the ČEZ, a. s. Board of Directors), the Risk Management Committee makes decisions on the development of an integrated system of risk management, makes decisions on an overall allocation of risk capital to the individual risks and organizational units, approves obligatory rules, responsibilities and limit structure for the management of partial risks, and it continuously monitors an overall risk impact on the Group, including Group risk limits utilization, status of risks linked to Business Plan horizon, hedging strategies status, assessment of impact of Investment and other Activities on potential Group debt capacity and cashflow in order to maintain corporate rating.

Overview and methods of risk management

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

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

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

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

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

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

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

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

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

Commodity risks

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

Market financial risks (currency and interest risks)

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

Credit risks

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

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

Liquidity risks

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

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

Commodity risks

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

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

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

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

Currency risks

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

- the indicator of currency risk is defined as the monthly parametric VaR (95% confidence)
- for the calculation of volatility and internal correlations of each currency, the JP Morgan method (the parametric VaR method) is applied to 90 daily historical time series
- the relevant currency position is defined as a discounted value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs expected in 2013 and from highly probable forecasted foreign currency revenues, costs or capital expenditures that are being hedged by financial instruments
- the relevant currency positions reflect all significant foreign-currency flows in the monitored basket of foreign currencies
- the source of market FX and interest rate data is mainly IS Reuters and IS Bloomberg

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

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

Interest risks

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

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

* Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Company will receive corresponding consideration. For fair values of derivatives see Note 13.
** Maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

14.3. Hedge accounting

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

The Company enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur in the period from 2014 to 2016. The hedging instruments as at December 31, 2013 and 2012 are the futures contracts for the purchase of allowances equivalent to 12.5 million tons and 2.9 million tons of CO_2 emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (273) million and CZK (98) million at December 31, 2013 and 2012, respectively.

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

In 2013 and 2012 the amounts removed from equity in respect of cash flow hedges were recognized in profit or loss and included in the lines Sales of electricity, Gains and losses from electricity, coal and gas derivative trading, net, Emission rights, net and Other income (expenses), net. In 2013 and 2012 the Company recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK (126) million and CZK (778) million, respectively. The ineffectiveness in 2013 and 2012 mainly relates to transactions for which the hedged items are no more highly probable to occur.

15. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

The Company operates two nuclear power plants. Nuclear power plant Dukovany consists of four units which were put into service from 1985 to 1987 and have been refurbished and enhanced later. The second nuclear power plant, Temelín, has two units which have started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act ("Act") which defines certain obligations for the decontamination and dismantling ("decommissioning") of nuclear facilities and the disposal of radioactive waste and spent fuel ("disposal"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. A 2013 Dukovany and a 2009 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 22.4 billion and CZK 14.6 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet as part of Investments and other financial assets, net (see Note 4).

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

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

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

	Accumulated provisions			
	Nuclear decommissioning	Spent fuel storage		Total
		Interim	Long-term	
Balance at December 31, 2011	8,957	6,430	21,672	37,059
Movements during 2012				
Discount accretion and effect of inflation	403	289	976	1,668
Provision charged to income statement	–	453	–	453
Effect of change in estimate charged to income statement	–	364	–	364
Effect of change in estimate added to fixed assets	2,490	–	2,451	4,941
Current cash expenditures	–	(742)	(1,516)	(2,258)
Balance at December 31, 2012	11,850	6,794	23,583	42,227
Movements during 2013				
Discount accretion and effect of inflation	415	238	825	1,478
Provision charged to income statement	–	460	–	460
Effect of change in estimate charged to income statement	–	249	–	249
Effect of change in estimate added to fixed assets	1,295	–	19	1,314
Current cash expenditures	–	(550)	(1,537)	(2,087)
Balance at December 31, 2013	13,560	7,191	22,890	43,641

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

In 2013 the Company recorded the change in estimate for interim spent fuel storage due to the change in expectations of future storage costs, the change in estimate in provision for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Dukovany and the change in long-term spent fuel storage due to the modification of the expected output of the nuclear power plants.

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

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

16. Other Long-term Liabilities

Other long-term liabilities at December 31, 2013 and 2012 are as follows (in CZK millions)

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

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

The following table shows the movements of the provision for waste storage reclamation for the years ended December 31, 2013 and 2012 (in CZK millions):

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

17. Short-term loans

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

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

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

18. Trade and Other Payables

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

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

19. Accrued Liabilities

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

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

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

The Company is by law liable for damages caused by pollution and establishes a provision for environmental claims, which is based on the current estimates of its future liabilities. At December 31, 2013 and 2012, the provision totaled CZK 393 million and CZK 342 million, respectively.

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

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

20. Revenues

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

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

21. Salaries and Wages

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

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

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

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

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

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

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

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

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

	Number of share options			
	Board of Directors 000s	Selected managers 000s	Total 000s	Weighted average exercise price (CZK per share)
Share options at December 31, 2011	1,903	760	2,663	1,011.70
Options granted	664	256	920	727.80
Options forfeited	(910)	(230)	(1,140)	1,122.90
Share options at December 31, 2012 [1)]	1,657	786	2,443	852.85
Options granted	550	295	845	559.43
Options forfeited	(585)	(315)	(900)	970.06
Share options at December 31, 2013 [1)]	1,622	766	2,388	704.84

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

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

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

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

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

At December 31, 2013 and 2012 the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

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

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

22. Other Operating Expenses

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

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

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

23. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2013 and 2012 was as follows (in CZK millions)

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

24. Other Income (Expenses), Net

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

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

25. Income Taxes

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

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

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

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

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

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

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

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

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

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

26. Related Parties

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

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

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

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

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

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

The Company and some of its subsidiaries are included in the cash-pool system. Payables to subsidiaries related to cash-pooling and similar borrowings are included in Trade and other payables (see Note 18).

27. Segment Information

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

28. Earnings per Share

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

29. Commitments and Contingencies

Investment Program

The Company is engaged in a continuous construction program, currently estimated as at December 31, 2013 to total CZK 88.5 billion over the next five years, as follows: CZK 27.4 billion in 2014, CZK 17.2 billion in 2015, CZK 15.2 billion in 2016, CZK 13.9 billion in 2017 and CZK 14.8 billion in 2018. These figures do not include the expected acquisitions of subsidiaries, associates and joint-ventures, which will depend on the number of future investment opportunities, for which the Company will be a successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2013 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

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

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

30. Situation in Albania

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

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

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

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

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

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

31. Legal Disputes

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

32. Events after the Balance Sheet Date

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

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

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

Identification of ČEZ, a. s.

ČEZ, a. s.
Duhová 2/1444
140 53 Prague 4
Czech Republic

Incorporated in the Commercial Register maintained by the Municipal Court in Prague (part B, insert 1581)

Established:	1992
Legal form:	joint-stock company
ID Number:	452 74 649
Tax ID:	CZ45274649
Bankers:	KB Prague 1, account No. 71504011/0100
Telephone:	+420 211 041 111
Fax:	+420 211 042 001
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Closing date of the 2013 Annual Report: April 10, 2014

www.cez.cz

www

Group Structure Chart
Alphabetical List of Companies – Group Members

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