CEZ GROUP

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2010

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Supervisory Board of ČEZ, a. s.:

We have audited the accompanying financial statements of CEZ Group which comprise the consolidated balance sheet as at December 31, 2010, 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 notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ČEZ Group as at December 31, 2010, 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

Josef Pivoňka
Auditor, License No. 1963

February 24, 2011
Prague, Czech Republic

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2010

in CZK Millions

	2010	2009
Assets		
Property, plant and equipment:		
Plant in service	557,878	509,618
Less accumulated provision for depreciation	(275,302)	(266,377)
Net plant in service (Note 3)	282,576	243,241
Nuclear fuel, at amortized cost	7,005	5,439
Construction work in progress (Note 3)	71,485	80,125
Total property, plant and equipment	361,066	328,805
Other non-current assets:		
Investment in associates and joint-ventures	16,928	17,250
Investments and other financial assets, net (Note 4)	52,509	49,423
Intangible assets, net (Note 5)	16,876	18,653
Deferred tax assets (Note 28)	655	824
Total other non-current assets	86,968	86,150
Total non-current assets	448,034	414,955
Current assets:		
Cash and cash equivalents (Note 8)	22,163	26,727
Receivables, net (Note 9)	39,623	46,350
Income tax receivable	1,711	997
Materials and supplies, net	5,358	4,959
Fossil fuel stocks	1,800	2,944
Emission rights (Note 10)	2,648	1,212
Other financial assets, net (Note 11)	16,402	29,706
Other current assets (Note 12)	3,394	2,409
Assets classified as held for sale (Note 13)	2,558	-
Total current assets	95,657	115,304
Total assets	543,691	530,259

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

CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2010

continued

	2010	2009
Equity and liabilities		
Equity attributable to equity holders of the parent:		
Stated capital	53,799	53,799
Treasury shares	(4,619)	(5,151)
Retained earnings and other reserves	172,431	151,713
Total equity attributable to equity holders of the parent (Note 14)	221,611	200,361
Non-controlling interests	5,440	6,314
Total equity	227,051	206,675
Long-term liabilities:		
Long-term debt, net of current portion (Note 15)	140,040	118,921
Accumulated provision for nuclear decommissioning and fuel storage (Note 18)	36,848	37,152
Other long-term liabilities (Note 19)	21,173	21,108
Total long-term liabilities	198,061	177,181
Deferred tax liability (Note 28)	17,902	15,335
Current liabilities:		
Short-term loans (Note 20)	9,618	31,257
Current portion of long-term debt (Note 15)	14,786	6,632
Trade and other payables (Note 21)	58,804	76,853
Income tax payable	689	1,359
Accrued liabilities (Note 22)	16,020	14,967
Liabilities directly associated with assets classified as held for sale (Note 13)	760	-
Total current liabilities	100,677	131,068
Total equity and liabilities	543,691	530,259

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

CEZ GROUP
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

in CZK Millions

	2010	2009
Revenues:		
Sales of electricity	175,277	173,494
Gains and losses from electricity, coal and gas derivative trading, net	5,392	6,894
Heat sales and other revenues	18,179	15,964
Total revenues (Note 23)	198,848	196,352
Operating expenses:		
Fuel	(16,946)	(15,805)
Purchased power and related services	(54,353)	(48,170)
Repairs and maintenance	(5,465)	(6,043)
Depreciation and amortization	(24,032)	(22,876)
Salaries and wages (Note 24)	(18,717)	(18,116)
Materials and supplies	(4,844)	(5,272)
Emission rights, net (Note 10)	2,388	305
Other operating expenses (Note 25)	(11,822)	(12,176)
Total expenses	(133,791)	(128,153)
Income before other income (expenses) and income taxes	65,057	68,199
Other income (expenses):		
Interest on debt, net of capitalized interest (Note 2.8)	(3,484)	(3,303)
Interest on nuclear and other provisions (Note 2.24, 18 and 19)	(2,014)	(2,174)
Interest income (Note 26)	2,022	2,499
Foreign exchange rate gains (losses), net	(2,943)	(1,189)
Loss on sale of subsidiaries, associates and joint-ventures	(121)	(2)
Goodwill impairment (Note 5)	(2,826)	(3,263)
Other income (expenses), net (Note 27)	3,111	1,183
Share of profit (loss) from associates and joint-ventures (Note 2.2)	147	2,996
Total other income (expenses)	(6,108)	(3,253)
Income before income taxes	58,949	64,946
Income taxes (Note 28)	(11,791)	(13,091)
Net income	47,158	51,855
Net income attributable to:		
Equity holders of the parent	47,232	51,547
Non-controlling interests	(74)	308
Net income per share attributable to equity holders of the parent (CZK per share) (Note 31)		
Basic	88.5	96.7
Diluted	88.5	96.6
Average number of shares outstanding (000s) (Notes 14 and 31)		
Basic	533,811	533,225
Diluted	533,849	533,438

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

CEZ GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

in CZK Millions

	2010	2009
Net income	47,158	51,855
Other comprehensive income:		
Change in fair value of cash flow hedges recognized in equity	9,156	2,719
Cash flow hedges removed from equity	(2,762)	1,643
Change in fair value of available-for-sale financial assets recognized in equity	393	84
Available-for-sale financial assets removed from equity	(29)	17
Translation differences	(3,860)	(2,716)
Share on equity movements of associates and joint-ventures	5	(11)
Deferred tax relating to other comprehensive income (Note 28)	(1,286)	(885)
Other comprehensive income, net of tax	1,617	851
Total comprehensive income, net of tax	48,775	52,706
Total comprehensive income attributable to:		
Equity holders of the parent	49,165	53,491
Non-controlling interests	(390)	(785)

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

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, 2008	59,221	(66,910)	(5,025)	(5,631)	503	191,094	173,252	12,158	185,410
Net income	-	-	-	-	-	51,547	51,547	308	51,855
Other comprehensive income	-	-	(1,624)	3,463	75	30	1,944	(1,093)	851
Total comprehensive income	-	-	(1,624)	3,463	75	51,577	53,491	(785)	52,706
Dividends	-	-	-	-	-	(26,638)	(26,638)	(15)	(26,653)
Reduction of the stated capital	(5,422)	61,313	-	-	-	(55,891)	-	-	-
Sale of treasury shares	-	446	-	-	-	(300)	146	-	146
Share options	-	-	-	-	110	-	110	-	110
Transfer of exercised and forfeited share options within equity	-	-	-	-	(79)	79	-	-	-
Change in non-controlling interests due to acquisitions	-	-	-	-	-	-	-	(5,044)	(5,044)
December 31, 2009	53,799	(5,151)	(6,649)	(2,168)	609	159,921	200,361	6,314	206,675

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

continued

	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, 2009	53,799	(5,151)	(6,649)	(2,168)	609	159,921	200,361	6,314	206,675
Net income	-	-	-	-	-	47,232	47,232	(74)	47,158
Other comprehensive income	-	-	(3,544)	5,177	295	5	1,933	(316)	1,617
Total comprehensive income	-	-	(3,544)	5,177	295	47,237	49,165	(390)	48,775
Transaction costs related to business combinations (Note 2.3)	-	-	-	-	-	(211)	(211)	-	(211)
Dividends	-	-	-	-	-	(28,256)	(28,256)	(549)	(28,805)
Sale of treasury shares	-	532	-	-	-	(195)	337	-	337
Share options	-	-	-	-	100	-	100	-	100
Transfer of exercised and forfeited share options within equity	-	-	-	-	(97)	97	-	-	-
Acquisition of subsidiaries (Note 6)	-	-	-	-	-	-	-	649	649
Acquisition of non-controlling interests (Note 6)	-	-	-	-	-	115	115	(584)	(469)
December 31, 2010	53,799	(4,619)	(10,193)	3,009	907	178,708	221,611	5,440	227,051

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

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

in CZK Millions

	2010	2009
Operating activities:		
Income before income taxes	58,949	64,946
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	26,897	26,171
Amortization of nuclear fuel	3,705	2,778
Gain on fixed asset retirements, net	(89)	(112)
Foreign exchange rate losses (gains), net	2,943	1,189
Interest expense, interest income and dividend income, net	1,079	763
Provision for nuclear decommissioning and fuel storage	(1,291)	282
Valuation allowances, other provisions and other adjustments	281	5,111
Share of (profit) loss from associates and joint-ventures	(147)	(2,996)
Changes in assets and liabilities:		
Receivables	561	(3,940)
Materials and supplies	(451)	(141)
Fossil fuel stocks	1,100	(14)
Other current assets	11,995	29,870
Trade and other payables	(15,254)	(19,825)
Accrued liabilities	(201)	73
Cash generated from operations	90,077	104,155
Income taxes paid	(11,944)	(16,522)
Interest paid, net of capitalized interest	(2,618)	(1,947)
Interest received	1,268	1,627
Dividends received	382	41
Net cash provided by operating activities	77,165	87,354
Investing activities:		
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired (Note 6)	(7,962)	(25,152)
Proceeds (refunds) from disposal of subsidiaries and associates, net of cash disposed of	(16)	1,270
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.9)	(63,018)	(70,791)
Proceeds from sale of fixed assets	1,979	2,555
Loans made	(856)	(9,557)
Repayment of loans	5,808	3,484
Change in decommissioning and other restricted funds	(1,519)	(831)
Total cash used in investing activities	(65,584)	(99,022)

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

continued

	2010	2009
Financing activities:		
Proceeds from borrowings	192,551	298,990
Payments of borrowings	(179,218)	(250,072)
Proceeds from other long-term liabilities	97	72
Payments of other long-term liabilities	(576)	(345)
Dividends paid to Company's shareholders	(28,234)	(26,545)
Dividends paid to non-controlling interests	(549)	(16)
Sale of treasury shares	337	146
Total cash provided by (used in) financing activities	(15,592)	22,230
Net effect of currency translation in cash	(530)	(1,138)
Net increase (decrease) in cash and cash equivalents	(4,541)	9,424
Cash and cash equivalents at beginning of period	26,727	17,303
Cash and cash equivalents at end of period (Note 8)	22,186	26,727

Supplementary cash flow information

Total cash paid for interest	5,321	4,028

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

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, 2010 by the Czech Republic represented by the Ministry of Finance. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

The Company is a parent company of the CEZ Group ("the Group"), which is primarily engaged in the business of production, distribution and sale of electricity (see Notes 2.2 and 7). ČEZ is an electricity generation company, which in 2010 produced approximately 72% of the electricity and a portion of the district heating in the Czech Republic. In the Czech Republic the Company operates fifteen 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, black oil, gas) in the Czech Republic, two fossil fuel plants and one hydroelectric plant in Poland, one fossil fuel plant in Bulgaria and a wind farm in Romania. Further the Group also controls certain electricity distribution companies in the Czech Republic, Bulgaria, Romania and Albania. The average number of employees of the Company and its consolidated subsidiaries was 32,937 and 30,768 in 2010 and 2009, 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.

Third-party access started to be introduced gradually from 2002. Since 2006 all customers can select their suppliers of electricity.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

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

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

2.2. Group Accounting

a. Group Structure

The financial statements of CEZ Group include the accounts of ČEZ, a. s., its subsidiaries, associates and joint-ventures, which are shown in the Note 7.

b. Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has a power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Business combinations from January 1, 2010
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 since January 1, 2010 are attributed to the non-controlling interest even if that results in a deficit balance.

Business combinations prior to January 1, 2010
The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's interest in the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the Group's interest in the fair value of acquiree's net assets exceeds the cost of business combination ("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.

In case of subsequent acquisition of a non-controlling interest in a subsidiary, which has been already controlled by the Group, the goodwill is measured as the difference between the cost of the additionally acquired shares and the book value of the non-controlling interest acquired.

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 directly 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. Change in Accounting Policies

a. New IFRS standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Group has adopted the following new or amended and endorsed by the EU IFRS and IFRIC interpretations as of January 1, 2010:

- IFRS 3 Business Combinations (Revised)
- IAS 27 Consolidated and Separate Financial Statements (Amended)
- IFRIC 12 Service Concession Arrangements
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions
- IAS 39 Financial Instruments: Recognition and Measurement (Eligible Hedged Items)
- Improvements to IFRSs (April 2009)

When the adoption of the standard or interpretation is considered to have an impact on the financial statements or performance of the Group, its impact is described below:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
The Group adopted the revised standards from January 1, 2010. IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognized, the reported results in the period when an acquisition occurs and future reported results. IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

As a result of the adoption of these revised standards the Group charged the transaction costs accumulated until December 31, 2009 related to ongoing acquisitions directly to retained earnings as of January 1, 2010.

IFRIC 12 Service Concession Arrangements
IFRIC Interpretation 12 was issued in November 2006. This interpretation was adopted by the EU in March 2009 and must be applied from January 1, 2010. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The interpretation had no effect on the financial position nor performance of the Group.

IFRS 2 Share-based Payment (Revised)
The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of January 1, 2010. It did not have an impact on the financial position or performance of the Group.

Improvements to IFRSs
In April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments relevant for the Group resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Issued in April 2009

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Group amended its disclosures.
- IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets, the Group has continued to disclose this information in Note 30.
- IAS 36 Impairment of Assets: clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

All other standards and interpretations whose application was mandatory for the period beginning on or after January 1, 2010 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, 2011 or later. Standards and interpretations most relevant to the Group's activities are detailed below:

IFRS 9 Financial Instruments – Classification and measurement
The IFRS 9 was issued in November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities that must be applied starting January 1, 2013. According to IFRS 9 all financial assets and liabilities are initially recognized at fair value plus transaction costs. The standard also eliminates categories of financial instruments currently existing in IAS 39: available-for-sale and held-to-maturity. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The requirements related to the fair value option for financial liabilities were changed to address own credit risk. As a result, the changes in liability's credit risk will not affect profit or loss unless the liability is held for trading. In subsequent phases, the IASB will address impairment, hedge accounting and derecognition. The completion of this project is expected in 2011. 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.

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

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

IAS 32 Financial Instruments: Presentation (Classification of Rights Issues)
In October 2009, the IASB issued an amendment to IAS 32 on the classification of rights issues. The amendment is effective for annual periods beginning on or after February 1, 2010. For rights issues offered for a fixed amount of foreign currency current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The Group does not expect that the amendment will have an impact on the financial position or performance of the Group.

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

In May 2010 the Board also issued a collection of amendments to its standards, primarily to remove inconsistencies and clarify wording. The Group has not yet adopted the amendments, but it is anticipated that the changes will have no material effect on the Group's 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 either 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 3,705 million and CZK 2,778 million for the years ended December 31, 2010 and 2009, 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 468 million and CZK 272 million in 2010 and 2009, 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 3,034 million and CZK 2,081 million and the interest capitalization rate was 4.2% and 4.8% in 2010 and 2009, respectively.

2.9. Property, Plant and Equipment

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

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

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

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

Depreciation

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	4 – 20
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 22,817 million and CZK 21,677 million for the years ended December 31, 2010 and 2009, which was equivalent to a composite depreciation rate of 4.3% and 4.3%, respectively.

2.10. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization. Amortization of fuel in the reactor is based on the amount of power generated.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.24). At December 31, 2010 and 2009 capitalized costs at net book value amounted to CZK 114 million and CZK 300 million, respectively.

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 15 years. The assets' residual values, useful lives and methods of amortization are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets are tested for impairment (for goodwill see Note 2.12) whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Identified impairment of intangible assets is recognized directly in profit or loss in the line item of Other operating expenses.

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

2.12. Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed (see Note 2.2). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint-ventures is included in investments in associates and joint-ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.13. Emission Rights

Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plans in 2010 and 2009 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 latest, these companies are required to remit a number of allowances representing the number of tones of CO_2 actually emitted. If a company does not fulfill this requirement and 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.

In the financial statements the emission rights which were granted free of charge are stated at their nominal value, i.e. at zero. 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. If the granted allowances are not sufficient to cover actual emissions, the Group recognizes a provision which is measured at the cost of purchased allowances up to the level of purchased allowances held and then at the market price of allowances ruling at the balance sheet date.

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

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

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

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

2.14. Investments

Investments are classified into the following categories: held-to-maturity, loans and receivables, held for trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading. All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

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

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

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

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

2.15. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less. Foreign currency deposits are translated at December 31, 2010 and 2009 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. Cost is determined by using weighted average cost, which approximates actual cost. 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, 2010 and 2009 the provision for obsolescence amounted to CZK 538 million and CZK 447 million, respectively.

2.19. Fossil Fuel Stocks

Fossil fuel stocks are stated at weighted average cost, which approximates actual cost.

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 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 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 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.

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 Derivative Instruments

According to IAS 39, certain commodity contracts 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% and 20% for the years ended December 31, 2010 and 2009, respectively, after adjustments for certain items which are not deductible, or taxable, for taxation purposes. The Czech corporate income tax rate for 2011 and on will be 19%.

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

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities of Group companies are not offset in the balance sheet.

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

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

2.23. Long-term Debt

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

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

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

2.24. Nuclear Provisions

The Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors (see Note 18).

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. At December 31, 2010 and 2009 the estimate for the effect of inflation is 2.0%.

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 using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the 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, 2010 and 2009 the estimate for the effect of inflation is 2.0%.

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 2010 and 2009 the expense recognized in respect of the share option plan amounted to CZK 100 million and CZK 110 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, 2010 and 2009 for the translation of assets and liabilities denominated in foreign currencies were as follows:

	2010	2009
CZK per 1 EUR	25.060	26.465
CZK per 1 USD	18.751	18.368
CZK per 1 PLN	6.308	6.448
CZK per 1 BGN	12.813	13.532
CZK per 1 RON	5.869	6.247
CZK per 100 JPY	23.058	19.875
CZK per 1 TRY	12.105	12.277
CZK per 100 ALL	18.108	19.292

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 once classified as held for sale are not depreciated or amortized.

3. Property, Plant and Equipment

Net plant in service at December 31, 2010 and 2009 is as follows (in CZK millions):

	Buildings	Plant and Equip-ment	Land and Other	Total 2010	Total 2009
Cost at January 1	193,343	311,126	5,149	509,618	488,956
Plant additions	20,226	41,360	611	62,197	22,292
Disposals	(1,748)	(2,997)	(11)	(4,756)	(8,198)
Reclassification to assets classified as held for sale	(3,849)	(7,167)	(38)	(11,054)	-
Acquisition of subsidiaries	1,423	2,636	75	4,134	5,899
Change in capitalized part of provisions	(270)	519	382	631	2,230
Reclassification and other	212	(224)	1	(11)	6
Currency translation differences	(1,468)	(1,371)	(42)	(2,881)	(1,567)
Cost at December 31	207,869	343,882	6,127	557,878	509,618
Accumulated depreciation and impairment at January 1	(82,786)	(182,783)	(808)	(266,377)	(252,330)
Depreciation	(5,574)	(17,231)	(12)	(22,817)	(21,677)
Net book value of assets disposed	(277)	(70)	(3)	(350)	(848)
Disposals	1,748	2,997	7	4,752	8,198
Reclassification to assets classified as held for sale	2,633	6,354	-	8,987	-
Reclassification and other	(151)	109	8	(34)	(9)
Impairment losses recognized	(197)	(11)	(7)	(215)	(163)
Impairment losses reversed	160	21	7	188	208
Currency translation differences	266	296	2	564	244
Accumulated depreciation and impairment at December 31	(84,178)	(190,318)	(806)	(275,302)	(266,377)
Net plant in service at December 31	123,691	153,564	5,321	282,576	243,241

At December 31, 2010 and 2009, plant and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2010	2009
Cost	19,188	18,669
Accumulated depreciation	(6,037)	(5,666)
Total net book value	13,151	13,003

Group’s plant in service pledged as security for liabilities at December 31, 2010 and 2009 is CZK 349 million and CZK 329 million, respectively.

In August 2008 the Group acquired a project in Romania to develop and operate two wind power farms. The total consideration amounts to EUR 220,458 thousand. As at December 31, 2010 and 2009 construction work in progress includes CZK 3,149 million and CZK 18,979 million, respectively, related to this project.

In addition, most of the remaining balance of construction work in progress relates to refurbishments performed on Ledvice, Tušimice, Prunéřov, Počerady, Dukovany and Temelín power plants and 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, 2010 and 2009 consist of the following (in CZK millions):

	2010	2009
Restricted debt securities available-for-sale	9,639	9,205
Restricted debt securities held to maturity	17	-
Restricted cash	2,309	1,200
Total restricted financial assets	11,965	10,405
Financial assets in progress, net	902	223
Debt securities held-to-maturity	109	110
Debt securities available-for-sale	3,999	4,408
Equity securities available-for-sale	327	644
Investment in Dalkia	3,166	-
Investment in Pražská teplárenská	11,963	12,923
Derivatives	1,653	344
Investment in MOL	16,250	17,695
Other long-term receivables, net	2,175	2,671
Total	52,509	49,423

The financial assets in progress represent amounts paid in respect of planned acquisitions.

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

In 2009 CEZ Group agreed with J&T Group and paid for the equity interest of 49% in Pražská teplárenská (Prague's major heat supplier). Currently the Group does not exercise any significant influence and therefore the investment is classified as available-for-sale.

In January 2008 the Group acquired a 7% share in MOL. At that time the Group granted to MOL a call option, which enabled MOL to reacquire the shares in the following 3 years for the price HUF 20,000 per share. The amount paid to MOL after deduction of option premium received was EUR 560 million. The transaction was recorded as a receivable together with a written put option. In 2009 the terms of the call option were amended whereas now MOL can reacquire the shares in the period until January 2014 which also resulted in the change in effective interest rate applied on recorded receivable. The purchase was originally financed through a new loan in the total amount of EUR 600 million. Within the scope of cooperation the Group together with MOL also established 50-50% joint-ventures in order to pursue jointly business opportunities and develop projects in the business of gas-fired power and heat plants in Central and South-Eastern Europe. The written put option is shown as a liability from derivatives in Trade and other payables (see Note 21).

Movements in impairment provisions (in CZK millions):

	2010		2009	
	Available-for-sale financial assets	Long-term receivables	Available-for-sale financial assets	Long-term receivables
Opening balance	53	-	78	27
Additions	1	-	5	28
Reversals	(11)	-	(30)	(55)
Closing balance	43	-	53	-

Debt instruments at December 31, 2010 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	299	-	1,068	1,367
Due in 2 – 3 years	141	-	483	624
Due in 3 – 4 years	16,257	-	49	16,306
Due in 4 – 5 years	10	-	422	432
Due in more than 5 years	1,718	109	1,977	3,804
Total	18,425	109	3,999	22,533

Debt instruments at December 31, 2009 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	509	-	592	1,101
Due in 2 – 3 years	9	-	1,062	1,071
Due in 3 – 4 years	3	-	418	421
Due in 4 – 5 years	17,699	-	50	17,749
Due in more than 5 years	2,146	110	2,286	4,542
Total	20,366	110	4,408	24,884

Debt instruments at December 31, 2010 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 2.0%	370	-	237	607
From 2.0% to 3.0%	114	-	458	572
From 3.0% to 4.0%	-	-	226	226
From 4.0% to 5.0%	-	109	2,971	3,080
From 5.0% to 6.0%	16,250	-	107	16,357
Over 6.0%	1,691	-	-	1,691
Total	18,425	109	3,999	22,533

Debt instruments at December 31, 2009 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 2.0%	522	-	95	617
From 2.0% to 3.0%	15	-	796	811
From 3.0% to 4.0%	12	-	182	194
From 4.0% to 5.0%	17,695	110	3,132	20,937
Over 5.0%	2,122	-	203	2,325
Total	20,366	110	4,408	24,884

The following table analyses the debt instruments at December 31, 2010 by currency (in CZK millions):

	CZK	EUR	PLN	USD	Total
Long-term receivables	328	18,095	1	1	18,425
Debt securities held-to-maturity	109	-	-	-	109
Debt securities available-for-sale	3,999	-	-	-	3,999
Total	4,436	18,095	1	1	22,533

The following table analyses the debt instruments at December 31, 2009 by currency (in CZK millions):

	CZK	EUR	Total
Long-term receivables	525	19,841	20,366
Debt securities held-to-maturity	110	-	110
Debt securities available-for-sale	4,408	-	4,408
Total	5,043	19,841	24,884

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2010 and 2009 are as follows (in CZK millions):

	Software	Rights and Other	Goodwill	Total 2010	Total 2009
Cost at January 1	8,397	5,295	11,637	25,329	23,701
Additions	1,034	296	46	1,376	983
Disposals	(221)	-	-	(221)	(163)
Reclassification to assets classified as held for sale	(13)	(1)	-	(14)	-
Acquisition of subsidiaries and non-controlling interests	3	-	1,579	1,582	4,336
Disposal of subsidiaries	-	-	-	-	(3)
Impairment of goodwill	-	-	(2,826)	(2,826)	(3,263)
Reclassification and other	(12)	9	-	(3)	-
Currency translation differences	(5)	(125)	(557)	(687)	(262)
Cost at December 31	9,183	5,474	9,879	24,536	25,329
Accumulated amortization and impairment at January 1	(5,981)	(2,040)	-	(8,021)	(6,998)
Amortization charge for the year	(902)	(313)	-	(1,215)	(1,199)
Net book value of assets disposed	(3)	(3)	-	(6)	(2)
Disposals	221	-	-	221	163
Reclassification to assets classified as held for sale	13	1	-	14	-
Reclassification and other	10	(10)	-	-	2
Impairment losses reversed	2	-	-	2	-
Currency translation differences	4	43	-	47	13
Accumulated amortization and impairment at December 31	(6,636)	(2,322)	-	(8,958)	(8,021)
Net intangible assets at December 31	2,547	3,152	9,879	15,578	17,308

At December 31, 2010 and 2009, intangible assets presented in the balance sheet include intangible assets in progress in the amount of CZK 1,298 million and CZK 1,345 million, respectively.

At December 31, 2010, goodwill was allocated to the respective operating segments based on the classification of the related subsidiaries (see Note 30).

Impairment testing of goodwill

At December 31, 2010 and 2009 goodwill was allocated to the following cash-generating units for the purpose of impairment testing (in CZK millions):

	2010	2009
Bulgarian distribution	-	1,057
Romanian distribution and sale	3,360	3,542
TEC Varna	-	1,936
Polish power plants (ELCHO, Skawina)	1,151	1,265
Czech distribution and sale	2,182	2,182
Energetické centrum	507	504
ČEZ Teplárenská	679	679
Albanian distribution	284	303
Teplárna Trmice	1,579	-
Other	137	169
Total carrying amount of goodwill	9,879	11,637

The Group performed impairment tests of goodwill and as a result of these tests in 2010 the Group recognized the total impairment loss of CZK 2,826 million for the Bulgarian distribution and TEC Varna. This impairment of goodwill was mainly a result of worsened electricity market conditions and setting of the prices by electricity regulator in Bulgaria.

In 2009 the Group recognized the impairment loss of CZK 3,263 million for the Polish power plants. This impairment of goodwill was caused mainly by the termination of long-term contract for the sale of electricity with Polskie Sieci Elektroenergetyczne (for more information about the terminated long-term contract and related compensations see Note 23).

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 Bulgarian distribution and TEC Varna has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and discount rate of 7.3% for distribution and 9.2% for Varna power plant. No growth rate is considered for cash flows of the Bulgarian distribution beyond the five-year period. The calculation did not include any cash flows for Varna power plant beyond 2015. 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 recoverable amount of Polish power plants has also been determined based on a value in use calculation. Those cash flow projections are also based on financial budgets approved by management covering a five-year period and discount rate of 7.6%. Cash flows beyond the five-year period are extrapolated using 2.0% growth rate. This growth rate represents the predicted long-term average growth rate of cash flows under currently known capacities and circumstances. The calculation did not include any cash flows for Skawina power plant beyond 2015. 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, ČEZ Teplárenská, Teplárna Trmice and Energetické centrum. Those cash flow projections are also based on financial budgets approved by management covering a five-year period and discount rate of 7.6% for ČEZ Teplárenská, Teplárna Trmice and Energetické centrum and 5.8% for Czech distribution and sale. No growth rate is considered for cash flows beyond the five-year period except for cash-flows of Teplárna Trmice and Energetické centrum which are extrapolated using an average growth rate of 2.0%. This growth rate represents the predicted long-term average growth rate of cash flows under currently known circumstances. 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 also based on financial budgets approved by management covering a five-year period and discount rate of 5.9%. No growth rate is considered for cash flows beyond the five-year period. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The calculations of value in use for all cash-generating units are most sensitive to the following assumptions:

Gross margins – Gross margins are based on average volumes achieved in three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Raw materials price inflation – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

Discount rate – Discount rates reflect management's estimate of the risk specific to each unit. The basis used to determine the value assigned is weighted average cost of capital (WACC) of the related subsidiaries.

Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is the forecast of market and regulatory environment, where subsidiaries conduct the business.

6. Changes in the Group Structure

Acquisitions of subsidiaries from third parties in 2010

In May 2010, the Group acquired an 85% interest in Teplárna Trmice, a.s., whose business is the production and sale of heat and electricity. As part of this business combination the Group also gained control over Tepelné hospodářství města Ústí nad Labem s.r.o. (together „Teplárna Trmice“).

As the fair values of identifiable assets acquired and liabilities assumed have not yet been determined, the Group provisionally recognized assets acquired and liabilities assumed using book values as the best estimate of fair values. The book values of identifiable assets acquired and liabilities assumed as of the date of acquisition are as follows (in CZK millions):

	Teplárna Trmice
Share acquired in 2010	85%
Property, plant and equipment	4,160
Other non-current assets	47
Cash and cash equivalents	298
Receivables, net	209
Income tax receivable	1
Materials and supplies, net	42
Fossil fuel stocks	26
Other current assets	371
Non-controlling interests	(66)
Long-term debt, net of current portion	(27)
Other long-term liabilities	(2)
Deferred tax liability	(520)
Trade and other payables	(413)
Income tax payable	(35)
Accrued liabilities	(204)
Total net assets	3,887
Share of net assets acquired	3,304
Goodwill	1,579
Total purchase consideration	4,883
Less:	
Cash and cash equivalents in the subsidiary acquired	(298)
Consideration paid in previous periods	(38)
Cash outflow on acquisition of the subsidiary	4,547

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group’s income statement for the year 2010 (in CZK millions):

	Teplárna Trmice
Revenues	725
Income before other income (expense) and income taxes	299
Net income	178

If the combination had taken place at the beginning of the year, the profit for CEZ Group would have been CZK 47,322 million and revenues from continuing operation would have been CZK 199,506 million. The provisional amount of goodwill recognized as a result of the business combination comprises the fair value of expected synergies arising from the acquisition.

Acquisitions of non-controlling interests from third parties in 2010

In July 2010 the Group increased its capital share in CEZ Servicii S.A. from 63% to 100%. In August 2010 the capital share of the Group in Elektrociepłownia Chorzów ELCHO sp. z o.o. was increased from 75.20% to 100%, whereas the share on profit was increased from 88.82% to 100%.

The following table summarizes the critical terms of these transactions (in CZK millions):

	CEZ Servicii	ELCHO
Share of net assets acquired	17	567
Amount directly recognized in equity	3	(118)
Total purchase consideration	20	449

The following table summarizes the cash outflows on acquisitions in 2010 (in CZK millions):

Cash outflows on acquisition of the subsidiary	4,845
Additional cash outflows for acquisitions made in previous periods	46
Cash outflows paid on acquisitions in progress	902
Cash outflows on acquisitions of non-controlling interests	469
Cash contribution to joint-venture and associate	1,904
Change in payables from acquisitions	94
Less cash acquired	(298)
Total cash outflows on acquisitions in 2010	7,962

Acquisitions of subsidiaries from third parties in 2009

In May 2009 the Group acquired 76% share in the electricity distribution and sale company Operatori i Sistemit te Shpërndarjes Sh.A. ("OSSh") in Albania.

In April 2009 the Group acquired 100% share in the heating company CZECH HEAT a.s. ("Czech Heat") in the Czech Republic.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired in 2009 at the date of acquisition are as follows (in CZK millions):

	OSSh	Czech Heat
Shares acquired in 2009	76%	100%
Property, plant and equipment	5,561	149
Other non-current assets	324	377
Cash and cash equivalents	116	8
Receivables, net	1,151	22
Materials and supplies, net	300	2
Other current assets	-	1
Long-term liabilities	(1,785)	(77)
Deferred tax liability	-	(44)
Short-term loans	(264)	(145)
Trade and other payables	(1,662)	(93)
Accrued liabilities	(163)	-
Total net assets	3,578	200
Share of net assets acquired	2,719	200
Goodwill	308	504
Total purchase consideration	3,027	704
Less:		
Cash and cash equivalents in subsidiaries acquired	(116)	(8)
Cash outflow on acquisition of subsidiaries	2,911	696

The carrying values of the acquired assets and liabilities of the subsidiaries acquired in 2009 at the date of acquisition were as follows (in CZK millions):

	OSSh	Czech Heat
Property, plant and equipment	5,561	54
Other non-current assets	245	334
Cash and cash equivalents	116	8
Receivables, net	1,151	22
Materials and supplies, net	300	2
Other current assets	-	1
Long-term liabilities	(2,581)	(77)
Short-term loans	(264)	(145)
Trade and other payables	(1,662)	(93)
Accrued liabilities	(163)	-
Total book value of net assets	2,703	106

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group's income statement for the year 2009 (in CZK millions):

	OSSh	Czech Heat
Revenues	4,288	103
Income before other income (expense) and income taxes	(832)	48
Net income	(1,064)	42

If the combinations had taken place at the beginning of the year, the profit for the CEZ Group would have been CZK 51,422 million and revenues from continuing operation would have been CZK 198,165 million. The goodwill recognized as a result of the business combinations comprises the fair value of expected synergies arising from the acquisitions.

Acquisitions of joint-ventures from third parties in 2009

In June 2009 the joint-venture of CEZ Group and J&T Group acquired 100% share in the German coal mining company Mitteldeutsche Braunkohlengesellschaft mbH. The Shareholders' agreement gives CEZ Group 50% of the voting rights.

In May 2009 the Group acquired 37.36% share in Turkish utility company Akenerji Elektrik Üretim A.S.

In February 2009 the consortium of CEZ Group and Turkish entities Akkök Group and Akenerji Elektrik Üretim A.S. acquired through the joint-venture Akcez Enerji A.S. 100% share in the Turkish electricity distribution company Sakarya Elektrik Dagitim A.S. which has the right to operate the distribution grid in Sakarya region for the period of 30 years.

CEZ Group concluded shareholders' agreements with Akkök Group and therefore the investments in Sakarya Elektrik Dagitim A.S. and Akenerji Elektrik Üretim A.S. are classified as joint-ventures.

Summary of acquisitions of joint-ventures acquired in 2009 is as follows (in CZK millions):

	Mitteldeutsche Braunkohlengesellschaft mbH	Akenerji Elektrik Üretim A.S.	Sakarya Elektrik Dagitim A.S.
Shares acquired in 2009	50.00%	37.36%	44.31%
Total net assets	17,278	8,055	7,777
Share of net assets acquired	8,639	3,009	3,446
Goodwill / (negative goodwill)	(3,304)	1,979	2,590
Total purchase consideration	5,335	4,988	6,036
Cash outflows on acquisition of joint-ventures	* -	4,988	* -

* The cash outflows for the acquisition were incurred by the joint-venture.

Acquisitions of non-controlling interest in 2009

In September 2009 the Group increased its capital share in CEZ Distributie S.A. and CEZ Vanzare S.A. from 51% to 81% and in October 2009 the capital share was further increased to 100%. In 2009 the capital share in CEZ Servicii S.A. was increased from 51% to 63%.

The following table summarizes the critical terms of the subsequent acquisitions of non-controlling interest during 2009 (in CZK millions):

	Romanian companies
Share of net assets acquired	6,153
Goodwill	3,417
Total purchase price	9,570

The following table summarizes the cash outflows on acquisitions during 2009 (in CZK millions):

Cash outflows on acquisition of subsidiaries	3,731
Cash outflows on acquisition of joint-ventures	4,988
Cash outflows on purchase of non-controlling interests	9,570
Cash contribution to joint-ventures and associate	7,536
Change in payables from acquisitions	(549)
Less cash acquired	(124)
Total cash outflows on acquisitions in 2009	25,152

7. Investments in Subsidiaries, Associates and Joint-ventures

The consolidated financial statements include the financial figures of ČEZ, a. s., and the subsidiaries, associates and joint-ventures listed in the following table:

Subsidiaries	Country of incorporation	% equity interest 2010	% equity interest 2009	% voting interest 2010	% voting interest 2009
3 L invest a.s.	Czech Republic	100.00%	-	100.00%	-
AREA-GROUP CL a.s.	Czech Republic	100.00%	-	100.00%	-
Bioplyn technologie s.r.o.	Czech Republic	100.00%	-	100.00%	-
Bohemian Development, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Centrum výzkumu Řež s.r.o.	Czech Republic	52.46%	-	100.00%	-
CEZ Albania Sh.A.	Albania	100.00%	100.00%	100.00%	100.00%
CEZ Bosna i Hercegovina d.o.o.	Bosnia and Herzegovina	100.00%	100.00%	100.00%	100.00%
CEZ Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ Ciepło Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Deutschland GmbH	Germany	100.00%	100.00%	100.00%	100.00%
CEZ Distributie S.A.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ Elektro Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ Elektroproizvodstvo Bulgaria AD	Bulgaria	100.00%	100.00%	100.00%	100.00%
CEZ FINANCE B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Finance Ireland Ltd.	Ireland	100.00%	100.00%	100.00%	100.00%
CEZ Hungary Ltd.	Hungary	100.00%	100.00%	100.00%	100.00%
CEZ Chorzow B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ International Finance B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Laboratories Bulgaria EOOD	Bulgaria	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.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Poland Distribution B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Produkty Energetyczne Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%	100.00%
CEZ Razpredelenie Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%	67.00%
CEZ Romania S.A.	Romania	100.00%	100.00%	100.00%	100.00%
CEZ RUS OOO	Russia	100.00%	100.00%	100.00%	100.00%
CEZ Servicii S.A.	Romania	100.00%	63.00%	100.00%	63.00%
CEZ Shpërndarje Sh.A. [1)]	Albania	76.00%	76.00%	76.00%	76.00%
CEZ Silesia B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
CEZ Slovensko, s.r.o.	Slovakia	100.00%	100.00%	100.00%	100.00%
CEZ Srbija d.o.o.	Serbia	100.00%	100.00%	100.00%	100.00%
CEZ 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 CJSC	Ukraine	100.00%	100.00%	100.00%	100.00%
CEZ Vanzare S.A.	Romania	100.00%	100.00%	100.00%	100.00%
CZECH HEAT a.s. [2)]	Czech Republic	-	100.00%	-	100.00%
CZ INVEST – PLUS, a.s. [3)]	Czech Republic	-	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 Distribuční zařízení, a.s. [4)]	Czech Republic	-	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 ENERGOSERVIS spol. s r.o.	Czech Republic	100.00%	-	100.00%	-
ČEZ ICT Services, a. s.	Czech Republic	100.00%	100.00%	100.00%	100.00%

Subsidiaries	Country of incorporation	% equity interest 2010	2009	% voting interest 2010	2009
ČEZ Logistika, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Měření, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Prodej, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Správa majetku, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Teplárenská, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
DOMICA FPI s.r.o.	Czech Republic	100.00%	-	100.00%	-
EDICOLLA a.s. 3)	Czech Republic	-	100.00%	-	100.00%
eEnergy Hodonín a.s.	Czech Republic	100.00%	-	100.00%	-
eEnergy Ralsko a.s.	Czech Republic	100.00%	-	100.00%	-
eEnergy Ralsko - Kuřívody a.s.	Czech Republic	100.00%	-	100.00%	-
Elektra Žabčice a.s. 3)	Czech Republic	-	100.00%	-	100.00%
Elektrárna Chvaletice a.s.	Czech Republic	100.00%	-	100.00%	-
Elektrociepłownia Chorzów ELCHO sp. z o.o.	Poland	100.00%	88.82%	100.00%	75.20%
Elektrownia Skawina S.A.	Poland	100.00%	100.00%	100.00%	100.00%
Energetické centrum s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
FVE Buštěhrad a.s.	Czech Republic	100.00%	-	100.00%	-
FVE Vranovská Ves a.s.	Czech Republic	100.00%	-	100.00%	-
GENTLEY a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
KEFARIUM,a.s.	Czech Republic	100.00%	-	100.00%	-
MALLA, a.s. 3)	Czech Republic	-	100.00%	-	100.00%
MARTIA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
M.W. Team Invest S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
NERS d.o.o.	Bosnia and Herzegovina	51.00%	51.00%	51.00%	51.00%
New Kosovo Energy L.L.C.	Kosovo	100.00%	100.00%	100.00%	100.00%
Ovidiu Development S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
PPC Úžín, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
PRODECO, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - 1.strojírenská, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - Autodoprava, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - Kolejová doprava, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
SD - KOMES, a.s.	Czech Republic	92.65%	92.65%	92.65%	92.65%
SD - Rekultivace, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Severočeské doly a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
STE - obchodní služby spol. s r.o. v likvidaci	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA Invest s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Š-BET s.r.o. 3)	Czech Republic	-	100.00%	-	100.00%
Taidana Limited	Cyprus	100.00%	-	100.00%	-
TEC Varna EAD	Bulgaria	100.00%	100.00%	100.00%	100.00%
Tepelné hospodářství města Ústí nad Labem s.r.o.	Czech Republic	52.89%	-	55.83%	-
Teplárna Trmice, a.s.	Czech Republic	85.00%	-	85.00%	-
TEPLEX s.r.o. 5)	Czech Republic	-	100.00%	-	100.00%
Tomis Team S.R.L.	Romania	100.00%	100.00%	100.00%	100.00%
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46%	52.46%	52.46%	52.46%

Associates and joint-ventures	Country of incorporation	% equity interest 2010	2009	% voting interest 2010	2009
Akcez Enerji A.S.	Turkey	44.31%	44.31%	50.00%	50.00%
Aken B.V.	Netherlands	37.36%	37.36%	50.00%	50.00%
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	Turkey	37.36%	-	50.00%	-
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	Turkey	33.63%	33.63%	45.00%	45.00%
Akenerji Elektrik Üretim A.S.	Turkey	37.36%	37.36%	37.36%	37.36%
Akka Elektrik Üretim A.S.	Turkey	33.63%	33.63%	45.00%	45.00%
Akkur Enerji Üretim A.S.	Turkey	36.99%	36.99%	49.50%	49.50%
AK-EL Yalova Elektrik Üretim A.S.	Turkey	33.65%	33.65%	45.54%	45.54%
CM European Power International B.V.	Netherlands	50.00%	50.00%	50.00%	50.00%
CM European Power International s.r.o.	Slovakia	50.00%	50.00%	50.00%	50.00%
CM European Power Slovakia s.r.o.	Slovakia	50.00%	50.00%	50.00%	50.00%
Egemer Elektrik Üretim A.S.	Turkey	37.36%	36.99%	50.00%	49.50%
Energonuclear S.A. [6]	Romania	-	9.15%	-	9.15%
Ickale Enerji Elektrik Ūretim ve Ticaret A.S.	Turkey	37.36%	-	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%	-	50.00%	-
JTSD - Braunkohlebergbau GmbH [7]	Germany	50.00%	50.00%	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	36.99%	36.99%	49.50%	49.50%
Mibrag B.V. [8]	Netherlands	-	50.00%	-	50.00%
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	50.00%	50.00%	50.00%	50.00%
MOL - CEZ European Power Hungary Ltd.	Hungary	50.00%	50.00%	50.00%	50.00%
Sakarya Elektrik Dagitim A.S.	Turkey	44.31%	44.31%	50.00%	50.00%

The equity interest represents effective ownership interest of the Group.

1) The former company name Operatori i Sistemit te Shpërndarjes Sh.A. was changed to CEZ Shpërndarje Sh.A. in September 2010.

2) CZECH HEAT a.s. merged with the succession company Energetické centrum s.r.o. with the effective date of January 1, 2010.

3) These companies merged with the succession company ČEZ Obnovitelné zdroje, s.r.o. with the effective date of January 1, 2010.

4) ČEZ Distribuční zařízení, a.s. merged with ČEZ Distribuce, a. s. with the effective date of January 1, 2010.

5) TEPLEX s.r.o. merged with the succession company ČEZ Teplárenská, a.s. with the effective date of January 1, 2010.

6) The Group exercised significant influence in the entity and therefore the entity was classified as an associate. The share in the entity was sold in December 2010.

7) Financial information for JTSD – Braunkohlebergbau GmbH is included below as part of the financial information for Mitteldeutsche Braunkohlengesellschaft mbH.

8) On January 26, 2010, Mibrag B.V. merged with the succession company JTSD – Braunkohlebergbau GmbH.

The following table illustrates summarized financial information of joint-ventures for the year ended December 31, 2010 (in CZK millions):

	Total current assets	Total non-current assets	Total current liabilities	Total non-current liabilities	Revenues	Expenses	Net income
Akcez Enerji A.S.	192	11,661	6,205	-	-	(501)	(501)
Aken B.V.	28	-	1	-	-	-	-
Akenerji Dogal Gaz Ithalat Ihracat ve Toptan Ticaret A.S.	475	1	432	-	458	(453)	5
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	909	17	746	-	3,464	(3,353)	111
Akenerji Elektrik Üretim A.S.	6,329	14,282	4,814	6,232	4,269	(4,388)	(119)
Akka Elektrik Üretim A.S.	3	14	18	-	-	-	-
Akkur Enerji Üretim A.S.	851	4,842	3,402	1,898	20	(131)	(111)
AK-EL Yalova Elektrik Üretim A.S.	149	2	-	-	-	(6)	(6)
CM European Power International B.V.	861	1,013	2	-	33	-	33
CM European Power International s.r.o.	56	131	40	-	-	(25)	(25)
CM European Power Slovakia s.r.o.	1,866	1,448	1,106	811	3,365	(3,134)	231
Egemer Elektrik Üretim A.S.	1,444	1,055	836	-	12	-	12
Ickale Enerji Elektrik Üretim ve Ticaret A.S.	584	53	10	-	15	-	15
Jadrová energetická spoločnosť Slovenska, a. s.	2,771	3,120	25	-	40	(139)	(99)
JESS Invest, s. r. o.	100	-	2	-	-	(3)	(3)
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	684	1,277	1,024	739	9	(82)	(73)
Mitteldeutsche Braunkohlengesell-schaft mbH [1)]	2,757	19,743	2,136	13,757	10,531	(10,101)	430
MOL - CEZ European Power Hungary Ltd.	192	337	259	-	29	(2)	27
Sakarya Elektrik Dagitim A.S.	3,729	1,137	1,965	1,118	17,450	(16,632)	818
Total	23,980	60,133	23,023	24,555	39,695	(38,950)	745

[1)] Financial information for Mitteldeutsche Braunkohlengesellschaft mbH includes also the financial information for JTSD - Braunkohlebergbau GmbH.

The following table illustrates summarized financial information of joint-ventures for the year ended December 31, 2009 (in CZK millions):

	Total current assets	Total non-current assets	Total current liabilities	Total non-current liabilities	Reve-nues	Expen-ses	Net income
Akcez Enerji A.S.	234	11,826	5,846	-	117	(37)	80
Aken B.V.	29	-	-	-	1	-	1
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	194	2	121	-	549	(479)	70
Akenerji Elektrik Üretim A.S.	5,579	11,533	4,966	6,100	5,757	(5,542)	215
Akka Elektrik Üretim A.S.	3	14	17	-	-	(1)	(1)
Akkur Enerji Üretim A.S.	1,171	2,796	1,881	1,519	4	-	4
AK-EL Yalova Elektrik Üretim A.S.	166	2	9	-	10	(2)	8
CM European Power International B.V.	869	1,050	1	-	1	(5)	(4)
CM European Power International s.r.o.	159	95	72	-	14	(29)	(15)
CM European Power Slovakia s.r.o.	1,117	1,583	1,229	252	2,154	(1,973)	181
Egemer Elektrik Üretim A.S.	1,678	32	35	-	20	(2)	18
Jadrová energetická spoločnosť Slovenska, a. s.	6,298	-	-	-	-	-	-
JTSD - Braunkohlebergbau GmbH	112	10,990	7,457	4,234	-	(688)	(688)
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	757	49	238	297	5	(22)	(17)
MIBRAG B.V.	1,100	8,618	1	-	-	(2)	(2)
Mitteldeutsche Braunkohlengesell-schaft mbH	5,219	21,762	3,402	6,637	5,076	(4,696)	380
MOL - CEZ European Power Hungary Ltd.	104	303	140	-	59	(50)	9
Sakarya Elektrik Dagitim A.S.	3,461	1,271	2,122	1,602	16,851	(16,693)	158
Total	28,250	71,926	27,537	20,641	30,618	(30,221)	397

The associates are not listed on any public exchange. The following table illustrates summarized financial information of an associate for the year ended December 31, 2010 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
LOMY MOŘINA spol. s r.o.	412	47	365	206	(1)

The following table illustrates summarized financial information of associates for the year ended December 31, 2009 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
Energonuclear S.A.	109	1	108	5	(15)
LOMY MOŘINA spol. s r.o.	414	49	365	210	(2)
Total	523	50	473	215	(17)

8. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2010 and 2009 is as follows (in CZK millions):

	2010	2009
Cash on hand and current accounts with banks	5,513	6,420
Short-term bank notes	1,824	1,371
Term deposits	14,826	18,936
Total	22,163	26,727

At December 31, 2010 and 2009, cash and cash equivalents included foreign currency deposits of CZK 12,523 million and CZK 20,375 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2010 and 2009 was 2.1% and 1.8%, respectively. For the years 2010 and 2009 the weighted average interest rate was 1.1% and 3.4%, respectively.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at December 31, 2010 and 2009 (in CZK millions):

	2010	2009
Cash and cash equivalents as a separate line in the balance sheet	22,163	26,727
Cash and cash equivalents attributable to assets classified as held for sale (Note 13)	23	-
Total	22,186	26,727

9. Receivables, Net

The composition of receivables, net, at December 31, 2010 and 2009 is as follows (in CZK millions):

	2010	2009
Unbilled electricity supplied to retail customers	7,636	1,520
Received advances from retail customers	(6,414)	(781)
Unbilled supplies to retail customers, net	1,222	739
Trade receivables	42,467	42,695
Taxes and fees, excluding income taxes	3,224	2,860
Other receivables	4,848	10,229
Allowance for doubtful receivables	(12,138)	(10,173)
Total	39,623	46,350

The information about receivables from related parties is included in Note 29.

At December 31, 2010 and 2009, the ageing analysis of receivables, net is as follows (in CZK millions):

	2010	2009
Not past due	37,370	43,343
Past due but not impaired [1]:		
Less than 3 months	1,421	1,764
3 – 6 months	491	823
6 – 12 months	236	357
more than 12 months	105	63
Total	39,623	46,350

[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):

	2010	2009
Opening balance	10,173	3,724
Additions	4,186	5,179
Reversals	(1,773)	(1,739)
Acquisition of subsidiaries	89	3,280
Currency translation differences	(537)	(271)
Closing balance	12,138	10,173

10. Emission Rights

In 2005 an emission trading scheme was introduced in the European Union. The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights and credits held by the Group during 2010 and 2009 (in CZK millions):

	2010		2009	
	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	38,659	869	41,751	1,274
Emission rights granted	41,831	-	42,494	-
Emission rights acquired in business combinations	1,125	-	22	27
Settlement of prior year actual emissions	(37,319)	(46)	(40,408)	-
Emission rights purchased	2,585	1,267	794	392
Emission rights sold	(6,300)	-	(4,066)	(7)
Emission credits purchased	26	12	929	332
Emission credits sold	(6)	(2)	(2,857)	(1,155)
Reclassified to emission credits held for trading	(467)	(163)	-	-
Reclassified to assets classified as held for sale	(3,394)	(241)	-	-
Currency translation differences	-	(2)	-	6
Granted and purchased emission rights and credits at December 31	36,740	1,694	38,659	869
Emission rights and credits held for trading:				
Emission rights and credits for trading at January 1	-	-	-	-
Emission rights purchased	8,231	3,019	45,025	18,284
Emission rights sold	(8,231)	(3,021)	(45,025)	(18,292)
Emission credits purchased	2,313	933	3,967	1,484
Emission credits sold	(1,210)	(466)	(3,967)	(1,484)
Reclassified from emission credits for own use	467	163	-	-
Fair value adjustment	-	(156)	-	8
Emission rights and credits held for trading at December 31	1,570	472	-	-

During 2010 and 2009 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 39,257 thousand tons and 37,319 thousand tons of CO_2, respectively. At December 31, 2010 and 2009 the Group recognized a provision for CO_2 emissions in total amount of CZK 2,198 million and CZK 1,077 million, respectively (see Note 2.13).

At December 31, 2010 and 2009 the balance of emission rights presented in the balance sheet includes also green and similar certificates in total amount CZK 482 million and CZK 343 million, respectively.

The following table shows the impact of transactions with emission rights and credits, green and similar certificates on income for the years ended December 31, 2010 and 2009 (in CZK millions):

	2010	2009
Gain on sales of granted emission rights	2,287	1,787
Net gain from emission rights trading	294	272
Net loss from emission credits trading	(158)	(642)
Gain on green and similar certificates	505	218
Net gain (loss) from derivatives	1,051	(1,306)
Creation of provisions for emissions rights	(2,506)	(1,061)
Settlement of provisions for emissions rights	1,117	1,029
Remitted emission rights	(46)	-
Fair value adjustment	(156)	8
Net gain related to emission rights, emission credits and green and similar certificates	2,388	305

11. Other Financial Assets, net

Other financial assets, net, at December 31, 2010 and 2009 were as follows (in CZK millions):

	2010	2009
Debt securities held-to-maturity	401	350
Debt securities available-for-sale	593	1,263
Equity securities available-for-sale	3,151	-
Derivatives	12,257	28,093
Total	16,402	29,706

Derivatives balance is mainly composed of positive fair value of electricity trading contracts and emission rights derivatives.

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

Short-term debt securities at December 31, 2010 have the following effective interest rate structure (in CZK millions):

	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	401	200	601
From 3.0% to 4.0%	-	82	82
From 4.0% to 5.0%	-	207	207
Over 5.0%	-	104	104
Total	401	593	994

Short-term debt securities at December 31, 2009 have the following effective interest rate structure (in CZK millions):

	Debt securities held-to-maturity	Debt securities available-for-sale	Total
From 2.0% to 3.0%	175	1,084	1,259
From 3.0% to 4.0%	-	179	179
Over 5.0%	175	-	175
Total	350	1,263	1,613

All short-term debt securities are denominated in CZK.

12. Other Current Assets

The composition of other current assets at December 31, 2010 and 2009 is as follows (in CZK millions):

	2010	2009
Advances paid	1,822	1,213
Prepayments	1,572	1,196
Total	3,394	2,409

13. Assets Classified as Held for Sale

The Group has classified its subsidiary Elektrárna Chvaletice a.s. as a disposal group held for sale. Elektrárna Chvaletice a.s. operates a coal fired power plant in East Bohemia. The Group has concluded a triangular agreement with Dalkia and EPH to continue restructuring of its source portfolio in the Czech Republic. According to the previously reported plans ČEZ will sell the Chvaletice power plant to EPH and it will acquire the heat distribution system in North Bohemia (Most and Litvínov agglomerations) from EPH. The sale of Elektrárna Chvaletice a.s. is expected to be finalized in 2011.

The major classes of assets and liabilities classified as held for sale as at December 31, 2010 and 2009 are as follows (in CZK millions):

	2010	2009
Property, plant and equipment	2,071	-
Other non-current assets	1	-
Cash and cash equivalents	23	-
Receivables, net	88	-
Other current assets	375	-
Assets classified as held for sale	2,558	-
Long-term liabilities	(33)	-
Deferred tax liability	(257)	-
Trade and other payables	(29)	-
Other short-term liabilities	(441)	-
Liabilities directly associated with assets classified as held for sale	(760)	-
Net assets classified as held for sale	1,798	-

The assets and results of Elektrárna Chvaletice a.s. are reported in the operating segment Power Production and Trading / Central Europe.

14. Equity

As at December 31, 2010, 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.

The General Meeting of the Company, held on May 21, 2008, passed a resolution to reduce the share capital of the Company from CZK 59,221,084,300 to CZK 53,798,975,900, i.e. by CZK 5,422,108,400. The reduction of share capital was entered in the Commercial register on February 12, 2009 and was made in the form of cancellation of 54,221,084 treasury shares with a nominal value of CZK 100 per share, i.e. by the delisting of shares.

Movements of treasury shares in 2010 and 2009 (in pieces):

	2010	2009
Number of treasury shares at beginning of period	4,555,021	59,171,105
Reduction of stated capital	-	(54,221,084)
Sales of treasury shares	(470,000)	(395,000)
Number of treasury shares at end of period	4,085,021	4,555,021

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

Dividends paid per share were CZK 53.0 and CZK 50.0 in 2010 and 2009, respectively. Dividends from 2010 profit will be declared on the general meeting, which will be held in the first half of 2011.

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. The Group's 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%.

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

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

	2010	2009
Total long-term debt	154,826	125,553
Total short-term loans	9,618	31,257
Total debt	164,444	156,810
Less: Cash and cash equivalents	(22,163)	(26,727)
Less: Highly liquid financial assets	(7,743)	(5,671)
Total net debt	134,538	124,412
Income before income taxes and other income (expenses)	65,057	68,199
Plus: Depreciation and amortization	24,032	22,876
EBITDA	89,089	91,075
Total equity attributable to equity holders of the parent	221,611	200,361
Total debt	164,444	156,810
Total capital	386,055	357,171
Net debt to EBITDA ratio	1.51	1.37
Total debt to total capital ratio	42.6%	43.9%

15. Long-term Debt

Long-term debt at December 31, 2010 and 2009 is as follows (in CZK millions):

	2010	2009
4.625% Eurobonds, due 2011 (EUR 154 million) [1]	3,850	10,569
4.125% Eurobonds, due 2013 (EUR 500 million)	12,474	13,153
5.125% Eurobonds, due 2012 (EUR 500 million)	12,510	13,199
6.000% Eurobonds, due 2014 (EUR 600 million)	14,954	15,768
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,764	2,383
5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million)	30	30
4.270% Zero Coupon Eurobonds, due 2011 (CZK 1,400 million)	1,379	1,322
4.450% Zero Coupon Eurobonds, due 2011 (CZK 1,600 million)	1,573	1,504
5.750% Eurobonds, due 2015 (EUR 600 million)	14,980	15,807
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,844	1,590
5.000% Eurobonds, due 2021 (EUR 750 million) [2]	18,733	15,666
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million)	1,248	1,316
3M Euribor + 0.45% Eurobonds, due 2011 (EUR 110 million)	2,756	2,909
3M Libor + 0.70% Eurobonds, due 2012 (USD 100 million)	1,871	1,831
3M Euribor + 0.50% Eurobonds, due 2011 (EUR 100 million)	2,505	2,644
6M Pribor + 0.62% Eurobonds, due 2012 (CZK 3,000 million)	2,998	2,996
4.875% Eurobonds, due 2025 (EUR 750 million)	18,679	-
4.500% Eurobonds, due 2020 (EUR 750 million)	18,544	-
4.500% registered bonds, due 2030 (EUR 40 million)	976	-
9.220% Debentures, due 2014 (CZK 2,500 million) [3]	2,498	2,497
4.300% Debentures, due 2010 (CZK 6,000 million) [4]	-	5,847
Total bonds and debentures	137,166	111,031
Less: Current portion	(12,063)	(5,847)
Bonds and debentures, net of current portion	125,103	105,184
Long-term bank and other loans:		
Less than 2.00% p. a.	6,200	9,895
2.00% to 2.99% p. a.	10,609	3,736
3.00% to 3.99% p. a.	44	338
4.00% to 4.99% p. a.	431	552
6.00% to 6.99% p. a.	192	-
More than 6.99% p. a.	184	1
Total long-term bank and other loans	17,660	14,522
Less: Current portion	(2,723)	(785)
Long-term bank and other loans, net of current portion	14,937	13,737
Total long-term debt	154,826	125,553
Less: Current portion	(14,786)	(6,632)
Total long-term debt, net of current portion	140,040	118,921

1) In December 2010, the original nominal value of the issue (EUR 400 million) was reduced by bought back own bonds at a nominal value of EUR 246 million.

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

3) Since 2006 the interest rate has changed to consumer price index in the Czech Republic plus 4.20%. The interest rate as at December 31, 2010 and 2009 was 5.2% and 7.8%, respectively.

4) In 2009, the original nominal value of the issue (CZK 7,000 million) was reduced by bought back own debentures at a nominal value of CZK 1,000 million.

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. For the fair values of interest rate hedging instruments see Note 16.

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):

	2010	2009
Current portion	14,786	6,632
Between 1 and 2 years	18,668	21,888
Between 2 and 3 years	14,395	19,398
Between 3 and 4 years	19,137	14,899
Between 4 and 5 years	16,627	19,774
Thereafter	71,213	42,962
Total long-term debt	154,826	125,553

The following table analyses the long-term debt at December 31, 2010 and 2009 by currency (in millions):

	2010		2009	
	Foreign currency	CZK	Foreign currency	CZK
EUR	5,506	137,982	3,791	100,321
USD	115	2,149	110	2,020
JPY	22,032	5,086	22,057	4,386
PLN	6	38	9	61
RON	-	-	516	3,223
ALL	508	89	-	-
KRW	4,838	77	4,469	71
XDR	6	173	7	197
CZK	-	9,232	-	15,274
Total long-term debt		154,826		125,553

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual reprising dates at December 31, 2010 and 2009 without considering interest rate hedging (in CZK millions):

	2010	2009
Floating rate long-term debt		
with interest rate fixed for 1 month	24	-
with interest rate fixed from 1 to 3 months	9,717	10,419
with interest rate fixed from 3 months to 1 year	19,821	16,709
Total floating rate long-term debt	29,562	27,128
Fixed rate long-term debt	125,264	98,425
Total long-term debt	154,826	125,553

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 debt service coverage, ratio of debt to total capital and current ratio. In 2010 and 2009 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 estimated 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.

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, 2010 and 2009 are as follows (in CZK millions):

		2010		2009	
	Cate-gory	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Investments:					
Restricted debt securities available-for-sale	AFS	9,639	9,639	9,205	9,205
Restricted debt securities held-to-maturity	HTM	17	17	-	-
Restricted cash	LaR	2,309	2,309	1,200	1,200
Financial assets in progress	LaR	902	902	223	223
Debt securities held-to-maturity	HTM	109	119	110	110
Debt securities available-for-sale	AFS	3,999	3,999	4,408	4,408
Equity securities available-for-sale	AFS	15,456	15,456	13,567	13,567
Long-term receivables	LaR	18,425	19,888	20,366	23,245
Current assets:					
Receivables	LaR	39,623	39,623	46,350	46,350
Cash and cash equivalents	LaR	22,163	22,163	26,727	26,727
Debt securities held-to-maturity	HTM	401	401	350	350
Debt securities available-for-sale	AFS	593	593	1,263	1,263
Equity securities available-for-sale	AFS	3,151	3,151	-	-
Other current assets	LaR	1,822	1,822	1,213	1,213
Liabilities:					
Long-term debt	AC	(154,826)	(160,268)	(125,553)	(132,964)
Short-term loans	AC	(9,618)	(9,618)	(31,257)	(31,257)
Accounts payable	AC	(40,555)	(40,555)	(42,347)	(42,347)
Derivatives:					
Cash flow hedges:					
Short-term receivables	HFT	132	132	456	456
Long-term receivables	HFT	554	554	52	52
Short-term liabilities	HFT	(569)	(569)	(416)	(416)
Long-term liabilities	HFT	(965)	(965)	(1,256)	(1,256)
Total cash flow hedges		(848)	(848)	(1,164)	(1,164)

	Category	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
Electricity, coal and gas trading contracts:					
Short-term receivables	HFT	10,992	10,992	25,243	25,243
Short-term liabilities	HFT	(11,489)	(11,489)	(25,418)	(25,418)
Total electricity, coal and gas trading contracts		(497)	(497)	(175)	(175)
Other derivatives:					
Short-term receivables	HFT	1,133	1,133	2,394	2,394
Long-term receivables	HFT	1,099	1,099	292	292
Short-term liabilities	HFT	(6,191)	(6,191)	(8,672)	(8,672)
Long-term liabilities	HFT	(714)	(714)	(660)	(660)
Total other derivatives		(4,673)	(4,673)	(6,646)	(6,646)

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 2010 and 2009.

As at December 31, 2010, 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	10,992	144	10,848	-
Cash flow hedges	686	88	598	-
Other derivatives	2,232	214	2,017	1
Available-for-sale restricted debt securities	9,639	9,639	-	-
Available-for-sale debt securities	4,592	4,592	-	-
Available-for-sale equity securities *	3,151	3,151	-	-

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(11,489)	(35)	(11,454)	-
Cash flow hedges	(1,534)	(203)	(1,331)	-
Other derivatives	(6,905)	(87)	(6,818)	-

As at December 31, 2009, 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	25,243	33	25,210	-
Cash flow hedges	508	25	483	-
Other derivatives	2,686	176	2,508	2
Available-for-sale restricted debt securities	9,205	9,205	-	-
Available-for-sale debt securities	5,671	5,671	-	-
Available-for-sale equity securities *	38	-	-	38

Liabilities measured at fair value

	Total	Level 1	Level 2	Level 3
Electricity, coal and gas contracts	(25,418)	(36)	(25,382)	-
Cash flow hedges	(1,672)	(196)	(1,476)	-
Other derivatives	(9,332)	(153)	(9,179)	-

* Most of the available-for-sale equity securities are carried at cost as the fair value cannot be reliably measured.

17. Financial Risk Management

Risk management approach

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

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

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

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

Risk management organization

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

Overview and methods of risk management

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

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

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

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

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

- Market risks: financial (currency, interest and stock price) risks, commodity prices (electricity, emission allowances, coal, gas), volume (heat supply volume, volume of electricity buy-out produced by solar power plants).
- Credit risks: financial and business counterparty risk and electricity 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 and CF@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 source of market prices is mainly EEX, PXE and ICE
- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a potential change in fair value of contracts classified as derivatives under IAS 39 (these are the following commodities in the Group: electricity, emission allowances EUA and CER/ERU, gas, coal API2 and API4)
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series

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

	2010	2009
Monthly VaR (95%) – impact of changes in commodity prices	752	893

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 source of market foreign exchange rates and interest rate curves is mainly IS Reuters, IS Bloomberg and ČNB (Czech National Bank) data
- 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 flows from all contracted and highly probable financial and non-financial instruments (including the hedge accounting transactions of expected future cash flows under IFRS)
- the highly probable non-financial instruments include all foreign-currency operational and investment revenues and expenditures expected in 2011 and highly probable forecasted foreign-currency revenues from electricity sales in the future
- the relevant currency positions reflect all significant foreign-currency flows of the Group companies in the monitored basket of foreign currencies

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

	2010	2009
Monthly currency VaR (95% confidence)	272	289

Interest risks

The required quantitative information on risks (i.e. P/L sensitivity to the effects of interest risk as at December 31) was prepared based on the assumptions given below:

- the source of market interest rates and interest rate curves is mainly IS Reuters, IS Bloomberg and ČNB data
- parallel shift of the yield curves (+10bp) was selected as the indicator of interest risk
- the P/L sensitivity is measured as an annual change of the interest income and cost resulting from the current interest-sensitive positions
- the relevant interest positions reflect all significant interest-sensitive flows of the Group companies

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

	2010	2009
P/L IR sensitivity to parallel yield curve shift (+10bp)	(14)	(26)

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 prepared based on the assumptions given below:

- the source of market data is IS Bloomberg and ČNB data
- the indicator of stock risk is determined as the monthly parametric VaR (95% confidence)
- the relevant volatility and standard deviation is determined from risk module IS Bloomberg
- 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

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

	2010	2009
Monthly stock VaR (95% confidence)	1,269	1,783

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

	2010	2009
Guarantees provided to joint-ventures	2,813	5,489
Guarantees provided to external parties	481	529
Total	* 3,294	6,018

* Some of the guarantees could be called until February 2012 at the latest.

Liquidity risk

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

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *	Guarantees issued **
Less than 1 year	12,695	18,363	40,654	218,730	3,294
Between 1 and 2 years	1,628	23,436	277	44,395	-
Between 2 and 3 years	2,222	17,805	25	3,544	-
Between 3 and 4 years	1,946	22,264	83	359	-
Between 4 and 5 years	1,869	18,759	40	342	-
Thereafter	9,106	85,826	145	8,336	-
Total	29,466	186,453	41,224	275,706	3,294

Contractual maturity profile of financial liabilities at December 31, 2009 (in CZK millions):

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives *	Guarantees issued **
Less than 1 year	32,376	10,868	42,816	186,208	6,018
Between 1 and 2 years	3,290	23,578	538	34,639	-
Between 2 and 3 years	1,597	22,159	181	14,442	-
Between 3 and 4 years	1,967	16,607	144	402	-
Between 4 and 5 years	1,697	21,173	133	383	-
Thereafter	7,180	46,113	87	9,275	-
Total	48,107	140,498	43,899	245,349	6,018

* 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 2011 to 2015. The hedging instruments as at December 31, 2010 and 2009 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 4.7 billion and EUR 3.2 billion, respectively, and currency forward contracts and swaps. The fair value of these derivative hedging instruments (currency forward contracts and swaps) amounted to CZK 379 million and CZK (219) million at December 31, 2010 and 2009, respectively.

The Group also enters into cash flow hedges of future highly probable purchases of emission allowances which are expected to occur between 2011 and 2013. The hedging instruments as at December 31, 2010 and 2009 are the futures and forward contracts for the purchase of allowances equivalent to 14.7 million tons and 7.1 million tons of CO_2 emissions, respectively. The fair value of these derivative hedging instruments amounted to CZK (1,227) million and CZK (945) million at December 31, 2010 and 2009, respectively.

In 2010 and 2009 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 2010 and 2009 the Group recognized in profit or loss the ineffectiveness that arises from cash flow hedges in the amount of CZK 61 million and CZK (1,702) million, respectively. The ineffectiveness in 2010 and 2009 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, Dukovany and Temelín. Nuclear power plant Dukovany consists of four 440MW units which were put into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1,000MW units which have started commercial operation in 2002 and 2003. The Czech parliament has enacted a Nuclear Act (“Act”) which defines certain obligations for the decontamination and dismantling (“decommissioning”) of nuclear facilities and the disposal of radioactive waste and spent fuel (“disposal”). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant’s operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. A 2008 Dukovany and a 2009 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 17.3 billion and CZK 14.6 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds can be invested in government bonds and term deposits in accordance with the legislation and are shown in the balance sheet under other non-current financial assets (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 (such as the Company). Contribution to the nuclear account was stated by a government decision at 50 CZK per MWh produced at nuclear power plants. In 2010 and 2009, the payments to the nuclear account amounted to CZK 1,400 million and CZK 1,360 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, 2010 and 2009 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommis-sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2008	8,232	6,217	21,182	35,631
Movements during 2009:				
Discount accretion and effect of inflation	412	310	1,059	1,781
Provision charged to income statement	-	422	-	422
Effect of change in estimate charged to income statement (Note 2.24)	-	168	-	168
Effect of change in estimate added to (deducted from) fixed assets (Note 2.24)	(229)	126	1,069	966
Current cash expenditures	-	(456)	(1,360)	(1,816)
Balance at December 31, 2009	8,415	6,787	21,950	37,152
Movements during 2010:				
Discount accretion and effect of inflation	378	305	988	1,671
Provision charged to income statement	-	605	-	605
Effect of change in estimate credited to income statement (Note 2.24)	-	(797)	-	(797)
Effect of change in estimate added to fixed assets (Note 2.24)	-	-	519	519
Current cash expenditures	-	(902)	(1,400)	(2,302)
Balance at December 31, 2010	8,793	5,998	22,057	36,848

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

In 2009 the Company recorded the change in estimate for nuclear decommissioning due to the update of the expert decommissioning study for nuclear power plant in Temelín and the change in estimate in provision for long-term spent fuel storage due to the 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, 2010 and 2009 are as follows (in CZK millions):

	2010	2009
Provision for decommissioning and reclamation of mines and mining damages	6,648	6,448
Provision for waste storage reclamation	1,567	1,740
Other long-term provisions	348	3
Deferred connection fees	7,997	8,142
Derivatives	1,679	1,916
Other	2,934	2,859
Total	21,173	21,108

The following table shows the movements of provisions for the years ended December 31, 2010 and 2009 (in CZK millions):

	Mine reclamation and damages	Waste storage
Balance at December 31, 2008	6,363	406
Movements during 2009:		
Discount accretion and effect of inflation	305	88
Provision charged to income statement	38	-
Effect of change in estimate credited to income statement	-	(33)
Effect of change in estimate added to fixed assets	7	1,382
Current cash expenditures	(265)	(103)
Balance at December 31, 2009	6,448	1,740
Movements during 2010:		
Discount accretion and effect of inflation	266	78
Provision charged to income statement	95	35
Acquisition of subsidiaries	-	70
Effect of change in estimate added to (deducted from) fixed assets	382	(244)
Reclassification to liabilities directly associated with assets classified as held for sale	-	(21)
Current cash expenditures	(543)	(91)
Balance at December 31, 2010	6,648	1,567

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ. Severočeské doly a.s. operates an open pit coal mine and is responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. These provisions have been calculated using the best estimates of the expenditures required to settle the present obligation at the balance sheet date. The current cost estimates for the decommissioning and reclamation provision have been discounted using an estimated real rate of interest of 2.5%.

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, 2010 and 2009 are as follows (in CZK millions):

	2010	2009
Short-term bank loans	8,306	25,310
Bank overdrafts	1,312	1,336
Other short-term borrowings	-	4,611
Total	9,618	31,257

Interest on short-term loans is variable. The weighted average interest rate was 1.4% and 2.0% at December 31, 2010 and 2009, respectively. For the years 2010 and 2009 the weighted average interest rate was 1.5% and 2.3%, respectively.

At December 31, 2009 short-term bank loans include the loan of CZK 14,556 million which was used to finance the acquisition of investment in MOL (see Note 4). In 2010 this external loan was replaced by internal financing within CEZ Group.

21. Trade and Other Payables

Trade and other payables at December 31, 2010 and 2009 are as follows (in CZK millions):

	2010	2009
Advances received from retail customers	13,462	21,861
Unbilled electricity supplied to retail customers	(12,829)	(20,327)
Received advances from retail customers, net	633	1,534
Trade payables	37,183	37,998
Fair value of option (see Note 4)	5,606	6,948
Derivatives	12,643	27,558
Other	2,739	2,815
Total	58,804	76,853

The information about payables to related parties is included in Note 29.

22. Accrued Liabilities

Accrued liabilities at December 31, 2010 and 2009 consist of the following (in CZK millions):

	2010	2009
Provision for CO_2 emissions	2,198	1,077
Other provisions	1,818	1,763
Accrued interest	2,801	2,132
Taxes and fees, except income tax	842	910
Unbilled goods and services	7,171	5,274
Contingent liabilities from acquisitions	325	429
Deferred variation margin on “own use” electricity futures	602	2,081
Deferred income	172	1,218
Other	91	83
Total	16,020	14,967

Deferred variation margin represents the net variation margin paid to or by Prague Energy Exchange in respect of the electricity future contracts treated as own use, which will be delivered after the balance sheet date.

23. Revenues

The composition of revenues for the years ended December 31, 2010 and 2009 is as follows (in CZK millions):

	2010	2009
Sale of electricity:		
Sales of electricity to end customers	68,612	69,151
Sales of electricity through energy exchange	4,158	25,042
Sales of electricity to traders	36,362	22,683
Sales to distribution and transmission companies	1,219	1,564
Other sales of electricity	6,469	5,974
Effect of hedging (see Note 17.3)	2,464	119
Sales of ancillary, system, distribution and other services	55,993	48,961
Total sales of electricity	175,277	173,494
Electricity, coal and gas derivative trading:		
Sales	163,175	162,640
Purchases	(157,741)	(153,091)
Effect of hedging (see Note 17.3)	238	-
Changes in fair value of commodity derivatives	(280)	(2,655)
Total gains and losses from electricity, coal and gas derivative trading, net	5,392	6,894
Heat sales and other revenues:		
Sales of heat	4,333	3,280
Sales of coal	4,390	4,031
Other	9,456	8,653
Total heat sales and other revenues	18,179	15,964
Total revenues	198,848	196,352

In October 2007 the Shareholder's meeting of Elektrociepłownia Chorzów ELCHO sp. z o.o. ("ELCHO") decided to terminate its long-term contract for the sale of electricity with Polskie Sieci Elektroenergetyczne S.A. (PSE) based on which the electricity should have originally been delivered until 2023. According to the Act on termination of long-term agreements ELCHO will receive compensation in cash from an entity established by Polish state, to compensate the revenues lost (the equivalent of the difference between original contractual price and market price with the total limit of PLN 889 million). From April 2008 ELCHO started to sell the electricity on the free market. In 2010 and 2009 ELCHO recognized CZK 387 million and CZK 1,203 million of revenues as a result of the above mentioned compensations.

24. Salaries and Wages

Salaries and wages for the years ended December 31, 2010 and 2009 were as follows (in CZK millions):

	2010		2009	
	Total	Key management personnel [1]	Total	Key management personnel [1]
Salaries and wages	(12,947)	(262)	(12,098)	(259)
Remuneration of the board members, including royalties	(125)	(39)	(144)	(37)
Share options	(100)	(100)	(110)	(110)
Social and health security	(4,072)	(29)	(3,768)	(18)
Other personal expenses	(1,473)	(28)	(1,996)	(19)
Total	(18,717)	(458)	(18,116)	(443)

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

At December 31, 2010 and 2009, the aggregate number of share options granted to members of Board of Directors and selected managers was 2,365 thousand and 2,325 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 2010 and 2009 the Company recognized a compensation expense of CZK 100 million and CZK 110 million, respectively, related to the granted options. The Company has settled all options exercised using treasury shares. The gains or losses on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2010 and 2009 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options				Weighted average exercise price
	Superviso-ry Board '000s	Board of Directors '000s	Selected managers '000s	Total '000s	(CZK per share)
Share options at December 31, 2008	150	1,625	580	2,355	945.60
Options granted	-	145	245	390	842.14
Movements	-	75	(75)	-	-
Options exercised [1]	(150)	(75)	(170)	(395)	370.46
Options forfeited	-	-	(25)	(25)	752.95
Share options at December 31, 2009 [2]	-	1,770	555	2,325	1,028.03
Options granted	-	275	255	530	865.33
Options exercised [1]	-	(425)	(45)	(470)	716.47
Options forfeited	-	-	(20)	(20)	833.32
Share options at December 31, 2010 [2]	-	1,620	745	2,365	1,055.13

[1] In 2010 and 2009 the weighted average share price at the date of the exercise for the options exercised was CZK 905.73 and CZK 849.34, respectively.

[2] At December 31, 2010 and 2009 the number of exercisable options was 1,115 thousand and 965 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 1,156.54 per share and CZK 922.11 per share at December 31, 2010 and 2009, 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:

	2010	2009
Weighted average assumptions:		
Dividend yield	5.9%	6.3%
Expected volatility	40.2%	41.3%
Mid-term risk-free interest rate	1.6%	2.3%
Expected life (years)	1.4	2.1
Share price (CZK per share)	848.1	880.8
Weighted average grant-date fair value of options (CZK per 1 option)	123.5	175.9

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, 2010 and 2009 the exercise prices of outstanding options were in the following ranges (in thousand pieces):

	2010	2009
CZK 500 – 900 per share	645	935
CZK 900 – 1,400 per share	1,720	1,390
Total	2,365	2,325

The options granted which were outstanding as at December 31, 2010 and 2009 had an average remaining contractual life of 1.9 years and 2.3 years, respectively.

25. Other Operating Expenses

Other operating expenses for the years ended December 31, 2010 and 2009 consist of the following (in CZK millions):

	2010	2009
Services	(12,777)	(11,744)
Travel expenses	(247)	(275)
Gain on sale of property, plant and equipment	78	106
Gain on sale of material	190	63
Capitalization of expenses to the cost of assets and change in own inventory	5,177	4,682
Fines, penalties and penalty interest, net	591	619
Change in provisions and valuation allowances	1,705	(265)
Taxes and fees	(2,338)	(2,198)
Write-off of bad debts and cancelled investment	(1,019)	(260)
Gifts	(511)	(456)
Other, net	(2,671)	(2,448)
Total	(11,822)	(12,176)

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, 2010 and 2009 is as follows (in CZK millions):

	2010	2009
Loans and receivables	1,156	986
Held-to-maturity investments	52	52
Available-for-sale investments	316	285
Bank accounts	498	1,176
Total	2,022	2,499

27. Other Income (Expenses), Net

Other income (expenses), net, for the years ended December 31, 2010 and 2009 consist of the following (in CZK millions):

	2010	2009
Derivative gains, net	1,689	620
Gains (losses) on sales of available-for-sale financial assets	(90)	101
Change in impairment of financial investments	11	13
Other, net	1,501	449
Total	3,111	1,183

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% and 20% in 2010 and 2009. The Czech corporate income tax rate for 2011 and on will be 19%. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have a potential effect on reported income.

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

	2010	2009
Current income tax charge	(10,751)	(13,256)
Adjustments in respect of current income tax of previous periods	236	125
Deferred income taxes	(1,276)	40
Total	(11,791)	(13,091)

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

	2010	2009
Income before income taxes	58,949	64,946
Statutory income tax rate in Czech Republic	19%	20%
“Expected” income tax expense	(11,200)	(12,989)
Tax effect of:		
Change in tax rates and laws	-	(204)
Non-deductible gain from derivatives	245	379
Non-deductible expenses related to shareholdings	(35)	(71)
Goodwill impairment	(283)	(124)
Other non-deductible items, net	(525)	(253)
Non-deductible share based payment expense	(19)	(22)
Income already taxed or exempt	239	133
Tax credits	5	4
Adjustments in respect of current income tax of previous periods	236	125
Effect of different tax rate in other countries	(316)	70
Change in unrecorded deferred tax receivables	(138)	(139)
Income taxes	(11,791)	(13,091)
Effective tax rate	20%	20%

Deferred income taxes, net, at December 31, 2010 and 2009 consist of the following (in CZK millions):

	2010	2009
Accumulated provision for nuclear decommissioning and spent fuel storage	5,729	5,850
Financial statement depreciation in excess of tax depreciation	25	24
Revaluation of financial instruments	-	468
Allowances	799	517
Other provisions	2,006	1,503
Penalty payables	4	-
Tax loss carry forwards	59	205
Other temporary differences	115	123
Unrecorded deferred tax asset	(328)	(190)
Total deferred tax assets	8,409	8,500
Tax depreciation in excess of financial statement depreciation	(23,883)	(21,931)
Revaluation of financial instruments	(860)	(135)
Other provisions	(478)	(452)
Penalty receivables	(29)	(21)
Other temporary differences	(663)	(472)
Total deferred tax liability	(25,913)	(23,011)
Total deferred tax liability, net	(17,504)	(14,511)
Reflected in the balance sheet as follows:		
Deferred tax assets	655	824
Deferred tax liability	(17,902)	(15,335)
Deferred tax liability presented as part of liabilities directly associated with assets classified as held for sale	(257)	-
Total deferred tax liability, net	(17,504)	(14,511)

Movements in net deferred tax liability, net, in 2010 and 2009 were as follows (in CZK millions):

	2010	2009
Opening balance	14,511	13,605
Deferred tax recognized in profit or loss	1,276	(40)
Deferred tax charged directly to equity	1,286	885
Acquisition of subsidiaries	520	46
Disposal of subsidiaries	-	1
Currency translation differences	(89)	14
Closing balance	17,504	14,511

At December 31, 2010 and 2009 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 21,610 million and CZK 15,454 million, respectively.

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

	2010			2009		
	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	9,156	(1,740)	7,416	2,719	(587)	2,132
Cash flow hedges removed from equity	(2,762)	525	(2,237)	1,643	(312)	1,331
Change in fair value of available-for-sale financial assets recognized in equity	393	(76)	317	84	(30)	54
Available-for-sale financial assets removed from equity	(29)	5	(24)	17	4	21
Translation differences	(3,860)	-	(3,860)	(2,716)	39	(2,677)
Share on equity movements of associates and joint-ventures	5	-	5	(11)	1	(10)
Total	2,903	(1,286)	1,617	1,736	(885)	851

29. Related Parties

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

At December 31, 2010 and 2009, the receivables from related parties and payables to related parties are as follows (in CZK millions):

	Receivables		Payables	
	2010	2009	2010	2009
Associates, joint-ventures and other affiliates:				
Akcez Enerji A.S.	161	118	84	85
Akenerji Elektrik Üretim A.S.	761	652	-	-
CM European Power International s.r.o.	-	49	-	-
JTSD - Braunkohlebergbau GmbH	-	6,502	-	-
LACOMED, spol. s r.o.	11	12	-	-
LOMY MOŘINA spol. s r.o.	3	-	10	10
MOL - CEZ European Power Hungary Ltd.	20	-	-	-
OSC, a.s.	-	-	18	42
SINIT,a.s.	1	1	33	11
Ústav aplikované mechaniky Brno, s.r.o.	-	-	10	5
Others	4	9	21	35
Total associates, joint-ventures and other affiliates	961	7,343	176	188
Entities under the control of Company's majority owner:				
ČEPRO, a.s.	-	10	47	32
ČEPS, a.s.	252	234	142	60
Česká pošta s.p.	49	1	10	69
ČD Cargo, a.s.	-	-	167	210
Správa železniční dopravní cesty, státní organizace	111	691	62	60
Others	1	3	4	3
Total entities under the control of Company's majority owner	413	939	432	434
Total	1,374	8,282	608	622

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	
	2010	2009	2010	2009
Associates, joint-ventures and other affiliates:				
Akcez Enerji A.S.	49	118	-	-
CM European Power International s.r.o.	13	41	-	-
Coal Energy, a.s.	-	-	-	57
JTSD - Braunkohlebergbau GmbH	2	42	-	-
LOMY MOŘINA spol. s r.o.	24	-	151	139
OSC, a.s.	-	-	113	95
SINIT,a.s.	3	4	96	117
Others	87	75	85	185
Total associates, joint-ventures and other affiliates	178	280	445	593
Entities under the control of Company’s majority owner:				
ČEPRO, a.s.	70	24	294	103
ČEPS, a.s.	5,853	6,489	8,716	10,053
Česká pošta s.p.	168	137	178	161
České dráhy, a.s.	1,215	6	2	1
ČD Cargo, a.s.	-	1	1,563	1,578
DIAMO, státní podnik	-	-	669	880
Správa železniční dopravní cesty, státní organizace	570	713	5	39
Others	-	13	-	-
Total entities under the control of Company’s majority owner	7,876	7,383	11,427	12,815
Total	8,054	7,663	11,872	13,408

Information about compensation of key management personnel is included in Note 24.

30. Segment Information

The Group reports its result based on operating segments which are defined with respect to geographical location of the assets with similar economic environment and characteristics, e.g. similar long-term average gross margins, similar nature of the products and services and with regard to regulatory environment.

According to geographical location, the Group distinguishes the following two regions that in combination with products and services form the reportable segments: Central Europe (CE) and South East Europe (SEE). The Central Europe region includes the Czech Republic, the Netherlands, Poland, Germany, Hungary, Ireland and Slovakia except for the Dutch company Aken B.V. which is included in the South East Europe region. The South East Europe region consists of the operations of the Group in Bulgaria, Romania, Turkey, Albania, Cyprus, Serbia, Kosovo, Bosnia and Herzegovina, Russia and the Ukraine except for trading operations that are provided at the Group headquarters and therefore presented in the Central Europe region.

According to nature of the products and services the Group distinguishes four categories as follows:

(1) The power production and trading which includes production of electricity and heat and the commodity trading activities of the Group;
(2) The distribution and sale which sells electricity to end customers through the power distribution grid and provides power distribution services;
(3) The mining that produces coal and limestone used by the power production business operations or sold to third parties; and
(4) The other business activities.

The Group has seven reportable segments as a result of the combination of geographical location and nature of products and services as follows:

- Power Production and Trading / Central Europe
- Distribution and Sale / Central Europe
- Mining / Central Europe
- Other / Central Europe
- Power Production and Trading / South East Europe
- Distribution and Sale / South East Europe
- Other / South East Europe

The accounting policies of the operating segments are the same as those described in Note 2. The Group accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices or where the regulation applies at regulated prices. The Group evaluates the performance of its segments and allocates resources to them based on EBITDA (income before income taxes and other income (expenses) plus depreciation and amortization).

The following tables summarize segment information by operating segments for the years ended December 31, 2010 and 2009 (in CZK millions):

Year 2010:	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	61,860	91,721	4,688	3,758	3,524	33,277	20	198,848	-	198,848
Intersegment sales	53,378	6,728	5,850	41,034	280	81	2,181	109,532	(109,532)	-
Total revenues	115,238	98,449	10,538	44,792	3,804	33,358	2,201	308,380	(109,532)	198,848
EBITDA	62,272	13,382	4,273	4,699	611	3,690	103	89,030	59	89,089
Depreciation and amortization	(14,381)	(3,221)	(1,631)	(2,044)	(428)	(2,255)	(72)	(24,032)	-	(24,032)
EBIT	47,891	10,161	2,642	2,655	183	1,435	31	64,998	59	65,057
Interest on debt and provisions	(5,559)	(294)	(289)	(14)	(87)	(151)	(23)	(6,417)	919	(5,498)
Interest income	2,133	51	453	27	46	213	18	2,941	(919)	2,022
Goodwill impairment	.-	-	-	-	(1,843)	(983)	-	(2,826)	-	(2,826)
Share of profit (loss) from associates and joint-ventures	83	-	215	-	(137)	(14)	-	147	-	147
Income taxes	(8,437)	(1,850)	(505)	(452)	57	(589)	(15)	(11,791)	-	(11,791)
Net income	43,682	8,035	3,033	2,331	(2,012)	(324)	8	54,753	(7,595)	47,158
Identifiable assets	225,058	61,662	18,065	16,819	21,407	27,130	90	370,231	(9,165)	361,066
Investment in associates and joint-ventures	4,216	-	3,829	-	6,291	2,592	-	16,928	-	16,928
Unallocated assets										165,697
Total assets										543,691
Capital expenditure	39,779	9,645	3,990	27,456	3,459	2,994	729	88,052	(26,337)	61,715
Average number of employees	7,398	1,484	3,466	8,708	552	9,940	1,389	32,937	-	32,937

Year 2009:	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	73,033	81,932	4,523	3,931	2,871	30,042	20	196,352	-	196,352
Intersegment sales	53,066	4,126	6,641	33,735	294	123	2,676	100,661	(100,661)	-
Total revenues	126,099	86,058	11,164	37,666	3,165	30,165	2,696	297,013	(100,661)	196,352
EBITDA	68,464	9,316	5,287	4,576	244	3,086	82	91,055	20	91,075
Depreciation and amortization	(13,730)	(3,065)	(1,415)	(2,137)	(366)	(2,100)	(63)	(22,876)	-	(22,876)
EBIT	54,734	6,251	3,872	2,439	(122)	986	19	68,179	20	68,199
Interest on debt and provisions	(5,139)	(34)	(346)	(29)	(53)	(84)	(24)	(5,709)	232	(5,477)
Interest income	1,433	53	457	84	112	583	9	2,731	(232)	2,499
Goodwill impairment	(3,263)	-	-	-	-	-	-	(3,263)	-	(3,263)
Share of profit (loss) from associates and joint-ventures	(12)	-	2,995	-	104	(91)	-	2,996	-	2,996
Income taxes	(9,729)	(1,209)	(799)	(481)	(16)	(853)	(4)	(13,091)	-	(13,091)
Net income	48,387	5,121	6,553	2,061	19	391	2	62,534	(10,679)	51,855
Identifiable assets	201,116	55,257	15,422	17,582	21,373	28,096	145	338,991	(10,186)	328,805
Investment in associates and joint-ventures	4,356	-	3,459	-	6,805	2,630	-	17,250	-	17,250
Unallocated assets										184,204
Total assets										530,259
Capital expenditure	28,720	9,788	3,525	23,688	9,657	2,523	921	78,822	(22,200)	56,622
Average number of employees	7,103	1,421	3,498	8,392	596	8,309	1,449	30,768	-	30,768

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):

	2010	2009
Czech Republic	152,771	154,666
Bulgaria	19,542	19,321
Romania	10,105	9,711
Poland	3,658	4,235
Albania	7,722	4,287
Other	5,050	4,132
Total revenues	198,848	196,352

The following table shows the split of property, plant and equipment according to the location of entity which they belong to at December 31, 2010 and 2009 (in CZK million):

	2010	2009
Czech Republic	302,406	268,540
Bulgaria	13,408	14,625
Romania	29,976	29,599
Poland	10,031	10,649
Albania	5,238	5,384
Other	7	8
Total property, plant and equipment	361,066	328,805

31. Net Income per Share

	2010	2009
Numerator (CZK millions)		
Basic and diluted:		
Net income attributable to equity holders of the parent	47,232	51,547
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	533,811	533,225
Dilutive effect of share options	38	213
Diluted:		
Adjusted weighted average shares	533,849	533,438
Net income per share (CZK per share)		
Basic	88.5	96.7
Diluted	88.5	96.6

32. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2010 to total CZK 235.9 billion over the next five years, as follows: CZK 65.8 billion in 2011, CZK 56.0 billion in 2012, CZK 44.3 billion in 2013, CZK 39.5 billion in 2014 and CZK 30.3 billion in 2015. 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, 2010 significant purchase commitments were outstanding in connection with the construction program.

Insurance Matters

The Nuclear Act sets limits for liabilities for nuclear damages by the operator of nuclear installations/licenses. The Nuclear Act provides that operators of nuclear facilities are 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/licensee 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 general third party liability insurance in connection with main operations of the Group.

33. Events after the Balance Sheet Date

In January 2011 the Company, together with TEDOM a. s., increased the share capital of ČEZ Energo, s.r.o. The Company's interest in the new entity is 50.1%. The new entity will operate approximately 45 cogeneration units at total installed capacity of 12 MW.

In January 2011 ČEZ, a. s. received proceeds of twelve-year registered bond issued under German law (Namensschuldverschreibung) in amount EUR 40 million. The coupon was set at 4.75% p. a.

In February 2011 ČEZ, a. s. completed a twelve-year JPY 11.5 billion issue with a long-term investor, which wholly subscribed the new bond. The bond pays a coupon of 2.16% p. a. Proceeds in JPY have been swapped into EUR. Crédit Agricole CIB acted as sole dealer.

In January 2011 CEZ Group acquired 100% share in Romanian company TMK Hydroenergy Power S.R.L. The entity operates hydro plants at total installed capacity of approximately 18 MW. The following table presents the financial information of the acquired entity at the carrying values and the provisional goodwill calculation (in CZK millions):

	TMK Hydroenergy Power
Share acquired in January 2011	100%
Property, plant and equipment	209
Trade and other payables	(3)
Total net assets acquired	206
Share of net assets acquired	206
Goodwill	294
Total purchase consideration	500
Less:	
Cash and cash equivalents in the subsidiary acquired	-
Cash outflow on acquisition of the subsidiary	500

These financial statements have been authorized for issue on February 24, 2011:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Martin Novák
Member of Board of Directors
Chief Financial Officer