

BASE PROSPECTUS

ČEZ, a. s.

(incorporated with limited liability in the Czech Republic)

€8,000,000,000

Euro Medium Term Note Programme

Under this €8,000,000,000 Euro Medium Term Note Programme (the “*Programme*”), ČEZ, a. s. (the “*Issuer*” or “*ČEZ*”) may from time to time issue notes (the “*Notes*”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme is specified under “*Overview of the Programme – Programme Size*” and will not exceed €8,000,000,000 (or its equivalent in other currencies calculated as described in the Amended and Restated Programme Agreement described herein), subject to any increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “*Dealer*” and together the “*Dealers*”), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “*Risk Factors*”.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the “*CSSF*”) in its capacity as competent authority under the Luxembourg Act dated July 10, 2005 on prospectuses for securities to approve this document as a base prospectus. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005.

Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a final terms document (the “*Final Terms*”) which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be filed with the CSSF.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to this Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arrangers

BNP PARIBAS

Citigroup

The date of this Base Prospectus is April 23, 2012.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “*Prospectus Directive*”) as amended (which includes the amendments made by Directive 2010/73/EU (the “*2010 PD Amending Directive*”) to the extent that such amendments have been implemented in a Member State of the European Economic Area) and application has been made to the *Commission de Surveillance du Secteur Financier* for this document to be approved as such. The Issuer, having made all reasonable enquiries confirms that this Base Prospectus contains all information regarding the Issuer, the Issuer and its subsidiaries taken as a whole (the “*CEZ Group*”), the electricity industry in the Czech Republic and the Notes which is (in the context of the issue of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, estimates, or intentions expressed in this Base Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, estimates or intentions (in such context) not misleading in any material respect; that this Base Prospectus does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements in this Base Prospectus, in the light of the circumstances under which they were made, not misleading; and that all proper enquiries have been made to ascertain and to verify the foregoing.

Without prejudice to the foregoing, the Issuer (the “*Responsible Person*”) accepts responsibility for the information contained in this Base Prospectus. The information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The obligations of the Issuer are not in any way guaranteed by, or otherwise backed by the credit of, the Czech Republic or any agency, ministry or political subdivision thereof.

Subject as provided in the applicable Final Terms, the only persons authorized to use this Base Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Copies of Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below).

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

Nothing contained in this Base Prospectus is or should be relied upon as a promise or representation of future results or events. No person is or has been authorized by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “*U.S. Securities Act*”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see “*Subscription and Sale*”).

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and the Czech Republic) and Japan, see “*Subscription and Sale*”.

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “*Relevant Member State*”) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

This Programme is not a bond programme under the Act of the Czech Republic No. 190/2004 Coll., on Bonds, as amended (the “*Bonds Act*”) (section 13 et seq.) and shall not be subject to the approval of the Czech National Bank. The issue of Notes under the Programme will not be an “issue of bonds in the Czech Republic” as defined in section 2(4) of the Bonds Act and such issue of Notes will only be notified to the Czech National Bank as a foreign issue under section 3(3) of the Bonds Act.

All references in this document to *U.S. dollars* and *U.S.\$* refer to United States dollars and to *Czech crowns*, *CZK* and *Kč* refer to the lawful currency for the time being of the Czech Republic. In addition, all references to *euro*, *EUR* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetical aggregate of the figures preceding such totals.

ČEZ, a. s. was incorporated as a joint stock company under the laws of the Czech Republic on May 6, 1992 with unlimited duration and was registered in the Commercial Register administered by the Municipal Court in Prague, File B, Section 1581, with identification number 45274649. Its registered office is at Duhová 2/1444, 140 53 Prague 4, Czech Republic and its telephone number at that address is +420 211 041 111. In this Base Prospectus, references to “*CEZ*”, “*ČEZ*” and the “*Issuer*” are to ČEZ, a. s. and references to the “*CEZ Group*” the “*Group*” “*we*”, “*us*” and “*our*” are to ČEZ, a. s. and its consolidated subsidiaries. The obligations of the Issuer are not in any way guaranteed by, or otherwise backed by the credit of, the Czech Republic or any agency, ministry or political subdivision thereof.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager(s) (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL INFORMATION

With the exception of certain non-IFRS measures, the financial information as of and for the years ended December 31, 2009, 2010 and 2011 included in this Base Prospectus has been derived from the audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2009, 2010 and 2011, which are incorporated by reference into this Base Prospectus (please see “*Documents Incorporated by Reference*”). The audited financial statements of ČEZ, a. s. for the year ended December 31, 2011 are also incorporated by reference in this Base Prospectus (see “*Documents Incorporated by Reference*”).

The consolidated financial statements of the CEZ Group as of and for the year ended December 31, 2010 were restated in 2011 to reflect the final accounting for our acquisition of Teplárna Trmice, a.s. in May 2010. The consolidated financial statements of the CEZ Group as of and for the year ended December 31, 2010 were prepared using provisional accounting for the acquisition, based on book values. In connection with the preparation of the interim consolidated financial statements of the CEZ Group for the six months ended June 30, 2011, the final accounting for the acquisition was completed based on determined fair values of acquired identifiable assets and liabilities as of the date of the acquisition. This final accounting indicated variations from the initial accounting determined provisionally and used in the audited consolidated financial statements for the year ended December 31, 2010. As a result, solely for purposes of the audited consolidated financial statements for the year ended December 31, 2011, financial data for the 2010 comparison-year was restated to conform to the definitive valuations of acquired assets and liabilities. The restated financial data for the 2010 comparison year was audited in connection with the audit of the consolidated financial statements of the CEZ Group for the year ended December 31, 2011. In this Base Prospectus, the restated financial data for the year ended December 31, 2010 is presented alongside financial data for the years ended December 31, 2009 and 2011 for comparison purposes only.

Information in this Base Prospectus relating to the net debt, EBITDA or EBITDA margin of our European peers (EdF, EdP, EnBW, Enel, E.ON, Fortum, Iberdrola, RWE and Verbund) has been derived from information publicly disclosed by those companies. However, the Issuer has not independently verified such information and cannot give any assurance as to the accuracy or completeness of such information.

Certain amounts and percentages which appear in this Base Prospectus have been subject to rounding adjustments, and, accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Non-IFRS Measures

In this Base Prospectus, we present certain financial data and measures which are not calculated in accordance with IFRS, such as “EBIT,” “EBITDA” and the related ratios. As presented herein:

- EBIT represents income before income taxes and other income/(expenses);
- EBITDA consists of income before income taxes and other income/(expenses) plus depreciation and amortization;
- EBITDA Margin consists of income before income taxes and other income/(expenses) plus depreciation and amortization, divided by total revenues, expressed as a percentage; and
- Net Debt consists of long-term debt, net of current portion, plus short-term loans, plus current portion of long-term debt, minus cash and cash equivalents plus highly liquid financial assets.

EBIT, EBITDA, EBITDA Margin and Net Debt are supplemental measures of our performance and liquidity that are not required by or presented in accordance with IFRS. Furthermore, EBIT, EBITDA, EBITDA Margin and Net Debt should not be considered as an alternative to income after taxes, income before taxes or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities, as a measure of our liquidity or as a measure of cash available to us to invest in the growth of our business.

The non-IFRS measures presented in this Base Prospectus may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a

substitute for analysis of our operating results as reported under IFRS. These non-IFRS measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to operating income or net profit or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles, or as alternatives to cash flow from operating, investing or financing activities.

Our non-IFRS measures have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under IFRS as set out in our audited consolidated financial statements and you should not place any undue reliance on our non-IFRS measures. Some of these limitations related to non-IFRS measures are:

- they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the interest expense or cash requirements necessary to service interest or principal payments on our debt;
- they do not reflect gains or losses in hedging or foreign exchange contracts;
- they do not reflect any cash income taxes that we may be required to pay;
- they are not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;
- they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations;
- assets are depreciated or amortized over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, our non-IFRS measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our IFRS results and using these non-IFRS measures only as supplemental means for evaluating our performance. Please see “*Selected Financial Information*” and our audited consolidated financial statements and the notes thereto, which are incorporated by reference into this Base Prospectus.

FORWARD-LOOKING STATEMENTS

This Base Prospectus includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believe,” “estimate,” “anticipate,” “expect,” “forecast,” “foresee,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “will,” “would” or, in each case, similar expressions or the negative thereof, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realized. They appear in a number of places throughout this Base Prospectus and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. The Issuer cautions you that forward-looking statements are not guarantees of future performance and that the actual results of the Group’s operations, including its financial condition and liquidity, and the development of the Group’s industry may differ materially from those made in or suggested by the forward-looking statements contained in this Base Prospectus. In

addition, even if the Group's results of operations, financial condition and liquidity, and the development of the Group's industry are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Factors that could cause these differences include, but are not limited to:

- a decrease in demand for electricity, including as a result of the continuation or deepening of the global economic crisis;
- our strategy, outlook and growth prospects;
- our ability to expand our business and our generation capacity;
- fluctuations in electricity generated by our power plants;
- changes in government regulation and expectations as to future governmental policies and actions;
- unanticipated increases in fuel and other costs;
- fluctuations in interest rates and other market conditions, including foreign currency exchange rates;
- our ability to generate cash flow and to finance our capital expenditure needs;
- any decision by the Czech Government to undertake a partial or full privatization of ČEZ, a. s.;
- diverse political, economic, legal, tax and other conditions affecting the markets in which we operate;
- competition in the markets in which we operate and our ability to compete in such markets;
- costs, liabilities and penalties we may incur in connection with litigation;
- other risks and factors discussed in this Base Prospectus including under the heading "*Risk Factors*"; and
- other factors that are unforeseen or beyond our control.

Although the Issuer believes the expectations reflected in any forward-looking statement are reasonable, the Issuer cannot give any assurance that they will materialize or prove to be correct.

The Issuer urges you to read "*Risk Factors*," "*Regulation*" and "*Description of the Issuer*" for a more complete discussion of the factors that could affect the Issuer's future performance, its industry and related regulation thereof. In light of these risks, uncertainties and assumptions, the events described or suggested by the forward-looking statements in this Base Prospectus may not occur.

These forward looking statements speak only as of the date on which the statements were made. Except as required by law or applicable stock exchange rules or regulations, the Issuer undertakes no obligation to update or revise publicly any forward looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward looking statements attributable to the Issuer or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Base Prospectus.

HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA

Certain information contained in this Base Prospectus was derived from various public sources, including information published by Bloomberg, the Czech National Bank, the Czech Statistical Office, the Czech Energy Regulatory Office, the State Commission for Energy and Water Regulation in Bulgaria, the Romanian Energy Regulatory Authority and the Albanian Electricity Regulation Authority. Where information has been sourced from a third party the source has been identified, the information has been accurately reproduced and (as far as the Issuer is aware and is able to ascertain from information published by that third party) no facts have been omitted which could render the reproduced information inaccurate or misleading.

The Issuer believes that the market and industry information contained in this Base Prospectus provides fair and adequate estimates of the size of the Group's market and fairly reflects the Group's competitive position within that market. However, the Group's internal company surveys and management estimates have not been verified by any independent expert, and the Issuer cannot give any assurance that a third party using different methods to assemble, analyze or calculate market data would obtain or generate the same results.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Issuer believes that these industry publications, surveys and forecasts are reliable but the Issuer has not independently verified them and cannot guarantee their accuracy or completeness. Further, the information presented in this Base Prospectus has been derived from several sources, as there is no single industry report or other source that covers all of the areas in which the Group conducts its operations.

In addition, the Issuer has provided the data contained in this Base Prospectus as to installed capacity, generation and other market share information with respect to the electricity and heating industries in the Czech Republic (unless explicitly stated otherwise). The Group compiles and publishes certain of this data on a regular basis, and also supplies certain of this data to the Czech Statistical Office and the Czech Energy Regulatory Office for use in compiling national data on the energy sector. Unless otherwise indicated, all figures in this Base Prospectus presenting units of generation of electricity are gross (*i.e.*, including the electricity consumed by the power plants themselves).

RISK FACTORS

We believe that the following factors may affect our ability to fulfill our obligations under the Notes. All of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

We believe that the factors described below represent the principal risks inherent in investing in the Notes, but our inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and we do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

This Base Prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Base Prospectus. Please see “Forward-Looking Statements.”

Risks Related to Our Business and Operations

Any reduction in demand for our electricity, heat, coal and gas as a result of poor economic performance in Europe and the deepening of the sovereign debt crisis or otherwise could have a material adverse effect on our results of operations and financial condition.

In the ordinary course of our business we are exposed to the risk of a reduction in demand for our electricity, heat, coal and gas, including as may occur as a result of the ongoing global financial and economic uncertainty. The deterioration of macroeconomic conditions in Europe and globally may decrease consumption and industrial production. Electricity consumption is strongly affected by the level of economic activity in Europe. Any reduction in demand for our electricity could have a material adverse effect on our business, results of operations and financial condition.

Our profitability is exposed to developments in the capital markets and economy in Europe and globally. The recent global crisis and sovereign debt crisis in Europe has had a significant impact on the world’s banking system and financial markets. If the global economic situation or sovereign debt crisis in Europe continues or worsens, we may face liquidity problems and may experience increased costs of funding which could have a material adverse effect on our business, results of operations and financial condition.

Changes in the European Union’s renewable energy policy and an accelerated market shift towards renewable energy sources could have a material adverse effect on our results of operations and financial condition.

The electricity generation industry in Europe is strongly influenced by the European Union’s policy, implemented in 2008 by the E.U. Climate and Energy Package, to increase the share of electricity generated by renewable energy sources. We are effectively obliged, due to economic incentives, to reflect the E.U. Climate and Energy Package within our own strategy. By 2020, the E.U. Climate and Energy Package requires a 20% decrease in carbon dioxide (“CO₂”) emissions, a 20% increase in energy efficiency and requires renewable energy sources to comprise 20% of total energy consumption. The implementation of the E.U. Climate and Energy Package, or any amendments to such targets, could have a material adverse effect on our business, results of operations and financial condition. Support for renewable sources may decrease energy prices, limit the production time, the stability of transmission and distribution grid, the profitability of distribution services provided by us and production quantity of conventional power plants that we operate and may decrease our market share. Continued or increased support for renewable energy sources in the European Union, particularly in the Czech Republic, may adversely affect our profit from nuclear, coal-fired and gas power plants, which could have a material adverse effect on our business, results of operations and financial condition.

Political developments in the European Union and in other countries where we have or plan to have a business presence could have a material adverse effect on our results of operations and financial condition.

Any political developments in the European Union, including any future integration of European countries in the European Union or changes in the economic policy, executive authority or composition of the European Union and its institutions, may have an adverse effect on the overall economic stability of the European Union and the European countries in which our assets and operations are located. Any changes in the political or economic stability of any of the countries in which we operate, as well as any political, economic, regulatory or administrative developments in these countries, over which we have no control, could have a material adverse effect on our business, results of operations and financial condition. In particular, due to cross-border integration and fully liberalized power prices, the primary price-setting market in our region is Germany and its exchange in Leipzig and historically there has been a strong correlation between power prices in the Czech and German markets.

Any political developments affecting the integration, integrity or stability of E.U. energy markets, could have a material adverse effect on our business, results of operations and financial condition.

The costs and risks associated with increasing our nuclear generation capacity could have a material adverse effect on our business, results of operations and financial condition.

As part of our strategy to meet future electricity demand, and in accordance with the energy policies and requirements of the Czech government, we currently intend to increase the nuclear generation capacity of the Temelín nuclear power plant (where two nuclear reactors are currently in operation). Pursuant to a tender process, we have initially selected three possible contractors (The Westinghouse Electric Corporation, AREVA NP and a consortium of ŠKODA JS, JSC Atomexport and JSC OKB Gidropress) to build two new nuclear reactors at the site of the Temelín nuclear power plant. In October 2011, we provided the final tender information memorandum to the qualified bidders. The deadline for receiving bids is July 7, 2012, with binding offers expected to be evaluated in 2012 and 2013. We currently expect to sign an agreement with the successful bidder by the end of 2013. The signing of such an agreement would result in a significant capital expenditure investment for the next decade, as well as imposing significant risks associated with building a nuclear power plant, particularly the overall debt capacity risks and the risks and uncertainties involved in such a long and complex project, which could have a material adverse effect on our business, results of operations and financial condition. In addition, any failure to complete the project within budget and on schedule may result in additional cost and loss of revenues, which could have a material adverse effect on our business, results of operations and financial condition. Moreover, the profitability of the project would be subject to many of the risk factors that we already face, including any political and regulatory developments, decrease in prices obtained for our electricity or default or delay by our counterparties, and would therefore be highly uncertain. Any significant decrease in expected revenues from the project or any significant increase in operating costs could have a material adverse effect on our business, results of operations and financial condition.

Any decreases in the prices obtained for our electricity and heat could have a material adverse effect on our results of operations and financial condition.

In the ordinary course of our business, we are exposed to the risk of decreases in the prices obtained for our electricity and heat. We sell the majority of our electricity at prices derived from European market prices, which are mainly driven by the prices of E.U. emission allowances and the cost of raw materials, as well as by the European aggregate supply and demand balance; available cross-border capacities; global oil, coal and gas prices and E.U. and national regulation of the wholesale energy market. Furthermore, there is a strong correlation between the price of electricity in the Czech Republic and the price of electricity in Germany, which is one of our export markets and the primary price-setting market in the region. Changes in global commodity prices, available cross-border capacities (caused for example by renewable energy sources or flow-based allocation) or a decline in electricity demand in Europe, as a result of a continued economic slowdown or further economic downturn, could decrease the price of electricity and could have a material adverse effect on our business, results of operations and financial condition.

The operation of our power plants, in particular our nuclear power plants, is characterized by high fixed costs. Some of our costs are not faced by our non-nuclear competitors because they are unique to the nuclear power generation industry. Our ability to generate sufficient turnover at sufficient margin to cover our fixed costs is dependent, in part, on favorable electricity prices and our overall sales and trading strategy. Because our costs are relatively fixed in nature, they cannot be reduced in periods of low electricity prices. Therefore, in these circumstances,

it is possible that we may not produce sufficient cash flows from our electricity sales or trading activities, which could have a material adverse effect on our business, results of operations and financial condition.

To mitigate such exposure, we have developed a hedging strategy of stabilizing margins by contracting for deliveries of electricity to the wholesale market and to end-consumers up to three years ahead through the use of derivative instruments. We have also implemented a formal procedure that measures our commodity risk, specifying a ceiling for the maximum acceptable risk. However, the hedging strategies we pursue may create new risks and exposures and we cannot give any assurance that they will function as intended. We cannot completely eliminate our exposure to potential decreases in electricity and heat prices. Any significant decreases in electricity or heat prices, or indeed any further economic recessions, could reduce our revenues and have a material adverse effect on our business, results of operations and financial condition.

Poor economic performance in the Czech Republic could have a material adverse effect on our results of operations and financial condition.

Our revenues are sensitive to the performance of the Czech economy. As of December 31, 2011, approximately 83.6% of our assets were located in the Czech Republic and approximately 76.8% of our revenues for the year ended December 31, 2011 derived from the Czech Republic. Changes in economic, regulatory, administrative or other policies of the Czech government, as well as political or economic developments in the Czech Republic (including potential changes in the Czech Republic's credit ratings) over which we have no control, could have a significant effect on the Czech economy, which in turn could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to operate our nuclear power plants over a period at least equal to the current expected life.

In the Czech Republic, certain authorizations are required to operate nuclear power plants. Operation of nuclear power plants is subject to overall E.U. and national regulatory requirements and political policies, which are in turn sensitive to public opinion and E.U. development risks. We cannot give any assurance that we will successfully obtain the necessary authorizations at the appropriate time, or at all, that the duration of such authorizations will not change, or that we will not be subject to conditions that require us to make significant capital expenditures. Moreover, we cannot give any assurance, particularly in the event of an incident affecting the safety or operation of our facilities, that our nuclear power plants will actually be operated for such period of time, or at all. If any of our nuclear power plants are closed before the end of their currently expected operating lives, we may be required to make additional investments to replace the loss of generation capacity or purchase electricity on the wholesale market and the payment of decommissioning costs would be accelerated. Inability to operate our nuclear power plants as expected would have a significant material adverse effect on our profit margin and cash flow from operations. Furthermore, should we be unable to operate our nuclear power plants over a period at least equal to the currently expected period, we might not accumulate appropriate cash surpluses for decommissioning of such power plants. As a result, our failure to obtain all of the necessary authorizations and to operate our nuclear power plants for the duration of such authorizations, could have a material adverse effect on our business, results of operations and financial condition.

Default or delay by any of our counterparties (which include our partners, contractors, subcontractors and suppliers) as well as by financial and insurance institutions may have an impact on our results of operations and financial condition.

We undertake significant capital expenditures related to the modernization, renewal and construction of energy power plants, mining and distribution assets. We face the risk of potential default or delay by our counterparties (which include our partners, contractors, subcontractors and suppliers), especially in cases of financial hardship or bankruptcy. Any default by our counterparties may affect the cost and completion of our projects, the quality of our work, the supply of certain critical products or services or expose us to reputational risk, business continuity risk and the loss of important contracts, as well as to substantial additional costs, particularly in cases where we would have to pay contractual penalties, find alternative counterparties or complete work ourselves, which could have a material adverse effect on our business, results of operations and financial condition.

Our revenues are generated by sales to end-consumers or wholesale partners and state owned customers across European markets. There is a risk that some of our key counterparties, end-consumers (predominantly the state owned companies such as the national railway operators) or suppliers (predominantly the state owned electricity producers)

could default on or dispute their contractual obligations towards us, which could have a material adverse effect on our business, results of operations and financial condition. Further, the majority of our forward sales are executed on the OTC market. The credit quality of our counterparties may deteriorate during adverse economic conditions, which may threaten the results of our hedging strategy, which in turn could have a material adverse effect on our business, results of operations and financial condition.

We conclude treasury operations with major European banks and with local regional banks in all countries in which we operate. Given the current sovereign debt crisis, potential continued economic recession in Europe and its potential impact on Europe's financial services industry, there is a significant risk that some of our financial counterparties might default which could have a material adverse effect on our business, results of operations and financial condition.

We may not successfully implement our key strategies.

Our key strategies include increasing the installed capacity of our nuclear power plants, building new conventional fuel power plants, developing renewable sources of power (as well as our related market position), improving our internal efficiencies and strengthening our market position in the heating and co-generation market. However, we face many risks that could adversely affect our ability to implement our key strategies, such as changes in electricity demand in the Czech Republic and in Central and South East Europe generally, changes in electricity and emission allowance prices and the regulatory framework, increases in generation and distribution costs, future developments affecting the electricity infrastructure within Central and South East Europe, competition in the markets in which we operate, political and economic developments affecting Central and South East Europe, E.U. legal and regulatory requirements and the reliability of our future partners for expanding our business within Central and South East Europe. Any failure to implement our key strategies successfully could have a material adverse effect on our business, results of operations and financial condition.

We may not successfully manage the risks associated with expanding our international operations and integrating newly acquired subsidiaries and we may face significant risks and liabilities as a result of such acquisitions.

Since our foundation, we have expanded our operations through mergers and acquisitions, especially in Central and South East Europe (please see “*Description of the Issuer—History and Development of the CEZ Group*”). We expect to continue to evaluate investment opportunities in the future and we may expand our operations in other countries or in new markets. We face many risks inherent in expanding our operations and doing business on an international level, such as unexpected changes in regulatory requirements; default by our joint venture partners; trade barriers, including import and export controls, tariffs, customs and duties; difficulties in staffing and managing foreign operations; longer payment cycles and problems in collecting accounts receivable; political instability, expropriation, nationalization, war and other political risks; fluctuations in currency exchange rates; foreign exchange controls which restrict or prohibit repatriation of funds; technology export and import restrictions or prohibitions; and potentially adverse tax consequences. Any failure to manage the risks associated with expanding our operations could have a material adverse effect on our business, results of operations and financial condition.

We may incur impairment losses in connection with our investments due to adverse regulatory actions. For example, in 2011, we performed impairment tests of goodwill and as a result of these tests we recognized total impairment losses of CZK 292 million in relation to adverse regulatory actions affecting our distribution business in Albania and, in 2010, we recognized total impairment losses of CZK 2,826 million in relation to adverse regulatory actions affecting our Bulgarian distribution business and generation of electricity by the Varna coal-fired power plant. Any future adverse changes in the economic and regulatory environment of our reporting segments could result in further impairment charges, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, although due diligence reviews are undertaken in relation to acquisitions, such reviews may not reveal all existing or potential risks and liabilities and we cannot give any assurance that our acquisitions are not or will not become subject to liabilities of which we are unaware. While warranties and indemnities are generally obtained where practical and appropriate, we cannot give any assurance that we would be able to enforce our contractual or other rights against the relevant sellers or that any warranties and indemnities would be adequate to cover potential liabilities. The acquisition of businesses or assets with risks or liabilities of which we were or may be unaware, or did not

correctly assess or assume, or against which we did not obtain full legal protection, could have a material adverse effect on our business, results of operations and financial condition.

We cannot give any assurance that we will successfully integrate our previous acquisitions in an efficient and effective manner or that we will be able to identify, consummate and integrate future acquisitions. Our failure to integrate our acquisitions and to manage any of the risks and costs associated with such integration, could have a material adverse effect on our business, results of operations and financial condition.

The Czech national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector approved by the Czech government, under which emission allowances are allocated to us at no cost, may not be approved by the European Commission.

On September 21, 2011, the Czech government approved a national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector, which forms part of the application submitted on September 30, 2011 to the European Commission. The final decision of the European Commission was expected by March 31, 2012. For more detailed information on the national plan, please see “*Regulation—Czech Republic—Electric Energy Sector—Electricity Generation—Application by the Czech government.*” and “*Description of the Issuer-Emission Rights*”. We cannot guarantee that this application will be approved by the European Commission. If it is not approved or is approved in a less favorable way than currently anticipated, we might be forced to purchase, at the prevailing market prices, a significant amount of emission allowances that we would otherwise be allocated without payment. We currently estimate that the potential cost of purchasing emission allowances on the market could amount to CZK 20 billion for the period 2013-2019 which could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to changes in the way emission allowances are allocated, including the conditions attaching to free allocations and the allocation of emission allowances after 2013, as well as volatility in the market prices of emission allowances that we need to acquire.

In 2005, the European Union introduced the European Union Emission Trading Scheme (the “E.U. ETS”). Within the E.U. ETS, each greenhouse gas emitter is allocated a certain cap by the national government, which is in turn allocated a national cap by the European Commission, within which it is allowed to emit greenhouse gases (such as CO₂, methane and nitrogen monoxide). Any emissions in excess of this cap must be counterbalanced by emission allowances acquired in the open market at a market price, otherwise the emitter is penalized. Allocations are fixed for a specific trading period. In 2012, the allocation of emission allowances without cost in the Czech Republic to CO₂ emission producers selling electricity to third parties is subject to a tax in the amount of 32% of the average market value of all emission allowances allocated for free in a given year. We estimate that the new tax may impact our profits by approximately CZK 2 billion for the year ended December 31, 2012. This tax is only applicable for the years ended 2011 and 2012, but any extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, results of operations and financial condition.

We do not currently need to purchase additional emission allowances for 2012. However, an unexpected increase in demand for electricity or outages of our nuclear power plants may lead to an increase in generation by our coal-fired power plants and a deficit in our emission allowances. If we suffered a deficit in our emission allowances we would incur costs related to the purchase of emission allowances in the market, which would adversely affect our cash flow, which could have a material adverse effect on our business, results of operations and financial condition.

In the trading periods after 2012, the majority of, or potentially all emission allowances will be sold in auctions rather than allocated for free. A potential partial free allocation is not within our control and will only be allocated to us subject to (i) receiving approval from national governments and the European Commission, and (ii) us investing in renewable technologies in an amount at least equal to the market price of the freely allocated emission allowances. From January 1, 2013, we will have to buy all or a substantial part of the emission allowances on the market. As a result, our emission allowances allocation after 2013 remain uncertain and from 2013 our costs may increase significantly, which could have a material adverse effect on our business, results of operations and financial condition. In addition, we will be more vulnerable to risks relating to volatility in the price of CO₂ emission allowances. To mitigate this volatility risk, we have in place a hedging strategy of acquiring a certain volume of emission allowances before this period, although, in the event of potential decreases in the price of emission allowances, this

hedging strategy itself could have a material adverse effect on our business, results of operations and financial condition.

A continual decrease in the allocation of emission allowances across the European Union and, potentially, a greater decrease in the allocation of emission allowances than is currently expected in the next allocation period as well as any increase in the price of CO₂ emission allowances, may result in a substantial increase in our variable generation costs making the price of electricity offered by us uncompetitive, which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to differing regulatory regimes in all of the countries in which we operate and these regimes are complex and subject to change.

We are subject to the laws of various countries and jurisdictions, including the laws of the Czech Republic, Albania, Bulgaria, Poland, Romania, Turkey and the European Union, as well as the regulations of the regulatory agencies of the countries in which we operate, including the Energy Regulatory Office and the State Office for Nuclear Safety in the Czech Republic (please see “*Regulation*”), the Energy Regulatory Office in Romania, and the State Commission for Energy and Water Regulation in Bulgaria. These laws and regulations affect many aspects of our business and, in many respects, determine the manner in which we conduct our business and the fees we charge or obtain for our products and services, including in respect of electricity generation (both traditional and from renewable sources). In particular, as an owner and operator of nuclear, coal-fired and gas power plants (including combined heat and electricity power plants), renewable energy facilities and electricity distribution, heat distribution and mining businesses, we are subject to extensive governmental and other regulations in the markets in which we operate, including in relation to nuclear safety. Any new regulation or any changes in the existing regulations or requirements of the governments or regulatory authorities of the countries in which we operate, may require significant changes in our business in ways that we cannot predict, in particular the way in which we operate our nuclear assets. Any new regulations or requirements that cause us to restructure or otherwise change our business in any way, or that affect electricity generation, transmission, distribution or supply prices or related financial conditions, could have a material adverse effect on our business, results of operations and financial condition. In addition, we may fail to respond swiftly and appropriately to changes in applicable laws and regulations or to changes in the energy industry generally, which could have a material adverse effect on our business, results of operations and financial condition.

Changes in regulated tariffs could have a material adverse effect on our results of operations and financial condition.

In the Czech Republic, a significant part of our revenue depends on regulated tariffs (including electricity distribution prices and heat prices). Such tariffs are set by the Czech Energy Regulatory Office. Tariffs are also set by the regulatory authorities of other countries in which we operate, including the State Energy and Water Regulatory Commission in Bulgaria and the Energy Regulatory Commission in Romania. A significant part of our revenue generated outside the Czech Republic is generated by our electricity distribution businesses in Albania, Bulgaria and Romania. Regulatory policies of such countries in South East Europe, particularly Albania and Bulgaria, are less developed and are more susceptible to political intervention and adverse regulatory action. Public authorities and regulatory authorities in the countries in which we operate may decide to limit or even block tariff increases, with no change to the quality of service, or may change the conditions of access to such regulated tariffs, including changes to the price setting mechanisms as a result of political interference. However, we cannot give any assurance that new tariff mechanisms would be put in place or that regulated tariffs would be set at a level which would allow us to preserve our short-, medium- or long-term investment capacity or our property interests, while ensuring a fair return on the capital invested in our electricity generation, distribution and supply assets. As a result, any changes in regulated tariffs, particularly those that may affect our revenues from electricity distribution, could have a material adverse effect on our business, results of operations and financial condition.

Uncertain, unexpected or unlawful decisions of key regulatory or national administration executive authorities could have a material adverse impact on our business, results of operations and financial condition.

Our business as well as our capital investment program and financial investment strategy are subject to decisions of numerous national and international institutions, regulatory and administrative authorities. We face the risk that decision makers in these institutions may not act within the scope of existing laws and regulations, which could have uncertain and unexpected consequences on our business and operations in the Czech Republic and South East

Europe, which in turn could have a material adverse effect on our business, results of operations and financial condition.

We conduct our business in several different currencies and are exposed to foreign currency risks.

We sell the electricity we generate in the Czech Republic on markets such as the PXE and the EEX, which trade electricity contracts denominated in Euro. As a result, the revenues we receive from these sales are either denominated in Euro or denominated in Czech crowns, but derived from Euro-denominated electricity prices and the Euro/CZK exchange rate at the time the contract concludes. However, a significant portion of our operating expenses and capital expenditure needs related to power generation in the Czech Republic are denominated in Czech crowns, leading to substantial foreign exchange risk. We also generate revenues and incur costs in currencies other than Euro and Czech crown, including Albanian lek, Bulgarian lev, Polish zloty, Romanian lei and Turkish lira. We believe our Euro denominated indebtedness acts as a natural foreign exchange hedge for our exposure to Euro denominated revenues, however, any increase in our exposure to foreign exchange risks or our failure to manage or make use of financial or natural hedging in order to manage our exposure to foreign exchange risk could have a material adverse effect on our business, results of operations and financial condition.

The Czech Republic has experienced growing public finance deficits which could potentially destabilize the Czech crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic through lower debt ratings. The Czech crown volatility is affected by the overall development of the global economy and the relative perception of risks associated with new E.U. member states and other central and eastern European countries. The volatility of the Czech crown is also affected by the anticipated date that the Czech Republic will join the Eurozone, which has been delayed due to political developments and the growing public and budget deficit of the Czech Republic. As of the date of this Base Prospectus, there is no official target date for the Czech Republic to join the Eurozone. In addition, we cannot give any assurance that any government and monetary authorities will not impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. Any significant change or fluctuation in the Czech crown's exchange rate or inflation in the Czech Republic could have a material adverse effect on our business, results of operations and financial condition.

We could incur significant losses in the event of a nuclear accident.

In accordance with the Vienna Convention, the Czech Nuclear Act provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to CZK 8 billion per accident and is obliged to maintain insurance coverage for potential liabilities for nuclear damage in an amount not less than CZK 2 billion. We have insurance policies in place for both the Dukovany and Temelín nuclear power plants, which provide coverage at these amounts. However, notwithstanding any limitation of liability under the Czech Nuclear Act and any additional coverage under our insurance policies, any nuclear accident or failure at our nuclear power plants could result in us incurring significant losses in excess of such amounts due to, among other things, a potential shut-down of the nuclear facility and the resulting loss of generation capacity, remedial and replacement expenses and negative publicity from such an accident. As a result, any nuclear accident suffered by our nuclear power plants could have a material adverse effect on our business, results of operations and financial condition.

Failures, breakdowns, planned or unplanned outages as well as natural disasters or sabotage at our power plants (including our nuclear reactors and hydropower facilities) or in our distribution infrastructure may harm our business and reputation or could cause significant harm to the environment.

Our power plants (including our coal-fired heat and power plants, nuclear reactors and hydropower facilities), distribution infrastructure, mining facilities and information systems controlling these facilities could be subject to failure, breakdowns, unplanned outages, capacity limitations, system loss, breaches of security or physical damage due to natural disasters (such as storms, floods or earthquakes), sabotage, terrorism, computer viruses, fuel interruptions and other causes. With respect to our nuclear reactors, any nuclear accident or failure at our nuclear power plants could result in us incurring significant losses due to, among other things, a potential shut-down of the nuclear facility and the resulting loss of generation capacity, remedial and replacement expenses and negative publicity from such an accident. The main risk associated with our hydropower facilities is the risk of damage during floods. We cannot give any assurance that accidents will not occur or that the preventative measures taken by us will be fully effective in all cases, particularly in relation to external events that are not within our control, such as floods and other natural disasters.

Due to the complexity of operating nuclear and other power stations, we are not able to eliminate the risk of unplanned outages and we cannot predict the timing or impact of these outages with certainty. Our emergency response, disaster recovery and crisis management measures may not effectively protect us from these events. Any service disruption may cause loss in electricity generation, customer dissatisfaction and may also lead to liability for damages, the imposition of penalties and other unforeseen costs and expenses which could have a material adverse effect on our reputation, business, results of operations and financial condition.

In addition, we may need to temporarily shut down some of our power plants and incur expenses in connection with inspections, maintenance or repair activities in addition to those that we currently conduct, including such additional activities that the governmental authorities in the countries in which we operate may require us to conduct. Any physical damage to our facilities may be costly to repair and we may not have insurance coverage for all potential losses or our insurance claims may be subject to challenge or delay. In particular, due to our contractual obligations to deliver electricity at pre-established prices and quantities, if we suffer a reduction in electricity generation, we may be required to purchase electricity in the open market which may be at unfavorable prices. As a result, any failure, breakdown or unplanned outages at our power plants or any failure or interruption of our distribution infrastructure could have a material adverse effect on our reputation, business, results of operations and financial condition.

Our ability to access credit and bond markets and our ability to raise additional financing is in part dependent on our credit ratings.

As of the date of this Base Prospectus, ČEZ, a. s. has a credit rating of A- with a stable outlook by Standard & Poor's Credit Market Services Europe Limited and A2 with a stable outlook by Moody's Investors Service Ltd. Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated January 6, 2012). These ratings reflect each agency's opinion of our financial strength, operating performance and ability to meet our debt obligations as they become due. These ratings are near the low-end of the respective rating agency's scale of investment-grade ratings. Credit rating agencies now monitor companies more closely and have made liquidity, and the key ratios associated with it, such as gross leverage ratio, a particular priority. Our ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on our credit ratings. We currently expect to operate with sufficient liquidity to maintain our current ratings. However, this is dependent on a number of factors, some of which may be beyond our control. If we fail to maintain adequate levels of liquidity, our ratings may be downgraded. In the event our credit or debt ratings are lowered by the rating agencies, we may not be able to raise additional indebtedness on terms similar to our existing indebtedness or at all, and our ability to access credit and bond markets and other forms of financing (or refinancing) could be limited, which could have a material adverse effect on our business, results of operations and financial condition. Lowering of our credit rating may also trigger our obligation to redeem certain debt securities prior to their scheduled redemption date which could have a material adverse effect on our business, results of operations and financial condition.

Our majority shareholder may pursue decisions that reflect Czech government policy (including the Czech government's desire for us to build a new nuclear power plant in the Czech Republic).

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ, a. s., the parent company of the CEZ Group. As our controlling shareholder, the Czech Republic, through the Ministry of Finance, has the power to nominate and elect two-thirds of the members of our Supervisory Board. Our Supervisory Board elects members to our Board of Directors. Consequently, the Czech Republic, through their shareholdings or their positions on our Supervisory Board or our Board of Directors, has and will continue to have, directly or indirectly, the power to affect our operations. As a result, certain of our decisions may reflect Czech government policy, especially the Czech energy policy, which includes the Czech government's desire for us to build a new nuclear power plant in the Czech Republic within the next decade, with which we are currently in the process of complying. Complying with such decisions could lead to significant capital expenditure as well as the risks inherent in building a nuclear power plant, including debt capacity risks, which could in turn have a material adverse effect on our ratings, business, results of operations and financial condition.

We could incur unforeseen taxes, tax penalties and sanctions which could adversely affect our results of operations and financial condition.

A number of E.U. member states face significant budget deficits and, as a result, taxes are being imposed on the utilities sector, such as the gift tax for emission allowances in the Czech Republic, the nuclear tax in Germany and the power sales tax in Hungary. The imposition of any new taxes in the countries in which we operate, or changing interpretations or application of tax regulations by the tax authorities, harmonization of Czech and E.U. tax law and regulation, extensive time periods relating to overdue liabilities and the possible imposition of penalties and other sanctions due to unpaid tax liabilities may result in additional amounts being payable by us, which could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, support for renewable energy sources in the European Union, particularly in the Czech Republic, may adversely affect our profit from standard nuclear and coal-fired power plants, where no equivalent subsidy to that for renewable energy is available, or adversely affect our market share, which could have a material adverse effect on our business, results of operations and financial condition.

Currently, operators of certain solar electricity producing facilities in the Czech Republic which were put into operation between January 1, 2009 and December 31, 2010 are subject to a withholding tax in the amount of (i) 26% of the income corresponding to the feed-in tariff, or (ii) 28% of the income corresponding to a “green bonus”. As of December 31, 2011, we own and operate 13 solar power plants in the Czech Republic, with installed capacity of 125.2 MW. The majority of these solar power plants were put into operation between January 1, 2009 and December 31, 2010 and are subject to the withholding tax. This tax is only applicable for the years ended 2011 and 2012, but any extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, results of operations and financial condition.

We have substantial debt and our financial obligations could impair our ability to service our debt, carry out new financings and fund our capital expenditures.

We have substantial debt and other financial obligations. We cannot give any assurances that our cash flow from operations will be sufficient to service our debt and to meet other payment obligations or to fund our planned capital expenditures without the need for additional external financing. Our substantial debt and other financial obligations could limit our flexibility in planning for, or reacting to, changes in our business or our industry, which could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to financial risks and market volatility that could have a material adverse effect on our results of operations and financial condition.

During the normal course of our business, we are exposed to the risk of energy price volatility, as well as interest rate, commodity price, currency and counterparty risks. While we partially hedge these risks, we may incur losses if any of the variety of instruments and strategies we use to hedge exposures are not effective.

We face risks from our energy trading operations. In general, we seek to hedge risks associated with volatile energy-related prices (including the price of CO₂ emission certificates) by entering into fixed price bilateral contracts and futures contracts on commodity exchanges and swaps and options traded in over the counter financial markets. To the extent we are unable to hedge these risks, enter into hedging contracts that fail to address our exposure or incorrectly anticipate market movements, we may suffer significant losses which could have a material adverse effect on our business, results of operations and financial condition.

We are also exposed to other financial risks. Financial markets have experienced volatility in recent years and markets may decline again or become even more volatile in the future. The value of certain of our assets and financial investments, including joint ventures, is sensitive to the performance of the European and global economies. For example, we hold a 7% share in MOL, the Hungarian oil company, which represented 2.7% of our total assets as of December 31, 2011. We also hold substantial amounts in certain government bonds, particularly Czech government bonds. Any future fluctuations in the capital markets could negatively influence the value of those assets which could have a material adverse effect on our business, results of operations and financial condition. We are dependent on debt capital markets to fund the majority of our working capital and capital expenditures. Any volatility in the debt capital

markets could negatively affect this source of funding, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, any future adverse changes in the economic and regulatory environment of our reporting segments could adversely affect our estimated future cash flows and discount rates and could result in impairment charges to goodwill, which could have a material adverse effect on our business, results of operations and financial condition.

We are exposed to risks on the wholesale energy and CO₂ emission allowances markets.

We operate in the deregulated energy markets in Europe through our trading activities. As a result, we are exposed to price fluctuations in the wholesale energy markets (electricity, gas and coal) as well as in the CO₂ emission allowances market. These fluctuations are particularly significant in the current context of major tensions and volatility on the energy markets. Any shortage of products or lack of liquidity could limit our ability to close our exposure to risk quickly in the energy market. In addition, these markets remain in part partitioned by country, largely as a result of the lack of interconnections and may experience significant increases or decreases in price movements and liquidity crises that are difficult to predict. Any such fluctuations in the wholesale energy markets could have a material adverse effect on our business, results of operations and financial condition.

The growth of an integrated European electricity market may be slowed by a lack of cross-border transmission system interconnections.

The growth of an integrated European electricity market is inhibited by a lack of cross-border interconnections. This situation limits exchange capacity between operators in different countries, notably the capacity to rapidly adapt supply to demand (so called “blackout risk”), and allows for persistent price differences between the different countries, which would be significantly reduced in a more efficient and integrated European market. It also impedes the emergence of efficient operators with a European dimension as it limits the options for synergies between companies within the same group, but located on different sides of a border. Although there are currently several projects to develop interconnections, their construction has nonetheless been slowed down, mainly by environmental, regulatory and local acceptability considerations. The absence of adequate interconnections between countries where we are based or the failure of such interconnections to develop at a sufficient pace, may limit industrial synergies which we intend to achieve or cause network interruptions in countries in which we operate, which could have a material adverse effect on our business, results of operations and financial condition.

Unexpected decisions of key regulatory or national administration executive authorities in Albania threatens our business presence in the country.

In December 2011, our distribution and supply business in Albania was negatively impacted by the adverse decision of the Albanian regulator regarding the distribution regulatory framework (principally relating to tariffs, retail prices and regulated wholesale electricity prices). We are taking legal and business steps aimed at minimizing the impact of this decision as well as improving the future regulatory environment for our business in Albania. However, we cannot give any assurance that these steps will be successful or limit the impact of the Albanian regulator’s decision on our business. Should the current unfavorable regulatory framework remain unchanged, it could have a material adverse effect on our business, results of operations and financial condition. Further, under these circumstances, we may not recover our investment in our businesses in Albania and we cannot give any assurance that we would maintain our business presence in Albania.

Risks associated with the deliveries of coal from Czech Coal a.s.

In October 2010, we commenced legal proceedings against three companies belonging to the Czech Coal group in connection with a contract regarding a future long-term agreement for brown coal supplies to our Počerady brown coal facility after 2016. The outcome of the legal action is currently unknown, but a negative outcome could have a material adverse effect on our business, results of operations and financial condition. For more detailed information on this dispute, please see “*Description of the Issuer—Legal Proceedings—Litigation with Czech Coal.*”

We currently purchase brown coal from Czech Coal a.s. under a medium-term purchase contract, which expires in 2012. We face the risk that we will not agree with Czech Coal a.s. on supplies after January 1, 2013. If Czech Coal a.s. ceases to supply brown coal to us, this would adversely affect the operation of our Počerady power plant in particular and could have a material adverse effect on our business, results of operations and financial condition.

Squeeze-out proceedings concerning former minority shareholders of companies we have acquired may adversely affect our results of operations and financial condition.

We may incur significant liabilities in connection with pending litigation concerning the squeeze-out of former minority shareholders of distribution and mining companies that we have acquired. For more detailed information on these proceedings, please see “*Description of the Issuer—Legal Proceedings—Squeeze-Out Proceedings.*” If such litigation is not decided in our favor, the final decision of the Czech courts, particularly in relation to share price, additional payments or supplementary interest, could have a material adverse effect on our business, results of operations and financial condition.

Our activities require various administrative authorizations and licenses that may be difficult to obtain, maintain or renew or whose grant may be subject to conditions that may become significantly more stringent.

Our core activities of generation, distribution and supply of electricity require various administrative authorizations, at local and national levels, in the Czech Republic (see “*Regulation—Czech Republic—Electric Energy Sector—Licensing Regime*”) and in the other countries in which we operate. The procedures for obtaining and renewing these authorizations can be protracted and complex. Obtaining these authorizations is not routine and the conditions attached to obtaining them are subject to change and may not be predictable. As a result, we may incur significant expenses in order to comply with the requirements associated with obtaining or renewing these authorizations (for example, the cost of preparing applications for authorizations or investments associated with installing equipment that are required before the authorization can be issued). Delays, extremely high costs or the suspension of our industrial activities due to our inability to obtain, maintain, or renew authorizations, may also have a negative impact on our business activities and profitability. In addition, we often invest resources prior to obtaining the necessary permits and authorizations, particularly in connection with feasibility studies and environmental studies, but may have to cancel or withdraw from a project if we are unable to obtain the necessary permits or authorizations. Licenses for the generation of electricity in the Czech Republic are granted for a maximum of 25 years. The license for Unit 2 of the Temelín nuclear power plant expires on May 31, 2012 and we are currently in the process of requesting a new license. Certain other material licenses for the operation of our nuclear and coal-fired power plants are also due to expire within the next five years, including the license for Unit 1 of the Dukovany nuclear power plant which expires on December 31, 2015 (please see “*Description of the Issuer—Our Business—Electricity Generation—Central Europe*”). Any failure to obtain, maintain, renew or extend all the necessary administrative authorizations and licenses necessary for the operation of our business and execution of our strategy, could have a material adverse effect on our business, results of operations and financial condition.

External financing may increase our interest expense.

Due to our ongoing significant investment program and our need to service existing debt and other financial obligations, we may need additional external financing to cover our payment obligations. Any significant increase in interest rates could therefore lead to a material increase in our interest expense, which could have a material adverse effect on our business, results of operations and financial condition.

Future privatization of ČEZ, a. s. may result in a credit downgrade or may affect our ability to repay debt, which could have a material adverse effect on our results of operations and financial condition.

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, holds approximately 69.8% of all shares in ČEZ, a. s. as of the date of this Base Prospectus. Although we do not currently expect the Czech Government to privatize ČEZ, a. s., we cannot give any assurance that the Czech Government or any future government of the Czech Republic will not ultimately seek to undertake a partial or full privatization of ČEZ, a. s. resulting in the sale of its entire shareholding in ČEZ, a. s. The credit rating of A- with a “stable” outlook currently assigned to ČEZ, a. s. by Standard & Poor’s Credit Market Services Europe Limited is based in part on the opinion of Standard & Poor’s Credit Market Services Europe Limited that the Czech Republic may potentially provide support to ČEZ, a. s. in the event of financial distress. This rating could come under pressure, potentially leading to a downgrade, if ČEZ, a. s. is fully or partially privatized and the Czech Republic is no longer a controlling shareholder, which could affect our ability to make repayments on our debt or otherwise have a material adverse effect on our business, results of operations and financial condition. Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in

accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated January 6, 2012).

Our failure to expand and diversify our non-nuclear generation capacity may adversely affect our financial condition and results of operations.

Our current generation capacity predominantly consists of coal and nuclear generation. We aim to expand our existing non-nuclear power generation as well as diversify our generation capacity in order to reduce CO₂ emissions, increase the flexibility of our generation facilities and increase our generation potential to meet future demand. We hope to achieve this by investing in the upgrade and replacement of coal-fired power plants, building new gas and wind power plants and increasing our renewable power generation capacity. All of these investments will require significant capital expenditure and substantial managerial attention. Furthermore, we may incur additional costs and loss of revenues if we fail to complete such expansion and diversification projects within budget and on schedule. Our failure to properly control these capital expenditures may result in higher utilization of our debt capacity and our inability to contract the relevant supplies on terms substantially comparable to those of our competitors, which could lower the competitiveness of our generation fleet. Any failure to expand and diversify our non-nuclear generation capacity could have a material adverse effect on our business, results of operations and financial condition.

State support for certain power generation sources could have a material adverse effect on our results of operations and financial condition.

The Czech Renewable Energy Act requires distribution companies to purchase certain amounts of electricity from environmentally friendly “co-generation,” “small hydro,” “decentralized” or “renewable” facilities. This results in significantly higher state support for small generation sources or for those that are connected directly to the distribution grid. This support may be in the form of regulated subsidized prices or preferential access of these generation sources to the distribution grid. However, in the Czech Republic we operate large plants and transmit a major portion of our electricity to the transmission grid. Consequently, we cannot take full advantage of state support for otherwise comparable power generation sources in the Czech Republic under the Czech Energy Act. Similar state support schemes for selected alternative power generation sources also exists in other countries in which we operate, including Bulgaria and Romania. While we believe that these purchases of electricity by the distribution companies and the preferential treatment of renewable sources will not substantially adversely affect the generation volumes of our conventional generation facilities, we cannot provide any assurance that this will in fact be the case or that our electricity sales to supply companies will not decrease, which could in turn have a material adverse effect on our business, results of operations and financial condition.

Political developments in the Czech Republic could have a material adverse effect on our results of operations and financial condition.

The composition of the Czech government and any political developments or changes in the economic policy of the Czech Republic may have an adverse effect on the overall economic stability of the Czech Republic. We cannot give any assurance that any change in the Czech government would not affect the energy, economic, fiscal, and regulatory policies of the Czech Republic, nor can we give any assurance that any potential change in the Czech government would not affect the structure of the presidium of the Ministry of Finance and, as a result, the structure of our Supervisory Board and our Board of Directors. Such unfavorable political developments could have a material adverse effect on our business, results of operations and financial condition.

We may be required to pay significant penalties as a result of a pending E.U. anti-monopoly investigation.

On November 24, 2009, inspectors of the European Commission performed an unannounced inspection at our headquarters in Prague and at the office of Severočeské doly, a.s., a wholly-owned member of our Group, as part of an investigation into allegations of anti-competitive behavior. It has been alleged that we may have attempted to restrict the development of competition on the Czech wholesale electricity market by obstructing power plant projects of our competitors, limiting trade in brown coal and influencing the prices on the Czech wholesale electricity market. Since the beginning of the investigation, the European Commission requested several written information from us and on August 30 and September 1, 2010, it conducted an announced inspection at our headquarters, where we provided all requested information and answered subsequent requests for information made by the European Commission. On July 11, 2011, the European Commission decided to start proceedings in respect of one alleged infringement concerning

hoarding capacity on the transmission network and thus preventing access to the Czech wholesale electricity market. If we were found to have engaged in anti-competitive behavior, we could face a maximum fine of 10% of our 2008 global turnover, which could have a material adverse effect on our business, results of operations and financial condition.

Changes in E.U. or national requirements affecting liability for nuclear damage, insurance requirements or decommissioning of nuclear power plants could have a material adverse effect on our results of operations and financial condition.

Each E.U. member state sets its own limits and rules relating to liability for nuclear damage, insurance requirements and decommissioning of nuclear power plants, which are affected by the political policies of each E.U. member state. Any changes or developments in such legal or regulatory requirements or political policies could affect the legal and regulatory requirements and political policies of the Czech Republic. Any changes to the limits and rules set by the Czech Republic affecting the operation of our nuclear power plants, including liability for nuclear disasters, insurance coverage and premiums or decommissioning costs, could have a material adverse effect on our business, results of operations and financial condition.

An increase in competition in the markets in which we operate could have a material adverse effect on our results of operations and financial condition.

The energy markets in the countries in which we operate are undergoing a process of gradual liberalization, which is being implemented through different approaches and on different timetables from country to country. As a result of this liberalization, new competitors may enter many of our markets in the future. In relation to electricity, we compete in the retail electricity market and the wholesale electricity market. All suppliers have the right to offer their electricity and all customers have the right to choose their electricity supplier at their own discretion and we cannot give any assurance that our customers will not change their suppliers. Since January 1, 2006, the Czech electricity market has been fully liberalized and all end-consumers are considered to be eligible customers who may freely choose their supplier of electricity based on current market conditions. If our existing customers or potential new customers purchase electricity from other suppliers, our revenues and our market share will decrease. Our ability to develop our business and improve our financial results may be constrained by new competition and we may be unable to offset the financial effects of decreases in production and sales of electricity through efficiency improvements, or expansion into new business areas or markets. As a result, any increase in competition in the markets in which we operate could have a material adverse effect on our business, results of operations and financial condition.

Our equipment and components of our power plants are subject to gradual deterioration over time.

The continual operation of our power plants, as well as natural processes, such as erosion and corrosion, have an impact on the condition of some of our equipment and components of our power plants. The impact of such operation and processes tends to increase as our plant, equipment and components grow older. As part of our strategy, we have launched a significant portfolio renewal program aimed at modernizing our power plant portfolio. Although we seek to implement new inspections and maintenance practices, including proactively repairing or replacing equipment and components before they fail, as well as implementing our portfolio renewal program, we cannot give any assurance that we will be successful in our efforts, which could have a material adverse effect on our business, results of operations and financial condition.

Our ability to supply electricity is dependent upon the transmission system and our reliance on third parties.

The transmission of electricity from our power plants and to our distribution networks is dependent upon the infrastructure of the transmission systems in the countries in which we operate. We have no control over the operation of these transmission systems and we must rely on independent third party transmission system operators in the countries in which we operate, including ČEPS, a.s., the state-owned transmission system operator in the Czech Republic. Any failure of the transmission systems in the countries in which we operate, including as a result of natural disasters, insufficient maintenance or inadequate development, could prevent us from distributing electricity from our power plants to end-consumers, which in turn could have a material adverse effect on our business, results of operations and financial condition.

Disruptions in the supply of coal, nuclear fuel, gas or other raw materials, or an unexpected increase in their cost, could materially and adversely affect our results of operations and financial condition.

In the ordinary course of our business, we are exposed to the risk of disruptions in the supply of coal, nuclear fuel, gas or other raw materials, and to increases in their cost. Our generation operations depend upon obtaining deliveries of adequate supplies of raw materials on a timely basis and are therefore vulnerable to changes in the supply of the raw materials, including brown coal, nuclear fuel and gas. Any significant shortages or interruption in the supply of raw materials could disrupt our generation operations and increase our cost of raw materials, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, our long-term purchase contract with DIAMO s.p., which secured delivery of up to one third of our total annual uranium needs until 2014, expires in 2014 and we may not be able to conclude a new purchase contract on favorable terms or at all, which could have a material adverse effect on our business, results of operations and financial condition.

Risks associated with deliveries of coal from Sokolovská uhelná.

We are currently involved in a dispute with Sokolovská uhelná, právní nástupce, a.s. relating to the amount and price of brown coal supplied to us under a long-term purchase contract expiring in 2027. Sokolovská uhelná , právní nástupce, a.s. has challenged the validity of the purchase contract. In relation to this dispute, we have filed a lawsuit for compensation relating to the unjust enrichment of Sokolovská uhelná , právní nástupce, a.s. in the amount of approximately CZK 56 million. In the event that Sokolovská uhelná , právní nástupce, a.s. is successful and the long-term purchase contract is found to be invalid, any failure to conclude a new agreement on similar terms or at all could adversely affect the operation of our Tisová power plant and have a material adverse effect on our business, prospects, results of operations and financial condition.

We are subject to a variety of additional litigation and regulatory proceedings and we cannot give any assurances as to their outcome or the sufficiency of our provisions.

In the ordinary course of our business, we are subject to numerous civil, administrative and arbitration proceedings. Our audited consolidated financial statements show accrued provisions for contingent liabilities relating to particular proceedings, calculated based on the advice of our internal and external legal counsel. As of December 31, 2011, we also recorded provisions relating to various other risks and charges, primarily in connection with regulatory disputes and disputes with local authorities. However, we have not recorded provisions in respect of all legal, regulatory and administrative proceedings to which we are a party or in which we may become a party. In particular, we have not recorded provisions in cases in which the outcome is unquantifiable or which we currently expect to be ruled in our favor. As a result, we cannot give any assurance that our provisions will be adequate to cover all amounts payable by us in connection with such proceedings. Our failure to quantify sufficient provisions or to assess the likely outcome of any proceedings against us, could have a material adverse effect on our business, results of operations and financial condition.

The agreements that govern our long-term debt contain restrictive covenants.

The agreements that govern our long-term debt contain certain restrictive covenants, including “negative-pledge” clauses, “material change” clauses and covenants requiring the maintenance of particular financial ratios, which may restrict our ability to acquire or dispose of assets or incur new debt. Our failure to comply with any of these covenants could constitute an event of default, which could result in the immediate or accelerated repayment of our debt, lead to cross-default under our other credit agreements or limit or reduce our ability to implement and execute our key strategies, which could in turn have a material adverse effect on our business, results of operations and financial condition.

We may become liable for increased decommissioning costs or be required to keep additional amounts as restricted funds for the decommissioning of our nuclear power plants and for the decommissioning and reclamation of our mines and the remediation of mining damage.

Under Czech law, we are required to reserve restricted funds to meet the expected future costs of decommissioning our nuclear power plants. We pay these funds into escrow accounts that can be used only to meet decommissioning costs with the permission of the Czech Repository Authority. For the year ended December 31, 2011,

our annual contribution to these escrow accounts was CZK 326 million (CZK 165.5 million in respect of the Dukovany nuclear power plant and CZK 160.5 million in respect of the Temelín nuclear power plant). We cannot give any assurance that amounts held by us as restricted funds will not increase as a result of increased projected costs of decommissioning or as a result of other factors determining the amount of our annual contributions. In addition, if such amounts are not sufficient to meet future decommissioning costs, we may be required to pay additional amounts, which could have a material adverse effect on our business, results of operations and financial condition.

We are involved in open pit mining in the Czech Republic and are required to keep funds to decommission mines at the end of their operating lives. In addition, Czech law relating to open pit mining also requires us to remediate land affected by our mining operations. The cost of remediation depends on the type of remediation and is subject to periodical review. In addition to the creation of remediation reserves, the Czech authorities may also require other payments relating to mining licenses. The methodology for determining remediation costs and such other payments may change as might the requirements relating to the collateralization of obligations, which could have a material adverse effect on our business, results of operations and financial condition. As an owner and operator of electricity and heat facilities, we may incur in the future significant costs and expenses in connection with decommissioning of such facilities.

We are subject to environmental, health and safety laws and regulations and must maintain environmental, health and safety regulatory approvals and we may be exposed to significant liabilities if we fail to comply with such laws or maintain such approvals.

We are subject to various environmental, health and safety laws and regulations governing, among other things: the generation, storage, handling, release, use, disposal and transportation of waste or hazardous and radioactive materials; the emission and discharge of hazardous materials into the ground, air or water; the decommissioning and decontamination of our facilities; and the health and safety of the public and our employees. E.U. regulators and regulators in the countries in which we operate administer these laws and regulations. We are also required to obtain environmental and safety permits from various governmental authorities for our operations. Certain permits require periodic renewal or review of their conditions as well as continuous monitoring and reporting of compliance with their conditions and we cannot give any assurance that we will be able to renew such permits or that material changes to our permits requiring significant expenditures, will not be imposed. Violations of these laws, regulations or permits could result in plant shut-downs, fines or legal proceedings being commenced against us or other sanctions, in addition to negative publicity and significant damage to our reputation. Other liabilities under environmental laws, including the clean-up of radioactive or hazardous substances, can also be extremely costly to discharge. Environmental and health and safety laws are complex, change frequently and have tended to become more stringent over time. As a result, we may not at all times be in full compliance with all such laws and regulations. While we have budgeted for future capital and operating expenditures to comply with current environmental and health and safety laws, it is possible that any of these laws may change or become more stringent in the future or that new laws may be adopted (for example E.U. legislation may be adopted that imposes additional capital expenditure on our brown coal-fired power plants). Therefore, our costs of complying with current and future environmental and health and safety laws and our liabilities arising from past or future releases of, or exposure to, radioactive or hazardous substances, could have a material adverse effect on our business, results of operations and financial condition.

Following the nuclear disaster at Fukushima in 2011, we have been required to carry out “stress tests” by the European Council in order to assess the safety of our nuclear power plants and how resistant these power plants are to natural disasters such as floods and earthquakes. We have successfully passed all such tests and our nuclear power plants are compliant with recommendations of the European Council. However, we are required to take certain corrective action to further improve the safety and resistance of our nuclear power plants. If we fail to implement the proposed corrective action within the specified deadlines or if we are required to comply with any additional requirements of the European Council in the future, we could incur significant costs, which in turn could have a material adverse effect on our business, results of operations and financial condition.

We are subject to the risks associated with E.U. regulation of energy market mechanisms, including the credit and cash settlement requirements for trading of commodities and financial instruments.

We trade on the financial and energy wholesale markets. E.U. regulations, such as the Regulation on Energy Market Integrity and Transparency (REMIT), Markets in Financial Instruments Directive (MIFID) and the European Market Infrastructure Regulation (EMIR), require the implementation of wholesale commodity trading, including

potential cash margining requirements, for all over-the-counter deals. These regulations may significantly modify current financial and commodity instrument rules based on rules of the European Federation of Energy Traders (EFET) and of the International Swaps and Derivatives Association (ISDA). Changes to credit and cash settlement requirements could require us to put-forward cash margining to cover mark-to-market of all our wholesale forward sales of electricity used for hedging our generation portfolio in case of power price increases. Due to the amount of our hedged production volume and the volatility of power prices, such requirements could result in significant liquidity needs that may be difficult to cover. In addition, foreign exchange and interest rate hedging transactions could also be affected. As a result, E.U. regulation of energy market mechanisms, including any changes to credit and cash settlement requirements for trading of commodities and financial instruments, could have a material adverse effect on our business, results of operations and financial condition.

Legal proceedings relating to the Temelín nuclear power plant could have a material adverse effect on our business, results of operations and financial condition.

We are involved in legal proceedings relating to the Temelín nuclear power plant (please see “*Description of the Issuer—Legal Proceedings—Litigation Relating to the Temelín Nuclear Power Plant*”). We have established a provision for contingent liabilities arising from these proceedings, however, this provision does not cover claims brought against us for which damages have not been quantified or in relation to which the plaintiffs’ prospects have been deemed by us to be remote. Due to their nature, we are not able to predict the ultimate outcome of legal proceedings currently pending against us, which may not be decided in our favor and may require us to pay damages to the plaintiff, incur costs in connection with the modification of parts of the Temelín nuclear power plant or temporarily remove parts of the Temelín nuclear power plant from service, so that we can comply with environmental laws regarding electromagnetic radiation. Although we have taken out insurance policies specifically to cover these risks, our insurance coverage may not be sufficient to cover all of our losses, increased costs or liabilities that may arise, or which we may incur, as a result of these proceedings. As a result, the outcome of legal proceedings relating to the Temelín nuclear power plant could have a material adverse effect on our business, results of operations and financial condition.

Our revenues and results of operations are subject to climatic conditions and seasonal variations that are not within our control.

Electricity and heat consumption is seasonal and is mainly affected by climatic conditions. In Central and South East Europe electricity consumption is generally higher during the cold winter months. Electricity generation may also depend on climatic conditions, such as droughts or heat waves which limit generation due to requirements to observe certain temperature limits for rivers downstream of facilities in connection with the cooling of power plants. Consequently, our income reflects the seasonal character of the demand for electricity and may be adversely affected by significant variations in climatic conditions. We may need to compensate for a reduction in the availability of electricity generated by economical means by using other means with a higher generation cost or by being required to access the wholesale markets at higher prices, which could have a material adverse effect on our business, results of operations and financial condition.

An increase in the cost of disposing of radioactive waste could have a material adverse effect on our results of operations and financial condition.

Under Czech law, we are required to contribute funds to a nuclear account administered by the Ministry of Finance (the “*Czech Nuclear Account*”) based on the amount of electricity produced by our nuclear power plants. The Czech Nuclear Account is used by the Czech Radioactive Waste Repository Authority (the “*Czech Repository Authority*”) to organize centrally, supervise and take responsibility for the disposal of nuclear waste, as well as all final disposal facilities. We cannot give any assurance that the Czech government will not increase the contributions that we are required to pay into the Czech Nuclear Account under the Czech Nuclear Act or that cash amounts accrued in the Czech Nuclear Account will be sufficient to fund the disposal of radioactive waste. Any requirement to pay additional amounts into the Czech Nuclear Account could have a material adverse effect on our business, results of operations and financial condition.

A strike or other labor disruption at our facilities could adversely affect our business.

A substantial number of our employees are represented by labor unions and all of our employees were covered by our collective bargaining agreement as of December 31, 2011 (please see “*Description of the Issuer—Employees*”). This agreement includes provisions that limit our ability to realize cost savings from restructuring initiatives such as plant closures and reductions in workforce. Since our foundation we have not experienced any strikes or work stoppages, however, any strikes, threats of strikes, or other resistance or work stoppages in the future, particularly those affecting our facilities in the Czech Republic, could impair our ability to implement further measures to reduce costs and improve production efficiencies in furtherance of our strategy, which could have a material adverse effect on our business, results of operations and financial condition.

We have no control over the security and operational processes of the national registries for emission allowances within Europe.

We own a significant amount of emission allowances and emission credits, which are registered as intangible assets by national registries in individual E.U. countries. National emission allowances and emission credits registries are operated by independent governmental bodies and are governed by E.U. law. We have no control or influence over the security and operational processes of these national registries. The financial value of our assets registered in such registries is significant and any unauthorized transactions could have a material adverse effect on our business, results of operations and financial condition.

Our insurance coverage may not be adequate.

We have limited property and machinery insurance for our significant assets, including the Dukovany and Temelín nuclear power plants. We cannot give any assurance that our business will not be adversely affected by the costs of accidents or other unexpected occurrences at our facilities for which insurance coverage is not available, has not been obtained by us or is not sufficient, which could have a material adverse effect on our business, results of operations and financial condition.

Risks associated with restitution claims and registration of plots of land in the Czech Cadastral registry.

A restitution process is underway in the Czech Republic, which involves the return of nationalized real property to its previous owners, following the change of the regime in 1989 and the fundamental change in principles of registration of real estate property in the Czech Republic in 1992. While we have not received any significant challenges to our land ownership rights to date, as a result of the restitution process currently underway in the Czech Republic, our rights of ownership to individual plots of land in our real estate portfolio might be challenged by third parties which could have a material adverse effect on our business, results of operations and financial condition.

Electromagnetic fields may have an adverse impact on public health.

Questions with respect to the risks to human health as a result of exposure to electromagnetic fields (“*EMFs*”), in particular, from power lines operated by us, have been raised both within the European Union and internationally. Based on numerous studies completed over the past 20 years, numerous international health organizations (including the World Health Organization (“*WHO*”), the International Agency for Research on Cancer (“*IARC*”), the American Academy of Sciences, the American National Institute of Environmental Health Sciences, the English National Radiological Protection Board) consider, given currently available scientific information, that the existence of health risks as a result of exposure to EMFs has not been proven. Since 2002, the IARC has classified the low-frequency electromagnetic fields at level 2B (possible carcinogen) on its scale of scientific evidence. However, in a report published in June 2007, the WHO considered that the health risks, if any, were low. Medical knowledge about health risks related to exposure to EMFs may evolve or public sensitivity about such risks could increase, or the principle of precaution could be applied very broadly. At the E.U. and national level, new regulations aimed at understanding the risks associated with EMFs are being developed. This could expose us to litigation and significant costs, including costs incurred in connection with the adoption of more stringent security measures for the operation or construction of our generation facilities and distribution networks, which could have a material adverse effect on our business, results of operations and financial condition.

Our facilities produce polychlorobiphenyls which could have an adverse impact on the environment or public health.

We operate or have operated certain facilities which, as currently operated, could be or have been the source of industrial accidents or environmental and public health impacts (such as inadequately controlled emissions, leakages in electricity supply lines insulated with oil under pressure, a failure of decontamination facilities, pathogenic microorganisms, asbestos, and polychlorobiphenyls (“PCBs”). In particular, large quantities of hazardous materials (mainly explosive or flammable, such as gas and fuel oil) are stored in certain facilities. These facilities may be located in industrial areas where other activities facing similar risks are carried out, such that our own facilities may be impacted by accidents occurring at neighboring facilities that are not within our control. This could expose us to litigation and significant costs, including costs incurred in connection with adopting more stringent security measures for the operation or construction of our generation facilities and transmission or distribution networks, which could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to hire, train or retain a sufficient number of qualified staff.

Experienced and capable personnel in the energy industry are in high demand and we face significant competition in our principal markets to recruit such personnel. Consequently, when our experienced employees leave our business, we may have difficulty, and incur additional costs, replacing them. In addition, the loss of any member of our senior management team may result in a loss of organizational focus, poor execution of our operations and corporate strategy and our inability to identify and execute potential strategic initiatives in the future, including strategies relating to the growth of our business. Our failure to hire, train or retain a sufficient number of experienced, capable and reliable personnel, especially senior and middle management with appropriate professional qualifications, or to recruit skilled professional and technical staff in pace with our growth, could have a material adverse effect on our business, results of operations and financial condition.

Risks related to the Notes

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behavior of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor’s overall investment portfolio.

Risks related to the structure of a particular issue of Notes.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors, including:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a Relevant Factor). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated.

Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisors about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

Partly-paid Notes.

The Issuer may issue Notes where the issue price is payable in more than one installment. Failure to pay any subsequent installment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favorable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to the Notes generally.

Set out below is a brief description of certain risks relating to the Notes generally:

Meetings of Noteholders and modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under E.U. Council Directive 2003/48/EC on the taxation of savings income (the “*E.U. Savings Directive*”), member states are required to provide to the tax authorities of another member state details of payments of interest (and other similar income) paid by a person within its jurisdiction to (or collected by such a person for) an individual resident or certain other types of entity established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income elects for the exchange of information) in relation to such payments, deducting tax at a rate of 35% (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-E.U. countries and certain dependent or associated territories of certain member states have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to (or collected by such a person for) an individual resident in a member state or to certain limited types of entity established in a member state.

In addition, the member states have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to (or collected by such a person for) an individual resident in one of those territories or to certain limited types of entities established in one of those territories. The European Commission has proposed certain amendments to the E.U. Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a member state which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a member state that is not obliged to withhold or deduct tax pursuant to the E.U. Savings Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally.

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings risks

The Issuer's credit ratings are A- (stable outlook) by Standard & Poor's Credit Market Services Europe Limited and A2 (stable outlook) by Moody's Investors Service Ltd. Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated January 6, 2012). The list of registered and certified rating agencies published by ESMA on its website is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. In addition, Standard & Poor's Credit Market Services Europe Limited, Moody's Investors Service Ltd. and/or other independent credit rating agencies may assign credit ratings to the Notes. Any rating is not a recommendation to purchase, sell or hold any particular security, including the Notes. These ratings are limited in scope and do not comment as to market price or suitability for a particular investor. In addition, ratings at any time may be lowered or withdrawn in their entirety. Actual or anticipated changes or downgrades in the Issuer's credit ratings, including any announcement that the Issuer's ratings are under further review for a downgrade, could affect the market value of the Notes and increase the Issuer's borrowing costs.

European regulated investors are restricted under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, (the "CRA Regulation") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-E.U. credit rating agencies, unless the relevant credit ratings are endorsed by an E.U.-registered credit rating agency or the relevant non-E.U. rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings may be disclosed in the Final Terms.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

SELECTED FINANCIAL INFORMATION

The following tables set forth summary consolidated financial information of the CEZ Group as of and for the periods indicated.

With the exception of certain non-IFRS financial measures discussed in “*Presentation of Financial Information*” the financial information as of and for the years ended December 31, 2009, 2010 and 2011 included in this Base Prospectus has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011 prepared in accordance with IFRS, which are incorporated by reference into this Base Prospectus.

Our consolidated financial statements as of and for the year ended December 31, 2010 were restated in 2011 to reflect the final accounting for our acquisition of Teplárna Trmice, a.s. in May 2010 (please see “*Presentation of Financial Information*”).

The summary financial data in the tables below should be read together with our audited consolidated financial statements as of and for the years ended December 31, 2009, 2010 and 2011, including the notes thereto, which are incorporated by reference into this Base Prospectus. Please also see “*Presentation of Financial Information*” and “*Risk Factors*” herein.

Income Statement Data

The following table sets forth summary consolidated income statement data of the CEZ Group for the years ended December 31, 2009, 2010 (as originally reported, and as restated) and 2011.

	For the year ended December 31,			
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)
	(CZK in millions)			
Revenues:				
Sales of electricity.....	173,494	175,277	175,277	181,793
Gains and losses from electricity, coal and gas derivative trading, net.....	6,894	5,392	5,392	5,843
Sales of gas, coal, heat and other revenues.....	15,964	18,179	18,179	22,125
Operating expenses:				
Fuel.....	(15,805)	(16,946)	(16,946)	(17,145)
Purchased power and related services.....	(48,170)	(54,353)	(54,353)	(65,865)
Repairs and maintenance.....	(6,043)	(5,465)	(5,465)	(5,014)
Depreciation and amortization.....	(22,876)	(24,032)	(24,060)	(25,770)
Salaries and wages.....	(18,116)	(18,717)	(18,717)	(18,105)
Materials and supplies.....	(5,272)	(4,844)	(4,844)	(5,478)
Emission rights, net.....	305	2,388	2,148	2,895
Other operating expenses.....	(12,176)	(11,822)	(11,823)	(13,737)
Income before other income (expenses) and income taxes.....				
	68,199	65,057	64,788	61,542
Other income (expenses).....	(3,253)	(6,108)	(6,108)	(9,590)
Income before income taxes.....				
	64,946	58,949	58,680	51,952
Income taxes.....	(13,091)	(11,791)	(11,739)	(11,199)
Net income.....				
	51,855	47,158	46,941	40,753

Balance Sheet Data

The following table sets forth summary consolidated balance sheet data of the CEZ Group as of December 31, 2009, 2010 (as originally reported, and as restated) and 2011.

	As of December 31,			
	2009	2010	2010	2011
	(audited)	(audited)	(restated)	(audited)
	(CZK in millions)			
Assets:				
Total property, plant and equipment.....	328,805	361,066	362,510	386,863
Total other non-current assets	86,150	86,968	85,764	80,716
Total non-current assets.....	414,955	448,034	448,274	467,579
Total current assets	115,304	95,657	96,101	130,528
Total assets	530,259	543,691	544,375	598,107
Equity and Liabilities:				
Total equity attributable to equity holders of the parent	200,361	221,611	221,431	226,713
Total equity.....	206,675	227,051	227,052	232,078
Total long-term liabilities.....	177,181	198,061	198,061	223,691
Deferred tax liability.....	15,335	17,902	18,191	16,946
Total current liabilities.....	131,068	100,677	101,071	125,392
Total equity and liabilities	530,259	543,691	544,375	598,107

Statement of Cash flow Data

The following table sets forth summary consolidated cash flow statement data of the CEZ Group for the years ended December 31, 2009, 2010 (as originally reported, and as restated) and 2011.

	For the year ended December 31,			
	2009	2010	2010	2011
	(audited)	(audited)	(restated)	(audited)
	(CZK in millions)			
Net cash provided by operating activities.....	87,354	77,165	77,165	61,773
Total cash used in investing activities.....	(99,022)	(65,584)	(65,584)	(52,876)
Total cash provided by (used in) financing activities...	22,230	(15,592)	(15,592)	(8,419)
Net effect of currency translation in cash.....	(1,138)	(530)	(530)	(602)
Net increase (decrease) in cash and cash equivalents	9,424	(4,541)	(4,541)	(124)
Cash and cash equivalents at the beginning of the period.....	17,303	26,727	26,727	22,186
Cash and cash equivalents at the end of the period.....	26,727	22,186	22,186	22,062

Other Financial Information

The following table sets forth certain non-IFRS financial information used by our management to monitor and evaluate our economic and financial performance. These indicators, “EBIT,” “EBITDA,” “EBITDA Margin” and “Net Debt” are not recognized as accounting standards within the IFRS adopted by the European Union, and therefore must not be considered as alternatives to any measures of performance under IFRS.

	For the year ended December 31,			
	2009	2010	2010	2011
			(restated)	
	(CZK in millions, except percentages)			
EBIT.....	68,199	65,057	64,788	61,542
EBITDA.....	91,075	89,089	88,848	87,312
EBITDA Margin.....	46.4%	44.8%	44.7%	41.6%
Net Debt.....	124,412	134,538	134,538	159,363

The non-IFRS measures presented below may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. These non-IFRS measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to operating income or net profit or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles, or as alternatives to cash flow from operating, investing or financing activities.

Our non-IFRS measures have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under IFRS as set out in our audited consolidated financial statements and you should not place any undue reliance on our non-IFRS measures.

The following table illustrates the methodology we use to determine our Net Debt as of December 31, 2009, 2010 (as originally reported, and as restated) and 2011. Net Debt is a non-IFRS financial measure. Please see “*Presentation of Financial Information—Non-IFRS Measures.*”

	For the year ended December 31,			
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)
	(CZK in millions)			
Long-term debt:				
Total bonds and debentures.....	111,031	137,166	137,166	151,107
Total long-term bank and other loans.....	14,522	17,660	17,660	32,842
Short-term loans:				
Short-term bank loans.....	25,310	8,306	8,306	4,333
Bank overdrafts.....	1,336	1,312	1,312	1,167
Other short-terms borrowings.....	4,611	--	--	--
Cash and cash equivalents.....	(26,727)	(22,163)	(22,163)	(22,062)
Highly liquid financial assets ⁽¹⁾	(5,671)	(7,743)	(7,743)	(8,024)
Net Debt	124,412	134,538	134,538	159,363

⁽¹⁾ Highly liquid financial assets are selected financial assets of the CEZ Group that can be very quickly transferred into cash, such as money market funds and highly liquid bonds.

The following table is a reconciliation of EBIT and EBITDA to net income for the years ended December 31, 2009, 2010 (as originally reported, and as restated) and 2011. EBIT and EBITDA are non-IFRS financial measures. Please see “*Presentation of Financial Information—Non-IFRS Measures.*”

	For the year ended December 31,			
	2009	2010	2010 (restated)	2011
	(CZK in millions, except percentages)			
Net income.....	51,855	47,158	46,941	40,753
Income taxes.....	13,091	11,791	11,739	11,199
Total other income/(expenses).....	3,253	6,108	6,108	9,590
EBIT	68,199	65,057	64,788	61,542
Depreciation and amortization.....	(22,876)	(24,032)	(24,060)	(25,770)
EBITDA	91,075	89,089	88,848	87,312
EBITDA Margin.....	46.4%	44.8%	44.7%	41.6%

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only and if appropriate, a supplement to the Base Prospectus will be published.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this Overview.

Issuer:	ČEZ, a. s.
Risk Factors:	There are certain factors that may affect the Issuer’s ability to fulfill its obligations under Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” above. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Euro Medium Term Note Programme
Arrangers:	BNP Paribas and Citigroup Global Markets Limited
Dealers:	BNP Paribas Citigroup Global Markets Limited and any other Dealers appointed in accordance with the Amended and Restated Programme Agreement and excluding any entity whose appointment has been terminated.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Base Prospectus. Notes having a maturity of less than one year Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “ <i>Subscription and Sale</i> .”
Issuing and Principal Paying Agent:	Deutsche Bank AG, London Branch
Programme Size:	Up to €8,000,000,000 (or its equivalent in other currencies calculated as described in the Amended and Restated Programme Agreement) outstanding at any time provided that the sum of (i) the aggregate nominal

amount of the outstanding Notes issued under the Programme from time to time and (ii) the aggregate nominal amount of outstanding *Namenschuldverschreibung* securities (NSV) issued by the Issuer under German law from time to time, shall not exceed the limit of €8,000,000,000. As of the date of this Base Prospectus, the Issuer has issued NSV in the aggregate nominal amount of €120,000,000. Pursuant to the resolution of the Board of Directors dated February 14, 2011 and the Supervisory Board dated February 24, 2011, as at the date of this Base Prospectus the Issuer's internal limit of the aggregate nominal amount of outstanding NSV, which may be issued from time to time, is €1,000,000,000. The Issuer may increase the amount of the Programme in accordance with the terms of the Amended and Restated Programme Agreement.

Distribution: Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies: Notes may be denominated in euro, Sterling, U.S. dollars, yen and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.

Redenomination: The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.

Maturities: The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

Issue Price: Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes: The Notes will be issued in bearer form as described in "*Form of the Notes.*"

Fixed Rate Notes: Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified installments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>In addition, the applicable Final Terms may provide that Notes may be redeemable at the option of the Noteholders upon the occurrence of a Change of Control and a consequential rating downgrade or withdrawal (or refusal to provide a rating) in the circumstances described in Condition 7.4(b).</p> <p>The applicable Final Terms may provide that Notes may be redeemable in two or more installments of such amounts and on such dates as are indicated in the applicable Final Terms.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “<i>Certain Restrictions—Notes having a maturity of less than one year</i>” above.</p>
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “ <i>Certain Restrictions – Notes having a maturity of less than one year</i> ” above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent

amount in such currency).

Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 3.
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Rating:	The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, (the “ <i>CRA Regulation</i> ”) will be disclosed in the Final Terms. Please also refer to “ <i>Risk Factors—Risks related to the Market Generally—Credit Ratings risks</i> ”.
Listing, Approval and admission to trading:	<p>Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and the Czech Republic), Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “ <i>Subscription and Sale</i> .”

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the CSSF shall be incorporated in, and form part of, this Base Prospectus:

The following documents comprising the auditor's report and audited consolidated annual financial statements of the CEZ Group for the three financial years ended December 31, 2009, December 31, 2010 and December 31, 2011 as well as the audited non consolidated financial statements of ČEZ, a. s. for the year ended December 31, 2011:

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Any other information not listed above but contained in such documents, is incorporated by reference for information purposes only.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Luxembourg. The documents incorporated by reference will also be available on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

GLOSSARY OF TERMS AND DEFINITIONS

Terms and definitions used in this Base Prospectus have the meanings set forth below.

“ <i>Albanian ERE</i> ”	the Albanian Electricity Regulation Authority
“ <i>ANRE</i> ”	the Romanian Energy Regulatory Authority
“ <i>Articles of Association</i> ”	the articles of association of ČEZ, a. s.
“ <i>Audit Committee</i> ”	the audit committee of ČEZ, a. s.
“ <i>BlueNext Spot</i> ”	the BlueNext Spot (Environmental Trading Exchange) in Paris
“ <i>Board of Directors</i> ”	the board of directors of ČEZ, a. s.
“ <i>Bonds Act</i> ”	Czech Act No. 190/2004 Coll., on Bonds, as amended
“ <i>BGN</i> ” or “ <i>Bulgarian Lev</i> ”	the lawful currency of Bulgaria
“ <i>Capital Market Act</i> ”	Czech Act No. 256/2004 Coll., on Conducting Business in the Capital Market, as amended
“ <i>CCGT</i> ”	a combined cycle gas turbine
“ <i>CER</i> ”	Certified Emission Reduction credits
“ <i>ČEZ</i> ”	ČEZ, a. s.
“ <i>CEZ Group</i> ,” the “ <i>Group</i> ,” “ <i>we</i> ,” “ <i>us</i> ” or “ <i>our</i> ”	ČEZ, a. s. and its consolidated subsidiaries
“ <i>CEZ SH</i> ”	CEZ Shperndarje sh.a.
“ <i>CO₂</i> ”	carbon dioxide
“ <i>Corporate Governance Codex</i> ”	the Czech 2004 Corporate Governance Codex compiled by the former Czech Securities Commission
“ <i>CRA Regulation</i> ”	Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011
“ <i>CSSF</i> ”	the <i>Commission de Surveillance du Secteur Financier</i> , the competent authority under the Prospectus Law
“ <i>Czech Air Protection Act</i> ”	Czech Act No. 86/2002 Coll., on protection of the air, as amended
“ <i>Czech Commercial Code</i> ”	Czech Act No. 513/1991 Coll., the Commercial Code, as amended
“ <i>Czech crowns</i> ,” and “ <i>CZK</i> ”	the lawful currency of the Czech Republic
“ <i>Czech Ecological Losses Prevention Act</i> ”	Czech Act No. 167/2008 Coll., prevention of ecological losses, as amended
“ <i>Czech Emission Allowances Act</i> ”	Czech Act No. 695/2004 Coll., on conditions for trading with emission allowances, as amended

“ <i>Czech Energy Act</i> ”	Czech Act No. 458/2000 Coll., on conducting business and governmental oversight in the energy sectors, as amended
“ <i>Czech Environment Act</i> ”	Czech Act No. 17/1992 Coll., the environment act, as amended
“ <i>Czech IPPC Act</i> ”	Czech Act No. 76/2002 Coll., on integrated pollution and control, as amended
“ <i>Czech Legal Entity Criminal Act</i> ”	Czech Act No. 418/2011 Coll., on criminal liability of legal entities and proceedings against them, as amended
“ <i>Czech Mining Act</i> ”	Czech Act No. 44/1998 Coll., on Protection and Exploitation of Minerals, as amended
“ <i>Czech Ministry of Environmental Matters</i> ”	the Ministry of Environmental Matters of the Czech Republic
“ <i>Czech Ministry of Industry</i> ”	the Ministry of Industry and Trade of the Czech Republic
“ <i>Czech New Renewable Resources Act</i> ”	Czech legislation implementing the E.U. Directive 2009/28/EC
“ <i>Czech Nuclear Account</i> ”	the nuclear account administered by the Czech Ministry of Finance
“ <i>Czech Nuclear Act</i> ”	Czech Act No. 18/1997 Coll., the nuclear act, as amended
“ <i>Czech Renewable Energy Act</i> ”	Czech Act No. 180/2005 Coll., on the promotion of production of electricity from renewable energy sources, as amended
“ <i>Czech Repository Authority</i> ”	the regulatory authority Czech Radioactive Waste Repository Authority
“ <i>Czech Waste Act</i> ”	Czech Act No. 185/2001 Coll., on waste, as amended
“ <i>Czech Water Act</i> ”	Czech Act No. 254/2001 Coll., as amended
“ <i>Division Heads</i> ”	the chief officers of ČEZ, a. s.
“ <i>EBIT</i> ”	income before income taxes and other income/(expenses)
“ <i>EBITDA</i> ”	income before income taxes and other income/(expenses) plus depreciation and amortization
“ <i>EBITDA Margin</i> ”	income before income taxes and other income/(expenses) plus depreciation and amortization, divided by total revenues, expressed as a percentage
“ <i>EDF</i> ”	Electricite de France S.A.
“ <i>EDP</i> ”	Energias de Portugal
“ <i>EEX</i> ”	the European Energy Exchange
“ <i>EIA</i> ”	an environmental impact assessment
“ <i>EMFs</i> ”	electromagnetic fields
“ <i>EMU</i> ”	the European Monetary Union
“ <i>EnBW</i> ”	EnBW Energie Baden-Württemberg AG

“ENEL”	ENEL S.p.A.
“ENTSO for Electricity”	the European Network of Transmission System Operators
“ENTSO for Gas”	the European Network of Transmission System Operators for Gas
“E.ON”	E.ON AG
“EPEX SPOT”	the European Power Exchange (Spot Markets) in Paris
“ERO”	the Czech Energy Regulatory Office
“ERU”	Emission Reduction Units
“ESA”	the European Supply Agency
“ESO”	the electricity system operator
“EUA”	E.U. Emission Allowances
“E.U. Climate and Energy Package”	the climate and energy package adopted by the European Union in 2009
“E.U. Electricity Security of Supply Directive”	Directive 2005/89/EC Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment
“E.U. Emissions Exemption”	the exemption under the E.U. ETS for the 10 newest European Union member states for allocation of emission allowances without cost
“E.U. ETS”	the E.U. Emission Trading Scheme for CO ₂ emission allowances
“E.U. First Electricity Directive”	Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity
“E.U. First Gas Directive”	Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas
“E.U. Gas Supply Directive”	Regulation (E.U.) 994/2010 Concerning Measures to Safeguard Security of Gas Supply
“E.U. Natural Gas Transmission Regulation”	Regulation 715/2009 on conditions for Access to Natural Gas Transmission Networks
“E.U. Renewable Energy Directive”	Directive 2009/28/EC on the promotion of the use of energy from renewable sources
“Euratom Treaty”	the Treaty Establishing the European Atomic Energy Community
“EURIBOR”	the Euro Interbank Offered Rate
“Euro” “EUR” and “€”	the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time

<i>“E.U. Regulation on Cross-Border Exchanges”</i>	Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity
<i>“E.U. Savings Directive”</i>	the E.U. Council Directive 2003/48/EC on the taxation of savings income
<i>“E.U. Second Electricity Directive”</i>	Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity
<i>“E.U. Second Gas Directive”</i>	Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas
<i>“E.U. Third Electricity Directive”</i>	Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity
<i>“E.U. Third Gas Directive”</i>	Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas
<i>“Fortum”</i>	Fortum Corporation
<i>“FSMA”</i>	the Financial Services and Markets Act 2000
<i>“General Meeting”</i>	the general meeting of ČEZ, a. s.
<i>“GreenX”</i>	the Green Exchange (Environmental Markets) in New York
<i>“GW”</i>	gigawatt, which is equal to 1,000 MW
<i>“GWh”</i>	gigawatt-hour, representing one hour of electricity consumption at a constant rate of 1 GW
<i>“HTSO”</i>	the Hellenic Transmission System Operator in Greece
<i>“HUPX”</i>	the Hungarian Power Exchange
<i>“IAEA”</i>	the International Atomic Energy Agency
<i>“IARC”</i>	the International Agency for Research on Cancer
<i>“Iberdrola”</i>	Iberdrola S.A.
<i>“IFRS”</i>	the International Financial Reporting Standards issued by the International Accounting Standards Board, including interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously referred to as the “Standing Interpretations Committee” (SIC), and, also including, International Accounting Standards, where the context requires, as endorsed by the European Commission for use in the European Union
<i>“Industrial Emissions Directive”</i>	Directive 2010/75/EC on industrial emissions (on integrated pollution prevention and control)
<i>“INES”</i>	the international nuclear events scale
<i>“installed capacity”</i>	the highest constant level of generation of electricity which a power plant is designed to be capable of maintaining

“ <i>ISFSF</i> ”	an interim spent nuclear fuel storage facility
“ <i>ISIN</i> ”	International Security Identification Number
“ <i>ISO</i> ”	Independent System Operator
“ <i>Issuer</i> ”	ČEZ, a. s.
“ <i>ITO</i> ”	Independent Transmission Operator
“ <i>Yen</i> ”	Japanese Yen, the lawful currency of Japan
“ <i>KESH</i> ”	the Albanian Power Corporation
“ <i>kW</i> ”	kilowatt, representing the rate at which energy is produced
“ <i>KYOTO Protocol</i> ”	the Kyoto protocol for reducing greenhouse gas emissions
“ <i>LIBOR</i> ”	the London Interbank Offered Rate
“ <i>LTO</i> ”	long-term-operation
“ <i>Madrid Agreement</i> ”	the Madrid Agreement Concerning the International Registration of Marks and its Protocol
“ <i>MIBRAG</i> ”	Mitteldeutsche Braunkohlengesellschaft GmbH
“ <i>Moody’s Investors Service Ltd</i> ”	Moody’s Investors Service Ltd is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated January 6, 2012)
“ <i>MW</i> ”	megawatt, which is equal to 1,000 kW
“ <i>MWh</i> ”	megawatt-hour, representing one hour of electricity consumption at a constant rate of 1 MW
“ <i>Net Debt</i> ”	long-term debt, net of current portion plus short-term loans plus current portion of long-term debt minus cash and cash equivalents plus highly liquid financial assets
“ <i>NO_x</i> ”	mono-nitrogen oxides
“ <i>OPCOM</i> ”	the Romanian Electricity Market Operator Opcom SA
“ <i>OSART</i> ”	the Operational Safety Review Team of the IAEA
“ <i>OTC</i> ”	over-the-counter
“ <i>OTE</i> ”	the Czech Electricity and Gas Market in Prague
“ <i>PCBs</i> ”	polychlorobiphenyls
“ <i>PGE</i> ”	Polska Grupa Energetyczna S.A.
“ <i>POLPX</i> ”	the Polish Power Exchange

“PRIBOR”	the Prague Interbank Offer Rate
“PXE”	the Power Exchange Central Europe
“REAS”	the original, state-owned, regional distribution companies in the Czech Republic
“Regulation S”	Regulation S under the U.S. Securities Act
“RWE”	Rheinisch-Westfalishes Elektrizitätswerk
“R&D”	research and development
“SEI”	the Czech State Energy Inspectorate
“SONS”	the Czech State Office for Nuclear Safety
“SO _x ”	sulfur oxides
“Standard & Poor’s Credit Market Services Europe Limited”	Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated January 6, 2012).
“Supervisory Board”	the supervisory board of ČEZ, a. s.
“SZDC”	the Czech state organization Railway Infrastructure Administration
“TGE”	the Towarowa Giielda Energii in Poland
“Ton”	metric ton
“TVEL”	the Russian company JSC TVEL
“TW”	terawatt, which is equal to 1,000 GW
“TWh”	terawatt-hour, representing one hour of electricity consumption at a constant rate of 1 TW
“U.S. dollars,” “USD” and “U.S.\$”	the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended
“Verbund”	Verbund AG
“Vienna Convention”	the Vienna Convention on Civil Liability for Nuclear Damage
“WANO”	the World Association of Nuclear Operators
“WHO”	the World Health Organization

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a Temporary Global Note) or, if so specified in the applicable Final Terms, a permanent global note (a Permanent Global Note) which, in either case, will:

- (i) if the Global Notes are intended to be issued in new global note (“*NGN*”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the “*Common Safekeeper*”) for Euroclear Bank SA/NV (“*Euroclear*”) and Clearstream Banking, *société anonyme* (“*Clearstream, Luxembourg*”); and
- (ii) if the Global Notes are not intended to be issued in *NGN* Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the “*Common Depositary*”) for, Euroclear and Clearstream, Luxembourg.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in *NGN* form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the “*Exchange Date*”) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in *NGN* form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, *Exchange Event* means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Amended and Restated Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the U.S. Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the “*Deed of Covenant*”) dated April 23, 2012 and executed by the Issuer.

APPLICABLE FINAL TERMS

[Date]

ČEZ, a. s.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €8,000,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated April 23, 2012 which [as supplemented by the supplement dated [date]] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a Member State). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and supplement[s] thereto] [is/are] available for viewing at *www.bourse.lu* and during normal business hours at the registered office of the Issuer and at the offices of the Paying Agents for the time being in London and Luxembourg.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated April 23, 2012 [as supplemented by the supplement dated [date]] which constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated April 23, 2012 and [original date] [and the supplement dated [date] to the Base Prospectus dated April 23, 2012]. Copies of such Base Prospectuses [and the supplement dated [date] to the Base Prospectus dated April 23, 2012] are available for viewing at *www.bourse.lu* and during normal business hours at the registered office of the Issuer and at the offices of the Paying Agents for the time being in London and Luxembourg.

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1. Issuer: ČEZ, a. s.
2. (a) Series Number: []
(b) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []

4. Aggregate Nominal Amount:
- (a) Series: []
- (b) Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. Specified Denominations: []

(N.B. Following the entry into force of the 2010 PD Amending Directive on December 31, 2010, Notes to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than July 1, 2012) must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of €100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.)

(Note – where multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed:

“[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].”

(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)

- (a) Calculation Amount: []

(If only one Specified Denomination, insert the Specified Denomination.

If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)

7. (a) Issue Date: []
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
8. Maturity Date: [Fixed rate – specify date/

Floating rate – Interest Payment Date falling in or nearest to

- [specify month and year]]
9. Interest Basis: [[] per cent. Fixed Rate]
 [[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [specify other]
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Instalment]
 [specify other]
- (N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
11. Change of Interest Basis or Redemption/Payment Basis [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
 [Change of Control Put]
 [Issuer Call]
 [(further particulars specified below)]
13. Status of the Notes: Senior
- (a) [Date [Board] approval for issuance of Notes obtained [] [and [], respectively]]
 (N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Notes)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions [Applicable/Not Applicable]
 (If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
 (If payable other than annually, consider amending Condition 5)
- (b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other]
 (N.B. This will need to be amended in the case of long or short coupons)
- (c) Fixed Coupon Amount(s): [] per Calculation Amount
 (Applicable to Notes in definitive form.)
- (d) Broken Amount(s): [] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []
 (Applicable to Notes in definitive form.)

- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or *[specify other]*]
- (f) [Determination Date(s): [] in each year
(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration
N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))]
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/*Give details*]
16. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: []
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*[specify other]*]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (f) Screen Rate Determination:
- Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Amended and Restated Agency Agreement)
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []

- Reset Date: []
 - (h) Margin(s): [+/-] [] per cent. per annum
 - (i) Minimum Rate of Interest: [] per cent. per annum
 - (j) Maximum Rate of Interest: [] per cent. per annum
 - (k) Day Count Fraction: [Actual/Actual (ISDA)
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
30E/360 (ISDA)
Other]
(See Condition 5 for alternatives)
 - (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
17. Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [] per cent. per annum
 - (b) Reference Price: []
 - (c) Any other formula/basis of determining amount payable: []
 - (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.5(c) and 7.10 apply/specify other]
18. Index Linked Interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
- (a) Index/Formula: [give or annex details]
 - (b) Calculation Agent: [give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]
 - (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent, and address): []

- (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (e) Specified Period(s)/Specified Interest Payment Dates: []
- (f) Business Day Convention: *[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]*
- (g) Additional Business Centre(s): []
- (h) Minimum Rate of Interest: [] per cent. per annum
- (i) Maximum Rate of Interest: [] per cent. per annum
- (j) Day Count Fraction: []
19. Dual Currency Interest Note Provisions *[Applicable/Not Applicable]*
(If not applicable, delete the remaining subparagraphs of this paragraph)
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
- (a) Rate of Exchange/method of calculating Rate of Exchange: *[give or annex details]*
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): []
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (d) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: *[Applicable/Not Applicable]*
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): *[[] per Calculation Amount/specify other/see Appendix]*
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []

- (d) Notice period (if other than as set out in the Conditions): []

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

21. Investor Put:

[Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)

- (a) Optional Redemption Date(s): []

- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[] per Calculation Amount/specify other/see Appendix]

- (c) Notice period (if other than as set out in the Conditions): []

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)

22. Change of Control Put:

[Applicable/Not Applicable]

23. Final Redemption Amount:

[[] per Calculation Amount/specify other/see Appendix]
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

24. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5):

[[] per Calculation Amount/specify other/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes:

- (a) [Form:]

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange

Event]]

(N.B. The exchange upon notice option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: “[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000].” Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)

Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilization in accordance with article 4 of the Belgian Law of December 14, 2005.

- (b) [New Global Note: [Yes][No]]
26. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/give details]
(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 16(c) and 18(g) relate)
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
29. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable
[(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))]
31. Other final terms: [Not Applicable/give details]
[(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers.)

DISTRIBUTION

- 32. (a) If syndicated, names of Managers; [Not Applicable/*give names*]
(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)
- (b) Date of [Subscription] Agreement: []
(The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)
- (c) Stabilizing Manager(s) (if any): [Not Applicable/*give name*]
- 33. If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- 34. U.S. Selling Restrictions: [Reg. S Compliance Category; TEFRA D/TEFRA C/TEFRA not applicable]
- 35. Additional selling restrictions: [Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the Regulated Market of the Bourse de Luxembourg, and admission to the Official List of the Luxembourg Stock Exchange of the Notes described herein pursuant to the €8,000,000,000 Euro Medium Term Note Programme of ČEZ, a. s.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. *[[Relevant third party information] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.]* The obligations of the Issuer are not in any way guaranteed by, or otherwise backed by the credit of the Czech Republic or any agency, ministry or political subdivision thereof.

Signed on behalf of ČEZ, a. s.:

By:

Duly authorized

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the Bourse de Luxembourg, and admission to the Official List of the Luxembourg Stock Exchange with effect from [].
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings: The Notes to be issued [[have been]/[are expected to be]] rated:

[Standard & Poor's Credit Market Services Europe Limited:
[]]

[Moody's Investors Service Ltd: []]

[[Other]: []]

[[*Insert credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

[[*Insert credit rating agency*] is established in the European Union domiciled in [*insert country*] and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (*insert link to ESMA web page*) (last updated [*insert date*])]

[[*Insert credit rating agency*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011.]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011. However, the application for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, of [*insert the name of the relevant EU CRA affiliate that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert credit rating agency*].]

[[*Insert credit rating agency*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011. The ratings [[have been]/[are expected to be]] endorsed by [*insert the name of the relevant EU-*

registered credit rating agency] in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011. *[Insert the name of the relevant EU-registered credit rating agency]* is established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011.]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, but it is certified in accordance with such Regulation.]

*(In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-E.U. credit rating agencies, unless the relevant credit ratings are endorsed by an E.U.-registered credit rating agency or the relevant non-E.U. rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended)*

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests]*

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer: []

[(ii)] Estimated net proceeds: []

[(iii)] Estimated total expenses: []

(N.B.: Delete unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)

5. YIELD (Fixed Rate Notes only)

Indication of yield: []

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-linked Notes only*)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer does not intend to provide post-issuance information, except if required by any applicable laws and regulations.

(N.B. This paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

7. PERFORMANCE OF RATE[S] OF EXCHANGE (*Dual Currency Notes only*)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

(N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

8. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
[Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs]

as common safekeeper and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[include this text if "yes" selected in which case the Notes must be issued in NGN form]*

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by ČEZ, a. s. (the **Issuer**) pursuant to the Amended and Restated Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (such Amended and Restated Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Amended and Restated Agency Agreement**) dated April 23, 2012 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final installment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated April 23, 2012 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Amended and Restated Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Amended and Restated Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Amended and Restated Agency Agreement.

Words and expressions defined in the Amended and Restated Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Amended and Restated Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Agent.

2. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons constitute direct, general, unsecured and unconditional obligations of the Issuer which (i) rank pari passu among themselves and (ii) will rank at least pari passu with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law and subject always to Condition 3.

3. NEGATIVE PLEDGE AND OTHER COVENANTS

3.1 Negative pledge

So long as any Note or Coupon remains outstanding (as defined in the Amended and Restated Agency Agreement) the Issuer will not, nor will it permit any Material Subsidiary to, issue, assume or guarantee any Indebtedness, if such Indebtedness is secured by a Lien upon any Principal Property now owned or hereafter acquired, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Coupons shall (x) be secured equally and rateably with (or prior to) such Indebtedness or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Amended and Restated Agency Agreement) of Noteholders; provided, however, that the foregoing restriction shall not apply to:

- (a) any Lien on any asset acquired, constructed or improved by the Issuer or any Subsidiary after the date of issue of the Notes, which Lien is created, incurred or assumed contemporaneously with, or within 180 days after, such acquisition (or, in the case of any such asset constructed or improved, after the completion or commencement of commercial operation of such asset, whichever is later) to secure or provide for the payment of any part of the purchase price of such asset or the costs of such construction or improvement (including costs such as escalation, interest during construction and finance costs); provided that, in the case of any such construction or improvement, the Lien shall not apply to any such asset previously owned by the Issuer or any Subsidiary, other than previously unimproved real property on which the asset so constructed, or the improvement, is located;
- (b) any Lien existing over any asset at the time of the acquisition of such asset and which is not created as a result of or in connection with or in anticipation of such acquisition;
- (c) any Lien on any asset acquired from a corporation which is merged with or into the Issuer or any Lien existing on any asset of a corporation which existed at the time such corporation becomes a Subsidiary and, in either such case, which is not created as a result of or in connection with or in anticipation of any such transaction;
- (d) any Lien which secures only Indebtedness owing by a Subsidiary to the Issuer, to one or more Subsidiaries or to the Issuer and one or more Subsidiaries;
- (e) any extension, renewal or replacement (or successive extensions, renewals or replacements; in whole or in part, of any Lien referred to in the foregoing clauses; provided, however, that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement shall be limited to all or part of the asset which secured the Lien so extended, renewed or replaced (plus improvements on such asset); or
- (f) any Lien securing obligations of the Issuer or any Subsidiary to the Czech Republic in connection with a guarantee or similar assurance provided by the Czech Republic to third parties for the benefit of the Issuer.

The Issuer or any Material Subsidiary, however, may issue, assume or guarantee Indebtedness secured by a Lien which would otherwise be prohibited under this Condition 3.1 or enter into a Sale and Lease-Back Transaction that would otherwise be prohibited by the provisions of Condition 3.2; provided that the aggregate amount of such Indebtedness of the Issuer and its Material Subsidiaries together with the aggregate Attributable Value of all such Sale and Lease-Back Transactions of the Issuer and its Subsidiaries at any time outstanding shall not exceed the sum of (x) 10% of the Consolidated Net Tangible Assets at the time any such Indebtedness denominated in a currency other than that of the Czech Republic is issued, assumed or guaranteed by the Issuer or any Subsidiary or at the time any such Sale and Lease-Back Transaction is entered into, plus (y) the aggregate amount of any such Indebtedness that is denominated in the currency of the Czech Republic, up to an additional 20% of Consolidated Net Tangible Assets at such time.

3.2 Limitations on sale and lease-back transactions

For so long as any Note or Coupon is outstanding, neither the Issuer nor any Material Subsidiary may enter into any Sale and Lease-Back Transaction with respect to any Principal Property, unless either (x) the Issuer or such Material Subsidiary would be entitled pursuant to the provisions of Condition 3.1 to issue, assume or guarantee Indebtedness secured by a Lien on such Principal Property without equally and rateably securing the Issuer's obligations under the Notes and the Coupons or (y) the Issuer or such Material Subsidiary shall apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value of the Principal Property so leased to the retirement, within one year after the effective date of such Sale and Lease-Back Transaction, of Indebtedness of the Issuer ranking on a parity with the obligations of the Issuer under the Notes and owing to a Person other than the Issuer or any Affiliate of the Issuer or to the construction or improvement of real property or personal property used by the Issuer or any Material Subsidiary in the ordinary course of business. The restrictions set forth in the preceding sentence will not apply to transactions providing for a lease for a term, including any renewal thereof, of not more than three years.

3.3 No consolidation or merger

For so long as any Note or Coupon is outstanding, the Issuer may not consolidate with or merge into any other corporation or convey or transfer its properties and assets substantially as an entirety to any Person, unless (i) the successor corporation shall be a corporation organized and existing under the laws of the Czech Republic, and shall expressly assume by a deed the due and punctual payment of all amounts payable in respect of all the then outstanding Notes and the performance of every obligation contained in the Notes on the part of the Issuer to be performed or observed; (ii) immediately after giving effect to such transaction, no Event of Default or Potential Event of Default (as defined in the Amended and Restated Agency Agreement) shall have happened and be continuing; and (iii) the Issuer shall have delivered to the Fiscal Agent a certificate signed by two directors of the Issuer and an opinion of independent legal advisers of recognized standing each stating that such consolidation, merger, conveyance or transfer and any such deed comply with the foregoing provisions relating to such a transaction. In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for the Issuer as obligor under the Notes and Coupons, with the same effect as if it had been named in the Notes as such obligor.

3.4 Certain definitions

In these Conditions:

Affiliate means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such specified Person. For the purposes of this definition, **control**, when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise;

Attributable Value means, as to any particular Sale and Lease-Back Transaction under which the Issuer or any Subsidiary is at any time liable as lessee and any date as of which the amount thereof is to be determined, the total net obligations of the lessee for rental payments during the remaining term of the lease (including any period for which such lease has been extended) discounted from the respective due dates thereof to such date at a

rate per annum equivalent to the interest rate inherent in such Sale and Lease-Back Transaction (as determined in good faith by the Issuer in accordance with generally accepted financial practice);

Audited Statements means the Issuer's audited annual financial statements (consolidated, if available) prepared in accordance with International Accounting Standards current as at the date of preparation;

Consolidated Net Tangible Assets means the total of all assets (including revaluations thereof as a result of commercial appraisals, price-level re-statements or otherwise) appearing on a consolidated balance sheet of the Issuer and its Subsidiaries, net of all applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of the current liabilities of the Issuer and its Subsidiaries appearing on such balance sheet;

Consolidated Total Assets means the total assets (consolidated, if the relevant Audited Statements are consolidated) of the Issuer and its Subsidiaries determined by reference to the most recent Audited Statements;

Indebtedness means, with respect to any Person (without duplication), (a) any liability of such Person (1) for borrowed money or under any reimbursement obligation relating to a letter of credit, financial bond or similar instrument or agreement, (2) evidenced by a bond, note, debenture or similar instrument or agreement (including a purchase money obligation) given in connection with the acquisition of any business, properties or assets of any kind (other than a trade payable or a current liability arising in the ordinary course of business or a performance bond or similar obligation), (3) for the payment of money relating to any obligations under any capital lease of real or personal property or (4) for the purposes of Condition 3(a) and (b) only, under any agreement or instrument in respect of an interest rate or currency swap, exchange or hedging transaction or other financial derivatives transaction; (b) any liability of others described in the preceding clause (a) that the Person has guaranteed or that is otherwise its legal liability; and (c) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in (a) and (b) above. For the purpose of determining any particular amount of Indebtedness under this definition, guarantees of (or obligations with respect to letters of credit or financial bonds supporting) Indebtedness otherwise included in the determination of such amount shall also not be included;

Lien means any mortgage, pledge, lien, security interest, charge or other encumbrance (including any conditional sale or other title retention agreement or lease in the nature thereof other than a title retention agreement in connection with the purchase of goods in the ordinary course of business);

Material Subsidiary means, at any time, any Subsidiary of the Issuer:

- (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated financial statements, whose consolidated total assets or consolidated gross revenues) attributable to the Issuer represent not less than 10% of the Consolidated Total Assets or (as the case may be) the total gross revenues (consolidated, if the relevant Audited Statements are consolidated) of the Issuer and its Subsidiaries, all as determined by reference to the most recent audited financial statements (or, as the case may be, audited consolidated financial statements) of such Subsidiary and the most recent Audited Statements; or
- (b) to which is transferred all or substantially all of the assets and undertaking of a Subsidiary of the Issuer which was a Material Subsidiary immediately prior to such transfer (which Subsidiary shall cease to be a Material Subsidiary upon such transfer becoming unconditional) and so that a Subsidiary of the Issuer which becomes a Material Subsidiary pursuant to this paragraph (b) shall remain a Material Subsidiary only until the publication of the next Audited Statements, unless on such publication it remains a Material Subsidiary pursuant to paragraph (a) above,

provided that a certificate by the Auditors (as defined in the Amended and Restated Agency Agreement) of the Issuer that, in their opinion, any Subsidiary of the Issuer is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

Person means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof;

Principal Property means any generation, transformation, transmission or distribution facility located in the Czech Republic, whether at the date of issue of the Notes owned or thereafter acquired, including any land, buildings, structures or machinery and other fixtures that constitute any such facility, or portion thereof, other than any such facility, or portion thereof, determined by the Issuer's Board of Directors and certified by two directors of the Issuer not to be of material importance to the total business conducted by the Issuer and its Subsidiaries as or whole;

Sale and Lease-Back Transaction means any transaction or series of related transactions pursuant to which the Issuer or any Material Subsidiary sells or transfers any property to any Person with the intention of taking back a lease of such property pursuant to which the rental payments are calculated to amortize the purchase price of such property substantially over the useful life thereof and such property is in fact so leased; and

Subsidiary means any corporation or other business entity of which the Issuer owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interests, in each case having ordinary voting power to elect or appoint directors, managers or trustees of such corporation or other business entity (whether or not capital stock or other ownership interests or any other class or classes shall or might have voting power upon the occurrence of any contingency).

4. **REDENOMINATION**

4.1 **Redenomination**

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (a) the Notes and the Receipts shall be deemed to be redenominated in Euro in the denomination of Euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into Euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in Euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes held (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of Euro 100,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than Euro 100,000 shall be redeemed by the Issuer and paid to the Noteholders in Euro in accordance with Condition 6; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of Euro 1,000, Euro 10,000, Euro 100,000 and (but only to the extent of any remaining amounts less than Euro 1,000 or such smaller denominations as the Agent may approve) Euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in Euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
 - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding; and
- (g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

4.2 Definitions

In the Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into Euro established by the Council of the European Union pursuant to Article 140 of the Treaty on the Functioning of the European Union, as amended;

Euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended;

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 4.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

Relevant Notes means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least Euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

- (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next

calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

- (i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either (a) if the applicable Floating Rate Option is based on the London interbank offered rate (**LIBOR**) or on the Euro-zone interbank offered rate (**EURIBOR**), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

- (ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Amended and Restated Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the

Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(e) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2, whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of willful default, bad faith, manifest error or proven error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of willful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms. **(For 0.5 Indent)**

5.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

5.5 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than Euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in Euro will be made by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee or, at the option of the payee, by a Euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

6.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of

part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of installments of principal (if any) in respect of definitive Notes, other than the final installment, will (subject as provided below) be made in the manner provided in Condition 6.1 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final installment will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant installment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

6.3 Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

6.4 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder

of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.5 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) in the case of Notes in definitive form only, the relevant place of presentation;
 - (ii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

6.6 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 8;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Notes redeemable in installments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortized Face Amount (as defined in Condition 7.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

7.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial

redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

7.4 Redemption at the option of the Noteholders

(a) *Redemption at the option of the Noteholders (other than a Change of Control Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 7.4(a) accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note under this Condition 7.4(a) the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7.4(a) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4(a) and instead to declare such Note forthwith due and payable pursuant to Condition 10.

(b) *Change of Control Put*

If Change of Control Put is specified in the applicable Final Terms, upon the occurrence of a Put Event while this Note remains outstanding, the holder of this Note will have the option (the **Put Option**) (unless, prior to the giving of the Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 7.2) to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of this Note on the Optional Redemption Date (as defined below) at its principal amount together with (or, where purchased, together with an amount equal to) accrued interest (if applicable) to but excluding the Optional Redemption Date.

A **Put Event** shall be deemed to occur if:

- (i) any Person or Persons acting in concert come(s) to own or acquire(s) more than 50 per cent. of the issued share capital of the Issuer, or more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer (each a **Change of Control**); and
- (ii) during the Change of Control Period (as defined below), this Note carries from any of Standard & Poor's Credit Market Services Europe Limited, or Moody's Investors Service Ltd., or any of their respective successors (each a **Rating Agency**) either:
 - (A) an investment grade credit rating (*BBB-/Baa3, or equivalent, or better*), and such rating from any Rating Agency is within the Change of Control Period either downgraded to a non-investment grade credit rating (*BB+/Ba1, or equivalent, or worse*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency or (in the case of a withdrawal) replaced by, or reinstated to, an investment grade credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or
 - (B) a non-investment grade credit rating (*BB+/Ba1, or equivalent, or worse*), and such rating from any Rating Agency is within the Change of Control Period downgraded by one or more notches (*for illustration, Ba1 to Ba2 being one notch*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better by such Rating Agency, or (in the case of a withdrawal) replaced by, or reinstated to, a credit rating equal to or better than such earlier credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or
 - (C) no credit rating, and no Rating Agency assigns within the Change of Control Period an investment grade credit rating to the Notes; and
- (iii) in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decisions(s) resulted, in whole or in part, from the occurrence of the Change of Control or the public notice of an arrangement that could result in a Change of Control.

Change of Control Period means the period from the date of the public notice of an arrangement that could result in a Change of Control until the end of a 180-day period following public notice of the occurrence of a Change of Control (or such longer period as the rating of the Note is under publicly announced consideration for rating review).

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 14 specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the option contained in this Condition 7.4(b).

To exercise the option to require redemption or, as the case may be, purchase of this Note under this Condition 7.4(b) the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the **Put Period**) of 45 days after a Put Event Notice is given, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Option Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 7.4(b), accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Option Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption or, as the case may be,

purchase of this Note under this Condition 7.4(b) the holder of this Note must, within the Put Period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depository or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Option Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 7.4(b) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4(b) and instead to declare such Note forthwith due and payable pursuant to Condition 10.

The Paying Agent to which this Note and Put Option Notice are delivered will issue to the holder concerned a non-transferable receipt (a **Put Option Receipt**) in respect of this Note so delivered or, in the case of a Global Note or Note in definitive form held through Euroclear or Clearstream, Luxembourg, notice so received. The Issuer shall redeem or at the option of the Issuer purchase (or procure the purchase of) this Note in respect of which Put Option Receipts have been issued on the date (the **Optional Redemption Date**) which is the seventh day after the last day of the Put Period, unless previously redeemed or purchased. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account to which payment is to be made in the Put Option Notice, on the Optional Redemption Date by transfer to that bank account and in every other case on or after the Optional Redemption Date, in each case against presentation and surrender or (as the case may be) endorsement of such Put Option Receipt at the specified office of any Paying Agent in accordance with the provisions of this Condition 7.4(b).

7.5 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortized Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

7.6 Installments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.5.

7.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

7.8 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

7.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

7.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment in the Czech Republic; or
- (b) the holder of which is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.5); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the Czech Republic or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT

The holder of any Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (**Events of Default**) shall have occurred and be continuing:

- (a) **Non-payment of Interest:** any amount of interest in respect of the Notes is not paid within 30 days of the due date for payment thereof; or
- (b) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and (except where such default is not capable of remedy) such default remains unremedied for 60 days after written notice specifying such default or breach and requiring it to be remedied has been delivered to the Issuer; or
- (c) **Cross-acceleration:** any present or future indebtedness of the Issuer or any Material Subsidiary of the Issuer (excluding any such indebtedness owed to trade creditors not evidenced by a note, bond, debenture or similar instrument) having an aggregate principal amount exceeding U.S.\$30,000,000 (or its equivalent in any other currency or currencies) other than the Notes becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) such Material Subsidiary; or
- (d) **Insolvency etc:** (i) the Issuer or any Material Subsidiary becomes insolvent, stops payment on its obligations generally or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any Material Subsidiary or of the whole or any part of the undertaking, assets and revenues of the Issuer or (as the case may be) any Material Subsidiary is appointed, (iii) the Issuer or any Material Subsidiary takes any action for a readjustment or deferment of its obligations generally

or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness, (iv) the Issuer or any Material Subsidiary is declared to be bankrupt by any court or (v) an application for a declaration of bankruptcy in relation to the Issuer or any Material Subsidiary is refused by any court and the court specifies that the sole ground on which such declaration has been refused is that the Issuer or (as the case may be) such Material Subsidiary has insufficient assets out of which to meet the costs and expenses of any bankruptcy proceedings; or

- (e) **Winding up, etc:** a legally effective and non-appealable order is made or a legally effective and non-appealable resolution is passed for the winding up, liquidation or dissolution of the Issuer or any Material Subsidiary; or
- (f) **Cessation of Business:** the Issuer ceases to conduct or to be authorized to conduct the business of the generation or sale of electricity; or
- (g) **Analogous Event:** any event occurs which under the laws of the Czech Republic or the jurisdiction of the relevant Material Subsidiary has an analogous effect to any of the events referred to in paragraphs (d) or (e) above.

11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.4. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Amended and Restated Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Amended and Restated Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

All notices regarding the Notes will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London and (b) if and for so long as the Notes are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Amended and Restated Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Amended and Restated Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or canceling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be two or more persons holding or representing not less than three quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one quarter in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Amended and Restated Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Amended and Restated Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

The Amended and Restated Agency Agreement, the Deed of Covenant, the Notes, the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with the Amended and Restated Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

18.2 Submission to jurisdiction

The Issuer irrevocably agrees, for the benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders, the Receiptholders and the Couponholders may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes, the Receipts and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

18.3 Appointment of Process Agent

The Issuer appoints Law Debenture Corporate Services Limited at its registered office for the time being in England as its agent for service of process, and undertakes that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person, as the Agent may approve, as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

18.4 Waiver of immunity

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defense and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No. 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF THE ISSUER

Overview

According to ERO and our internal data, we are the largest electricity generation and distribution company in the Czech Republic. According to Sdružení CZECH TOP 100 and our internal data, we are one of the largest companies in the Czech Republic on the basis of our revenues and our total assets. In the years ended December 31, 2009, 2010 and 2011, we had revenues of CZK 196.4 billion, CZK 198.8 billion and CZK 209.8 billion, respectively, and net income of CZK 51.9 billion, CZK 46.9 billion and CZK 40.8 billion, respectively. As of December 31, 2011, we had total assets of CZK 598.1 billion. In the year ended December 31, 2011, we had an average of 31,805 employees.

Our core business is the generation, distribution and sale of electricity. According to data published by the ERO, we accounted for approximately 72% of electricity generated, 63% of installed electricity generation capacity, 61% of electricity distribution in terms of the number of connection points and 38% of electricity sold to end-consumers in the Czech Republic in the year ended December 31, 2011. These activities in the Czech Republic accounted for approximately 91% of our EBITDA for the same period. According to the ERO, we are the largest producer of brown coal in the Czech Republic, accounting for approximately 54% of the total volume of brown coal produced in the Czech Republic in 2011.

Our generation business owns and operates power plants primarily located in and connected to the transmission system in the Czech Republic, which generate electricity predominantly from brown coal and nuclear energy. We also own coal-fired power plants in Poland and Bulgaria and wind and hydro power plants in Romania. Our distribution business delivers electricity from the transmission system to end-consumers in the Czech Republic and, to a lesser extent, in Albania, Bulgaria and Romania. Our sales business sells electricity generated by us and procured by our trading business to end-consumers in the Czech Republic, as well as in Albania, Bulgaria and Romania. Our trading business purchases and sells electricity and energy commodities in the wholesale market, including electricity sold by us to our end-consumers, and also executes trades for our own account. Our other businesses include the mining, processing and sale of brown coal; the generation, distribution and sale of heat; the sale of natural gas to end-consumers; and the provision of ancillary services to transmission system operators.

The table below sets forth certain information relating to our generation, distribution and sales businesses for the year ended December 31, 2011.

As of and for the year ended December 31, 2011								
	Installed capacity		Electricity generated		Electricity distributed to end-consumers		Electricity sold to end-consumers	
	(MW)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Central Europe:								
Czech Republic.....	12,813	84.8	63,321	91.5	32,613	60.8	21,969	51.3
Poland.....	730	4.8	2,204	3.2	--	--	95	0.2
Other.....	--	--	--	--	--	--	2,432	5.7
Total.....	13,543	89.6	65,525	94.7	32,613	60.8	24,496	57.2
South East Europe:								
Albania.....	--	--	--	--	4,487	8.4	5,031	11.7
Bulgaria.....	1,260	8.3	3,043	5.3	9,193	17.1	10,024	23.4
Romania.....	318	2.1	641	--	7,335	13.7	3,295	7.7
Total.....	1,578	10.4	3,684	5.3	21,015	39.2	18,350	42.8
Total.....	15,121	100	69,209	100	53,628	100	42,846	100

The total installed capacity of our generation facilities is 15,121 MW, of which 84.7% is in the Czech Republic, 8.3% is in Bulgaria, 4.8% is in Poland and 2.1% is in Romania. In the year ended December 31, 2011, we generated 69,209 GWh of electricity, of which 91.5% was generated in the Czech Republic. In the same year, 55.3% of our total electricity generated was generated by our coal-fired power plants, 40.9% was generated by our nuclear power plants and the remaining 3.8% was generated by our hydroelectric, solar and wind power plants.

We distributed electricity to more than 3.5 million connection points in the Czech Republic covering an area of approximately 52.7 thousand square kilometers as of December 31, 2011, making us the largest of the three regional distributors of electricity in the country. In the year ended December 31, 2011, we distributed a total of 53,626 GWh of electricity to end-consumers, 60.8% of which was distributed to end-consumers in the Czech Republic. In addition,

we are one of the largest of eight regional distribution companies in Romania and we have majority interests in the principal distribution company in Albania and Bulgaria.

ČEZ, a. s. was incorporated as a joint stock company under the laws of the Czech Republic on May 6, 1992 with unlimited duration and was registered in the Commercial Register administered by the Municipal Court in Prague, File B, Section 1581, with identification number 45274649. As of December 31, 2011, ČEZ, a. s. had a registered share capital of CZK 53,798,975,900 and was 69.8% owned by the Czech Republic represented by the Ministry of Finance and the Ministry of Labor and Social Affairs. The shares of ČEZ, a. s. are listed on the Prague Stock Exchange and the Warsaw Stock Exchange. The registered office of ČEZ, a. s. is Duhová 2/1444, 140 53 Prague 4, Czech Republic, with telephone number +420 211 041 111.

History and Development of the CEZ Group

Principal events during our history and development include:

- 1992** ČEZ, a. s. was established on May 6, 1992 through the aggregation of formerly State-owned power generation and distribution assets in the Czech Republic into one enterprise.
- 2002** The Czech Republic's electricity market began a process of market liberalization in accordance with the Czech Energy Act.
- We acquired the Czech Government's shares in the eight regional distribution utilities (the "REAS"), which were previously held by the Czech National Property Fund and the Czech Consolidation Agency. We subsequently held a majority interest in five of the REAS and a minority interest in three of the REAS.
- 2004** An amendment to the Czech Energy Act required the distribution of electricity to be separate and independent from the sale of electricity to end-consumers (so-called "unbundling") from January 1, 2007.
- 2005** We established ČEZ Distribuce, a.s. for electricity distribution and ČEZ Prodej, s.r.o. for electricity sales.
- We acquired three Bulgarian distribution companies, Elektrorazpredelenie Pleven AD, Elektrorazpredelenie Sofia Oblast AD and Elektrorazpredelenie Stolichno AD, which together had approximately 1.9 million customers in Bulgaria.
- We acquired a 51% stake in the Romanian distributor Electrica Oltenia S.A., which had approximately 1.4 million customers in Romania.
- 2006** We acquired Severočeské doly a.s., a brown coal mining company located in North Bohemia, which supplies a significant portion of brown coal to our power plants in the Czech Republic.
- We acquired a 100% share in TPP Varna EAD, the second largest power plant in Bulgaria with installed capacity of 1,260 MW.
- We acquired a 75.2% share in the voting rights of Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. and a 74.82% stake in Elektrownia Skawnia S. A. These Polish electricity generation companies had a combined installed capacity of 830 MW in 2006.
- 2007** We acquired 100% control over the five previously majority-owned REAS: Severočeská energetika, a.s., Severomoravská energetika a.s., Východočeská energetika, a.s., Západočeská energetika, a.s., and Středočeská energetická, a.s. Following the acquisition of the REAS, our distribution network became the largest in the Czech Republic.
- We formed a strategic alliance and signed a joint venture agreement with MOL Nyrt to focus on gas-fired power and heat generation and related gas infrastructure. The most significant planned investment of this joint venture is the construction of a combined cycle gas turbine ("CCGT") at MOL Nyrt's refinery in Dufi, Hungary, which is currently subject to ongoing negotiations.
- 2008** We acquired the Fântânele and Cogeaalac wind farm project in Romania which, once completed, is expected to be the largest onshore wind farm in Europe, with a total installed capacity of up to 600 MW.
- 2009** Pursuant to a joint venture arrangement with the Akkok Group, we acquired 100% of Sakarya Elektrik Dagitim A.S., the Turkish electricity distribution company which has the right to operate the distribution grid in the Sakarya region of Turkey for 30 years.

We acquired a 76% interest in ČEZ Shpërndarje Sh. A. (formerly known as Operatori i Sistemit te Shpërndarjes Sh.A.), the Albanian distribution company which is 24% owned by the Republic of Albania.

We acquired the remaining minority share in Elektrowina Skawina S. A., becoming the 100% owner of this Polish power plant.

We agreed to acquire from J&T Group and paid for a 48.67% interest in Pražská teplárenská, Prague's major heat supplier, with a view to acquiring its 100% subsidiary Energotrans, a.s., a major producer of heat for Prague. The acquisition of Pražská teplárenská has not been completed. The investment is classified as available-for-sale as we do not currently expect to exercise any significant influence.

We signed a shareholders' agreement with JAVYS a.s. to establish a joint venture to develop a new nuclear power station at Jaslovské Bohunice, Slovakia, for which a feasibility study is currently being prepared. Our share in the joint venture is 49% and we exercise managerial control together with JAVYS a.s.

Our joint venture with Energetický a průmyslový holding, a. s. acquired 100% of Mitteldeutsche Braunkohlengesellschaft GmbH ("MIBRAG"), the German coal mining company.

We commenced the procurement procedures for the supply of two reactor units for the Temelín nuclear power plant and the potential supply of up to three further reactor units in Europe. We currently expect to sign a contract with the successful bidder by the end of 2013.

We became the 100% owner of ČEZ Distributie S. A. and ČEZ Vanzare S.A. when we purchased a 30% stake in ČEZ Distributie S.A. and a 19% stake in ČEZ Vanzare S.A.

We acquired 37.36% of our Turkish joint venture partner, Akenerji Elektrik Üretim A.S., and became the joint holders of a majority interest amounting to approximately 75%, with the remaining shares being traded on the Istanbul Stock Exchange.

2010 We acquired a further 24.8% interest in Elektrociepownia Chorzów "ELCHO" Sp. z o.o. and became the 100% owner of this Polish electricity company.

2011 We agreed to acquire, subject to merger clearance and other conditions, a 100% holding in Energotrans, a.s., a company supplying heat from Mělník to Prague. Upon the completion of the acquisition, the amount paid to acquire a 48.67% interest in Pražská teplárenská will be off-set against the liability arising from the acquisition of Energotrans, a.s.

We acquired 67% of the shares of Eco-Wind Construction S.A. with an option to acquire the remaining 33% share. Eco-Wind Construction S.A. develops wind parks and owns several projects in various stages of development.

We signed an agreement, subject to merger clearance, the successful acquisition of Energotrans, a.s. and other conditions, to dispose of our 50% interest in MIBRAG to Energetický a průmyslový holding, a. s., our joint venture partner who currently owns the other 50% holding in MIBRAG.

2012 Our Board of Directors approved the incorporation of a wholly-owned SPV with the intention to transfer to it our 100% interest in the Počerady brown coal-fired power plant with the aim of increasing our flexibility to optimize our generation portfolio and our use of assets in the future.

Recent Developments

Czech National Bank Discontinued its Investigation with Respect to Unauthorized Disclosure of Confidential Information

ČEZ was subject to an investigation of the Czech National Bank with respect to the unauthorized disclosure of its 2011 half-year report by Reuters in August 2011. In April 2012, the Czech National Bank discontinued this investigation and decided that ČEZ did not breach any of its obligations with respect to the handling of inside information (as specified in the Capital Market Act).

USD 1 billion Notes Issue

In April 2012 ČEZ issued 4.25% Notes due 2022 in the aggregate principal amount of USD 700,000,000 and 5.625% Notes due 2042 in the aggregate principal amount of USD 300,000,000 within a private placement offering to qualified institutional buyers, pursuant to Rule 144A under the U.S. Securities Act, and outside the United States to certain non-U.S. persons pursuant to Regulation S under the U.S. Securities Act. ČEZ entered into USD/EUR currency swaps with respect to the aggregate principal amount of the notes plus interest payable to maturity.

Settlement Discussions in Albania

In March 2012, CEZ Shpërndarje Sh. A. notified the International Bank for Reconstruction and Development (the “IBRD”) that, as a result of the detrimental regulatory conditions imposed by the Albanian Electricity Regulation Authority, it is not able to generate sufficient revenues to cover its operating expenses. In this regard, CEZ Shpërndarje Sh. A. also invited the IBRD to take steps to prevent the enforcement of a €60 million guaranty provided by the IBRD. The guaranty was provided by the IBRD in favor of CEZ Shpërndarje Sh. A. in connection with the 2009 acquisition by ČEZ, a. s. of a 76% interest in CEZ Shpërndarje Sh. A. for €102 million. The guaranty secures the payment of compensation by the Albanian Government of certain losses incurred by CEZ Shpërndarje Sh. A. CEZ Shpërndarje Sh. A. may call the guaranty if, *inter alia*, the Albanian Government fails to pay the amount agreed with the Albanian Government or determined in an arbitral award, or CEZ Shpërndarje Sh. A. requests conditional payments in accordance with conditions of the guaranty. At the same time, CEZ Shpërndarje Sh. A. informed the Albanian Electricity Regulation Authority about its critical financial situation resulting from the detrimental regulatory conditions in Albania. For more information on our disputes in Albania, please see “—Our Business—Legal Proceedings—Proceedings in Albania”.

CEZ Shpërndarje Sh. A. is continuing its negotiations with the Albanian Government with the intention of reaching an amicable solution. However, we may claim against the Government of Albania, *inter alia*, compensation for losses incurred by CEZ Shpërndarje Sh. A. Such claim is secured by the IBRD’s guaranty up to the amount of €60 million. If we are unable to reach an acceptable solution following the settlement discussions or if no remedies are available, CEZ Shpërndarje Sh. A. and consequently, ČEZ, a. s., may incur further significant losses and our investment in Albania may be threatened.

In the year ended December 31, 2011, CEZ Shpërndarje Sh. A. contributed CZK 0.8 billion, or 0.9%, of our consolidated EBITDA and accounted for CZK 8.8 billion, or 1.5%, of our total consolidated assets as of December 1, 2011. ČEZ, a. s. has guaranteed the performance of CEZ Shpërndarje Sh. A. under a €100 million loan from the International Finance Corporation and the European Bank for Reconstruction and Development, of which €35 million has been drawn as of the date of this Base Prospectus. As of December 31, 2011, trade receivables in the amount of CZK 0.5 billion were owed by CEZ Shpërndarje Sh. A. to other members of the CEZ Group.

€40 million 20-year Bond Issue

In April 2012, ČEZ issued twenty-year registered 4.7% bonds (*Namensschuldverschreibung*) under German law in the aggregate nominal amount of €40 million.

€100 million Loan Agreement with EIB

In February 2012, ČEZ signed the first tranche of a loan facility agreement amounting up to €100 million with the European Investment Bank to support financing of investments into reinforcement and development of the distribution grid in the Czech Republic.

€40 million Loan Agreement with Goldman Sachs Bank USA

In January 2012, the Group concluded a bilateral loan facility agreement in the amount of €40 million with Goldman Sachs Bank USA. The maturity of the loan facility is three years. The proceeds from the loan will be used for general corporate purposes.

Repurchase of Notes under EMTN Programme

In January 2012, ČEZ offered to purchase €500,000,000 5.125% notes due 2012 issued under this Programme and €500,000,000 4.125% notes due 2013. As a result of this offer, ČEZ repurchased the 2012 notes in the nominal amount of €221,711,000 and the 2013 notes in the nominal amount of €127,800,000.

Organizational Structure

As of December 31, 2011, the CEZ Group consisted of ČEZ, a. s. and 99 fully consolidated entities. As of December 31, 2011, we also had interests in 21 associates and joint ventures consolidated by the equity method of accounting. For a complete list of our subsidiaries, associates and joint ventures as of December 31, 2011, please see Note 7 of our audited consolidated financial statements for the year ended December 31, 2011.

Pursuant to the Czech Energy Act, since January 1, 2007, the distribution of electricity must be separate and independent from the generation, transmission and sale of electricity (“unbundling”). In 2005, we established two new separate companies ČEZ Distribuce, a.s. (for distribution of electricity) and ČEZ Prodej, s.r.o. (for sales of electricity to end-consumers), and during 2006 we transferred all corresponding assets and activities from the REAS to these companies. Following a resolution of our Board of Directors in June 2007, we consolidated all assets and activities of the REAS into the CEZ Group. We completed this consolidation process by October 2007.

To ensure the independence and separation of distribution activities from all other activities, senior management responsible for our electricity distribution business must be different from senior management responsible for our electricity generation and sales business and we are required to take appropriate steps to prevent professional conflicts of interest between persons responsible for our electricity distribution business and our electricity generation and sales businesses. The Czech Energy Act also restricts how much control can be exercised by shareholders over distribution businesses.

Principal Subsidiaries

ČEZ Distribuce, a.s., a wholly owned subsidiary of the CEZ Group, was established on October 1, 2010, following the merger of ČEZ Distribuce, a.s. (a company of the same name which was incorporated on March 31, 2005 to comply with the requirement of the Czech Energy Act to separate our distribution business from our sales business, which ceased to exist with effect from the date of the merger) and ČEZ Distribuční zařízení, a.s. (a company incorporated in July 2009 to consolidate unclassified equipment for electricity distribution within the CEZ Group, which ceased to exist with effect from the date of the merger). The accounting record date for this transaction occurred on January 1, 2010. ČEZ Distribuce, a.s. is the only entity in the CEZ Group, other than ČEZ a. s., that holds an electricity distribution license in the Czech Republic. In the year ended December 31, 2011, ČEZ Distribuce, a.s. contributed 15.9% of our EBITDA. For more information on our distribution business, please see “*Our Business—Distribution and Sale of Electricity*”.

ČEZ Prodej, s.r.o., a wholly-owned subsidiary of the CEZ Group, was established on March 31, 2005 to comply with the requirement of the Czech Energy Act to separate our sales business from our distribution business. Parts of our original regional power companies, including their customers, contracts and liabilities were transferred to ČEZ Prodej, s.r.o. by the end of 2005. ČEZ Prodej, s.r.o. has been fully operational since January 1, 2006 selling electricity to end-consumers in the Czech Republic. In the year ended December 31, 2011, ČEZ Prodej, s.r.o. contributed 2.8% of our EBITDA. For more information on our sales business, please see “*Our Business—Distribution and Sale of Electricity*.”

Severočeské doly a.s., a wholly-owned subsidiary of the CEZ Group, was established in 1994. The core activities of Severočeské doly a.s. are prospecting for, extracting, processing, and selling brown coal and related raw materials. Severočeské doly a.s. is the largest brown coal mining company in the Czech Republic. We acquired a 93.1% stake in Severočeské doly a.s. from the Government of the Czech Republic during 2005. Upon our request, as the majority shareholder, the general meeting of Severočeské doly a.s. held on March 27, 2006 approved the squeeze-out of minority shareholders and the transfer of their shares to us. In the year ended December 31, 2011, Severočeské doly a.s. contributed 5.5% of our EBITDA. For more information on our mining operations, please see “*Our Business—Other Businesses—Coal Mining*.”

Our Strengths

We benefit from the following key strengths:

Majority State-Owned Company, Backed by a Stable and Open Economy

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ, a. s., the parent company of the CEZ Group. In August 2011, Standard & Poor’s Credit Market Services Europe Limited upgraded its rating of the Czech Republic by two notches to AA- (Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website

(www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated January 6, 2012)). We believe that being majority-owned by a government that is backed by a stable and open economy provides additional credibility in the electricity and credit markets and allows us to benefit from more favorable credit terms than competitors without similar backing.

Robust Credit Profile

ČEZ's credit ratings of A- (stable outlook) by Standard & Poor's Credit Market Services Europe Limited and A2 (stable outlook) by Moody's Investors Service Ltd are among the highest awarded to a European utility, reflecting our efforts to work proactively to maintain prudent leverage and liquidity positions (Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated January 6, 2012)). We had a relatively low Net Debt/EBITDA ratio of 1.8x as of December 31, 2011. Over the last five years we have adhered to a self-imposed ceiling of Net Debt/EBITDA ratio below 2.0x to 2.5x, which has been further tightened to 2.3x since 2010, which we believe is compliant with our current rating. We are a well established credit among European utilities having issued €5.6 billion in 26 public and private transactions under this Programme since 2007. We aim to maintain an adequate liquidity position with access to sufficient back-stop credit facilities should cash flows become negative.

Highly Integrated, Large-Scale Domestic Operations

We benefit from highly integrated operations in the Czech Republic providing approximately 91% of our total consolidated EBITDA in the year ended December 31, 2011.

In the Czech Republic, we operate a low cost generation fleet which produced a total of 63 TWh of electricity, or 72% of the country's total electricity generated during the year ended December 31, 2011, of which 52% was produced by our brown coal-fired power plants. Approximately 65% of our brown coal consumption is provided by our mines, which is provided at the cost of extraction only on a consolidated basis. In addition, brown coal is not a traded commodity as its transportation is not economical and we are therefore not exposed to large fluctuations in the global commodities market. Approximately 45% of our total electricity generation output in the Czech Republic was generated by our nuclear power plants where variable costs are relatively low and stable (as opposed to initial construction costs). Furthermore, unlike in neighboring Austria and Germany, public opinion as well as political representation in the Czech Republic are relatively favorable towards nuclear power generation. The composition of our generation fleet results in relatively stable and low variable costs which is a chief reason for our EBITDA margin of approximately 42% for the year ended December 31, 2011, being one of the highest among our European peers (EdF, EdP, EnBW, Enel, E.ON, Fortum, Iberdrola, RWE and Verbund) over the last five years. EBITDA generated by our Power Production and Trading and Mining Segments in the Czech Republic accounted for approximately 67% of our consolidated EBITDA for the year ended December 31, 2011.

In the Czech Republic, we distributed 33 TWh of electricity to end-consumers, or 56% of the total net electricity consumed in the Czech Republic, in the year ended December 31, 2011. The ERO has an eleven-year track record of fair and transparent regulation in line with E.U. directives and regulations. EBITDA generated by our distribution business in the Czech Republic accounted for approximately 16% of our total consolidated EBITDA for the year ended December 31, 2011.

We sold approximately 22 TWh of electricity to end-consumers in the Czech Republic, or 38% of the total net electricity consumed in the Czech Republic, in the year ended December 31, 2011. While our market share as an incumbent electricity provider has declined over the last several years (from approximately 44% in the year ended December 31, 2009) we have established ourselves as the largest alternative gas supplier over the last two years which has compensated for a significant part of the foregone margin. EBITDA generated by our sales business in the Czech Republic accounted only for approximately 2% of our consolidated EBITDA for the year ended December 31, 2011.

Stable Domestic Market without Regulatory Excesses Seen in Some Other Parts of Europe

The Czech Republic's power market is a fairly standardized market by E.U. standards. Power production and power supply are fully liberalized while distribution is regulated, in line with E.U. Directives and regulations. In addition, public opinion and practically all of the political parties in the Czech Republic (except the Greens, who are currently not represented in the Czech Parliament) support nuclear operations and new nuclear build up. Furthermore, the Czech Government has not to date introduced substantial windfall taxes as in many other countries. The only exception to this has been a set of measures aimed at mitigating the impact of solar power plants boost on regulated distribution charges in the election year of 2010. At that time, a temporary tax on freely allocated CO₂ emission

allowances in 2011 and 2012 and another temporary tax on revenues of solar power plants in 2011 to 2013 were introduced. However, the Czech Republic participated in the so-called “derogation scheme” allowing certain countries to opt-out from the mandatory auctioning of CO₂ emission allowances in 2013 to 2020. As a result, if the Czech Republic’s application is approved by the European Commission (currently expected by the end of October 2012) we may be eligible to obtain 75.2 million tons of CO₂ emission allowances between 2013 to 2020, the total market value of which, in current prices (€/ton), is €677 million.

Strong Market Position in the Czech Republic

We operate in the liberalized E.U. power markets which are well integrated with most of their neighbors. Such integration allowed approximately 31% of the Czech Republic’s power production to be exported in 2011. As a result of both of these factors, Czech power prices are driven by the same fundamentals as those of neighboring countries, specifically Germany, the most liquid market. This allows us to benefit from the structure of our generation fleet which is positioned towards the cheaper end of the merit order of the German market.

Proven Corporate Strategy

Our senior management team has long-term experience in the utility industry and has demonstrated the flexibility and commitment to implement successfully a corporate strategy, particularly in times of economic stress. For example, our management team emphasizes continual improvement in efficiency and has successfully implemented specific programs to maximize efficiencies across the CEZ Group. Following the successful completion of our Vision 2008 Program announced in 2004, which led to a significant improvement in our profitability, we launched a new project - entitled “NEW VISION” - in September 2010, as a response to the realities faced by the power industry following the economic crisis.

Strong Presence in Several International Markets

In addition to cultivating our leading position in the Czech market, we have also applied our expertise in managing a power business to developing leading market positions across power markets in Central and South East Europe, including in Albania, Bulgaria, Poland and Romania. We also have operations in Germany, Hungary, Slovakia and Turkey and trading activities in other European countries. In Bulgaria, for example, we distributed 9.2 TWh of electricity to more than two million connection points, representing a 40% share of the Bulgarian electricity distribution market and sold 10.8 TWh of electricity to end-consumers during the year ended December 31, 2011. In addition, we also distribute electricity to 16% of the Romanian market and, through our joint venture companies, 6.5% of the market in Turkey (where we have a 37.5% stake in one of the largest privately held power producers, Akenerji). In Romania, we are building one of the largest on-shore wind farms in Europe with total anticipated installed capacity of 600 MW, 300 MW of which is already generating electricity. We believe our international portfolio provides us with opportunities to leverage the significant expertise and knowledge gained in our domestic market which as a result allows us to further grow outside our domestic market, where our growth potential is limited.

Our Strategy

Our principal objectives are to deliver sustainable growth and improved profitability from each of our businesses. Our goals under our current strategic initiative are financial stabilization and consolidation of the CEZ Group during a period of turbulent changes in the energy markets. To achieve these objectives we have the following key strategies:

Further Diversify our Electricity Generation Portfolio, with a Focus on Nuclear Power and Renewable Energy

We operate a diverse electricity generation portfolio, with 55.3% of the electricity we generated in the year ended December 31, 2011 generated by our coal-fired power plants, 40.9% generated by our nuclear power plants and 3.8% generated by our renewable power plants. In order to find a robust portfolio of assets to ensure greater stability of our results in power markets the predictability of which has declined continuously over the last several years and decrease our reliance on CO₂ emission intensive production we aim to concentrate on nuclear power generation and generation from renewable energy sources.

In the long-term, in the area of nuclear power generation, we aim to build two new nuclear power blocks in the Temelín nuclear power plant by 2025 with the aim of minimizing construction and other risks (for example, by conducting a competitive tender process, structuring EPC contracts and managing the regulatory approval process) and ensuring financing and the profitability of the project. In addition, we aim to extend the service life of the Dukovany nuclear power plant beyond 2025. In the short-term, by 2016 we aim to increase the capacity of both the Temelín and the Dukovany nuclear power plants by upgrading their turbines.

We aim to diversify further our electricity generation portfolio by expanding renewable resource generation capacity to 3,000 MW by 2016, particularly by investing in wind farm projects in Poland, Germany and Romania, where we already put into operation part of the Fântânele and Cogeaalac wind farm. Once completed, the Fântânele and Cogeaalac wind farm is expected to be the largest on-shore wind farm in Europe, with a total installed capacity of up to 600 MW. We believe that in addition to the positive contribution to decreasing the CO₂ emission factor of our generation fleet, the renewable portfolio will (in light of its largely regulated nature) also serve as a relatively liquid pool of assets which may be divested should our balance-sheet come under pressure during the nuclear expansion (assuming financing of the renewable portfolio will be structured without recourse to the CEZ Group).

Optimize Production and Secure Consistent Supply of Fuel for our Coal-Fired Power Plants

In addition to further diversifying our means of electricity generation, we focus on securing fuel for the operation of our coal-fired power plants until the end of their useful commercial life. In order to decrease further our CO₂ emissions we aim to finalize retrofits of our brown coal-fired power plants in Prunéřov (2 x 250 MW) and Tuřimice (4 x 200 MW) and complete a new brown coal-fired power plant in Ledvice (660 MW).

Build a Stronger Presence in the Energy Sector in the Czech Republic

The regional heating sector in the Czech Republic is going through changes driven by decreasing coal quality and reserves, increasing coal prices, more stringent environmental legislation, development of new technologies and use of alternative fuels. We therefore aim to make use of these changes and strengthen our position in heating, co-generation, biomass and alternative fuel at the regional level in the Czech Republic.

Increase Operational Efficiencies and Profitability

We intend to retain our position as a leading Central and South East European power utility by making our operations more efficient and profitable. Accordingly, we have started to implement a number of cost-saving initiatives as part of our NEW VISION program, which we devised in 2010 and began implementing in 2011. Our principal objectives are: optimizing our internal functioning and cost structure; actively hedging the proceeds of electricity sales in the forward market; revising our acquisition strategy to emphasize countries where we have already developed leading market positions; and updating our capital expenditure program to reflect our changed goals and infrastructure needs. We also aim to secure additional savings in our cash-flow for our growth initiatives and improve our performance in the long-term in order to sustain our financial position. In achieving these savings, we seek to reduce the number of our subsidiaries and share best practice for managing our assets and support processes across all our business segments.

Our international operations have provided us leading positions in key markets in Central and South East Europe, and we believe we can build on these established market shares to enhance further our position. At this stage we are concentrating on integrating and consolidating our acquisitions, which includes speeding up the repatriation of finances and optimizing our cost structure in line with best practices.

Our Principal Markets

Overview

Our core business is the generation, distribution and sale of electricity in the Czech Republic. In the year ended December 31, 2011, 84.7% of our total installed electricity generation capacity, 91.5% of our total electricity generation, 60.8% of our total electricity distributed to end-consumers and 51.3% of our total sales of electricity to end-consumers was in the Czech Republic. In the year ended December 31, 2011, our operations in the Czech Republic contributed approximately 91% of our EBITDA.

According to the ERO, we accounted for approximately 72% of electricity generated, 63% of installed electricity generation capacity, 61% of electricity distribution in terms of the number of connection points and 38% of electricity sold to end-consumers in the Czech Republic in the year ended December 31, 2011. In addition, we are the largest producer of brown coal in the Czech Republic accounting for approximately 54% of the total volume of brown coal produced in the Czech Republic in 2011. In 2011, the remaining 28% share of electricity generated in the Czech Republic came from independent power producers and self generators.

To a lesser extent, we also generate electricity in Bulgaria, Poland and Romania and distribute and sell electricity to end-consumers in Albania, Bulgaria and Romania. In the year ended December 31, 2011, our operations in Albania, Bulgaria, Poland and Romania contributed approximately 0.9%, 2.5%, 2.2% and 3.3%, respectively, of our EBITDA.

Central Europe

Czech Republic

Macroeconomic conditions in the Czech Republic are relatively stable and have benefited from the performance of the Czech crown, lower levels of unemployment and the Czech Republic's recovery in growth since 2009. The strength of the Czech crown since 2009 is primarily due to sustained levels of low inflation and low interest rates in the Czech Republic. The Czech Republic has been a member of the European Union since 2004, however, in light of fiscal uncertainty in the European Monetary Union (the "EMU"), the Czech Government has indeterminately postponed the EMU accession process.

The Czech Republic is a medium-sized, manufacturing based and open economy driven by exports, predominantly to Germany. The Czech National Bank's stress tests indicate that the Czech banking system is prepared to absorb losses from severe adverse shock because of its low exposure to highly indebted European countries. CDS levels have also remained consistently below those of other Central Eastern European countries. In August 2011, the Czech Republic's credit rating was upgraded by Standard & Poor's Credit Market Services Europe Limited to AA- (Standard & Poor's Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated January 6, 2012)).

The Czech electricity market is an integral part of the wider European electricity market and the Czech Republic has a positive trade balance with most of its neighbors. The PXE was established in 2007 as a new business platform for trading electricity in the Czech Republic and the Slovak Republic. Due to cross-border integration and fully liberalized power prices, markets in the region are integrated and the primary price-setting market is Germany and its exchange in Leipzig. We expect that changes in Germany's energy policies and its shift away from nuclear and coal generation, will create expansion opportunities in these markets for well-positioned companies like the CEZ Group.

The Czech power market and sales to end-consumers are fully liberalized. The gas market is also fully liberalized and the basic rules governing its operation are similar to those governing the electricity market. For an overview of such rules, please see "*Regulation—Czech Republic.*" Access to the transmission and distribution grids is regulated. The wholesale market in the Czech Republic is a part of the larger Central European market, primarily due to extensive cross-border transmission capacities between the Czech Republic and the transmission grids of neighboring countries. The Czech transmission system is operated by ČEPS, a.s., the sole holder of an electricity transmission license for the Czech Republic under the Czech Energy Act. Based on transmission services agreements, ČEPS, a.s. provides electricity transfer in the Czech Republic, controls power flows across the Czech transmission system, taking into account electricity exchange schedules agreed with neighboring transmission system operators as well as cooperating with distribution system operators.

According to the ERO, in the year ended December 31, 2011, electricity consumption by end-consumers in the Czech Republic decreased by 0.7 TWh, or 1.2%, to 58.6 TWh from 59.3 TWh in the year ended December 31, 2010.

Poland

The fragmented electricity generation and distribution market in Poland has been unified by new state-owned integrated companies: ENEA S.A., TAURON Polska Energia, Energa and Polska Grupa Energetyczna S.A. ("PGE"). Integration is based on the geographical location of these companies, except in relation to PGE which owns central and eastern distribution companies and power plants across Poland. The electricity market in Poland is liberalized (with some limits). In 2009, PGE, the largest state energy company in Poland, was privatized, whereas the tender for the sale of the state's share in ENEA S.A. was unsuccessful. The Polish Electricity Grid is responsible for transmission in Poland and the Polish Power Exchange (the "POLPX") provides electricity trading.

According to the Polish Energy Regulatory Office (Urząd Regulacji Energetyki), in the year ended December 31, 2011, electricity consumption by end-consumers in Poland increased by 3 TWh, or 1.9%, to 157.9 TWh from 154.9 TWh in the year ended December 31, 2010.

South East Europe

Albania

Almost all generation capacity and distribution in Albania was concentrated under the Albanian Power Corporation ("*KESH*"). The transmission operator was unbundled in 2006 into a separate state-owned company. Privatization of the distribution unit of KESH (*OSSH Operatori i Sistemit te Shperndarjes Sh. A.*) started in 2008 and in

2009 we acquired the majority stake in this distribution company. The wholesale market is completely regulated with a few large customers buying at market prices.

According to the Albanian Electricity Regulation Authority, in the year ended December 31, 2011, electricity consumption by end-consumers in Albania increased by 0.4 TWh, or 9.2%, to 5 TWh from 4.6 TWh in the year ended December 31, 2010.

Bulgaria

Approximately 72% of electricity generation in Bulgaria is controlled by the state through Bulgarian Energy Holding, which also owns the transmission grid (through its subsidiaries, National Electricity Company, ESO and EAD). In Bulgaria, the distribution companies are controlled by foreign companies: EVN Bulgaria, E.ON and us. The wholesale market is officially liberalized but due to the quota system set by the Bulgarian regulator, the majority of electricity has to be supplied for regulated prices to the transmission operator. Accordingly, only a small part of the market is effectively liberalized, but with no trading platform in place. As a result, only bilateral contracts are concluded and more than 80% of electricity generated is sold at regulated prices.

According to the Bulgarian electricity system operator (ESO), in the year ended December 31, 2011, electricity consumption by end-consumers in Bulgaria increased by 1.0 TWh, or 2.9%, to 35.0 TWh from 34.0 TWh in the year ended December 31, 2010.

Romania

Transmission and generation are state-owned in Romania and distribution is partly state-owned. The electricity market is unbundled but is not fully privatized. Liberalization of the Romanian electricity industry is ongoing, but approximately 60% of eligible customers are still regulated. Generation is split by fuel into separate companies: Termoelectrica, Hidroelectrica and Nuclearelectrica. Smaller generation sources, mostly CHPs, are also owned by counties and municipalities. Distribution is partially privatized with three regions serviced by state-owned Electrica and the remaining five regions privatized and serviced by foreign investors. In the generation sector, only minor hydros and certain selected inefficient gas, oil and brown coal capacities are being privatized and foreign investment in new nuclear capacity is subject to ongoing negotiations. Transmission in Romania is handled by an independent state-owned company, Transelectrica.

According to ANRE, in the year ended December 31, 2011, electricity consumption by end-consumers in Romania increased by approximately 2.3 TWh, or 5.4%, to approximately 45.8 TWh from 43.4 TWh in the year ended December 31, 2010.

Our Business

Our core business activities include the generation of electricity in the Czech Republic, Poland, Bulgaria and Romania; the distribution and sale of electricity to end-consumers in the Czech Republic, Albania, Bulgaria and Romania; and the trading of electricity and energy commodities in the wholesale market for sale to our end-consumers as well as for our own account.

Electricity Generation

Overview

In the year ended December 31, 2011, we generated 69,209 GWh of electricity, of which 91.5% was generated in the Czech Republic. In the year ended December 31, 2011, 55.3% of our total electricity generated was generated by our coal-fired power plants, 40.9% was generated by our nuclear power plants and the remaining 3.8% was generated by our hydroelectric, solar and wind power plants. The total installed capacity of our generation facilities is 15,121 MW, of which 84.7% is in the Czech Republic, 8.3% is in Bulgaria, 4.8% is in Poland and 2.1% is in Romania.

In the Czech Republic, we own and operate 10 coal-fired power plants with total installed capacity of 5,940 MW, two nuclear power plants with total installed capacity of 3,970 MW, 35 hydroelectric power plants with total installed capacity of 1,935 MW, 13 solar (photovoltaic) power plants with total installed capacity of 125 MW and three wind power plants with total installed capacity of 10 MW. In addition, we own and operate a number of heat plants in the Czech Republic with total installed capacity of 833 MW.

The following table sets forth a breakdown of the total installed capacity of our power plants for the years ended December 31, 2009, 2010 and 2011.

	As of December 31,					
	2009		2010		2011	
	(MW)	(%)	(MW)	(%)	(MW)	(%)
Coal-fired power plants⁽¹⁾:						
<i>Central Europe</i>						
Czech Republic.....	6,612	45.9	6,758	45.0	6,773	44.8
Poland.....	728	5.1	728	4.8	728	4.8
Central Europe total.....	7,340	51.0	7,486	49.8	7,501	49.6
<i>South East Europe</i>						
Bulgaria.....	1,260	8.7	1,260	8.4	1,260	8.3
Total.....	8,600	59.7	8,746	58.2	8,761	57.9
Nuclear power plants:						
Czech Republic.....	3,830	26.6	3,900	26.0	3,970	26.3
Hydro, solar and wind power plants:						
<i>Central Europe</i>						
Czech Republic.....	1,963	13.7	2,070	13.8	2,070	13.7
Poland.....	2	0.0	2	0.0	2	0.0
Central Europe total.....	1,965	13.7	2,072	13.8	2,072	13.7
<i>South East Europe</i>						
Romania.....	-	-	300	2.0	318	2.1
Total.....	1,965	13.7	2,372	15.8	2,390	15.8
Total installed capacity⁽²⁾	14,395	100	15,018	100	15,121	100

⁽¹⁾ Includes 672 MW, 818 MW and 833 MW of installed capacity of our coal-, gas- and biomass-fired heat plants in the Czech Republic for the years ended December 31, 2009, 2010 and 2011, respectively.

⁽²⁾ Some of our power plants are operated under joint venture agreements which are not fully consolidated. The installed capacity of these power plants was therefore not included in our total installed capacity. For the year ended December 31, 2011, these amounts included:

- 114 MW of installed capacity of our power plant in Slovakia;
- 208 MW of installed capacity of our coal-fired power plants in Germany;
- 357.2 MW of installed capacity of our gas-fired power plants in Turkey;
- 15 MW of installed capacity of our wind power plant in Turkey; and
- 281.7 MW of installed capacity of our hydroelectric power plants in Turkey.

As of December 31, 2011, the total installed capacity of our generation facilities was 15,121 MW, representing an increase of 15 MW, or 0.1%, from 15,018 MW as of December 31, 2010. As of December 31, 2011, 12,813 MW, or 84.7% of our total installed capacity, was in the Czech Republic, of which 52.9% was coal-fired, 31.0% was nuclear and 16.2% was hydroelectric, solar and wind power combined.

The following table sets forth a breakdown of the total electricity generated by our power plants by type of energy for the years ended December 31, 2009, 2010 and 2011.

	For the year ended December 31,					
	2009		2010		2011	
	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Coal⁽¹⁾:						
<i>Central Europe</i>						
Czech Republic.....	31,530	48.3	32,912	48.1	33,031	47.7
Poland.....	2,259	3.4	2,059	3.0	2,198	3.2
Central Europe total.....	33,789	51.7	34,971	51.1	35,229	50.9
<i>South East Europe</i>						
Bulgaria.....	2,241	3.4	2,850	4.2	3,043	4.4
Total.....	36,030	55.1	37,821	55.3	38,272	55.3
Nuclear:						
Czech Republic.....	27,208	41.7	27,998	40.9	28,283	40.9
Hydro, solar and wind:						
<i>Central Europe</i>						
Czech Republic.....	2,104	3.2	2,353	3.4	2,007	2.9
Poland.....	2	0.0	5	0.0	6	0.0
Central Europe total.....	2,106	3.2	2,358	3.4	2,013	2.9
<i>South East Europe</i>						
Romania.....	-	-	256	0.4	641	0.9
Total.....	2,106	3.2	2,614	3.8	2,654	3.8
Total electricity generated⁽²⁾	65,334	100	68,433	100	69,209	100

(1) Includes electricity generated by our coal-, gas- and biomass-fired heat plants in the Czech Republic.

(2) Some of our power plants are operated under joint venture agreements which are not fully consolidated. The amount of electricity they generated is therefore not included in our total electricity generated. For the year ended December 31, 2011, these amounts included:

- 508 GWh of electricity generated by our power plant in Slovakia;
- 1,112.1 GWh of electricity generated by our coal-fired power plants in Germany;
- 1,697 GWh of electricity generated by our gas-fired power plants in Turkey;
- 51 GWh of electricity generated by our wind power plant in Turkey; and
- 847 GWh of electricity generated by our hydroelectric power plants in Turkey.

In the year ended December 31, 2011, 63,321 GWh of electricity, or 91.5% of our total electricity generated, was generated in the Czech Republic, of which 52.2% was generated by our coal-fired power plants and 44.7% was generated by our nuclear power plants.

In the year ended December 31, 2011, we generated 69,209 GWh of electricity, representing an increase of 776 GWh, or 1.1%, from 68,433 GWh in the year ended December 31, 2010. This increase was mainly due to an increase in electricity generated by the Dukovany nuclear power plant as a result of an increase in installed capacity, an increase in electricity generated by the Varna power plant in Bulgaria as a result of more frequent activation of its cold reserve, as well as an increase in electricity generated by our solar power plants in the Czech Republic and the Fântânele wind power plant in Romania, partially offset by a decrease in electricity generated by our hydroelectric power plants in the Czech Republic as a result of lower water inflows compared to 2010.

Central Europe

Coal-fired power generation

Czech Republic. We own and operate 10 coal-fired power plants in the Czech Republic with installed capacity of 5,940 MW as of December 31, 2011. Our coal-fired power plants are situated in various locations throughout the Czech Republic, the largest concentration being in the brown coal mining region in the north-west. In the year ended December 31, 2011, our coal-fired power plants in the Czech Republic generated 33,031 GWh of electricity, representing 50.4% of our total electricity generated in Central Europe and 47.7% of our total electricity generated. Our coal-fired power plants in the Czech Republic accounted for 43.9% of our total installed capacity in Central Europe and 39.3% of our total installed capacity as of December 31, 2011.

The following table sets forth certain information regarding our coal-fired power plants in the Czech Republic as of December 31, 2011.

Plant	Type of coal	Installed capacity (MW)	Start of operation	Desulphurization	Generation licenses valid until
Dětmarovice	Black/brown	4 x 200	1975 - 1976	1998	September 6, 2026
Chvaletice	Brown	4 x 200	1977 - 1978	1997, 1998	September 1, 2035
Ledvice II	Brown	2 x 110	1966	1996	September 6, 2026
Ledvice III	Brown	1 x 110	1968	1998	September 6, 2026
Mělník II	Brown	2 x 110	1971	1998	September 6, 2026
Mělník III	Brown	1 x 500	1981	1998	September 6, 2026
Počerady	Brown	5 x 200	1970 - 1971, 1977	1994, 1996	September 6, 2026
Pruněšov I	Brown	4 x 110	1967 - 1968	1995	September 6, 2026
Pruněšov II	Brown	5 x 210	1981 - 1982	1996	September 6, 2026
Tušimice II	Brown	4 x 200	1974 - 1975	1997	September 6, 2026
Total installed capacity		5,940			

As of December 31, 2011, we also owned and operated a number of heat plants in the Czech Republic with total installed capacity of 833 MW. Heat is also a by-product of the generation of electricity by our coal-fired power plants. Heat supplied by our power plants in the Czech Republic is sold to municipalities, district heating companies and industrial consumers. Heat is supplied to customers through steam/hot water pipelines that are owned and operated by us and third parties. In the year ended December 31, 2011, our coal-fired power plants and heat plants in the Czech Republic generated 14,281 TJ of heat.

Our coal-fired power plants have a diversified age profile which is affected by various factors including the availability of coal. We have a schedule of regular repairs and overhauls for our coal-fired power plants. Since January 1, 1999, all of our coal-fired power plants in the Czech Republic have complied with the requirements of the Czech Act on Air. Since December 31, 2003, fluidized-bed boiler (a type of boiler that reduces the content of sulfur dioxide emissions in the flue gasses during the combustion process) or flue-gas desulphurization (flue stack technology which reduces sulfur dioxide content in power plant emissions) equipment has been installed on all of our entirely coal-fired power plants and we have also installed or refurbished precipitators (which reduce emissions of ash) on all of our coal-fired power plants in the Czech Republic.

In the year ended December 31, 2011, our coal-fired power plants in the Czech Republic consumed 27.7 million tons of brown coal and 1.4 million tons of black coal. For information on our coal mining activities and purchases of coal from third parties, please see “*Other Businesses—Coal Mining*” and “*Fuel—Coal*.” Our coal-fired power plants in the Czech Republic were assigned approximately 35.8 million tons of CO₂ emission allowances for the year ended December 31, 2011. For additional information on CO₂ emission allowances and the allocation of CO₂ emission allowances after 2012, please see “*Regulation—Czech Republic—Electric Energy Sector*” and “*Emission Rights*”

Biomass in the form of wood chip, straw and pellets is combusted in our coal-fired power plants and heat plants in the Czech Republic. In the Czech Republic, we also own and operate one small heat plant that only burns biomass. Within our portfolio of renewable sources, biomass is the second most significant element after water. In the year ended December 31, 2011, we burned more than 440,000 tons of biomass in our power and heat plants in the Czech Republic, mostly in the form of co-burning with brown coal.

As part of our investment program to replace older power plants in the Czech Republic with new, more efficient and cleaner power plants, in 2007, we started work in connection with the construction of a new 660 MW unit at our Ledvice coal-fired power plant. The new unit is expected to commence operation by 2015 with an expected service life of 40 years. In 2007, we also started work in connection with the renewal of four 200 MW units at our Tušimice coal-fired power plant. Two units were completed in 2010, one unit was completed in 2011 and the remaining unit is expected to be completed in May 2012. The renewal program is expected to extend the service life of the Tušimice coal-fired power plant until 2035. In addition, the renewal of three 250 MW units at the Pruněšov coal-fired power plant, planned to start operating by 2015, is expected to extend the service life of the Pruněšov coal-fired power plant by 25-30 years.

Poland. We own and operate two black coal-fired power plants located in the southern region of Poland, the Elcho power plant with installed capacity of 238.4 MW and the Skawina power plant with installed capacity of 490 MW as of December 31, 2011. The Elcho power plant started operating in 2003. The Skawina power plant started operating in 1957 and was desulfurized in 2008. A license is necessary in order to generate electricity in Poland, which is issued by the Polish Energy Regulatory Office. The licenses of the Elcho power plant and the Skawina

power plant for the generation of electricity and heat expire on December 31, 2023 and December 31, 2025, respectively.

In the year ended December 31, 2011, our coal-fired power plants in Poland generated 2,198 GWh of electricity, representing 3.4% of our total electricity generated in Central Europe and 3.2% of our total electricity generated. In the same year, our power plants in Poland generated 4,915 TJ of heat.

In the year ended December 31, 2011, our coal-fired power plants in Poland consumed 1.1 million tons of black coal and 212,000 tons of biomass and emitted 2.0 million tons of CO₂ emissions.

Other. Under a joint venture arrangement with MOL Nyrt, we also operate one power plant in Bratislava, Slovakia. Part of this power plant is being reconstructed which is expected to increase its installed capacity to 149 MW by the end of 2012. Our interest in this joint venture arrangement is not fully consolidated and therefore is not included in the calculations of our total electricity generation and our total installed capacity.

We also have interests in three small coal-fired power plants in Germany owned by MIBRAG with a total installed capacity of 208 MW as of December 31, 2011. Our interests are held under a joint venture arrangement with Energetický a průmyslový holding, a. s. which is not fully consolidated and therefore is not included in the calculations of our total installed capacity and our total electricity generated. In July 2011, we signed an agreement for the disposal of our interest in MIBRAG.

Nuclear power generation

Czech Republic. We own and operate two nuclear power plants in the Czech Republic, the Dukovany nuclear power plant and the Temelín nuclear power plant. In the year ended December 31, 2011, nuclear power generation accounted for approximately 43.2% of our electricity generated in Central Europe and 40.9% of our total electricity generated, as compared to 42.9% and 40.9%, respectively, in the year ended December 31, 2010. In the year ended December 31, 2011, our nuclear power plants accounted for 29.3% of our installed capacity in Central Europe and 26.3% of our total installed capacity.

The following table sets forth certain information regarding our nuclear-powered plants as of December 31, 2011.

Plant	Installed capacity (MW)	Start of operation
Dukovany	3 x 510; 1 x 440	1985 – 1987, reconstruction in 2009 and 2010
Temelín	2 x 1,000	December 2000
Total installed capacity	3,970	

Dukovany nuclear power plant. The construction of the Dukovany nuclear power plant commenced in 1979 and its four units became operational between May 1985 and July 1987. The power plant uses four Soviet designed VVER 440-V213 reactors with a total installed capacity of 1,970 MW. Outside Russia, such reactors are in operation in the Czech Republic, Finland, Hungary, Ukraine, Bulgaria and the Slovak Republic. The VVER 440-V213 reactors have proven to be robust and easy to operate with substantial safety margins, as demonstrated by the strong operational and safety performance of the reactors in such countries. The design of a VVER plant is generally considered to be identical to the design of PWR plants which are based on U.S. technology (in which water also acts as the moderator and the coolant) and which are the most common reactor type used commercially around the world.

Over the past 10 years, we have improved the safety features of the Dukovany nuclear power plant in accordance with the requirements of SONS. As part of our modernization program, we have also been progressively implementing recommendations resulting from domestic and foreign technical audits, including recommendations by the IAEA. In 2011, a re-certification audits of the Dukovany nuclear power plant were successfully completed by the State Office of Occupational Health and Safety and Environmental Safety Management Company (ISO 14001 certification).

Our ongoing “Safely 16 Tera EDU” project at the Dukovany nuclear power plant targets an annual production of 16 terawatt-hours by 2013 as well as further improving safety features. We expect this target to be achieved by increasing the efficiency of all four Units, using the power reserves of the Units and using the outage mode more effectively.

Another key project at the Dukovany nuclear power plant is the Long-Term-Operation (“LTO”) project. It consists of approximately 230 smaller sub-projects with combined estimated costs of more than CZK 14 billion between 2009 and 2015. The goal of the LTO project is to prepare the Dukovany nuclear power plant to operate beyond its original designed lifespan. The aim of the first phase is to secure the license for operation of the Dukovany nuclear power plant from 2015 to 2025 with the view to prolong the license even further to 2045. Since 2009, we have

continued to modernize equipment at the Dukovany nuclear power plant, improve safety and security and fulfill SONS requirements for the operation of the Dukovany nuclear power plant after 2015.

The projected lifetime of the Dukovany nuclear power plant is 40 years, although it may be possible to extend the projected lifetime by up to an additional 20 years based on the level of usage. SONS grants operating licenses that are renewable upon application. The following table sets forth the status of our licenses at the Dukovany nuclear power plant as of the date of this Base Prospectus.

Unit	License valid from	License valid until
1	January 1, 2006	December 31, 2015
2	January 1, 2007	December 31, 2016
3	January 1, 2008	December 31, 2017
4	January 1, 2008	December 31, 2017

Temelin nuclear power plant. The construction of the Temelín nuclear power plant commenced in 1987. Following the fall of the Communist regime in 1989, completion of the Temelín nuclear power plant became a political issue and the government stopped construction of Unit 3 and Unit 4. In March 1993, the government approved the completion of two units, out of four units originally planned, and at the same time ordered a fundamental change in the design of the power plant, primarily to enhance operational safety. This change consisted of adapting the Soviet plant technology to function with Western instrumentation and control systems. The adaptation of U.S. technology to the original Soviet plant construction was supplied by The Westinghouse Electricity Company LLC. It was the first such adaptation of its kind and as a result of extensive design and construction changes, the estimated completion date for the Temelín nuclear power plant was delayed several times. In July 2000, the Unit 1 reactor was loaded with nuclear fuel and started up on October 11, 2000 and it generated its first kilowatt-hour of electricity on December 21, 2000. On December 29, 2002, electricity was generated for the first time from Unit 2.

In September 2010, a new spent fuel storage facility became operational on a trial basis and the first spent fuel container was loaded to the prepared temporary storage. Fuel from Unit 1 was replaced with Russian TVEL fuel. A year later, the same change was also made at Unit 2. In 2011, our “Safely 15 Tera” project continued with its aim of improving available capacity and reducing equipment failure rates. We currently expect the Temelín nuclear power plant to generate an annual total of 15 TWh of electricity for the first time in the year ended December 31, 2012.

The projected lifetime of the Temelín nuclear power plant is 40 years, although it is technically possible to extend the projected lifetime by an additional 20 years. SONS grants operating licenses that are renewable upon application. On October 7, 2010, before the original ten-year license expired on October 11, 2010, we obtained a license from SONS to operate Unit 1 of the Temelín nuclear power plant for a further ten-year period. In order to obtain the license, regular evaluations of the plant’s safety are carried out. These evaluations involve checks on whether the power plant has been, is and will be for at least another ten years, safely operated. The license contains operational conditions stipulated by SONS. The license on Unit 2 expires on May 31, 2012. In February 2012, we requested a new license from SONS.

The following table sets forth the status of licenses at the Temelín nuclear power plant as of the date of this Base Prospectus.

Unit	License valid from	License valid until
1	October 11, 2010	October 12, 2020
2	October 11, 2004	May 31, 2012

In 2009, our business plan for completion of the Temelín nuclear power plant was approved by our Board of Directors and we subsequently started the procurement procedures for the supply of two new reactor units, with a possible option for up to three additional reactor units in Europe. The qualification phase of the tender was completed in February 2010 with The Westinghouse Electric Corporation, AREVA NP and a consortium of ŠKODA JS, JSC Atomexport and JSC OKB Gidropress all fulfilling the conditions for qualification. On October 31, 2011, the final tender information memorandum was provided to the qualified bidders. The deadline for receiving bids is July 7, 2012 and we expect to sign an agreement with the successful bidder by the end of 2013.

Decommissioning of the nuclear power plants. Pursuant to the Czech Nuclear Act, we will be responsible for decommissioning each of our nuclear power plants. We are providing funds for the future costs of decommissioning our nuclear power plants on a straight-line basis over the operating life of the relevant nuclear power plant. Total decommissioning costs are currently estimated to be CZK 17.3 billion for the Dukovany nuclear power plant and CZK 14.6 billion for the Temelín nuclear power plant. These decommissioning cost estimations are submitted for verification to the Czech Repository Authority. In order to accumulate an adequate amount of funds to cover the

ultimate costs of decommissioning of the plants after their useful life, we periodically review the decommissioning cost estimates and update our decommissioning provisions. The last updates of decommissioning costs for the Dukovany and Temelín nuclear power plants were in 2008 and 2009, respectively. We currently expect to review these decommissioning cost estimates again in 2013 for the Dukovany nuclear power plant and 2014 for the Temelín nuclear power plant.

To cover the costs of decommissioning, we are required by the Czech Nuclear Act to contribute to special escrow accounts. For the years ended December 31, 2009, 2010 and 2011, our annual contribution to the escrow accounts was CZK 326 million (CZK 165.5 million in respect of the Dukovany nuclear power plant and CZK 160.5 million in respect of the Temelín nuclear power plant). As of December 31, 2011, restricted funds representing accumulated provision for the decommissioning of our nuclear power plants totaled CZK 8,522 million, representing an increase of CZK 691 million, or 8.8%, from CZK 7,831 million as of December 31, 2010. These restricted funds are shown in the balance sheet of our audited consolidated financial statements, included elsewhere in this Base Prospectus, under “non-current financial assets.” We have established provisions to recognize our estimated liabilities for nuclear decommissioning in the form of an accounting reserve, which as of December 31, 2011 amounted to CZK 9,183 million, representing an increase of CZK 390 million, or 4.4%, from CZK 8,793 million as of December 31, 2010.

Hydroelectric power generation

Czech Republic. We own and operate 35 hydroelectric power plants in the Czech Republic, comprising seven accumulation power plants, three pumped storage hydro power plants and 25 small-scale hydro power plants. In the year ended December 31, 2011, our hydroelectric power plants in the Czech Republic generated 1,868 GWh of electricity, representing approximately 2.9% of our electricity generated in Central Europe and 2.7% of our total electricity generated, compared to 3.6% and 3.4%, respectively, for the year ended December 31, 2010. This decrease was primarily due to lower water inflows compared to in 2010. Our hydroelectric power plants in the Czech Republic accounted for 14.3% of our total installed capacity in Central Europe and 12.8% of our total installed capacity as of December 31, 2011.

The following table sets forth certain information regarding our hydroelectric power plants in the Czech Republic as of December 31, 2011.

<u>Plant</u>	<u>Installed capacity (MW)</u>	<u>Type of plant</u>	<u>Start of operation</u>
Kamýk	4 x 10	Accumulation	1961
Lipno I	2 x 60	Accumulation	1959
Orlík	4 x 91	Accumulation	1961 – 1962
Slapy	3 x 48	Accumulation	1954 – 1955
Štěchovice I	2 x 11.25	Accumulation	1943 – 1944
Vrané	2 x 6.94	Accumulation	1936
Střekov	3 x 6.5	Accumulation	1936
Dlouhé Stráně II	1 x 0.163	Small Hydro	2000
Hněvkovice	2 x 4.8	Small Hydro	1992
Kořensko I	2 x 1.9	Small Hydro	1992
Kořensko II	1 x 0.94	Small Hydro	2000
Lipno II	1 x 1.5	Small Hydro	1957
Mohelno	1 x 1.2; 1 x 0.56	Small Hydro	1977, 1999
Želina	2 x 0.315	Small Hydro	1994
Brno — Kníničky	1 x 3.1	Small Hydro	1941, reconstruction 2010
Brno — Komín	1 x 0.106; 1 x 0.140	Small Hydro	1923, reconstruction 2008
Čenkova pila	1 x 0.096	Small Hydro	1912
Černé jezero	1 x 1.5; 1 x 0.04; 1 x 0.37	Small Hydro	1930, 2004, 2005
Hradec Králové	3 x 0.25	Small Hydro	1926
Hracholusky	1 x 2.55	Small Hydro	1964, reconstruction 2006
Les Kralovství	2 x 1.105	Small Hydro	1923, reconstruction 2005
Obříství	2 x 1.679	Small Hydro	1995
Pardubice	2 x 1.96	Small Hydro	1978, reconstruction during 2012
Práčov	1 x 9.75	Small Hydro	1953, reconstruction 2001
Pastviny	1 x 3	Small Hydro	1938, reconstruction 2003
Plzeň — Bukovec	2 x 0.315	Small Hydro	2007
Předmeříce nad Labem	1 x 2.6	Small Hydro	1953, reconstruction 2009
Přelouč	1 x 0.68 2 x 0.49	Small Hydro	1927, reconstruction 2005
Spálov	2 x 1.2	Small Hydro	1926, reconstruction 1999
Spytihněv	2 x 2	Small Hydro	1951, reconstruction 2009
Vydra	2 x 3.2	Small Hydro	1939, reconstruction 2006
Mělník	1 x 0.59	Small Hydro	2010
Dalešice	4 x 112.5	Pump Storage	1978
Dlouhé Stráně I	2 x 325	Pump Storage	1996
Štěchovice II	1 x 45	Pump Storage	1947 – 1949, reconstruction 1996
Total installed capacity	1,935.2		

Ten of our hydroelectric plants are situated on dams on the Vltava river in the Czech Republic creating a cascade operation (the Vltava Cascade) controlled by a central control system. The dams and related waterworks used by our hydroelectric power plants are owned by the relevant river-basin administrators with whom we have an agreement, although we own the Želina, Čenkova Pila, Plzeň-Bukovec and Vydra dams and related waterworks.

Hydroelectric power plants have a high degree of flexibility in the regulation of their output. The ability to control hydroelectric power plants centrally, permits the hydroelectric plants to commence operation rapidly thereby facilitating the regulation of electricity output. Neither conventional storage nor pump storage hydroelectric power plants release polluting emissions into the atmosphere. These plants also represent an inexpensive source of electricity, particularly in periods of peak demand. In addition, pump storage power plants allow the productive use of excess electricity generated by base load plants by operating storage pumps in periods of low demand. Further development of hydroelectric power generation in the Czech Republic is limited by the topography and as a result we do not currently expect to construct any new hydroelectric power plants in the Czech Republic.

Our hydroelectric power plants may sustain damage in floods. In 1997, one of our hydroelectric power plants suffered minor damage caused by flooding and in 2002, seven out of nine of our hydroelectric power plants located on the Vltava river were damaged by floods. This damage was covered by our insurance.

Poland. We own and operate one small hydroelectric power plant in Poland with installed capacity of 1.6 MW. This hydroelectric power plant was built in 1961 and is located in the territory of our Skawina coal-fired power plant. In the year ended December 31, 2011, the Skawina hydro power plant generated 6 GWh of electricity.

Solar power generation

Czech Republic. In 2010, we acquired 13 solar power plants in the Czech Republic with total installed capacity of 125.2 MW and as a result we became eligible for feed-in tariffs in the Czech Republic. In the year ended December 31, 2011, our solar power plants in the Czech Republic generated 130 GWh of electricity.

All of our solar power plants in the Czech Republic are located in regions where the conditions are suitable for solar generation. The Vranovská Ves, Zabčice, Hrušovany nad Jevišovkou and Panov solar power plants are situated in the southernmost part of the region of South Moravia which is generally the sunniest region in the Czech Republic, with the highest average number of days of sun. The majority of our solar power plants started operating in 2009 and 2010.

There was a significant increase in the number of newly connected renewable sources of electricity in the Czech Republic in 2009, primarily due to state support (mandatory purchasing and bonuses) for generation of electricity from renewable sources of energy. In particular, solar power generation increased, primarily due to a significant decrease in the cost of solar (photovoltaic) technology. However, due to legislative amendments in the area of support for generation of electricity from renewable sources in 2010, the conditions for supporting solar power plants were not as favorable in 2011 and the trend towards rapid growth in the number of new solar generation installations, seen in 2009 and especially in 2010 did not continue.

Wind power generation

Czech Republic. We own and operate three wind power plants in the Czech Republic with total installed capacity of 9.7 MW. In the year ended December 31, 2011, these wind power plants generated 9.1 GWh of electricity.

Poland. In 2011, we acquired a 67% interest in Eco-Wind Construction S.A., a leading wind farm developer in Poland, with an option to acquire the remaining 33% share. Eco-Wind Construction S.A. develops wind farms and its portfolio of projects includes 21 wind farms at various stages of development, although six of these projects are currently expected to be divested.

Gas-fired power generation

Czech Republic. In April 2011, we started construction of a 841 MW gas-fired power plant in Počeradý, Czech Republic with an expected service life of 30 years. We currently expect this power plant to be completed in 2013.

Other. A number of gas-fired power plant projects are currently under development. In 2010, we received a building permit to build the Dufi CCGT power plant in Hungary with our joint venture partner MOL nyrt. The Dufi CCGT power plant is expected to have an installed capacity of 830 MW and a service life of 30 years. Commissioning of the Dufi CCGT power plant is currently planned for 2015, although gas negotiations are currently ongoing.

The permit process and negotiations relating to the planned construction of the Slovnaft CCGT power plant in Slovakia with our joint venture partner MOL nyrt are currently on hold. The Slovnaft CCGT is expected to have an installed capacity of approximately 870 MW and a service life of 30 years from completion.

South East Europe

Coal-fired power generation

Bulgaria. We own and operate the Varna coal-fired power plant in Bulgaria. In the year ended December 31, 2011, the Varna power plant generated 82.6% of our total electricity generated in South East Europe and 4.4% of our total electricity generated. In the year ended December 31, 2011, the Varna power plant had a total installed capacity of 1,260 MW and accounted for 8.3% of our total installed capacity. The Varna power plant commenced operations in 1968-1969 and has not been desulfurized (the process of removing sulfur dioxide (SO₂) from exhaust flue gases of fossil-fuel power plants). A license is necessary in order to generate electricity in Bulgaria, which is issued by the State Commission for Energy and Water Regulation. The electricity generation license of TPP Varna expires in February 2021. If the Varna power plant is not desulfurized pursuant to the Integrated Pollution Prevention and Control (IPPC) permit, it may be decommissioned by the end of 2014. However, we currently expect to desulfurize the power units of the Varna power plant and extend production beyond 2015.

In the year ended December 31, 2011, the Varna power plant generated 3,043 GWh of electricity, representing an increase of 193 GWh, or 6.8%, from 2,850 GWh in the year ended December 31, 2010. This increase was primarily due to an increase in the amount of electricity generated by the Varna power plant for sale to the regulated market, in particular due to the activation of the cold reserve due to colder weather and higher electricity consumption

at the end of 2011. The State Commission for Energy and Water Regulation approves the price of electricity sold to the national supplier and the price of available power (including cold reserve). Since 2007, the approved prices of electricity have generally been lower than the production costs of the Varna power plant. However, the main driver of profitability for the Varna power plant is available power from cold reserve (approximately 60% of the Bulgarian power reserve) and sales of CO₂ emission allowances allocated for free.

In the year ended December 31, 2011, the Varna power plant consumed a total of 1.3 million tons of black coal and emitted 3.2 million tons of CO₂ emissions. For more information on purchases of coal in Bulgaria, please see “*Fuel—Coal.*”

In the year ended December 31, 2011, the Varna power plant also generated and supplied a small amount of heat (5 TJ) to sites in its vicinity.

Hydroelectric power generation

Romania. We own and operate four hydroelectric power plants at the Resita Site in Romania with total installed capacity of 18 MW. In the year ended December 31, 2011, these hydroelectric power plants generated 21 GWh of electricity.

Turkey. We have a joint venture interest in five small hydroelectric power plants located in Turkey with total installed capacity of 281.7 MW as of December 31, 2011. Our interest is not fully consolidated and therefore is not included in the calculations of our total installed capacity and our total electricity generated.

Wind power generation

Romania. We own and operate one wind power plant in Fântânele, Romania. The Fântânele power plant generated 620 GWh of electricity in the year ended December 31, 2011, representing approximately 16.8% of our total electricity generated in South East Europe and 0.9% of our total electricity generated in the year ended December 31, 2011. As of December 31, 2011, the 120 wind turbines of the Fântânele power plant had a total installed capacity of 300 MW and accounted for 2.0% of our total installed capacity.

Our total installed wind power generation capacity has significantly increased following the completion of part of the construction of the 600 MW Fântânele and Cogeaalac wind power projects in Romania. The Fântânele and Cogeaalac project will become operational in stages with the first stage comprising 347.5 MW and the second stage comprising 252.5 MW. During 2011, we built 12 additional turbines in Fântânele as well as 13 turbines in Cogeaalac and these new turbines will be included in our installed capacity for the first time in 2012. By the end of 2011, 132 turbines from the first phase of the project were built and connected to the transmission system in Romania. We currently expect the second stage of the project in Cogeaalac to be completed by the end of 2012. As of December 31, 2011, our total investment in the Fântânele and Cogeaalac wind power projects is estimated at €1.1 billion.

Green certificates are awarded to the Fântânele wind power plant as part of the Romanian support scheme for renewables. The price range for green certificates is set by law at €27-55 per green certificate. Under current legislation, two green certificates should be received for each MWh of electricity generated until 2017, reducing to one green certificate per MWh of electricity generated thereafter.

Turkey. We also have an interest in the Ayyildiz RES wind power plant located in Turkey with total installed capacity of 15 MW as of December 31, 2011. Our interest in this joint venture arrangement is not fully consolidated and therefore is not included in the calculations of our total installed capacity and our total electricity generated.

Gas-fired power generation

Turkey. Pursuant to joint venture arrangements with the AKKÖK Group, we have interests in three gas-fired power plants in Turkey, with a total installed capacity of 357.2 MW as of December 31, 2011. Our interests in these joint venture arrangements are not fully consolidated and therefore are not included in the calculations of our total electricity generated and our total installed capacity.

In 2011, we started building an additional gas-fired power plant in Turkey, the Hatay (Egemer) CCGT power plant, as part of our joint venture with the AKKÖK Group. The Hatay CCGT power plant is expected to have a total installed capacity of 800-900 MW and a service life of 30 years. We currently expect this gas-fired power plant to be completed during 2014. Our interest in this joint venture arrangement will not be consolidated and therefore will not be included in the calculations of our total electricity generated and our total installed capacity.

Distribution and Sale of Electricity

Overview

Distribution of electricity

In the Czech Republic, we distributed electricity to more than 3.5 million connection points covering an area of approximately 52.7 thousand square kilometers as of December 31, 2011, making us the largest of the three regional distributors of electricity in the country. In addition, we are one of the largest of eight regional distribution companies in Romania and we have majority interests in the principal distribution company in Albania and Bulgaria. In the year ended December 31, 2011, we distributed a total of 53,628 GWh of electricity to end-consumers, of which 60.8% was distributed to end consumers in the Czech Republic, 17.1% was distributed to end-consumers in Bulgaria, 13.7% was distributed to end-consumers in Romania and 8.4% was distributed to end-consumers in Albania.

The table below sets forth certain information regarding the volume of electricity distributed by us (including grid losses) in each of our principal markets in the year ended December 31, 2011.

	For the year ended December 31, 2011					
	Distributed to end-consumers		Distributed to others ⁽¹⁾		Grid losses	
	(GWh)	(%)	(GWh)	(%)	(Gwh)	(%)
Central Europe:						
Czech Republic.....	32,613	60.8	6,886	75.8	2,549	34.8
South East Europe:						
Albania.....	4,487	8.4	--	--	2,006	27.4
Bulgaria.....	9,193	17.1	3	0.0	1,429	19.5
Romania.....	7,335	13.7	2,193	24.2	1,337	18.3
South East Europe total.....	21,015	39.2	2,196	24.2	4,772	65.2
Total.....	53,628	100	9,082	100	7,321	100

⁽¹⁾ Electricity distributed to others mainly includes electricity distributed to our distribution centers, specifically our power plants for consumption by us.

As of December 31, 2011, we owned and operated 344,933 kilometres of high-, medium- and low-voltage electricity distribution lines, 46% of which were in the Czech Republic. Our distribution grid losses were 7,321 GWh of electricity in the year ended December 31, 2011, representing a decrease of 53 GWh, or 0.7%, from 7,374 GWh in the year ended December 31, 2010.

Sale of electricity

Our sales business sells electricity (procured by our trading business from our generation business and the wholesale market) to end-consumers in the Czech Republic, and, to a lesser extent, to end-consumers in Romania, Bulgaria and Albania. We are the largest of more than 40 suppliers of electricity currently operating in the Czech Republic in terms of volume of electricity sold to end-consumers. In the year ended December 31, 2011, we sold 42,846 GWh of electricity to end-consumers, of which 21,969 GWh was sold to end-consumers in the Czech Republic (45.9% to industrial (high-voltage) customers, 16.3% to commercial (medium- and low-voltage) customers and 37.8% to household (low-voltage) customers).

The table below sets forth the volume of electricity sold by type of end-consumer in each of our principal markets in the year ended December 31, 2011.

For the year ended December 31, 2011								
	Household		Commercial		Industrial		Total	
	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Central Europe:								
Czech Republic.....	8,305	49.5	3,579	42.8	10,085	57.0	21,969	51.3
Hungary.....	--	--	--	--	1,382	7.8	1,382	3.2
Poland.....	--	--	--	--	95	0.5	95	0.2
Slovakia.....	--	--	9	0.1	1,041	5.9	1,050	2.5
Central Europe total.....	8,305	49.5	3,588	42.9	12,603	71.2	24,496	57.2
South East Europe:								
Albania.....	2,646	15.8	999	12.0	1,386	7.8	5,031	11.7
Bulgaria.....	4,287	25.5	2,837	33.9	2,900	16.4	10,024	23.4
Romania.....	1,555	9.2	935	11.2	805	4.6	3,295	7.7
South East Europe total.....	8,488	50.5	4,771	57.1	5,091	28.8	18,350	42.8
Total.....	16,793	100	8,359	100	17,694	100	42,846	100

In the year ended December 31, 2011, approximately 44% of the total electricity sold to end-consumers was sold on a forward basis of one to three years, primarily to industrial customers.

Central Europe

Distribution of electricity

We distribute electricity in nine of the 14 regions of the Czech Republic, namely Plzeň, Karlovy Vary, Ústí nad Labem, Central Bohemia, Liberec, Hradec Králové, Pardubice, Olomouc, and Moravia-Silesia. In the year ended December 31, 2011, we distributed 32,613 GWh of electricity to end-consumers making us the largest of the three distribution companies in the Czech Republic, with a market share of 62.1% of electricity distributed to end-consumers. We do not distribute electricity to end-consumers in any other country in Central Europe.

As of December 31, 2011, we owned and operated 158,267 kilometres of distribution lines in the Czech Republic, of which 6% were high-voltage, 32% were medium-voltage and 62% were low-voltage. Our distribution grid losses were 2,549 GWh of electricity in the year ended December 31, 2011, representing a decrease of 68.3 GWh, or 2.6%, from 2,617 GWh in the year ended December 31, 2010. We mainly cover losses in our distribution grid by purchasing electricity generated from renewable sources of energy.

Our distribution business in the Czech Republic is regulated by the ERO. A license is necessary in order to distribute electricity, which is issued by the ERO for a defined period, which is specified in the license. Our license for the distribution of electricity in the Czech Republic was issued on October 1, 2010 and expires on October 1, 2035. Prices for distribution services are also regulated by the ERO.

Sale of electricity

In the year ended December 31, 2011, we sold 21,969 GWh of electricity to end-consumers in the Czech Republic, representing a decrease of 12.6% compared to the year ended December 31, 2010. This decrease was primarily due to the increased competition for business from end-consumers in 2011. Our market share of sales to end-consumers in the Czech Republic in the year ended December 31, 2011 was approximately 37.9%, compared to 42.5% in 2010, according to data published by the ERO. In the year ended December 31, 2011, we sold 10,085 GWh of electricity to industrial customers, 3,579 GWh of electricity to commercial customers, and we sold the remaining 8,305 GWh of electricity to household customers, representing 23.5%, 8.4% and 19.4%, respectively, of our total sales of electricity to end-consumers.

In terms of the end-consumer market for electricity in the Czech Republic, 2010 was characterized by the aftermath of the economic crisis and the beginning of a recovery in demand, in the form of moderate growth in end-consumption. Competition in the end-consumer market was strong in 2010 and customers had the choice of at least six offers from various electricity dealers. Pressure from smaller, alternative suppliers continued in 2010, while established electricity suppliers provided consumers with high-quality care and services, relative stability, and an ever-expanding offer of electricity products. However, we believe that we still have the most extensive portfolio in the Czech Republic, consisting of more industrial customers compared to the portfolios of our competitors.

Developments in the Czech market also correlate closely with the situation in European markets in the same period following market liberalization. In previous years, the liberalization of the electricity market did not have a significant effect on the commercial and household segment. However, in 2010, market players followed in the footsteps of companies in other European markets and began to compete intensely for these customers as well. A key role was played by smaller suppliers who made increased use of door-to-door sales. As a result, during 2010, the number of customers changing their electricity supplier increased to tens of thousands per month. The high number of people changing suppliers was also as a result of Rheinisch-Westfälisches Elektrizitätswerk (“RWE”), one of the largest German energy groups with operations in the Czech Republic, expanding its services portfolio to include electricity. For this reason, we focused our attention on retention activities in the small commercial and household segment with the objective of minimizing the number of customers leaving us to join our competitors.

In 2011, competition for end-consumers in the Czech Republic continued to be strong and there was a record number of supplier changes. Small suppliers continued to take advantage of door-to-door sales and offered low prices to household customers. During 2011, RWE became the strongest and most active competitor of our sales business in the Czech Republic. As a result, despite our retention activities, our market share in the household and commercial segment decreased in 2011.

The sale of electricity in the Czech Republic is regulated by the Czech Energy Act and the ERO. A license is necessary in order to sell electricity, which is issued by the ERO for a maximum of five years. Our license for the sale of electricity in the Czech Republic was issued on September 2, 2010 and expires on September 1, 2015. The price of electricity comprises two amounts: the regulated amount, to cover transmission, distribution and system services, and the unregulated amount, which is for the sale of the electricity itself.

South East Europe

Distribution of electricity

Romania. In the year ended December 31, 2011, we distributed 7,335 GWh of electricity to end-consumers making us one of the largest of eight regional distribution companies in Romania. As of December 31, 2011, we distributed electricity to approximately 1.4 million connection points in Romania and had a market share of approximately 16% according to data published by ANRE. Our distribution grid losses in Romania were 1,337 GWh of electricity in the year ended December 31, 2011, representing a decrease of 39 GWh, or 2.8%, from 1,376 GWh in the year ended December 31, 2010.

Our distribution business in Romania is regulated by ANRE. A license is necessary in order to distribute electricity, which is issued by ANRE for a maximum term of 25 years. Our license for the distribution of electricity in Romania was issued on April 29, 2002 and expires on April 28, 2027. Prices for distribution services are also regulated by ANRE and are established annually.

Bulgaria. We own a majority interest in the principal distribution company in Bulgaria. In the year ended December 31, 2011 we distributed 9,193 GWh of electricity to end-consumers. As of December 31, 2011, we distributed electricity to approximately 2.0 million connection points in Bulgaria and had a market share of approximately 40% according to data published by the State Commission for Energy and Water Regulation. Our distribution grid losses in Bulgaria were 1,429 GWh of electricity in the year ended December 31, 2011, representing a decrease of 41 GWh, or 2.8%, from 1,470 GWh in the year ended December 31, 2010.

Our distribution business in Bulgaria is regulated by the State Commission for Energy and Water Regulation. A license is necessary in order to distribute electricity, which is issued by the State Commission for Energy and Water Regulation for a maximum term of 35 years. Our license for the distribution of electricity in Bulgaria was issued on August 13, 2004 and expires on August 13, 2039. Prices for distribution services are also regulated by the State Commission for Energy and Water Regulation.

Albania. We own a majority interest in the sole distribution company in Albania. In the year ended December 31, 2011, we distributed 4,487 GWh of electricity to end-consumers. As of December 31, 2011, we distributed electricity to approximately 1.1 million connection points in Albania and had a market share of 100% according to data published by the Albanian Electricity Regulation Authority. Our distribution grid losses in Albania were 2,006 GWh of electricity in the year ended December 31, 2011, representing an increase of 95 GWh, or 5.0%, from 1,911 GWh in the year ended December 31, 2010. The replacement of obsolete power lines with insulated cables and the installation of new electricity meters at all connection points helped us to reduce losses and increase the volume of electricity consumption invoiced in 2011 as compared to 2010.

Our distribution business in Albania is regulated by the Albanian Electricity Regulation Authority. A license is necessary in order to distribute electricity, which is issued by the Albanian Electricity Regulation Authority for a maximum term of 30 years. Our license for the distribution of electricity in Albania was issued in June 2008 and expires in June 2038. Prices for distribution services are also regulated by the Albanian Electricity Regulation Authority.

Turkey. In the year ended December 31, 2011, we distributed 8,256 GWh of electricity to end-consumers in Turkey through Sakarya Elektrik Dagitim A.S., an unconsolidated entity owned under a joint venture arrangement, representing an increase of 470 GWh, or 6.0%, from 7,786 GWh in the year ended December 31, 2010. Our Turkish distribution business is operated under a joint venture arrangement which is not fully consolidated and therefore is not included in the calculations of our total electricity distributed or our total electricity distributed to end-consumers.

Sale of electricity

Romania. In the year ended December 31, 2011, we sold 3,295 GWh of electricity to end-consumers in Romania, representing an increase of 1.4% compared to the year ended December 31, 2010. In the year ended December 31, 2011, we sold 805 GWh of electricity to industrial customers, 935 GWh of electricity to commercial customers and we sold the remaining 1,555 GWh of electricity to household customers, representing 1.9%, 2.2% and 3.6%, respectively, of our total sales of electricity to end-consumers. Our market share of sales to end-consumers in Romania in the year ended December 31, 2011 was approximately 8% according to data published by ANRE.

The sale of electricity in Romania is regulated by ANRE. A license is necessary in order to sell electricity in Romania, which is issued by the Romanian Energy Regulatory Authority for a maximum term of ten years. Our license for the sale of electricity in Romania was issued on March 15, 2007 and expires on March 14, 2017. The price of electricity on the unregulated market in Romania is unregulated and freely negotiable between market participants, except for the price of electricity supplied by default suppliers and last resort suppliers.

Bulgaria. In the year ended December 31, 2011, we sold 10,024 GWh of electricity to end-consumers in Bulgaria, representing an increase of 3.3% compared to the year ended December 31, 2010, primarily due to an increase in consumption by commercial customers. In the year ended December 31, 2011, we sold 2,900 GWh of electricity to industrial customers, 2,837 GWh of electricity to commercial customers and we sold the remaining 4,287 GWh of electricity to household customers, representing 6.8%, 6.6% and 10.0%, respectively, of our total sales to end-consumers. Our market share of sales to end-consumers in Bulgaria in the year ended December 31, 2011 was approximately 40% according to data published by the State Commission for Energy and Water Regulation.

The sale of electricity in Bulgaria is regulated by the State Commission for Energy and Water Regulation. A license is necessary in order to sell electricity in Bulgaria, which is issued by the State Commission for Energy and Water Regulation. Our license for the sale of electricity in Bulgaria was issued on November 29, 2006 and expires on August 13, 2039. The price of electricity in Bulgaria's regulated market is regulated by the State Commission for Energy and Water Regulation.

Albania. In the year ended December 31, 2011, we sold 5,031 GWh of electricity to end-consumers in Albania, representing an increase of 9.2% compared to the year ended December 31, 2010. This increase was primarily due to the installation of new electricity meters at all connection points which helped to increase the volume of electricity consumption invoiced. In the year ended December 31, 2011, we sold 1,386 GWh of electricity to industrial customers, 999 GWh of electricity to commercial customers and we sold the remaining 2,646 GWh of electricity to household customers, representing 3.2%, 2.3% and 6.2%, respectively, of our total sales to end-consumers. As the sole distributor and supplier of electricity in Albania, our market share of sales to end-consumers was 100% in the year ended December 31, 2011.

The difference between the amount of electricity distributed to end-consumers (4,487 GWh) and the amount of electricity sold to end-consumers (5,031 GWh) in Albania is due to the fact that electricity is sold to certain customers that are connected outside of our distribution grid. We expect to see steady growth at a moderate rate in Albania in terms of the amount of electricity distributed and the amount of electricity sold to end-consumers based on our position in the market and the outlook for continued growth in the Albanian economy. At the same time, we aim to continue to improve and make technical modifications to our invoicing system. As a result, the reported volumes of electricity distributed and sold may offset one another in year-on-year terms, despite the growth trend in electricity consumption.

The sale of electricity in Albania is regulated by the Albanian Electricity Regulation Authority. A license is necessary in order to sell electricity in Albania, which is issued by the Albanian Electricity Regulation Authority. Our license for the sale of electricity in Albania was issued in June 2008 and expires in June 2013.

Turkey. In Turkey, we sold 6,106 GWh of electricity to end-consumers in the year ended December 31, 2011 through Akenerji Elektrik Üretim A. S. and Akenerji Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A. S., unconsolidated entities operated under a joint venture arrangement. Our Turkish sales business is operated under a joint venture arrangement which is not fully consolidated and therefore our sales of electricity to end-consumers in Turkey are not included in the calculations of our total electricity sold to end-consumers or our total electricity sold by type of end-consumer.

Trading

Overview

Our trading activities encompass selling electricity generated by us in the wholesale markets and to our sales business; procuring in the wholesale markets electricity sold by our sales business to end-consumers; and trading electricity, E.U. emission allowances (“EUAs”), CER credits, natural gas and black coal in the wholesale markets for our own account.

The following table sets forth a breakdown of the volume of electricity purchased and sold by us in the wholesale markets (including our net electricity generated and total sales to end-consumers) for the years ended December 31, 2009, 2010 and 2011.

	For the year ended December 31,			Change in 2011 compared to 2010
	2009	2010	2011	
	(GWh)			(%)
Wholesale trading in electricity:				
Electricity purchased in the wholesale market.....	120,578	150,728	208,023	38.1
Electricity sold in the wholesale market.....	(128,286)	(160,712)	(220,388)	37.1
Balance of wholesale trading in electricity.....	(7,708)	(9,984)	(12,365)	23.8
Electricity generated and sold to end-consumers:				
Total electricity generated by us (gross).....	65,344	68,433	69,209	1.1
Own consumption of electricity generated.....	(6,193)	(6,481)	(6,677)	3.0
Total electricity generated by us (net).....	59,151	61,952	62,532	0.9
Distribution losses.....	(7,625)	(7,374)	(7,321)	(0.7)
Electricity sold by us to end-consumers.....	(43,818)	(44,594)	(42,846)	(3.9)
Balance between electricity generated by us and sold to our end-consumers.....	7,708	9,984	12,365	23.8

In the year ended December 31, 2011, we procured a total of 263,234 GWh of electricity (208,023 GWh of electricity in the wholesale market and 55,211 GWh of our electricity generated (net of own consumption and distribution losses)) and we sold a total of 263,234 GWh of electricity (220,388 GWh of electricity in the wholesale market and 42,846 GWh of electricity to end-consumers). In the year ended December 31, 2010, we purchased a total of 205,306 GWh of electricity (150,728 GWh of electricity in the wholesale market and 54,578 GWh of our electricity generated (net of own consumption and distribution losses)) and we sold a total of 205,306 GWh of electricity (160,712 GWh of electricity in the wholesale market and 44,594 GWh of electricity sold to end-consumers). The substantial increase in the volume of electricity purchased and sold on the wholesale electricity markets was due to an increase in the volume of electricity traded for our own account.

We carry out proprietary trading that consists of taking on energy commodity (gas, coal, electricity and emissions) exposures in European markets by means of financial derivative instruments and contracts for physical delivery exchanged on the regulated and over-the-counter markets, seeking to exploit arbitrage opportunities and speculating on price developments. By trading for our own account, we aim to generate additional profits, procure electricity for end-consumers, and make up for electricity shortfalls in the event of outages in one or more of our power plants. We carry out these activities within a formal governance framework with strict risk limits set by our Risk Management Committee, and compliance therewith is verified daily by our Risk Management Department which is independent from the groups carrying out our trading operations. We have specific controls in place in terms of quantitative risk limits (value at risk and other risk limits with inclusion of stop-loss). Credit risk management for trading operations is based on strict evaluation, assignment and monitoring procedures that we believe are in accordance with international best practices.

The risk limit set by the Risk Management Committee for our proprietary trading activities is CZK 1.2 billion. The potential open positions over a longer time period are limited by a daily value at risk limit of CZK 163 million. These relatively low limits and the strict rules set by our Risk Management Committee lead to a high number of

transactions with a high aggregated volume on an annual basis but generally with a relatively low margin. The annual volume of electricity traded for own account can vary substantially depending on market conditions in the respective year, namely liquidity, price volatility and market trends.

We also trade smaller volumes of natural gas in the form of futures products on the London Intercontinental Exchange (“ICE”). Trading in natural gas futures serves as preparation for operating our planned gas-fired power plants in the future. Our trading also takes place on the European Energy Exchange (“EEX”) in Leipzig, Germany, the Green Exchange (Environmental Markets) (“GreenX”) in New York, the Hungarian Power Exchange (“HUPX”), European Power Exchange (Spot Markets) (“EPEX SPOT”) in Paris, the BlueNext Spot (Environmental Trading Exchange) (“BlueNext Spot”) in Paris, the Towarowa Gielda Energii (“TGE”) in Poland, the PXE in Prague, OPCOM in Romania, the Hellenic Transmission System Operator (“HTSO”) in Greece and OTE in Prague.

Outside of the Czech Republic, we also trade directly in Austria, Germany, France, Poland, Hungary, Romania, Kosovo, Greece and Montenegro where a license is not required to trade in electricity or where the eligibility for such a license is not limited to entities established under the laws of the same country. In Slovakia, Bulgaria, Serbia, Bosnia and Herzegovina and Albania we operate through our subsidiaries that hold the necessary local licenses.

Central Europe

Czech Republic. On the Czech wholesale market, we sell electricity for contractually agreed upon prices. Since 2002, the wholesale prices have been unregulated. Since the launch of the PXE on July 17, 2007, the majority of our electricity generated for wholesale distribution is sold on the PXE and on the electronic OTC broker platforms. Due to cross-border integration and fully liberalized power prices, the primary price-setting market in our region is Germany and its exchange in Leipzig and there has historically been a strong correlation between power prices in the Czech and German markets. Prices in the wholesale market are set on the basis of supply and demand, through trading on the PXE and bilateral contracts. Instruments that can be traded on the Czech Republic’s exchange range from one-year contracts down to one-day contracts. Anonymous trading on a daily basis can also be realized through the organized markets of OTE. In addition to one-day trades, the organized markets of OTE also enable intra-day trading. Unlike the PXE, the OTE requires physical delivery.

In the Czech Republic, according to the ERO, the global economic recession led to a decline in domestic electricity consumption only in 2009 (of 5.9%). As of January 2010, according to the ERO, electricity consumption showed year-on-year growth of 2.4% (after adjustment for weather). We continued to sell the electricity that we generated almost exclusively in the Czech electricity market, either wholesale through the PXE, or through electronic broker market platforms, or to end-consumers. We continued to sell electricity on a forward basis, specifically, three years in advance, with the aim of leveraging market demand for these products to partially hedge sales against possible price volatility. This strategy helped us to maintain our results of operations even at a time of substantial declines in wholesale electricity prices.

As of December 31, 2011, we had entered into five long-term contracts for physical power supply until 2020 at a price which is structured and linked to EUA market prices. This price structure reflects the generation costs of our brown coal-fired power plants and includes a positive margin. As of December 31, 2011, we have entered into 200 MW of baseload power supply by means of such long-term contracts and we intend to sell further production of our brown coal-fired power plants under similar long-term contracts.

Poland. Electricity generated in Poland by our Skawina power plant and Elcho power plant is sold in Poland’s wholesale electricity market, both on the TGE power exchange and on the OTC broker platforms. In relation to the Elcho power plant, we took advantage of a compensation scheme, defined by Polish law, for entities that voluntarily agreed prematurely to terminate long-term electricity sale contracts.

South East Europe

Bulgaria. We sell electricity generated by the Varna power plant mainly to the regulated wholesale market in Bulgaria. We also procure electricity in the regulated and unregulated market to be sold by our sales business to household and eligible industrial end-consumers.

Romania. We sell electricity generated by the Fântânele wind farm on the unregulated wholesale market in Romania. We also procure electricity in the wholesale market to be sold by our sales business to household customers for regulated prices and to eligible end-consumers for unregulated prices. In Romania, we also trade green certificates, which are awarded to the Fântânele wind farm as part of the Romanian support scheme for renewables.

Albania. In Albania, we procure electricity in the regulated as well as the unregulated wholesale market to be sold by our sales business to end-consumers.

Other Businesses

Coal Mining

We mine, process and sell brown coal and its by-products in the Czech Republic. In the year ended December 31, 2011, we produced 25.1 million tons of brown coal, making us the largest producer of brown coal in the Czech Republic accounting for approximately 53.7% of the total volume of brown coal produced in the Czech Republic in 2011.

The Bílina Mines, operating in the Teplice-Bílina area in the North Bohemian Basin, mine coal that is characterized by a high heat content and a low proportion of hazardous substances. In the year ended December 31, 2011, the Bílina Mines extracted 10.4 million tons of brown coal. The mining activity permit for the Bílina Mine was issued on the basis of the Opening, Preparation, and Extraction Plan for the Years 2010-2030 by the District Mining Office in Most on November 8, 2010 and entered into legal force on January 26, 2011. Our mining operations in the Bílina Mines are permitted until 2030.

The Nástup Tušimice Mines operates in the westernmost portion of the Ústí Region of the Czech Republic in the Tušimice mining area in the North Bohemian Basin. In the year ended December 31, 2011, the Nástup Tušimice Mines extracted 14.9 million tons of brown coal. In the year ended December 31, 2011, all coal extracted from the Nástup Tušimice Mines went to the local power plants, Tušimice and Pruněřov, the Chvaletice and Mělník II power plants or to United Energy Coal Trading (Komořany heat plant). Our mining operations in the Libouš II-North mine within the Tušimice mining area are permitted until 2015.

The table below sets forth the amount of coal produced by our mines and the amount of which was delivered to our coal-fired power plants in the years ended December 31, 2009, 2010 and 2011.

	For the year ended December 31,					
	2009		2010		2011	
	Produced	Delivered for own consumption	Produced	Delivered for own consumption	Produced	Delivered for own consumption
	(in million tons)					
Bílina Mines.....	9.2	3.6	9.3	4.1	10.1	4.3
Nástup Tušimice Mines.....	12.8	12.8	12.5	12.2	15.0	14.5
Total.....	22.0	16.4	21.8	16.3	25.1	18.8

The table below sets forth information regarding the exploitable reserves of our mines as of December 31, 2009, 2010 and 2011.

Exploitable reserves	As of December 31,		
	2009	2010	2011
	(in million tons)		
Bílina Mines.....	183.7	174.5	164.4
Nástup Tušimice Mines.....	264.9	252.1	240.2
Total.....	448.6	426.6	404.6

In the year ended December 31, 2011, our plants consumed 18.8 million tons of our brown coal output, or 74.9% of our total brown coal output, compared to 16.3 million tons of our brown coal output, or 74.8% of our total coal output for the year ended December 31, 2010. In the year ended December 31, 2011, we sold a total of 6.3 million tons of brown coal to third parties, which generated total revenues of CZK 4.5 billion. In the year ended December 31, 2010, we sold a total of 5.4 million tons of brown coal to third parties, which generated total revenues of CZK 4.4 billion.

We carry out exploration works at the mines on an annual basis. Our exploration activities are primarily carried out in order to assess the characteristics of our reserves and the hydrogeological and geotechnical conditions as well as in order to optimize extraction. However, based on our historic exploration of current deposits, we do not expect any material adjustments to the exploitable reserves of these mines (within their current limits).

We operate open pit coal mines and are responsible for decommissioning and reclamation of the mines (the process of restoring land that has been mined to a natural or economically useable purpose) as well as for damage

caused by the operations of the mines. To cover such costs we are required by Czech law to contribute to a special escrow account. These restricted funds are shown in our balance sheet under restricted financial assets and as of December 31, 2011, restricted funds related to mining reclamation and damages totaled CZK 3,023.5 million. We have also established provisions to recognize our estimated liabilities for decommissioning and reclamation of mines and damage cause by the operations of our mines. As of December 31, 2011, such provisions amounted to CZK 6,473 million compared to CZK 6,648 million as of December 31, 2010. In the year ended December 31, 2011, reclamation expenses totaled CZK 459 million, of which CZK 336.2 million was accounted for against the respective provisions and CZK 173.3 million was drawn from restricted funds (the escrow account) to cover reclamation costs at the Bilina Mines.

We also hold a 50% interest (which is not fully consolidated) in Mittledeutsche Braunkohlenbergbau GmbH, through a joint venture arrangement with Energetický a průmyslový holding, a. s. Mittledeutsche Braunkohlenbergbau GmbH operates two brown coal mines in Germany (Sachsen and Sachsen-Anhalt) and in the year ended December 31, 2011 extracted 18.9 million tons of coal. In 2011, we signed an agreement to dispose of our interest in Mittledeutsche Braunkohlenbergbau GmbH to Energetický a průmyslový holding, a. s. We expect to complete the disposal of our interest during the second quarter of 2012.

Gas Supply to End-Consumers

We started to supply gas to industrial and commercial customers in the Czech Republic in August 2009 and gas to our household customers in the Czech Republic in June 2010. We purchase all of the gas that we sell to our customers on the wholesale market in the Czech Republic and abroad. In the year ended December 31, 2011, we supplied 3.4 TWh of gas to customers in the Czech Republic, which represents an increase of 72.4% compared to 2.0 TWh in the year ended December 31, 2010. In the year ended December 31, 2011, our revenues from the supply of gas were CZK 2,243 million, representing an increase of CZK 1,148 million, or 104.8%, from CZK 1,095 million in the year ended December 31, 2010.

Growth in the gas market in the Czech Republic is evidenced by the year-on-year increase in the number of supplier changes. In the Czech Republic, according to the ERO, the number of supplier changes in the year ended December 31, 2011 was 361,941, representing a significant increase from 84,392 supplier changes in the year ended December 31, 2010, and 33,327 supplier changes in the year ended December 31, 2009.

We started to supply gas to end-consumers in Slovakia in 2011. In the year ended December 31, 2011, we supplied 0.5 TWh of gas to wholesale and retail customers in Slovakia.

Provision of Ancillary Services

Ancillary services are generally defined as services provided by natural or legal persons for maintaining the operation of power systems and the quality and security of electricity supply. Ancillary services allow imbalances between electricity consumption and generation to be corrected by means of demand- or supply-side changes. Users of the power system who comply with the relevant technical and commercial terms and conditions set out by the transmission system operator generally have the right, but are not obliged, to offer ancillary services at market prices.

Ancillary services are purchased by transmission grid operators for stabilizing the grid in auctions for a wide range of products to be provided over various lengths of time. The Czech market is one of the most competitive in Europe for the provision of ancillary services, with independent producers offering approximately half of the necessary capacity of ancillary services.

In 2011, the Skawina power plant and, to a lesser extent, the Elcho power plant, supplied ancillary services to the operator of Poland's transmission grid operator and the Varna power plant supplied ancillary services to Bulgaria's transmission grid operator.

Our revenues from the provision of ancillary services to transmission grid operators reached CZK 5,032 million in the year ended December 31, 2011, compared to CZK 4,623 million in the year ended December 31, 2010 and CZK 4,702 million in the year ended December 31, 2009.

Fuel

Coal

Approximately 70% of the total installed capacity of our coal-fired power plants burn brown coal. Brown coal is supplied by three companies in the Czech Republic, the main supplier being Severočeské Doly a.s., our wholly owned subsidiary. Black coal is used in the Dětmarovice power plant and the Ostrava-Vítkovice power plant and in

part of the Poříčí power plant in the Czech Republic; in the Elcho power plant and the Skawina power plant in Poland and in the Varna power plant in Bulgaria.

The table below sets forth information relating to the total amount of coal consumed by our coal-fired power plants and the amount of which was purchased from third parties for the years ended December 31, 2009, 2010 and 2011.

	For the year ended December 31,					
	2009		2010		2011	
	Total consumed	Purchased from others	Total consumed	Purchased from others	Total consumed	Purchased from others
	(in million tons)					
Brown coal						
Czech Republic.....	25.9	9.7	26.7	10.3	27.7	9.9
Black coal						
Czech Republic.....	1.0	1.1	1.5	1.4	1.4	1.4
Poland.....	1.2	1.2	1.1	1.0	1.1	1.1
Bulgaria.....	1.0	1.0	1.3	1.1	1.3	1.4
Total black coal.....	3.2	3.3	3.9	3.5	3.8	3.9
Total	29.1	13.0	30.6	13.8	31.5	13.8

In the year ended December 31, 2011, we consumed 27.7 million tons of brown coal, of which 18.8 million tons, or 67.9%, were produced by our own mines (see “*Other Businesses—Coal Mining*”). According to data published by the ERO, we are the largest purchaser of brown coal in the Czech Republic. In the year ended December 31, 2011, approximately 28.7 million tons of brown coal were delivered to our coal-fired power plants in the Czech Republic, approximately 65% of which were supplied by our own mines, with the remainder purchased from Czech Coal a.s. (approximately 30%) and Sokolovská uhelná, právní nástupce, a.s. (approximately 5%). We currently purchase brown coal from Czech Coal a.s. under a medium-term contract that expires on December 31, 2012 and from Sokolovská uhelná, právní nástupce, a.s., under a long-term agreement that expires in 2027. We are currently in negotiations with Czech Coal a.s. for the supply of brown coal after the expiry of our agreement with Czech Coal a.s. Please see “*Risk Factors—Risks Related to Our Business and Operations—Risks associated with the deliveries of coal from Czech Coal a.s.*” “*—Legal Proceedings—Litigation with Czech Coal*” and “*—Legal Proceedings—Litigation with Sokolovská uhelná, právní nástupce, a.s.*” The black coal used in our black coal-fired power plants is purchased primarily from OKD, a.s., Jastrzebska Spółka Weglowa, Weglokoks and Carbounion Bohemia spol. s r.o. on the basis of annual contracts.

Most of our coal-fired power plants are located in the vicinity of the North Bohemian brown coal basin in the Czech Republic. Conveyor belts from nearby mines supply brown coal directly to two power plants, Ledvice II and III and Tušimice II. For other coal-fired power plants, rail is primarily used to transport coal supplies over relatively short distances. Taking into account geographical restrictions, current mining limits and current estimates of our coal-fired generation needs, we currently estimate that there are sufficient brown coal reserves in the Czech Republic for the operation of our coal-fired power plants until 2035 for our retrofitted power plants and until 2050 for our newly built coal-fired power plants.

The Elcho power plant and Skawina power plant in Poland are located in Upper Silesia and Lesser Poland, respectively, and are supplied with black coal from mines in the region. The principal supplier of coal to the Elcho power plant in 2011 was Kompania Weglowa SA pursuant to a long-term contract. The Skawina power plant sources coal from multiple suppliers under one-year contracts and purchase orders, including from, among others, Kompania Weglowa SA and Katowicky Holding Weglowy SA.

In Bulgaria, we import black coal (anthracite) for the Varna power plant from Russia and Ukraine by sea under annual supply contracts concluded following a tender process. In 2011, our suppliers were Bulmineral EOOD and Euroquest Energy Ltd.

Nuclear Fuel

We procure nuclear fuel materials (uranium) and services (conversion and enrichment) pursuant to medium-and long-term contractual arrangements. Our procurement activities are supervised by the ESA, which endorses and co-signs, if required by the Treaty Establishing the European Atomic Energy Community (the “*Euratom Treaty*”), all new supply contracts, which must be in full compliance with the ESA supply policy and related limitations.

Historically, the majority of our uranium needs have been met by domestic sources in the Czech Republic. However, uranium production in the Czech Republic has been continuously decreasing over the past decade. Improved pricing in the uranium market after 2004 enabled DIAMO s.p., a Czech uranium producer, to extend Czech uranium production. In 2008, we concluded a new supply contract with DIAMO s.p. which secured delivery of up to one third of our total annual needs of uranium up until 2014. The remainder of our uranium needs is met by market purchases of uranium on the basis of long-term contracts. To the extent authorized under the ESA supply policy, we also purchase uranium as a package (or “bundle”) together with conversion and enrichment services under existing long-term fuel fabrication contracts with the Russian company JSC TVEL (“*TVEL*”).

In respect of the needs of the Dukovany nuclear power plant, the ESA limitation on the amount of enrichment services that can be purchased together with fabrication as a package from TVEL does not apply as the existing long-term fuel contract was grandfathered upon the accession of the Czech Republic to the European Union. Between 2008 and 2011, we concluded new long-term contracts for uranium and conversion and enrichment services to meet the needs of the Temelín nuclear power plant, which expire partly in 2014 and partly in 2020 (2025 if certain options are exercised). We also maintain strategic and working inventories of nuclear material in different stages of processing (uranium concentrate, natural and enriched uranium hexafluoride).

Our long-term nuclear fuel supplier, TVEL, produces nuclear fuel for our nuclear power plants at its facilities in Elektrostal, Russia. The long-term fuel supply contract for the Temelín nuclear power plant, which expires in 2020, was awarded to TVEL in May 2006 as a result of a tender opened in April 2004, in order to replace a previous fuel contract with The Westinghouse Electric Company LLC which expired in 2010. The last fuel deliveries from The Westinghouse Electricity Company LLC were received for Unit 1 in 2009 and for Unit 2 in 2010. Unit 1 was fully refueled with new TVEL fuel assemblies in 2010 and the refueling of the entire core at Unit 2 followed in 2011. Nuclear fuel fabrication and shipments of nuclear fuel for the Temelín nuclear power plant from TVEL are performed upon our request according to conditions in the fuel supply contract.

Nuclear fuel for the four reactors at the Dukovany nuclear power plant is also provided by TVEL pursuant to a long-term supply contract, which expires in 2018. Deliveries of nuclear fuel designated for transition from the “four-year fuel cycle” to the “five-year fuel cycle” were carried out in previous years. Nuclear fuel design has also been modified in order to accommodate the operation of reactors at an increased power level. In 2008, a license for deployment of a modified advanced second generation fuel was obtained. In the same year, deliveries of this improved version of the second-generation fuel started and it was used at Unit 3 and it has since been regularly loaded into all of the units at the Dukovany nuclear power plant. We maintain a strategic inventory of fabricated fuel at the Dukovany nuclear power plant.

Spent Nuclear Fuel Storage

Interim spent nuclear fuel storage facility

Dukovany nuclear power plant. The first stage of an interim spent nuclear fuel storage facility (“*ISFSF*”) at the Dukovany nuclear power plant, which utilizes transport and storage casks (standard dry storage technology), became operational in December 1995. The capacity of this facility (60 Castor casks) was fully used up in the first half of 2006. In 1997, preparation started on the second stage of the Dukovany ISFSF with a storage capacity of 133 Castor casks. The second storage facility was commissioned in October 2006 and became operational in December 2006. Its capacity is expected to cover the Dukovany nuclear power plant’s operation for a period of 40 years and we therefore expect that the capacity of the Dukovany ISFSF will be sufficient for the planned long-term operation of the Dukovany nuclear power plant.

As of December 31, 2011, spent fuel is stored in advanced Castor 440/84M casks and 18 casks are exploited, representing approximately 14% of the entire storage capacity of the second storage hall.

Temelín nuclear power plant. The plan to build the Temelín ISFSF on the premises of the Temelín nuclear power plant went through a legislative procedure which also involved the neighboring countries of Austria and Germany. During the legislative process, the Ministry of Environment issued a positive EIA. SONS permitted the construction in terms of nuclear safety. A special expert committee of the European Union also assessed the Temelín ISFSF. We were awarded positive opinions in all administrative actions. We received the final building permit in February 2009.

The ISFSF at the Temelín nuclear power plant was put into operation for a one-year trial period in September 2010. In December 2011, we received a license issued by SONS for the common operation, valid until 2021. The storage capacity of the Temelín ISFSF is 1,370 tons of uranium, which represents spent fuel for the 30-year operation of the Temelín nuclear power plant. In the event the useful lifespan of the Temelín nuclear power plant is extended, the capacity of the Temelín ISFSF may be expanded by building additional storage halls.

As of December 31, 2011, there were five CASTOR 1000/19 casks with 95 fuel assemblies in total at the Temelín ISFSF, of which approximately 3% of the entire storage capacity is exploited.

Central interim spent nuclear fuel storage facility

As an alternative, an underground central ISFSF at the Skalka site in Southern Moravia, Czech Republic is currently being considered for the long-term storage of spent fuel from both of our nuclear power plants. We obtained a local zoning permit for this site in March 2001. The locality is permanently observed as a stand-by alternative to the on-site Dukovany ISFSF and Temelín ISFSF.

Biomass

Biomass in the form of wood chip, straw and pellets is mainly combusted in our coal-fired power plants and heat plants in the Czech Republic and Poland. Within our portfolio of renewable sources, biomass is the second most significant element after water power stations. Our main suppliers of biomass in the Czech Republic are Komaxo, s.r.o., Holomáč, s.r.o., Jiří Prágr and Ondřej Šimeček, with whom medium-term contracts are signed. These suppliers are farmers and owners of agricultural land. In Poland, we sign annual contracts with or make monthly orders from a number of local suppliers of biomass.

In the Czech Republic, we burned more than 440,000 tons of biomass in the year ended December 31, 2011, compared to more than 411,000 tons in the year ended December 31, 2010, mostly in the form of co-burning with brown coal, generating more than 428 GWh and 337 GWh of electricity, respectively.

In Poland, we burned more than 212,000 tons of biomass in the year ended December 31, 2011, compared to more than 128,000 tons in the year ended December 31, 2010, mostly in the form of co-burning with hard coal, generating more than 306 GWh and 158 GWh of electricity, respectively.

Property, Plant and Equipment

We own all of our significant generation facilities and other properties and we hold the title to or have the right to use by virtue of leases all of the land underlying our facilities, including our coal mines. Our plant, property and equipment mainly comprise power plants and distribution networks as well as coal mining facilities, administrative buildings and other assets. As of December 31, 2011, we owned buildings with a total net book value of CZK 134.1 billion, plant and equipment with a net book value of CZK 159.3 billion and land with a net book value of CZK 6.0 billion.

As of December 31, 2011, we owned net plant in service pledged as a security for liabilities in the amount of CZK 289 million, representing approximately 0.07% of total net book value of plant in service as of December 31, 2011.

Capital Expenditures

Capital expenditures are necessary to maintain and improve the operations of our facilities and meet regulatory and prudent operating standards. Construction and maintenance costs have increased throughout the power industry over the past several years, and future costs will be highly dependent on the cost of components and availability of contractors that can perform the work necessary to maintain and improve respective facilities. Since January 1, 2009, we have invested approximately CZK 20.7 billion towards improving the efficiency of our current brown coal-fired power plants in the Czech Republic, CZK 29.9 billion towards increasing our renewable generation capacity (particularly a wind farm in Romania and photovoltaic power plants in the Czech Republic), CZK 37.8 billion to improve our distribution networks and CZK 25.4 billion to improve our nuclear energy generation facilities. Our long term investment strategy also includes the construction of two new nuclear units at the Temelín nuclear power plant. This project is currently in the bidding stage, and the expected capital expenditure range is wide. We do not plan to commit to making any significant capital expenditures until the details of the design and all necessary permits are fully in place, which is expected to occur in 2016. We expect to finance the related capital expenditures through a combination of debt issuances and operating cash flow.

Employees

We had an average of 30,768, 32,937 and 31,805 employees in the years ended December 31, 2009, 2010 and 2011, respectively, out of which approximately 64.4%, 62.4% and 64.7%, respectively, were employed in the Czech Republic. Since our foundation in 1992, we have reduced the number of our employees to a level which brings the ratio of employees to installed MW capacity closer to the ratios of other advanced European power companies. We have also completed an organizational audit which resulted in a decrease in our average number of our employees and we are taking further steps aimed at further lowering our average number of employees.

As of December 31, 2011, all of our employees in the Czech Republic were covered by our collective bargaining agreement in accordance with Czech law. Our collective bargaining agreement is valid until the end of 2014. Our collective bargaining agreement was amended twice in 2010 and once in 2011. In 2007, we also established our European Work Council in accordance with applicable national and European laws. We have not experienced any strikes or work stoppages in the Czech Republic, although there were strike alerts in 2003 at our nuclear power plants but these did not result in actual strikes or work stoppages.

Research and Development

Our research and development (“R&D”) significantly contributes to improving the safe, economical and reliable operation of our assets and to building our knowledge of innovative technologies in the energy sector. Our R&D projects are mainly performed by external, specialized R&D engineering and consultancy organizations. R&D covers numerous topics in nuclear energy and conventional power generation, innovative renewables, utilization of biomass and development of waste-to-energy concepts, energy storage, smart grids and life management of power plants and their components.

The development of human resources and support for energy-focused applied and industrial R&D in the Czech Republic are important co-benefits of our R&D projects. Cooperation with technical universities is an essential part of such activities. We are a founding member of the Czech Sustainable Energy Technology Platform, forum of utilities, vendors, research, engineering, and academic entities acting for the improvement of energy R&D in the Czech Republic and for the intensification of international cooperation.

We are also a member of VGB PowerTech and have full membership on the nuclear sector with the Electric Power Research Institute. In addition, we are intensively involved in international energy R&D projects, particularly in the E.U.’s Framework Programs, mainly in the areas of developing nuclear technologies, nuclear safety and radiation protection, but also in non-nuclear areas including developing smart grids and clean coal technologies. We are also a member of three European technology platforms: the Sustainable Nuclear Energy Technology Platform, the Zero-Emission Power and Smart Grids.

In the year ended December 31, 2011, we participated in research and development programs in the total amount of CZK 794.2 million, compared to CZK 709.0 million in the year ended December 31, 2010.

Licenses

As of the date of this memorandum, we hold all licenses necessary for the operation of our business. For information on licenses and permissions required under the Czech Energy Act and under other applicable regulations, please see “*Regulation—Czech Republic—Electric Energy Sector—Licensing Regime.*”

Emission Rights

In the years ended December 31, 2010 and 2011, we were granted 41.7 million tons of CO₂ emission allowances per year. CO₂ emissions became an integral part of our management and decision-making, not only at our coal-fired power plants which are directly affected by the trading, but also at non-fossil fuel-fired power plants, which play a major role in optimising generation in terms of CO₂ emissions. Our decision making process regarding the trade of CO₂ is based on a comparison of the wholesale electricity price with generation costs, which include the price of CO₂ emission allowances.

Emission producers, such as us, that sell electricity to third parties are subject to a tax in the Czech Republic on all EUAs that are freely allocated. In the year ended December 31, 2011, this tax was 32% of the average market value of all emission allowances allocated for free to CO₂ emission producers for the year (where the market value is determined by the Ministry of the Environment of the Czech Republic). Certain EUAs obtained for the purpose of combined production of heat and electricity are exempted from the tax. This tax amounted to CZK 3.64 billion in the year ended December 31, 2011.

The following table summarizes the movements in the quantity and book value of emission rights and credits held by us during 2009, 2010 and 2011.

	For the year ended December 31,					
	2009		2010		2011	
	(in thousand tons)	(CZK in millions)	(in thousand tons)	(CZK in millions)	(in thousand tons)	(CZK in millions)
Emission rights and credits (CERs, ERUs) granted and purchased for own use:						
Granted and purchased emission rights and credits at January 1.....	41,751	1,274	38,659	869	36,740	2,123
Emission rights granted.....	42,494	-	41,831	-	42,936	3,640
Emission rights acquired in business combinations.....	22	27	1,125	429	-	-
Settlement of prior year actual emissions.....	(40,408)	-	(37,319)	(46)	(39,122)	(2,513)
Emission rights purchased.....	794	392	2,585	1,267	2,282	984
Emission rights sold.....	(4,066)	(7)	(6,300)	-	(5,250)	(46)
Emission credits purchased.....	929	332	26	12	2,707	877
Emission credits sold.....	(2,857)	(1,155)	(6)	(2)	(5)	(2)
Reclassified to emission credits held for trading.....	-	-	(467)	(163)	(26)	(12)
Reclassified to assets classified as held for sale.....	-	-	(3,394)	(241)	3,394	241
Currency translation differences.....	-	6	-	(2)	-	(35)
Granted and purchased emission rights and credits December 31.....	38,659	869	36,740	2,123	43,656	5,257
Emission rights and credits held for trading:						
Emission rights and credits for trading at January 1.....	-	-	-	-	1,570	472
Emission rights purchased.....	45,025	18,284	8,231	3,019	2,004	813
Emission rights sold.....	(45,025)	(18,292)	(8,231)	(3,021)	(2,004)	(627)
Emission credits purchased.....	3,967	1,484	2,313	933	1,121	456
Emission credits sold.....	(3,967)	(1,484)	(1,210)	(466)	(2,420)	(885)
Reclassified from emission credits for own use.....	-	-	467	163	26	12
Fair value adjustment.....	-	8	-	(156)	-	(202)
Emission rights and credits held for trading at December 31.....	-	-	1,570	472	297	39

Our total emissions of greenhouse gases amounted to 37,319 thousand tons, 39,122 thousand tons and 38,906 thousand tons of CO₂ for the years ended December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, we recognized a total provision for CO₂ emissions in the amount of CZK 3,418 million.

In September, 2011, the government of the Czech Republic, under the E.U. Emissions Exemption, approved a national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector. The European Commission has the task of assessing and approving or rejecting the proposed allocation of emission allowances without cost, within six months, taking into account the criteria set out in the 2003/87/EC Directive on greenhouse gas emission allowances. For more information, please see “*Regulation—Czech Republic—Electric Energy Sector—Electricity Generation*”

Subject to the approval of the European Commission, the Czech Republic proposed the following allocation of emission allowances for production of electricity without cost to our coal-fired power plants in the Czech Republic.

	2013	2014	2015	2016	2017	2018	2019	2020
	(in tons)							
Dětmarovice	1,565,479	1,341,839	1,118,199	894,560	670,920	447,280	223,640	-
Chvaletice	1,360,846	1,166,440	972,033	777,626	583,220	388,813	194,407	-
Ledvice II	770,217	660,186	550,155	440,124	330,093	220,062	110,031	-
Ledvice III	1,954,346	1,675,154	1,395,961	1,116,769	837,577	558,385	279,192	-
Mělník II	424,860	364,165	303,471	242,777	182,083	121,388	60,694	-
Mělník III	891,494	764,137	636,781	509,425	382,069	254,712	127,356	-
Počerady	3,014,660	2,583,994	2,153,329	1,722,663	1,291,997	861,331	430,666	-
Pruněřov I	952,523	816,448	680,374	544,299	408,224	272,149	136,075	-
Pruněřov II	2,927,619	2,509,388	2,091,157	1,672,925	1,254,694	836,463	418,231	-
Tušimice II	3,282,518	2,813,587	2,344,656	1,875,725	1,406,794	937,862	468,931	-
Other ⁽¹⁾	1,651,394	1,415,480	1,179,566	943,654	707,741	471,826	235,912	-
Total	18,795,956	16,110,818	13,425,682	10,740,547	8,055,412	5,370,271	2,685,135	-

Source: Czech Ministry of the Environment

⁽¹⁾ Includes emission allowances allocated to certain of our other power and heat plants in the Czech Republic, including Hodonín, Elektrárna Poříčí, Tisová, Teplárna Dvůr Králové nad Labem, Teplárna Vítkovice, PPC Trmice, Teplárna Trmice and Temelín.

Due to the uncertainty regarding the free allocation of emissions and the requirements for purchasing emissions, we continue to seek ways to reduce our overall emissions, which includes considering the cost of CO₂ emissions when evaluating potential investment opportunities. Please see *“Risk Factors—Risks Related to Our Business and Operations—We are exposed to changes in the way emission allowances are allocated, including the conditions attaching to free allocations and the allocation of emission allowances after 2013, as well as volatility in the market prices of emission allowances that we need to acquire.”*

Intellectual Property

We own the rights to numerous trademarks in relation to the name “ČEZ” and its “E” symbol as well as to the name “SKUPINA ČEZ” (“ČEZ GROUP”) and its “E” symbol. The trademark of the word “ČEZ” is protected in 32 states under the Madrid Agreement Concerning the International Registration of Marks and its Protocol (the “*Madrid Agreement*”). The trademark of the word “ČEZ” combined with the symbol “E” is protected in 38 states under the Madrid Agreement, and the trademark of the word “ČEZ GROUP” combined with the symbol “E” is protected in 22 states under the Madrid Agreement and the color symbol “E” is protected in 22 states under the Madrid Agreement. The registration of all essential trademarks is regularly extended.

We do not own rights to any patents, utility models or industrial designs.

Insurance

We maintain several types of insurance to protect us against potential liabilities. These include property insurance for our conventional power plants and nuclear power plants and nuclear liability insurance, in addition to other liability and property insurance. Our general liability insurance also covers particular environmental liabilities that we may incur.

Our insurance coverage complies with the Czech Nuclear Act and the Vienna Convention requirements in respect of responsibility for damage caused by a nuclear incident. However, our insurance does not fully cover all risks and we cannot guarantee that costs connected with nuclear disasters or other unforeseen events in our nuclear power plants would not have any negative effects on our business, results of operations and financial condition (please see *“Risk Factors—Risks Related to Our Business and Operations—We could incur significant losses in the event of a nuclear accident”*). The Czech Nuclear Act sets limits on the liability of operators of nuclear facilities for nuclear damage. The Czech Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 8 billion per incident and limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Czech Nuclear Act also requires an operator/licensee to insure its liability for 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). We have obtained all necessary insurance policies with the minimum limits required by law for the operation of our nuclear power plants. We have concluded such insurance policies with Česká pojišťovna a.s., which represents the Czech Nuclear Insurance Pool (a group of insurance companies) and with the European Liability Insurance for the Nuclear Industry, which is a mutual insurance company insuring nuclear liability risks.

We maintain insurance policies covering the assets of our coal, nuclear and hydro power plants, as well as insurance policies covering non-technological equipment, general third party liability insurance in connection with our main operations and car insurance. We also have insurance policies covering directors’ and officers’ liability.

Safety and Quality Management

Safety and quality management is an integrated part of our management system. It is implemented, maintained and evaluated in a top-down manner from the senior management level to the employee level. Our senior management is responsible to stakeholders for assuring and securing the resources necessary for quality, health and safety and environmental management. Through responsible management of our internal processes, we aim to assure added value for our customers.

Our quality management policy was approved by our Supervisory Board in October 2010. Our quality management policy is published to show the commitment of our management towards quality and to establish the main principles of quality for our employees to understand. Each Group-entity is responsible for implementing management system tools and for implementing the quality management policy in all day-to-day activities.

We signed the Czech Quality Charter in October 2010, which refers to activities of the Czech Republic in the European Union. By signing the Charter, we committed to share our knowledge and experience and best practices in quality and innovation. We were the first energy company to sign the Charter. We also initiated the foundation of the Energetic Technical Section alongside the Czech Quality Council.

Our safety management system is based on the management of safety processes close to risks in generation and distribution. We have created two segment centers which aim to guarantee and directly and methodically control our

safety and environmental protection. We have created the Safety Inspectorate within our CEO Division, which is responsible for independent managerial oversight and feedback on all safety areas and environmental protection. We also have a new Safety and Environmental Protection Policy which has become a part of our strategic management. The policy contains safety goals which are split into divisional and organizational management systems.

Nuclear Safety

Under Czech law, SONS is responsible for supervising the safe operation of nuclear power plants. SONS supervises regulatory compliance, and reviews the operation of nuclear facilities, the quality of selected activities, repair and maintenance, and personnel training. SONS representatives (local inspectors) are permanently on site at both the Dukovany and Temelín nuclear power plants to monitor their performance and compliance with safety standards and operating procedures, and to make sure that any improvements made are appropriate. The safe operation of the Dukovany and Temelín nuclear power plants is governed by documented requirements, approved by SONS (for example, the Technical Specifications, Radioactive Effluent and Emission Monitoring Programs). It is the responsibility of each plant to comply with regulations and requirements set out in the approved documentation. SONS carries out supervision by inspections.

Since their initial operation, the Dukovany and Temelín nuclear power plants have, under the supervision of SONS, been continuously monitoring the levels of radiation in the immediate vicinity of the plants. To date, the results of the monitoring in the ventilation outlets and in the drains of the plants have indicated that radiation levels remain considerably below statutory limits.

The typical design feature of the Dukovany nuclear power plant units (VVER440) are hermetic boxes (zones) complemented by bubbler towers, which can relieve hermetic zones from over-pressure and prevent release of radioactivity into the atmosphere in the event of a large leak of the primary circuit (the sealed circuit comprises the steel pressure vessel containing the reactor, the steam generator and the connecting pipe work). A spray system is also installed to prevent overpressure in the long-term. In the Temelín nuclear power plant, both units (VVER320) are constructed with standard western type full pressure containment. The Dukovany and Temelín nuclear power plants are designed to withstand the maximum design accident caused by a guillotine break of the primary circuit piping (main circulation loops) and consequently to reduce the pressure and temperature inside the hermetic zones or containment facilities using spray systems.

WANO

We are a member of the World Association of Nuclear Operators (“*WANO*”) and, like other members of these organizations, we submit both of our nuclear power plants to periodic peer review. These reviews are carried out regularly by international teams of experts from various professional organizations.

In January 2009, a follow-up mission on the 2007 WANO Peer Review took place at the Dukovany nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. The next WANO Peer Review at the Dukovany nuclear power plant is scheduled to take place in 2013.

In 2006, a follow-up mission of the 2004 WANO Peer Review took place at the Temelín nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. Some additional proposals were suggested. The last WANO Peer Review was held at the end of November 2011. The review team identified several areas for improvement as well as several good practices for sharing among nuclear power plants engaged in WANO. The plant’s senior management is preparing a set of remedial actions focused mainly on improving the control process.

IAEA

The Czech Republic is a member of the IAEA and, as a result, the IAEA has carried out a number of on-site IAEA assessment missions.

The first OSART review took place at the Dukovany nuclear power plant in 1989 with a follow-up Re-OSART mission in 1991. In November 2001, the Dukovany nuclear power plant underwent its next OSART review. Based on the recommendations from this review, we prepared and fulfilled an action plan. In October 2003, a follow-up OSART mission was carried out to review our implementation of its earlier recommendations and subsequently declared its full satisfaction with our fulfillment of its recommendations. The last OSART review at the Dukovany nuclear power plant was held in June 2011. The review team identified a wide range of good practices as well as several areas for improvement to achieve even better results of operational safety. The plant’s senior management has prepared a set of

remedial actions to address these recommendations before the follow-up OSART mission which is scheduled to take place in the first half of 2013.

The first Pre-OSART review at the Temelín nuclear power plant was held in 1990 with a follow-up mission in 1992. A regular OSART mission at the Temelín nuclear power plant took place in 2001 and the follow-up OSART mission held in 2003 was aimed at assessing the power plant's response to the recommendations of the OSART mission in 2001. Most of the recommendations and proposals were included in the category "completed," and the team generally noted the progress in operational safety enhancement, recommendation implementation and power plant appearance.

In 1991, IAEA and the Nuclear Energy Agency of the OECD introduced a seven-grade international nuclear events scale ("*INES*"), an internationally recognized standard used to inform the public of the safety significance of a nuclear event. Levels 4 to 7 are termed "accidents" with a significant radiation exposure off-site, while Levels 1 to 3 are termed "incidents" with effects on the nuclear facilities only. Level 0 is called "below the scale" and refers to events that are not related to safety. According to the INES, applied retrospectively throughout the lifetime of our nuclear facilities, as of December 31, 2011, neither the Dukovany nor the Temelín nuclear power plant has experienced an incident assessed above Level 1.

Post Fukushima Stress Tests

Stress tests of nuclear power plants required by the European Council are defined as a focused assessment of safety margins and resistance of nuclear plants, in light of the events that occurred at the Fukushima-Daiichi nuclear power plant in Japan following the tsunami on March 11, 2011.

The assessment of both of our nuclear power plants was performed by experts in nuclear safety, design of nuclear facilities, accident management, emergency preparedness and phenomenology research of severe accidents, fully qualified for the assessment. The evaluators complied with a deterministic approach to evaluate the expected successive failure of all preventive actions during extreme scenarios.

No conditions were identified during the assessment that required immediate remedial action. Both of our nuclear power plants were assessed to be able to safely manage even highly improbable extreme emergency conditions without posing any threat to their vicinity. Despite identifying the robustness of barriers, the evaluators concluded that opportunities still existed for further safety enhancement with respect to highly improbable situations. The proposed measures which are subject to further review are broken down into short- and medium-term measures, categorized according to their importance. Short-term measures include:

- proposing and implementing alternative means of communication and support during interventions at the nuclear power plant and for communicating with public authorities in the event of significant damage to infrastructure and the isolation of the site area;
- finalizing the remaining procedures and guidelines for severe accidents; and
- reviewing the existing qualifications and capacity of personnel to fulfill the vital functions of the nuclear power plant if all units on the site are affected, or in case of loss of the control centers.

Medium-term measures include:

- proposing and implementing alternative independent technical means (for example power sources and pumps) as another barrier to fulfilling the vital functions of the nuclear power plant including guideline implementation; and
- implementing the actions in process to reinforce the design against the effects of severe accidents.

EMANI

The periodical inspections of the European Mutual Association for Nuclear Insurance ("*EMANI*") were held in 2011 on both of our nuclear power plants. These inspections were focused on operation, maintenance and overall condition of the plants. The inspectors concluded that the plants were well operated and the inspections did not give rise to any material findings or recommendations.

Risk Management

We continue to develop our integrated risk management system in order to increase our fundamental value while taking into account the level of risk acceptable for shareholders. Our supreme risk authority is the Risk Management Committee (a committee of the Chief Executive Officer), which comprises of:

- seven permanent members: Chief Financial Officer, Chief Risk Officer, Chief Generation Officer,

Chief Sales Officer, Trading director, Controlling director, Treasury and Financing director;

- five non-permanent members (being the other members of the Board of Directors): Chief Executive Officer, Chief Distribution and International Officer, Chief Investment Officer, Chief Strategy Officer, Chief Procurement Officer; and
- one permanent guest: Internal Audit director.

The Risk Management Committee makes decisions on the development of our integrated system of risk management and our overall allocation of risk capital to individual risks and organizational units, and monitors the overall risk impact on us, including our debt capacity utilization and rating requirement fulfillment on a monthly basis.

Since 2005, we have applied a risk capital concept that allows the setting of particular risk limits as well as an aggregate annual risk limit. The value of our aggregate annual risk limit is approved by our Board of Directors each year (together with the annual budget) based on the proposal of our Risk Management Committee. The proposed limit value, in CZK, is set on the basis of a 95% confidence level and expresses a maximum profit decrease that we are willing to take in order to achieve our planned profit for the year.

Since 2009, the main Business Plan market risks (electricity price, emission allowances price and currency exchange rate between the Euro and Czech crowns) have been quantified on a monthly basis by the EBITDA @ Risk model based on the MonteCarlo simulation in Y+1 to Y+5 horizon. Through the integration of the EBITDA @ Risk outputs with mandatory investments and financials (within the five year horizon), the total debt capacity (which is net debt/EBITDA) ratio is calculated each month and evaluated in light of our rating targets. We base all decisions about available amounts for future investments on these calculations, as well as on key CEZ Group risks, and we continuously adjust our hedging and investment strategy accordingly.

Since 2011, the central unified @Risk concept has been used in the CAPEX investment process, where a potential CAPEX increase and potential deadline delay is calculated on the basis of a 95% confidence level for each individual investment project. This concept enables a relevant comparison of the risk profile of actual net present value of each project and contributes to the effective internal competition of cash flow sources with limited development.

We divide risks into four categories:

- market risks, comprising financial risks, commodity risks, volumetric risks and market liquidity;
- credit risks, comprising counterparty default, supplier default and settlement;
- operational risks, comprising operating risk, internal change, liquidity management and security; and
- business risks, comprising strategic, political, regulatory and reputation risks.

All essential quantifiable risks are quantified on a unified basis at least once each month. Our methodology and data provide for a unified quantification of the following risks:

- market risks, comprising financial risks (such as currency, interest and stock price), commodity price risks (relating to prices of electricity, emission allowances, coal, gas), volumetric risks (such as volume of heat supply and volume of electricity buy-out produced by solar power plants);
- credit risks, comprising financial and business counterparty risk and electricity, gas and heat end-customer risk; and
- operational risks, comprising risks related to the operation of nuclear and fossil power plants in the Czech Republic and investment risks.

We aim to manage business risks by using clear responsibility assessment, key risk identification, systematic sensitivity and scenario analysis. Property, casualty and other operational risks are managed through using insurance, emergency and crisis planning and preventive actions. Our ten most important cash flow risks are centrally monitored and coordinated and are updated and reported to the Risk Management Committee on a quarterly basis.

In addition, our annual budget risks, business plan risks and debt capacity risks are reported on a monthly basis to the Risk Management Committee.

For more information relating to material risks that we face, please see “*Risk Factors*” and Note 17 of our audited consolidated financial statements for the year ended December 31, 2011.

Environmental Matters

As of the date of this Base Prospectus, we are in compliance with all material requirements of the Czech Waste Act, the Czech Air Protection Act, the Czech IPPC Act, the Czech Water Act and the Czech Nuclear Act.

Czech Waste Act

Pursuant to the Czech Waste Act, and pursuant to related regulations, we use coal ash as a certification material for reclamation and improving the sanitary conditions of landscape and disused shafts of our existing mines. A portion of coal ash is deposited on the landfills. We also sell residue to certain producers of construction materials. In addition, since 1994, we have also sold a portion of the FGD gypsum (a coal combustion product of coal-fueled power plants) remaining after the desulphurization process to certain producers of construction materials. This approach has the environmental advantage of saving natural materials, particularly in the building industry.

We are required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps. We are required by law to keep such amounts as restricted funds. Restricted funds representing our accumulated provision for waste storage and reclamation amounted to CZK 368.2 million as of December 31, 2011, compared to CZK 386.0 million as of December 31, 2010.

Czech Air Protection Act

We fully comply with all applicable regulations and requirements under the Czech Air Protection Act. Since we own numerous coal-fired power plants classified as “existing particularly large combustion plants,” we have the advantage that under applicable legislation we may exchange and allocate the assigned aggregate emission limits between our coal-fired power plants in such a way as to ensure compliance with the Czech Air Protection Act and we are therefore able to optimize generation.

For the year ended December 31, 2011, our total emission charges amounted to CZK 91.7 million, decreasing by 5.1% from CZK 96.6 million for the year ended December 31, 2010.

Czech Nuclear Act

On June 24, 1994, the Czech Republic became a party to the Vienna Convention. On the basis of the principles of the Vienna Convention, the Czech government initiated and Parliament enacted the Czech Nuclear Act, which came into force on July 1, 1997. In accordance with the Vienna Convention, the Czech Nuclear Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and that the operator’s liability for such damage is limited to CZK 8 billion per incident. The Czech Nuclear Act also provides that operators of nuclear facilities are obliged to acquire insurance covering potential liabilities for nuclear damages in the amount of not less than CZK 2 billion. The Dukovany and Temelín nuclear power plants are currently fully insured in accordance with the Czech Nuclear Act and the Vienna Convention. For more information about our insurance coverage, please see “*Insurance*.”

The Czech Nuclear Act contains a provision to the effect that the Czech Republic shall guarantee the safe final disposal of nuclear waste. The Czech Nuclear Act required the Czech Ministry of Industry and Trade to establish a Czech Repository Authority as a State organization, to carry out particular activities associated with disposal of nuclear waste. The Czech Repository Authority was established on June 1, 1997. The Czech Nuclear Act provides that a generator of nuclear waste will remain responsible for storage of nuclear waste and related costs until the handover of the waste to the Czech Repository Authority. The Czech Repository Authority centrally organizes, supervises and is responsible for all final disposal facilities and the disposal of nuclear waste therein. In 1999, we sold our repository for disposal of nuclear waste from the operation of both the Dukovany and Temelín nuclear power plants to the Czech Repository Authority. The Czech Repository Authority has engaged us to continue operating the repository located at the Dukovany nuclear power plant.

The activities of the Czech Repository Authority are financed through the Czech Nuclear Account funded by the generators of nuclear waste. The Czech Nuclear Account is managed by the Czech Ministry of Finance. We are required to contribute to the Czech Nuclear Account in the amount of CZK 50 per MWh of electricity generated by our nuclear power plants. Since October 1, 1997, we have made regular payments to the Czech Nuclear Account. In the year ended December 31, 2011, our total payments to the Czech Nuclear Account amounted to CZK 1,414 million.

The originator of radioactive waste is required by the Czech Nuclear Act to cover directly all costs associated with interim storage of spent fuel and the disposal of radioactive waste. The operator is also liable under the Czech Nuclear Act to finance the decommissioning of its nuclear power plants. For this particular purpose, financial resources

are accumulated in a special blocked account and any drawings from this account are subject to receiving the Czech Repository Authority's approval.

We have recognized provisions for our obligations to decommission our 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 as well as provisions for our obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors. Actual costs incurred are charged against such accumulated provisions. As of December 31, 2011 the provision for interim spent fuel storage amounted to CZK 6.4 billion, the provision for permanent spent fuel storage amounted to CZK 21.7 billion and the provision for decommissioning amounted to CZK 9.2 billion.

Legal Proceedings

We are currently involved in a number of legal proceedings; however, we believe that liabilities relating to such proceedings would not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. Certain significant legal proceedings in which we are involved as of the date of this Base Prospectus are described below.

Litigation Relating to the Temelín Nuclear Power Plant

In 2001, the State of Upper Austria filed a petition demanding us to cease-and-desist from generating alleged ionizing radiation from the Temelín Nuclear Power Plant. On January 4, 2012, the Linz Regional Court rejected the petition. The State of Upper Austria subsequently lodged an appeal against the decision of the Linz Regional Court. We have established a provision for contingent liabilities arising from these proceedings, however, this provision does not cover claims brought against us for which damages have not been quantified or in relation to which the plaintiffs' prospects have been deemed by us to be remote. Due to their nature, we are not able to predict the ultimate outcome of legal proceedings currently pending against us, which may not be decided in our favor and may require us to pay damages to the plaintiff, incur costs in connection with the modification of parts of the Temelín nuclear power plant or temporarily remove parts of the Temelín nuclear power plant from service including, in some cases, so that we can comply with environmental laws regarding electromagnetic radiation.

Litigation with Czech Coal

In October 2010, we commenced proceedings against Czech Coal a.s., Czech Coal Services a.s. and Vršanská uhelná a.s. (companies belonging to the Czech Coal group of companies). In these proceedings, we are demanding compensation in the amount of CZK 11 billion for harm caused by Czech Coal's anti-competitive conduct in connection with failed negotiations over a long-term purchase contract for brown coal supplies to our brown coal facility in Počerady after 2016. In addition, we are requesting payment of applicable contractual penalties in the amount of approximately CZK 327 million and payment of damages (mainly costs incurred) in the amount of approximately CZK 13.8 million. At the time of commencing these proceedings, we withdrew former claims filed in 2007. The case is currently pending before the Regional Court in Ústí nad Labem.

Litigation with Sokolovská uhelná, právní nástupce, a.s.

We are involved in a dispute with Sokolovská uhelná, právní nástupce, a.s. in relation to the amount of and price for brown coal supplies being supplied to us under a long-term supply agreement until 2027. Sokolovská uhelná, právní nástupce, a.s. has challenged the validity of the supply agreement in court. We have filed an unjust enrichment lawsuit against Sokolovská uhelná, právní nástupce, a.s. with the Regional Court in Plzeň in the amount of approximately CZK 56 million. The Regional Court in Plzeň has not yet ordered a hearing in this case.

Proceedings Relating to Reconstruction and Upgrade of Pruněřov II Power Plant

The Integrated Pollution Prevention and Control (IPPC) permit and zoning permit for the reconstruction and upgrade of the Pruněřov II coal-fired power plant have been issued by the relevant Czech administrative authorities. However, the legality of these permits has been challenged by Ekologický právní servis (EPS), a nongovernmental environmental organization, before the Czech administrative courts. Reconstruction and upgrade of the Pruněřov II power plant is also currently subject to pending building permit proceedings, in which the non-governmental environmental organization EPS is also a participant. The renovation and upgrade of the Pruněřov II power plant may be significantly delayed and we may incur significant losses if we are not successful in these proceedings and the IPPC or zoning permit is cancelled or the issue of the building permit is delayed.

Insolvency Proceedings of Moravia Energo

In March 2009, one of our business counterparties, MORAVIA ENERGO, a.s., a Czech electricity trading company, was declared bankrupt. All electricity supplied by us to MORAVIA ENERGO, a.s. was settled by pre-

payments. However, when MORAVIA ENERGO, a.s. stopped payments, we were forced to terminate our contracts concluded with MORAVIA ENERGO, a.s. for the period between 2009 and 2011. In accordance with the business rules and the European Federation of Energy Traders standards, we determined the value of the final settlement of prematurely ended deals with MORAVIA ENERGO, a.s., based on the prices at which we were able to sell electricity in the market as of the date of termination of the contracts between us and MORAVIA ENERGO, a.s. After deduction of the already realized security, our final claim amounted to approximately CZK 1.5 billion and was registered and attributed to us within the insolvency proceedings of MORAVIA ENERGO, a.s. On August 1, 2011, a partial distribution resolution was issued, according to which our claim was partially settled in the amount of CZK 71.3 million. Further realization of the debtor's assets is still in progress.

Insolvency Proceedings of Lignit Hodonín

In the insolvency proceedings against Lignit Hodonín, s.r.o., a producer and supplier of brown coal, we have registered receivables in an amount exceeding CZK 115 million. This amount includes CZK 23 million corresponding to supplied and unpaid electricity and penalties under contracts. A special review hearing took place on May 31, 2010, at which our claim was recognized in full. The business enterprise of Lignit Hodonín was sold in September 2010 and the settlement of creditors of Lignit Hodonín is currently in progress. With regard to the amount gained in the course of the sale of the debtor's business and the total amount of the creditors' claims, and including those secured, it is envisaged that our satisfaction will be close to nil. In addition, the receiver filed a suit against us for damages amounting to CZK 196.2 million, allegedly resulting from our abuse of a dominant position in determining the purchase price of brown coal deliveries under a sales contract concluded with Lignit Hodonín, s.r.o., as the supplier. We deny the claim in full. On November 30, 2010, the acquirer of the business enterprise of Lignit Hodonín, UVR Mníšek pod Brdy, a.s., filed a law suit within the insolvency proceedings to exclude receivables in the amount of CZK 196.2 million from the debtor's assets. Until a legally binding decision is issued on whether to exclude the receivables from the debtor's assets, the proceedings concerning damages have been suspended.

Insolvency Proceedings of PLP

In insolvency proceedings against PLP, a.s., a Czech bio-ethanol producer, we have registered a receivable of approximately CZK 191 million, which corresponds to the unpaid supply of electricity, heat and raw water to PLP, a.s., and a receivable of approximately CZK 28 million for contractual penalties. Both receivables were recognized in review hearings that took place in the first half of 2011.

Litigation Proceedings against SZDC

In June, 2010, we filed with the Municipal Court of Prague a claim against Railway Infrastructure Administration, state organization ("SZDC") for damages in the total amount of CZK 805 million. Our claim arose out of the breach of the agreement on electricity supply by SZDC, which did not off-take its contracted amount of electricity in 2010. The Municipal Court of Prague issued a request for payment and SZDC subsequently raised an objection. A hearing is currently pending.

Squeeze-Out Proceedings

In the Czech Republic, we are a party to the following pending proceedings in connection with the squeeze-out of former minority shareholders in our subsidiaries:

Subsidiary	Amount of former minority shareholders' claim	Description of claim	Status
Severomoravská energetika, a.s.	CKZ 116 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	By resolution which became effective on April 2, 2012, the appellate court adjudicated the minority shareholders' claim for payment of further consideration. All former squeezed-out minority shareholders of Severomoravská energetika, a.s. shall have the benefit of the above mentioned resolution and have a right to claim further consideration. On the basis of an expert's report which has been recognized by the court, we estimate that the amount of the payment to former minority shareholders may be approximately CZK 74 million.
	CKZ 1,005 million	Payment of the difference from a takeover offer for shares made in 2005	Pending before the court of first instance
Západočeská energetika, a.s.	CKZ 767 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Východočeská energetika, a.s.	CKZ 188 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Severočeská energetika, a.s.	CKZ 821 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Středočeská energetika, a.s.	CKZ 536 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Severočeské doly a.s.	CKZ 1,608 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
ČEZ Teplárenská, a.s.	Not known	Review of the consideration paid to the minority shareholders in the squeeze-out of minority shareholders from United Energy, a.s., the legal predecessor of ČEZ Teplárenská, a.s.	Pending before the court of first instance

As of the date of this Base Prospectus, it is not possible to predict the outcome of the above mentioned proceedings concerning the squeeze-out of former minority shareholders in our subsidiaries.

Former minority shareholders in the regional electricity distribution companies Severočeské doly a.s., and ČEZ Teplárenská, a.s., have filed claims seeking the court to declare that the resolutions of these General Meetings that decided on squeeze-outs are invalid. In three of these cases, the claims challenging the General Meetings of regional electricity distribution companies have been set aside.

Proceedings on the Invalidity of the Contribution of Part of Undertakings or Nullification of the General Meeting's Resolutions

The following suits have been filed by our minority shareholders in connection with the restructuring of the CEZ Group to comply with the unbundling requirements of the Czech Energy Act (please see “*Organizational Structure*”), either seeking to declare as invalid contributions made to us as part of the undertakings of former regional electricity distribution companies or the resolutions of the General Meetings which approved these contributions:

- a suit seeking to declare the resolution of the General Meeting of Středočeská energetická a.s. held on October 17, 2005, and of contracts on contribution of part of an undertaking, to be invalid. Proceedings before the court of first instance in the actual matter have not yet been completed and we cannot give any assurance as to the outcome of such proceedings; and
- a suit seeking to declare the resolution of the General Meeting of Středočeská energetická a.s. held on June 21, 2006, and of contracts on contribution of part of an undertaking, to be invalid. Court proceedings have not yet been completed and we cannot give any assurance as to the outcome of such proceedings.

To the best of our knowledge, no financial claim has been filed by the minority shareholders. However, we cannot exclude the potential right of minority shareholder to damages or other financial compensation.

Insolvency Proceedings of PORCELA PLUS and BCT Group

In insolvency proceedings against PORCELA PLUS and BCT Group, we have registered receivables in a total amount exceeding CZK 285 million, which corresponds to the unpaid supply of electricity and accrued interest. This includes a receivable against SKLÁRNY KAVALIER, a.s. amounting to approximately CZK 120 million, a receivable against CRYSTALEX a.s. amounting to CZK 65.6 million, a receivable against Sklo Bohemia, a.s. amounting to CZK 64.5 million, a receivable against Karlovarský porcelán a.s. amounting to CZK 21.7 million, and a receivable against Sklárný Bohemia a.s. amounting to CZK 13.8 million. The remaining receivables registered do not exceed CZK 0.5 million. During the review proceedings, all of our registered receivables were determined to exist. Although most of the assets of the debtors were realized during 2009 and 2010, given the amount of debts owed to employees and secured creditors, satisfaction of the remaining debts will be minimal or nil, as was the case in insolvency proceeding against Sklo Bohemia where the resolution on cancellation of bankruptcy was handed down in January 2012.

Litigation with Lesy České republiky over Compensation for Damages

We face 15 lawsuits initiated by the same plaintiff, Lesy České republiky s.p., a state-owned company. All of the suits have the same grounds, namely a claim for compensation of damage caused by our operations to forest crops between 1997 and 2009. The oldest suit is from 1999; the latest one is from 2011. The total amount claimed is CZK 235.1 million. These proceedings are all currently pending before the Prague District Courts.

Proceedings of Romanian Citizens

In 2004, Romanian citizens filed claims against the Romanian state before the European Court of Human Rights claiming the illegal placement of electric facilities on their land by Electrica Oltenia S. A. (the regional distribution company owned by us). The complainants are seeking damages for the Romanian state's failure to protect their land ownership rights. The landowners' dispute could become material for us in Romania if the claim against the Romanian state is successful and similar disputes are brought against us.

Proceedings Relating to the Fântânele and Cogealac Wind Farm Project

In connection with the Fântânele and Cogealac wind farm projects in Romania, we are a party to litigation commenced in 2008 by the town of Cogealac and certain Romanian individuals and entities, who object to certain outstanding building permits, other administrative permits and ownership titles to land parcels relating to the project and who seek to stop certain construction works. The claims are currently pending before the Constitutional Court of Romania. There is no monetary value to the claims against us, but these proceedings have adversely affected the timeline for completing the Fântânele and Cogealac wind farm projects.

Litigation with CFR

We have registered receivables against Compania Națională de Căi Ferate, the Romanian railways company, in the total amount of RON 368.4 million (approximately CZK 2.1 billion) which corresponds to the unpaid supply of electricity, accessories and penalties of which RON 175.7 million (approximately CZK 1 billion) has been applied to the court as of December 31, 2011.

Proceedings in Albania

We hold a 76% interest in the share capital of CEZ Shpërndarje Sh.a. (“*CEZ SH*”), a joint venture between ČEZ and the Republic of Albania, with the remaining 24% interest held by the Republic of Albania. CEZ SH is subject to a variety of proceedings in Albania, which are described in more detail below.

Proceedings Relating to Tariff Decisions in Albania

The Albanian Electricity Regulation Authority (the “*Albanian ERE*”) has imposed new tariffs for electricity distribution and supply for the period between 2012 and 2014. As a result of such tariffs, the operational expenditures of CEZ SH could exceed the prices that may be charged for electricity distribution since the revenue from the regulatory asset base would not fully cover the related costs. In addition, the bad debt allowance, as currently applied in the new tariffs, would not fully cover the actual bad debts and CEZ SH would not be compensated for the losses incurred in previous regulatory periods as a result of lower bad debt allowances. Further, the recognized costs to cover losses in the network may not fully cover the actual costs associated with such losses.

On March 1, 2012, CEZ SH brought a court action before the Tirana court against the new tariffs imposed by the Albanian ERE. As of the date of this Base Prospectus, the Tirana court has not issued a decision on the merits of the case. Unless the new tariffs change or further equity investment is made in CEZ SH, CEZ SH may face financial difficulties which, as we have been advised by our Albanian counsel, in turn, may lead to the commencement by the Albanian ERE of administrative proceedings or withdrawal of CEZ SH’s licenses and subsequently to the termination of CEZ SH’s business activities. In an effort to mitigate the risk of such adverse development, ČEZ, a. s. intends to provide CEZ SH with (i) a contribution to the share capital of CEZ SH in the amount of €20 million and (ii) a loan in the amount of €40 million. However, ČEZ, a. s. intends to provide this financing to CEZ SH only if a settlement concerning regulatory and related issues impairing the business of CEZ SH, as is currently being negotiated among CEZ SH, the Government of the Republic of Albania and related Albanian agencies and entities, is reached (for more information, please see “*Settlement Discussions*” below).

Proceedings Relating to the Non-Approval of the Albanian ERE of the Bad Debt Study

On December 13, 2011, CEZ SH brought a court action before the Tirana court against the decision of the Albanian ERE dated September 30, 2011, not to approve an independent bad debt study determining the methodology of the calculation of bad debts and the actual levels of bad debt. The level of bad debts is crucial for calculating the retail public supplier tariff of CEZ SH. As of the date of this Base Prospectus, the Tirana court has not issued a decision on the merits of the case.

Proceedings Relating to the Energy Supply Agreement between CEZ SH and KESH Sh. a.

On June 15, 2011, CEZ SH filed a court action with the Tirana court against a decision of the Albanian ERE to impose a new energy supply agreement between KESH sh.a. and CEZ SH for the sale and purchase of electricity for the year 2011. This decision is contested by CEZ SH because if KESH sh.a. delivers more energy than the amount used by the Albanian ERE for the calculation of tariffs for the regulatory period 2011, the price to be paid by CEZ SH for this additional amount of energy will be equal to the market price instead of being equal to the regulated (lower) price. As of the date of this Base Prospectus, the Tirana court has not issued a decision on the merits of the case.

Proceedings Relating to the Enforcement of KESH’s Invoices against CEZ SH

In November 2011, the Tirana court issued an enforcement order against CEZ SH for the enforcement of a claim of KESH sh.a. against unpaid invoices from KESH sh.a. for supplied electricity in the total amount of ALL 3.3 billion (approximately €23 million). CEZ SH contested the validity of the enforcement order and has proceeded with a lawsuit requesting the invalidity of the executive titles and the suspension of the enforcement order until after the lawsuit. On January 25, 2012, the Tirana court issued a preliminary injunction pursuant to which the enforcement process has been suspended until the final decision on the validity of the enforcement order is issued. As of the date of this Base Prospectus, the Tirana court has not issued a decision on the merits of the case.

Settlement Discussions

Settlement discussions are currently being held among ČEZ, a. s., CEZ SH, the Government of the Republic of Albania and related Albanian agencies and entities to resolve all contentious matters. However, if all of the above remedies and settlement discussions fail, CEZ SH and consequently, ČEZ, a. s., may incur further significant losses and our investment in Albania may be threatened. For further information please see “—*Recent Developments—Settlement Discussions in Albania*”.

Proceedings by the European Commission

In November 2009, we received a decision of the European Commission dated November 16, 2009, ordering us to submit to an inspection by the European Commission pursuant to Article 20(4) of Council Regulation (EC) No. 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EEC Treaty (now Articles 101 and 102 of the Treaty on the Functioning of the European Union).

On July 11, 2011, the European Commission issued a “Decision on the Opening of Proceedings” pursuant to Chapter III of Council Regulation (EC) No. 1/2003 against us. By contrast with the initial focus of the inspection, the scope of the investigation was limited to a suspected breach of Article 102 of the Treaty on the Functioning of the E.U. relating to abuse of a dominant position. The suspicion concerns allegedly preventing the entry of competitors into the wholesale electricity generation market, specifically by reserving transmission grid capacities greater than needed for our existing and planned projects. At the start of the proceedings a procedural decision indicated that the investigation would be dealt with as a matter of priority. Since the beginning of the investigation, we have received several written requests for information from the European Commission. The European Commission may either stop the proceedings or issue a statement of objections, although it has not yet announced its decision.

Proceedings with the Bulgarian State Commission for Energy and Water Regulation

In 2010, we appealed to the Bulgarian court of last instance against a decision of the Bulgarian State Commission for Energy and Water Regulation setting electricity prices for the period from July 1, 2010 to June 30, 2011. The State Commission for Energy and Water Regulation did not approve our proposals and did not in our view comply with procedural and substantive law in this matter. We estimate the value of the claim to be approximately BGN 3.6 million. Our appeals are currently pending.

Proceedings Against the Decision of the Bulgarian Commission for Consumer Protection

The Bulgarian Commission for Consumer Protection filed two class suits against CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD with the Sofia District Court, successfully asking the court to declare certain clauses of their General Terms and Conditions to be null and void. We filed an appeal against the court’s decision with the Sofia Court of Appeal, which confirmed the decision of the District Court. We subsequently filed an appeal with the Supreme Court of Cassation, the court of last instance, which has not yet reached a decision.

Proceedings with the Bulgarian State Commission for Energy and Water Regulation Regarding Prices for Ancillary Services

In 2010, the Bulgarian State Commission for Energy and Water Regulation set an upper limit for the prices of ancillary services provided by companies in Bulgaria. We appealed to the Supreme Administrative Court against this limit on the basis that the upper limit did not cover the cost of providing such ancillary services. The value of our claims are based on numerous assumptions and are therefore not possible to estimate. In 2011, the court rejected our initial appeal. Our second appeal is still pending as of the date of this Base Prospectus.

Litigation against the Turkish Government and the Turkish Ministry of Finance

In 2006, Elektrik Üreticileri Derneği (Association of Electricity Producers) and Akenerji Elektrik Üretim A.S. (in which we hold a 37.36% interest) filed a suit with the Supreme Administrative Court of the Republic of Turkey against the Turkish Government and the Turkish Ministry of Finance against their decision to increase the unit price of natural gas (in a gaseous state) by 300%, as compared to a 50% increase in the price of certain other commodities. The case is pending before the Constitutional Court. If Elektrik Üreticileri Derneği (Association of Electricity Producers) and Akenerji Elektrik Üretim A.S. are successful, they may benefit from a cancellation of the decision of the Turkish Ministry of Finance but damages would not be payable. It is therefore not possible to estimate the value of the suit.

Arbitration Proceedings Relating to the Gacko Project

In 2007, we signed an implementation agreement and started work on the Gacko project in Bosnia and Herzegovina under a joint venture arrangement with Elektroprivreda Republike Srpske, which was to include the operation of the existing Gacko I power plant, the construction of a new power plant, and the opening of a new mine at the Gacko site. However, our joint venture partners did not meet their obligations under the implementation agreement and failed to invest the assets of the existing power plant and mine in the joint venture. As a result, in January 2009, we exercised our put option to sell our 51% share in the joint venture and withdrew from the joint venture. As a result of the breach of the implementation agreement and the failure of Elektroprivreda Republike Srpske to accept the put option, we started arbitration proceedings in May 2009 which are pending before the International Court of Arbitration

in Vienna. All parties to the arbitration are bound by confidentiality obligations concerning the dispute. A decision of the arbitration tribunal is expected in the second half of 2013.

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of our material other indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. Please also see Notes 15, 16, 17 and 20 of our audited consolidated financial statements for the year ended December 31, 2011, which are incorporated by reference into this Base Prospectus.

Our Indebtedness

Our indebtedness mainly consists of borrowings from financial institutions (including the European Investment Bank) and funding from capital markets. We maintain a flexible funding strategy and monitor domestic and foreign financial market conditions as part of our financing activities.

As of December 31, 2011		
	(CZK in millions)	(% of total)
Funding from capital markets ⁽¹⁾	151,107	79.8
Borrowings from financial institutions ⁽²⁾	38,342	20.2
Total.....	189,449	100.0

⁽¹⁾ In January 2012, ČEZ, a. s. offered to purchase €500,000,000 5.125% notes due 2012 issued under this Programme and €500,000,000 4.125% notes due 2013. As a result of this offer, ČEZ, a. s. repurchased the 2012 notes in the nominal amount of €221,711,000 and the 2013 notes in the nominal amount of €127,800,000. In April 2012, ČEZ issued twenty-year registered 4.7% bonds (Namensschuldverschreibung) under German law in the aggregate nominal amount of €40 million. In April 2012 ČEZ issued 4.25% Notes due 2022 in the aggregate principal amount of USD 700,000,000 and 5.625% Notes due 2042 in the aggregate principal amount of USD 300,000,000 within a private placement offering to qualified institutional buyers, pursuant to Rule 144A under the U.S. Securities Act and outside the United States to certain non-U.S. persons pursuant to Regulation S under the U.S. Securities Act. ČEZ entered into USD/EUR currency swaps with respect to the aggregate principal amount of the notes plus interest payable to maturity.

⁽²⁾ In January 2012, the Group concluded a bilateral loan facility agreement in the amount of €40 million with Goldman Sachs Bank USA. The maturity of the loan facility is three years. The proceeds from the loan will be used for general corporate purposes. In February 2012, ČEZ, a. s. signed the first tranche of a loan facility agreement amounting up to €100 million with the European Investment Bank to support financing of investments into reinforcement and development of the distribution grid in the Czech Republic.

Borrowings from Financial Institutions

We have signed a variety of loan facilities, including with the European Investment Bank. These facilities have been used for general corporate purposes, but have also been used as funding for particular projects such as investments in reinforcing and developing the distribution grid in the Czech Republic; financing for the Fântânele Wind Park; financing for the Group's Turkish distribution company Sakarya Elektrik Dagitim A.S. and financing of the acquisition of 7% of the shares in MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság. As of December 31, 2010 and 2011, borrowings from financial institutions amounted to CZK 27,278 million and CZK 38,342 million, respectively.

These loan facilities contain restrictive financial covenants relating to indebtedness and liquidity.

Funding from Capital Markets

We regularly issue bonds domestically and internationally (under this Programme) as part of our strategy to diversify our funding sources and maintain longer liability maturities. As of December 31, 2010 and 2011, the balance of bonds issued by ČEZ was CZK 137,166 million and CZK 151,107 million, respectively. We issue bonds in a variety of currencies including Euro, Czech crowns, Japanese Yen and U.S. dollars. As of December 31, 2011, we had issued under this Programme notes in the aggregate nominal amount of €5,183 million. We proactively managed our short-dated bond maturities via a combined tender and exchange offer in 2010 and in January 2012, we offered to purchase €500,000,000 5.125% notes due 2012 issued under this Programme and €500,000,000 4.125% notes due 2013. As a result of this offer, we repurchased the 2012 notes in the nominal amount of €221,711,000 and the 2013 notes in the nominal amount of €127,800,000. The bonds contain a mix of fixed and floating interest rates. We plan to continue to issue bonds in a balanced manner to institutional and individual investors both inside and outside of the Czech Republic in line with our strategy of maintaining longer maturities and diversified funding sources.

Short-Term Indebtedness

We have issued short-term debt as set forth in the table below.

As of December 31, 2011	
(CZK in millions)	
Short-term bank loans.....	4,333
Bank overdrafts.....	1,167
Total short-term loans.....	5,500
Current portion of long-term debt.....	19,264
Short-term debt, total.....	24,764

Total short-term debt (without current portion of long-term debt) as of December 31, 2011 was CZK 5,500 million, representing 3% of our total debt as of December 31, 2011, while the ratio was 6% of our total debt as of December 31, 2010.

Long-Term Indebtedness

We have issued long-term debt as set forth in the table below.

As of December 31, 2011	
(CZK in millions)	
Long-term bank loans ⁽¹⁾	32,842
of which current portion.....	1,382
Bonds ⁽²⁾	151,107
of which current portion.....	17,882
Long-term debt, total.....	183,949

⁽¹⁾ In January 2012, the Group concluded a bilateral loan facility agreement in the amount of €40 million with Goldman Sachs Bank USA. The maturity of the loan facility is three years. The proceeds from the loan will be used for general corporate purposes. In February 2012, ČEZ, a. s. signed the first tranche of a loan facility agreement amounting up to €100 million with the European Investment Bank to support financing of investments into reinforcement and development of the distribution grid in the Czech Republic.

⁽²⁾ In January 2012, ČEZ, a. s. offered to purchase €500,000,000 5.125% notes due 2012 issued under this Programme and €500,000,000 4.125% notes due 2013. As a result of this offer, ČEZ, a. s. repurchased the 2012 notes in the nominal amount of €221,711,000 and the 2013 notes in the nominal amount of €127,800,000. In April 2012, ČEZ issued twenty-year registered 4.7% bonds (*Namenschuldverschreibung*) under German law in the aggregate nominal amount of €40 million. In April 2012 ČEZ issued 4.25% Notes due 2022 in the aggregate principal amount of USD 700,000,000 and 5.625% Notes due 2042 in the aggregate principal amount of USD 300,000,000 within a private placement offering to qualified institutional buyers, pursuant to Rule 144A under the U.S. Securities Act and outside the United States to certain non-U.S. persons pursuant to Regulation S under the U.S. Securities Act. ČEZ entered into USD/EUR currency swaps with respect to the aggregate principal amount of the notes plus interest payable to maturity.

Total long-term debt as of December 31, 2011 was CZK 183,949 million, representing 97% of the total amount of our total debt as of December 31, 2011, while the ratio was 94% of our total debt as of December 31, 2010. Long-term borrowings from financial institutions comprised 18% of the long-term debt as of December 31, 2011.

Our long-term debt has both floating and fixed rates of interest which can expose us to interest rate risk and risks of changes in fair value of these financial instruments. 79% of the interest paid on long-term debt in the year ended December 31, 2011 was fixed rate interest, with the remainder being floating rate interest based mainly on EURIBOR, LIBOR, PRIBOR or CPI. For information regarding the repayment schedule of our long-term debt and interest rates for short and long-term debt, please see Notes 15, 16, 17 and 20 of our audited consolidated financial statements for the year ended December 31, 2011.

We have entered into interest rate swaps and other derivative contracts to manage risk associated with fluctuations in interest rates. For information with respect to derivative financial instruments and hedging, please see Note 17 of our audited consolidated financial statements for the year ended December 31, 2011.

REGULATION

Below is a brief summary of the rules and regulations applicable to the CEZ Group in the Czech Republic as our principal market. With the accession of the Czech Republic to the European Union on May 1, 2004, the Czech Republic adopted the customs, rules and regulations of the European Union, and therefore we have also included a description of the European Union Legislation as applicable to the CEZ Group. The following summary does not purport to be complete and is subject to the regulations of jurisdictions referred to below.

European Union Legislation

History of Energy Regulation

By virtue of its membership in the European Union, the Czech Republic is required to adhere to E.U. energy legislation which has continuously developed in order to establish a competitive, secure and environmentally sustainable electricity market.

The European Commission began regulating the E.U. energy market by enacting Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. First Electricity Directive*”) and Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. First Gas Directive*”) in 1996 and 1998, respectively. The E.U. First Electricity Directive and the E.U. First Gas Directive were designed to open access to the internal electricity and gas markets of E.U. member states and to allow for better competition in these markets. In June 2003, the E.U. Energy Council repealed the E.U. First Electricity Directive and the E.U. First Gas Directive by adopting Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. Second Electricity Directive*”) and Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. Second Gas Directive*”).

The E.U. Second Electricity Directive required each E.U. member state to allow for full competition within its internal commercial and residential electricity markets by July 1, 2004 and July 1, 2007, respectively. The E.U. Second Electricity Directive also set forth general rules for the organization of the E.U. electricity market, such as the option of the member states to impose certain public service obligations, customer protection measures and provisions for monitoring the security of electricity supply in the European Union; the establishment of a regulatory body, independent from any interests of the electricity and gas industries, which would be in charge of ensuring non-discriminatory network access, monitoring effective competition and ensuring the efficient functioning of the electricity generation, distribution, and trade market; and the implementation of so-called “legal unbundling” meaning that each transmission and distribution system operator had to be separated, at least in terms of legal form, organization and decision-making, from other activities in the energy sector not relating to transmission or distribution.

The E.U. Second Electricity Directive further focused on enhancing customer rights by granting household customers the right to be supplied with electricity of a specified quality at reasonable, easily and clearly comparable and transparent prices. Moreover, it required electricity suppliers to provide their end-users with information on the energy sources and kinds of fuel used in the production of supplied electricity and on the environmental impact of the supplier’s activities, including the amount of carbon dioxides and radioactive waste produced.

Similar to the E.U. Second Electricity Directive, the E.U. Second Gas Directive, adopted on June 26, 2003, required each member state to allow for full competition within its internal commercial and residential gas market by July 1, 2004 and July 1, 2007, respectively. With regard to the independent regulatory authority and legal unbundling, the E.U. Second Gas Directive sets forth similar rules as the E.U. Second Electricity Directive.

The Czech Republic implemented these directives in 2003 and 2004.

Current E.U. Energy Regulation

In 2007, the European Commission published an “energy package,” which contained proposals for the establishment of a new energy policy and strategy for a more integrated and competitive energy market within the European Union. Designed to ensure a stable energy supply and combat climate change, the energy package set certain targets, including:

- further liberalization of electricity markets;
- a reduction of at least 20% in greenhouse gas emissions by 2020;
- a 20% share of renewable energies in E.U. energy consumption by 2020; and
- for the sectors subject to emissions trading, a 20% reduction in CO₂ levels by 2020.

Subsequently, in 2009 the European Union adopted the climate and energy package (the “*E.U. Climate and Energy Package*”), including, but not limited to Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. Third Electricity Directive*”) and Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. Third Gas Directive*”). These directives were designed to complete the liberalization of the electricity and gas markets within the European Union. In particular, the E.U. Climate and Energy Package contemplates the further separation of supply and production activities from transmission network operations. To achieve this goal, member states are able to choose, subject to the respective conditions set forth in the E.U. Third Electricity Directive and the E.U. Third Gas Directive, between the following three options:

- Full ownership unbundling. This option entails vertically integrated undertakings selling their gas and electricity grids to an independent operator, which will carry out all network operations.
- Independent System Operator (“ISO”). Under this option, vertically integrated undertakings maintain the ownership of the gas and electricity grids, but they are obliged to designate an independent operator for the management of all network operations.
- Independent Transmission Operator (“ITO”). This option is a modification of the ISO option whereby vertically integrated undertakings do not have to designate an ISO, but need to abide by strict rules ensuring separation between supply and transmission. As further described below, the Czech Republic has opted for the full ownership unbundling with regard to electricity, and for ITO-unbundling option with regard to gas.

The E.U. Climate and Energy Package also enhanced consumers’ rights by establishing the right to (i) change electricity or gas supplier without cost (the process of switching must be completed within three weeks), and receive the final closure statement at the latest six weeks after the switch; (ii) obtain compensation if quality targets are not met; (iii) receive information on supply terms through bills and company websites; and (iv) see complaints dealt with in an efficient and independent manner.

Finally, the E.U. Climate and Energy Package provides for the creation of an agency within the European Union for the coordination of national energy regulators, which will issue non-binding framework guidelines for national agencies. It is expected that this will result in a more harmonized energy regulation across the European Union. The Czech Republic implemented the E.U. Climate and Energy Package in August 2011.

Cross-Border Trading of Electricity

Besides focusing on liberalizing internal energy markets in every member state, European energy regulation is also designed to improve cross-border trade of electricity. Accordingly, the European Union has also implemented Regulation (EC) No. 1228/2003 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity. This regulation required the establishment of a committee of national experts chaired by the European Commission, which adopted guidelines on (i) inter-transmission system operator compensation for electricity transit flows; (ii) the harmonization of national transmission charges; and (iii) network congestion management. This Regulation established a fund mechanism to cover costs resulting from cross-border trades, whereby transmission system operators contribute into a fund according to their net physical import and export flows. The distribution of the accumulated funds then depends on transit volume.

Although Regulation (EC) No. 1228/2003 was partially successful, the European Commission adopted Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity (the “*E.U. Regulation on Cross-Border Exchanges*”). The E.U. Regulation on Cross-Border Exchanges repealed Regulation (EC) No. 1228/2003 and established rules designed to alleviate cross-border exchange difficulties, with a view to improving competition and harmonization in the internal electricity market.

The E.U. Regulation on Cross-Border Exchanges created the European Network of Transmission System Operators (the “*ENTSO for Electricity*”), composed of designated transmission network operators from all member states. Some of ENTSO for Electricity’s responsibilities include:

- the adoption of a ten-year network development plan;
- recommendations relating to the coordination of technical cooperation between E.U. transmission system operators;
- an annual work program;
- the management of the electricity transmission system;
- allowing the trading and supply of electricity across borders in the European Union; and
- ensuring that there is continuous cooperation in congestion management.

Consequently, transmission system operators have a duty to put in place information exchange mechanisms in order to ensure the security of networks in the context of congestion management.

The costs related to the activities of the ENTSO for Electricity are borne by the transmission system operators which receive compensation for costs incurred as a result of hosting cross-border flows of electricity on their networks. Compensation is paid by the operators of national transmission systems from which cross-border flows originate. Charges for access to networks are also applied by operators.

Energy Infrastructure

Gas Infrastructure Legislation

In November 2005, the European Commission adopted Regulation (EC) No. 1775/2005 on Conditions for Access to Natural Gas Transmission Networks, which covered access to all transmission networks in the European Union and addressed a number of issues such as access charges (which had to reflect the actual costs incurred), third party access services, capacity allocation mechanisms, congestion management, balancing and imbalance charges, secondary markets and information and confidentiality provisions. Regulation (EC) No. 1775/2005 established a committee of national energy experts, which has the authority to revise the rules annexed to the Regulation. In July 2009, it was replaced by Regulation 715/2009 on Conditions for Access to Natural Gas Transmission Networks (the “*E.U. Natural Gas Transmission Regulation*”).

The E.U. Natural Gas Transmission Regulation complements the E.U. Third Gas Directive and stipulates rules for natural gas transmission networks, gas storage and liquefied natural gas facilities. It concerns access to infrastructures, particularly by determining the establishment of tariffs (solely for access to networks), services to be offered, allocation of capacity, transparency and balancing of the network. It provides for access to maximum network capacity as well as storage and liquefied natural gas facilities for all market participants. Infrastructure operators have a duty to implement and publish non-discriminatory and transparent congestion-management procedures.

Like the E.U. Regulation on Electricity Cross-Border Exchanges, it creates the European Network of Transmission System Operators for Gas (“*ENTSO for Gas*”), composed of gas transmission network operators from all member states. ENTSO for Gas is responsible for adopting:

- common network operation tools;
- a ten-year network development plan;
- recommendations relating to the coordination of technical cooperation between Community transmission system operators; and
- annual work programs, annual reports and supply outlooks.

Security of Electricity and Gas Supply Electricity supply

In December 2003, the European Union adopted Directive 2005/89/EC Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment (the “*E.U. Electricity Security of Supply Directive*”), which requires E.U. member states to ensure a high level of security of electricity supply by taking necessary measures to facilitate a stable investment climate. The E.U. Electricity Security of Supply Directive stipulates that transmission system operators set minimum operational rules and obligations for network security, which may then require approval by the relevant authority. Member states must also prepare, in close cooperation with the transmission system operators, a system adequacy report according to E.U. reporting requirements. Member states were required to transpose the E.U. Electricity Security of Supply Directive into national law by February 24, 2008. The Czech Republic transposed the E.U. Electricity Security of Supply Directive into national law in 2009.

Gas supply

Following the Russian-Ukrainian gas crisis of January 2009, Regulation (E.U.) No. 994/2010 Concerning Measures to Safeguard Security of Gas Supply (the “*E.U. Gas Supply Directive*”) was adopted in order to strengthen the prevention and crisis response mechanisms.

The E.U. Gas Supply Directive imposed a number of new rules designed to prevent and mitigate potential disruptions to gas supplies, such as risk assessment mechanisms, preventive action plans and emergency plans, duty to ensure gas supplies to households for at least 30 days under severe conditions or enhancing flexibility of the gas infrastructure, including enabling bi-directional physical capacity on cross-border interconnections.

Proposed Changes for Energy Infrastructure

The European Commission recently launched a proposal for a Regulation on Guidelines for trans-European energy infrastructure which would ensure completion of strategic energy networks and storage facilities by 2020.

To this end, the Commission has identified 12 priority corridors and areas covering electricity, gas, oil and carbon dioxide transport networks. The general objective of this initiative is to ensure sufficient and timely development of energy infrastructures across the European Union and neighboring countries in order to facilitate continuous and unrestricted cross-border energy flow. The Regulation proposes (i) a regime of “common interest” for projects contributing to implementing these priorities, (ii) the streamlining of permit-granting procedures to significantly reduce their duration for projects of common interest and (iii) the provision of direct E.U. financial support to projects of common interest based on certain specific eligibility rules. The territory of the Czech Republic is included in the project of Central/South Eastern Electricity Connections and in the project of North-South Gas Interconnections and Oil Supply which indicates the possibility of significant future investments with E.U. support into the Czech energy infrastructure in the next decade.

Renewable Energy Sources

The European Union made commitments to reduce greenhouse gas emissions under the Kyoto protocol for reducing greenhouse gas emissions (the “*Kyoto Protocol*”). Under the Kyoto Protocol, promotion of electricity from renewable energy sources, meaning electricity produced from non-fossil renewable energy sources such as wind, solar, geothermal, wave, tidal, hydroelectric, biomass and biogas energies, became a priority of the European Union. To this end, E.U. bodies adopted Directive 2009/28/EC on the promotion of the use of energy from renewable sources (and amending and subsequently repealing earlier Directives 2001/77/EC and 2003/30/EC) (the “*E.U. Renewable Energy Directive*”). The E.U. Renewable Energy Directive establishes a target for each member state based on the contribution of renewable energy to gross final consumption for 2020. This target is in line with the overall “20-20-20” goal for the Community. Moreover, the contribution of renewable energy in the transportation sector must amount to at least 10% of final energy consumption in the sector by 2020.

Czech Republic

General Overview

The Czech energy sector is governed by a wide range of laws and regulations which also implement the European legislation described above. The key law focusing solely on the energy sector is Act No. 458/2000 Coll., on conducting business and governmental oversight in the energy sectors, as amended (the “*Czech Energy Act*”) which provides the legal basis for conducting business in the energy sector and obtaining the necessary licenses for the production, distribution and sale of electricity, gas and heat. The Czech Parliament enacted the Czech Energy Act in 2000 and broadly amended it in August 2011 as a means of implementing the E.U. Third Electricity Directive. The Czech Energy Act contains provisions in compliance with applicable E.U. legislation. Its main principles are: (i) to conduct business in the electric energy sector only with licenses issued by the ERO; (ii) the unbundling of transmission and distribution system operators; (iii) the liberalization of the market by allowing competition in the energy sector; (iv) the establishment of a strong and independent regulatory authority (i.e. the ERO); and (v) the protection of end-consumers.

Other laws related to the energy sector include, but are not limited to:

- Act No. 86/2002 Coll., on protection of the air, as amended (the “*Czech Air Protection Act*”);
- Act No. 695/2004 Coll., on conditions for trading with emission allowances, as amended (the “*Czech Emission Allowances Act*”);
- Act No. 18/1997 Coll., the nuclear act, as amended (the “*Czech Nuclear Act*”);
- Act No. 180/2005 Coll., on the promotion of production of electricity from renewable energy resources, as amended (the “*Czech Renewable Energy Act*”);
- Act No. 44/1988 Coll., on Protection and Exploitation of Minerals, as amended (the “*Czech Mining Act*”); and
- Act No. 76/2002 Coll. on integrated pollution prevention and control, as amended, (the “*Czech IPPC Act*”).

Regulatory Authorities

The main governmental authorities supervising the energy sector are the ERO, the State Energy Inspectorate (the “SEI”), the Ministry of Industry and Trade of the Czech Republic (the “*Czech Ministry of Industry*”) and the Ministry of Environmental Matters of the Czech Republic (the “*Czech Ministry of Environmental Matters*”).

The Czech Ministry of Industry is responsible for processing the state energy conception in compliance with Czech legislation, for administering matters in connection with renewable energy resources and for compliance with applicable E.U. legislation. The Czech Ministry of Environmental Matters primarily administers matters in connection with emission allowances and air pollution. Following implementation of the E.U. Climate and Energy Package and the amendment of the Czech Energy Act in August 2011, a wide range of powers previously granted to the SEI were transferred to the ERO. Currently, the SEI is responsible for ensuring that electricity market participants comply with renewable energy legislation and legislation concerning energy economy, applying sanctions where necessary. The SEI will continue to monitor compliance with regulations regarding support of renewable energy resources.

The ERO is the Czech Republic's primary energy regulatory body. The ERO has the right to issue licenses, fix prices and adopt rules implementing energy legislation. The ERO is also entitled to proceed independently from other governmental authorities and has been designated as the main supervisory authority in the energy sectors. The ERO has the right to review and certify the implementation of unbundling rules, review contractual relationships between vertically integrated companies, perform local inspections of business premises and request the provision of documents and information, as well as to perform market functioning analyses or cooperate with the Czech Office for Protection of Competition. In the event that applicable regulations under the Czech Energy Act are breached, the ERO may, in the case of holders of licenses for electricity production, trading and distribution, impose fines of up to CZK 50 million or 1% of the relevant company's turnover, and in the case of transmission network operators, fines of up to CZK 100 million or 10% of the relevant company's turnover. In respect of vertically integrated companies, a fine of up to CZK 50 million or 1% of company's turnover may be imposed on the controlling company for giving instructions to its subsidiaries in breach of the applicable distribution unbundling legislation. In addition, the ERO may also require entities that breach applicable regulations to perform specific remedial measures. As of 2012, the ERO is financed by a fee of CZK 2.0 per MWh for electricity and CZK 1.0 per MWh for gas charged to market participants as a part of the regulated price of electricity and gas.

Electric Energy Sector

Licensing Regime

Under the Czech Energy Act, participants in the electricity market must obtain a license issued by the ERO for their activities. Licenses for electricity or gas trading granted in other E.U. member states are also recognized. An applicant is entitled to request a decision from the ERO on license recognition if such applicant already possesses a similar license issued by the competent authority in another E.U. member state; however, such license holder must establish a business entity or a branch office in the Czech Republic. In order to avoid the possibility of the ERO making discriminatory decisions, the ERO is obliged to issue the license if the applicant meets certain statutory requirements. The ERO may renew or extend a license if the same requirements for the issuance of a new license are met. However, there is no assurance that a license will be issued, renewed or extended. Licenses are granted for a specified period of time (up to a maximum of 25 years, with the exception of (i) the license for electricity trading, which is issued for a set period of five years; and (ii) the license for the market operator, which is issued for a set period of 25 years). The list of license owners is published in a bulletin issued by the ERO and the information about the license holders is published on the ERO website.

Electricity Generation

Authorization to construct power plants

If a company wishes to construct a power plant with an installed electrical output of more than 100 kW, it must obtain an authorization from the Czech Ministry of Industry. The issuance of such authorization by the Czech Ministry of Industry is discretionary, however, the following factors must be taken into account:

- compliance with the state energy conception (which is a resolution of the Czech Government defining its strategic goals in the energy sector, including, among other things, its 30 year outlook);
- compliance with the national action plan for renewable sources of energy;
- compliance with the grid development plans;
- the geographic placement of the plant;
- use of primary sources of energy;
- energy efficiency; and
- financial soundness of the investor.

Coal-fired power plants

The operation of a coal-fired power plant requires possession of a power generation license, as well as various other licenses and authorizations, including construction-law and environmental-law permits. The statutes enumerated below regarding air pollution and carbon compliance materially impact the operation of coal-fired power plants.

Czech Air Protection Act

Coal-fired power plants must comply with several regulations under the Czech Air Protection Act. For example, the company operating a coal-fired power plant is subject to the “polluter pays” principle under which it must pay emission charges to the State Environmental Fund for emissions of specified volumes of various air pollutants, including sulfur oxides (“SO_x”), mono-nitrogen oxides (“NO_x”), carbon monoxide, methane and particulate matters (such as dust and grit). The State Environmental Fund is a separate budgetary organization under the administration of the Czech Ministry of Environmental Matters created for the purpose of protecting the environment and serves as a depository for all charges, contributions and fines. Additionally, the Czech Air Protection Act prescribes emission binding limits on the concentration of emitted air pollutants.

The Czech Air Protection Act also allows governmental and regional authorities to set aggregate emission limits on the total amount of air pollutants which power plants may emit into the air. Currently, such aggregate emission limits have been set by the government for so called “existing particularly large combustion plants” for which a building permit was issued prior to July 1, 1987. The owners of such plants must submit plans regarding emission limits to the competent authorities in order to comply with both the aggregate and individual emission limits.

The Czech Air Protection Act empowers the Czech Ministry of Environmental Matters to temporarily restrict emissions or reduce or shut down output from certain pollution sources if overall air pollution limits are exceeded, even if a given pollution source does not exceed applicable limits. The Czech Air Protection Act also empowers the Czech Environmental Inspection Agency to order any pollution source exceeding pollution limits to be shut down.

Lower emission limits

Starting January 1, 2016, the aggregate emission limits for NO_x assigned to “existing particularly large combustion plants” in the Czech Republic will be reduced by approximately 28-30%. Power plants for which a construction permit was issued between July 1, 1987 and December 31, 2002 and which have an installed capacity of at least 500 MW, will be subject to reduction of 50% in NO_x emission limits.

Proposed new Czech Air Protection Act

Amendments to the Czech Air Protection Act are pending which aim, among other things, to implement certain parts of the E.U. Directive 2010/75/EC on industrial emissions (on integrated pollution prevention and control) which entered into force on January 6, 2011 and must be transposed into Czech legislation by January 7, 2013 (“*Industrial Emissions Directive*”).

The Industrial Emissions Directive requires E.U. member states to impose NO_x, sulfur dioxide and dust emission limits on combustion plants, which are more stringent than such limits currently imposed by E.U. and Czech legislation. The specific value of such emission limits depends on various factors, including total rated thermal input, type of fuel used by the combustion plant or the date on which such plant was put into operation (or has been granted a permit). Combustion plants put into operation after January 7, 2014 will be required to comply with the most stringent emission limits. Less stringent emission limits apply to certain combustion plants put into operation prior to November 27, 2003 which do not exceed 1,500 operating hours per year.

The Industrial Emissions Directive allows for two exemptions from the new emissions limits described above. First, E.U. member states are not required to impose the new emission limits (except for certain emissions limits regarding NO_x) in respect of combustion plants put into operation prior to November 27, 2003 if they implement a transitional national plan under which the relevant combustion plants will be permitted to retain their original emission limits but will be subject to an aggregate emissions ceiling which will be decreased on a linear basis until 2020. Second, E.U. member states may allow combustion plant operators to apply for an exemption from the new emission limits, provided such plants will end their operations by December 31, 2023. According to publicly available information, the Czech government plans to implement both of these exemptions in the new amended Czech Air Protection Act.

Carbon compliance - phase II

Legislation adopted by the European Union as a result of the Kyoto Protocol has been fully transposed into Czech law. The legislation aims to combat climate change and establish a carbon emission allowances market within

the European Union. Currently, the European Trading System for CO₂ emission allowances (“E.U. ETS”) is in Phase II. Phase II allows for offsets from Joint Implementation and Clean Development Mechanism projects to be used in place of emission allowances.

In addition, under Phase II, each European Union member state was obliged to submit a national allocation plan of carbon allowances to the European Commission for confirmation. This plan determined both the total amount of carbon allowances allocated to the respective European Union member state for the entire five year period of Phase II and the annual amount of carbon allowances allocated to certain identified facilities producing CO₂. Phase II is scheduled to complete on December 31, 2012 and Phase III begins in 2013.

Taxation of allocated emission allowances during phase II

The Czech Republic assigned the emission allowances that it had been allocated under the Czech Emission Allowances Act without cost to certain CO₂ producing facilities. In the event that such facilities reduce their CO₂ emissions, they may sell the assigned emission allowances on the market for a profit. Conversely, in the event that such facilities require more emission allowances, they must buy the emission allowances on the market and, as a result, incur additional expenses.

Due to certain economic and political events, including the increase in the number of solar power plants in 2010, electricity prices increased and the Czech Parliament amended the Czech tax law. A tax was imposed on CO₂ emissions producers who sell electricity to third parties, which amounts to 32% of the average market value of all emission allowances allocated without cost to CO₂ emissions producers in a given year (where market value is determined by the Czech Ministry of Environmental Matters). Certain emission allowances obtained for the purpose of combined production of heat and electricity are exempt from the tax.

Contestation by Czech senators

Members of the Czech Parliament have filed a complaint with the Constitutional Court of the Czech Republic requesting that the Constitutional Court repeal certain changes adopted in connection with the Czech Renewable Energy Act tax and the abolition of the 5-year tax break, as described in “—*Renewable Energy Sources—Amendment of the Czech Renewable Energy Act.*” The case is still pending and a decision is expected to be reached in the course of 2012.

Other obligations regarding carbon compliance

The Czech Emission Allowances Act also requires that specified facilities producing CO₂ emissions, including coal-fired power plants, obtain a special license issued by the Czech Ministry of Environmental Matters permitting their operation and certifying they are capable of complying with various requirements, including monitoring and periodic reporting obligations to competent authorities.

Carbon compliance - phase III

Phase III begins on January 1, 2013. Directive 2009/29/EC dated April 23, 2009, established the basis for Phase III of the E.U. ETS. Phase III introduces significant changes, including a longer trading period (8 years, compared to 5 years under Phase II) and a greater harmonization of rules relating to emission allowances allocation. In addition, European Union member states will no longer submit their national allocation plans for approval. The European Commission will instead set an emission allowance cap for the European Union, which determines the maximum amount of emissions possible. Currently, the cap, subject to further possible adjustments, is set at approximately 2.04 billion emission allowances per annum.

From 2013 until 2020, the cap will decrease each year by 1.74% of the average annual total quantity of emission allowances issued by the member states between 2008 and 2012, which, in absolute numbers, is an annual reduction of approximately 37.4 million emission allowances. This annual reduction will continue beyond 2020 but may be subject to revision not later than 2025.

Allocation of emission allowances during phase III

Phase III rules prohibit the allocation of emission allowances without cost to electricity generators from 2013 onwards. Instead the electricity generators trade the emission allowances they require on the E.U. ETS market. There is an exemption for the 10 newest European Union member states, including the Czech Republic, which may continue to allocate limited volumes of emission allowances without cost to installations that began to generate electricity before December 31, 2008 or for which the investment process was “physically initiated” by that date (the “E.U. Emissions Exemption”). The transitional period for the E.U. Emissions Exemption expires on December 31, 2019, so by 2020, all emission allowances must be paid for. European Union legislation requires installations benefiting from this exemption

to invest in projects designed to modernize electricity generation in the European Union member state concerned. The value of the investments should mirror the value of the allocation.

Application by the Czech government

On September 21, 2011, the government of the Czech Republic, under the E.U. Emissions Exemption, approved a national plan for investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector, which forms part of the application submitted on September 30, 2011 to the European Commission. The European Commission has the task of assessing and approving or rejecting the proposed allocation of emission allowances without cost, within six months, taking into account the criteria set out in the 2003/87/EC Directive on greenhouse gas emission allowances. The final decision of the European Commission was expected by March 31, 2012 (please see “*Risk Factors—The Czech national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector approved by the Czech government, under which emission allowances are allocated to us at no cost, may not be approved by the European Commission.*” and “*Description of the Issuer-Emission Rights*”).

Nuclear Energy Power Plants

Under Czech legislation, nuclear power plant operators are required to obtain special nuclear permits. These include permission from the Ministry of Environmental Matters and the Ministry of Industry and a license issued by the Czech Republic State Office for Nuclear Safety (“*SONS*”). Nuclear permits are renewed or extended if the requirements for the issuance of such a permit are satisfied. However, there is no assurance that nuclear permits will be issued, renewed or extended.

Nuclear incident liability

On June 24, 1994, the Czech Republic became a party to the Vienna Convention on Civil Liability for Nuclear Damage (the “*Vienna Convention*”). On the basis of the principles of the Vienna Convention, the Czech Parliament enacted the Czech Nuclear Act in July 1997. The Czech Nuclear Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and that the operator’s liability for such damage is limited to CZK 8 billion per incident. The Czech Nuclear Act also provides that operators of nuclear facilities are obliged to acquire insurance covering potential liabilities for damages resulting from the operation of nuclear facilities for a minimum of CZK 2 billion and for a minimum of CZK 300 million in connection with other activities (such as transportation of nuclear materials).

Nuclear safety

Pursuant to Czech law, SONS is responsible for supervising the safe operation of nuclear power plants, the quality of selected activities, repair and maintenance, personnel training and regulatory compliance. Inspectors are permanently on site at nuclear power plants to monitor performance and compliance with safety standards and operating procedures, and to make sure that appropriate improvements are made by the license holder. Safe operation of a nuclear power plant is governed by documentation and reporting requirements, approved by SONS (such as Technical Specifications and Radioactive Effluent & Emission Monitoring Programs).

Nuclear fuel and nuclear waste

Nuclear fuel materials and services (i.e. uranium, conversion and enrichment) are procured pursuant to medium- and long-term contractual arrangements. These procurement activities are under the supervision of the European Supply Agency (the “*ESA*”), which endorses and co-signs all new supply contracts, in full compliance with the ESA supply policy and related limitations.

The Czech Republic guarantees the safe disposal of nuclear waste. Pursuant to requirements of the Czech Nuclear Act, the Czech Repository Authority was established on June 1, 1997, which carries out particular activities associated with disposal of nuclear waste. The Czech Nuclear Act provides that a generator of nuclear waste remains responsible for storage of nuclear waste and related costs until the waste is transferred to the Czech Repository Authority. The Czech Repository Authority centrally organizes, supervises and is responsible for all final disposal facilities and deposition of nuclear waste therein.

The Czech Repository Authority is funded by the Czech Nuclear Account. All nuclear waste generators have a duty to contribute cash to the Czech Nuclear Account on a monthly basis. The contribution is determined based on the estimated total costs of management and liquidation carried out by the Czech Repository Authority, and on the share of the respective waste generator.

Maintenance contributions to SONS

Since January 1, 2012, all operators of nuclear facilities and applicants for permits to operate nuclear facilities must pay contributions to fund the operation and maintenance of SONS. The contribution consists of: (i) a lump sum of between CZK 30 million and CZK 150 million, payable with an application for permission to commence operation of a nuclear facility; and (ii) a maintenance contribution which must not exceed CZK 4 million per month, payable by current holders of a permit to operate a nuclear facility. The amounts of maintenance contributions are determined by governmental decree and depend on the extent of operational risk of the relevant nuclear facility. The maintenance contribution is determined on a monthly basis and due annually.

Decommissioning of nuclear power plants

The Czech Nuclear Act requires a contribution from every nuclear plant operator to special escrow accounts for future decommissioning of its facilities.

Other international regulation related to nuclear energy

The Czech Republic is a member of the International Atomic Energy Agency (the “IAEA”) and, as a result, our nuclear power plants have been subject to a number of on-site IAEA assessments. The first Operational Safety Review Team (“OSART”) assessment took place at Dukovany nuclear power plant in 1989 and others took place in 1991 and in November 2001.

In 1991, IAEA and the Nuclear Energy Agency of the OECD introduced a seven grade international nuclear events scale, an internationally recognized standard used to inform the public of the safety of a nuclear event. Levels 4 to 7 are termed “accidents” with a significant radiation exposure off-site, whereas Levels 1 to 3 are termed “incidents” with exposure at the nuclear facilities only.

Renewable Energy Sources History

On January 10, 2007, the European Commission launched its climate and energy package for the European Union to achieve a 20% reduction in greenhouse gas emissions by 2020. Under this plan, the Czech Republic must increase the share of renewable sources (composed of renewable energy for heat, renewable energy for electricity and the use of biofuels in transport) in the total gross energy consumption from 6.1% (the share in 2005) to 13% by 2020. In 2005, the Czech Parliament enacted the Czech Renewable Energy Act as a means of implementing the first renewable energy directive, 2001/77/EC. Under the provisions of this statute, total energy consumption must comprise of at least 8% renewable energy by 2010. This statute also allowed support for power plant operators, consisting of (i) priority access to the distribution grid and (ii) financial support by means of either (x) fixed feed-in tariffs (meaning a guaranteed minimum purchase price for generated electricity), or (y) “green bonuses” representing a certain amount in excess of the market price of electricity.

Amendment of the Czech Renewable Energy Act

A high number of new solar power plants have been built on agricultural land in the Czech Republic. The legal obligation to support the owners of these solar power plants and the instable nature of solar energy caused an increase in electricity prices for end-consumers. As a result, in 2010 the Czech Parliament approved significant changes to the rules on support of solar power plants, including:

- significant limits on eligibility (e.g. support is only provided for small solar power plants on rooftops of buildings);
- in relation to facilities put into operation on or after January 1, 2011, the authority of the ERO to decrease fixed feed-in tariffs by more than 5%, provided that the investment repayment period is shorter than 11 years;
- withholding tax imposed on operators of solar facilities put into operation between January 1, 2009 and December 31, 2010, in the amount of (i) 26% of the income corresponding to the feed-in tariff or (ii) 28% of the income corresponding to the “green bonus,” as applicable. This tax is applicable until December 31, 2013;
- abolition of the exemption from income tax;
- increased fee for solar facilities being built on agricultural land; and
- state subsidies introduced as financial support for renewable energy.

Contestation by Czech senators

For information on this contestation, see “*Electric Energy Sector—Electricity Generation—Contestation by Czech senators.*”

The Czech New Renewable Resources Act

New legislation relating to renewable resources is pending, the purpose of which is to implement the E.U. Directive 2009/28/EC (the “*Czech New Renewable Resources Act*”).

The Czech New Renewable Resources Act is designed to regulate all types of ecological energy sources, and support for these sources, as well as the co-generation of electricity and heat and specific measures designed to support co-generation. Under the Czech New Renewable Resources Act, the Czech Ministry of Industry will elaborate the “National Action Plan” that will mirror the targets set by the European Commission relating to the share of renewable resources in total energy consumption and the reduction of greenhouse gas emissions. The National Action Plan will require different types of renewable energy sources to contribute different shares of total consumption. The Czech New Renewable Resources Act differs from previous legislation in that only some renewable energy sources will be eligible for support and the support of new power plants will depend on compliance with the National Action Plan.

Pursuant to the Czech New Renewable Resources Act, subsidies paid to the power plant operators will be predominantly in the form of green bonuses. The option to sell the electricity under feed-in tariffs will be granted only to an extremely limited group of very small producers. The payment of green bonuses will be based upon offer and demand, in order to encourage operators to produce electricity only when there is a demand. The Czech New Renewable Resources Act retains all of the measures of previous legislation designed to prevent the exploitation of large solar power plant projects implemented. It only applies to new power plant constructions, whereas power plants that commenced operation prior to enforcement of the Czech New Renewable Resources Act (or during a given grace period) are subject to the former regime.

Transmission and Distribution of Electric Energy

History

Until 1990, one single state owned conglomerate operated the whole electricity system. In 1990, regional distribution companies were separated from the state enterprise and in 1994, they were transformed into joint stock companies (the “*REAS*”), and offered to the public as part of the privatization process in 1995. The Czech Republic, through the National Property Fund, retained a controlling stake of approximately 48% of shares in each of the REAS. The CEZ Group was initially 100% state owned but as part of the privatization process, a 33.2% stake in the Group was offered to the public (with the Czech Republic retaining a 67.8% majority stake). In addition to the privatization of the REAS, local electricity producers have been partially privatized. ČEPS, a.s., a company controlled by the Czech Ministry of Industry, was established in October 1998. By 2003, the CEZ Group had transferred the entire transmission grid to ČEPS, a.s.

Current Structure

Currently, following implementation of applicable E.U. legislation, the Czech electricity transmission and distribution system is structured as follows:

- the transmission system is owned by ČEPS, a.s.;
- the distribution system is predominantly owned by three companies being successors of the REAS: ČEZ Distribuce, a.s., E.ON Distribuce, a.s. and PREdistribuce, a.s.;
- ownership unbundling has been implemented in relation to the transmission system;
- management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- as a result of unbundling legislation, any applicant must be provided full access to the transmission and distribution networks and to transmit or distribute electricity through these networks, to the extent technically practicable; and
- since January 1, 2006 the electricity market has been fully liberalized and all end-consumers are considered as eligible customers who may freely choose their supplier of electricity based on current market conditions (instead of being considered as protected customers with the price of electricity being determined by the ERO).

The market operator (“OTE”) is a joint stock company owned by the Czech Republic, which administers and reports upon the regular electricity and gas market and (in cooperation with ČEPS, a.s. and NET4GAS, s. r. o.) administers accounting in respect of the energy balancing market.

Participants

Based on the above, the following categories of electricity market participants exist in the Czech Republic: (i) generators (producers); (ii) the transmission grid operator (ČEPS, a.s.); (iii) distribution grids operators; (iv) OTE; (v) electricity traders; and (vi) end-consumers.

Price of Electricity

The final price of electricity on the Czech market for end-consumers consists of two components, non-regulated and regulated. The first, non-regulated, component is the market price of electricity as a commodity which is freely negotiable between contracting parties. The second, regulated, component consists of the following items, the prices of which are set by the ERO:

- transport and distribution of electricity;
- system services;
- additional costs of energy generation from renewable sources and CHP; and
- the costs of operation of OTE and partly the ERO.

The ERO bases regulated prices of electricity transport and distribution on revenue limits related to predicted distributed electricity volume. The revenues are calculated as the sum of the following four components:

- price of using the grid which reflects costs of covering losses during the transportation;
- operating expenses, which are updated (taking into account the inflation and the price index of market services and sector efficiency factor) using historical data;
- depreciation; and
- regulatory rate of return (profit margin), which is a product of weighted average cost of capital (WACC) and regulatory assets base. WACC is annually updated based on the risk free rate, costs of debt, market risk premium related to the Czech Republic and tax rate.

Trading

As well as trading on the electricity spot market which is organized by OTE, trading on the electricity futures market is offered by the Power Exchange Central Europe (“PXE”). The spot market is also accessible through the PXE. Currently, the PXE offers power trading with standardized products for Czech, Slovak and Hungarian power on an anonymous basis and with secure settlement. The PXE is a subsidiary of the Prague Stock Exchange.

Heating Energy Sector

Heat Generation and Prices

Under the Czech Energy Act, heat generators and distributors must have a license from the ERO. The price of heating supply is calculated pursuant to applicable legislation and the ERO pricing regulations for the relevant calendar year. The ERO bases regulated prices on economically justifiable expenses, a profit margin and value added tax.

Support of Co-Generation of Heat and Electricity

The Czech Energy Act promotes co-generation by providing priority access for co-generation facilities to the distribution and transmission grid and by imposing an obligation on all heat distribution license holders to purchase heat produced through co-generation. Operators of efficient co-generation facilities are entitled to obtain bonuses on electricity prices. These bonuses depend on the installed capacity of the power plant and are funded by the regulated price of electricity.

Exemption from Emission Allowances Gift Tax

As stated above, certain emission allowances which are allocated without cost for the purpose of combined production of heat and electricity are exempt from the special 32% gift tax (see “*Electricity Generation—Taxation of allocated emission allowances during phase II*” above). The specific amount of exempt emission allowances for a given electricity generator is determined based on the ratio of the average volume of electricity produced from co-generation of heat and electricity in 2005 and 2006 to the average total volume of electricity produced in 2005 and 2006.

Gas Sector

The E.U. First Gas Directive, the E.U. Second Gas Directive and the E.U. Third Gas Directive apply to the gas markets within the European Union, which are designed to liberalize such markets. The development of legislation in the Czech gas sector on the background of E.U. legislation is described above in “—*European Union Legislation—History of Energy Regulation.*”

Licensing Regime

Gas suppliers must obtain licenses from the ERO for transportation, distribution, trading and storage, as the case may be. In order to avoid the possibility of the ERO making discriminatory decisions, the ERO is obliged to issue the license if the applicant meets certain statutory requirements. Licenses are granted for a specified period of time (up to a maximum of 25 years, with the exception of the license for gas trading, which is issued for a set period of five years, and the license for the market operator on the gas market, which is issued for a set period of 25 years). The list of license holders is published in a bulletin issued by ERO and the information about the license holders is published on the ERO website.

Transmission and Distribution of Gas History and current structure

The gas infrastructure in the Czech Republic was privatized between 2001 and 2003 by the sale of the company Transgas, a.s. and the regional gas distribution companies to the German based RWE Gas AG. In the gas sector, the CEZ Group focuses predominantly on trading of gas. Trading is performed by ČEZ, a.s. and its two subsidiaries ČEZ Prodej, s.r.o. and ČEZ Energetické služby, s.r.o.

Currently, following implementation of applicable E.U. legislation, including the E.U. Third Gas Directive, the Czech gas transmission and distribution system is structured as follows:

- the transmission system is owned by NET4GAS, s.r.o.;
- Independent Transmission Operator unbundling regarding the transmission network has been implemented in relation to vertically integrated undertakings. Full ownership unbundling has been implemented in relation to transmission network operators which are not part of vertically integrated companies;
- Under such rules, NET4GAS, s.r.o., being part of a vertically integrated undertaking in the Czech Republic, must abide by strict rules relating to the independence of transmission activities and non-discrimination in the gas market;
- any applicant must be provided full access to the transmission and distribution networks and must be able to transmit or distribute gas through the respective networks to the extent technically practicable;
- the distribution system is predominantly owned by: (i) the RWE AG Group through its four subsidiaries RWE GasNet, s.r.o., JMP Net, s.r.o., SMP Net, s.r.o., and VČP Net, s.r.o.; (ii) the EO.N Group through its subsidiary EO.N Distribuce, a.s.; and (iii) Pražská plynárenská Distribuce, a.s.;
- management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- since January 1, 2007 the gas market has been fully liberalized and all end-consumers are considered as eligible customers who may freely choose their supplier of gas based on current market conditions (instead of being considered as protected customers with the price of gas being determined by the ERO); and
- legal unbundling has been implemented in relation to gas storage facilities.

Price of gas

On the Czech liberalized market, the final price of gas for end-consumers consists of two components and its structure is the same as the structure on the electricity market (please see “*Transmission and Distribution of Electric Energy—Price of Electricity*”). The regulated component of the price of gas is further divided into the payment for: (i) transportation of gas through the transmission network (based on an entry/exit basis); (ii) transportation of gas through the distribution systems (which also integrates the exit fees from the transmission network); and (iii) system services.

The prices of the services outlined above are regulated by the ERO through revenue limits and, as with electricity, the revenues are calculated as the sum of operating expenses, depreciation, losses and regulatory rate of return (profit margin).

Coal Mining

Regulation of Mining

Mining is regulated by various statutes, but predominantly by (i) the Czech Mining Act, Act No. 61/1988 Coll., on Mining Activities, Explosives, as amended; and (ii) Czech Mining Office, Act No. 157/2009 Coll., on Disposing of Mining Waste. The authority overseeing mining activities in the Czech Republic and issuing decisions and permits necessary for commencing mining activities is the Czech Mining Office and local mining authorities.

Generally, opening a mine and conducting mining activities requires a number of approvals, decisions and permits, including, without limitation:

- a decision from the Czech Ministry of Environmental Matters on designation of the potential mining area and a permit for exploration and assessment;
- an approval from the Czech Ministry of Environmental Matters with the filing of an application for designation of the mining area;
- an environmental impact assessment (an “EIA”) from the Czech Ministry of Environmental Matters;
- a decision from the competent mining authority on designation and specification of the mining field;
- a mining permit from the competent mining authority;
- an authorization from the competent mining authority to perform mining activities; and
- an approval from the competent municipal authority.

The operator intending to conduct mining activities must also secure the transfer of legal title from the owners of the land that will be affected by the mining activities.

Coal Prices

Coal prices are liberalized and are determined on a contractual basis depending on market conditions. Coal “catalog” price lists are regularly published by all coal mining companies but the final purchase prices are subject to negotiation between suppliers and purchasers with regard to the individual business relationship, quantities and duration of the contract.

Coal Mining Limits

Even though there are substantial coal reserves in the Czech Republic, coal mining has been restricted in order to protect health and property interests of people living in the brown coal regions, primarily in Northern Bohemia. In 1991, the Czech Government set down mining limits that represent an obstacle to the extension of mining in certain areas.

Reclamation of Mines and Redevelopment of Waste Dumps

Coal mine operators are responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. To cover the costs of reclamation of mines and mining damages, coal mine operators are required by law to contribute to a special escrow account. Coal mine operators are also required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps by keeping certain amounts as restricted funds.

Final Disposal of Coal Waste

Act No. 185/2001 Coll. on waste, as amended, effective from January 1, 2002 (the “*Czech Waste Act*”) emphasizes waste prevention, defines the hierarchy of waste handling, and promotes the fundamental principles of environmental and health protection in waste handling. Coal mine operators have a duty to dispose of coal ash which is considered waste under the Czech Waste Act. Disposal may be performed by handing the waste over to another entity authorized to dispose or make other use of waste materials. Coal ash is further used as a certified material for reclamation and for improving the sanitary conditions of the landscape and disused shafts of existing mines. Coal mine operators also sell residue to certain producers of construction materials.

Material Environmental and Other Related Regulation

Integrated Pollution Prevention and Control (including the Integrated Pollutant Register)

The Czech IPPC Act fully implements IPPC Directive 2008/1/ES into the Czech legal system. It is designed to limit industrial pollution according to the best available techniques. The users of certain installations must obtain an integrated permit prior to operation and the main criterion is compliance with the best available technology and with the conditions set out in applicable specific legislation. In addition, the users of substances registered under the Czech IPPC Act must notify the appropriate administrative authority if the emissions of certain substances exceed regulatory limits, which are then registered in the publicly accessible Integrated Pollutant Register.

Water Act 2001

Under Act No. 254/2001 Coll., as amended, (the “*Czech Water Act*”), disposal of surface and underground water is subject to a permit with the exception of certain listed activities in the public interest. Off-take of more than 6,000 cubic meters of underground water per year is subject to a fee determined pursuant to the relevant provisions of

the Czech Water Act. The release of effluent into water is governed by the best available technology principle and must comply with the water treatment adequate agricultural practice. The Czech Water Act is based on the “user pays” and “polluter pays” principles.

Waste Act 2001

The Czech Waste Act regulates all aspects of waste generation, storage, transfer handling and disposal and requires permits for certain waste usage, disposal, collection or sale activities. An entity dealing with more than 100 tons of hazardous waste per year for two consecutive years has a duty to designate a waste manager. Certain types of waste and equipment are subject to a notification and record duty.

Environmental Impact Assessment Act 2001 (Act No. 100/2001 Coll., as amended)

The Czech Environmental Impact Assessment Act requires certain parties to conduct an EIA prior to the approval of a new investment project by the relevant authorities. The Czech Environmental Impact Assessment Act distinguishes projects which always fall within the scope of the EIA, projects which are always excluded and, finally, projects in which the state authorities decide, on an ad hoc basis, whether the EIA is to be performed or not. Members of the public are allowed to participate in the EIA process subject to conditions stipulated in the Czech Environmental Impact Assessment Act.

General Liability

Potential liability can arise under criminal, administrative, civil law and environmental law. The Czech Republic has the ability to enforce environmental rules and regulations pursuant to administrative and criminal law whereas individuals may enforce environmental rules and regulations under civil law. There has been little development in environmental case law to date in the Czech Republic; it is not binding and can only be used as a guide.

The “Polluter Pays” Principle

The “polluter pays” principle applies under administrative, criminal and civil law in the Czech Republic. The person responsible for environmental damage (the “Polluter”) must pay administrative fines, is subject to criminal sanctions and must compensate any affected third party, irrespective of whether the Polluter operates their own property or whether a third party operates the property. Polluters are liable for their own damages. A current lessee cannot be held liable for damages caused by former lessees or the owner.

Criminal Liability Towards the State

The Act No. 418/2011 Coll. on criminal liability of legal entities and proceedings against them (the “*Czech Legal Entity Criminal Act*”), now in force, has introduced a concept of corporate criminal liability for selected criminal offences, including various business and environmental law related offences. Under the Czech Legal Entity Criminal Act, legal entities may, among other things, be dissolved, fined or required to forfeit all or particular assets as a consequence of their criminal offenses. They could also be prohibited from conducting business activities and participating in public tenders or accepting state subsidies. Claims for damages under the Civil Code may be made separately.

The Czech Legal Entity Criminal Act does not apply to natural persons. Under Czech criminal law, criminal acts of natural persons can be committed both intentionally and negligently and can result in fines or imprisonment.

Administrative Liability Towards the State

Administrative liability for environmental and other administrative offences is primarily governed by the Czech Water Act, the Czech Waste Act, Act No. 289/1995 Coll., as amended, the Czech IPPC Act, the Czech Nuclear Act, the Czech Air Protection Act and the Czech Emission Allowances Act.

These statutes contain environmental and other offences, which carry strict liability. The Czech Nuclear Act provides that the relevant administrative body is entitled to penalize the individual or entity with a fine of up to CZK 100 million in the event of utilization of nuclear energy for purposes that are not peaceful. Breach of the various statutes can result in fines ranging from CZK 10 million up to CZK 100 million. The relevant administrative body has the power to impose these penalties within one year of gaining knowledge of the offence and not later than three years from the occurrence of the offence. These penalties do not affect the liability to pay damages under the Civil Code, which may be claimed separately.

Remedial Measures Imposed by Administrative Authorities

Act No. 17/1992 Coll., the Environment Act, as amended (the “*Czech Environment Act*”) has introduced into the Czech legal system a new concept of “Environmental Damage (Loss)” in order to ensure that damage caused to the environment is repaired regardless of whether a private claim for damages has been brought against the Polluter. The competent administrative body is authorized to order the Polluter to restore the natural functions of the impaired ecosystem.

The Czech Water Act, the Czech Waste Act and the Czech Air Protection Act include provisions for remedial measures to be taken by administrative authorities in order to ensure the repair of environmental damage. In the event that certain applicable environmental law regulations are breached, the competent authority or administrative body is entitled to shut down the business operations which are the source of environmental damage and to require the execution of specific remedial measures.

In addition, the Act No. 167/2008 Coll., on Prevention of Ecological Losses, as amended (the “*Czech Ecological Losses Prevention Act*”) authorizes the competent authorities to impose on Polluters preventive measures for impending ecological loss as well as all remedial measures necessary to restore an ecosystem. The Czech Ecological Losses Prevention Act further broadens the scope of environmental laws as it focuses on the occurrence of an ecological loss, irrespective of which segment of the environment was damaged. A Polluter can be fined up to CZK 5 million under the *Czech Ecological Losses Prevention Act* for failure to perform preventive or remedial measures.

Holders of licenses relating to the electricity, gas or heating energy markets pursuant to the *Czech Energy Act* are also liable for administrative offences committed thereunder.

Civil Liability Towards a Third Party

As well as general liability for damages, the Czech Civil Code imposes, in certain circumstances, a “quasi strict liability” for most environmental damage cases. Such quasi strict liability is applied if the individual or legal entity causes damage to a third party in the course of the operation of its business. The individual or legal entity is only exempt from such liability if they can prove that the damage was caused by the conduct of the third party or that the damage was the result of an unavoidable event not having its origin in the operation of the individual’s or legal entity’s business. Compensation under civil law includes compensation for current and future damages, including lost profit. The statute of limitations generally applicable under Czech law applies to quasi strict liability.

MANAGEMENT

General Overview

We have a two-tier board system consisting of a Board of Directors and a Supervisory Board. Our Board of Directors represents us in all matters and is responsible for our management, while our Supervisory Board is an independent body that oversees our Board of Directors and our Division Heads. The Board of Directors and Division Heads manage our day-to-day operations. Under the Czech Commercial Code and our Articles of Association, the Supervisory Board may not make management decisions and such decisions are reserved for the Board of Directors. However, the Supervisory Board's approval is needed for certain key management decisions, such as those relating to our entry into specific transactions with a value greater than CZK 500 million, or for the disposal of real estate, or our entry into long-term loans. In addition to the statutorily required Audit Committee, our Supervisory Board has formed a Strategy Committee and a Personnel Committee.

Our Board of Directors is a statutory body, which manages our operations and acts on our behalf. The powers and responsibilities of our Board of Directors are set forth in detail in our Articles of Association. For information on the availability of our Articles of Association, please see "*Listing and General Information—Documents on Display*."

Supervisory Board

Our Articles of Association provide that our Supervisory Board shall comprise 12 members, with eight being elected by the General Meeting and four being elected by our employees. As a result, the Czech Ministry of Finance, as our majority shareholder, has the power to nominate and elect two-thirds of the members of our Supervisory Board. As of the date of this Base Prospectus, our Supervisory Board comprises 10 members only. We currently expect at least one additional member to be appointed at a meeting of our Supervisory Board by the end of April 2012, although we do not currently know the identity or biographical details of any potential new members. The Supervisory Board may in a meeting appoint substitute members to hold office until the General Meeting immediately succeeding such meeting of the Supervisory Board, if at least 50% of the Supervisory Board members appointed by our General Meeting hold their office.

Our Supervisory Board's powers include, among other powers, the power to:

- elect and remove members of our Board of Directors;
- approve the management contracts and remuneration of the members of our Board of Directors, the Chief Executive Officer and the Division Heads, including the rules for providing remuneration to members of our Board of Directors;
- inspect all documents and records relating to our business and to inquire into our financial matters;
- supervise our Board of Directors' exercise of its powers and responsibilities;
- review the report of our Board of Directors, as well as our annual, extraordinary, consolidated, interim financial statements and income distribution proposals, including power to stipulate the amount and manner of payment of bonuses to members of our Board of Directors, dividends and loss settlement proposals; and
- discuss our quarterly financial results, half-year and yearly reports.

Generally, our Supervisory Board makes decisions by a simple majority of all its members. Under our Articles of Association, our Supervisory Board makes decisions by a majority of two thirds of its members in certain circumstances, such as decisions to elect members of the Board of Directors and confirmations in respect of members of the Board of Directors who do not meet certain legal requirements for the holding of their office. The quorum for a meeting of our Supervisory Board is a simple majority of its members. Each Supervisory Board member has one vote. When necessary in matters of urgency, a decision may be made by our Supervisory Board without holding a meeting (such decisions are referred to as *per rollam* and must be included in the minutes of the next Supervisory Board meeting). At its discretion, our Supervisory Board may invite members of our other governing bodies, our employees, or other persons to its meetings.

In accordance with our Articles of Association, our Supervisory Board meets at least once a month. In 2011, there were twelve regular and two extraordinary meetings. The Chairman of our Board of Directors regularly attends the meetings. The business address of each member of our Supervisory Board is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Supervisory Board to us and to their private interests or other duties.

Set out below are the members of our Supervisory Board as of the date of this Base Prospectus

Name	Age	Position	Date of appointment
Martin Roman	42	Chairman of the Supervisory Board	September 15, 2011
Ivo Foltýn	41	Vice Chairman of the Supervisory Board	November 22, 2010
Lubomír Klosík	60	Vice Chairman of the Supervisory Board	January 22, 2009
Liběna Dobrovolná	52	Member of the Supervisory Board	June 1, 2011
Ján Dzvonič	51	Member of the Supervisory Board	June 1, 2011
Petr Gross	58	Member of the Supervisory Board	January 22, 2009
Vladimír Hronek	47	Member of the Supervisory Board	September 30, 2010
Jiří Kadrnka	41	Member of the Supervisory Board	November 22, 2010
Jan Kohout	51	Member of the Supervisory Board	November 22, 2010
Drahošlav Šimek	57	Member of the Supervisory Board	September 30, 2010

Martin Roman. Dr. Roman has been the Chairman of our Supervisory Board since September 19, 2011, and a member of the Strategy Committee of our Supervisory Board since September 21, 2011. Dr. Roman was our Chief Executive Officer from 2004 until 2011, a member of our Board of Directors and Chairman of our Board of Directors from 2004 until 2011. Dr. Roman has been a member of the board of directors of MOL Hungarian Oil and Gas Plc since April 2010, vice chairman of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the board of trustees of the Academy of Fine Arts since October 2008, a chairman of the board of trustees of PORG - gymnázium a základní škola, o.p.s. since October 2007, a member of the Science Council of the National Economy Faculty of the University of Economics, Prague since July 2006, a member of the supervisory board of the Prague Stock Exchange since June 2005 and a member of the supervisory board of VIENNA INSURANCE GROUP Wiener Stadtische Versicherung AG since June 2010. From April 2007 until December 2009, Dr. Roman was a member of the supervisory board of České dráhy a.s. Between 2000 and 2004, Dr. Roman was chairman and chief executive officer of ŠKODA HOLDING, the Czech mechanical engineering company. From 2007 to 2011, Dr. Roman was vice president of the Confederation of Industry of the Czech Republic. In 1994 he became chief executive officer of Janka Radotín Company, where he became chairman of the board of directors after the entry of a strategic partner, the U.S. company LENNOX, in 1998. Dr. Roman began his professional career in 1992 as a sales director of the Czech branch of Wolf Bergstrasse ČR, s.r.o. Dr. Roman is a founder of Nadace Martina a Lenky Romanových (Foundation of Martin and Lenka Roman) and Nadace Martina Romana (Foundation of Martin Roman). Dr. Roman graduated from Charles University Law Faculty in Prague in 1993. His international studies included one year at Karl-Ruprechtsuniversität Heidelberg, Germany, and a one-year scholarship at the University of St. Gallen, Switzerland.

Ivo Foltýn. Mr. Foltýn has been Vice Chairman of our Supervisory Board since July 28, 2011, a member of our Supervisory Board since November 22, 2010, a member of the Strategy Committee of our Supervisory Board since December 2, 2010 and chairman of the Strategy Committee of our Supervisory Board since March 20, 2012. Mr. Foltýn has been a member of the supervisory board of ČEZ OZ uzavřený investiční fond a.s. since September 7, 2011, the sole member of the board of directors and sole shareholder of Fox hole a.s. since July 29, 2009 and chairman of the supervisory board of nexum Trilog a.s. since December 15, 2010 and a member of the board of directors of Ambeat Health Care a.s. since September 23 2011. Mr. Foltýn was chairman of the board of directors of Penzijní fond České pojišťovny, a.s. from 1997 to 2009. Mr. Foltýn was chairman of the executive committee of Oborová zdravotní pojišťovna from 2007 to 2010. Mr. Foltýn was a member of the supervisory board of VUB Generali dochodkova správcovska společnost, a.s. from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of Inphorce, Russia from 2008 to 2009. Mr. Foltýn was chairman of the board of directors of Penzijní fond “Generalli PPF,” Russia from 2007 to 2010. Mr. Foltýn was a member of the board of directors of Generalli PPF Life Insurance, Russia from 2005 to 2009. Mr. Foltýn was a member of the supervisory board of CJSC “IC”Generalli Life Insurance, Ukraine from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of Generalli Garant Life Insurance, Ukraine from 2008 to 2010. Mr. Foltýn was a member of the supervisory board of OJSC “UIC” Generalli Garant, Ukraine from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of CJSC “CZI Ukraine” Pension fund from 2007 to 2009. Mr. Foltýn was a member of the supervisory board of Česká pojišťovna, Kazakhstan from 2007 to 2009. Mr. Foltýn was a member the supervisory board of Česká pojišťovna, Belarus from 2007 to 2009. He was a member of the executive committee, Head of CIS Countries, Holding. Pensions & Health insurance of Generali PPF Holding, B. V. from 2008 to 2009. Mr. Foltýn obtained a MBA from the University of Chicago, United States in 2003 and graduated from the Mechanical Engineering Faculty, the Technical University of Brno in 1993 and the University of Economics in Prague in 1995.

Lubomír Klosík. Mr. Klosík has been Vice Chairman of our Supervisory Board elected by our employees since January 27, 2011 and has been a member of our Supervisory Board since January 22, 2009. Mr. Klosík has also been

a member of our Audit Committee since May 13, 2009. Mr. Klosík has been a member of our European Work Council since 2007. Mr. Klosík was a member of the steering committee of the North Moravia Region Pact of Employment from 2007 until 2011. Mr. Klosík was a member of the managing committee of Eurest-T Beskydy (an international cooperation project) from 2007 until 2011. Mr. Klosík was a member of the council of the Association for Development of North Moravia Region from 2007 until 2011. Mr. Klosík was chairman of the Regional Confederation of Labor Unions of ČMKOS (Czech Confederation of Labor Unions) in the North Moravian region from 2007 until 2011. Mr. Klosík was vice chairman of our European Work Council from 2007 until 2011. Since 2004, he has been a member of the Presidium of the Labor Union ECHO. Mr. Klosík started his career as a shift foreman in the Detmarovice power plant where he worked from 1974 to 2004, becoming full time chairman of the labor organization of the Detmarovice power plant in 2004. Mr. Klosík graduated from the Secondary Industrial Chemical School of Chemical Technology in Ostrava in 1971 and completed a three-year course in Social-Economic Management at Mendel University in Brno in 2002.

Liběna Dobrovolná. Ms. Dobrovolná has been a member of our Supervisory Board since June 1, 2011 and a member of the Personal Committee of our Supervisory Board since June 23, 2011. Ms. Dobrovolná was a judge at the civil appellate and commercial department of the Regional Court in Ústí nad Labem from 2005 until 2010. In 2010, Ms. Dobrovolná was a judge at the commercial department of the City Court in Prague. Ms. Dobrovolná graduated from Charles University Law Faculty in Prague in 1993.

Ján Dzvonič. Mr. Dzvonič has been a member of our Supervisory Board and a member of our Audit Committee since June 1, 2011. Mr. Dzvonič has been chairman of the supervisory board of MERO ČR, a.s. since June 2008, vice-chairman of the supervisory board of MERO GERMANY, a.g. since September 2009 and a member of the audit committee of MERO ČR, a.s. since December 2009. Mr. Dzvonič was from 2008 until 2010 an executive officer and a shareholder of ALIATROS spol. s r.o. Mr. Dzvonič graduated from the Management Faculty, the University Economics in Bratislava in 1983.

Petr Gross. Mr. Gross has been a member of our Supervisory Board elected by our employees since January 22, 2009, a member of the Personal Committee of our Supervisory Board since May 21, 2009 and chairman of the Personal Committee of our Supervisory Board since November 29, 2011. He has been a full time chairman of the labor organization of Chvaletice power plant. He worked in the Chvaletice power plant as a technician and as a mechanic. Mr. Gross started his career as an operative electrician. Mr. Gross graduated from the Secondary Industrial School in Kutná Hora specializing in measurement and regulation in computer technology.

Vladimír Hronek. Mr. Hronek has been a member of our Supervisory Board elected by our employees since September 30, 2010, a member of the Personal Committee of our Supervisory Board Since December 2, 2010 and a member of the Strategy Committee of our Supervisory Board since February 24, 2012. He has been a member of our European Works Council since 2007 and vice chairman of our European Works Council since 2011. He has worked as an inspection electrician at the Temelín nuclear power plant and since 2006 he has been the full time chairman of labor organization of the Temelín nuclear power plant. Mr. Hronek graduated from the Secondary School of Electrical Engineering in Prague.

Jiří Kadrnka. Mr. Kadrnka has been a member of our Supervisory Board since November 22, 2010, a member of the Personal Committee of our Supervisory Board since December 2, 2010 and vice chairman of the Personal Committee of our Supervisory Board since December 12, 2010. Mr. Kadrnka has been an executive director since 1997, a shareholder of MOSS logistics s.r.o. since 1998 and the head of its Slovak branch since 2007. Mr. Kadrnka has been a member of the executive committee of Janáčkova akademie muzických umění in Brno (Music academy in Brno) since 2011. Mr. Kadrnka was a member of the board of directors of Energo Hustopeče, a.s. from 2000 to 2010. Mr. Kadrnka graduated from the Mechanical Engineering Faculty of the Czech Technical University in Prague in 1993 where he studied design of industrial robots and manipulators and machine tools.

Jan Kohout. Dr. Kohout has been a member of our Supervisory Board since November 22, 2010, a member of the Strategy Committee of our Supervisory Board since December 2, 2010 and vice-chairman of the Strategy Committee of our Supervisory Board since March 20, 2012. Dr. Kohout was a vice chairman of the government of the Czech Republic and a Minister of Foreign Affairs of the Czech Republic from 2009 to 2010 and a Permanent Representative of the Czech Republic to the European Union from 2004 to 2008. Dr. Kohout was from 2010 until 2011 a shareholder of Permit spol. s r.o. and has been an executive officer of Permit spol. s r.o. since 2011. Dr. Kohout has been a president of Czech China Chamber of Collaboration since 2011. Dr. Kohout graduated from the Faculty of Philosophy of the Charles University in Prague in 1984.

Drahošlav Šimek. Mr. Šimek has been a member of our Supervisory Board since elected by our employees since June 29, 2006. He has also been a member of our Audit Committee since May 13, 2009. He joined us in 1974 and he

currently works at the Dukovany nuclear power plant as a mechanical technician on the main generating unit. He has been a member of the Confederation of Labor Unions of Energy Sector Workers and the Labor Union of Shift Workers at Dukovany nuclear power plant since 1995. Mr. Šimek graduated from the Secondary Vocational School in Domažlice in electromechanics and from the Secondary Vocational School in Chomutov in operational metalwork.

Pursuant to a decision of the Czech National Bank dated May 15, 2008, a fine of CZK 50,000 was imposed on Mr. Roman for a breach of his obligation to notify the Czech National Bank of certain trades in the shares of the Issuer carried out by him. The trade was properly notified to the Czech National Bank one day after the expiration of the statutory deadline. The delay in notifying the Czech National Bank was caused by technical reasons.

Committees of our Supervisory Board

Our Supervisory Board has the power to establish committees and to elect and remove their members. Our Supervisory Board has established the Strategy Committee and the Personnel Committee. Only members of our Supervisory Board are eligible to be members of the Strategy and Personnel Committee. The term of office of committee members is identical to their term of office on our Supervisory Board. Committees of our Supervisory Board meet as needed, but no less than once every three months. Committees of our Supervisory Board make a decision by a simple majority of the votes of all members of the committee.

In accordance with Czech statutory requirements, we have also established an Audit Committee. The Audit Committee is comprised of members of our Supervisory Board and third parties. Please see “—*Audit Committee*” below.

Strategy Committee

The Strategy Committee of our Supervisory Board was established to improve our Supervisory Board’s decision-making in matters concerning our strategic development. The committee’s activities include evaluating proposals for major business activities such as capital expenditure, acquisition, and divestiture projects (in particular, purchases and sales of material assets or ownership participations in the Czech Republic and abroad), proposals for establishing or winding up our subsidiaries, construction of new generating plants and the phasing out, sale, or renewal of production plant and equipment.

In 2011, the Strategy Committee held nine meetings. As of the date of this Base Prospectus, the members of the Strategy Committee were Mr. Ivo Foltýn (chairman), Mr. Jan Kohout (vice chairman), Mr. Martin Roman and Mr. Vladimír Hronek.

Personnel Committee

The Personnel Committee of our Supervisory Board, was established to make proposals for our Supervisory Board regarding its personnel policies for members of our Board of Directors, to present its opinion on proposals to elect and remove members of our Board of Directors, to present nominations of candidates for membership of our Board of Directors to our Supervisory Board for approval, to make recommendations to our Supervisory Board regarding issuance of opinions in matters relating to the appointment and manner of remuneration of our Chief Executive Officer and executive members of our Board of Directors, and to give to our Supervisory Board its recommendations concerning candidates proposed by our Board of Directors for nomination to the supervisory boards of companies in which we hold a stake in the registered capital exceeding CZK 500 million. More specifically, the contracts and remuneration of members of our Board of Directors who are also Division Heads are subject to the prior approval of the Supervisory Board. In addition, remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of the shareholders and remuneration of members of our Board of Directors, including all benefits, is approved by our Supervisory Board. Please see “—*Compensation*.”

In 2011, the Personnel Committee held nine meetings. As of the date of this Base Prospectus, the members of the Personnel Committee were Mr. Petr Gross (Chairman), Mr. Jiri Kadrnka (vice chairman), Ms. Libena Dobrovolná and Mr. Vladimír Hronek.

Audit Committee

The powers and responsibilities and decision making process of our Audit Committee are stipulated by our Articles of Association and Czech Act No. 93/2009 Coll., on auditors and include:

- monitoring the process of compiling our financial statements and consolidated financial statements;
- evaluating the effectiveness of our internal controls, internal audit, and risk management systems;

- monitoring the process of the mandatory audit of our financial statements and consolidated financial statements;
- evaluating the independence of our statutory auditor and audit firm, and, in particular, provision of supplementary services by that company; and
- recommending an auditor to audit our financial statements and consolidated financial statements.

The Audit Committee has five members, which are elected and removed by the General Meeting from among members of our Supervisory Board or third parties. Members of our Board of Directors and our procura holders are not eligible to be members of our Audit Committee. Members of our Audit Committee serve a four-year term. Members of our Audit Committee attend our General Meeting and are required to report to our General Meeting on the results of their activities. As a rule, our Audit Committee meets once every two months. Our Audit Committee held seven meetings in 2011. Our Audit Committee makes decisions by a simple majority of the votes of all its members.

The business address of each member of our Audit Committee is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Audit Committee to us and to their private interests or other duties.

Set out below are the members of our Audit Committee as of the date of this Base Prospectus.

Name	Age	Position	Date of appointment
Ján Dzvoník	51	Member of the Audit Committee	June 1, 2011
Lubomír Klosík	60	Member of the Audit Committee	May 13, 2009
Drahošlav Šimek	57	Member of the Audit Committee	May 13, 2009

Ján Dzvoník. Mr. Dzvoník has been a member of our Audit Committee since June 1, 2011. For more information on Mr. Dzvoník, please see “—*Supervisory Board*” above.

Lubomír Klosík. Mr. Klosík has been a member of our Audit Committee since May 13, 2009. For more information on Mr. Klosík, please see “—*Supervisory Board*” above.

Drahošlav Šimek. Mr. Šimek has been a member of our Audit Committee since May 13, 2009. For more information on Mr. Šimek, please see “—*Supervisory Board*” above.

Board of Directors

Our Supervisory Board elects members of our Board of Directors. Members of our Board of Directors serve four-year terms and may be re-elected. The business address of each member of our Board of Directors is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

Responsibilities of our Board of Directors include:

- managing our operations, including keeping of proper accounts;
- convening and organizing the General Meeting and submitting to the General Meeting certain information, including: draft amendments to our Articles of Association; proposals to increase/decrease our share capital; annual, extraordinary, consolidated, and interim financial statements; income distribution proposals including stipulation of dividend amount, manner of pay-out, and due date, participation in our profit sharing by members of our Board of Directors, and amounts to be allocated to reserves or the manner of settling any losses; yearly report on our business operations and the state of our assets;
- carrying out General Meeting resolutions;
- removing our Division Heads; and
- deciding on entering into agreements relating to the formation of business companies or acquisition of our ownership stakes in other legal entities, as well as winding up of business companies or disposing of our ownership stakes in other legal entities.

Our Board of Directors makes decisions by a simple majority of the votes of all its members. A quorum is present when a simple majority of members of our Board of Directors is present at a meeting. Each member of our Board of Directors has one vote. When necessary in matters of urgency, a decision may be made by our Board of

Directors without holding a meeting. Our Board of Directors has discretion to invite to its meetings members of our other governing bodies, our employees, or other persons.

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

Our Articles of Association provide that our Board of Directors shall comprise seven members. Our Board of Directors is obliged to meet at least once a month. In practice, however, meetings are held almost weekly and a total of 45 meetings took place in 2011.

There are no conflicts of interest between the duties of the members of our Board of Directors to us and to their private interests or other duties.

Set out below are members of our Board of Directors as of the date of this Base Prospectus.

Name	Age	Position	Date of appointment
Daniel Beneš	42	Chairman of the Board of Directors	December 15, 2005
Martin Novák	40	Vice Chairman of the Board of Directors	May 21, 2008
Peter Bodnár	51	Member of the Board of Directors	August 21, 2009
Michaela Chaloupková	36	Member of the Board of Directors	October 20, 2011
Pavel Cyrani	36	Member of the Board of Directors	October 20, 2011
Vladimír Hlavinka	45	Member of the Board of Directors	January 1, 2008
Tomáš Pleskač	45	Member of the Board of Directors	January 26, 2006

Daniel Beneš. Mr. Beneš has been a member of our Board of Directors since December 15, 2005 has been Chairman of our Board of Directors and our Chief Executive Officer since September 15, 2011. He was previously our Chief Operating Officer until September, 2011 and Vice Chairman of our Board of Directors from May 2006 until September 2011. He has been a member of the executive committees of the Technical University of Ostrava since 2009 and the South Bohemian University of České Budějovice since 2011, vice chairman of the supervisory board of Jadrová energetická společnost Slovenska, a. s. a since December 2009, chairman of the supervisory board of ČEZ Bohunice a.s. since March 2009, a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since January 2009 (and vice chairman since September 2009), chairman of the board of trustees of ČEZ Foundation since 2007, member of the supervisory board of Severočeské doly a.s. since February 2010 (and chairman since February 2012). Mr. Beneš was a member of the supervisory board of Coal Energy, a.s., v likvidaci, from April 2006 until December 2009. Between 2004 and 2006, he was a member of the board of directors of Severočeské doly a.s. Mr. Beneš graduated from the Mechanical Engineering Faculty, the Technical University of Ostrava and obtained a MBA from Brno International Business School - Nottingham Trent University.

Martin Novák. Mr. Novák has been our Chief Finance Officer since January 1, 2008 and has been the Vice Chairman of our Board of Directors since October 20, 2011 and a member of our Board of Directors since May 21, 2008. He has been a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since October 2009, a member of the supervisory board of ČEZ ICT Services, a.s. since May 2007, and a member of the supervisory board of ČEZ Bohunice, a.s. since February 2012 and a member of the supervisory board of ČEZ OZ uzavřený investiční fond, a.s. since September 2011. Mr. Novák joined us as our Accounting Section Director in 2006. From 2001 to 2006, Mr. Novák worked for ConocoPhillips in Houston, Texas and in its regional headquarters in London, acting as Financial Director for Central and Eastern Europe between 2005 and 2006. From 1996 to 2001, Mr. Novák worked for Česká rafinérská, where he became Controller-Deputy Finance Director. Mr. Novák began his career as a tax advisor at PriceWaterhouseCoopers. Mr. Novák undertook the Executive MBA program at the University of Pittsburgh in 2007 and graduated from the University of Economics in Prague.

Peter Bodnár. Mr. Bodnár has been our Chief Investment Officer since January 1, 2008 and has been a member of our Board of Directors since August 21, 2009. Since 2009, Mr. Bodnár has been a member of the supervisory board of Jádru energetická společnost Slovenska, a. s., a member of the supervisory board of Ústav jaderného výzkumu Řež a.s. since February 2009, a member of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the supervisory board of ČEZ Bohunice, a.s. since March 2009, a member of the supervisory board of ŠKODA PRAHA, a.s. since July 2007 and a member of the supervisory board of ŠKODA PRAHA Invest, s.r.o. from July 2007 to April 2010. Between 2006 and 2007, he was a director of the quality division in Enel Pruduzione - member of Slovenské Elektrárne and between 2002 and 2005 he was chief executive officer of Alstom Power service for the Czech and Slovak Republic. Mr. Bodnár graduated from the Faculty of Mechanical Engineering of the Slovak University of Technology in Bratislava specializing in heat and nuclear energetic machineries.

Michaela Chaloupková. Ms. Chaloupková has been a member of our Board of Directors since October 20, 2011. Ms. Chaloupková has been our Chief Purchasing Officer since January 1, 2012. Ms. Chaloupková joined us in 2003 and holds the position of Purchasing Department Manager. She was the Executive Purchasing Manager between January 1, 2007 and January 1, 2012. Ms. Chaloupková has been chairman of the supervisory board of ČEZ Logistika, s.r.o. since July 2007 and a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since November 2011. Ms. Chaloupková was a member of the supervisory board of ŠKODA PRAHA Invest, s.r.o. from December 2008 until April 2010, a member of the supervisory board of ČEZ Distribuce, a.s. from November 2010 until September 2011 and a member of the supervisory board of ČEZ ICT Services, a.s. from March 2006 until March 2011. Ms. Chaloupková graduated from the West Bohemian University Law Faculty in Plzeň in 1999 and obtained a MBA from KATZ School of Business, University of Pittsburgh in 2007.

Pavel Cyrani. Mr. Cyrani has been our Chief Strategy Officer and a member of our Board of Directors since October 1, 2011. Mr. Cyrani has been a member of the supervisory board of ČEZ Distribuce, a.s. since October 2011, a member of the supervisory board of Severočeské doly, a.s. since October 2011 and an executive officer and shareholder of Loyalty Consulting, s.r.o. since September 2003. Mr. Cyrani has been vice chairman of the board of directors of Loyalty Management CZ, a.s. since November 2003. Mr. Cyrani was a member of the supervisory board of Dalkia Česká republika, a.s. from May 2010 until February 12, 2012. Mr. Cyrani was a member of the supervisory board of ČEZ OZ uzavřený investiční fond, a.s. from September 2011 until November 2011. Mr. Cyrani joined us in 2005 and has managed our Asset Management Department as well as the Finance Division of our Controlling Department. Before joining us, he worked as a management consultant for McKinsey & Company, where he specialized in the energy industry. Mr. Cyrani obtained a MBA in finance from the Kellogg School of Management, United States and graduated from the Faculty of International Trade, University of Economics, Prague.

Vladimír Hlavinka. Mr. Hlavinka has been our Chief Production Officer since January 1, 2008 and has been a member of our Board of Directors since January 1, 2008. He has been a member of the supervisory board of ČEZ Energetické produkty, s.r.o. since December 2007 and the chairman since November 2009. He has been a member of the supervisory board of Ústav jaderného výzkumu Řež a.s. since December 2007 and the chairman since April 2008. Mr. Hlavinka has been a member of the supervisory board of ČEZ Energo, s.r.o. since January 2011 and the chairman since February 2011. He has been a member of the committee of the Czech Radioactive Waste Repository Authority since December 2011. Mr. Hlavinka worked for us from 1991 to 2000. From 1989 to 1991 he worked for VUJE Trnava. Mr. Hlavinka graduated from the Mechanical Engineering Faculty, Brno University of Technology, and from the Faculty of Law of the Masaryk University in Brno.

Tomáš Pleskač. Mr. Pleskač has been our Chief International Affairs Officer since January 1, 2008 and has been a member of our Board of Directors since January 26, 2006. Mr. Pleskač was Vice Chairman of our Board of Directors from February 11, 2008 to June 29, 2010. Mr. Pleskač has been the chairman of the supervisory board of ČEZ Distribuce a.s. since January 2012, a member of the supervisory board of ČEZ OZ uzavřený investiční fond a.s. since November 2011, a member of the supervisory board of Mitteldeutsche Braunkohlengesellschaft mbH since June 2009, a member of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the board of directors of CM European Power International B.V. since July 2008 and vice chairman since August 2011, a member of the supervisory board of CEZ Bulgaria EAD since June 2006 and a member of the supervisory board of CEZ Razpredelenie Bulgaria AD since June 2006 and chairman since September 2006. Mr. Pleskač was chairman of the supervisory board of NERS d.o.o. from May 2007 until October 2009. Mr. Pleskač obtained a MBA from the Prague International Business School and graduated from the Faculty of Business and Economics, University of Agriculture, Brno.

Chief Executive Officer and Division Heads

At the executive employees level, we are managed by the Chief Executive Officer and the Division Heads. The business address of our Chief Executive Officer and Division Heads is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of our Chief Executive Officer and the members of our Division Heads to us and to their private interests or other duties.

Set out below are our Division Heads as of the date of this Base Prospectus.

Name	Age	Position	Date of appointment
Daniel Beneš	42	Chief Executive Officer	September 15, 2011
Peter Bodnár	51	Chief Investment Officer	January 1, 2008
Michaela Chaloupková	36	Chief Purchasing Officer	January 1, 2012
Pavel Cyrani	35	Chief Strategy Officer	October 1, 2011
Vladimír Hlavinka	45	Chief Production Officer	January 1, 2008
Hana Krbcová	57	Chief Personnel Officer	October 1, 2009
Jiří Kudrnáč	46	Chief Distribution Officer	January 1, 2008
Martin Novák	40	Chief Finance Office	January 1, 2008
Tomáš Pleskač	45	Chief International Affairs Officer	January 1, 2008
Alan Svoboda	39	Chief Sales Officer	January 1, 2005

Daniel Beneš. Mr. Beneš has been our Chief Executive Officer since September 15, 2011. For information on Mr. Beneš, please see “—Board of Directors” above.

Peter Bodnár. Mr. Bodnár has been our Chief Investment Officer since January 1, 2008. For information on Mr. Bodnár, please see “—Board of Directors” above.

Michaela Chaloupková. Ms. Chaloupková has been our Chief Purchasing Officer since January 1, 2012. For more information on Ms. Chaloupková, please see “—Board of Directors” above.

Pavel Cyrani. Mr. Cyrani has been our Chief Strategy Officer since January 1, 2011. For information on Mr. Cyrani, please see “—Board of Directors” above.

Vladimír Hlavinka. Mr. Hlavinka has been our Chief Production Officer since January 1, 2008. For more information on Mr. Hlavinka, please see “—Board of Directors” above.

Hana Krbcová. Ms. Krbcová has been our Chief Personnel Officer since October 1, 2009. She was a Director of Human Resources for our regional distribution companies in 2005 and for our subsidiaries from 2005 until 2006. Ms. Krbcová was a Director of our Personnel Department from 2007 until 2009. She has been a member of the board of directors of People Management Forum (formerly Česká společnost pro rozvoj lidských zdrojů) since February 2007 and a member of the board of directors of Český svaz zaměstnavatelů v energetice (Czech Association of Energy Sector Employers) since September 2009. Ms. Krbcová graduated with a major in industrial economics from the University of Economics, Prague and from Charles University, Prague specializing in Labor Law and International Studies in Strategic Management.

Jiří Kudrnáč. Mr. Kudrnáč has been our Chief Distribution Officer since January 1, 2008. Mr. Kudrnáč has been a member of the supervisory board of CEZ Bulgaria AED since January 2012, a member of the supervisory board of ČEZ Distribuce, a.s. since May 2008 and the chairman since October 2010 and vice chairman of the supervisory board of ČEZ distribuční služby, s.r.o. since July 2010. Mr. Kudrnáč was a member of the executive committee of VOS Cesko-Saské Švýcarsko from January 2010 until November 2010. From 1990 until 2005 he held various positions in electricity distribution business. Mr. Kudrnáč also gained managerial and other professional experience in positions such as the director of the strategy department of Severočeská energetika, a.s. Mr. Kudrnáč graduated from the Faculty of Electrical Engineering, Czech Technical University, Prague.

Martin Novák. Mr. Novák has been our Chief Finance Officer since January 1, 2008. For more information on Mr. Novák, please see “—Board of Directors” above.

Tomáš Pleskač. Mr. Pleskač has been our Chief International Affairs Officer since January 1, 2008. For more information on Mr. Pleskač, please see “—Board of Directors” above.

Alan Svoboda. Mr. Svoboda has been our Chief Sales Officer since January 1, 2005. Mr. Svoboda has been vice chairman of the supervisory board of ČEZ Slovensko, a. s. since April 2011, a member of the Science Council of the Faculty of Business Administration, University of Economics, Prague since July 2010, a member of the board of directors of EFET since November 2009, a member of the Science and Pedagogic Council of the Institute of Economic Studies of the Faculty of Social Sciences, Charles University, Prague since December 2009, a deputy member of the board of directors of the Union of the Electricity Industry-EURELECTRIC since December 2005 and vice chairman of the supervisory board of ČEZ Prodej, s.r.o. and ČEZ Zákaznické Služby, s.r.o. since March 2005. Mr. Svoboda was a member of the general assembly and executive committee of the Foratom from December 2005 to December 2009 and a member of our Board of Directors from April 2004 until April 2006. Mr. Svoboda gained managerial and other professional experience in other positions, including as a Partner at McKinsey & Company, focusing on the power

industry. Mr. Svoboda obtained a MBA in Finance and a MA in Economics from the University of Missouri, Kansas City, Missouri, United States in 1996, and graduated with a major in information and financial management from the University of West Bohemia, Pilsen in 1998.

Pursuant to a decision of the Czech National Bank dated August 13, 2009, a fine of CZK 1,700,000 was imposed on Mr. Svoboda for a breach of insider trading rules. Mr. Svoboda disclosed the trades as required under Czech law. An administrative complaint seeking to reverse the decision was filed with the administrative court. Pursuant to a decision dated April 3, 2012 the administrative court cancelled the above mentioned decision of the Czech National Bank.

Compensation

The remuneration of the members of the Board of Directors, the Supervisory Board, Chief Executive Officer and our Division Heads and selected managers of departments with group field activity increased to CZK 479 million in 2011 compared with CZK 458 million in 2010.

Remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of our shareholders. In accordance with resolutions passed by our General Meeting, we enter into a membership contract with each member of these bodies. Remuneration of members of our Board of Directors, including all benefits, is approved by the Supervisory Board. In accordance with resolutions passed by our Supervisory Board, we enter into a membership contract with members of our Board of Directors. The contracts and remuneration of the Chief Executive Officer and our Division Heads are subject to the prior approval of the Supervisory Board.

Remuneration and benefits received by members of our governing bodies include:

- fixed remuneration;
- target remuneration based on fulfillment of specific tasks assigned by our General Meeting. Members of our Board of Directors may receive target remuneration up to six times the amount of his or her monthly remuneration;
- participation in our profit sharing by members of our Board of Directors and Supervisory Board by a decision of our General Meeting;
- stock options for members of our Board of Directors, but not for Members of our Supervisory Board or our Audit Committee;
- insurance against liability for damage caused to us or to third parties while discharging duties of office and endowment life insurance; and
- severance pay for members of our Board of Directors should their contract be terminated before it is due to expire. The severance pay amount is the aggregate total remuneration that would otherwise have been paid for the months remaining until the end of the term of their contract.

Remuneration of our Chief Executive Officer and our Division Heads is subject to the prior consent of our Supervisory Board. Remuneration and benefits of our Chief Executive Officer and our Division Heads include:

- base monthly wage paid for the amount of time worked;
- annual bonus in addition to the base monthly wage. The bonus amount depends on fulfillment of criteria stipulated in advance and may be as much as 77.8% for our Chief Executive Officer and 60.0% for our other Division Heads;
- strategic bonuses tied to fulfillment of specific, long-term tasks in the areas of plant construction and renewal, and acquisition activities;
- stock options subject to a decision of our Board of Directors and the consent of our Supervisory Board;
- endowment life insurance; and
- severance pay and cash settlement on termination of employment.

Shares and Share Options of Senior Management

As of December 31, 2011, members of our Board of Directors, members of our Supervisory Board and our Division Heads held a total of 153,071 shares of ČEZ, a. s. (including 220 shares held by Mr. Lapin, one of our Division Heads as of December 31, 2011, whose office terminated in January 2012).

As of December 31, 2011, our Board of Directors, members of our Supervisory Board, our Division Heads and certain departmental managers held a total of 2,663,000 options to acquire shares of ČEZ, a. s. For information on the number of share options granted to and exercised and forfeited by our senior management in the year ended December 31, 2011, please see Note 24 of our audited consolidated financial statements for the year ended December 31, 2011.

Corporate Governance

Our corporate governance is based on the recommendations of the Czech 2004 Corporate Governance Codex compiled by the former Czech Securities Commission. For information on our governing bodies, a description of how they are established, their current composition, a description of how their members are remunerated, and a summary of Supervisory Board committees, please see “—*Supervisory Board*” “—*Board of Directors*” “—*Chief Executive Officer and Division Heads*” “—*Audit Committee*” and “—*Compensation*” above.

In addition, we comply with all Czech Commercial Code provisions regarding shareholder rights, convening our General Meetings and ensuring equal treatment of our shareholders.

Further, as an issuer of securities accepted for trading on the Warsaw Stock Exchange, we also comply with the corporate governance requirements of the Warsaw Stock Exchange.

PRINCIPAL SHAREHOLDERS

As of December 31, 2011, the registered capital of ČEZ, a. s. as recorded in the Commercial Register was CZK 53,798,975,900, comprising 537,989,759 shares, each with a nominal value of CZK 100. The issue price of all shares had been fully paid up and all of the shares were booked to owner and listed.

The registered capital of ČEZ, a. s. is comprised exclusively of common shares, with no special rights attached. All of the shares of ČEZ, a. s. are accepted for trading on the Prague Stock Exchange and the Warsaw Stock Exchange and are freely transferable without any restrictions. No other securities issued by ČEZ, a. s. are limited in their transferability, nor are any special rights attached thereto.

The following table sets forth the shareholdings of the Czech Republic as of December 31, 2011.

Shareholder	As of December 31, 2011		
	Number of shares	% of share capital	% of voting rights
Ministry of Finance of the Czech Republic.....	373,197,672	69.4	69.9
Ministry of Labor and Social Affairs of the Czech Republic.....	2,213,224	0.4	0.4
Czech Governmental Authority for Representation in Property Affairs.....	355	0.0	0.0
Total.....	375,411,251	69.8	70.3

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ a. s., the parent company of the CEZ Group. As our controlling shareholder, the Ministry of Finance of the Czech Republic exercises shareholder rights provided for in our Articles of Association and applicable laws (including the Czech Commercial Code and the Capital Market Act), which include the power to nominate and elect two-thirds of the members of our Supervisory Board, who in turn appoint all members of our Board of Directors. We have not entered into any agreements with the Ministry of Finance of the Czech Republic and there are no mechanisms in place to prevent abuse of control over the CEZ Group by the Ministry of Finance of the Czech Republic except for provisions contained in our Articles of Association and applicable laws (including the Czech Commercial Code and the Capital Market Act). For information on certain Czech statutory mechanisms preventing abuse of control by the Ministry of Finance of the Czech Republic, please see “*Related Party Transactions—Regulation by Czech Commercial Code*”

As of December 31, 2011, no other shareholder held more than 5% of the share capital or of the voting rights of the shares of ČEZ, a. s.

To the best of our knowledge, as of the date of this Base Prospectus, no agreements exist that could change the control structure of the Issuer at any date.

RELATED PARTY TRANSACTIONS

The relationships between us and our related parties, identified according to the principles of Internal Accounting Standard 24 (“IAS 24”), primarily consist of business transactions relating to the sale and purchase of products, goods and services. They fall within the activities carried out by us in the ordinary course of our business. Please see Note 29 of our audited consolidated financial statements as of and for the year ended December 31, 2011, incorporated by reference into this Base Prospectus, for information on our related party transactions.

Regulation by Czech Commercial Code

Our transactions with related parties are regulated by the Czech Commercial Code. Under the Czech Commercial Code, if the value of assets to be acquired from or disposed to:

- the Czech Republic;
- any shareholder;
- any person close to a shareholder;
- our subsidiary;
- a member of the same concern; or
- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

exceeds one tenth of our registered capital, the value of the transferred assets shall be determined by an independent expert appointed by a Czech court, unless such transaction is entered into in the ordinary course of our business or on a regulated market or supervised by a state authority.

Under the Czech Commercial Code, we may provide a loan to or transfer assets for free to:

- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals); or
- any entity (unless such entity is our subsidiary) whose authorized representative is a member of our Board of Directors, a member of our Supervisory Board, our procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

only with the approval of our General Meeting of Shareholders and provided that such transaction is entered into in the ordinary course of our business.

Under the Czech Commercial Code, we may secure obligations of:

- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals); or
- any entity (unless such entity is our subsidiary) whose authorized representative is a member of our Board of Directors, a member of our Supervisory Board, our procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

only with the approval of our General Meeting.

Our Related Party Transactions

- We conduct transactions with the following related parties:
- the Czech Republic or other State-owned companies;
- our associates (or associated companies);
- our affiliates;
- our joint ventures; and
- certain members of our senior management or with certain companies over which we or our senior management may have a significant influence.

We believe that we conduct our business with these companies and individuals in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in us, if we did not have equity

holdings in them, if they were not members of our senior management, or if we or our senior management did not have significant influence over them, as the case may be. With the exception of transactions with our subsidiaries, associates (or associated companies) and joint ventures, none of these transactions is or was material to us or, to our knowledge, to the other party.

In our opinion, all agreements with related parties are conducted on an arm's length basis and we believe that all of the transactions between us and related parties take place at market prices, except prices for the transmission of electricity, which comprise a regulated price component (set by the ERO) in addition to a market price component.

Transactions with the Czech Republic and State-owned Companies

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ, a. s. For detailed information on the interest held by the Czech Republic in our share capital, please see "Principal Shareholders."

In the ordinary course of business, we enter into transactions with the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises. Due to the large number of such entities and of transactions carried out by them, the limitations of the reporting system adopted by the CEZ Group and the immateriality of such transactions to our results, we believe that the presentation of such transactions is not necessary for an accurate view of the financial situation of the CEZ Group. However, we believe that all of the transactions between us and the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises take place on an arm's length basis.

For example, in 2010 and 2011, in connection with our dividend policy, we paid dividends to the Czech Republic in the amount of CZK 19,897 million and CZK 18,771 million, respectively. ČEZ, a. s. and its fully consolidated subsidiaries in the Czech Republic are taxpayers and pay taxes to the Czech Republic. The terms and regulations applicable to the CEZ Group in this respect are identical to those applicable to entities which are not the Czech Republic's related parties. On November 6, 2010, an agreement was entered into between ČEZ, a. s. and ČEPRO, a.s. (the Ministry of Finance of the Czech Republic is the sole shareholder of ČEPRO, a.s.) for the storage, purchase and sale of fuel. The intention of this agreement was to secure the storage, stocking, filing and release of diesel fuel owned by ČEPRO, a.s. in buildings of the Dukovany Nuclear Power Station and Temelín Nuclear Power Station. The agreement was entered into at arm's length and the consideration and counter-consideration provided was in line with customary business terms. In addition, we also entered into transactions on an arm's length basis with ČEPS, a.s., the state-owned transmission system operator in the Czech Republic.

Transactions with Associates, Joint Ventures and Other Affiliates

We enter into transactions with associates (or associated companies), joint ventures and affiliates. The profits from such transactions are eliminated in proportion to the share that we have in such associated companies, joint ventures and affiliated companies. We believe that all of these transactions take place at arm's length. For a complete list of our associates (or associated companies), joint ventures and affiliates, please see Note 7 of our audited consolidated financial statements for the year ended December 31, 2011.

The following table summarizes the sales to and purchases from associates (or associated companies), joint ventures and affiliated companies for the years 2009, 2010 (both as restated and as originally reported) and 2011.

	Sales to Related Parties for the year ended				Purchases from Related Parties for the year			
	December 31,				ended December 31,			
	2009	2010	2010	2011	2009	2010	2010	2011
	(audited)	(audited)	(restated)	(audited)	(audited)	(audited)	(restated)	(audited)
Associates, joint-ventures and other affiliates:	(CZK in millions)							
Akcez Enerji A.S.....	118	49	49	112	-	-	-	-
Akernerji Elektrik Üterim A.S....	-	-	-	98	-	-	-	24
CM European Power International s.r.o.....	41	13	13	28	-	-	-	-
Coal Energy, a.s.....	-	-	-	-	57	-	-	-
LACOMED, spol. s.r.o.....	-	-	43	40	-	-	4	4
JTSD - Braukohlebergbau GmbH	42	2	-	-	-	-	-	-
LOMY MOŘINA spol. s r.o.....	-	24	24	16	139	151	151	175
MOL – CEZ European Power Hungary Ltd.....	-	-	20	34	-	-	-	-
OSC, a.s.....	-	-	-	-	95	113	113	106
SINIT, a.s.....	4	3	3	2	117	96	96	71
Others.....	75	87	26	76	185	85	81	101
Total.....	280	178	178	406	593	445	445	481

The following table summarizes the receivables from, and payables to, associates (or associated companies), joint ventures and affiliated companies for the years ended December 31, 2009, 2010 (both as restated and as originally reported) and 2011.

	Receivables as of December 31,				Payables as of December 31,			
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)
Associates, joint-ventures and other affiliates:.....	(CZK in millions)							
Akcez Enerji A.S.....	118	161	161	55	85	84	84	73
Akernerji Elektrik Üterim A.S.....	652	761	761	1,414	-	-	-	-
CM European Power International B.V.....	-	-	-	292	-	-	-	-
CM European Power International s.r.o.....	49	-	-	18	-	-	-	-
CM European Power Slovakia s.r.o.....	-	-	-	542	-	-	-	-
JTSD - Braukohlebergbau GmbH.....	6,502	-	-	-	-	-	-	-
LACOMED, spol. s r.o....	12	11	11	14	-	-	-	-
LOMY MOŘINA spol. s.r.o.....	-	3	3	5	10	10	10	21
MOL – CEZ European Power Hungary Ltd.....	-	20	20	33	-	-	-	-
OSC, a.s.....	-	-	-	-	42	18	18	24
SINIT, a.s.....	1	1	1	1	11	33	33	33
Ústav aplikované mechaniky Brno s.r.o.....	-	-	-	3	5	10	10	18
Výzkumný a zkušební ústav Plzeň s.r.o.....	-	-	-	-	-	-	2	20
Others.....	9	4	4	19	35	21	19	29
Total.....	7,343	961	961	2,396	188	176	176	218

As of December 31, 2009, 2010 and 2011, guarantees provided to joint-ventures amounted to CZK 5,489 million, CZK 2,813 million and CZK 6,022 million, respectively (see Note 17.2 of our audited consolidated financial statements for the year ended December 31, 2010 and 2011).

Transactions with Senior Management

From January 1, 2009 to the date of this Base Prospectus, we did not advance any loans nor provide any similar benefits to the members of the Board of Directors, the Supervisory Board, members of the Audit Committee, Division Heads or other senior management or their relatives. However, during the period under review, the members of the Board of Directors, the Supervisory Board, the Audit Committee, Division Heads and senior management received remuneration from the CEZ Group under, respectively, managerial contracts and appointments to the Supervisory Board and the Board of Directors. For further information on the Compensation of such individuals please see “*Management—Supervisory Board—Committees of our Supervisory Board—Personnel Committee*” and “*Management—Compensation.*”

TAXATION

The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of any Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.

Prospective purchasers of any Notes are advised to consult their own tax advisors as to the tax consequences, under the tax laws of each country of which they are residents and the Czech Republic, of a purchase of Notes including, without limitation, the consequences of receipt of interest and sale or redemption of the Notes or any interest therein.

Taxation in the Czech Republic

The information set out below is a summarized description of certain material Czech tax consequences of the purchase, holding and disposition of Notes and it does not purport to be a complete analysis of all Czech tax considerations relating to the Notes that may be relevant to a decision to purchase the Notes. This summary does not take into account or discuss the tax laws of any country other than the Czech Republic nor does it take into account specific double taxation treaties nor the individual circumstances, financial situation or investment objectives of an investor in the Notes.

This summary is based on the tax laws of the Czech Republic as in effect on the date of this Base Prospectus and their prevailing interpretations available on or before such date. All of the foregoing is subject to change, which could apply retroactively and could affect the continued validity of this summary.

As this is a general summary, holders of the Notes should consult their own tax advisors as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of the Czech Republic concerning the purchase, holding and disposition of the Notes and receiving payments of interest, principal and/or other payments under the Notes, including, in particular, the application to their own situation of the tax considerations discussed below as well as the application of state, local, foreign or other tax laws.

Withholding Tax on Interest

Assuming that the Notes are issued outside of the Czech Republic, all interest payments to be made by us under the Notes issued outside the Czech Republic may be made free of withholding or deduction of, for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Czech Republic or any political subdivision or taxing authority thereof or therein.

Non-Czech Holders, Holding and Sale

Assuming that the Notes are issued outside of the Czech Republic, interest income on the Notes held by an individual who is not for tax purposes treated as a resident of the Czech Republic or by a person (other than an individual) who is not for tax purposes treated as a resident of the Czech Republic, a “Non-Czech Holder,” will be exempt from taxation in the Czech Republic.

Income realized by Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to other Non-Czech Holders, not purchasing the Notes through a permanent establishment in the Czech Republic, will not be subject to taxation in the Czech Republic.

Income realized by Non-Czech Holders, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes to an individual who is for tax purposes treated as a resident of the Czech Republic or to a person (other than an individual) who is for tax purposes treated as a resident of the Czech Republic or to an organizational unit of the Czech state, a “Czech Holder,” or to a Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic, unless:

- the Non-Czech Holder realizing that income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country, is the beneficial owner of that income, is entitled to enjoy the benefits of that double taxation treaty and does not have a permanent establishment in the Czech Republic to which the income would be attributable; or
- the Non-Czech Holder who is an individual did not hold a share in our registered capital or voting rights exceeding 5% in the 24-month period prior to the sale of the Notes and has held the Notes for more than six months prior to their sale and the Notes have not been held in connection with business activities of the Non-Czech Holder and if so, the Notes will be sold after six months following the termination of such business activities at the earliest.

Income realized by Non-Czech Holders, holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes will be subject to taxation in the Czech Republic regardless of the status of the buyer.

If income realized by a Non-Czech Holder, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), the Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying the income will be obliged to withhold an amount of 1% on a gross basis representing tax security, unless the Non-Czech Holder selling the Notes is for tax purposes a resident of a member state of the European Union or the European Economic Area or unless the obligation to withhold is waived based on a tax authority decision. The tax security shall be credited against the final tax liability of the Non-Czech Holder selling the Notes.

A Non-Czech Holder will not become or be deemed to become a tax resident in the Czech Republic solely by reason of holding of the Notes or the execution, performance, delivery and/or enforcement of the Notes.

Czech Holders, Holding and Sale

Interest income on the Notes held by Czech Holders is subject to Czech corporate and personal income tax, as applicable, at the flat rates of 19% and 15%, respectively, and is payable on a self-assessment basis (in the case of Czech Holders who are individuals, the reporting obligation, in addition to whether the interest income shall be declared on a cash or an accrual basis, will depend on the individual's circumstances in each case). Czech Holders that are subject to Czech accounting standards for entrepreneurs (most companies other than financial or insurance institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (including, in particular, banks) will be required to recognize the interest income on an accrual basis for accounting purposes and, accordingly, include it in their general tax base for Czech income tax purposes in the given period.

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Notes for the purposes of trading may be, under certain conditions, required to revalue the Notes to fair value for accounting purposes, whereby the unrealized gains or losses would be accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax deductible for Czech tax purposes.

Any gains upon a sale of the Notes will generally be taxable at the above mentioned rates and in the case of Czech Holders who keep accounting books (in principle, all legal entities and certain individuals), any losses will generally be tax deductible. By contrast, a loss realized by Czech Holders who are individuals (other than those mentioned in the preceding sentence) is generally non-deductible, except where such losses are compensated by taxable gains on sales of other securities and the income from the sale of the Notes is not exempt from tax. In the case of Czech Holders who are individuals, any gain derived from the sale of the Notes is exempt from Czech personal income tax if the individual did not hold a share in our registered capital or voting rights exceeding 5% in the 24-month period prior to the sale of the Notes and the holding period of the Notes exceeds six months and the Notes have not been held in connection with the business activities of the Czech Holders and, if so, the Notes will be sold after six months following the termination of such business activities at the earliest.

Value Added Tax

There is no Czech value added tax payable in respect of payments in consideration for the issue of the Notes, or in respect of the payment of interest or principal under the Notes, or in respect of the transfer of the Notes.

Other Taxes or Duties

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic by a Non-Czech Holder or a Czech Holder in respect of or in connection with the purchase, holding or disposition of the Notes, save for disposition in certain cases upon donation or inheritance.

E.U. Taxation Aspects

E. U. Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “*E. U. Savings Directive*”), member states (including the Czech Republic which implemented the E.U. Savings Directive into Section 38fa (Paying Agent) of the Czech Income Tax Act) are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to (or collected by such a person for) an individual resident in that other member state or to certain limited types of entities established in that other member state.

However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income elects for the exchange of information) in relation to such payments, deducting tax at a rate of 35% (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

A number of non-E.U. countries and certain dependent or associated territories of certain member states have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to (or collected by such a person for) an individual resident in a member state or to certain limited types of entities established in a member state. In addition, the member states have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to (or collected by such a person for) an individual resident in one of those territories or to certain limited types of entities established in one of those territories.

The European Commission has proposed certain amendments to the E.U. Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Luxembourg Taxation

The following summary is of a general nature and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisors as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

Non-Resident Holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of June 21, 2005 (the “*Laws*”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of June 3, 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the “*Territories*”), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 35%.

Resident Holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10%.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement dated April 23, 2012 (the “*Amended and Restated Programme Agreement*”), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Amended and Restated Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the U.S. Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

The Czech Republic

No permit for the establishment of the Programme and the issue of any Notes has been obtained (including the obtaining of the approval of the terms and conditions of the Programme and the Notes) from the Czech National Bank under Act of the Czech Republic No. 190/2004 Coll., on Bonds (the “*Bonds Act*”). No action has been taken in the Czech Republic (including the obtaining of the base prospectus approval from the Czech National Bank and the admission to trading on a regulated market (as defined in section 55(1) of Act of the Czech Republic No. 256/2004 Coll., on Conducting Business in the Capital Market, as amended (the “*Capital Market Act*”)) for the purposes of any Notes to qualify as securities admitted to trading on a regulated market (defined as above) or any other European regulated market within the meaning of the Capital Market Act (see “*General Information—Notification to the Czech National Bank*”).

Each Dealer has represented and agreed with the Issuer and each other Dealer that it has complied with and will comply with all the requirements of the Capital Market Act and the Bonds Act and has not taken, and will not take, any action which would result in the Notes being deemed to have been issued in the Czech Republic, the issue of the Notes being classed as “accepting of deposits from the public” by the Issuer in the Czech Republic under Section 2(1) of Act of the Czech Republic No. 21/1992 Coll., on Banks (as amended) (the “*Banks’ Act*”) or requiring a permit, registration, filing or notification to the Czech National Bank or other authorities in the Czech Republic in respect of the Notes in accordance with the Capital Market Act, the Bonds Act, the Banks Act or the practice of the Czech National Bank.

Each Dealer has represented and agreed with the Issuer and each other Dealer that it has complied with and will comply with all the laws of the Czech Republic applicable to the conduct of business in the Czech Republic (including the laws applicable to the provision of investment services (within the meaning of the Capital Market Act) in the Czech Republic) in respect of the Notes.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “*Relevant Member State*”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “*Relevant Implementation Date*”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer of Notes to the public*” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “*Prospectus Directive*” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “*2010 PD Amending Directive*” means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “*FIEA*”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949 as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not directly or indirectly offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorization

The establishment of the Programme and the issue of Notes have been duly authorized by resolutions of the Board of Directors of the Issuer dated May 28, 2007, February 14, 2011 and April 10, 2012 and resolutions of the Supervisory Board of the Issuer dated June 28, 2007 and February 24, 2011 (see also “*Overview of the Programme – Programme Size*”).

Listing, Approval and Admission to Trading of Notes

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notification to the Czech National Bank

Pursuant to Section 3(3) of the Bonds Act, the issuance of each Series and/or Tranche of the Notes must be notified to the Czech National Bank no later than on the date of issue of the relevant Notes setting out the place of issue and amount of relevant Series or Tranche and the form, yield and maturity of the relevant Notes.

Pursuant to Section 5 of Czech Act No. 219/1995 Coll., Foreign Exchange Act, as amended, in connection with Section 8a of Czech Decree No. 34/2003 Coll., the place of issue and amount of relevant Series and/or Tranche, yield and maturity of the relevant Notes shall be notified to the Czech National Bank within 15 days from the date when the subscription period of the relevant Notes expires.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Luxembourg:

- (a) the Articles of Association (with an English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the CEZ Group in respect of the financial years ended December 31, 2009, December 31, 2010 and December 31, 2011 and the non consolidated financial statements of the Issuer in respect of the financial year ended December 31, 2011. We currently prepare audited consolidated and non consolidated accounts on an annual basis;
- (c) the most recently published audited annual consolidated financial statements of the CEZ Group and audited annual non consolidated financial statements of the Issuer and the most recently published unaudited consolidated interim financial statements (if any) of the CEZ Group and unaudited non consolidated interim financial statements (if any) of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. We currently prepare unaudited consolidated and non consolidated interim accounts on a quarterly basis;
- (d) the Amended and Restated Programme Agreement, the Amended and Restated Agency Agreement and the Deed of Covenant, including the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (e) a copy of this Base Prospectus;
- (f) any future offering circular, prospectuses, information memoranda, supplements to this Base Prospectus and Final Terms (in each case, related to the Programme or the Notes) (save that the Final Terms relating to Notes which are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Notes and such holder must

produce evidence satisfactory to the Issuer and the Paying Agent as to its identity and holding of such Notes) and any other documents incorporated herein or therein by reference; and

- (g) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website at *www.bourse.lu*.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for Determining Price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries since December 31, 2011 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since December 31 2011.

As of the date of this Base Prospectus, there are no recent events particular to the Issuer which are to a material extent relevant to the evaluation of its solvency.

Litigation

Except as described on page 126 under the heading "*Legal Proceedings*" and on page 91 under the heading "*Czech National Bank Discontinued its Investigation with Respect to Unauthorized Disclosure of Confidential Information*" neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Base Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or any of its subsidiaries.

Auditors

The auditors of the Issuer are Ernst & Young Audit, s.r.o., a member of the Chamber of Auditors of the Czech Republic, who have audited the Issuer's consolidated as well as non-consolidated financial statements, without qualification, in accordance with International Standards on Auditing for each of the three financial years ended on December 31, 2009, December 31, 2010 and December 31, 2011, respectively. The auditors of the Issuer have no material interest in the Issuer.

Post-Issuance Information

The Issuer does not intend to provide any post-issuance information, except if required by any applicable laws or regulations.

Dealers Transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

Denominations

The minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Following the entry into force of the 2010 PD Amending Directive on December 31, 2010, Notes to be admitted to trading on a regulated market within the European Economic Area with a maturity date which will fall after the implementation date of the 2010 PD Amending Directive in the relevant European Economic Area Member State (which is due to be no later than July 1, 2012) must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities. Similarly, Notes issued after the implementation of the 2010 PD Amending Directive in a Member State must have a minimum denomination of €100,000 (or equivalent) in order to benefit from the wholesale exemption set out in Article 3.2(d) of the Prospectus Directive in that Member State.

REGISTERED OFFICE OF THE ISSUER

ČEZ, a. s.
Duhová 2/1444
140 53 Prague 4
Czech Republic

AGENT

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

**OTHER PAYING AGENT AND
LISTING AGENT**

Deutsche Bank Luxembourg S.A.
2 Boulevard Konrad Adenauer
L-1115 Luxembourg

LEGAL ADVISORS TO THE ISSUER

as to English law

WEIL, GOTSHAL & MANGES
110 Fetter Lane
London, EC4A 1AY
United Kingdom

as to Czech law

WEIL, GOTSHAL & MANGES s.r.o.
advokátní kancelář
Křižovnické nám. 193/2
110 00 Prague 1
Czech Republic

LEGAL ADVISORS TO THE DEALERS

as to English law

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

as to Czech law

Allen & Overy (Czech Republic) LLP,
organizační složka
Advokátní kancelář
V Celnici 4
5th Floor
110 00 Prague 1
Czech Republic

AUDITORS OF THE ISSUER

Ernst & Young Audit, s.r.o.
Charles Square Center
Karlovo nám. 10
120 00 Prague 2
Czech Republic

DEALERS

BNP Paribas
10 Harewood Avenue
London NW1 6AA

Citigroup Global Markets Limited
Canada Square
Canary Wharf
London E14 5LB