

BASE PROSPECTUS

ČEZ, a.s.

(incorporated with limited liability in the Czech Republic)

€2,000,000,000

Euro Medium Term Note Programme

Under this €2,000,000,000 Euro Medium Term Note Programme (the **Programme**), ČEZ, a.s. (the **Issuer**) 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 will not exceed €2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to 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 10 July 2005 on prospectuses for securities 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 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 supplemental Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arrangers

BNP PARIBAS

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This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the Prospectus Directive) 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 Prospectus contains all information regarding the Issuer, the Issuer and its subsidiaries taken as a whole (ČEZ 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 Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; that this 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 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 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 authorised to use this Base Prospectus (and, therefore, acting in association with the Issuer) 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 authorised 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 authorised 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 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 authorised, nor do they authorise, 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 establishing the European Community, 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.

CONTENTS

| Clause | Page |
|--|------|
| Risk Factors | 6 |
| Overview of the Programme | 19 |
| Documents Incorporated by Reference | 23 |
| Technical Terms and Presentation of other Data | 24 |
| Form of the Notes | 26 |
| Applicable Final Terms | 28 |
| Terms and Conditions of the Notes | 40 |
| Use of Proceeds | 65 |
| Description of the Issuer | 66 |
| Management..... | 111 |
| Taxation | 118 |
| Subscription and Sale..... | 122 |
| General Information..... | 125 |

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising 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 Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation 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 stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuer is 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 Notes issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. 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.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

These risk factors are structured into the five following categories: (A) Issuer Ownership; (B) Regulatory risk factors; (C) Business risk factors; (D) Operational risk factors; and (E) Market risk factors.

(A) Issuer Ownership

Future privatisation of the Issuer could have a material adverse effect on the Issuer's business and financial condition

The minority government formed by the winner of the most recent parliamentary elections in 2006, the Civic Democratic Party, decided on 19 March 2007 to sell up to a 7% stake in ČEZ, currently held by the Ministry of Finance of the Czech Republic (MoF).

There can be no assurance that this or any future government will not ultimately seek to undertake the full privatisation of ČEZ resulting in the sale of its entire shareholding in ČEZ. Such privatisation could have a materially adverse effect on ČEZ Group's business, dividend policy, financial condition and results of operation. Nevertheless, the Issuer believes that the government has no current intention to fully privatise ČEZ.

The majority shareholder may pursue decisions that reflect Czech government policy

As of 23 April 2007, the Czech MoF holds 67.6% of all shares in ČEZ and has the power to nominate and elect two-thirds of the members of ČEZ's Supervisory Board. ČEZ's Supervisory Board elects members to the Board of Directors. Consequently, certain of ČEZ's decisions may reflect Czech Government policy. ČEZ can give no assurance that these decisions will not adversely affect its business, prospects, financial condition or results of operations.

(B) Regulatory risk factors

Future regulation and legal requirements could have a significant adverse effect on ČEZ Group's business and its profitability

As an owner and operator of nuclear and coal-fired power stations and owner of electricity distribution businesses, ČEZ Group is subject to extensive governmental and other regulations. ČEZ Group is subject to, among other things, nuclear safety, electricity market and environmental regulations of the Czech Republic, the EU and other governmental authorities. Future regulation and legal requirements by the Czech Government or the EU may require significant changes in ČEZ Group's business or otherwise affect its business in ways that ČEZ Group cannot predict. Any new regulations that cause ČEZ Group to restructure

or otherwise change its business may have a material adverse effect on its business prospects, results of operations and financial condition.

The separation of electricity distribution from electricity generation and supply required by law may limit ČEZ's ability to exercise full control over distribution companies

Under Czech law and EU regulatory requirements, the distribution of electricity must have been separated and independent from the generation of electricity by 1 January 2007. The process of separation, called “unbundling”, is outlined in Act No. 458/2000 Coll., on energy (the **New Energy Act**) and in the relevant EU directives (2003/54/EC and 2004/8/EC). The unbundling process has commenced in other countries where CEZ Group operates as well. The unbundling process in Bulgaria was completed on 3 January 2007, when full compliance with the requirements given by Directive 2003/54/ES was achieved. In Romania, sales must be unbundled from distribution during 2007.

To ensure the required level of independence, the management responsible for the electricity distribution business must be separate from the management responsible for electricity generation and supply business, and appropriate measures must be taken to prevent professional conflicts of interest between persons responsible for electricity distribution and generation and supply businesses, and consequently the control over electricity distribution companies exercised by its shareholders is restricted. After having complied with these requirements, ČEZ could encounter difficulties in the control of its distribution companies, despite being the majority shareholder. Consequently, ČEZ's business, prospects, financial condition or results of operations may be adversely influenced by the above legal limitations of its control over its distribution companies.

State support for selected power generation sources could adversely affect the portion of ČEZ Group's business subject to regulated prices

The New Energy Act requires distribution companies to purchase certain amounts of electricity from environmentally friendly “co-generation”, “small hydro”, “decentralised” or “renewable” facilities. This approach leads to significantly higher state support for small generation sources or those that are connected directly to the distribution grids. ČEZ Group, however, operates large plants and transmits a major portion of its electricity to the transmission grid and thus cannot take full advantage of Czech Government support for otherwise comparable power generation sources. Similar support for selected power generation sources also exists on other markets, where ČEZ Group operates generating facilities or considers their acquisition or construction. While ČEZ Group believes that these purchases by the distribution companies will remain an insignificant portion of overall electricity purchases by supply/distribution companies, it can provide no assurance that this will in fact be the case and that its electricity sales to supply companies will not decrease as a result and will not adversely affect its business, prospects, financial condition or results of operations.

The costs charged for radioactive waste disposal may increase

Under Czech law, ČEZ is required to contribute funds to the Nuclear Account (as defined below) administered by the MoF based on the amount of electricity ČEZ Group produces in its nuclear power plants. This fund is used by the Radioactive Waste Repository Authority (the **Repository Authority**) to centrally organise, supervise and undertake responsibility for all final disposal facilities and deposition of nuclear waste therein. ČEZ can give no assurance that the government will not increase the contributions which the Nuclear Act requires ČEZ to pay into the Nuclear Account. Additionally, if the cash amounts accrued in the Nuclear Account are not sufficient to pay the final disposal costs, ČEZ may be required to pay additional amounts.

The amounts ČEZ has to keep in a special escrow account (the Nuclear Account) for future decommissioning of ČEZ Group's nuclear power plants may increase; ČEZ Group may become liable for increased costs of future decommissioning

Under Czech law, ČEZ Group is required to keep funds in a special escrow account based on the expected costs of future decommissioning of its nuclear power plants. These funds can be used only for such

decommissioning and only with the permission of the Repository Authority. ČEZ Group can give no assurance that its contributions to the special escrow account will not increase as a result of increased expected costs of decommissioning or other factors determining the amount of its annual contributions. Additionally, if the cash amounts accrued in the special escrow account are not sufficient to pay the decommissioning costs, ČEZ Group may be required to pay additional amounts.

A failure to comply with, or the incurrence of liabilities under, environmental, health and safety laws and regulations to which ČEZ Group is subject, or a failure to obtain or maintain required environmental, health and safety regulatory approvals, could adversely affect ČEZ Group's business or its ability to trade profitably

ČEZ Group is subject to various environmental and health and safety laws and regulations governing, amongst other things: (i) the generation, storage, handling, release, use, disposal and transportation of hazardous and radioactive materials; (ii) the emission and discharge of hazardous materials into the ground, air or water; and (iii) the decommissioning and decontamination of its facilities and the health and safety of the public and its employees. Regulators in the Czech Republic administer these laws and regulations. ČEZ Group is also required to obtain environmental and safety permits from various governmental authorities for its operations. Certain permits require periodic renewal or review of their conditions and ČEZ Group cannot predict whether it will be able to renew such permits or whether material changes in permit conditions will be imposed. Therefore, ČEZ Group may not have been or may not at all times in the future be, in complete compliance with such laws, regulations and permits. Violations of these laws, regulations or permits could result in plant shutdowns, fines and/or litigation being commenced against ČEZ Group, or other sanctions. Other liabilities under environmental laws, including clean-up of radioactive or hazardous substances, can be costly to discharge. Environmental liabilities or failure to comply with environmental laws could also lead to negative publicity and significant damage to ČEZ Group's reputation. Environmental and health and safety laws are complex, change frequently and have tended to become more stringent over time. Whilst ČEZ Group has 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 will change or become more stringent in the future. Therefore, ČEZ Group's costs of complying with current and future environmental and health and safety laws, and its liabilities arising from past or future releases of, or exposure to, radioactive or other hazardous substances, could adversely affect ČEZ Group's business or its operating or financial performance.

ČEZ Group could incur unforeseen tax penalties and/or sanctions

Changing interpretations of tax regulations by the tax authorities, harmonisation of Czech and EU tax development, extended time periods relating to overdue liabilities and the possible imposition of penalties and other sanctions result in tax risk for a Czech company such as ČEZ.

(C) Business risk factors

Political developments in the Czech Republic could negatively impact economic conditions in the Czech Republic and ČEZ Group's business

The last general election for the Chamber of Deputies took place in June 2006. These parliamentary elections resulted in an equal division of the 200 parliamentary seats between leftist parties (the Czech Social Democratic Party and Communists) with 100 seats and a block consisting of the Civic Democratic Party, a centre-right party, Christian Democrats and Greens, also with 100 seats. A centre-right government, which was subsequently created, will still face the risk that its proposals submitted to the parliament will be rejected by the equivalent power of the leftist parties. This situation may lead to early elections.

The above factors may have an adverse effect on the overall stability of the Czech Republic and consequently on ČEZ Group's economic and financial situation. ČEZ Group can give no assurance that any new government will continue the energy, economic, fiscal, and regulatory policies of former governments. Nor can there be any assurance that any changes in such policies will not have a material adverse effect on ČEZ Group's business, prospects, financial condition or result of operations. Moreover, any potential change

in the government may affect the structure of the presidium of the MoF and/or the structure of ČEZ's Supervisory Board and ČEZ's Board of Directors.

ČEZ Group's strategies may not be successful

In order to fulfil the ČEZ business vision "To become the leader in the electricity markets of Central and South-eastern Europe", ČEZ Group has identified three key pillar initiatives in its long-term strategy: Operational Excellence; Plant Portfolio Renewal; and International Expansion (see "*Description of the Issuer - Strategy and Initiatives*" below).

In pursuit of these three pillar initiatives in the areas of electricity generation, distribution and supply, ČEZ is facing many inherent risks relating to its business, such as the development of electricity demand in the Czech Republic and in Europe, development of electricity prices, development of future generation and distribution costs, development of the infrastructure for export and import of electricity within Europe, future structure and strength of the competition within and outside the Czech Republic, political development within Europe, EU legal and regulatory requirements and the credibility of future ČEZ partners for building the business within Central and South-eastern Europe.

The failure by ČEZ Group to successfully implement any of its key strategies could adversely affect ČEZ's business, prospects, financial condition or results of operations.

Liberalisation of the electricity market in the Czech Republic could adversely affect ČEZ's business

ČEZ Group competes in the retail electricity market and the wholesale electricity market. The wholesale market has been liberalised since 2002. With respect to the retail market in the Czech Republic, "eligible final customers" choose their electricity supplier and freely negotiate prices. Since 1 January 2005, all final customers except for households have been classed as "eligible final customers". Households became "eligible final customers" as of 1 January 2006, when the Czech retail electricity market became fully liberalised. In the final stage of market liberalisation, all suppliers have the right to offer their electricity and all customers have the right to choose their electricity supplier at their own discretion (see "*Description of the Business of ČEZ Group - Liberalisation of the Czech Electricity Market*"). ČEZ Group has direct access to 62% of the final customers in the Czech retail electricity market. On the other hand, the remaining 38% of the Czech retail electricity market is served by supply companies outside ČEZ Group, which are free to choose on the wholesale market suppliers to cover the demand of their customers. As a consequence of liberalisation, the customers may purchase electricity from suppliers other than those within ČEZ Group, which might reduce ČEZ Group revenues. ČEZ Group can provide no assurance that decisions of the independent supply companies or final customers will not adversely affect its business, prospects, financial condition or results of operations.

There are risks associated with international operations

ČEZ is highly active in the mergers and acquisitions activity in Central and South-eastern Europe (see "*ČEZ Group's strategies may not be successful*" above). ČEZ Group will continue to evaluate opportunities abroad and may expand its investments in these countries or in new markets. There are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, default of joint-venture partners, trade barriers including import and export controls, tariffs, customs, duties, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, expropriation, nationalisation, 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 of which could adversely impact the success of ČEZ Group's international operations.

Risks associated with capacity expansion

ČEZ's current power capacity mix predominantly consists of coal and nuclear. In view of this, ČEZ seeks diversification of its portfolio by building gas-fired power plants. However, ČEZ lacks experience in

building and running gas-fired facilities, which could expose the company to risks from an operational perspective. The lack of a diversified gas supply in the region is another risk related to gas-fired generation capacities. So far Gazprom is the only major gas supplier in the region, which exposes ČEZ to potential source dependency and the associated risk of gas price increases as decided by the major supplier, leading to higher operational expenses.

As ČEZ Group no longer controls the transmission grid, electricity transmission prices may increase

Until 1 April 2003, ČEZ controlled the electricity transmission grid in the Czech Republic through its wholly-owned subsidiary, ČEPS, a.s. (ČEPS). As a part of the process of the liberalisation of the energy market and/or privatisation in the Czech Republic, ČEZ had to sell its majority stake in ČEPS to the Czech state and thereby lost direct control of the transmission grid. If the transmission prices or related financial conditions change, ČEZ Group can give no assurance that the possible decrease of electricity consumption and/or ČEZ Group's cost increase would not adversely affect its business, prospects, financial condition or results of operations. Furthermore, ČEZ Group can give no assurance that the specific regulatory or other relationship that actually develops with respect to the transmission of electricity will not adversely affect its business, prospects, financial condition or results of operations.

Risks associated with the deliveries of coal from Mostecká uhelná, a.s.

In 2005, ČEZ concluded a framework agreement with *Mostecká uhelná společnost, a.s., successor* (now *Mostecká uhelná a.s.*), which is a major entity of the Czech Coal Group, for the long-term purchase of coal.

The Czech Coal Group has rejected this agreement, and ČEZ therefore has taken legal steps against the Czech Coal Group with the aim to uphold the long-term coal purchase contract. ČEZ has also asked Office for the Protection of Competition not to allow *Mostecká uhelná a.s.* to contribute its mines into a prospective joint venture with a third party, because part of the coal is subject of the litigation.

The future outcome of the legal proceedings is unknown at the moment and its results, as well as any potential delays in coal deliveries may adversely affect ČEZ Group's business, prospects, financial condition or results of operations. Currently the coal from *Mostecká uhelná a.s.* is purchased under a medium-term contract.

Risks associated with the Temelín nuclear power plant litigation

On 31 July 2001 the Austrian federal land of Upper Austria filed a lawsuit with the Land Court of Linz, Austria, against ČEZ by which it sought a ruling ordering ČEZ to refrain from the potential negative impacts of the *Temelín* nuclear power plant. Later a similar lawsuit was filed by certain Austrian individuals. On 17 April 2002, the court ruled that it had no jurisdiction over a power plant located outside of Austria. The court's decision was upheld by the European Court of Justice in June 2006. However, in July 2006, the Austrian Supreme Court ruled that Austrian courts have jurisdiction over *Temelín* based on the application of Austrian law. The result of the litigation is out of ČEZ's control and could adversely affect ČEZ Group's business, prospects, financial condition or results of operations.

(D) Operational risk factors

ČEZ Group could incur significant losses if it suffered a nuclear accident

In accordance with the Vienna Convention, the Nuclear Act provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to CZK 6 billion per accident. The Nuclear Act also provides that operators of nuclear facilities, such as ČEZ, are obliged to acquire insurance covering potential liabilities for nuclear damages in an amount of not less than CZK 1.5 billion. ČEZ Group has concluded insurance policies for both the *Dukovany* and *Temelín* nuclear power plants which provide coverage at these amounts. However, notwithstanding such limitation of liability and ČEZ Group's additional coverage, any nuclear accident at a nuclear power station could have a material adverse effect on its business, prospects, financial condition or results of operations due to, *inter alia*, potential shut-down of

the nuclear facility involved in the accident and the resulting loss of generation capacity, remedial and replacement expenses and negative public response. In addition, as the Nuclear Act has not been tested in court, ČEZ Group can give no assurance that judicial interpretations will be consistent with its stated limitation of liabilities.

The condition of some of the equipment and components of ČEZ's power plants is subject to gradual deterioration over time

The impact of plant operations and natural processes, such as erosion and corrosion, on the condition of some of the equipment and components of ČEZ power plants tends to increase as such plant, equipment and components grow older. ČEZ has launched a significant portfolio renewal initiative in order to modernise its plant portfolio thus fulfilling its business vision (see “*Description of the Issuer - Strategy and Initiatives*” below). While ČEZ attempts to implement inspection and maintenance practices, including repairs or replacements of such equipment and components before they fail, and while ČEZ implements the plant portfolio renewal initiative, there is no guarantee that ČEZ will be successful in its efforts and consequently can provide no assurance that its business, prospects, financial condition or results of operations will not be adversely influenced by these factors.

The power plants may continue to suffer unplanned outages in the future

The load factor at the *Temelín* nuclear power plant was 66% and 71% in 2005 and 2006 respectively (compared to 89% and 90% at the *Dukovany* nuclear power plant for the same years). The relatively low load factor percentages at *Temelín* have been caused by unplanned outages relating to faults at the non-nuclear part of the power plant. However, ČEZ expects that there may be continued technical interruptions at *Temelín* in the future, until the load factor level at *Temelín* is comparable to that currently at *Dukovany*. Such technical interruptions would have an adverse effect on the performance of the *Temelín* power plant and financial results of ČEZ Group.

Further the unplanned outages of ČEZ Group's power plants, in particular nuclear reactors, result in lost electricity generation and, due to its contractual obligations to deliver electricity at pre-established prices and quantities, ČEZ Group may, therefore, be required to purchase replacement electricity volume in the open market which may be at unfavourable prices. Due to the complexity of operating nuclear and other power stations, ČEZ Group is not able to completely eliminate the risk of unplanned outages and ČEZ Group cannot predict the timing or impact of these outages with certainty, which may have an adverse effect on its business operations and financial condition of ČEZ Group.

ČEZ needs to successfully replace the nuclear fuel supplier for Temelín

In 2006, a new contract for the supplies of nuclear fuel for *Temelín* power plant has been entered into with the Russian manufacturer *JSC TVEL (TVEL)*. The contract anticipates the development of new fuel by 2010. No assurance can be given that this deadline will be maintained in which case ČEZ would have to continue to purchase nuclear fuel from the current supplier *The Westinghouse Electricity Company LLC* on commercial terms which may not be advantageous for ČEZ. In addition, *The Westinghouse Electricity Company LLC* may be unable to supply nuclear fuel in sufficient time if *TVEL* breaks the contract close to the deadline.

ČEZ Group's insurance does not fully cover its risks and facilities

ČEZ Group has limited insurance (e.g. property and machinery insurance) for its significant assets, including the *Dukovany* and *Temelín* nuclear power plants. ČEZ Group can give no assurance that its business will not be adversely affected by the costs of accidents or other unexpected occurrences at such facilities.

Integration with Czech distribution and supply subsidiaries and with newly acquired foreign targets could encounter obstacles, negatively influencing ČEZ Group's business

In January 2005, ČEZ acquired from the Bulgarian government majority shares in three distribution companies in Western Bulgaria. In September 2005, ČEZ acquired a majority stake in the Romanian distribution company *Electrica Oltenia S.A.* In May 2006, ČEZ settled the acquisition of a 75% stake in power plant *Elektrownia Skawina S.A.* and a 89% stake in power plant *Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.* In addition in 2006, ČEZ acquired a 100% share in the second largest Bulgarian power plant, *TPP Varna EAD*. ČEZ is in the process of fully integrating the distribution, supply and supported processes within the Czech Republic and the acquired foreign distributors and power generators into ČEZ Group.

However, ČEZ Group may not be able to successfully identify, consummate and integrate future acquisitions. If such expansion is unsuccessful, ČEZ Group may incur losses and the costs of expansion may lower ČEZ Group's overall profits. While ČEZ believes that it will be successful in its integration efforts, it can give no assurance that the integration will continue smoothly and as expected. Consequently, ČEZ can provide no assurance that its business, prospects, financial condition or results of operations will not be adversely influenced by these factors.

(E) Market risk factors

If the Czech economy performs poorly, ČEZ Group's business could be impacted negatively

ČEZ Group's revenues are sensitive to the performance of the Czech economy. A significant portion of its assets and operations are located in the Czech Republic and ČEZ Group derives a substantial majority of its electricity revenues from domestic sales. Changes in economic, regulatory, administrative or other policies of the Czech government, as well as political or economic developments in the Czech Republic over which ČEZ Group has no control, could have a significant effect on the Czech economy, which in turn could have a significant effect on ČEZ Group's business, prospects, financial condition or results of operations or ČEZ Group's ability to proceed with its business plan.

Political development in other countries where ČEZ Group has or plans to have a business presence could negatively impact economic conditions in those countries and ČEZ Group's business

Part of ČEZ Group's assets and operations are now located in countries other than the Czech Republic (such as Poland, Bulgaria, Romania) and ČEZ Group is considering expansion in additional countries and regions. Changes in economic, regulatory, administrative or other policies of these countries, as well as political or economic developments over which ČEZ Group has no control, could have a significant effect on the particular economy, which in turn could have a significant effect on ČEZ Group's business, prospects, financial condition or results of operations or ČEZ Group's ability to proceed with its business plan.

ČEZ's commercial relationship with the network companies and the competitive environment for the distribution of electricity in the Czech Republic could change

ČEZ sells a significant portion of its electricity to final customers via three network companies (previously eight REAS), one of which is controlled by ČEZ. The contracts between ČEZ and the network companies are signed on an annual basis. ČEZ can provide no assurance that the two network companies, over which it has no control, will continue to purchase electricity from ČEZ in the same quantities as they did in the past and/or for the same or better prices, or that the competitive environment in the area of supply of electricity in the Czech Republic will not change.

Commencement of trading on the Prague Energy Exchange (PXE)

On 17 July 2007 the PXE commenced trading. The main part of ČEZ's external electricity sales will be traded on this newly set up energy exchange in a relatively small market, where ČEZ is a market maker. The electricity trading of ČEZ is therefore being fully influenced by commodity and financial markets, which may adversely affect ČEZ Group's business, prospects, financial condition or results of operations.

ČEZ Group is exposed to financial risks and the date of the Czech Republic joining the Euro zone is still open

A significant part of ČEZ's revenues is generated in currencies other than CZK, namely in Euro, Bulgarian lev, Romanian lei, Slovak crowns and Polish zloty; relevant costs are generated in Bulgarian lev, Romanian lei, Polish zloty and Czech crowns. The share of revenues in EUR will grow significantly in connection with the commencement of trading on the PXE. A significant part of ČEZ's debt is denominated in other currencies than Czech crowns, namely Euro. FX Foreign Exchange exposure from ČEZ's major Euro debt is covered by financial or natural FX hedge.

Further the Czech Republic has experienced growing public finance deficits which could potentially destabilise the Czech crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic through lower debt ratings, and for ČEZ Group as well. Though the Czech crown is currently strong (and stable) and the inflation low, ČEZ Group can give no assurance that this will be the case in future years. Another relevant risk factor is the date of the Czech Republic joining the Euro zone. The generally expected date could be delayed according to the growing public and budget deficit of the Czech Republic.

Although ČEZ Group makes use of financial or natural hedging in order to manage currency risk and interest rate risk, ČEZ Group can give no assurance that the impact of related risks will not adversely affect its business, prospects, financial condition or results of operations.

ČEZ Group's future profitability is exposed to commodity risks (above all the electricity and emission allowances), and the market development of these commodities is outside ČEZ Group's control

Costs structure and variable electricity prices. The operation of ČEZ Group's power stations, in particular its nuclear power stations, is characterised by high fixed costs. Additionally, some of ČEZ Group's costs are not faced by its non-nuclear competitors because they are unique to the nuclear power generation industry. ČEZ Group's ability to generate sufficient turnover at sufficient margin to cover its fixed costs is dependent, in part, on favourable electricity prices and ČEZ Group's sales and trading strategy. Electricity prices depend on a number of market and other factors. Because ČEZ Group's costs are primarily fixed in nature, they cannot be reduced in periods of low electricity prices. Therefore, in these circumstances, it is possible that ČEZ Group may not produce sufficient free cashflow from its electricity sales and/or trading activities.

CO₂ emission allowances. In 2005, the EU introduced the ETS (the Emission Trading Scheme) (see "*Description of the CO₂ Emission Allowances*"). Within ETS, each emitter is allocated a certain cap by the national government, which is in turn allocated a national cap by the EU Commission, within which it is allowed to emit CO₂. Any emissions in excess of this cap must be counterbalanced by CO₂ credits acquired in the open market at a market price, otherwise the emitter should be penalized. Allocated credits not offset by actual emissions may be sold in the open market at a market price. The allocations are fixed for a specific trading period. The allocations for the second period (2008-2012) are not finished yet, and for the periods after 2012, various changes to the system are discussed and planned, including sale of all allowances via auction (for market prices).

In the second period (2008-2012), companies can use Kyoto credits CER/ERU (Certified Emission Reductions/Emission Reduction Units) instead of the ETS allowances. The amount that can be used in the scheme is capped as a percentage of the company's overall emissions. The CER/ERU credits are generated by investments into projects that reduce greenhouse gas emissions in developing countries, following procedures set out by the Kyoto Protocol and other related inter-governmental agreements.

Since the amount of allocated allowances is not yet determined, ČEZ Group does not know at this point whether there will be any necessity to buy additional credits in the market. However an unexpected increase of demand for electricity or outages of nuclear power plants may lead to an unexpected increase of generation of coal power plants and deficit of CO₂ credits or CER/ERU, which would result in an additional cost in the CO₂ credits purchased in the market with a negative impact on the cashflow of the Issuer. Allocations of CO₂ credits in the coming trading periods and/or development of the prices of CO₂ credits may

result in an increase of the generation variable costs, thus making the electricity price offered by ČEZ uncompetitive. In addition thereto, excess CO₂ credits may be sold at lower than anticipated prices.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

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 behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) 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 adviser) 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. Set out below is a description of the most common such features:

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 advisers 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 instalment. Failure to pay any subsequent instalment 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 favourable 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 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 EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (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-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

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. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the 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 a severely 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 may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

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 advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any

Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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 supplemental 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.

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| Issuer: | ČEZ, a.s. |
| Risk Factors: | There are certain factors that may affect the Issuer’s ability to fulfil 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 Programme Agreement. |
| 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 €2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding |

at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the 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:

Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

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.

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:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, 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.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions - Notes having a maturity of less than one year*" above.

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 "*Certain Restrictions - Notes having a maturity of less than one year*" 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 require the publication of a prospectus under the Prospectus Directive will be €50,000 (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.

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| 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. |
| Listing 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 will be governed by, and 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:

- (a) the auditors report and audited consolidated and non-consolidated annual financial statements of the Issuer for the two financial years ended 31 December 2005 and 31 December 2006 including the information set out at the following pages in particular:

| | <i>2005 Annual Report</i> | | <i>2006 Annual Report</i> | |
|-----------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | <i>Consolidated</i> | <i>Non-consolidated</i> | <i>Consolidated</i> | <i>Non-consolidated</i> |
| Balance Sheet..... | Page 90 | Page 125 | Page 98 | Page 136 |
| Statement of Income | Page 91 | Page 126 | Page 99 | Page 137 |
| Accounting Principles | Pages 94 | – | Pages 102 | Pages 40 |
| and Notes | to 124 | | to 134 | to 169 |
| Audit Report..... | Page 89 | – | Page 97 | Page 135 |

Any other information not listed above but contained in such document is incorporated by reference for information purposes only;

- (b) the interim consolidated and non-consolidated financial statements of the Issuer for the six months ended 30 June 2007.

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 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.

TECHNICAL TERMS AND PRESENTATION OF OTHER DATA

The technical abbreviations and expressions used in this Base Prospectus have the following meanings:

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| CO | Carbon monoxide. |
| CO₂ | Carbon dioxide. |
| Demand | Consumption of the final consumer not including transmission and distribution losses and self consumption by ČEZ (including electricity used in pump storage facilities) and other electricity generators and distributors. |
| EIA | Environmental impact assessment. |
| ETS | The European Trading System for CO ₂ emission credits. |
| FBB | Fluidised-bed boiler, a kind of boiler which reduces the content of sulphur dioxide emissions in the flue gases during the combustion process. |
| FGD | Flue-Gas Desulphurisation, a flue stack technology for reducing sulphur dioxide content in power plant emissions. |
| GW; GWh | One gigawatt equals 1,000 MW; one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1 GW. |
| I&C | Instrumentation and control system for a nuclear power station. |
| IAEA | The International Atomic Energy Agency. |
| Installed capacity | The highest constant level of generation of electricity which a power plant is designed to be capable of maintaining. |
| IPP | Independent Power Producer. |
| KV | A kilovolt is a unit of electric tension; one kilovolt equals one thousand volts. |
| KW; kWh | A kilowatt is a unit of power, representing the rate at which energy is produced; one kilowatt-hour represents one hour of electricity consumption at a constant rate of 1kW. |
| MIT | The Ministry of Industry and Trade of the Czech Republic. |
| MoF | The Ministry of Finance of the Czech Republic. |
| MW; MWh | One megawatt equals 1,000 kW; one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW. |
| NO_x | Nitrogen oxides. |
| OPEC | The Organisation of the Petroleum Exporting Countries. |
| NSA | The Nuclear Safety Authority of the Czech Republic. |
| PWR | A type of pressurised water nuclear reactor designed in the United States. This type of reactor uses water as both a moderator (the medium in the reactor core which facilitates the chain reaction) and coolant (the medium which conveys the heat generated in the reactor to a steam generator). |

| | |
|-----------------------|--|
| REAS | The original, State-owned, regional distribution companies in the Czech Republic. |
| SAP | Software for information system SAP. |
| SO₂ | Sulphur dioxide. |
| t/h | Tons of steam per hour. |
| Ton | Metric ton. |
| TSO | Transmission System Operator. |
| TW; TWh | One terawatt equals 1,000 GW; one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW. |
| VVER | A type of PWR designed in the former Soviet Union which uses water as both a moderator and coolant. |
| WANO | The World Association of Nuclear Operators. |

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).

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. The Issuer compiles and publishes certain of this data on a regular basis, and also supplies certain of this data to the Czech Statistical Office for use in compiling national data on the energy sector.

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 depository (the **Common Depository**) for, Euroclear and Clearstream Banking.

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) for 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 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 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 9. 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 24 September 2007 and executed by the Issuer.

APPLICABLE FINAL TERMS

[Date]

ČEZ, a.s.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €2,000,000,000
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 24 September 2007 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). 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. 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. The Base Prospectus is 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 24 September 2007 which constitutes 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 24 September 2007 and [original date]. Copies of such Base Prospectus 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: []
- (Note – where multiple denominations above €50,000 or equivalent are being used the following sample wording should be followed:*
- “[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000].”*
- (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 €50,000 minimum denomination is not required.)*
- (b) 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]
[Issuer Call]
[(further particulars specified below)]
13. Status of the Notes: Senior
- (b) [Date [Board] approval for issuance of Notes obtained: [] [and [], respectively]]
(N.B. Only relevant where Board (or similar) authorisation 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) First Interest Payment Date: []
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (d) Additional Business Centre(s): []
- (e) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (f) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (g) Screen Rate Determination:
- Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the 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 TARGET 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)
- (h) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (i) Margin(s): [+/-] [] per cent. per annum
- (j) Minimum Rate of Interest: [] per cent. per annum
- (k) Maximum Rate of Interest: [] per cent. per annum
- (l) 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)

- (m) 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) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent, and address): []
- (c) 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]*

- (d) Specified Period(s)/Specified Interest Payment Dates: []
- (e) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (f) Additional Business Centre(s): []
- (g) Minimum Rate of Interest: [] per cent. per annum
- (h) Maximum Rate of Interest: [] per cent. per annum
- (i) 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
- (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
- (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. 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.)
23. 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

24. 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: "[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000].")

- (b) [New Global Note: [Yes][No]]
25. 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(d) and 18(f) relate)
26. 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]
27. 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]
28. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
29. 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))]
30. 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

31. (a) If syndicated, names of Managers: [Not Applicable/give names]
- (b) [Date of [Subscription] Agreement: []]

- (c) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
32. If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
33. U.S. Selling Restrictions: [Reg. S Compliance Category; TEFRA D/TEFRA C/TEFRA not applicable]
34. 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 Bourse de Luxembourg, and admission to the Official List of the Luxembourg Stock Exchange of the Notes described herein pursuant to the €2,000,000,000 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 authorised

6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS 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.]

[(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.)]

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

(N.B. The above 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.]

(N.B. The above applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)

[(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.)]

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 initial Paying Agent(s): []
- (vi) Names and addresses of additional Paying Agent(s) (if any): []
- (vii) 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 recognised 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 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 Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 24 September 2007 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 instalment) 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 24 September 2007 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 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 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 Agency Agreement.

Words and expressions defined in the 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 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 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 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 organised 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 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 recognised 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, unamortised 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 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 organisation 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 amortise 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 presented (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 50,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than euro 50,000 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 comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate

Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising 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 Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

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;

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 50,000 and which are admitted to trading on a regulated market in the European Economic Area; and

Treaty means the Treaty establishing the European Community, as amended.

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 a 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 comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising 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 (if other than London and any Additional Business Centre and 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 (TARGET) System (the **TARGET 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 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 comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising 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) if “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;

- (v) 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 and 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 wilful 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 wilful 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.

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, upon due presentation thereof, 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 (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) 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, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, 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 instalment 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 instalment 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 and otherwise in the manner specified in the relevant Global Note 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 made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

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) the relevant place of presentation;
 - (ii) London;
 - (iii) 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 (if other than the place of presentation, London and any Additional Financial Centre and 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 TARGET 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 instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortised 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 14 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 14) 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 recognised 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 (Investor 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 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 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 and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

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 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 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

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 **Amortised 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 Instalments

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) presented for payment by or on behalf of a holder who 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 presented for payment 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 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 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 authorised 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 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 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

d'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 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 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 cancelling 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 as mentioned above) of the Notes, the Receipts, the Coupons or the 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 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 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 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 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 defence 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

Introduction

ČEZ Group forms one of the largest electricity conglomerates in Central and South-eastern Europe. The core business of ČEZ Group is the generation and subsequent distribution and sale of electricity, including the related provision of power system ancillary services. ČEZ Group's businesses also include the generation, distribution and sale of heat, the mining and processing of raw materials, construction and civil engineering, maintenance and upgrades of power plants and the distribution grid, as well as information technologies, telecommunications and scientific research in selected fields.

In the Czech Republic, ČEZ Group is the dominant electricity producer with a market share of 74% of generated electricity, a 46% market share of mining, 62% of electricity distribution and 53% of electricity supply in the Czech Republic (source: ČEZ, *ERO*), making it the most vertically integrated electricity company in the country. ČEZ Group is the largest company in the Czech Republic in terms of total assets and profitability. Outside of the Czech Republic, ČEZ Group has a market share of approximately 17% of electricity sold in Romania and 39.9% of electricity sold in Bulgaria (source: ČEZ, *distribution companies, national statistics*). ČEZ Group also owns the *Elcho* (238MW) and *Skawina* (592MW) power plants in Poland and *Varna* (1,260MW) power plant in Bulgaria (see "*Strategy and Initiatives – International Expansion*" and "*Significant Foreign Stakes and Investment Opportunities*" below).

As of 23 April 2007, ČEZ Group was 67.6% owned by the MoF, although the MoF has transferred the exercise of its shareholder rights to the MIT. The MoF is currently in the process of selling a 7% share in ČEZ in the capital markets. ČEZ is buying back up to 10% of its share capital according to the decision of the general meeting on 23 April 2007, which approved such acquisition by ČEZ of its ordinary shares. The buy-back process started on 30 April 2007 and is expected to be completed by year-end. The shares purchased pursuant to this process will be cancelled within 18 months.

The address of ČEZ's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic, telephone number +420 211 041 111. ČEZ is registered in the Commercial Register administered by the Municipal Court of Prague and its identification number is 45274649.

History and Development of ČEZ Group

ČEZ was established on 6 May 1992 as a joint-stock company through the aggregation of formerly State-owned companies into one enterprise. On 11 March 2002, the Czech Government decided to sell its shares in the REAS, which were held by the National Property Fund (NPF) and the Czech Consolidation Agency, to ČEZ and to purchase from ČEZ its share in the transmission subsidiary ČEPS. On 20 March 2003, ČEZ received an affirmative opinion from the Czech Anti-Monopoly Office approving the purchase of the REAS by ČEZ, subject to certain conditions. Through this transaction, ČEZ acquired a majority share in five of the REAS, and a minority share in three of the REAS. However, the Czech Anti-Monopoly Office ruled that, among other conditions, ČEZ must sell its shares in one of the REAS in which it would hold a majority share and in the three REAS in which it would hold a minority share, a measure the Czech Anti-Monopoly Office deemed necessary for the protection of economic competition in the electricity distribution market in the Czech Republic. The original non-binding decision of the Czech Anti-Monopoly Office issued on 10 December 2002 stated that ČEZ had to fulfil the conditions within one year after the decision became binding and effective.

With respect to the condition that ČEZ must sell off one of the REAS in which it held a majority share, ČEZ filed a request, in November 2004, with the Czech Anti-Monopoly Office for this condition to be abolished. In March 2005, the Czech Anti-Monopoly Office agreed to abolish this condition and ordered that ČEZ adopt certain measures in order to ensure proper competition on the Czech electricity market in 2006 and 2007. ČEZ is therefore no longer required to sell one of its five majority-owned REAS, and it is entitled to keep holding majority shares in each of *Severočeská energetika, a.s.*, *Severomoravská energetika a.s.*, *Východočeská energetika, a.s.*, *Západočeská energetika, a.s.*, and *Středočeská energetická, a.s.* Through a series of follow up transactions, including buy-outs and squeeze-outs, ČEZ acquired 100% control over the

five previously majority-owned REAS in 2007. In June 2007, the Board of Directors of ČEZ made a resolution to consolidate all REAS into ČEZ. The process of consolidation is scheduled to be completed by 1 October 2007.

Following the acquisition of the REAS, ČEZ Group's distribution network has become the largest in the Czech Republic. Through the distribution system of *ČEZ Distribuce, a.s.*, ČEZ Group services approximately 3.5 million end customers, or approximately 62% of all end customers in the Czech Republic. This amounted to approximately 51.4 TWh of electricity distributed through its distribution network to end customers in 2006.

As part of the VIZE 2008 project, ČEZ Group has incorporated the business and operations of its five distribution companies into new process-based companies (see "*Strategy and Initiatives*" below).

The total installed capacity of the generation facilities of ČEZ Group amounted to 14,392 MW as at 31 December 2006. In 2006, ČEZ Group generated 65,532 GWh, purchased 21,576 GWh in the Czech Republic, Poland, Bulgaria and Romania from other generators and imported 9,449 GWh of electricity power. Of the total electricity procured (96,557 GWh), ČEZ Group sold 43% to end consumers, 16% to distribution companies, 12% to traders and exported 18%. Distribution grid losses and ČEZ Group's own consumption (for pumping, generation of electricity and other consumption by production facilities) reached 11% of total electricity procured.

In 2006, coal-fired plants accounted for 56%, nuclear power plants for 40% and hydroelectric, solar, wind and combined cycle and gas power plants together accounted for the remaining 4% of electricity produced. ČEZ Group's power plant portfolio consists of 60 power plants, including 19 coal-fired plants, 35 hydroelectric plants, two nuclear power plants, two wind converters, one photovoltaic (solar) power plant and one combined cycle and gas power plant. In 2006, ČEZ Group electricity generation increased by 9.2% to 65,532 GWh (compared to 60,016 GWh in 2005).

Liberalisation of the Czech Electricity Market

On 1 January 2002, the Czech Republic's electricity market began a process of market liberalisation in accordance with the New Energy Act. The New Energy Act established rules for the liberalisation of the Czech electricity market with the aim of securing the reliable and efficient supply of electricity while protecting the environment. The market for electricity is based on regulated access to the transmission grid and to the distribution grids. Full opening of the market to competition, when all customers (including households) became "eligible final customers", commenced on 1 January 2006. In this final stage of market liberalisation, all suppliers assumed the right to offer their electricity and all customers are to have the right to choose their electricity supplier at their own free discretion.

Unbundling

Pursuant to an amendment of the New Energy Act adopted in 2004, as of 1 January 2007, the distribution of electricity must be separated and independent from the generation of electricity. This process is called "unbundling". To ensure the required independence, management responsible for an electricity distribution business must be different from management responsible for an electricity generation business, appropriate measures must be taken to prevent professional conflicts of interest between persons responsible for electricity distribution and generation businesses, and control which can be exercised by shareholders over electricity distribution companies is restricted. The new energy regulation in the Czech Republic demanded the transfer towards legally unbundled distribution system operators no later than the beginning of 2007. In 2005, ČEZ Group established the new separate companies *ČEZ Distribuce, a.s.* (for distribution) and *ČEZ Prodej, s.r.o.* (for sales), and during 2006 transferred all corresponding assets and activities from the REAS within ČEZ Group.

Strategy and Initiatives

ČEZ Group aims to become the leader in the electricity markets of Central and South-eastern Europe. Within the Czech Republic, ČEZ Group strives to maintain a strongly hedged position and achieve

operational excellence across the group. In Central and South-eastern Europe, ČEZ Group will look to build upon its strongly hedged positions through strategic acquisitions which it will then integrate into the ČEZ Group. With the objective of fulfilling these strategies, ČEZ Group will focus on three key pillar initiatives:

Operational Excellence

The first pillar for fulfilling the ČEZ Group's vision is operational excellence through continual improvements in efficiency. Increased productivity, cost savings, and improvements in the services comprise the foundation for sustained growth in the company's market value and its competitiveness. ČEZ Group began pursuing integration and efficiency improvements in the Czech Republic with the VIZE 2008 project, whose primary goal was to transform the legacy organisation, which was based on geographically defined subsidiaries, into a standard process-based organisation and implement unbundling (see above). The VIZE 2008 project and subsequent changes to the organisation and optimisation of individual processes have yielded cumulative benefits of CZK 7.9 billion for the 2004-2006 period. In addition, 2006 saw the commencement of further projects designed to focus ČEZ Group companies more on the customer, improving internal processes toward this end, developing human resources, and thereby bringing about a major improvement in the quality of customer services.

VIZE 2008

In 2004–2006, CEZ Group's VIZE 2008 project served as a tool for integration and improving operational performance in the sales and distribution segment, including related ancillary processes. The project's goal was to change the original geographical organisation of regional electricity distribution companies to a process-driven organisation while at the same time achieving a major improvement in operating efficiency. All administrative steps necessary to merge parts of the businesses of the regional electricity distribution companies into ČEZ Prodej, s.r.o. (sales) and ČEZ Distribuce, a.s. (distribution) were completed in early 2006. Registration of these steps in the Commercial Register marked the culmination of this key phase of the transformation and satisfied the legal unbundling requirement for CEZ Group.

The first half of 2006 saw the termination of the regional electricity distribution companies' trade licences, making ČEZ Prodej, s.r.o. the only company entitled to maintain commercial relationships on behalf of CEZ Group with end customers for supplies of electricity.

With effect from 1 July 2006, parts of the businesses of the regional electricity distribution companies Středočeská energetická a.s., Západočeská energetika, a.s., Východočeská energetika, a.s., and Severomoravská energetika, a.s. were incorporated into ČEZ Distribuční služby, s.r.o. and ČEZ Správa majetku, s.r.o. The businesses incorporated into ČEZ Distribuční služby, s.r.o. were valued at a total of CZK 5.5 billion, and included the transfer of 1,650 employees, while the businesses incorporated into ČEZ Správa majetku, s.r.o. had a value of approximately CZK 2.5 billion and 220 employees were transferred.

In December 2005, Severočeská energetika, a.s. became a party to court proceedings in which the court imposed an injunction on the company, banning asset transfers. The injunction was later lifted (effective 14 February 2007) but until then Severočeská energetika, a.s. could not take part in the integration process. Since some of the steps planned for 2006 were conditional upon transfer of assets from Severočeská energetika, a.s. to ČEZ Obnovitelné zdroje, s.r.o., these steps could not be completed on time. As a result, the merger of various parts of the businesses of the regional electricity distribution companies into ČEZ Obnovitelné zdroje, s.r.o. became effective on 28 May 2007. Capital contributions to ČEZ Distribuční služby, s.r.o. and ČEZ Správa majetku, s.r.o. were completed on 1 May 2007.

For further details on each of the new process-based companies, see "Principal Subsidiaries" below.

Plant Portfolio Renewal

A significant portion of ČEZ Group's thermal blocks will reach the end of their prescribed lifetime between 2010 and 2020. In addition, a significant percentage of ČEZ Group's desulphurisation equipment will expire in 2015-2020 and emission limits on SO₂ and NO_x will get much stricter as of 2016. Therefore, ČEZ Group has drawn up a plan for the renewal of its brown coal-fired power plants and is currently working

on the technical specifications of such plan, including the possibility of expansion into the remaining portion of its generation portfolio. According to the plan, the renewal process will be funded by a more than CZK 100 billion investment programme up to 2013. The specific energy consumption of the renewed plants would be 15% lower than the existing plants and such renewal would extend each plant's life by 25 years. New coal-fired power stations will increase fuel efficiency by 25%. This would reduce the electricity generation costs and bring about a major reduction in greenhouse gas emissions. The reduction in CO₂ would be in line with the decrease in specific energy consumption, while nitrogen oxide reduction for the renewed and new plants would be approximately 60% and SO₂ emissions would fall by approximately 50%.

2005 was the first year of preparation for the comprehensive renewal of selected generating units, including *Tušimice II*, *Pruněřov II*, and part of *Počerady* power station, and the construction of new, supercritical generating units (with increased efficiency) with a total output of 660 MW in the *Ledvice* and *Počerady* Power Stations, based on cutting-edge technology.

In February 2006, plans for the complex refurbishment of the *Tušimice II* power plant were approved. Construction started in June 2007 and should be completed in September 2010. In February 2006, business plans for the complex refurbishment of the *Pruněřov II* power plant were approved and will be realised following the renewal of the *Tušimice II* power plant. Both power plants will be supplied from the adjacent lignite mine *Libouř* until 2035. The second part of the renewal programme consists of the construction of modern lignite-fired blocks using commercially affordable modern technology with supercritical parameters of steam securing corresponding efficiency of production and compliance with emission limits set for such sources. In November 2005, the business plan for the construction of a 660 MW lignite-fired unit at the *Ledvice* power plant was approved. It will be supplied from the adjacent *Bílina* mine and the contemplated date for the start of its operation is June 2012. For *Počerady*, a feasibility study for the second project of the same capacity was elaborated and the business plan was approved in April 2006.

Plant renewal is also taking place in the Republika Srpska in Bosnia and Herzegovina, in the form of a joint venture. Renewal of plants in Poland is in the planning stage. In Bulgaria a pre-feasibility study is being prepared for the renewal of *Varna* power plant taking into consideration gas-steam unit and hard-coal unit options. The pre-feasibility study is to be finished by the end of October 2007 and a decision should be taken during November 2007.

Periodically the programme of capital expenditures will be updated to take into account new developments in the market and in environmental protection, in particular the regulation of CO₂ emissions. The useful lifespans of existing plants will be managed to ensure optimum economic utilisation of available fuel reserves. In the event that additional coal reserves are made available for exploitation, ČEZ Group will consider projects for new generating facilities, and options for building gas and/or black coal-fired plants will continue to be considered throughout.

As well as preparing for the renewal of its fossil power plants, ČEZ Group also aims to create conditions for extending the useful lifespan of its nuclear plants. *Dukovany* power plant is currently undergoing modernisation. New operational systems are being introduced which will increase the capacity of the plant by 9.5% by 2012 and extend the life of the plant by 40-50 years. ČEZ Group's other nuclear power plant, *Temelín*, is currently having its turbine rotors replaced in order to increase its operational efficiency by 4%.

ČEZ Group has recently initiated the "Safety 15 Terra" programme which aims to enable *Temelín* to safely reach generation levels of 15 TWh in the medium term. By making technical and organisational adjustments and by the development of a safety culture, ČEZ Group's aim is to decrease both the number of operating events and the length of any outage periods, and thus safely achieve its generation targets.

ČEZ Group plans to build a portfolio that will be fully utilisable and flexible to meet the needs of the internal electricity market in E.U. Member States while respecting the necessity of ensuring safe, low-cost and environmentally optimal supplies for the Czech Republic.

International Expansion

In order to pursue its objective of becoming the leader in the electricity markets of Central and South-eastern Europe, ČEZ Group continuously looks to integrate foreign subsidiaries and will continue in the programme of acquisitions in Central and South-eastern Europe. ČEZ Group will also expand its activities in the international electricity market for all types of trades, as well as strengthen its presence in target countries through local representative offices.

In early 2005, ČEZ Group completed the acquisition of three Bulgarian distribution companies, *Elektrorazpredelenie Pleven AD*, *Elektrorazpredelenie Sofia Oblast AD* and *Elektrorazpredelenie Stolichno AD*, introducing 1.9 million new customers to ČEZ Group, and in the third quarter of 2005 it acquired the Romanian distributor *Electrica Oltenia S.A.*, which has a further 1.4 million customers. In January 2006 an agreement was signed for the purchase of majority stakes in the Polish electricity generation companies *Elektrownia Skawina S.A. (Skawina)* and *Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. (Elcho)* with a combined installed capacity of 830 MW. The transactions were settled on 29 May 2006 (see "Principal Subsidiaries").

In May 2006, ČEZ executed agreements to acquire a 100% share in the second largest Bulgarian power plant, *TPP Varna EAD*, with an installed capacity of 1,260 MW. ČEZ has also committed to increase the capital of the power plant by 16% through the issue of and subscription for new shares in the amount of EUR 99.8 million and to contribute an additional EUR 40 million to an investment fund that will implement projects in the Bulgarian energy sector.

Also in May 2006, an implementation agreement on construction of *Gacko II* power plant in Republika Srpska was signed. ČEZ acquired 51% share in the joint venture company *Nove elektrane Republike Srpske d.o.o.*, which the current power plant *Gacko* (300MW) and mine will be contributed into by March 2008. The investment between 2008 and 2015 should reach EUR 1.4bn and will involve construction of new installed capacity of 600-700MW, enlargement of the lignite mine and modernisation of the current 300MW unit.

In July 2006, the Ministry of Energy, Mining, and Industry of the Federation of Bosnia and Herzegovina announced a tender to find a strategic partner for eight joint projects in the Bosnian and Herzegovinian energy sector. The estimated total investment amount will be around CZK 2 billion. In October 2006, an inter-Ministry commission selected ČEZ in its shortlist of four investors (out of 37 bidders) for implementation of coal power plant-related projects.

During August 2006, the Ministry of Energy and Mining in Kosovo announced tenders for green-field energy projects. ČEZ is participating in this tender in a consortium together with *AES*. This consortium is currently on the short list of four bidders. The continuation of the tender process shall be announced at the end of 2007 or at the beginning of 2008. The final bids should be submitted in the middle of 2008.

In April 2007, ČEZ acquired a 100% shareholding in *Teplárenská, a.s.*, a heat distributor in the cities of Chomutov, Jirkov, Klášterec nad Ohří, Kadaň, Teplice, Bílina, Krupka, Dubí, Duchcov, Hrob and Osek. Key suppliers of *Teplárenská, a.s.* are power plants of ČEZ Group, in particular, Tušimice, Pruněřov and Ledvice. *Teplárenská, a.s.* was established at the end of 2006 as one of two successor companies after the division of *United Energy, a.s.*

In July 2007, Bulgarian Energy company *NEK* shortlisted 6 of the 10 candidates that had submitted expressions of interest in acquiring an equity stake of up to 49% in Nuclear Plant Belene, which will install and operate two power generators with total production capacity of 2,000 (2x1000) MW. ČEZ Group, *EdF*, *Electrabel*, *Enel*, *E.ON* and *RWE* are invited to submit initial bids until 24 September 2007. The final bids of the short listed candidates should be submitted by the end of 2007.

At the end of July 2007, the Moscow government issued a resolution to build a gas-steam power plant with total installed capacity of 600 (3x200) MW under the direction of ČEZ in the area of Moscow. The investment contract on the project together with separate gas, electricity and heat supply contracts will be negotiated in the following 6 months.

On the domestic front, ČEZ Group completed the acquisition of *Severočeské doly a.s.*, obtained full control over *ŠKODA PRAHA a.s.* (see “Principal Subsidiaries” below) and in April 2007 acquired 100% shareholding in *Teplárenská, a.s.*

ČEZ intends to continue acquisitions in Central and South-eastern Europe. The acquisitions will target core activities of ČEZ Group, i.e., electricity generation, supply and distribution, and potentially directly related activities, i.e., mining and heat generation. ČEZ Group does not have any intentions to expand into other utilities activities, such as water or waste management.

There are several pending and/or potential acquisition targets in the region. Some are privatisation tenders, such as opportunities in Romania, Ukraine, Poland and Bosnia, although a limited number of private transactions are available as well. In addition, primarily in the countries of former Yugoslavia green-field and brown-field transactions in the form of joint ventures with local State-owned power companies will also be considered. ČEZ also intends to expand its generation portfolio into renewables, which will improve the capacity mix and will reduce the need for purchasing “green certificates”.

Demand For Electricity

Electricity demand is the net consumption of the final consumer, which does not include transmission losses, self-consumption and electricity used by pump storage facilities. Compared to 2005, demand for electricity in the Czech Republic in 2006 increased by 1,757 GWh (3.0%), reaching a level of 59,421 GWh. The key factor contributing to the increase in demand is the increased demand by large-scale customers (3.5%). Retail consumption by businesses grew by 2.8%. Household electricity consumption increased by 3.3%.

In the first half of 2007, demand for electricity in the Czech Republic decreased by 987 GWh (3.2%) compared to the same period in 2006, reaching a level of 29,873 GWh. Retail consumption by businesses decreased by 9.2%. The key factor contributing to the decrease in demand was the mild winter in early 2007.

Operating Results

Revenues

The following table sets out the revenues of ČEZ Group for the year ended 31 December 2006 and for the half years ended 30 June 2006 (H1 2006) and 2007 (H1 2007):

| | 2006 | H1 2006 | H1 2007 | Index H1 07/06 |
|---|---------------------|---------------|---------------|-------------------|
| | <i>CZK millions</i> | | | |
| Revenues | 149,134 | 74,408 | 83,162 | 111.8% |
| Sales of electricity | 138,157 | 69,007 | 77,310 | 112.0% |
| Sales to end users through distribution | | | | |
| grid | 88,066 | 45,527 | 45,425 | 99.8% |
| Sales to distribution companies | 17,236 | 8,757 | 7,890 | 90.1% |
| Domestic traders, market operator*, | | | | |
| other | 13,314 | 5,316 | 14,233 | 267.7% |
| Export | 13,512 | 6,309 | 7,157 | 113.4% |
| Ancillary and other services | 6,029 | 3,098 | 2,605 | 84.1% |
| Gains and losses from electricity | | | | |
| derivative trading, netto | -308 | -137 | 965 | - |
| Heat sales, sale of coal and other | | | | |
| revenues | 11,285 | 5,538 | 4,887 | 88.2% |

* Operátor trhu s elektrinou, a. s., OPCOM S.A. (Electricity Market Operator).

In the first half of 2007, the total revenues of ČEZ Group increased by 11.8% compared to the same period in 2006. Sales of electricity and heat accounted for 98.8% of total sales and contributed to the 11.7% growth in total revenue. The mild winter in early 2007 resulted in the decrease of heat and coal sales by 11.8% in the first half of 2007.

For the year 2006, the total revenues of ČEZ Group increased by 27.6% compared to 2005. Sales of electricity accounted for the most significant increase, amounting to a CZK 32.3 billion increase (27.9%) compared to 2005. The sales were supported predominantly by the enlargement of ČEZ Group. In addition an increase in generation by ČEZ Group's nuclear power plants and the arbitrage of CO₂ emission allowances, whereby the sale of emission allowances ensured ČEZ achieved higher margins than would have been the case based on exports of electricity alone (see "Electricity Sales and Trading" below), also contributed to the increase in revenues.

As of 30 June 2007, ČEZ Group consists of 94 companies (including ČEZ, as the parent company), 76 of which are incorporated in Central Europe (58 in the Czech Republic) and 18 in South-eastern Europe. The consolidation unit as of 30 June 2007 included 61 companies as follows: the parent company ČEZ, 57 fully consolidated subsidiary companies and 3 associated companies; the remaining entities are not consolidated.

The significant acquisitions of ČEZ Group in 2005 included three Bulgarian distribution companies located in western Bulgaria, *Severočeské doly a.s.*, *ŠKODA PRAHA a.s.* (impacting ČEZ Group results during the entire year 2005) and Romanian distribution company *Electrica Oltenia S.A.* (impacting ČEZ Group results in the last quarter of 2005). The significant acquisitions in 2006 included Polish power-plants *Elcho* and *Skawina*, Bulgarian coal-fired power plant *TEC Varna EAD* and the 51% participation in newly established *Nove elektrane Republike Srpske d.o.o.* All data for 2006 and 2005 is presented in conformity with the principle of pooling of interests.

The revenues of the foreign subsidiaries of ČEZ Group in 2006 reached CZK 26.9 billion, constituting 18% of total ČEZ Group revenues. Compared to 2005 this share grew by 5.2%, predominantly due to new acquisitions, namely the Polish power plants *Skawina* and *Elcho* and the Bulgarian power plant *Varna*. In 2006, 48% of ČEZ Group's revenues abroad were generated in Bulgaria, 38% in Romania and 11% in Poland.

Operating Expenses

The following table sets out ČEZ Group's operating expenses for the years ended 31 December 2005 and 2006, and for the half years ended 30 June 2006 (H1 2006) and 2007 (H1 2007):

| | 2005 | 2006 | H1 2006 | H1 2007 | Index 06/05 | Index H1 07/06 |
|--|---------------|----------------|---------------|---------------|----------------|-------------------|
| | CZK million | | | | | |
| Total operating expenses | 95,680 | 119,516 | 51,028 | 55,834 | 125% | 109.4% |
| Fuel | 9,010 | 11,637 | 5,249 | 7,856 | 129% | 149.7% |
| Purchased power and related services | 37,474 | 53,474 | 21,717 | 22,712 | 143% | 104.6% |
| Repairs and maintenance | 4,229 | 5,487 | 1,844 | 1,928 | 130% | 104.6% |
| Depreciation and amortisation..... | 20,723 | 24,280 | 10,950 | 10,826 | 117% | 98.9% |
| Salaries and wages | 13,426 | 15,084 | 6,581 | 6,991 | 112% | 106.2% |
| Materials and supplies | 4,020 | 4,981 | 2,172 | 2,885 | 124% | 132.8% |
| Emission rights | -1,053 | -3,077 | -516 | -550 | 292% | 106.6% |
| Other operating expenses | 7,851 | 7,650 | 3,031 | 3,186 | 97% | 105.1% |

In the first half of 2007, the total operating expenses of ČEZ Group increased by 9.4% compared to the same period in 2006. The increase was caused by the further acquisitions made by ČEZ Group combined with the greater generation of nuclear power. ČEZ Group's aim is to control the inevitable growth of operating expenses by optimising its generation facilities and decreasing its number of employees.

In 2006, ČEZ Group's total operating expenses rose by CZK 23.8 billion, or 24.9%, compared to 2005. The main reason for such rise was the increase in purchases of power and related services by CZK 16.0 billion. Another significant factor was CO₂ emission allowances, which encourages ČEZ Group to use efficient electricity generation systems, thereby enabling it to derive additional income through the trading of CO₂ emission credits (see "Electricity Sales and Trading" below): in 2006, ČEZ Group made a profit of CZK 3.1 billion from CO₂ emission allowances.

In the first half of 2007, ČEZ's consolidated income before other expenses and income taxes amounted to approximately CZK 27.3 billion, representing an increase of 16.9% compared with the same period in 2006. Income before income taxes amounted to CZK 27.2 billion, representing a growth of 25.1% compared to same period in 2006. Net income grew by 26.8% totalling CZK 21.02 billion.

In 2006, ČEZ's income before other expenses and income taxes amounted to approximately CZK 40.1 billion, representing an increase of 36.3% compared to 2005. The increase of approximately CZK 10.7 billion was a result of an increase of CZK 34.5 billion in revenues and a relatively smaller increase of CZK 23.8 billion in operating expenses. The resulting income before income taxes amounted to CZK 37.7 billion, representing a growth of 38.1% compared to 2005.

Principal Activities

Electricity Generation

In 2006, ČEZ Group produced 65,532 GWh of electricity; 96% of which was produced in the Czech Republic, which represents 74% of the total electricity produced in the Czech Republic. ČEZ, a.s. generated approximately 95% of the electricity produced by ČEZ Group, 3.6% was generated by the Polish power plants *Skawina* and *Elcho*, and 1% by *Varna* power plant in Bulgaria. The remaining 1% was generated mainly by *Energetika Vítkovice, a.s.* in the Czech Republic, which has an installed capacity of 79 MW.

The following two tables provide a breakdown of ČEZ's electricity generation based on the method of production, as well as a breakdown of its installed capacity.

| | 2005 | 2006 | H1 2006 | H1 2007 |
|--|---------------|---------------|---------------|---------------|
| | <i>GWh</i> | | | |
| Coal-Fired Plants..... | 33,099 | 37,027 | 16,449 | 21,927 |
| Nuclear Plants | 24,728 | 26,046 | 14,024 | 12,164 |
| Hydro, Solar and Wind Power Plants | 2,189 | 2,459 | 1,380 | 894 |
| Total | 60,016 | 65,532 | 31,853 | 34,985 |

| 2006 | Installed Capacity | Installed Capacity | Electricity Generation | Total Production |
|---|--------------------|--------------------|------------------------|------------------|
| | <i>(MW)</i> | <i>(%)</i> | <i>(GWh)</i> | <i>(%)</i> |
| Coal-Fired Plants | 8,695* | 60 | 37,027 | 56 |
| Nuclear Plants | 3,760 | 26 | 26,046 | 40 |
| Hydro, Solar and Wind Power Plants | 1,937 | 14 | 2,459 | 4 |
| Total | 14,392 | 100 | 65,532 | 100 |

* 4MW combined cycle and gas power plant *Mohelnice*

Coal-Fired Power Generation

ČEZ Group owns and operates 19 coal-fired power plants. In 2006, ČEZ Group's coal-fired plants generated 37,027 GWh of electricity. ČEZ Group's coal-fired plants have a diversified age profile, and ČEZ Group has a plan of regular repairs and overhauls for the generating units. Since 1 January 1999, all coal-fired plant units have been in compliance with the requirements of Act No. 86/ 2002 Coll. on air (the **Act on Air**). As of 31 December 2003, ČEZ Group had FBB or FGD equipment installed on all of its entirely coal-fired capacity and had also installed or refurbished precipitators (which reduce emissions of ash) on all of its coal-fired power plants. In addition, since 1991 ČEZ Group has closed 1,810 MW of its coal-fired generating capacity. The coal-fired plants owned by ČEZ Group are situated in various locations throughout the Czech Republic, the largest concentration being in the lignite mining region in the North-west of the country, two coal-fired power plants are located in Poland (*Elcho, Skawina*) and one is in Bulgaria (*Varna*).

ČEZ Group's 19 coal-fired power plants and details on *Energetika Vítkovice, a.s.* are set out in the following table (as of 31 December 2006):

| Location – Production | Owner | Type of coal | Installed capacity (MW) | Start of operations | Desulphurisation |
|------------------------|--|--------------|-------------------------|----------------------|------------------|
| Mělník II | ČEZ, a.s. | brown | 2 x 110 | 1971 | 1998 |
| Mělník III | ČEZ, a.s. | brown | 1 x 500 | 1981 | 1998 |
| Tisová I | ČEZ, a.s. | brown | 3 x 57; 1x 12.8 | 1959 – 1960 | 1996-1997 |
| Tisová II | ČEZ, a.s. | brown | 1 x 112 | 1961 | 1997 |
| Poříčí II | ČEZ, a.s. | hard / brown | 3 x 55 | 1957 – 1958 | 1996, 1998 |
| Dvůr Králové nad Labem | ČEZ, a.s. | brown | 1 x 6.3; 1 x 12 | 1955, 1963 | 1997 |
| Dětmarovice | ČEZ, a.s. | hard / brown | 4 x 200 | 1975 – 1976 | 1998 |
| Chvaletice | ČEZ, a.s. | brown | 4 x 200 | 1977 – 1978 | 1997, 1998 |
| Ledvice II | ČEZ, a.s. | brown | 2 x 110 | 1966 | 1996 |
| Ledvice III | ČEZ, a.s. | brown | 1 x 110 | 1968 | 1998 |
| Tušimice II | ČEZ, a.s. | brown | 4 x 200 | 1974 – 1975 | 1997 |
| Počerady | ČEZ, a.s. | brown | 5 x 200 | 1970 – 1971, 1977 | 1994, 1996 |
| Hodonín | ČEZ, a.s. | lignit | 1 x 50; 1 x 55 | 1954-1958 | 1996-1997 |
| Pruněřov I | ČEZ, a.s. | brown | 4 x 110 | 1967-1968 | 1995 |
| Pruněřov II | ČEZ, a.s. | brown | 5 x 210 | 1981-1982 | 1996 |
| Ostrava – Vítkovice | Energetika Vítkovice, a.s. | hard | 2 x 16; 1 x 25; 1 x 22 | 1983-1995 | x |
| Elcho | Elektrociepłownia Chorzów “ELCHO” Sp. z o.o. | hard | 2 x 119.2 | 2003 | x |
| Skawina | Elektrownia Skawina S.A. | hard | 4 x 110; 3 x 50 | 1957 | x |
| Varna | TEC Varna EAD | hard | 6 x 210 | 1968-1969, 1977-1979 | x |
| Total | | | 8,691 | | |

Types and Sources of Coal

The majority of ČEZ Group's coal-fired power plants (approximately 75% of coal power plants' total installed capacity) utilise lignite. Hard coal is used in two power plants and part of another power plant in the Czech Republic (*Dětmarovice and Ostrava-Vítkovice*, part of *Poříčí*) in two power plants in Poland (*Elcho and Skawina*) and in one power plant in Bulgaria (*Varna*). ČEZ has three main domestic suppliers of lignite and one domestic supplier of hard coal.

Most of ČEZ Group's coal-fired power plants are located in the vicinity of the North Bohemian brown coal basin. Conveyor belts from nearby mines directly supply coal to three power plants, *Ledvice II and III*,

Tisová I, II and *Tušimice II*. In other cases, rail is primarily used to transport coal supplies over relatively short distances. *Elcho* and *Skawina* are located in Upper Silesia and Lesser Poland respectively and are supplied with hard coal from mines in the region. Shipping from Ukraine, Russia and Vietnam is used for coal supplies to *Varna*.

Coal Contracts

ČEZ Group purchases the largest amount of coal in the Czech Republic. In 2006, ČEZ Group purchased 32.5 million tons of power generation coal, out of which 85% was lignite (brown coal). ČEZ Group purchases:

- (a) brown coal based on a medium-term agreement from *Czech Coal, a.s.*, (valid until 2012) and from *Severočeské doly a.s.*, ČEZ's subsidiary (under a long-term contract until 2052) and *Sokolovská uhelná, a.s.* (purchase contract for the period until 2027); and
- (b) hard coal based on annual contracts from *OKD, a.s.*, *Weglokoks, S.A.*, *Carbounion Bohemia spol. s r.o.* and *GEMEC-UNION, a.s.*; the rest is secured via tenders on an as-needed basis and is imported from Poland.

In 2005, ČEZ concluded a framework agreement with *Mostecká uhelná, a.s.*, a member of the Czech Coal Group for the long-term purchase of coal. Recently, the Czech Coal Group has rejected this agreement, and ČEZ therefore took legal steps against the Czech Coal Group with the aim to uphold the long-term coal purchase contract. Currently the coal from *Mostecká uhelná a.s.* is purchased under a medium-term contract. For more information, please refer to the "Risk Factors" section.

Severočeské doly a.s. supplies approximately 62% of ČEZ's total consumption of lignite, *Czech Coal, a.s.* supplies approximately 30% and *Sokolovská uhelná, a.s.* supplies approximately 8%.

Taking into account geographical restrictions and current estimates of coal-fired generation needs, ČEZ Group estimates there are sufficient lignite reserves in the Czech Republic for the operation of its coal-fired power plants until 2035 for renewed power plants and until 2050 for the newly built power plants.

In 2006 in Poland, the principal supplier of coal to the *Elcho* power plant was under a long-term contract *Kompania Weglowa SA*. The *Skawina* power plant sources coal from multiple suppliers under one-year contracts and purchase orders, among others *KWK Piast*, *KWK Mysłowice* and *Katowicki Wegiel*.

The *Varna* power plant in Bulgaria fires anthracite, most of which is imported from Russia and Ukraine. In late 2006 this coal increased in price as a result of supply blockades from these two countries. Due to the breach of contracts by the above mentioned countries it was necessary to purchase coal on an ad hoc basis, and this caused electricity prices to increase by 22-25%. In order to limit the risk inherent in being dependent on a particular region, ČEZ began importing coal from Vietnam.

Expenses for Coal, Lime and Limestone

Total expenses of ČEZ Group for lignite, hard coal, biomass, gas and liquid fuel consumed in 2006 amounted to CZK 8,482 million¹, representing 7% of ČEZ Group's total operating expenses. The total expenses of the ČEZ Group for lime and limestone consumed in 2006 amounted to approximately CZK 700 million, representing 0.6% of ČEZ Group's total operating expenses.

ČEZ Group purchases limestone and lime for desulphurisation facilities and fluidised-bed boilers under medium-term contracts from four domestic suppliers:

Approximately 50% of the total amount is supplied by *Lomy Mořina spol. s r.o.*, in which ČEZ holds a 51.05% share. Long-term contracts have been concluded until the end of the operating life of powerplants to which *Lomy Mořina spol. s r.o.* supplies lime and limestone. Long-term contracts also protect ČEZ from any annual increases in the price of lime and limestone.

¹ Due to consolidation rules the expenses of ČEZ Group for lignite, hard coal, biomass, gas and liquid fuel exclude inter-group deliveries in the amount CZK 5,327 million.

In addition, *KOTOUČ ŠTRAMBERK, spol. s.r.o.*² supplies approximately 20% of ČEZ Group's total limestone and lime needs under a medium-term contract which protects ČEZ from any annual increases in prices. ČEZ is able to extend this medium-term contract on request.

Approximately 27% of lime and limestone is supplied by *Vápenka Čertovy schody a.s.* under medium-term contracts at prices which are renegotiated each year. ČEZ believes that these prices do not differ significantly from market prices.

The last 3% of the amount of lime and limestone consumption of ČEZ is supplied by *Krkonošské vápenky Kunčice, a.s.*

For lime and limestone consumption in Poland, *Skawina* power plant is working on the implementation of desulphurisation facilities, and so far has no consumption of lime and limestone. On the other hand, *Elcho* power plant lime and limestone consumption reached 36,000 tons in 2006 (which was approximately the same level as in 2005). 100% of lime and limestone supply to Elcho is provided by a Polish company *Nordcalk*.

For lime and limestone consumption in Bulgaria, *Varna* power plant so far has no consumption of lime and limestone.

Final Disposal of Coal Waste

Pursuant to Act No. 185/2001 Coll. on wastes (the **Waste Act**), effective from 1 January 2002, and related regulations, ČEZ Group uses coal ash as a certification material for the reclamation and the improvement of the sanitary conditions of the landscape and disused shafts of existing mines. A small amount of coal ash is deposited on landfill sites. ČEZ Group sells also some of the coal ash residues to certain producers of construction materials. In addition, since 1994, ČEZ Group has also been selling a portion of the FGD gypsum remaining after the desulphurisation process to certain producers of construction materials. This approach brings a significant environmental contribution in the terms of natural material savings, particularly in the building industry.

Sources of Working Materials

ČEZ Group selects suppliers of caustic soda, sulphuric acid, hydrochloric acid, technical gases, turbine and transformer oils and other working materials on the basis of tenders. Procurement of these materials is centralised within ČEZ Group.

Nuclear Power Generation

ČEZ Group currently owns and operates two nuclear power plants situated at *Dukovany*, in the South Moravian District of *Třebíč* and *Temelín*, in the South Bohemian district of *České Budějovice*. In 2006, ČEZ Group's nuclear power plants generated 26,046 GWh of electricity, representing 40% of its total electricity production.

| Location – Production | Owner | Installed capacity (MW) | Start of operations |
|------------------------------|--------------|--------------------------------|----------------------------|
| Dukovany | ČEZ, a.s. | 4 x 440 | 1985 – 1987 |
| Temelín | ČEZ, a.s. | 2 x 1,000 | 2002 – 2003 |
| Total | | 3,760 | |

² A 25% stake in KOTOUČ ŠTRAMBERK, spol. s.r.o. was sold by ČEZ in 2006 after contracts were signed to secure limestone supplies for ČEZ Group.

Nuclear Power Plants

Dukovany nuclear power plant

The construction of the *Dukovany* nuclear power plant began in January 1979 and its four units became operational between May 1985 and July 1987. The power plant uses four Soviet designed VVER 440-213 PWRs with a total installed capacity of 1,760 MW. Outside the former Soviet Union, such reactors are in operation in the Czech Republic, Finland, Hungary, Bulgaria and the Slovak Republic. The design of a VVER plant is generally considered identical to the design of PWR plants based on U.S. technology (in which water also acts as the moderator and the coolant) and which is the most common reactor type used commercially around the world.

In 2006, *Dukovany* power plant generated for the first time over 14 million MWh. This result was influenced by the capacity increase of the third reactor unit, in relation to which modernisation was undertaken during 2005, and by reduction of outages during 2006. From the current perspective the *Dukovany* nuclear power plant should operate until 2027, with the potential for prolonging its operation, if required. The *Dukovany* nuclear power plant programme calls further for the achievable capacity of each reactor unit to be increased by over 40MW. According to this programme *Dukovany* power plant will increase its capacity by 80 MW until 2009 and another 80 MW until 2012 (i.e. a total growth in capacity by over 160MW).

Over the past 10 years, ČEZ Group has been improving the safety standards at the *Dukovany* nuclear power plant in accordance with the requirements of the NSA, and in respect of further operation. As part of its modernisation programme, ČEZ Group has also been progressively implementing recommendations resulting from domestic and foreign technical audits, including recommendations by the IAEA, including, among other things, modernising all high and low pressure components, introducing a multi-function and full scope simulator, a main condenser tube exchange using titanium, emergency feedwater pumps, pump suction filters, bus switchboards and vital power system reconstruction.

Additionally, ČEZ Group has accepted and has been implementing measures to improve the efficiency of operation and to extend the life of the main components of the production equipment including, among other things, increasing the efficiency of the main condenser, improvement of the secondary circuit and up-rating the turbo-generator.

In 1996, a pre-feasibility study was started for a refurbishment of the I&C system at the *Dukovany* nuclear power plant to improve reliability and to prolong the plant operation. During the course of 1998, ČEZ continued to carry out work related to the development of this project and invited bids for the first stage of implementation in 1999. In September 2000, ČEZ signed an agreement with ŠKODA JS for the refurbishment of the major parts of the I&C system at the *Dukovany* nuclear power plant.

Capital expenditures at *Dukovany* nuclear power station went on upgrading the station and improving the efficiency of power generation. The most important projects included replacement of 0.4 kV secured subordinate power panels for powering important devices, renovation of the flow-through portions of low-pressure components of steam turbines on Unit No. 4 (new rotors with improved blades reducing the turbo aggregate's heat rate by a minimum of 3.5%), replacement of activation systems and the ongoing renewal of I&C systems on all reactor units. On 11 January 2007, upon completion of overhauls, the achievable capacity of the generator on Unit No. 4 of *Dukovany* nuclear power station was increased from 2 x 200 MW to 2 x 228 MW. The same modification was made on Unit 3 earlier, on 1 May 2005, and will be made on Unit 2 and Unit 1 in 2007 and 2008, respectively. Due to the above projects the capacity of *Dukovany* nuclear power station will be increased by 9.5% by 2012.

The NSA grants operating licences that are renewable upon application. The following table sets forth the status of licences at the *Dukovany* nuclear power plant:

| lock | Licence Valid Until: |
|---------|----------------------|
| 1 | 31 December 2015 |
| 2 | 31 December 2016 |
| 3 | 31 December 2007 |
| 4 | 31 December 2007 |

In 2006, the *Dukovany* nuclear power plant generated a total of 14,025 GWh of electricity. From its inception to 31 December 2006, the *Dukovany* nuclear plant has generated 265,796 GWh of electricity. In the years 2004, 2005 and 2006, the nuclear plant's average load factor per year was approximately 88%, 89% and 90%, respectively. ČEZ intends to add an additional 11.6 days of generation at *Dukovany* by 2009 as a result of reduction in refuelling outages. The *Dukovany* nuclear power plant is ranked among the top 20% safest nuclear power plants in the world and has a technical defect rate of 0.8% (compared to a worldwide average of 4.0%).

Temelín nuclear power plant

ČEZ Group's most important capital investment project in recent years has been the construction of a second nuclear power plant at *Temelín* in South Bohemia. The construction of the *Temelín* nuclear power plant commenced in 1986. According to the original project, the power plant was to have four Soviet designed units with a capacity of 1,000 MW each. Agreements regarding the construction of the *Temelín* nuclear power plant were concluded in 1986 with general contractors *ŠKODA PRAHA, a.s.* for the delivery of machinery and *Vodní stavby Bohemia, a.s.* to perform all of the construction. Both of these contracts were initially governed by the now repealed Economic Code, a law dating back to 1964, under which the contractor had title to the plant until the contracted performance was rendered in full (i.e. until the delivery of the completed plant). In mid-1995, ČEZ renegotiated the agreement with *ŠKODA PRAHA a.s.* to be based on the current Commercial Code, under which ČEZ Group acquires title and ownership to parts of the plant as they are constructed, and to update the scope of work and estimated cost of the plant. The agreement with *Vodní stavby Bohemia, a.s.* was governed by the Economic Code and, accordingly, title to the construction passed to ČEZ upon delivery of the construction in 2002 (Unit 1) and in 2003 (Unit 2).

Following the fall of the communist regime in 1989 and as a result of an ensuing uncertainty with respect to the energy policy of the Czech Republic, construction of the *Temelín* nuclear power plant was delayed. In March 1993, the government approved the completion of two, out of the originally planned four, units and at the same time ordered a fundamental change in the design of the reactor, primarily to enhance operational safety of the nuclear power plant. This change consisted of adapting the Soviet plant technology to function with Western I&C systems. Following the decision to fundamentally change the design, ČEZ launched a tender and selected *The Westinghouse Electricity Company LLC* to supply the instrumentation and control technology as well as the nuclear fuel to be used at the *Temelín* nuclear power plant. Other contracts have been concluded concerning further technology needed for the completion of the power plant. The adaptation of U.S. technology supplied by *The Westinghouse Electricity Company LLC* to the original Soviet plant construction at the *Temelín* nuclear power plant is the first such adaptation of its kind and, accordingly, has posed difficult technical challenges beyond what had been anticipated in 1993. As a result of extensive design and construction changes, the estimated completion date for the *Temelín* nuclear power plant was delayed several times.

In August 1998, the Czech government commissioned an independent review of the *Temelín* nuclear power plant project and, among other things, the expended and projected cost, financing, existing supply contracts, the risks jeopardising the completion, social impact and alternative power supply solutions. The report made no clear recommendation on whether to complete or discontinue the construction. The report emphasised risk factors, particularly in relation to future developments in electricity demand in the Czech Republic. On the basis of this report the Czech cabinet decided on 14 May 1999 by a vote of eleven ministers to eight to proceed with the construction of both blocks of the *Temelín* nuclear power plant. However,

government approval was conditional on the budgeted cost not exceeding CZK 98.6 billion and the two blocks being loaded with fuel by September 2000 and December 2001, respectively.

In July 2000, ČEZ loaded Unit 1 of the *Temelín* nuclear power plant with nuclear fuel and in October 2000 it essentially completed construction of Unit 1 with initial nuclear reaction and testing activities beginning shortly thereafter. In December 2000, ČEZ connected the generator from Unit 1 of the *Temelín* nuclear power plant to the electricity network and test transmitted the first electricity from the *Temelín* nuclear power plant to the transmission network. By March 2001, ČEZ had brought Unit 1 up to 30% of its production capacity. During the month of March 2001, ČEZ brought Unit 1 to 55% of its capacity and did so again in early October 2001. In mid-October, after receiving approval from the NSA, ČEZ performed tests at 75% of Unit 1's capacity. In January 2002, ČEZ continued the energy generation start-up process of Unit 1 that had been commenced in November 2000 and proceeded up to 100% of the nominal power output of the reactor. This phase was prolonged by delivery of new armatures and the necessary shut-down for the performance of the work connected with the replacement of the armatures. Following tests at a power output level of 100% and the completion of a 144 hour comprehensive testing process, Unit 1 obtained approval for pilot operation, which commenced on 10 June 2002. At the end of January 2003, a planned two month shut-down commenced in connection with the replacement of one quarter of the fuel. After inspection by the IAEA and the NSA of the correctness of the delivery of fuel into the reactor's active zone and the deposition of spent fuel into the storage pool for spent fuel, the warranty inspection was completed at the end of April 2003.

In early 2002, the phase of non-active testing of Unit 2 was completed, a review after an integrated hydro-test was performed and preparatory work for active testing was completed. In March 2002, the NSA issued a permit for the commencement of active testing. Following the delivery of fuel, the reactor was closed and preparatory work and testing for the first activation of fuel was performed in May 2002. At the end of June 2002, following the successful physical start-up, the phase of energy generation start-up commenced. In the course of this phase, repeated defects appeared in the generator rotor as a result of vibrations. The defects were rectified and no further consequences have affected the operation of Unit 2. The first turbo-generator phasing did not take place until 29 December 2002 during a sub-phase when the reactor was run up to a level of 55% of its nominal power output.

The primary objective of investment projects in *Temelín* power plant during 2006 was to increase the level of nuclear safety and the reliability of operation. This included, for example, rebuilding the high-pressure component of a turbine, complete replacement of power management panel cases, replacement of nickel seals with crested ones and liquidation of special-purpose construction site buildings and land reclamation (approximately 500 acres that had previously been occupied by construction site facilities). The use permit for structures relating to Units 1 and 2 of *Temelín* nuclear power station came into legal force on 6 November 2006. This permit was issued by the South Bohemia Regional Office. As of 3 February 2006, following completion of a routine repair, the achievable capacity of Unit 1 was increased from 830 MW to 975 MW. As of 1 January 2007, following completion of an overhaul, the unit was back up to its original capacity of 1,000 MW.

The NSA grants operating licences that are renewable upon application. The following table sets forth the status of licences at the *Temelín* power plant:

| Block | Licence Valid Until |
|---------|---------------------|
| 1 | 11 October 2010 |
| 2 | 31 May 2012 |

In 2006 the *Temelín* nuclear power plant generated 12,021 GWh of electricity. Since the start of its operation, *Temelín* has generated 54,412 GWh of electricity. Its load factor in 2006, 2005 and 2004 was 71%, 66% and 72%, respectively. The decline in load factor in 2005 has been caused by unplanned outages related to faults at Unit 2 turbine, in particular the default of its rotor. The faulty rotor was repaired in January 2006 and ČEZ expects higher utilisation of *Temelín* in the coming years. In addition, in 2007 the rotors in both units will be replaced with new design rotors allowing a 4% increase in achievable capacity. In 2005, *Temelín* experienced a technical defect rate of 1.9%, principally due to the rotor problems.

ČEZ also intends to add an additional 20.8 days of generation at *Temelín* by 2009 by reducing refuelling outages. Due to small problems with the nuclear fuel supplied by *The Westinghouse Electricity Company LLC* the amount of electricity generated was lower than expected. ČEZ entered into a new contract in 2006 for the supply of nuclear fuel with the Russian manufacturer *TVEL*. The contract anticipates the development of new nuclear fuel by 2010 see “*Nuclear fuel materials and fuel procurement*” below.

ČEZ currently maintains *Dukovany* and *Temelín* using an adaptive maintenance model based on an eight-year cycle, meaning each block receives one major service every eight years of its life. In respect of the *Temelín* power plant, this model aims to reduce the existing outages of in excess of 50 days to about 30 days by 2009.

The delays with the commencement of the commercial operation of the *Temelín* nuclear power plant resulted in ČEZ being entitled to a CZK 700 million contractual penalty, payable by *ŠKODA PRAHA a.s.* ČEZ agreed to settle this claim by means of a debt equity swap and, in January 2004, became a majority shareholder in *ŠKODA PRAHA a.s.* with a 68.9% holding.

On 31 July 2001, the Austrian federal land of Upper Austria filed a lawsuit with the Land Court of Linz, Austria, against ČEZ by which it sought a ruling ordering ČEZ to refrain from the potential negative impacts of the *Temelín* nuclear power plant. Later a similar lawsuit was filed by certain Austrian individuals. On 17 April 2002, the court ruled that it had no jurisdiction over a power plant located outside of Austria. The court’s decision was upheld by the European Court of Justice in June 2006. However, in June 2006, the Austrian Supreme Court ruled that Austrian courts have jurisdiction over *Temelín* based on the application of Austrian law and returned the case back to the first instance court. With respect to the approach of the Austrian Supreme Court, ČEZ sent a complaint about Austria to the European Commission in the beginning of August 2007. In June 2007, ČEZ also filed a complaint against Upper Austria regarding interference in ČEZ ownership rights.

Nuclear Act

On 24 June 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 government initiated and Parliament enacted Act No. 18/1997 (the **Nuclear Act**). The Nuclear Act came into force on 1 July 1997. In accordance with the Vienna Convention, the 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 6 billion per incident. The Nuclear Act also provides that operators of nuclear facilities, such as ČEZ, are obliged to acquire insurance covering potential liabilities for nuclear damages in the amount of not less than CZK 1.5 billion. The *Dukovany* and *Temelín* nuclear power plants are currently fully insured in accordance with the Nuclear Act and the Vienna Convention. See “*Insurance Matters*” below for more information about ČEZ’s insurance.

The Nuclear Act contains a provision to the effect that, subject to the conditions of this Act, the Czech Republic shall guarantee the safe final disposal of nuclear waste. The Nuclear Act requires the MIT to establish the Repository Authority as a State organisation, which carries out particular activities associated with disposal of nuclear waste. The Repository Authority was established on 1 June 1997. The Nuclear Act provides that a generator of nuclear waste, such as ČEZ, will remain responsible for storage of nuclear waste and related costs until the handover of the waste to the Repository Authority. The Repository Authority centrally organises, supervises and is responsible for all final disposal facilities and deposition of nuclear waste therein. The establishment and activities of the Repository Authority are financed through the Nuclear Account funded by the generators of nuclear waste. The Nuclear Account is managed by the MoF. ČEZ Group contributes CZK 50 per MWh of electricity produced in the nuclear power plant to the Nuclear Account. Since 1 October 1997, ČEZ Group has made regular payments to the Nuclear Account based on the nuclear MWh generated. From 1997 to 2006, ČEZ paid CZK 8.5 billion to the Nuclear Account. In 2006 and 2005, respectively, the payments to the Nuclear Account amounted to CZK 1,304 million and CZK 1,236 million, respectively.

In addition to cash payments to the Nuclear Account, ČEZ Group has established provisions to recognise its estimated liabilities for spent fuel storage: ČEZ Group continues to provide for the future cost

of interim storage in the form of an accounting reserve, amounting to CZK 4.9 billion as of 31 December 2006. The accounting reserve for the future costs of long-term storage of nuclear waste amounted to CZK 21.625 billion as of 31 December 2006. The payments to the state Nuclear Account are charged against the accumulated provisions for long-term storage.

In 1999, ČEZ sold its repository for disposal of nuclear waste from the operation of both *Dukovany* and *Temelín* nuclear power plants to the Repository Authority. The Repository Authority has engaged ČEZ to continue operating the repository located at the *Dukovany* nuclear power plant.

According to the Nuclear Act, ČEZ, as an operator, is responsible for the decommissioning of its nuclear power plants and other nuclear facilities (e.g. storage facilities) at its own expense. The state, through the Repository Authority, supervises the sufficiency of accumulated funds.

Nuclear fuel materials and fuel procurement

Nuclear fuel materials and services (i.e. uranium, conversion and enrichment) have been procured on mid- and long-term contractual bases. The main portion of the total uranium needs was provided from domestic sources in the past. Since Czech uranium production has been continuously decreasing in recent years with the prospect of almost full cessation in 2008, ČEZ concluded several new contracts in 2003 for long-term uranium supply for the future needs of the *Temelín* nuclear power plant in the world market. These contracts have broadened ČEZ's portfolio of suppliers and contributed to increased security of fuel materials supply. In respect of the future needs of the *Dukovany* nuclear power plant, ČEZ Group intends to buy uranium, together with conversion and enrichment services, as a package within the framework of its existing long-term fuel fabrication contract with Russian company *TVEL*.

ČEZ Group's long-term nuclear fuel supplier for the *Temelín* nuclear power plant is *The Westinghouse Electric Company LLC* which produces nuclear fuel for ČEZ at its facilities in Columbia, South Carolina. Refuelling and shipments of nuclear fuel for the *Temelín* nuclear power plant from *The Westinghouse Electricity Company LLC* are performed according to the requested schedule on the basis of a long-term contract. In April 2004, ČEZ opened a tender for supplies of nuclear fuel for the *Temelín* nuclear power plant for the period following the expiry of the current fuel contract. *The Westinghouse Electricity Company LLC* and a Russian company *TVEL* took part in the tender; based on the results of the tender the contract has been awarded to *TVEL* in May 2006. *TVEL* should supply the first fuel in 2010. In the case that *TVEL* does not finish fuel development and licensing, ČEZ will have to buy fuel from *The Westinghouse Electricity Company LLC* on the basis of an amended contract.

Nuclear fuel for the four *Dukovany* nuclear power plant reactors is provided under well established long-term commitments concluded with Russian manufacturer *OAO TVEL*. Deliveries of nuclear fuel designated for transition from the "four" to "five-year fuel cycle" have been carried out in recent years. Nuclear fuel design has also been modified in order to accommodate the operation of reactors to an increased power level. In 2006, an improved version of the second-generation fuel was supplied and a licence was obtained for its use.

Spent nuclear fuel storage

An interim storage facility for spent nuclear fuel, which utilises transport and storage containers licensed and used in a number of countries (including the United States) at the *Dukovany* nuclear powerplant became operational in December 1995. The capacity of this facility was fully used up in the first half of 2006. Construction of the second stage interim storage facility for spent nuclear fuel at the *Dukovany* power plant site is currently being completed. In 1999, the NSA issued a zoning permit for the second stage storage facility for spent nuclear fuel and an EIA was completed. In 2000, ČEZ received a local zoning permit for this interim storage facility and in 2001 ČEZ entered into an agreement for the provision of storage containers for this facility. ČEZ received a construction permit in 2003. This storage facility was commissioned in October 2006. Its capacity will cover the power station's operation for a period of 40 years and therefore, ČEZ expects that the capacity of the interim storage facility will be sufficient for the planned life of the power plant. ČEZ also plans the construction of an interim storage facility for spent nuclear fuel from the *Temelín* power plant directly at the *Temelín* site. ČEZ received offers for the storage and transport

containers for the storage in *Temelín* in 2006 and signed an agreement with the *GNS* company from Germany. As an alternative, an underground interim storage facility at the *Skalka* site in Southern Moravia is considered for the storage of spent fuel from both nuclear power plants. ČEZ obtained a local zoning permit for this site in March 2001.

Decommissioning of the nuclear power plants

According to the Nuclear Act, ČEZ Group will be responsible for decommissioning its nuclear power plants. ČEZ Group is providing funds for the future costs of decommissioning of its plants on a straight-line basis over the operating life of the relevant plant. The total decommissioning costs are currently estimated to be CZK 15.6 billion for the *Dukovany* nuclear power plant and CZK 13.7 billion for the *Temelín* nuclear power plant. These decommissioning cost estimations are submitted for verification to the Repository Authority. In order to accumulate an adequate amount of funds for coverage of the ultimate costs of decommissioning of the plants after their ČEZ life, ČEZ Group periodically reviews the decommissioning cost estimates and updates its decommissioning provisions. The last update of decommissioning costs of the *Dukovany* nuclear power plant was made in 2003, and of the *Temelín* nuclear power plant in 2004.

To cover the costs of decommissioning, ČEZ Group is required by law to contribute to a special escrow account. ČEZ Group's annual contribution to the escrow account was CZK 308 million (CZK 153 million in respect of *Temelín*, and CZK 155 million in respect of *Dukovany*) in 2005 and CZK 351 million in 2006. These restricted funds are shown in the balance sheet under non-current financial assets and as at 31 December 2006, restricted funds representing accumulated provision for nuclear decommissioning totalled CZK 2,272 million. In January 2007, ČEZ made an additional payment of CZK 3,200 million. ČEZ Group has established provisions to recognise its estimated liabilities for nuclear decommissioning in the form of an accounting reserve, which as of 31 December 2006 had accumulated CZK 10.156 billion.

Nuclear safety

Under Czech law, the NSA is responsible for supervising the safe operation of nuclear power plants. The NSA supervises compliance with relevant regulations and decrees, and reviews ČEZ Group's operating documents, safety reports regarding the operation of nuclear facilities, the quality of selected facilities, repair and maintenance, and personnel training. The NSA representatives (local inspectors) are permanently on site at both the *Dukovany* and *Temelín* nuclear power plants to monitor the facilities performance and compliance with safety standards and operating procedures, and to make recommendations for improvements where appropriate. Safe operation at the *Dukovany* and *Temelín* nuclear power plants is governed by documentation requirements, approved by the NSA (Technical Specifications, Radioactive Effluent & Emission Monitoring Programmes, etc). Compliance with regulations and requirements set out in the approved documentation is the plant's responsibility. The NSA carries out supervision by inspections. In 2006, there were 172 inspections at the *Dukovany* nuclear power plant and 86 inspections at the *Temelín* nuclear power plant. In its annual reports on nuclear safety and protection against radiation, presented to the government of the Czech Republic, the NSA has evaluated the operation of the *Dukovany* and *Temelín* nuclear power plants in 2005 as reliable and safe. Since initial operation, the *Dukovany* and *Temelín* nuclear power plants have been continuously monitoring (under the supervision of the NSA) levels of radiation in the immediate vicinity of the plants. To date, results of monitoring in the ventilation outlets and in the drains of the plants have indicated that radiation levels remain considerably below statutory limits.

Unlike analogous western nuclear power plants, the units of the *Dukovany* nuclear power plant have no full pressure containment. However, prevention of the escape of radioactive steam into the atmosphere in case of any breach of the primary circuit (the sealed circuit comprises the steel pressure vessel containing the reactor, the steam generator and the connecting pipe work) is ensured via hermetic zones complemented by bubbler towers, which can relieve hermetic zones from over-pressurisation. In the *Temelín* nuclear power plant, both units are constructed with standard full pressure containment of the Western type. The *Dukovany* and *Temelín* nuclear power plants are designed to withstand the maximum design accident caused by a breakdown of the primary circuit and consequently to reduce the pressure and temperature of steam escaping from the primary circuit to the hermetic zones or containment facilities using spray systems.

IAEA, WANO

The Czech Republic is a member of the IAEA. ČEZ is also a member of the WANO and, like other members of such organisations, submits its nuclear power plants to periodic peer review by members of such associations. A peer review mission carried out by WANO at the *Dukovany* nuclear power plant in 1997 commended the power plant for its high level of operation. As is ČEZ practice for such peer reviews, it has implemented the recommendations of the WANO peer review mission. In 1999, a WANO peer review considered whether its recommendations had been implemented. Such inspection concluded that its recommendations were being implemented according to the recommended timetable. In December 2006, WANO conducted inspection at *Temelín* and concluded that the plant complies with common safety standards.

As a result of the Czech Republic's membership of the IAEA, the IAEA carried out an on-site IAEA assessment mission in October 1993 to evaluate the *Dukovany* nuclear power plant's operation with respect to failures, investigation thereof and remedial action in respect thereto. The IAEA mission commended ČEZ high level of operational safety, citing, among other things, a low occurrence of nuclear safety related incidents and the reduction of such incidents during the years immediately preceding the study. The next IAEA mission to the *Dukovany* nuclear power plant which was initially scheduled for 1999 was rescheduled for November 2001. In November 2001, the *Dukovany* nuclear power plant underwent an Operational Safety Review Team (OSART) review. ČEZ received several "recommendations" and "suggestions", although overall the *Dukovany* nuclear power plant was placed amongst other well operated nuclear power plants. Based on the review, ČEZ prepared and fulfilled an action plan. In October 2003, a follow-up OSART mission held to review implementation of its earlier recommendations stated its full satisfaction with the excellent fulfilment of such recommendations.

In February 2001 the *Temelín* nuclear power plant underwent an IAEA inspection (of the pre-OSART type), the results of which commended the *Temelín* nuclear power plant for its level of safety. As is usual with such inspections, despite its full satisfaction at the mission, recommendations were made regarding additional safety measures and suggested improvements, which ČEZ is implementing. However the main conclusions were positive and highlighted the commitment of the *Temelín* nuclear power plant's managers to improve operational safety and reliability, highly professional plant staff, the condition of plant material and housekeeping in accordance with good international practices. A follow up OSART mission took place at the end of 2003. The conclusions stated that the OSART team was impressed with the actions taken in most areas to resolve the findings of the original mission. In November 2001, the *Temelín* nuclear power plant also underwent a different IAEA review mission which focused on the resolution of safety issues recommended for implementation to WER-1000 reactors. This mission concluded that most of the IAEA recommendations have been fully implemented and a few improvements are in an advanced stage of implementation. The completion of these improvements, however, should not preclude ČEZ from safely operating the plant. The IAEA review also noted that in some areas the *Temelín* nuclear power plant exceeds generally applicable safety standards. In April 2002, an International Physical Protection Advisory Service (IPPAS) mission performed a final physical protection assessment of the *Temelín* nuclear power plant. The final report fully evaluated the physical protection of the nuclear plant and stated that the level of protection is adequate for current international standards. In March 2003, a Site Seismic Hazard Assessment mission took place in the *Temelín* nuclear power plant to perform a final seismic hazards assessment. The final report of this mission did not contain any negative conclusions as to the seismic hazard at the *Temelín* nuclear power plant.

In 1991, IAEA and the Nuclear Energy Agency of the OECD introduced a seven-grade international nuclear events scale (INES), an internationally recognised standard used to inform the public of the safety significance of a nuclear event. Grades 5 to 7 mark accidents with a significant radiation exposure off-site, while grades 2 through 4 signify events with effects on the nuclear facilities only. Grade 1 means a deviation from normal operation and Grade 0 an incident not related to safety. According to this scale, applied retrospectively, the *Dukovany* nuclear power plant has experienced since 1999 until the end of 2005 only five incidents assessed Grade 1 and no incident assessed Grade 2 or higher. The *Temelín* nuclear power plant has experienced throughout its lifetime five incidents assessed Grade 1 and no incident assessed Grade 2 or higher.

Pursuant to the INES, the relatively small number of low-level incidents over the last 6 years of operations at the *Dukovany* nuclear power plant and over the initial operational phase of the *Temelín* nuclear power plant life reflects the high level of safety that exists at all ČEZ Group power plants. For comparison, the accident at an RBMK reactor at Chernobyl in the former Soviet Union in 1986 was retrospectively classified as level 7. The accident at the PWR reactor at Three Mile Island in the United States in 1979 was retrospectively classified as level 5.

To enhance the performance of and safety at the *Temelín* nuclear power plant, ČEZ conducted a bidding process for an I&C system and supply of nuclear fuel assemblies. Affiliates of the *Westinghouse* group were selected to supply this system. It is a requirement of the NSA and a contractual condition of ČEZ that the components comply with the relevant licensing standards of their countries of origin as well as the standards applicable in the Czech Republic. ČEZ believes that, due in large part to the substitution of the I&C system at the *Temelín* nuclear power plant and the change in the supplier and the design of the fuel, *Temelín* nuclear power plant reached a technical level assuring compliance with not only existing Czech law and IAEA safety recommendations, but also a level comparable with the standards and recommendations of the U.S. Nuclear Regulatory Commission.

Hydroelectric Power Generation

ČEZ Group operates 35 hydroelectric power plants (which include 7 run-of-river power plants, 3 pumped storage hydro power plants and 25 small-scale hydro power plants with installed capacity of 724 MW, 1,934 MW and 65 MW respectively). In 2006, hydroelectric power plants (excluding pumped storage hydro power plants) generated 1.752 TWh of electricity, representing approximately 3% of ČEZ Group's total electricity generation.

Nine of these plants are situated on dams on the Vltava river creating a cascade operation controlled by a central control system. Hydroelectric power represents an important and cost-effective source of peak load generation for ČEZ Group. In recent years, the electricity consumption pattern in the Czech Republic has exhibited increasing intra-day peak demand. Additional development of hydropower generation in the Czech Republic is limited by the topography of the country and ČEZ Group is currently not constructing and does not have plans to construct any new hydroelectric power plants.

Hydroelectric power plants have a high degree of flexibility in the regulation of their output. The ability to control conventional storage hydroelectric power plants and pump storage plants centrally, permits the hydroelectric plants to commence operating very rapidly thereby facilitating its regulation of electric 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.

ČEZ Group's hydroelectric power plants may sustain damage in floods. In 1997, the hydroelectric power plant *Dlouhé Stráně* and three coal-fired power plants, *Dětmárovice*, *Hodonín* and *Dvůr Kárlové*, suffered minor damage by floods. The total damage sustained was CZK 27.5 million. In 2002, seven of nine of ČEZ Group's hydroelectric power plants located on the Vltava river and the coal-fired power plant *Mělník* were damaged by floods and the total damage was CZK 766 million. This damage was covered by ČEZ Group's insurance (with CZK 50 million deductible). As a result of the floods in 2002, the power generation in 2002 was reduced in four hydroelectric power plants from the planned 157 GWh to 74 GWh, and in the coal-fired power plant *Mělník* from 175 GWh to 39 GWh. The floods in 2004 did not have any impact on ČEZ Group's hydroelectric power plants.

ČEZ Group operates 35 hydroelectric power plants shown in the following table:

| Location | Installed Capacity (MW) | Type of plant | Start of operation |
|---------------------------------------|----------------------------|---------------------|-------------------------------------|
| Lipno I..... | 2 x 60 | Accumulation | 1959 |
| Orlík | 4 x 91 | Accumulation | 1961 – 1962 |
| Kamýk | 4 x 10 | Accumulation | 1961 |
| Slapy | 3 x 48 | Accumulation | 1954 – 1955 |
| Štěchovice I..... | 2 x 11.25 | Accumulation | 1943 – 1944 |
| Vrané | 2 x 6.94 | Accumulation | 1936 |
| <i>Střekov.....</i> | <i>3 x 6.5</i> | <i>Accumulation</i> | <i>1936</i> |
| Lipno II | 1 x 1.5 | Small Hydro | 1957 |
| Hněvkovice | 2 x 4.8 | Small Hydro | 1992 |
| Kořensko I | 2 x 1.9 | Small Hydro | 1992 |
| Mohelno | 1 x 12; 1 x 0.56 | Small Hydro | 1977, 1999 |
| Dlouhé Stráně II | 1 x 0.16 | Small Hydro | 2000 |
| Kořensko II | 1 x 0.94 | Small Hydro | 2000 |
| Želina | 2 x 0.315 | Small Hydro | 1994 |
| <i>Přelouč</i> | <i>2 x 0.68; 2 x 0.49</i> | <i>Small Hydro</i> | <i>1927, reconstruction 2005</i> |
| <i>Spálov</i> | <i>2 x 1.2</i> | <i>Small Hydro</i> | <i>1926, reconstruction 1999</i> |
| <i>Hradec Králové.....</i> | <i>3 x 0.25</i> | <i>Small Hydro</i> | <i>1926</i> |
| <i>1953Práčov</i> | <i>1 x 9.75</i> | <i>Small Hydro</i> | <i>1953, reconstruction 2001</i> |
| <i>Pastviny</i> | <i>1 x 3</i> | <i>Small Hydro</i> | <i>1938, reconstruction 2003</i> |
| <i>Obříství</i> | <i>2 x 1.679</i> | <i>Small Hydro</i> | <i>1995</i> |
| <i>Les Království</i> | <i>2 x 1.06</i> | <i>Small Hydro</i> | <i>1923, reconstruction 2005</i> |
| <i>Předměřice nad Labem.....</i> | <i>1 x 2.1</i> | <i>Small Hydro</i> | <i>1953</i> |
| <i>Pardubice.....</i> | <i>1 x 1.96</i> | <i>Small Hydro</i> | <i>1978</i> |
| <i>Spytihněv</i> | <i>2 x 1.3</i> | <i>Small Hydro</i> | <i>1951</i> |
| <i>Brno – Kníničky</i> | <i>1 x 3.1</i> | <i>Small Hydro</i> | <i>1941</i> |
| <i>Veselí nad Moravou.....</i> | <i>1 x 0.12; 1 x 0.15</i> | <i>Small Hydro</i> | <i>1914, 1927</i> |
| <i>Brno – Komín</i> | <i>2 x 0.106</i> | <i>Small Hydro</i> | <i>1923</i> |
| <i>Vydra</i> | <i>2 x 3.2</i> | <i>Small Hydro</i> | <i>1939</i> |
| <i>Hracholusky.....</i> | <i>1 x 2.55</i> | <i>Small Hydro</i> | <i>1964</i> |
| <i>Čeňkova pila.....</i> | <i>1 x 0.09</i> | <i>Small Hydro</i> | <i>1912</i> |
| <i>Černé jezero</i> | <i>1 x 1.5; 1 x 0.04;</i> | | <i>1930, 2004,</i> |
| <i>.....</i> | <i>1 x 0.37</i> | <i>Small Hydro</i> | <i>2005</i> |
| <i>Skawina/Skawinka.....</i> | <i>1 x 1.6</i> | <i>Small Hydro</i> | <i>1961</i> |
| Štěchovice II..... | 1 x 45 | Pump Storage | 1947 – 1949, reconstruction 1996 |
| Dalešice | 4 x 112.5 | Pump Storage | 1978 |
| Dlouhé Stráně I..... | 2 x 325 | Pump Storage | 1996 |
| Total installed capacity | 1,934 | | |

Note: Plants in italic are not owned by ČEZ, a.s. but are owned by other ČEZ Group members.

Wind And Solar Power Generation

The total capacity of ČEZ Group's wind power stations is 2.78MW, representing less than 0.02% of ČEZ Group total generation capacity. ČEZ Group operates four 400 kW wind power plants at *Nový Hrádek*, owned by *ČEZ Obnovitelné zdroje, s.r.o.*, and three wind power plants with total capacity of 1,165 kW in the *Mravenečník* locality. Since the beginning of 2007, the *Mravenečník* power plants have not been in operation and the board of directors of ČEZ has decided to sell them. The *Nový Hrádek* power plants are currently also out of order due to their scheduled renewal.

ČEZ Group also operates one solar power plant which was built in October 2003 in the locality of the Dukovany nuclear power plant with an installed electricity generation capacity of 1 x 10 kW. This solar power plant was originally installed in the locality of Mravenečník.

During 2006, ČEZ Group generated 0.2 GWh of electricity in the wind and solar power plants, representing 0.0003% of total electricity generated by ČEZ Group. ČEZ is actively pursuing the expansion of its renewables generation capacities in order to improve the capacity mix and to reduce CO₂ emissions.

Heat Generation

In general, heat is a by-product of the generation of electricity. ČEZ sells heat to municipalities, district heating companies and industrial consumers. At the present time, ČEZ supplies heat from the majority of its coal-fired plants and from the coal power plant operated by *Energetika Vítkovice a.s.* Heat is supplied to customers via steam/hot water pipelines operated by ČEZ and other persons. In 2006, ČEZ Group supplied 11,274 TJ of heat to its customers, which represented a 15% increase in comparison to 2005, mainly due the acquisitions in Poland. However, in the Czech Republic heat sales decreased by 4% in comparison to 2005, due to mild climatic conditions in 2006.

In 2006, total revenues of ČEZ Group from the heat supplies reached CZK 2.3 billion, which is a 18% increase in comparison to 2005 revenues.

Electricity Sales and Trading

ČEZ Group optimises its profit margins by flexibly arbitraging opportunities in domestic sales, exports and provision of ancillary services. During 2006, ČEZ Group extended its trading activities and became an active trader of electricity and CO₂ allowances, in the European context. From a geographical point of view, ČEZ, a.s. is active on the central and southeastern European markets, where it build up own business infrastructure and gained necessary licenses for electricity trading. In addition, ČEZ participates in auctions on cross-border transmission capacity in the region.

The following table shows a breakdown of ČEZ Group's electricity procurement and supplies for the two years ended 31 December 2005 and 2006.

| | 2005 | 2006 | H1 2006 | H1 2007 | Index 2006/2005 | Index H1 2007/ 2006 |
|---|---------------|---------------|---------------|---------------|--------------------|---------------------------|
| | (GWh) | (GWh) | (GWh) | (GWh) | (%) | (%) |
| Purchase | | | | | | |
| Generated in-house (gross)..... | 60,016 | 65,532 | 31,853 | 36,066 | 109.2 | 113.2 |
| Purchased on ČEZ home markets* | 23,671 | 21,576 | 11,379 | 12,180 | 91.2 | 107.0 |
| Purchase on foreign markets and import | 1,458 | 9,449 | 3,703 | 13,194 | 648.1 | 356.3 |
| Total | 85,145 | 96,557 | 46,935 | 61,440 | 113.4 | 130.9 |
| Sales | | | | | | |
| Sales to end customers within the distribution network..... | 36,185 | 41,142 | 22,004 | 19,023 | 113.7 | 86.5 |
| Sales to traders and other sales | 30,064 | 27,135 | 11,769 | 18,683 | 90.2 | 158.7 |
| Sales on foreign markets and export..... | 8,183 | 17,397 | 7,484 | 17,417 | 212.6 | 232.7 |
| Total Sales | 74,433 | 85,674 | 41,256 | 55,123 | 115.1 | 133.6 |
| Distribution network losses, including other and own consumption .. | 10,712 | 10,883 | 5,678 | 6,317 | 101.6 | 111.2 |
| Total | 85,145 | 96,557 | 46,935 | 61,440 | 113.4 | 130.9 |

* ČEZ home markets are Czech Republic, Poland, Bulgarian and Romania

Total external sales of ČEZ Group reached 85,674 GWh in 2006, which represented a 15% growth in comparison to 2005. Sales to end customers within the distribution network grew by 14% due to increased consumption on the Czech market and the acquisition and inclusion of *Electrica Oltenia S.A.* in the full year financials (in 2005 this company was included in the financials only in the fourth quarter). Growth in exports and imports relates to the increase of ČEZ's trading activities in the region. The net balance of exports and imports grew by 18% in 2006.

Domestic Sales

ČEZ Group's total sales to end customers in the domestic markets (Czech Republic, Bulgaria and Romania) increased by 14.8% to 44 TWh in 2006. In the Czech Republic, ČEZ sold 32 TWh of electricity, slightly less than in 2005 due to increasing competition and liberalisation of the market. Market share of ČEZ *Prodej, s.r.o.* on the end consumer market in the Czech Republic reached 53.4%.

Distribution companies in Bulgaria and Romania sold 12.1 TWh of electric power, which was 3.1 TWh (34.5%) more than in 2005, thanks to growing demand in both countries and thanks to inclusion of *Electrica Oltenia S.A.* in to the consolidation during October 2005.

On the Czech wholesale market ČEZ sells electricity for prices agreed by the contractual parties. Since 2002, the wholesale prices have no longer been regulated by the State. For the delivery year 2007, most of the volume was sold for prices determined in two types of auctions – a Virtual Power Plant Auction and a wholesale auction. Since the launch of Prague Energy Exchange (PXE) on 17 July 2007, the major volume

for the delivery year 2008 is intended to be sold via the PXE. The introduction of the PXE increased the transparency of the market.

The wholesale auction for the supply of electricity in 2007 was undertaken in August 2006. The demand was much higher than ČEZ could cover, meaning all of ČEZ's production for 2007 has been sold out. The average wholesale price of electricity sold for 2007 has increased by 16.9% compared to the 2006 average price.

In the auction process, in addition to the orders, ČEZ Group took into consideration the required volume of electricity needed for supplies to the final customers of *ČEZ Prodej, s.r.o.*, which has exclusive responsibility within ČEZ Group (since 2006) for sales to end customers in the Czech Republic. The volume of electricity offered by *ČEZ Prodej, s.r.o.*, is sold under the same price conditions as electricity sold to other subjects on the market within the wholesale auction in the year 2006. For the delivery year 2008, the electricity price set by *ČEZ Prodej s.r.o.* will correspond to the PXE prices.

Electricity Distribution

ČEZ Distribuce, a.s. increased the volumes of distributed electricity by 2% to 33.1 TWh. This increase was consistent with the overall electricity demand growth in the Czech Republic. Volumes of electricity distribution in Bulgaria reached 9.8 TWh and in Romania 8.5 TWh. Losses from electricity distribution by the ČEZ Group have increased by 0.4 TWh due to the fact the Energy Regulator set the volumes of such losses in 2006, whereas in 2005 such losses represented total of energy balances of individual distribution companies (REAS).

Exports, Imports, and International Exchange of Electricity

Export of electricity to foreign markets remains a significant business activity of ČEZ Group. Development of the net trade balance in Central Europe, price growth and accessibility of cross-border transmission capacities has resulted in a continuous trend towards the transfer of export flows of ČEZ Group from west to east.

In 2006, ČEZ Group's imports and purchases on foreign markets (excluding Poland, Bulgaria and Romania) amounted to 9,449 GWh. In 2006, ČEZ Group directly exported or sold on foreign markets a total of 17,397 GWh, constituting 20% of all external ČEZ Group electricity sales. The net electricity trade balance of ČEZ Group grew by 18% between 2005 and 2006. ČEZ exports electricity to Germany, Poland, Slovakia and Hungary on both a short-term (spot) and annual basis. Electricity exported into Germany in 2006 amounted to 6.3 TWh, and 5.4 TWh to the East (mainly to Hungary and Slovakia) (out of which 3.5 TWh was subsequently sold in the Czech Republic through swaps).

To improve capacity utilisation, conciliate cross-border operations and strengthen its position on new markets, ČEZ established representative offices in neighbouring countries, such as its representative trading office in Hungary, opened in June 2006. These offices are to assist in the expansion of electricity business to the markets of Central and South-eastern Europe.

ČEZ sells its own production and trades on OTC markets (both brokered and bilateral) and on local energy exchanges. Exports to Slovakia and Hungary are mostly secured on the basis of yearly contracts. Contracts agreed in Poland include proprietary trading operations as well as agreements on supplies from *Skawina* power plant.

Provision of Ancillary Services

To supply system services, Czech TSO *ČEPS, a.s.* purchases ancillary services from ČEZ Group. In 2006, ČEZ Group supplied limited volumes of ancillary services also to the Slovak TSO *SEPS, a.s.*. Strengthening competition is the main reason for a decreasing market share of 63% in 2006 (compared to 72% in 2005) of ČEZ Group on the Czech market.

CO₂ Emission Allowances

In 2005, ČEZ Group became actively engaged in the trade of CO₂ emission allowances (EU ETS). The Czech Government's National Allocation Plan (NAP I) was approved in July 2005 and allocated to ČEZ allowances for 36.9 million tonnes. Once the Czech Registry for Emission Allowances Trading became operational ČEZ started trading CO₂ emission allowances. Throughout 2005, framework contracts were set up and ČEZ joined selected business platforms for the realisation of trades with CO₂ allowances. In 2005, CO₂ emission allowances became a significant factor in optimising the electricity plants' operations and a factor influencing the electricity prices on the European energy markets. ČEZ trades CO₂ allowances on the ECX exchange (futures) and since 2006 also on the PowerNext exchange (spot trades).

The decision-making process in the trading of CO₂ is based on comparison of the wholesale electricity price with generation costs which include the price of CO₂ emission allowances. If the price of electricity does not cover production costs ČEZ prefers to sell relevant CO₂ emission allowances on the market. Due to the decreasing price of CO₂ allowances during the second half of 2006, ČEZ sold its entire expected surplus of CO₂ allowances under NAP I. Due to a substantial price difference between allowances sold in 2006 and those bought by ČEZ in 2007, the overall economic result of ČEZ's recent CO₂ emission allowances trading has been positive.

The other companies within ČEZ Group, such as, *Energetika Vítkovice, a.s.*, in the Czech Republic and *Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.* and *Elektrownia Skawina S.A.* in Poland, were also allocated allowances under NAP I and sold their surplus during 2006 with settlement during 2006 or 2007. The dramatic price decrease at the end of 2006 therefore did not negatively influence the results of these companies.

The following table shows ČEZ Group's CO₂ emission allowances in 2005 and 2006:

| | 2006 | 2005 |
|---|--------------------|-------|
| | (Millions of tons) | |
| Location | | |
| Assigned or gained within the acquisition | 42.7* | 37.5 |
| Actual emission of CO ₂ | -39.1** | -33.3 |
| Sale | -10.5 | -3.1 |
| Purchase | 3.7 | 0.8 |
| Carried forward to the next years | -3.3 | 1.9 |

Notes:

* Assigned 37.5m tons, 5.2m tons gained through acquisition in 2006

** Out of which 1.8m tons in Poland prior to the acquisition

The European Commission has not yet decided on the National Allocation Plans for 2008-2012 (NAP II) for the 23 member states. The Commission requires a reduction of allocations in most of the plans for individual member states including those of the Czech Republic and Poland, which will lead to an increase in price of allowances for 2008. So far, five countries have filed an action against these decisions (namely the Czech Republic, Poland, Hungary, Estonia and Slovakia).

ČEZ is currently adopting various emission reduction measures including changes in power plant dispatch (prioritising low emission plants), adjustments in maintenance plans and the installation of energy efficient components. ČEZ anticipates investing over CZK 100 billion in the renewal of its coal fire power plants until 2013, which is expected to significantly reduce CO₂ emission levels. A verification process on greenhouse gases emission statements of ČEZ Group done by *DET NORSE VERITAS AS* in 2005 and 2006 went ahead smoothly for all power plants.

Coal Mining

One of the fully consolidated ČEZ Group companies is *Severočeské doly a.s.*, the largest Czech brown coal mining company. In 2006, its share in the Czech Republic brown coal market was 45.9%. It runs coal

extraction operations in the Doly Nástup Tušimice and Doly Bílina mines. In 2006, *Severočeské doly a.s.* extracted a total of 22.5 million tons of brown coal, which is a 3.1% increase compared to 2005. Total revenues from coal sales reached CZK 8,932 million in 2006. Coal extraction per employee grew year-on-year by 4.8% due to a decline in the number of employees and higher extraction. ČEZ Group power plants consumed 16.8 million tons (74.7%) of the company's coal output, down 3.6%. Supplies to customers outside of ČEZ Group grew by 20.5% to 5.7 million tons. ČEZ Group's Czech Republic market share reached 45.9% (up by 1.1% compared to 2005), or 26.4% when supplies to ČEZ are excluded.

Capital Investments

Strategic investment goals of ČEZ

ČEZ Group's focus for strategic development the renewal of its generation fleet to remain competitive in the long run (see "*Strategy and Initiatives – Plant Portfolio Renewal*"). The goals for near future are to increase the reliability of the *Temelín* nuclear power plant through upgrades of turbines on both units; to continue in further development of the power plant portfolio renewal and construction; to further invest into mining and its Czech, Bulgarian and Romanian distribution companies; to reduce power losses; and to evaluate the investment opportunities in power sector in Central and Eastern Europe so that ČEZ is able to respond flexibly to developments in demand.

In *Gacko*, in Republic Srpska, Bosnia & Herzegovina, ČEZ Group is investing in the development of coal mining, environmental improvements of the current power plant and in the construction of a new power plant. Work on this project will start during late 2007 with the undertaking of a detailed feasibility study. Another extensive investment area of ČEZ Group is the implementation of a new information system in the acquired foreign companies with a goal to integrate corporate and customer processes in these companies.

Additions to property, plant, equipment, and other non-current assets

The following table sets out cash outflows related to additions to property, plant, equipment and other non-current assets (including capitalised interests) made from 2005 to 2006 (figures are consolidated in accordance with IFRS).

| | <u>2005</u> | <u>2006</u> |
|---|----------------------|----------------------|
| | <i>CZK million</i> | |
| Plant and equipment | 15,901 | 21,092 |
| <i>of which: nuclear fuel</i> | 2,605 | 2,147 |
| Intangible fixed assets | 1,367 | 1,453 |
| Financial investments | 242 | 1,113 |
| Impact of acquisitions of fixed assets on liabilities | (1,839) | 87 |
| Total | <u>15,671</u> | <u>23,745</u> |

Nuclear Power

Dukovany Nuclear Power Station

The majority of investment projects during 2006 aimed at modernisation of the *Dukovany* power plant and increasing the efficiency of the electric power generation. Among others, these projects included replacement of 0.4 kV secured subordinate power panels for powering important devices, renovation of the flow-through portions of low-pressure components of steam turbines on Unit No. 4 (new rotors with improved blades reducing the turboaggregate's heat rate by a minimum of 3.5%), replacement of activation systems and the ongoing renewal of I&C systems on all reactor units. On 11 January 2007, upon completion of overhauls, the achievable capacity of the generator on Unit 4 of *Dukovany* Nuclear Power Station was increased from 2 x 200 MW to 2 x 228 MW. The same modification was made on Unit 3 on 1 May 2005, and will be made on Unit 2 and Unit 1 in 2007 and 2008, respectively.

Spent Nuclear Fuel Storage Facility at Dukovany Nuclear Power Station

During October 2006, a new spent nuclear fuel storage facility was opened in the premises of *Dukovany* nuclear power plant. The spent fuel will be stored in dry CASTOR casks 440/84M and will enable operations of the power plant for another 40 years.

Temelín Nuclear Power Station

The primary objective of investment projects in the *Temelín* nuclear power station was to increase the level of nuclear safety and reliability of operation. This included, for example, rebuilding the high-pressure component of a turbine, complete replacement of power management panel cases, replacement of nickel seals with crested seals and liquidation of special-purpose construction site buildings and land reclamation (approximately 500 acres that had previously been occupied by construction site facilities). The use permit for structures relating to Units 1 and 2 of *Temelín* Nuclear Power Station entered into legal force on 6 November 2006. This permit was issued by the South Bohemia Regional Office. As of 3 February 2006, following completion of a routine repair, the achievable capacity of Unit 1 was increased from 830 MW to 975 MW. As of 1 January 2007, following completion of an overhaul, the unit was back up to its original 1,000 MW.

Spent Nuclear Fuel Storage Facility at Temelín Nuclear Power Station

In 2005, documentation was drawn up for zoning proceedings and for the facility location permit, as well as the information memorandum for a public tender to find a supplier of casks and an Environmental Impact Assessment of the project in which Austrian and German representatives participated. Both the Ministry of the Environment of the Czech Republic and the European Union issued consenting opinions on the proposed project. The NSA, as the administrative authority with jurisdiction over the matter, issued a nuclear facility location permit. However, many community initiatives raised objections to the consenting opinions and appealed to the court. The Ministry for Regional Development of the Czech Republic invalidated the zoning permit issued by the regional authority of South Bohemia. The regional authority is supposed to issue a new zoning permit in September 2007.

Conventional Power

Plant Portfolio Renewal

In accordance with the “Programme of Further Operation and Conception of Renewal of the ČEZ Plant Portfolio”, preparations were begun for the comprehensive renewal programmes for the *Tušimice II* and *Pruněřov II* Power Stations and the construction of new brown-coal generating units, each with 660 MW capacity in the existing sites of *Ledvice* and *Počerady* Power Stations. February 2006 saw the approval of the joint business and construction plan for the “Comprehensive Retrofit of *Tušimice II* Power Station”, which called for the facility to retain its current generating capacity of 4 X 200 MW. In the fact-finding phase of the Environmental Impact Assessment (EIA) pursuant to Act No. 100/2001 Sb. it was verified that the project is not subject to EIA. Basic engineering documentation for the project was drawn up and in December 2005 an application was filed for a building permit. The actual construction of the project will take place between March 2007 and June 2010. In April 2006, *ŠKODA PRAHA Invest s.r.o.* was selected to be the general contractor for the project. During the course of 2006, subcontractors were selected and contracts entered into for all the principal process components. Revisions to the integrated permit valid for the duration of construction work entered into force in October 2006. The renewal of the first two generating units began in June 2007.

In May 2006, a plan was approved to build a new 660 MW unit with supercritical parameters, which would be the first of its kind in the Czech Republic. At the same time as its planned commissioning in 2012, units 2 and 3, each with 110 MW of capacity, are to be shut down. Along with the completed Environmental Impact Assessment (EIA) documentation, a notification of the planned build-out was filed with the Ministry of the Environment in July 2006. In September 2006, following selection of *ŠKODA PRAHA Invest s.r.o.* as general contractor for the project, work began on drawing up project documentation. On 15 February 2007, the Ministry of the Environment issued a consenting opinion on the plan “New 660 MW Generating Facility

at *Ledvice* Power Station”. Commissioning of the new generating facility at *Ledvice* Power Station is planned for June 2012, assuming all subcontractor capacities are brought to bear in time.

In late 2006, preparations began for construction of a combined cycle power plant in Úžín in the Ústí nad Labem Region.

In January 2007, the Board of Directors of ČEZ approved the plan “Comprehensive Retrofit of *Pruněřov II* Power Station”.

Another project is to increase the installed capacity of the *Gacko* Power Station (Republika Srpska, Bosnia and Herzegovina), by developing the current *Gacko I* Power Station (300 MW), opening a new field at the *Gacko* Mine, including expansion of existing extraction capacity, and building a new *Gacko II* Power Station.

Environmental Investments

In accordance with Ordinance of the Government of the Czech Republic No. 406/2004 Sb., preparations for the initiation of technical measures which would lead to increased plant operational safety, especially by reducing dust levels. Projects will continue in the area of improving conditions for utilisation of Energy Generation By-Products in the production of construction materials and in cleaning up and reclaiming repositories of such by-products. Modifications were made to selected coal power stations to enable them to fire an increased proportion of biomass in mixture with coal in fluidised-bed and fire-grate boilers. A number of technical and biological reclamation projects have been implemented at coal power stations to reclaim energy generation by-product landfills and revitalize the countryside.

During 2006, ČEZ Group invested a total of CZK 502 million into environmental protection. In particular, ČEZ invested in an electric separator upgrade and in flue gas desulphurisation (FGD). *Nástup Tušimice Mines* completed an upgrade of a wastewater treatment plant and modification of a balancing reservoir at its mine water treatment plant. Other projects included purification and discharge of mine water at *Bílina Mines* and the reduction of dust levels by the installation of a dust collection system at the sorting facility of the *Ledvice* Coal Processing Plant. *Elcho* is one of the most modern power plants in Poland and it already meets all emission limits. For this reason, no environmental expenditures were made at this plant in 2006. The *Skawina* power station spent PLN 19.3 million on environmental measures in 2006. In February 2007, work began on a FGD system for the plant, which is to be commissioned in December 2007.

Expenditures on the CEZ Group Information Technology System

In 2006, ČEZ Group invested over CZK 1.3 billion in information technology systems. One of the most important projects in this area is the roll-out of a system to support distribution grid build-out, operation, maintenance, and management, scheduled to be completed late 2007, and development of the customer system. Another major component of ČEZ Group IT expenditures is the implementation of new systems in the newly acquired foreign subsidiaries. These include both unified corporate systems to support business processes and unified customer systems in Romania and Bulgaria.

Investments in Mining

Severočeské doly a.s. invested a total of CZK 1.3 billion in its mining operations in 2006. The CAPEX programme included projects made necessary by progress of extraction operations at the mines, refurbishments and upgrades of existing extraction equipment, processes, and renewal of ancillary mechanisation. In April 2006, a SchRs 1320 bucket excavator with a budgeted cost of nearly CZK 1 billion was commissioned. The project “Intensification of Overburden Extraction on Cut No. 4, *Bílina Mines*, Northern Portion” was completed in November 2006. The originally planned Cut No. 4 on the Southern Portion was replaced by Cut No. 2.A and was completed at the end of July 2007.

Investments in the Distribution Grid

The initiatives in this area were concerned high voltage, medium voltage, and low voltage grids: mainly refurbishment and renewal of underground and overhead medium and low voltage lines, build-outs of medium-/low-voltage distribution transformer stations, unification and projects required to meet customer requests for connection capacity. The companies of CEZ Group invested a total of CZK 7.7 billion in this area in 2006. Of this amount, CZK 5.7 billion was in the Czech Republic and CZK 2.0 billion was in South-eastern Europe.

Research and Development, Patents and Licences

Research and Development

ČEZ Group hires external firms to perform research projects based on ČEZ Group's technical assignments, evaluations, and performance check-ups. ČEZ Group provides documentation, technical information and data to such entities. The research performed by the external entities covers numerous projects primarily in the areas of conventional power and nuclear energy. In 2006, R&D expenditures totalled CZK 337.2 million, of which 41% was expended by ČEZ. The R&D work focused on nuclear power, ranging from compiling project safety fundamentals to the level of components in individual pieces of equipment at *Temelín* Nuclear Power Station, from technical support in the areas of reactor physics to thermo hydraulics. With the support of PHARE programmes, a project is underway to develop non-destructive testing and operational inspections. Some of ČEZ's research is conducted with the support of the MIT.

Ústav jaderného výzkumu Řež a.s. is a ČEZ Group company focused on R&D. It was given specific technical tasks, the results of which are implemented in power plants operated by ČEZ, as well as, for example, researching and developing technologies that in future are to enable more effective utilisation of nuclear energy.

Patents and Licences

ČEZ holds all required licences to operate electrical power generation, electricity distribution, electricity trading, heat generation and heat energy distribution.

Insurance Matters

ČEZ Group maintains several types of insurance against damage of its property and against its potential liabilities. It includes property insurance of conventional power plants, property insurance of nuclear power plants, nuclear liability insurance, other liability insurance and other property insurance. ČEZ Group's general liability insurance also covers particular environmental liabilities it may incur. The insurance coverage complies with the Nuclear Act and the Vienna Convention requirements in respect of responsibility for damage caused by a nuclear incident.

However, ČEZ Group cannot guarantee that costs connected with nuclear disasters or other unforeseen events in the nuclear power plants would not have any negative effects on its business and financial situation. Insurance of ČEZ Group does not fully cover all risks. The Nuclear Act sets limits for liabilities for nuclear damages by the operator of nuclear installations/licences. The Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 6 billion per incident. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 1.5 billion. The Nuclear Act also requires an operator/licensee to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 1.5 billion and up to a minimum of CZK 200 million for other activities (such as transportation). ČEZ has obtained all insurance policies with minimal limits as required by the law. ČEZ concluded mentioned insurance policies with Czech nuclear pool, a group of insurance companies.

ČEZ has renewed insurance policies covering the assets of its fossil, hydro and nuclear power plants, insurance policies covering non-technological equipment, general third party liability insurance in connection with main operations of the Company and car insurance. ČEZ and the Group companies have

insurance policies covering directors and officers liability. ČEZ also controls other property and liability insurance policies of the ČEZ Group companies.

Risk Management

CEZ Group is successfully developing an integrated risk management system with the objective of growing CEZ Group value while taking risks that are acceptable to the shareholders. Since 2005, CEZ Group has applied the risk capital concept, allowing it to set basic frameworks or risk limits in various areas, unify the quantification of various types of risks and help individual companies or process owners to expose themselves to risk only to the extent that is proportional to their contribution to CEZ Group's overall income.

The development and implementation of the risk capital model, including regular assessment of the use of CEZ Group's overall risk capital, is dealt with on a centralised basis by the Risk Committee. The Risk Committee decides allocations of risk capital among individual risks and organisational units. In other words, it approves binding rules, accountability and limits for managing individual risks and continually monitors the overall impact of risks on the value of CEZ Group.

ČEZ Group is subject to the following four main categories of risk:

1. Market Risk

In the trading area, ČEZ Group hedges commodity risks arising out of trading in electricity and emission allowances. Starting in September 2006, market commodity and related credit risks are quantified using a new trading system, allowing the trading position to be managed on a ČEZ Group-wide basis. Potential losses are limited by the system of limits based on VaR with 95% confidence level and Stop Loss limits. Currency and interest rate risk is managed by a system of correlated limits based on VaR with 95% confidence level. ČEZ Group foreign currency and interest rate positions are hedged using financial instruments as well as by natural hedging (the presence of electricity and other revenue streams denominated in foreign currencies). Foreign currency risk will become more important as the proportion of ČEZ's revenues denominated in Euro will grow significantly in connection with the commencement of trading over the PXE, so currently ČEZ is working on a strategy to hedge against this risk. ČEZ hedges its commodity (coal and electricity) related risks through mid-term coal supply agreements and one to two year forward contracts for electricity sales on the PXE. The system of existing market risk limits enables ČEZ to quantify and to manage the financial impacts of these risks into annual accounting profit and also into shareholder value.

2. Credit Risk

Credit risk of ultimate customers (electricity end-users) is managed on the basis of annual credit histories and supplemental financial analysis. Credit risk associated with electricity and CO₂ emission allowances trading partners and risks associated with financial institutions are managed using individual limits derived from the given entity's credit rating and in-house financial analysis of a partner. Credit risk associated with suppliers default is managed via procurement department system by using standard forms of collateral such as bank and corporate guarantees.

3. Operational Risk

Key operational risks include the risk of actual power plant output deviating from an annual plan. The operational risk of *Temelín* nuclear power plant is quantified based on value at risk (VaR) with 95% confidence level. "Internal change" risks are managed via clear responsibility assessment and the standard project management tools. Other current operational risks include the integration of foreign equity stakes into CEZ Group and the implementation of the plant renewal process, i.e. upgrading of existing coal/fired generating facilities. Property, casualty and other operational risks are managed via using insurance, emergency and crisis planning and preventive actions. Cash flow risk is managed via a cash pooling system in which the majority of the CEZ Group companies participate.

4. Business Risk

The most important business risks are those associated with international expansion in foreign countries, risks associated with electricity exports, and regulatory risks (i.e. future decisions of the European Union, the Energy Regulatory Authority, and/or the Antitrust Office), as well as risks relating to the development of legislation in the regions where CEZ Group does business. Business risks are managed by using clear responsibility assessment, key risk factors identification and systematic sensitivity and scenario analysis.

Regulation

Until 1990, one single state-owned conglomerate operated the whole electricity system. In 1990, the regional distribution companies were separated from the State enterprise. In 1994, they were transformed into joint stock companies, the REAS, and offered to the public as part of the voucher privatisation process in 1995. The Czech Republic, through the NPF, retained a controlling stake of approximately 47–49% of shares in each of the REAS. In 1992, the 100% State-owned company ČEZ was created from ČEZ, state enterprise. The Czech Republic retained a 67.6% majority stake in ČEZ and the remainder was offered to the public as part of two rounds of the voucher privatisation process in 1993 and 1995. In addition to the privatisation of the REAS, several electricity producers, mainly local, have been partially privatised as well. In October 1998, ČEPS was created and the transmission grid was gradually transferred to it by ČEZ. The process was completed in 2003. The Former Energy Act created a strongly regulated system, which was based on the “several Producers – one Transmitter – eight Distributors” concept.

The present regulation and liberalisation of the Czech Electricity Market

One of the most important aims of the New Energy Act was the liberalisation of the Czech electricity market. The concepts introduced by the New Energy Act were based mainly on Directive 96/92/EC on the common rules for the internal market in electricity. In order to comply with Directive 2003/54/EC (repealing Directive 96/92/EC) concerning the common rules for the internal market in electricity, Regulation 1228/2003/EC on conditions for access to the network for cross-border exchanges, and Regulation 2004/8/EC (amending Directive 92/42/EEC) on the promotion of cogeneration based on a useful heat demand in the internal energy market, the New Energy Act has been significantly amended in 2003 and 2004. The New Energy Act contains provisions setting a requirement for the unbundling of transmission and distribution system operators (therefore accelerating the liberalisation process on the electricity market) and for the protection of end customers. According to the New Energy Act, the key points of the new regulatory model are detailed in the following paragraphs.

Regulatory and other bodies

Additional regulatory bodies of the new regulatory model are the MIT and the Czech Energy Inspectorate (the **Inspectorate**). The main regulatory body is the ERO. The ERO has a key role in regulating the energy market, having the right to issue licences, fix prices and adopt implementing legislation. The MIT is responsible for preparing the strategic planning of the State in respect of energy and issuing authorisations for the construction of electricity generators and direct electricity lines. The Inspectorate is responsible for supervising the compliance of the participants on the electricity market with the relevant laws and for applying sanctions where necessary.

Principles of regulation

In the case of monopoly activities such as electricity distribution price regulation is ensured via revenues limitation related to predicted distributed electricity volume. The revenues are calculated as the sum of three components: operation costs, depreciation and profit margin. The first two components are updated (taking into account inflation) from the analytically acquired historical base (in the case of costs the effectivity factor enters into the calculation which is constant for the five year regulated period). Profit margin is a product of fixed Weighted Average Cost of Capital (for the five year regulation period) and the

Regulatory Asset Base that has been acquired analytically and is being updated by regulated asset increments.

Licensing regime

Participants on the electricity market must obtain a licence issued by the ERO for their activities. The entities having authorisations under the Former Energy Act had to obtain new licences under the New Energy Act during a transition period of one year, i.e. until 31 December 2001. In order to avoid the possibility of the ERO making discriminatory decisions, the ERO is required to issue a licence if the applicant meets certain statutory requirements. The licences are granted for a specified period of time (up to a maximum of 25 years, with the exception of (i) the licence for electricity trading, which is issued for a set period of five years, and (ii) the licence for the market operator and other obligatory participants on the electricity market, which is issued for a set period of 25 years). The owners of the licences are published in a bulletin published by the ERO. ČEZ holds all required licences to operate electrical power generation, electricity distribution, electricity trading, heat generation and heat energy distribution.

In addition, authorisations granted by the MIT are necessary for the construction of electricity generators exceeding 30MW capacity and of a direct electricity line. The granting of such an authorisation is within the discretion of the MIT (unlike the licensing regime of the ERO). An authorisation is granted for a period not exceeding five years (with a possibility of prolongation).

Participants

The New Energy Act introduces the following categories of electricity market participants: (i) generators, (ii) the transmission grid operator (i.e. ČEPS), (iii) distribution grids operators, (iv) the market operator (i.e. OTE), (v) electricity traders, and (vi) end customers.

In addition, the dispatch centres (both the National Electricity Dispatch Centre and the Regional Electricity Dispatch Centres) were created by the transmission grid operator and each of the distribution grids operators respectively. The New Energy Act requires that each authorised electrical energy distributor provides full electricity service coverage over the entire territory served by an authorised provider, if so requested, to the extent technically and economically practicable. In certain cases of pressing public interest, an authorised provider may also be required to provide certain services in the public interest.

The regulation of electricity prices in the Czech Republic is reviewed annually by the ERO. Such price regulation relates to the prices between electricity market participants. On 30 November 2006, the ERO issued its latest decision regarding changes to the regulation of electricity prices to be effective as of 1 January 2007.

The prices of power for Eligible Customers were not regulated. The definition of Eligible Customers has been gradually extended whereby as of 1 January 2006, all end customers (including households), fall within the definition of Eligible Customers. Prices for transmission, distribution and other electricity services are regulated by the ERO.

Environmental Issues

Environmental liability

Environmental liability is based on statutory regulations encompassing (i) administrative, (ii) criminal and (iii) civil law. Administrative and criminal law provide the means of the public control of the environment, whereas civil law is an instrument of private control between private individuals. Case law in this field, which has not developed significantly to date in the Czech Republic, is not binding and can only be used as a guide.

Administrative liability towards the State

The regulation of administrative liability for environmental offences is split into different Acts, each of them regulating a specific area of the environment e.g. Act No. 254/2001 Coll. (the **Water Act**), Act No. 289/1995 Coll., as amended (the **Forests Act**), Act No. 185/2001 Coll (the **Waste Act**), Act No. 18/1997 Coll. (the **Nuclear Act**), Act No. 86/2002 Coll (the **Act on Air protection**) (together the **Acts**).

The Acts set out environmental offences that may be committed by individuals and legal entities carrying out business activities in connection with the operation of business. The individual or entity does not need to be the owner of the business and the liability is strict. According to a provision of the Nuclear Act the relevant administrative body is entitled to penalise the individual or entity with a fine of up to CZK 100 million in the event of utilisation of nuclear energy for other than peace purposes. Violation of any other Act can result in a fine of up to CZK 10 million (in the case of repeated violation, up to CZK 20 million). The relevant administrative body has the power to impose these penalties within one year of learning of the offence and not later than three years from the occurrence of the offence. Such penalties do not affect the liability to pay damages under Act No. 40/1964 Coll. (the **Civil Code**), which may be claimed separately.

In addition to the above, Act No. 17/1992 Coll., as amended (the **Environment Act**) has introduced into the Czech legal system a new concept of “Environmental Damage” in order to ensure the repair of all such damage. The rationale behind the Environment Act is that Environmental Damage shall be repaired regardless of whether a private claim for damages has been brought against the person responsible for environmental damage (the **Polluter**). Thus, an administrative body is authorised to order the Polluter to restore the natural functions of the impaired ecosystem. This liability does not cover future benefits lost due to Environmental Damage. However, due to the insufficient and incomplete nature of this regulation, the practical impact of the Environment Act is minimal.

Criminal liability towards the State

The most serious offences against the environment are qualified as crimes and can be penalised by fines of up to CZK 10 million or by imprisonment. In such cases the relevant administrative body is also entitled to shutdown the operation of the given source of environmental damage. Under Czech criminal law, such criminal acts can be committed both intentionally and negligently. Criminal offences against the environment are described as acts threatening or damaging the environment generally and, specifically, as acts involving unlawful disposal of dangerous waste. However, as the draft of the Act on criminal liability of legal entities has not been approved, the Czech criminal law currently does not acknowledge criminal liability of a legal entity and, therefore, only the legal entity’s responsible person can be liable. Criminal liability is subject to public law and as such does not affect general liability for damages under the Civil Code (which may be claimed separately).

Civil liability towards a third party

Except for general liability for damages, the Civil Code imposes, in certain circumstances, a “quasi strict liability” for damages (**Quasi Strict Liability**) which is relevant in most environmental damage cases. Quasi Strict Liability is applied if the acts of the individual or legal entity cause damage to another party in the course of its business. In comparison to general liability, the claimant does not need to prove fault, which is presumed under Quasi Strict Liability. However, the individual or entity can be exempted from liability if it can prove that the damage was caused by the conduct of the party to which the damage was caused or as a result of an unavoidable event. Compensation under civil law includes compensation for current and future damages, including lost profit. The statute of limitations applicable in cases of general liability applies to Quasi Strict Liability.

The “Polluter pays” principle

The “Polluter pays” principle applies under administrative, criminal and civil law. The Polluter shall pay administrative fines, be subject to criminal sanctions and compensate for damages occurring to a third party. The law does not distinguish between instances where the Polluter is the owner operating its own property and a third party operating the property on the basis of a lease or any other agreement. Polluters are

liable for their own damages. The responsibility of an owner of a business or property cannot be assumed by the lessee and vice versa. A current lessee cannot be held responsible for damages caused by former lessees or the owner.

Environmental Impact Assessment Act 2001 (Act No. 100/2001 Coll.)

The Environmental Impact Assessment Act sets forth a duty to conduct in certain cases an EIA prior to the approval of a new investment project by the relevant authorities. The public is allowed to participate actively in the intended investment project from when the investor applies for EIA analysis. The Act distinguishes projects which always fall within the scope of the environmental impact assessment, projects which are always excluded and projects in which the state authorities decide, on an ad hoc basis, whether the EIA is to be made or not. The total length of the EIA procedure, which can exceed one year, is the most criticised feature of the Act.

Act on Air 2002

The Act on Air comprises not only the regulation aiming for the protection of the air, but also the protection of the climate system of the earth as a result of the Kyoto Protocol to the Framework U.N. Convention on Climate Change. The act is based on the “Polluter pays” principle and implements the economic instrument of the emission regulation i.e. the emissions charges. These emission allowances affect emissions of SO₂, NOX, CO, solid pollutants (e.g. fly ash) and hydrocarbons. In 2006, the emission charges ČEZ had to pay amounted to CZK 119.6 million.

The Act on Air further empowers the Ministry of Environment to temporarily restrict emissions from, reduce output of or shut-down, certain pollution sources (such as some of ČEZ’s coal-fired power plants) if overall air pollution levels are exceeded, even if a given pollution source does not exceed applicable limits. In addition, the Act on Air empowers the Czech Environmental Inspection Agency to order any pollution source exceeding pollution limits to be shut down. ČEZ is currently in compliance with all requirements under the Act on Air.

Water Act 2001

The Water Act distinguishes the general disposal of surface and underground water for personal use, which is free, from other disposals that are subject to a permit. The release of pollution into water is governed by principles including best available technology and correct agricultural practice. The Water Act is based on the “user pays” and “Polluter pays” principles. ČEZ is currently in compliance with all requirements under the Water Act.

Waste Act 2001

The Waste Act fully respects the notions and definitions of the E.U. Directives, but it is partly inspired by the regulation of some individual states such as Germany and Austria. The Act regulates all aspects of waste generation, storage, transfer handling and disposal. The operation of the equipment for use, disposal, collection or sale of waste can be operated only with a permit. Any person dealing with more than 100 tons of the hazardous waste per year in the previous two years must nominate a waste manager who ensures proper waste disposal management. Certain types of waste and equipment are subject to a notification duty and a record must be kept. The Act requires the planning of waste disposal at all levels. The import, export and shipment of waste are fully in compliance with the EU regulations. ČEZ is currently in compliance with all requirements under the Waste Act.

Nuclear Waste Final Disposal

Under the Nuclear Act, the responsibility for securing the final disposal of nuclear waste, including spent fuel, is that of the Repository Authority. ČEZ is required to finance the final disposal through contributions into a special fund. See “*Nuclear Power Generation*”. The NSA supervises nuclear-related

activities in general, in particular the safety of nuclear facilities. The approval of the NSA is required for the operation of nuclear facilities. ČEZ is currently in compliance with all requirements under the Nuclear Act.

Coal Waste Storage

ČEZ has prepared a project aimed at the collection of dry ash and desulphurisation of end-products and their conversion into solids. This conversion reduces the negative impact of mines on the water table when such solids are deposited in landfills, open cast mines or disused shafts of existing mines. The new de-ashing technology used in the power plants allows ČEZ to process the ash and desulphurisation end-products into a material with properties that will permit its deposition into existing mud pits without any further measures or to use a portion of such waste as building material. In 2006 ČEZ spent more than CZK 419 million on the disposal of dry ash and desulphurisation by-products, and as of 30 June 2007, CZK 193 million.

Integrated Pollution Prevention and Control (including the Integrated Pollutant Register)

Act No. 76/2002 Coll. on integrated pollution prevention and control, as amended, (the **IPPC Act**) fully implements IPPC Directive 96/61/EC into the Czech legal system. It introduces a new approach to limit industrial pollution according to the best available techniques. The users of certain installations must obtain an integrated permit prior to the launch of their operation. The main criterion for granting of the permit is compliance with the best available technology. In addition, the users of substances registered under the IPPC Act have to notify the respective administrative authority of the emissions of such substances if such emissions exceed set limits, which are then registered in the publicly accessible Integrated Pollutant Register. The Act has been effective since 1 January 2003. However, there are transitional provisions on the “Existing” installations which include obtaining the integrated permit by October 2007, and the “Old-New” installations which had to submit an application for the integrated permit within three months of the Act coming into effect. ČEZ is currently in compliance with all requirements under the IPPC Act.

Promotion of electricity produced from renewables and promotion of co-generation

In 2005, the new Act No. 180/2005 Coll. on the promotion of production of electricity from renewable energy resources was adopted in order to implement the Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market. The Act stipulates as one of its most important purposes promotion of the production of electricity from renewable energy sources, aiming to achieve the national indicative target (the share of the renewable energy sources amounting to 8% of gross domestic consumption) by 2010 and to exceed this target after 2010. Currently, the promotion of electricity produced from renewable sources of energy, is based on (i) priority access to the distribution grid, (ii) minimum purchase prices and (iii) the “green bonuses” increasing the market price of the energy. The amounts mentioned under (ii) and (iii) above for such energy are set by the ERO in advance for particular calendar years. By setting the minimum purchase prices and the amount of green bonuses the ERO has to differentiate between the particular renewable energy sources used for production of electricity.

Following the amendment of the New Energy Act, the promotion of electricity and heat is based on (i) priority access to the distribution grid and (ii) contributions to the prices of electricity paid to the producers of electricity based on co-generation, which are set by the Office.

A total of 1,975 GWh was produced from renewable energy sources in 2006, up 319 GWh from 2005. In 2006 and 2005, the amount of electricity produced by ČEZ Group that benefited from this promotion was 1,558 GWh and 1,334 GWh (respectively) from large hydro power plants, 194 GWh and 197 GWh (respectively) from small hydroelectric power plants and 223 GWh (2006) and 115 GWh (2005) produced by the co-combustion of biomass with coal. ČEZ also owns wind (capacity of 2.8 MW) and solar installations (capacity 0.01 MW). The amount of electricity produced in wind and solar power plants reached 0.2 GWh in 2006.

CO₂ reduction

In light of Directive 2003/87/EC, which establishes a scheme for greenhouse gas emission allowance trading within the E.U. in respect of the Kyoto Protocol's project mechanisms, and Directive 2004/101/EC (amending Directive 2003/87/EC), a new regulatory framework implementing these Directives has been adopted pursuant to Act No. 695/2004 Coll. on conditions of greenhouse gas emission allowance trading, as amended (the **Emission Allowances Act**) In accordance with these Directives, the emission allowance trading scheme became operational within the E.U. from 1 January 2005. According to the Emission Allowances Act, the emission allowances are being allocated pursuant to National Allocation Plans (adopted by the Czech government and subject to review by the European Commission) for each banking period. For the first banking period (commencing on 1 January 2005 and terminating on 31 December 2007) the emission allowances in the aggregate amount of 292.8 million tons of CO₂ for the Czech republic (97.6 million for each year of the first banking period) have been allocated to the particular sectors and to the particular emitters under the National Allocation Plan. In the first banking period and in the second banking period (commencing on 1 January 2008 and terminating on 31 December 2012), the emission allowances are allocated for free. However, in the case that the emitter fails to cover its emissions sufficiently by the emissions allowances, it will be penalised by a fine amounting to EUR 40 per ton of CO₂ in the first banking period and to EUR 100 in the second banking period. ČEZ is actively present in the trading of emission allowances on particular markets since the establishment thereof as both the direct participant and the broker for other companies.

Damages paid by ČEZ

According to law, ČEZ is liable for all past environmental damage. In 2006, ČEZ paid CZK 1 million (CZK 3 million in 2005) to farms, cooperatives, agricultural and forest firms in compensation for environmental damage. Based on current estimates of its probable future obligations, ČEZ made provisions for CZK 25 million in 2006 and CZK 43 million in 2005, respectively, for pollution damages. Although uncertainties exist due to interpretations of applicable laws, management does not believe, based upon the information available at this time, that the ultimate outcome of these matters could have a material adverse effect on the Company's financial position or results of operations.

Employees

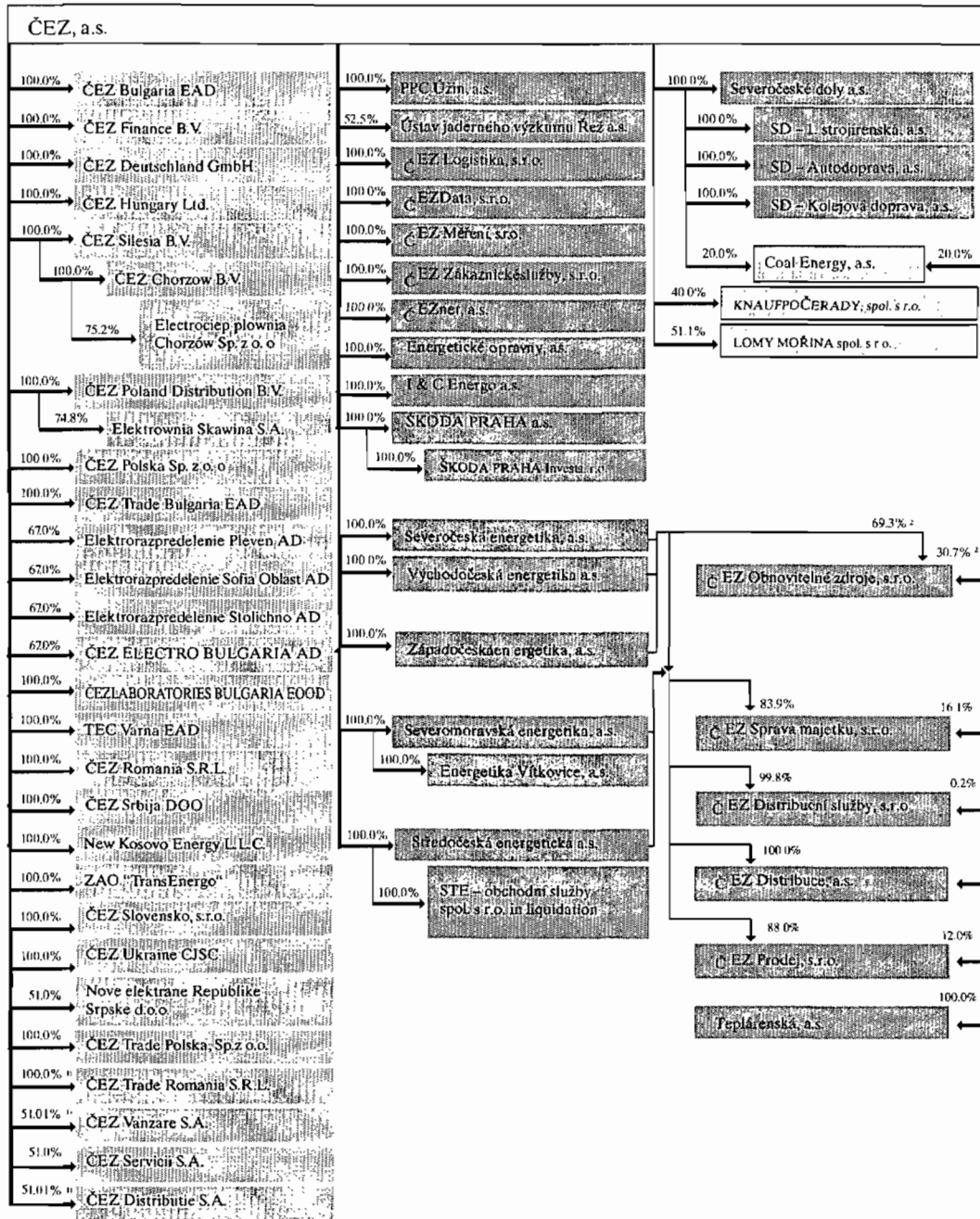
The number of employees for the 55 fully consolidated companies of ČEZ Group was 31,161 and 29,905 as of 31 December 2006 and 2005, respectively. The increase between the number of employees in 2005 and 2006 is due to the further enlargement of ČEZ Group in Poland and Bulgaria. 73% of the workforce is employed in the Central Europe, the rest in South East Europe. ČEZ does not have a history of strikes or work stoppages and no material labour-related claims are pending. There have been no strikes or work stoppages since the foundation of ČEZ in 1992. In 2006, 45% of the workforce of ČEZ was unionized within one of the 29 independent labour union organisations. A new ČEZ Collective Agreement for the period 2007-2010 was successfully signed during 2006. In the foreign subsidiaries of ČEZ, the vast majority of employees is unionised: in particular, during 2006 99.9% in Romanian *Electrica Oltenia S.A.*, 73.9% in Polish *Skawina*, 95.5% *TEC Varna EAD* in Bulgaria. Although ČEZ has experienced strike alerts in the past, these did not result in actual strikes or work stoppages. Since the date of ČEZ's foundation in 1992, ČEZ has reduced the number of employees to a level which brought the ratio of employees to installed MW capacity closer to ratios found in other advanced European power companies. The reduction has also resulted in an increase in the average level of education of its employees. ČEZ has completed the process of an organisational audit which resulted in lowering the number of its employees, and it is considering other options aimed at further lowering the number of employees. Czech law entitles all employees dismissed by reason of redundancy or organisational changes to a three month notice period and a severance payment in the amount of two months' pay.

ČEZ Group Structure

As of 30 June 2007, ČEZ Group consists of 94 companies (including ČEZ, as the parent company), 76 of which are incorporated in Central Europe (58 in the Czech Republic) and 18 in South-eastern Europe.

The consolidation unit as of 30 June 2007 included 61 companies as follows: the parent company ČEZ, 57 fully consolidated subsidiary companies and 3 associated companies; the remaining entities are not consolidated. The following diagram shows the structure of ČEZ Group consolidation unit as of 30 June 2007:

ČEZ Consolidated Group Structure as of 30 June 2007



■ subsidiaries – Czech Republic
 ▨ subsidiaries – abroad
 □ associates (consolidated by equity method)
 % indicates Controlling Entity's interest in the company's stated capital

1) Number shown is total interest of all ČEZ Group members. The bulk of such figure is owned by ČEZ, a.s.; 100% members of ČEZ Group own very small stakes.
 2) Number shown is stake in voting rights.

Principal Subsidiaries

The new model of ČEZ Group includes ten process-based companies in the Czech Republic, each of which is responsible for one primary process constituting a principal business of the power conglomerate. The registered offices of the process-based companies are distributed evenly throughout the entire ČEZ Group distribution area. Each process-based company covers the entire distribution area of the five former REAS of ČEZ Group. For further details on the transfer of all operations and services of the former REAS to the new process-based companies, see “*Strategy and Initiatives – VIZE 2008*” above.

10 process-based companies are in operation with the following businesses:

- a) power generation from renewable sources of energy – *ČEZ Obnovitelné zdroje, s.r.o.*;
- b) distribution of electricity – *ČEZ Distribuce, a.s.*;
- c) sales of electricity to end customers – *ČEZ Prodej, s.r.o.*;
- d) retail customer services – *ČEZ Zákaznické služby, s.r.o.*;
- e) distribution grid operation and maintenance – *ČEZ Distribuční služby, s.r.o.*;
- f) telecommunication services – *ČEZnet, a.s.*;
- g) IT services – *ČEZData, s.r.o.*;
- h) procurement and storage of materials – *ČEZ Logistika, s.r.o.*;
- i) metering – *ČEZ Měření, s.r.o.*; and
- j) non-energy asset management – *ČEZ Správa majetku, s.r.o.*

The following paragraphs set out descriptions of each of the key process-based companies:

ČEZ Distribuce, a.s.

ČEZ Distribuce, a.s. was established on 31 March 2005 by the five REAS controlled by ČEZ with a registered capital of CZK 25 million to comply with the requirement set by the Energy Act that distribution has to be separated from electricity sales. By having a single company operating the distribution grids of the five REAS, including the dispatching centre, cost savings were realised and thus the business became more effective. As of 31 December 2006, the company had a registered capital of CZK 49.5 billion and is the only entity in the ČEZ Group that holds an electricity distribution licence in the Czech Republic. As a result of a merger by acquisition of the REAS with the successor company ČEZ, *ČEZ Distribuce, a.s.* will be 100% owned by ČEZ from 1 October 2007.

ČEZ Prodej, s.r.o.

ČEZ Prodej, s.r.o. was established on 31 March 2005 by the five REAS controlled by ČEZ with a registered capital of CZK 25 million and as of December 31, 2006 had a registered capital of CZK 5.5 billion. It sells electricity to end customers of ČEZ Group in the Czech Republic. *ČEZ Prodej, s.r.o.* As a result of a merger by acquisition of the REAS with the successor company ČEZ, *ČEZ Prodej, s.r.o.* will be 100% owned by ČEZ with force on 1 October 2007.

ČEZnet, a.s.

This company, which is a wholly-owned subsidiary of ČEZ, provides all telecommunications services to ČEZ Group members, including lease of devices connected to telecommunications networks. In addition, it offers its excess capacities, which are relatively small, for sale through the free market.

On 26 January 2005, ČEZ increased the stated capital of *ČEZnet, a.s.* by making a CZK 1 billion monetary contribution to finance the purchase of telecommunications assets of the REAS. Also, an

agreement on the transfer of a 100% equity stake in *SINIT, a.s.* to *ČEZnet, a.s.* from *Severomoravská energetika, a.s.* was signed on 21 December 2005. Currently the company's registered capital stands at CZK 1.9 billion.

ČEZData, s.r.o.

A wholly-owned subsidiary of ČEZ, *ČEZData, s.r.o.* acts as a computer services and data processing services provider within ČEZ Group. As of 1 January 2005, all IT administration functions were transferred to the company from the five REAS and, effective 1 January 2006, the centralisation of IT administration was completed by the transfer of the ČEZ IT section to *ČEZData, s.r.o.*

ČEZ Zákaznické služby, s.r.o.

A wholly-owned subsidiary of ČEZ, *ČEZ Zákaznické služby, s.r.o.* was established in 2004. It provides services to retail customers, operates the sales offices and the ČEZ Group central telephone centre. It also provides for billing and administers the accounts of all end electricity customers. It began providing services on behalf of selected ČEZ Group members in 2005.

ČEZ Logistika, s.r.o.

A wholly-owned subsidiary of ČEZ, *ČEZ Logistika, s.r.o.* is ČEZ Group's centralised procurement and logistics company, established in 2004. The company conducts wholesale procurement and optimises the transport, handling, storage, and sale of materials and services needed for the operation and construction of distribution grids. Its principal customers are members of ČEZ Group, but the company is also active in the market at large.

ČEZ Měření, s.r.o.

A wholly-owned subsidiary of ČEZ, *ČEZ Měření, s.r.o.* commenced operating on 1 June 2005 and was fully functional as of the second half of 2005. Its role in ČEZ Group is to provide electricity metering services for approximately 3.5 million customers. With the objective of streamlining electric meter operations, the following functions, among others, were transferred to this company from the five REAS companies: data collection, processing, and verifying for operating, sales, and regulation purposes as well as administration, repairs, and inspections of all types of electric meters switching elements.

ČEZ Správa majetku, s.r.o.

A wholly-owned subsidiary of ČEZ, *ČEZ Správa majetku, s.r.o.* commenced operating on 1 September 2005. In the future, its principal business will be the administration of ČEZ Group's non-power-related assets. On 19 September 2006, four of the REAS (namely *Východočeská energetika, a.s.*, *Západočeská energetika, a.s.*, *Severomoravská energetika, a.s.*, *Středočeská energetická a.s.*) were merged into *ČEZ Správa majetku, s.r.o.* along with *Severočeská energetika, a.s.* on 3 July 2007 by means of in-kind contributions into the registered capital of *ČEZ Správa majetku, s.r.o.* The registered capital of *ČEZ Správa majetku, s.r.o.* now accounts for CZK 3.4 billion. As a result of a merger by acquisition of the REAS with the successor company ČEZ, *ČEZ Správa majetku, s.r.o.* will be 100% owned by ČEZ with force on 1 October 2007.

ČEZ Obnovitelné zdroje, s.r.o.

A company 60.8% owned by ČEZ and 39.2% owned by *Východočeská energetika, a.s.*, *ČEZ Obnovitelné zdroje, s.r.o.*'s mission is to act as a central repository of all ČEZ Group operations relating to the production of electricity from renewable energy sources (small-scale hydroelectric power plants, wind power plants, and solar power plants) and to work actively to further develop them. After asset transfers have been completed, *ČEZ Obnovitelné zdroje, s.r.o.* will be 100% owned by ČEZ, as a result of a merger by acquisition of *Severočeská energetika, a.s.*, *Východočeská energetika, a.s.* and *Západočeská energetika, a.s.* with the successor company ČEZ, with force on 1 October 2007.

ČEZ Distribuční služby, s.r.o.

A wholly-owned subsidiary of ČEZ, *ČEZ Distribuční služby, s.r.o.* was established on 12 October 2005 and its principal business is to act as a comprehensive provider of distribution grid services and to operate a fault response service. The principal beneficiary of these services is *ČEZ Distribuce, a.s.* The company went operational in the second half of 2006.

On 6 October 2006, four of the REAS (namely *Východočeská energetika, a.s.*, *Západočeská energetika, a.s.*, *Severomoravská energetika, a.s.*, *Středočeská energetická a.s.*) were merged into *ČEZ Distribuční služby, s.r.o.* along with *Severočeská energetika, a.s.* on 29 June 2007 by means of in-kind contributions into the registered capital of *ČEZ Distribuční služby, s.r.o.* The current level of registered capital of *ČEZ Distribuční služby, s.r.o.* amounts to CZK 6.8 billion. As a result of a merger by acquisition of the REAS with the successor company ČEZ, *ČEZ Distribuční služby, s.r.o.* will be 100% owned by ČEZ with force on 1 October 2007.

Severočeské doly a.s.

This company's core businesses are prospecting for, extracting, processing, and selling brown coal and related raw materials (see "*Principal Activities – Coal-Fired Power Generation*"). Since 19 June 2006, ČEZ has owned a 100% stake in *Severočeské doly a.s.* ČEZ acquired a 93.1% stake in *Severočeské doly a.s.* during 2005 when the government of the Czech Republic resolved to privatise the state's equity stake by selling it directly to ČEZ. On the request of ČEZ, as the majority shareholder, the general meeting of the company held on 27 March 2006 approved the squeeze-out of minority shareholders and the transfer of their shares to ČEZ.

ŠKODA PRAHA a.s.

A wholly-owned subsidiary of ČEZ, this company's core businesses are the construction of power plant systems (conventional and nuclear power plants, combines-cycle power plants, peaking plants), refurbishment and retro-fitting of existing power plants, as well as industrial and municipal energy systems (heating power plants) and environmental projects (such as biomass combustion).

ČEZ increased its participation from 68.88% to 97.6% as a result of a mandatory take-over bid as of 9 March 2005. After the general meeting held on 31 August 2005, which approved the squeeze-out of minority shareholders, ČEZ became a 100% owner of *ŠKODA PRAHA a.s.* as of 5 November 2005.

Significant Foreign Stakes and Investment Opportunities

Bulgaria

Power Sector

Most of the Bulgarian power sector has been privatised. The privatisation of the electricity distribution network was completed in 2005, when the seven existing power distributors were sold to ČEZ, E.ON and EVN in three packages. Power generation privatisation commenced in 2006 with the sale of the *Varna* and *Rousse* power plants. At present there are no plans for the privatisation of baseload capacities (*Maritsa* complex and *Kozloduy*).

In October 2006, ČEZ acquired *Varna* coal-fired power plant as part of the privatisation process. During the second half of 2006, privatisation of heat power stations in *Plovdiv*, *Varna* and *Ruse* commenced. ČEZ qualified for all tenders, but submitted a final bid only on the *Varna* power heating plant, which was in the end acquired by a French bidder.

As of 3 January 2007, the unbundling process in Bulgaria was successfully finalised, when full compliance with the requirements given by Directive 2003/54/ES was achieved.

Members of the ČEZ Group

ČEZ owns the following companies in Bulgaria:

- distribution companies – *Elektrorazpredelenie Pleven AD* (67%), *Elektrorazpredelenie Sofia Oblast AD* (67%) and *Elektrorazpredelenie Stolichno AD* (67%);
- electricity supply company – *ČEZ ELECTRO BULGARIA AD* (67%);
- coal-fired power plant – *TEC Varna EAD* (100%);
- shared services (information technologies, customer services, human resources, facility management and others) provider – *ČEZ Bulgaria EAD* (100%);
- electricity trading licence holder – *ČEZ Trade Bulgaria EAD* (100%); and
- company securing verification of electrometers – *ČEZ LABORATORIES BULGARIA EOOD* (100%).

These ČEZ Group companies in Bulgaria employ an overall work force of 5,506 people. Their distribution grid includes 56,224 km of lines, mostly medium and low voltage. Annual sales net to volume is approximately 11 TWh. Between them, the companies serve 1.94 million end customers, and their share in the Bulgarian market is approximately 42%.

The power supply business of ČEZ Group in western Bulgaria was unbundled to *ČEZ ELECTRO BULGARIA AD*. Therefore, only the distribution activities remained in *Elektrorazpredelenie Pleven AD*, *Elektrorazpredelenie Sofia Oblast AD* and *Elektrorazpredelenie Stolichno AD*. These companies should merge into one distribution company during the second half of 2007.

On 2 October 2006, ČEZ acquired a 100% stake in *Varna* power plant, which became, with its total installed capacity of 1,260MW (6 x 210 MW), the biggest coal-fired power plant of ČEZ Group. The purchase price was EUR 206 million, whereas and on purchase the share capital of the company was increased by EUR 100 million in compliance with the purchase agreement. In addition, ČEZ accepted a liability to invest EUR 40 million into a fund aimed at investment in renewable resources, increasing energy efficiency and infrastructure projects in Bulgaria over a 4 year period.

In July 2007, the national Bulgarian energy company *NEK* shortlisted ČEZ and 5 other European energy companies that have submitted expressions of interest in acquiring an equity stake of up to 49% in Nuclear Plant Belene. The initial offers may be submitted until 24 September 2007, the final bids of the short listed candidates shall then be submitted at the end of 2007.

The winner of the tender would become a strategic partner for the Government of Bulgaria in the newly established company *BPC (Belene Power Company)* that would own, operate, finance and manage the power plant. The 51% stake in *BPC* would remain under the control of the Government of Bulgaria. There should be two new nuclear power reactors with total capacity of 2,000MW built in the Belene area, which lies on the Danube river approximately 250km north from Sofia.

As at 30 June 2007, overall capital expenditures in Bulgaria totalled BGN 141.4 million (approximately CZK 1.99 billion), the main portion of which went to distribution grid development in general, and extending facility life, including renovations and upgrades of medium- and low-voltage transformer stations. Another significant capital project was the installation of electric meters to reduce unauthorised electricity consumption.

Romania

Power Sector

The privatisation of the energy industry in Romania is currently ongoing. The natural gas distributors were privatised in 2004. In late 2004, two electricity distribution companies were privatised: *Electrica Banat S.A.* and *Electrica Dobrogea S.A.* Two more followed in April 2005: *Electrica Moldova S.A.* and *Electrica*

Oltenia S.A. At the end of September 2005, ČEZ became the owner of a majority stake (51%) in *Electrica Oltenia S.A.* In 2006, the distribution company *Electrica Oltenia S.A.* supplied 3,852 GWh of electricity to 1.37 million end customers, and its Romanian market share was approximately 17%. The fourth quarter of 2005 marked the beginning of the privatisation of the distribution company *Electrica Muntenia Sud S.A.*, which provides electricity to the capital Bucharest and adjoining districts. ČEZ made the shortlist for the 67.5% stake, but in the end the tender was won by another bidder.

The anticipated privatisation of the three remaining distribution companies *Electrica Muntenia Nord S.A.*, *Electrica Transylvania Sud S.A.* and *Electrica Transylvania Nord S.A.*, with a total number of 3.3 million customers, has not yet started. The same goes for the privatisation of the fuel-power complexes *Turceni*, *Rovinari* and *Craiova* with total installed capacity of 4,240 MW.

Members of the ČEZ Group

The distribution company *Electrica Oltenia S.A.* was active in Romania during 2006. As of 15 March 2007, a sales company *CEZ Vanzare S.A.* was spun off from it (using a method similar to the corporate split defined by the Czech Commercial Code). The original company *Electrica Oltenia S.A.* is now focused exclusively on distribution of electricity. It has been renamed *CEZ Distributie S.A.* and its stated capital and share face value have been reduced.

ČEZ Group has another Romania-based company, *CEZ Romania S.R.L.*, whose primary objective is to provide support and managerial services to ČEZ Group members as well as support acquisition teams in any future acquisitions. Until the establishment of the separate company *CEZ Trade Romania S.R.L.* in March 2007, it also engaged in electricity trading under licence. 2006 was its first year in full operation. Preparations are underway for partial centralisation of shared services, which will be provided by *CEZ Servicii S.A.* and *CEZ Romania SRL* to the other ČEZ Group companies in Romania to the extent agreed with the minority shareholders of *CEZ Distributie S.A.*, *CEZ Vanzare S.A.* and *CEZ Servicii S.A.*, which are the companies *Electrica S.A.* and *Fondul Proprietatea S.A.*

As at 30 June, 2007, overall capital expenditures in Romania totalled RON 373.2 million (approximately CZK 3.15 billion). The principal goals of the spending were to improve the technical condition of plant and equipment, increase efficiency (particularly by reducing losses) and reliability, ensure that electricity supplies meet contract parameters, mitigate negative environmental impacts, and enable electricity sales to new customers.

Poland

Power Sector

The privatisation of power sector assets in Poland was suspended pending a change in the state's power sector master plan. Consolidation of these assets into larger entities is anticipated. ČEZ is prepared to respond to the new conditions and participate in the privatisation process once renewed.

Members of the ČEZ Group

On 31 January 2006, ČEZ signed agreements for the purchase of the majority stakes in Polish electricity companies *Elcho* and *Skawina* from *PSEG Europe B.V.* and the transaction was settled on 29 May 2006. ČEZ paid EUR 202.5 million for a 75.2% share in *Elcho* power station's voting rights and EUR 180 million for a 74.82% stake in *Skawina* power station. *Elcho* is 24.8% owned by *Elektrownia Chorzow* and 75.2% by *ČEZ Chorzow B.V.* *ČEZ Chorzow B.V.* is 100% owned by *ČEZ Silesia B.V.* which is 100% owned by *ČEZ, a.s.* *Skawina* is 25.01% owned by the Polish State (State treasury of the Republic of Poland) and 74.82% by *CEZ Poland Distribution B.V.*, which is 100% owned by ČEZ. *Elcho* and *Skawina* were gradually integrated into ČEZ Group during the second half of 2006 and have been consolidated in the financial statements of ČEZ Group since July 2006.

The installed capacity of the black-coal electricity company *Skawina* is 590 MW and it produces approximately 3 TWh of electricity annually. The electricity generation part was established in 1961 and the

heating part in 1986. Almost half of the power plant has been continuously refurbished since 1993; nevertheless, some further investments are needed to meet the stricter emission limits in 2008. In addition, ČEZ plans to reduce the installed capacity by 100MW because of the poor technical condition of two turbines (2x50MW). The combined generation of electricity and heat from the electricity plant supplies the city of Skawina and the western part of Krakow with heat and hot water; its share of the heat market in the Krakow region exceeds 20%. The power plant is located close to the supplying mines. *Skawina's* CO₂ allocation per MW installed capacity is the highest in Poland, mainly due to high historical utilisation of its capacity.

The black-coal electricity plant *Elcho*, located in Chorzów (North-west of Katowice), generates both electricity and heat in two modern blocks with the total installed capacity of 238 MW. It is a brand new power plant established in 2003. The single buyer of the generated electricity is the operator of the Polish transmission grid, *PSE*, based on a long-term power purchase agreement. Poland adopted in the middle of 2007 new legislation, which will lead to cancellation of long-term power purchase agreements. This will be accompanied by compensation for the concerned producers, in amount and under the conditions stipulated by this new legislation. The heat is supplied to the local distribution company *PEC Katowice S.A.*, which distributes it in Katowice and the surrounding area. The plant's share in the Katowice district heat market is 37%. The power plant is located close to the supplying mines.

Both power plants are close (within 100 km) to *Detmarovice*, ČEZ's 800 MW hard coal power plant located in northern Moravia; this proximity is favourable for possible future synergies in a number of activities, including the possibility of joint coal supply.

In 2006, ČEZ also established a new company, *CEZ Polska Sp. z o.o.*, whose mission is to provide managerial and other services to ČEZ Group members in Poland and provide support for further acquisition activities.

In May 2007, another 100% owned subsidiary *CEZ Trade Polska, Sp. z o.o.* was established, which will be engaged in electricity power trading in Poland and will takeover business activities of ČEZ's organisational division in Poland.

In 2006, the *Skawina* and *Elcho* power plants sold 3.9 TWh, reaching 2.4% market share. *Elcho* and *Skawina* total installed capacity of 830 MW represents 2.3% of total Polish capacities. These companies have over 750 employees.

Kosovo

The company *New Kosovo Energy L.L.C.* was established in Kosovo on 24 July 2006. The company is tasked with laying the groundwork for ČEZ Group's participation in tenders, announced in August 2006 by the Ministry of Energy and Mining, for energy projects in Kosovo.

In November 2006, ČEZ expressed interest in participating in a tender in consortium with *AES* (American Energy Systems). This consortium is on the short list of four bidders announced on 28 December 2006. The continuation of the tender shall be announced at the end of 2007 or at the beginning of 2008. The final bids should be submitted in the middle of 2008. Estimated costs for the project are EUR 3 billion (approximately CZK 85 billion). On 30 October 2006, ČEZ also obtained a licence to trade electricity in Kosovo.

Republic of Serbia

ČEZ Srbija DOO is involved primarily in identifying acquisition opportunities. It has also obtained a licence to trade in electricity in the territory of Serbia.

Russian Federation

On 15 February 2006, in order to provide for and implement investment activities in the Russian Federation, ČEZ purchased a 100% equity stake in ZAO "*TransEnergo*". Through this company, ČEZ is participating in tenders held in the Russian Federation.

At the end of July 2007, Moscow government issued a resolution to build a gas-steam power plant with total installed capacity 600 (3x200) MW under the direction of CEZ in the area of Moscow. The investment contract on the project, together with gas, electricity and heat contracts, will be negotiated in the following 6 months.

Republika Srpska in Bosnia and Herzegovina

The joint venture *NERS d.o.o., Gacko* was registered on 22 December 2006. The partner of ČEZ Group in the venture is *Mješoviti Holding "Elektroprivreda" Republike Srpske Trebinje-Matično preduzeće akcionarsko društvo Trebinje*. The purpose of the joint venture is to acquire and subsequently operate the *Gacko I* power station (300 MW), including the adjoining mine and other assets (such as *Ponikva* limestone quarry) as well as to build a new power station, *Gacko II*, in the same location. The Bosnian Serb partner will invest an existing power plant and a lignite mine into the joint venture, while ČEZ is to invest or otherwise secure funds for construction of a new plant. The estimated investment amount is EUR 1.4 billion (approximately CZK 39 billion). The results are not included in the consolidated ČEZ Group figures because they were not economically significant in 2006.

Federation of Bosnia and Herzegovina in Bosnia and Herzegovina

In July 2006 the Ministry of Energy, Mining, and Industry of the Federation of Bosnia and Herzegovina announced a tender to find a strategic partner for eight joint projects in the energy sector. The estimated total investment amount will be close to CZK 2 billion. In October 2006 an inter-Ministry commission selected ČEZ in its shortlist of four investors (out of 37 bidders) for implementation of coal power plant-related projects. ČEZ was not selected for implementing hydropower-related projects.

Ukraine

The company *ČEZ Ukraine CJSC* was registered on 12 December 2006. The company was established to support projects of ČEZ in the Ukraine.

Republic of Croatia, Republic of Slovenia

Investment opportunities in these countries are being monitored. Possible opportunities for acquisitions and expansion are also being monitored in other countries of Central and South-eastern Europe, with special focus on countries in which ČEZ Group already has operations.

Kingdom of the Netherlands

ČEZ has registered four 100% owned companies in the Netherlands. The first, *CEZ Finance B.V.*, was established in 1994 and was used as a platform for issuing foreign bonds prior to the Czech Republic's accession to the European Union. The other three companies – *CEZ Silesia B.V.*, *CEZ Chorzow B.V.* and *CEZ Poland Distribution B.V.* – were acquired by ČEZ in conjunction with the acquisition of stakes in the Poland-based power companies *Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.* and *Elektrownia Skawina S.A.*, where ČEZ adopted the seller's ownership model for these power plants.

Germany

In Germany, ČEZ has a representative subsidiary named *CEZ Deutschland GmbH*. The company, originally named *rpg Energiehandel GmbH*, operated as an electricity trader in the German market. Since these activities were taken over by ČEZ, the company's activities have been restricted to presenting ČEZ Group in Germany and supporting any acquisition opportunities.

Hungary

CEZ Hungary Ltd. – CEZ Magyarország Kft., a 100% subsidiary of ČEZ, obtained an electricity-trading licence in March 2006 and commenced actual trading activities in the Hungarian market during the year.

Slovakia

In July 2007, a new 100% owned subsidiary of ČEZ, *ČEZ Slovensko, s.r.o.* was established in Slovakia. This subsidiary will be involved in electricity power trading activities on the market and will take over other activities of the organisational division of ČEZ in Slovakia.

ČEZ Group ratings

Standard & Poor's rating: "A-", outlook: stable.

In October 2006, Standard & Poor's raised its long-term credit rating of ČEZ from "BBB+" to "A-". According to Standard & Poor's rating of ČEZ is concurrent with the rating of the Czech Republic.

Moody's rating: "A2", outlook: stable.

In June 2005, Moody's rating agency changed its long-term rating from "Baa1" to "A3" (with stable outlook). In September 2005, Moody's increased its long-term rating from "A3" to "A2", leaving the outlook at stable. In October 2006 the "A2" rating was confirmed by Moody's.

Title to land

ČEZ Group's legal predecessor has settled all restitution claims and ČEZ Group is not aware of any plot of land under its generating facilities that would be materially affected by a restitution claim.

Legal Proceedings

ČEZ Group is involved in certain legal proceedings that are incidental to the normal conduct of its business. ČEZ Group does not believe that liabilities relating to such proceedings will have a material adverse effect on its financial condition or results of operations. As at the Annual Report closing date in 2006, no ČEZ Group companies were involved in litigation that could have a material impact on their financial performance.

Share capital

As of 31 December 2006, the share capital of ČEZ registered in the Commercial Register totalled CZK 59,221,084,300. This amount was divided into 592,210,843 shares in denominations of CZK 100. All of these shares have been paid in full and are book-entry shares in bearer form.

As of 31 December 2006, the MoF held 67.61% of the stated share capital of ČEZ, although the MoF has transferred the exercise of its shareholder rights to the MIT. No other entity held shares exceeding 5% of the stated share capital of ČEZ.

ČEZ has a target dividend payout policy ratio of 40-50% of the consolidated income of ČEZ Group. In 2006, ČEZ had a dividend payout of 41% with a dividend per share of CZK 15.0, relating to the previous year's net income. On 23 April 2007, the general meeting of ČEZ approved a dividend per share of CZK 20.0, which represents a dividend payout ratio of 41%.

Recent Developments

Prague Energy Exchange

Trading on the newly established PXE owned by the Prague Stock Exchange, commenced on 17 July 2007. ČEZ wants to actively participate in trading on this exchange with a goal to supporting the establishment of a transparent and liquid wholesale market of electricity power in the Czech Republic. ČEZ will act as one of the market makers and expects to sell a substantial part of its 2008 electricity production on the Exchange. The clearing bank of ČEZ will be *Komerční banka Praha, a.s.*

Share buyback

The general meeting approved an acquisition of the ČEZ's own ordinary shares in a volume not exceeding 59,221,084 shares (10% of stated capital), commencing 23 April 2007. Based on this decision ČEZ appointed the two largest Czech brokers – *WOOD & Company Financial Services, a.s.* and *Patria Finance, a.s.*, to carry out the purchases. The lowest price ČEZ can acquire its shares is at CZK 300 per share; the highest is CZK 2,000. The period of validity of the resolution of the general meeting, as well as the period in which ČEZ is entitled to acquire its shares, is 18 months from the date of the general meeting. The acquired shares can be used for reduction of the equity capital of the company and fulfilling the commitments arising from the joint-stock option programmes. The buyback of shares is realised on the regulated markets where the shares are quoted (Prague, Warsaw), and on an anonymous market to avoid discrimination by ČEZ's shareholders.

The reason for this buyback of shares is to increase the efficiency of the structure of the capital of ČEZ so as to maximize efficiency and to improve the existing debt-to-equity capital ratio. The timing of the buyback was also influenced by the Czech government's decision from 19 March 2007, to sell a part of ČEZ's shares through the capital markets. The purchased shares can be used for equity reduction or for fulfillment of liabilities arising from stock option incentive programmes, up to the amount of 5 million shares.

Introduction of shares to the Warsaw Stock Exchange

In September 2006, ČEZ commenced the final phase of preparations for dual listing of its shares in Prague and Warsaw. Prague shall remain the place of primary listing, with the same shares secondarily listed in Warsaw. This was an administrative process involving compliance with all the requirements for listing and was completed on 25 October 2006 when ČEZ was accepted for trading on the first tier of the Warsaw Stock Exchange (**GPW**). ČEZ accounted for 13% of the GPW's trading volume on the first day of trading on the Warsaw Stock Exchange. The dual listing also provided Poland's pension fund with access to ČEZ shares. ČEZ became the largest corporation with a share listing in Poland and practically the only investment-grade company in the electric power sector. The shares of ČEZ were included in the prestigious WIG 20 index on 15 December 2006.

ČEZ Groups signs an agreement on a joint venture with MOL

On 30 August 2007, ČEZ signed a memorandum on cooperation which sets out the framework for a strategic alliance with the Hungarian power company MOL p.l.c. (**MOL**) (one of the largest oil and gas companies in Central Europe). Over the next two months, intensive negotiations will be conducted regarding the establishment of a joint venture, which is the first step in the planned cooperation.

It is intended that the joint venture will involve in particular the construction of steam-gas power plants at the existing refineries of the MOL group in Bratislava and the Hungarian city of Százhalombatta.

To strengthen the strategic alliance, ČEZ is considering the possibility of capital entry into MOL by purchasing an equity stake of up to 10% directly from MOL. However, the purchase of MOL shares, including all related financial transactions, are subject to further negotiation.

MANAGEMENT

ČEZ has a two-tier board system consisting of a Board of Directors and a Supervisory Board. The Board of Directors represents ČEZ in all matters and is charged with its management, while the Supervisory Board is an independent body that oversees the Board of Directors and ČEZ's executive officers. ČEZ's executive officers manage the daily operation of ČEZ. Currently, a single person serves as both the Chairman of the Board of Directors and the Chief Executive Officer. Under the Czech Commercial Code, the Supervisory Board may not make management decisions. However, its approval is needed for certain key management decisions, such as for the entry into specific transactions valued higher than CZK 500 million, or for the disposal of real estate, for example. The highest governing body of ČEZ is the General Meeting of Shareholders.

The Board of Directors is ČEZ's statutory body, which directs its operations and acts on its behalf. The powers and responsibilities of the Board of Directors are set forth in detail in the Articles of Association, which are available for shareholders to inspect at the General Meeting and which are archived in the Collection of Documents of the Commercial Register maintained by the Prague Municipal Court. Members of the Board of Directors are selected professionals who possess the necessary qualifications for the job and whose expertise contributes to the overall knowledge base of the Board. The Board of Directors is obliged to meet at least once a month. In practice, however, meetings are held almost weekly and a total of 48 meetings took place in 2006.

The Supervisory Board has set up three committees which aim to improve the management efficiency of ČEZ Group. The Audit Committee is charged with supervising the independence of, and assessing the reasonableness and effectiveness of, internal and external audits and consists of members of the Supervisory Board. The Personnel Committee deals with the staffing of the Board of Directors. The Strategic Planning Committee assesses the effectiveness of plans to invest in plant and equipment, and make financial investments, before they are executed.

In addition to these committees, ČEZ also has, among others, a Risk Management Committee, Development Committee and a Nuclear Safety Committee which deal with specific issues relating to their respective areas and which report to the CEO or the Board of Directors. A JICDM Committee has recently been established which supervises investments in JI and CDM projects (Joint Implementation and Clean Development Mechanism projects) and transactions involving emission credits.

The list of ČEZ's employees with access to classified material is on file at the National Security Office.

Remuneration

For the year ended 31 December 2006, the total salaries and wages paid by ČEZ amounted to CZK 15,084 million, representing an increase of 12% from 2005. The remuneration of the members of the Board of Directors, the Supervisory Board and the Executive Officers increased by similar amounts over the last two years, totalling CZK 487 million in 2006 compared with CZK 488 million in 2005.

Board Members And Executive Officers

The MoF, as ČEZ's majority shareholder, has the power to nominate and elect two-thirds of the members of ČEZ's Supervisory Board. Czech law requires that ČEZ's employees elect one-third of the members of the Supervisory Board. ČEZ's Supervisory Board elects members to the Board of Directors. Members of the Board of Directors serve for four-year terms. The business address of each member of the Board of Directors and the Executive Officers is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties to ČEZ of the members of the Board of Directors and the Executive Officers and their private interests or other duties.

Set out below are members of ČEZ's Board of Directors as at 31 July 2007.

| Name | Position | Held since | Born |
|---------------|---|-------------------|-------------|
| Martin Roman | Chairman of the Board of Directors | 2004 | 1969 |
| Jiří Borovec | Vice Chairman of the Board of Directors | 2006 | 1964 |
| Daniel Beneš | Vice Chairman of the Board of Directors | 2006 | 1970 |
| Zdeněk Pasák | Member of the Board of Directors | 2006 | 1966 |
| Tomáš Pleskač | Member of the Board of Directors | 2006 | 1966 |

The Executive Committee was established on and became effective from 1 January 2005. The Executive Committee comprises members of ČEZ's Board of Directors, its chief officers, its section managers and managers of selected subsidiaries. Set out below are ČEZ's Executive Officers as at 1 August 2007.

| Name | Position | Held since | Born |
|-------------------|---|-------------------|-------------|
| Martin Roman | Chief Executive Officer | 2004 | 1969 |
| Daniel Beneš | Chief Operating Officer | 2006 | 1970 |
| Jiří Borovec | Chief Production Officer | 2004 | 1964 |
| Zdeněk Pasák | Chief Personnel Officer | 2006 | 1966 |
| Tomáš Pleskač | Chief Distribution Officer | 2006 | 1966 |
| Alan Svoboda | Chief Sales Officer | 2005 | 1972 |
| Petr Vobořil | Chief Finance Officer | 2005 | 1950 |
| Jiří Feist | Director, Development Section | 2005 | 1962 |
| Karel Křížek | Director, Technology Section | 2005 | 1953 |
| Vladimír Hlavinka | Director, Power Plants Section | 2006 | 1966 |
| Martin Novák | Director, Accounting Section | 2007 | 1971 |
| Vladimír Schmalz | Director, Mergers and Acquisitions Section | 2005 | 1966 |
| Michal Skalka | Director, Trading Section | 2005 | 1975 |
| Jan Brožík | Director, Financing Section | 2007 | 1972 |
| Lubomír Štěpán | Director, Strategy ICT Section | 2005 | 1955 |
| Jan Krenk | Director, Fixed Assets Administration Section | 2006 | 1951 |
| Pavel Cyrani | Director, Planning and Controlling | 2006 | 1976 |
| Ivan Lapin | Chief Administration Officer | 2007 | 1965 |
| Bohumil Mazač | CEO, ČEZ Prodej | 2005 | 1955 |
| Igor Šmucr | CEO, ČEZ Zákaznické služby | 2005 | 1965 |
| Josef Sedlák | CEO, ČEZ Obnovitelné zdroje | 2005 | 1959 |
| Peter Bodnár | Director, Power Plant Construction | 2007 | 1960 |

Profiles:

Martin Roman

A graduate of the Faculty of Law at Charles University in Prague. His international studies included a one year study at Karl-Ruprechtsuniversität Heidelberg, Germany, and a one-year scholarship at the University of St. Gallen, Switzerland. Mr. Roman began his professional career in 1992 as a sales director of the Czech branch of *Wolf Bergstrasse ČR, s.r.o.*. In 1994 he became CEO of Janka Radotín Company, where he was appointed Chairman of the Board after the entry of a strategic partner, the US company *LENNOX*, in 1998. During the period 2000-2004, Mr. Roman held the position of the Chairman and CEO of *ŠKODA HOLDING*, the renowned Czech mechanical engineering company.

Besides being the Chairman of the Board and CEO of *ČEZ, a.s.* since 2004, Mr. Roman has been Vice President of the Confederation of Industry of the Czech Republic since 29 April 2004 and as of 9 June 2005 he is a member of the Supervisory Board of the Prague Stock Exchange. Since 1 July 2006 he has also been a member of the Science Council of the National Economy Faculty of the University of Economics, Prague.

Daniel Beneš

A graduate of the Mechanical Engineering Faculty, the Technical University of Ostrava. Between 2004 and 2006, he was a member of the Board of Directors of *Severočeské doly, a.s.* He is Chairman of the Supervisory Board of *PRODECO, a.s.* and *Coal Energy, a.s.* He is also a member of the Supervisory Board of *ŠKODA PRAHA Invest, s.r.o.* and *ŠKODA PRAHA a.s.* He is ČEZ's Chief Operating Officer.

Jiří Borovec

A graduate of the Brno Military Academy, the Masaryk University of Brno, the United States Air Force Defense Language Institute (USA), and the Brno Business School – Nottingham Trent University, where he was awarded an MBA. Mr. Borovec also completed the ABB International Management Workshop for ABB Group Senior Top Managers and was awarded the ABB Service Management Certificate. As of 11 July 2005 he was the Vice Chairman of the Supervisory Board of *ŠKODA PRAHA Invest s.r.o.*, and as of 22 June 2005 he was a member, and as of 17 January 2006 the Vice Chairman, of the Supervisory Board of *ŠKODA PRAHA a.s.* He is ČEZ's Chief Production Officer.

Zdeněk Pasák

Graduated from Charles University in Prague, where he majored in psychology in the faculty of Philosophy & Arts. From 1997 to 2006 he was Managing Partner of *Machen & Taylor Consulting, a. s.* Since March 2006, he has been the Chief Personnel Officer of ČEZ. In addition, he has been a Member of the Board of Directors since 22 April 2006.

Tomáš Pleskač

A graduate of the University of Agriculture, Brno, Faculty of Business and Economics. He also holds an MBA from the Prague International Business School. Since 2006, he has been a member of the Board of Directors of ČEZ and is ČEZ's Executive Director for Distribution. In addition, he has Supervisory Board memberships of *ČEZ Distribuce, a.s.*, *ČEZData, s.r.o.*, *Severomoravská energetika, a.s.*, *Elektrovod Holding, a.s.*, *ČEZ Bulgaria EAD* and *Elektrozpredelenie Stolichno AD*.

Supervisory Board

As at 31 July 2007, the Supervisory Board of ČEZ had 12 members, eight of which are elected to and removed from office by the General Meeting and four are elected by the employees of ČEZ in accordance with Section 200(1) of Act No. 513/1991 Sb., the Commercial Code. Two of the four employee elected members Zdeněk Židlický and Jan Ševr, were re-elected by the employees of ČEZ. The new Supervisory Board members Petr Kalaš, Ivan Fuksa and Josef Janeček, were elected by the General Meeting of ČEZ on 23 April 2007.

The Supervisory Board's powers include the power to elect members of the Board of Directors, to supervise the Board of Directors' exercise of its powers and responsibilities and ČEZ's business activities, to inquire into ČEZ's financial matters, to review the Report on Relations Among Affiliated Entities, to review the year-end financial statements, including profit allocation proposals and to grant prior consent for key decisions of the Board of Directors, such as for transactions valued higher than CZK 500 million (EUR 17 million) or for the acquisition of real estate.

In accordance with ČEZ's Articles of Association, the Supervisory Board meets at least once a month. In 2006, there were 11 regular and 2 extraordinary meetings. The Chairman of the Board of Directors regularly attends the meetings. Depending on the content and importance of matters on a particular meeting's agenda, meetings are attended by members of the Board of Directors or ČEZ employees who present oral reports on the matters at hand. The Clerk of the Supervisory Board attends all Supervisory Board meetings and keeps minutes.

Set out below are the members of the Supervisory Board as of 31 July 2007:

| Name | Position | Appointed | Born |
|-----------------|--|------------------|-------------|
| Martin Kocourek | Chairman of the Supervisory Board | 14.12.2006 | 1966 |
| Tomáš Hüner | Vice Chairman of the Supervisory Board | 22.9.2006 | 1959 |
| Zdeněk Židlický | Vice Chairman of the Supervisory Board | 29.8.2006 | 1947 |
| Jan Demjanovič | Member of the Supervisory Board | 18.5.2007 | 1953 |
| Zdeněk Hrubý | Member of the Supervisory Board | 22.2.2007 | 1956 |
| Jiří Jedlička | Member of the Supervisory Board | 10.11.2004 | 1959 |
| Jan Ševr | Member of the Supervisory Board | 10.11.2004 | 1947 |
| Drahošlav Šimek | Member of the Supervisory Board | 29.6.2006 | 1953 |
| Zdeněk Trojan | Member of the Supervisory Board | 26.1.2006 | 1936 |
| Petr Kalaš | Member of the Supervisory Board | 23.4.2007 | 1940 |
| Ivan Fuksa | Member of the Supervisory Board | 23.4.2007 | 1963 |
| Josef Janeček | Member of the Supervisory Board | 23.4.2007 | 1952 |

Profiles:

Martin Kocourek

A graduate of the Czech Technical University, Prague, where he majored in Economics and Management. Mr. Kocourek has done internships in investment banking (London, 1994) and the financial sector (USA, 1997). Since July 2006 he has been an economic, financial, and organisational consultant and as of February 2007 he is an external economic consultant to the Prime Minister of the Government of the Czech Republic. He serves on the Supervisory Boards of the following institutions: Václav Klaus Foundation Fund (member since 22 December 1999), Classical Music Foundation Fund (member since 22 October 2004), and Baskets Against Drugs Foundation (Chairman since 22 November 2004). In 1998–2006, Mr. Kocourek served in Parliament as Vice Chairman of the Budget Committee of the Chamber of Deputies. From April 1999 to January 2006 he was a member of the Supervisory Board of the National Property Fund of the Czech Republic (with a break from 9–22 October 2002). From April 2002 to December 2005 he was a member of the Presidium of the Czech Republic Land Fund.

Tomáš Hüner

A graduate of the Brno University of Technology, he majored in thermal and nuclear machinery and equipment. On 14 September 2006, Mr. Hüner was appointed Deputy Minister of Industry and Trade. Since 11 October 2006 he has been Vice Chairman and member of the Board of Directors of *Osinek, a.s.*, since 19 December 2006 he has been Chairman and member of the Supervisory Board of *ČEPS, a.s.*, and since 21 March 2001 he has been Vice Chairman and member of the Supervisory Board of *Union Group, a.s.* From 13 September 2004 to 13 September 2006 he was employed by *ČEZ, a.s.* as Country Manager in Bulgaria. From 30 September 1997 to 21 March 2003 he was Chairman and member of the Supervisory Board of *Union Leasing, a.s.*; from 17 June 1994 he was a member and from 22 June 1995 to 25 February 2003 Chairman of the Board of Directors of *Severomoravská energetika, a. s.*; from 31 March 2000 to 21 March 2003 he was a member of the Board of Directors of *Energetika Vítkovice, a.s.*; from 29 August 2001 to 11 July 2003 he was a member of the Board of Directors of *ePRIM, a.s.*; from 11 June 2003 to 2 March 2006 he was a member of the Board of Administration of *Mezinárodní hudební festival Janáčkův máj, o.p.s.*; and from 25 April 2005 to 28 September 2006 he was Chairman of the Board of Directors of *ČEZ Bulgaria EAD* and Chairman of the Board of Directors of *Elektrorazpredelenie Stolichno AD*.

Zdeněk Židlický

A graduate of the Secondary Industrial School of Mechanical Engineering. Since 1993, he has been on leave to act as Chairman of the Pruněřov Power Stations Labor Organisation. He represents the Czech Labor Union of Northwest Power Workers in the association of North Bohemian Labor Organisations and in the Inter-regional Labor Council. He is the central labour federation's representative for power sector issues in the Economic and Social Alliance Council, where he is a member of the Economic Policy Task Force.

Jan Demjanovič

A graduate of the Mechanical Engineering Faculty of the Institute of Mechanical and Textile Engineering in Liberec. Since 30 June 2006, Mr. Demjanovič has been Chairman of the Board of Directors and General Manager of *Severočeské doly a.s.* His previous positions at *Severočeské doly a.s.* included Sales Director (until 30 June 2006) and member of the Board of Directors (from 25 June 1999 to 27 June 2003) and he was re-elected to the Board of Directors on 27 June 2003. He is also on the Board of Directors of *Coal Energy, a.s.* (member since 17 October 2001, Vice Chairman from 31 October 2001 to 17 January 2005, re-elected as a member on 30 November 2005, Vice Chairman since 7 December 2005). Other board memberships include: *Teplárna Ústí nad Labem, a.s.* (member of the Supervisory Board from 17 June 1998 to 26 March 2002, member of the Board of Directors from 27 March 2002 to 7 May 2004); *Severozápadní ENERGO GROUP, a.s.* (member and Chairman of the Supervisory Board from 21 December 2000 to 30 May 2003); *SD – Kolejová doprava, a.s.* (Vice Chairman of the Supervisory Board from 7 November 2001 to 26 September 2002, member of the Supervisory Board from 26 September 2002, and again Vice Chairman of the Supervisory Board from 25 November 2002 to 20 July 2006); *SD – Humatex, a.s.* (member and Vice Chairman of the Supervisory Board from 16 December 2002 to 3 January 2003); and *ENETECH a.s.* (member and Chairman of the Supervisory Board from 23 April 2003 to 6 June 2004).

Zdeněk Hrubý

A graduate of the Czech Technical University's Faculty of Electrical Engineering in Prague, where he majored in cybernetics, Mr. Hrubý holds a postgraduate degree in economics. Since 1996 he has been a university professor and scientist with the Institute of Economic Studies of the Charles University Faculty of Social Sciences. Since 13 September 2005 he has been a member of the Board of Directors of *GARNET MINING a.s.* and since 12 May 2003 he is a member of the Board of Administration of *SEVEN, Středisko pro efektivní využívání energie, o.p.s.* (Energy Efficiency Centre). From 2002 to 15 April 2005 he served as Deputy Minister of Finance of the Czech Republic. From 20 February 2001 to 29 June 2004 he was a member of the Board of Directors of *Sokolovská uhelná, a.s.*, from 12 June 2001 to 22 October 2002 he was a member of the Board of Directors of *Kongresové centrum Prague, a.s.*; from October 2002 to 30 June 2005 he was Vice Chairman of the Presidium of the National Property Fund of the Czech Republic; from 20 December 2002 to 13 June 2003 he was a member of the Board of Directors of *ČESKÝ TELECOM, a.s.* and from 13 June 2003 he was a member and from 26 November to 23 June 2003 Vice Chairman of the Supervisory Board of the same company; from 9 April 2003 to 26 May 2004 he was a member of the Supervisory Board of *České aerolinie, a.s.*; from 8 April 2004 to 23 June 2005 he was a member of the Supervisory Board of *Eurotel Praha, spol. s r.o.*, from 24 February 2003 to 25 January 2006 he was Vice Chairman of the Supervisory Board of *ČEZ, a.s.*, and from 26 January 2006 to 13 December 2006 he was Chairman of the Supervisory Board of *ČEZ, a.s.*

Jiří Jedlička

A graduate of the Zetor Brno Secondary Vocational School. Mr. Jedlička has been with *ČEZ, a.s.* since 1980. Since 1994 he has been relieved from his job responsibilities to serve as Chairman of the Labor Union of Shift Workers at the Dukovany Nuclear Power Station and, at the same time, he serves as Chairman of the Union of Nuclear Power Industry Employees and member of the Governing Board of the Association of Independent Labor Unions.

Jan Ševr

A graduate of the Secondary Industrial School of Mechanical Engineering in Česká Lípa. Mr. Ševr works for *ČEZ, a.s.* at the Mělník Power Station, where he heads up the shift operations management department. He is Chairman of the Mělník Power Station Labor Organisation.

From June 2003 to December 2003 he was Vice Chairman of the Administrative Board of the *ČEZ Foundation*.

Drahošlav Šimek

A graduate of the Secondary Vocational School in Domažlice (electromechanic) and the Secondary Vocational School in Chomutov (operational metalworker). Mr. Šimek has been an employee of ČEZ, a.s. since 1974. Currently he works at Dukovany Nuclear Power Station as a mechanical technician on the secondary cooling circuit of the main generating unit. Since 1995 he has served as Vice Chairman of the Labor Union of Shift Workers at Dukovany Nuclear Power Station and since 2000 he has been a member of the Governing Council of the Energy Workers Labor Union based in Dukovany.

Zdeněk Trojan

A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering, Mr. Trojan defended his dissertation in 1974 and habilitated in 1991. He currently lectures at the Czech Technical University, Prague, Institute of Process and Manufacturing Technology. Since 20 January 1995 he has been President of the European Federation of National Engineering Associations (FEANI), since 17 December 2001 he has been a member of the Board of Trustees of the University of Hradec Králové and since 19 May 2000 he has been a member of the Supervisory Board of *Střední průmyslová škola dopravní, a.s.* and since 17 January 2001 he has been Vice Chairman of the same company. In 2004–2005 he was an advisor to the Minister of Local Development, from 1 May 2005 to 30 June 2006 he was an advisor to the Prime Minister of the Government of the Czech Republic. From 17 August 1999 to 11 March 2003 he was a member of the Board of Directors of *Dopravní podnik hl. m. Prahy, akciová společnost*, from 14 December 1999 to 11 June 2003 he was a member of the Supervisory Board of *Pražská Energetika, a.s.*, from 18 June 1999 to 2 June 2003 he was Chairman of the Supervisory Board of *TCP – Vidoule, a.s.*, and from 27 June 2001 to 14 April 2003 he was a member of the Supervisory Board of *Pražská energetika Holding a.s.*

Petr Kalaš

A graduate of the Czech Technical University's Faculty of Electrical Engineering in Prague, where he majored in Economy of Energetics. He worked as a consultant in various Swiss companies in the field of energy and industrial planning. He also acted as World Bank's coordinator for implementation of the Kyoto Protocol into practice. From September 2006 till January 2007 he was a Minister of Environment of Czech Republic. He is also a member of Institution Council of The Silva Tarouca Research Institute for Landscape and Ornamental Gardening. He has been a member of ČEZ's Supervisory Board since 23 April 2007.

Ivan Fuksa

A graduate of the College of Transport and Communication in Žilina. From November 2002 till November 2006 he worked as a mayor of Příbram. Since 29 January 2007 he acted as a first deputy of Minister of Finance of Czech Republic. Since 19 February 2007 he has been a member of the Board of Directors in *Export Guarantee and Insurance Corporation (EGAP)* and since 20 February 2007 vice Chairman of Supervisory Board of *Czech Export Bank*. He has been a member of ČEZ's Supervisory Board since 23 April 2007.

Josef Janeček

A graduate of Palacký University in Olomouc, Faculty of Medicine. From 1992 to 2006 was a member of Chamber of Deputies of Parliament of the Czech Republic. In 2007 he acted as an advisor in Office of the Government. Since April 2007 he has been an external consultant. He is a member of Board of Administration in *Olivova nadace*. He has been a member of ČEZ's Supervisory Board since 23 April 2007.

Stock Option Schemes

A general meeting of ČEZ approved the company's stock option scheme in 2001 with respect to each member of the Board of Directors, Supervisory Board and some senior managers of ČEZ as part of their compensation package. The stock option scheme was amended several times between 2001 and 2006.

On 23 May 2006 a general meeting of ČEZ approved amendments to the stock option scheme which allow the new beneficiaries to exercise one-third of their options on each anniversary of granting the stock options.

The exercise price is based on the weighted average of ČEZ's prices achieved in public-market trading one month prior to the date of the beneficiary's appointment. The options may be exercised 12 months after the beneficiary terminates his or her position. While being in the eligible position the beneficiary must hold at least 10% of Shares acquired by exercising the options. The maximum profit that a beneficiary may generate on his or her options is limited to 100% of the exercise price.

Members of the Board of Directors who are entitled to stock options as beneficiaries under contracts dated before 23 May 2006 have the right to purchase common shares of ČEZ at a price equal to the weighted average of ČEZ's prices achieved in public-market trading six months prior to the date of the beneficiary's appointment into the position. The option may be exercised at any time after the agreement enters into force, for as long as the member serves on the Board of Directors and for a period of up to three months following the end of his or her board membership. The option agreement may not enter into force earlier than three months after the board member's term of office begins.

Members of the Executive Committee who are entitled to stock options as beneficiaries under contracts dated before 23 May 2006 have the right to purchase common shares of ČEZ amounting to one-half of their options on each anniversary of the granting of such stock options. The exercise price is based on the weighted average of ČEZ's share price achieved in public-market trading six months prior to the date of the Board of Director's decision to grant stock options to a beneficiary. The option agreement may not enter into force earlier than one year after the Committee member's term of office begins and the option may be exercised up to three months following the end of beneficiary's Committee membership.

ČEZ cancelled the stock options programme for new members of the Supervisory Board on 20 June 2005.

As of 30 June 2007, the aggregate number of share options granted to the members of the Board of Directors, the Executive Committee (advisory body of the Chief Executive Officer) and to the Supervisory Board members since 2001 (when the Stock Option Schemes came into force) was 3,175.

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 advisers 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.

The Czech Republic

The information set out below is a summarised description of certain material Czech tax consequences of the purchase, holding and disposition of the 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 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, the holders of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents 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 concrete situation of the tax considerations discussed below as well as the application of state, local, foreign or other tax laws.

Withholding tax

All interest payments to be made by the Issuer under the Notes 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

Interest income on the Notes of an individual who is not for tax purposes treated as a resident of the Czech Republic or of a person other than an individual which is not for tax purposes treated as a resident of the Czech Republic (**Non-Czech Holders**) will not be subject to taxation in the Czech Republic.

Income or gains realised 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 realised by Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic, 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) which is for tax purposes treated as a resident of the Czech Republic or to an organisational unit of the Czech state (**Czech Holders**) or to a permanent establishment of a Non-Czech Holder in the Czech Republic, a Non-Czech Holder will be subject to taxation in the Czech Republic, unless the Non-Czech Holder realising the income or gains 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 Czech Republic may not impose any income or capital gains tax on income or capital

gains realised by the Non-Czech Holder from the sale of the Notes, or unless the Non-Czech Holder individual holds the Notes prior to the sale for more than six months and the Notes have not been held in connection with business activities of the Non-Czech Holder individual for at least six months after termination of business activities.

If income realised by a Non-Czech Holder, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraph), 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 is for tax purposes a resident of a member state of the European Union or the European Economic Area. The tax security shall be credited against the final tax liability of the Non-Czech Holder.

A non-Czech Holder will not become or be deemed to become a 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 of Czech holders is subject to tax in the Czech Republic. Czech Holders that are subject to Czech accounting standards for entrepreneurs (e.g. most companies other than financial institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (e.g. banks, insurance companies) will be required to recognise the interest income on an accruals basis for accounting purposes and include it in a general tax base for Czech income tax purposes.

Czech Holders that are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Notes for the purpose of trading will be required to revalue the Notes to fair value for accounting purposes, whereby the revaluation would be accounted for as revenue or expense. Such revenue is generally taxable and the corresponding expense is generally tax deductible for Czech tax purposes.

Any gains or losses upon a sale of the Notes will be generally taxable or tax deductible, assuming the general tax deductibility rules are preserved. In the case of individual Czech Holders, any gain derived from the sale of the Notes is exempt from Czech personal income tax if the holding period of the Notes exceeds six months and the Notes have not been held in connection with business activities of the individual Czech Holders for at least six months after termination of business activities.

Value-added tax (VAT)

There is no Czech VAT 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, custom duty, transfer tax, stamp duty or any other similar tax or duty 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.

EU Savings Directive in the Czech Republic

The provisions of the EU Directive 2003/48/ES, on taxation of savings income (the **Directive**) were implemented into the Czech Income Tax Act as of 1 July 2005, namely in the Section 38fa (*Paying Agent*). The ultimate aim of the Directive is to enable effective taxation of the savings income in the form of interest payments in an EU member state in which the beneficial owner who is an individual is resident for tax purposes. This will be achieved by virtue of an automatic exchange of information concerning interest payments covered by the Directive between competent authorities of the EU member states. The tasks required for the implementation of the Directive shall be carried out by paying agents who are generally

defined as persons paying the interest to or securing the payment of interest for the benefit of the beneficial owners. The paying agents shall be subject to reporting obligations to their locally competent tax administrators. The scope and the frequency of the reporting obligation is given by the Czech Income Tax Act.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (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-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It 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 advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 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 3 June 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. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. 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 15 per cent.

(ii) 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 immediate benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. 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 per cent.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 24 September 2007, 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 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 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 Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the 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 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 Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the 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 (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 37 of Act of the Czech Republic No. 256/2004 Coll., on Conducting Business in the Capital Market (the **Capital Market Act**)) for the purposes of any Notes to qualify as listed securities within the meaning of section 44(1) of the Capital Market Act.

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)(a) 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 legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 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
- (d) 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 (d) 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 and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

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 Securities and Exchange Law of Japan (the **Securities and Exchange Law**) and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to 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 (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law 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

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 28 May 2007 and a resolution of the Supervisory Board of the Issuer dated 28 June 2007.

Listing 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 Investment Services Directive (Directive 93/22/EEC).

Notification to the Czech National Bank

Pursuant to Section 2(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.

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 Issuer in respect of the financial years ended 31 December 2005 and 31 December 2006 (with an English translation thereof). The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;
- (c) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited 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. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a quarterly basis;
- (d) the Programme Agreement, the 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 and supplements including Final Terms (in each case, related to the Programme or the Notes) (save that a Final Terms relating to a Note which 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 will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus 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 position of the Issuer or the Issuer and its subsidiaries since 30 June 2007 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since 31 December 2006.

Litigation

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 document 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 & Advisory, s.r.o., a member of the Chamber of Auditors of the Czech Republic, who have audited the Issuer's accounts, without qualification, in accordance with International Standards on Auditing for each of the two financial years ended on 31 December 2006. 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 in relation to any issues of Note.

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.

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