

## OFFERING MEMORANDUM



ČEZ, a. s.

U.S.\$1,000,000,000

consisting of

U.S.\$700,000,000 4.250% Notes due 2022

U.S.\$300,000,000 5.625% Notes due 2042

ČEZ, a. s., incorporated as a joint-stock company under the laws of the Czech Republic (the “*Issuer*”), is offering U.S.\$700,000,000 4.250% notes due 2022 (the “*2022 Notes*”) and U.S.\$300,000,000 5.625% notes due 2042 (the “*2042 Notes*” and, together with the 2022 Notes, the “*Notes*”). The Issuer will pay interest on the Notes semi-annually in arrear on April 3 and October 3 of each year, commencing on October 3, 2012. The 2022 Notes will mature on April 3, 2022 and the 2042 Notes will mature on April 3, 2042. The Notes will be unsecured and will rank equally in right of payment with the Issuer’s other unsecured and unsubordinated indebtedness.

The Issuer may redeem the Notes at 100% of their nominal amount plus accrued interest if certain tax events as described in this offering memorandum occur. In addition, the Issuer may redeem the Notes in whole or in part at any time at a redemption price equal to the nominal value of the Notes plus any applicable premium. Please see “*Terms and Conditions of the 2022 Notes*” and “*Terms and Conditions of the 2042 Notes*.”

This offering memorandum constitutes a prospectus for the purpose of the Luxembourg law of July 10, 2005 on Prospectuses for Securities (the “*Prospectus Law*”). Application has been made to the *Commission de Surveillance du Secteur Financier* (the “*CSSF*”) in its capacity as competent authority under the Prospectus Law to approve this offering memorandum as a prospectus. Application has also been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the regulated market of the Luxembourg Stock Exchange. In accordance with Article 7(7) of the Prospectus Law, the CSSF assumes no responsibility regarding the economic and financial soundness of the offering of the Notes nor the quality or solvency of the Issuer.

**Investing in the Notes involves risks. See “*Risk Factors*” beginning on page 16.**

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “*U.S. Securities Act*”), or under any U.S. state securities laws, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act (“*Regulation S*”)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Notes are being offered and sold within the United States only to “qualified institutional buyers” (as defined in, and in reliance on, Rule 144A under the U.S. Securities Act (“*Rule 144A*”)) and in offshore transactions outside the United States only to non-U.S. persons in reliance on Regulation S. Prospective investors who are qualified institutional buyers are hereby notified that the Initial Purchasers (as defined in “*Subscription and Sale*”) may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. Please see “*Subscription and Sale-Notices to Investors*” and “*Form of the Notes and Transfer Restrictions*” for additional information about eligible offerees and transfer restrictions.

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**Offering Price of the 2022 Notes: 99.300%, plus accrued interest, if any**

**Offering Price of the 2042 Notes: 99.669%, plus accrued interest, if any**

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Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interest in one or more permanent global notes (the “*Unrestricted Global Notes*”) in registered form, without interest coupons attached, which will be registered in the name of Citivic Nominees Limited as nominee for, and shall be deposited on or about April 3, 2012 (the “*Closing Date*”) with Citibank Europe PLC as common depository for, and in respect of interests held through Euroclear Bank S.A./N.V. (“*Euroclear*”) and Clearstream Banking, société anonyme (“*Clearstream, Luxembourg*”). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in one or more permanent global notes (the “*Restricted Global Notes*”) and, together with the Unrestricted Global Notes, the “*Global Notes*”) in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Citibank, N.A., as custodian for, and registered in the name of Cede & Co. as nominee for The Depository Trust Company (“*DTC*”). Notes sold (i) in offshore transactions in reliance on Regulation S under the U.S. Securities Act will be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof and (ii) to qualified institutional buyers in reliance on Rule 144A will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. See “*Terms and Conditions of the 2022 Notes—Form, Denomination and Title*” and “*Terms and Conditions of the 2042 Notes*.” Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See “*Form of the Notes and Transfer Restrictions*.” Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

*Global Coordinator and Joint Lead Manager*

**Citigroup**

*Joint Lead Managers and Bookrunners*

**Barclays**

**Goldman Sachs International**

**SOCIETE GENERALE**

The date of this offering memorandum is March 27, 2012.

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## IMPORTANT INFORMATION

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

You should rely only on the information contained or incorporated by reference into this offering memorandum. The Issuer has not, and neither has any of Barclays Bank PLC, Citigroup Global Markets Inc., Goldman Sachs International or SG Americas Securities, LLC (collectively, the “*Initial Purchasers*”), authorized anyone to provide you with different information. The Issuer is not, and the Initial Purchasers are not, making an offer of the Notes in any jurisdiction where such offer is not permitted.

No person is authorized to give any information or make any representation not contained in this offering memorandum in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Initial Purchasers or any of their directors, affiliates, advisors or agents. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum. The delivery of this offering memorandum does not imply that there has been no change in the Group’s business and affairs since the date hereof or that the information herein is correct as of any time subsequent to its date.

The Issuer has prepared this offering memorandum solely for use in connection with the proposed offering of the Notes and their listing on the Luxembourg Stock Exchange. The only persons authorized to use this offering memorandum in connection with an offer of the Notes are the persons named in this offering circular as the Initial Purchasers. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Distribution of this offering memorandum to any person other than the offeree and any person retained to advise such offeree with respect to its purchase is unauthorized, and any disclosure of any of its contents, without the Issuer’s prior written consent, is prohibited. By accepting delivery of this offering memorandum, you agree to the foregoing and to make no photocopies of this offering memorandum or any documents referred to herein.

The Issuer reserves the right to withdraw this offering of the Notes at any time. The Issuer and the Initial Purchasers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason or for no reason, and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser.

The Initial Purchasers have not independently verified any of the information contained in this offering memorandum (financial, legal or otherwise). No representation or warranty, express or implied, is made by the Initial Purchasers or any of their directors, affiliates, advisors or agents with respect to the accuracy or completeness of such information. Nothing contained in this offering memorandum is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Initial Purchasers or any of their respective directors, affiliates, advisors or agents in any respect. The contents of this offering memorandum are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisors for any such advice relevant to it. You agree to the foregoing by accepting this offering memorandum.

Except as provided below, the Issuer accepts responsibility for the information contained in this offering memorandum. To the best of the Issuer’s knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this offering memorandum is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information. The information contained under the heading “*Exchange Rate Information*” includes extracts from information and data publicly released by official and other sources. While the Issuer accepts responsibility for accurately summarizing the information concerning exchange rate information, the Issuer accepts no further responsibility in respect of such information. The information set out in relation to sections of this offering memorandum describing clearing arrangements, including the section entitled “*Form of the Notes and Transfer Restrictions*” is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and Clearstream, Luxembourg as currently in effect. While the Issuer accepts responsibility for accurately summarizing the information concerning DTC, Euroclear and Clearstream, Luxembourg, the Issuer accepts no further responsibility in respect of such information. In addition, this offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to the Issuer.

Neither this offering memorandum nor any other information supplied in connection with the Notes should be considered as a recommendation by the Issuer or any of the Initial Purchasers that any recipient of this offering memorandum or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation and appraisal of the Group's financial condition and affairs and creditworthiness.

By receiving this offering memorandum, you acknowledge that you have had an opportunity to request from the Issuer for review, and that you have received, all additional information you deem necessary to verify the accuracy and completeness of the information contained in this offering memorandum. You also acknowledge that you have not relied on the Initial Purchasers in connection with your investigation of the accuracy of this information or your decision whether to invest in the Notes.

Neither the Issuer nor the Initial Purchasers nor any of the Issuer's or their respective representatives are making any representation to you regarding the legality of an investment in the Notes, and you should not construe anything in this offering memorandum as legal, business or tax advice. You should consult your own advisors as to the legal, tax, business, financial and related aspects of an investment in the Notes. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain all applicable consents and approvals. Neither the Issuer nor the Initial Purchasers shall have any responsibility for any of the foregoing legal requirements.

The Notes are subject to restrictions on offers, sales and transfers, which are described under "*Form of the Notes and Transfer Restrictions*." By possessing this offering memorandum or purchasing any Notes, you will be deemed to have represented, warranted and agreed to all of the provisions contained in those sections of this offering memorandum. You may not use any information in this offering memorandum for any purpose other than considering an investment in the Notes. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "U.S. SEC") OR ANY STATE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY IN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this offering memorandum and the offer or sale of the Notes in certain jurisdictions is restricted by law. This offering memorandum may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorized or is unlawful. In particular, this offering memorandum does not constitute an offer of securities to the public in the United Kingdom. No offering memorandum has been or will be approved in the United Kingdom in respect of the Notes. Consequently, this offering memorandum is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "*Financial Promotion Order*") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Financial Promotion Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Financial Promotion Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this offering memorandum or any of its contents. Persons into whose possession this offering memorandum may come are required by the Issuer and the Initial Purchasers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this offering memorandum and other offering material relating to the Notes is set out under "*Subscription and Sale*" and "*Form of the Notes and Transfer Restrictions*."

The issue of Notes under this offering memorandum will not be an "issue of bonds in the Czech Republic" as defined in section 2(4) of the Czech Act No. 190/2004 Coll., on Bonds, as amended (the "*Czech Bonds Act*") and such issue of Notes will only be notified to the Czech National Bank (the "*CNB*") as a foreign issue under section 3(3) of the Czech Bonds Act, section 5 of Czech Act No. 219/1995 Coll., Foreign Exchange Act, as amended and section 8a of Czech Decree No. 34/2003 Coll.

Each initial and subsequent purchaser of Notes will be deemed, by its acceptance or purchase thereof, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such Note, as described in this offering memorandum, and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases. Please see "*Subscription and Sale*" and "*Form of the Notes and Transfer Restrictions*."

IN CONNECTION WITH THIS OFFERING, CITIGROUP GLOBAL MARKETS INC. (OR PERSONS ACTING ON BEHALF OF CITIGROUP GLOBAL MARKETS INC.) (THE “*STABILIZING MANAGER*”) ACTING FOR THE BENEFIT OF THE INITIAL PURCHASERS, MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING 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 NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTIVITIES CONDUCTED BY THE STABILIZING MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILIZING MANAGER) MUST BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN BY THE ISSUER TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE, (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN, AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

#### NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

NEITHER THE U.S. SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS OFFERING MEMORANDUM IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE NOTES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE U.S. SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. AS A PROSPECTIVE INVESTOR, YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. PLEASE REFER TO THE SECTIONS IN THIS OFFERING MEMORANDUM ENTITLED “SUBSCRIPTION AND SALE” AND “FORM OF THE NOTES AND TRANSFER RESTRICTIONS.”

#### NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR LICENSE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

#### CERTAIN DEFINITIONS

Please see “*Annex A—Glossary of Terms and Definitions*” for the meaning of certain terms and definitions used in this offering memorandum.



## SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

The Issuer is a joint stock company organized under the laws of the Czech Republic and a substantial portion of its assets are located in the Czech Republic. The Issuer's directors, officers and other executives are neither residents nor citizens of the United States or the United Kingdom as of the date of this offering memorandum. Furthermore, all of the Issuer's assets are located outside the United States and the United Kingdom. As a result, it may not be possible (a) to effect service of process upon the Issuer or any such person in the United States or the United Kingdom or any other jurisdiction outside the Czech Republic, (b) to enforce against any of them, in courts of jurisdictions other than the Czech Republic, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against any of them, in Czech courts, judgments obtained in jurisdictions other than the Czech Republic, including judgments obtained on the Fiscal Agency Agreements and Deeds of Covenant in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The Notes, the Fiscal Agency Agreements and Deeds of Covenant are governed by English law and the Issuer has agreed in the Notes, the Fiscal Agency Agreements and Deeds of Covenant that disputes arising thereunder are subject to the jurisdiction of the English courts. Please see "*Terms and Conditions of the 2022 Notes—Governing Law and Submission to Jurisdiction*" and "*Terms and Conditions of the 2042 Notes.*" Judgments rendered by English courts in civil and commercial matters will be recognized and enforced by Czech courts, subject to EC Regulation No. 44/2001 of December 22, 2000, on jurisdiction, recognition and enforcement of court judgments in civil and commercial matters, which is directly applicable in the Czech Republic. Under EC Regulation No. 44/2001, a decision issued by an English court may not be recognized and enforced by a Czech court if, for example:

- such recognition is manifestly contrary to public policy in the Czech Republic;
- the defendant was not served with the document instituting proceedings in sufficient time and in such a way as to enable the defendant to arrange for a defense;
- it is irreconcilable with a judgment given in a dispute between the same parties in the Czech Republic; or
- it is irreconcilable with an earlier judgment given in another E.U. or non-E.U. country involving the same cause of action and the same parties.

## PRESENTATION OF FINANCIAL INFORMATION

The consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2009, 2010 and 2011 have been audited by Ernst & Young Audit, s.r.o. and prepared in accordance with IFRS. The audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2009 and 2010, which are incorporated by reference into this offering memorandum, were approved by our General Meeting on June 1, 2011 and June 29, 2010, respectively, and the audited consolidated financial statements of the CEZ Group as of and for the year ended December 31, 2011, which are incorporated by reference into this offering memorandum, were authorized for issue on February 27, 2012. With the exception of certain non-IFRS measures, the financial information as of and for the years ended December 31, 2009, 2010 and 2011 included in this offering memorandum has been derived from the audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2009, 2010 and 2011, which are incorporated by reference into this offering memorandum (see "*Annex B—Documents Incorporated by Reference*"). The audited financial statements of ČEZ, a. s. for the year ended December 31, 2011 are incorporated by reference in this offering memorandum for information purposes only (see "*Annex B—Documents Incorporated by Reference*").

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

ended December 31, 2011. In “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” as well as in certain other sections of this offering memorandum, the restated financial data for the year ended December 31, 2010 is presented alongside financial data for the years ended December 31, 2009 and 2011 for comparison purposes only.

IFRS differs in certain important respects from generally accepted accounting principles in the United States. In making an investment decision, you must rely on your own examination of our audited consolidated financial statements and financial data included in this offering memorandum and you should consult your professional advisors for an understanding of, among other things:

- the differences between IFRS and other systems of generally accepted accounting principles and how those differences might affect the financial data included in this offering memorandum; and
- the impact that future additions to, or amendments of, IFRS principles may have on our results of operations and financial condition, as well as on the comparability of prior periods.

The audited consolidated financial statements of the CEZ Group for the years ended December 31, 2009, 2010 and 2011 and the audited financial statements of ČEZ, a. s. for the year ended December 31, 2011, which are incorporated by reference into this offering memorandum, are not intended to comply with U.S. SEC reporting requirements. Compliance with such requirements would require the modification or exclusion of certain information presented in this offering memorandum and the presentation of certain other information not included in this offering memorandum.

For the convenience of the reader, this offering memorandum contains translations of certain Czech crown amounts into U.S. dollars at specified rates. Unless otherwise indicated, these translations are based on the Czech National Bank rate on December 31, 2011 of CZK 19.94 per U.S.\$1.00. The Issuer makes no representation that the Czech crown or U.S. dollar amounts shown in this offering memorandum could have been or could be converted into U.S. dollars or Czech crowns, as the case may be, at such rate or at any other rate. Please see “*Exchange Rate Information*.”

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

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

#### **Non-IFRS Measures**

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

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

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

The non-IFRS measures presented in this offering memorandum may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. These non-IFRS measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to operating income or net profit or any other performance measures derived in accordance with IFRS

or any other generally accepted accounting principles, or as alternatives to cash flow from operating, investing or financing activities.

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

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

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

#### AVAILABLE INFORMATION

The Issuer is not currently subject to the periodic reporting requirements under Sections 13 or 15 of the United States Securities Exchange Act of 1934, as amended (the “*U.S. Exchange Act*”) and other information requirements of the U.S. Exchange Act. To permit compliance with Rule 144A in connection with resales and transfers of Notes, the Issuer has agreed that, for so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, it will provide to any holder or beneficial owner of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act, if at the time of such request it is not a reporting company under Section 13 or Section 15(d) of the U.S. Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the U.S. Exchange Act. Please see “*Terms and Conditions of the 2022 Notes—Provision of Information*” and “*Terms and Conditions of the 2042 Notes*.”

For so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, copies of the Issuer’s organizational documents, the Fiscal Agency Agreements relating to the Notes and the most recent audited consolidated financial statements of the CEZ Group published by the Issuer may be inspected and obtained at the office of the listing agent in Luxembourg. Please see “*Listing and General Information—Documents on Display*.”



## FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Exchange Act; however, this offering memorandum is not entitled to the benefit of the safe harbor created thereby. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believe,” “estimate,” “anticipate,” “expect,” “forecast,” “foresee,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “will,” “would” or, in each case, similar expressions or the negative thereof, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. They appear in a number of places throughout this offering memorandum and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. The Issuer cautions you that forward-looking statements are not guarantees of future performance and that the actual results of the Group’s operations, including its financial condition and liquidity, and the development of the Group’s industry may differ materially from those made in or suggested by the forward-looking statements contained in this offering memorandum. In addition, even if the Group’s results of operations, financial condition and liquidity, and the development of the Group’s industry are consistent with the forward-looking statements contained in this offering memorandum, those results or developments may not be indicative of results or developments in subsequent periods. Factors that could cause these differences include, but are not limited to:

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

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

The Issuer urges you to read “*Risk Factors*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” “*Regulation*” and “*Business*” for a more complete discussion of the factors that could affect the Issuer’s future performance, its industry and related regulation thereof. In light of these risks, uncertainties and assumptions, the events described or suggested by the forward-looking statements in this offering memorandum may not occur.

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

## **HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA**

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

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

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

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

## **TRADEMARKS AND TRADE NAMES**

The Group owns or has rights to certain trademarks or trade names that the Group uses in conjunction with the operation of its business. Each trademark, trade name or service mark of any other company appearing in this offering memorandum is the property of its respective holder. Please see "*Business—Intellectual Property.*"

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## SUMMARY

*This summary highlights selected information about us and the offering of Notes contained in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the Notes. The following summary should be read in conjunction with, and the following summary is qualified in its entirety by, the more detailed information included in this offering memorandum, including our audited consolidated financial statements, which are incorporated by reference into this offering memorandum, as of and for the years ended December 31, 2009, 2010 and 2011, together with the related notes therein. You should carefully read the entire offering memorandum to understand our business, the nature and terms of the Notes and the tax and other considerations which are important to your decision to invest in the Notes, including the risks discussed under "Risk Factors."*

### Overview

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

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

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

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

#### As of and for the year ended December 31, 2011

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

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

We distributed electricity to more than 3.5 million connection points in the Czech Republic covering an area of approximately 52.7 thousand square kilometers as of December 31, 2011, making us the largest of the three regional distributors of electricity in the country. In the year ended December 31, 2011, we distributed a total of 53,626 GWh of electricity to end-consumers, 60.8% of which was distributed to end-consumers in the Czech Republic. In addition, we are one of the largest of eight regional distribution companies in Romania and we have majority interests in the principal distribution company in Albania and in Bulgaria.

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

### **Our Strengths**

We benefit from the following key strengths:

- majority state-owned company, backed by a stable and open economy;
- strong market position in the Czech Republic;
- robust credit profile;
- highly integrated, large-scale domestic operations;
- stable domestic market without regulatory excesses seen in some other parts of Europe;
- proven corporate strategy; and
- strong presence in several international markets.

### **Our Strategy**

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

- further diversify our electricity generation portfolio, with a focus on nuclear power and renewable energy;
- optimize production and secure consistent supply of fuel for our coal-fired power plants;
- build a stronger presence in the energy sector in the Czech Republic; and
- increase operational efficiencies and profitability.

### **Risk Factors**

An investment in the Notes involves a high degree of risk. You should carefully consider the following risks which could have a material adverse effect on our business, results of operations and financial condition, together with other information provided to you in this offering memorandum, in deciding whether to invest in the Notes.

#### ***Risks Related to Our Business and Operations***

- Any reduction in demand for our electricity, heat, coal and gas as a result of poor economic performance in Europe and the deepening of the sovereign debt crisis or otherwise.
- Changes in the European Union's renewable energy policy and an accelerated market shift towards renewable energy sources.



- Political developments in the European Union and in other countries where we have or plan to have a business presence.
- The costs and risks associated with increasing our nuclear generation capacity.
- Any decreases in the prices obtained for our electricity and heat.
- Poor economic performance in the Czech Republic.
- We may not be able to operate our nuclear power plants over a period at least equal to the current expected life.
- Default or delay by any of our counterparties (which include our partners, contractors, subcontractors and suppliers) as well as by financial and insurance institutions.
- We may not successfully implement our key strategies.
- We may not successfully manage the risks associated with expanding our international operations and integrating newly acquired subsidiaries and we may face significant risks and liabilities as a result of such acquisitions.
- The Czech national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector approved by the Czech government, under which emission allowances are allocated to us at no cost, may not be approved by the European Commission.
- We are exposed to changes in the way emission allowances are allocated, including the conditions attaching to free allocations and the allocation of emission allowances after 2013, as well as volatility in the market prices of emission allowances that we need to acquire.
- We are subject to differing regulatory regimes in all of the countries in which we operate and these regimes are complex and subject to change.
- Changes in regulated tariffs.
- Uncertain, unexpected or unlawful decisions of key regulatory or national administration executive authorities.
- We conduct our business in several different currencies and are exposed to foreign currency risks.
- We could incur significant losses in the event of a nuclear accident.
- Failures, breakdowns, planned or unplanned outages as well as natural disasters or sabotage at our power plants (including our nuclear reactors and hydropower facilities) or in our distribution infrastructure may harm our business and reputation or could cause significant harm to the environment.
- Our ability to access credit and bond markets and our ability to raise additional financing is in part dependent on our credit ratings.
- Our majority shareholder may pursue decisions that reflect Czech government policy (including the Czech government's desire for us to build a new nuclear power plant in the Czech Republic).
- We could incur unforeseen taxes, tax penalties and sanctions.
- We have substantial debt and our financial obligations could impair our ability to service our debt, carry out new financings and fund our capital expenditures.
- We are exposed to financial risks and market volatility.
- We are exposed to risks on the wholesale energy and CO<sub>2</sub> emission allowances markets.
- The growth of an integrated European electricity market may be slowed by a lack of cross-border transmission system interconnections.
- Unexpected decisions of key regulatory or national administration executive authorities in Albania threatens our business presence in the country.
- Risks associated with the deliveries of coal from Czech Coal a.s.
- Our activities require various administrative authorizations and licenses that may be difficult to obtain, maintain or renew or whose grant may be subject to conditions that may become significantly more stringent.

- Squeeze-out proceedings concerning former minority shareholders of companies we have acquired.
- External financing may increase our interest expense.
- Future privatization of ČEZ, a. s. may result in a credit downgrade or may affect our ability to repay debt.
- Our failure to expand and diversify our non-nuclear generation capacity.
- State support for certain power generation sources.
- Political developments in the Czech Republic.
- We may be required to pay significant penalties as a result of a pending E.U. anti-monopoly investigation.
- Changes in E.U or national requirements affecting liability for nuclear damage, insurance requirements or decommissioning of nuclear power plants.
- An increase in competition in the markets in which we operate.
- Our equipment and components of our power plants are subject to gradual deterioration over time.
- Our ability to supply electricity is dependent upon the transmission system and our reliance on third parties.
- Disruptions in the supply of coal, nuclear fuel, gas or other raw materials, or an unexpected increase in their cost.
- Risks associated with deliveries of coal from Sokolovská uhelná.
- We are subject to a variety of additional litigation and regulatory proceedings and we cannot give any assurances as to their outcome or the sufficiency of our provisions.
- The agreements that govern our long-term debt contain restrictive covenants.
- We may become liable for increased decommissioning costs or be required to keep additional amounts as restricted funds for the decommissioning of our nuclear power plants and for the decommissioning and reclamation of our mines and the remediation of mining damage.
- We are subject to environmental, health and safety laws and regulations and must maintain environmental, health and safety regulatory approvals and we may be exposed to significant liabilities if we fail to comply with such laws or maintain such approvals.
- We are subject to the risks associated with E.U. regulation of energy market mechanisms, including the credit and cash settlement requirements for trading of commodities and financial instruments.
- Legal proceedings relating to the Temelín nuclear power plant.
- Climatic conditions and seasonal variations that are not within our control.
- An increase in the cost of disposing of radioactive waste.
- A strike or other labor disruption at our facilities.
- We have no control over the security and operational processes of the national registries for emission allowances within Europe.
- Our insurance coverage may not be adequate.
- Risks associated with restitution claims and registration of plots of land in the Czech Cadastral registry.
- Electromagnetic fields may have an adverse impact on public health.
- Our facilities produce polychlorobiphenyls which could have an adverse impact on the environment or public health.
- We may not be able to hire, train or retain a sufficient number of qualified staff.
- Our mining operations, reserves and resource estimates are disclosed on a different basis from filings with the U.S. SEC that are made in accordance with U.S. SEC Industry Guide 7.

### ***Risks Related to the Notes***

- The negative pledge covenant in the Notes permits the Issuer and its Material Subsidiaries to incur additional Indebtedness secured by Liens on Principal Property or enter into Sale and Lease-Back Transactions. Your right to receive payments on the Notes therefore may be structurally subordinated to other liabilities of the Issuer, its Material Subsidiaries and other of the Issuer's subsidiaries.
- The Issuer's financial performance and other factors could adversely impact its ability to make payments on the Notes.
- There is no established trading market for the Notes. If a market for the Notes does not develop, your ability to sell the Notes may be limited.
- The Notes may not be a suitable investment for all investors.
- The Issuer's credit ratings may not reflect all risks of an investment in the Notes.
- The Notes will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.
- Transfers of the Notes are restricted, which may adversely affect their liquidity and the value of the Notes.
- Czech insolvency laws to which the Issuer is subject may not be as favorable to the holders of the Notes as U.S. or other insolvency laws.
- Investors may experience difficulties in enforcing foreign judgments under U.S. federal securities laws.
- The Notes bear interest at a fixed rate and changes in market interest rate may affect the value of the Notes.
- Investment laws and regulations may restrict certain investments.
- Certain modifications to the Notes may be made without your consent.
- E.U. Savings Directive.
- Changes of law in England and Wales may impact the rights of noteholders.

### **Recent Developments**

#### ***Settlement Discussions in Albania***

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

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

In the year ended December 31, 2011, CEZ Shpërndarje Sh. A. contributed CZK 0.8 billion, or 0.9%, of our consolidated EBITDA and accounted for CZK 8.8 billion, or 1.5%, of our total consolidated assets as of December 31, 2011. ČEZ, a. s. has guaranteed the performance of CEZ Shpërndarje Sh. A. under a €100 million loan from the International Finance Corporation and the European Bank for Reconstruction and Development, of which €35 million has been drawn as of the date of this offering memorandum. As of December 31, 2011, trade

receivables in the amount of CZK 0.5 billion were owed by CEZ Shpërndarje Sh. A. to other members of the CEZ Group.

***€40 million 20-year Bond Issue***

In March 2012, ČEZ, a. s. successfully priced a twenty-year registered bond issue (Namensschuldverschreibung) under German law for the amount of €40 million. The coupon was set at 4.700% per annum. The expected settlement date is April 2, 2012.

***€100 million Loan Agreement with EIB***

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

***€40 million Loan Agreement with Goldman Sachs Bank USA***

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

***Repurchase of Notes under EMTN Program***

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

## The Offering

The following is a brief summary of certain terms of the offering of the Notes. This summary must be read as an introduction to this offering memorandum and any decision to invest in the Notes should be based on a consideration of this offering memorandum as a whole. This summary may not contain all the information that is important to you. For a detailed description of the Notes, please see “Terms and Conditions of the 2022 Notes” and “Terms and Conditions of the 2042 Notes.” Words and expressions defined in “Terms and Conditions of the 2022 Notes” and “Terms and Conditions of the 2042 Notes” shall have the same meanings in this summary.

<b>Issuer</b> .....	ČEZ, a. s. was incorporated on May 6, 1992 as a joint stock company under the laws of the Czech Republic with identification number 45274649 and with its registered office at Duhová 2/1444, 140 53 Prague 4, Czech Republic.
<b>Securities Offered</b> .....	U.S.\$700,000,000 4.250% Notes due 2022. U.S.\$300,000,000 5.625% Notes due 2042.
<b>Issue Price</b> .....	2022 Notes: 99.300%, plus accrued interest, if any. 2042 Notes: 99.669%, plus accrued interest, if any.
<b>Issue Date</b> .....	On or about April 3, 2012.
<b>Maturity Dates</b> .....	The 2022 Notes will mature on April 3, 2022. The 2042 Notes will mature on April 3, 2042.
<b>Interest Rates</b> .....	The 2022 Notes will bear interest from April 3, 2012 at the rate of 4.250% per year. The 2042 Notes will bear interest from April 3, 2012 at the rate of 5.625% per year.
<b>Interest Payment Dates</b> .....	Interest will be payable semi-annually in arrear on April 3 and October 3 of each year, commencing on October 3, 2012.
<b>Currency</b> .....	U.S. dollars.
<b>Yield</b> .....	2022 Notes: 4.337%. 2042 Notes: 5.648%.
<b>Ranking</b> .....	The Notes constitute direct, general, unconditional, unsubordinated and, subject to Condition 6 of the Terms and Conditions (see “Terms and Conditions of the 2022 Notes—Status of the Notes” and “Terms and Conditions of the 2042 Notes”) unsecured obligations of the Issuer. The Notes will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> in right of payment with all other present and future unsecured obligations of the Issuer.
<b>Form and Denomination</b> .....	Subject to as set out in “Terms and Conditions of the 2022 Notes” and “Terms and Conditions of the 2042 Notes,” title to the Notes will pass upon registration of transfers in accordance with the provisions of the Fiscal Agency Agreements. The Issuer, the Fiscal Agent, the Registrar and any other agent appointed under the Fiscal Agency Agreements will (except as otherwise required by law or ordered by a court having jurisdiction or an official authority) deem and treat the registered holder of any Note 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.

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in the Unrestricted Global Note in registered form, without interest coupons attached, which will be registered in the name of Citivic Nominees Limited as nominee for, and shall be deposited on or about the Closing Date with Citibank Europe PLC as common depository for and in respect of interests held through Euroclear and Clearstream, Luxembourg. Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in the Restricted Global Note in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Citibank, N.A., as custodian for, and registered in the name of Cede & Co. as nominee for DTC. Notes sold (i) in offshore transactions in reliance on Regulation S under the Securities Act will be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof and (ii) to qualified institutional buyers in reliance on Rule 144A will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Please see “*Terms and Conditions of the 2022 Notes—Form, Denomination and Title*” and “*Terms and Conditions of the 2042 Notes.*”

Interests in the Restricted Global Note will be subject to certain restrictions on transfer. Please see “*Form of the Notes and Transfer Restrictions.*”

Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants.

Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

**Cross Default** ..... The Notes will have the benefit of a cross default provision as described under “*Terms and Conditions of the 2022 Notes—Events of Default—Cross Default*” and “*Terms and Conditions of the 2042 Notes.*”

**Covenants and Negative Pledge**..... The Notes will have the benefit of certain covenants and a negative pledge that, among other things, limit the ability of the Issuer and, in certain circumstances, its Material Subsidiaries to enter into certain sale and lease-back transactions, consolidate or merge, or incur additional Indebtedness secured by liens on Principal Property, subject to some exceptions. See “*Terms and Conditions of the 2022 Notes—Negative Pledge and Other Covenants*” and “*Terms and Conditions of the 2042 Notes.*”

**Withholding Taxes**..... All payments of principal and interest in respect of the Notes made by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Czech Republic, or any political subdivision or any authority thereof or therein having power to

tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in the circumstances described under “*Terms and Conditions of the 2022 Notes—Taxation*” and “*Terms and Conditions of the 2042 Notes.*”

**Optional Redemption** ..... Prior to the Maturity Date, the Issuer, at its option, may redeem the 2022 Notes or the 2042 Notes, in whole or in part, at a redemption price equal to the greater of (i) 100% of the nominal amount of the Notes to be redeemed plus accrued and unpaid interest thereon or (ii) the sum of the present values of the remaining scheduled payments of principal of Notes to be redeemed and interest thereon discounted to the date of redemption of such Notes on a semi-annual basis at the treasury rate plus 35 basis points, plus accrued and unpaid interest on such Notes (or any portion thereof) being redeemed provided that in the event that the Issuer redeems all or some only of the Notes following the occurrence of a Put Event (as defined in “*Terms and Conditions of the 2022 Notes—Redemption and Purchase—Redemption at the Option of the Noteholders (Investor Put)*”), such Notes shall be redeemed at 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased to but excluding the date of redemption. Please see “*Terms and Conditions of the 2022 Notes—Redemption and Purchase—Redemption at the Option of the Issuer (Issuer Call)*” and “*Terms and Conditions of the 2042 Notes.*”

**Repurchase of Notes Upon a Put Event** ..... Upon the occurrence of a Put Event (as defined in “*Terms and Conditions of the 2022 Notes—Redemption and Purchase—Redemption at the Option of the Noteholders (Investor Put)*”) each holder will have a right to require the Issuer to make an offer to purchase all outstanding Notes at a purchase price equal to 101% of their aggregate principal amount plus accrued and unpaid interest, if any, to the repurchase date. Please see “*Terms and Conditions of the 2022 Notes—Redemption and Purchase—Redemption at the Option of the Noteholders (Investor Put)*” and “*Terms and Conditions of the 2042 Notes.*”

**Tax Redemption** ..... The Issuer may at its option redeem the Notes, in whole but not in part, at a price equal to 100% of their principal amount plus accrued and unpaid interest to (but excluding) the redemption date, if the Issuer were to become obligated to pay certain additional amounts (as described in “*—Withholding Taxes*” above) as a result of certain changes in tax laws or certain other circumstances, as described under “*Terms and Conditions of the 2022 Notes—Redemption and Purchase—Redemption for Tax Reasons*” and “*Terms and Conditions of the 2042 Notes.*”

**No Prior Market** ..... The Notes will be new securities for which there is currently no market. Accordingly, the Issuer cannot assure you that a liquid market for the Notes will develop or be maintained.

**Use of Proceeds** ..... The Issuer intends to use the net proceeds of this offering for general corporate purposes. Please see “*Use of Proceeds.*”

<b>Ratings</b> .....	The Notes are expected to be rated A- by Standard & Poor’s Credit Market Services Europe Limited and A2 by Moody’s Investors Service Ltd. The Issuer is currently rated A- (stable outlook) by Standard & Poor’s Credit Market Services Europe Limited and A2 (stable outlook) by Moody’s Investors Service Ltd.
	A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency. Neither the rating agency nor the Issuer is obligated to provide the holder of Notes with any notice of any suspension, change or withdrawal of any rating.
	Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009. Moody’s Investors Service Ltd is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009. This list is available on the ESMA website ( <a href="http://www.esma.europa.eu/page/list-registered-and-certified-CRAs">www.esma.europa.eu/page/list-registered-and-certified-CRAs</a> ) (last updated January 6, 2012).
<b>Further Issuances</b> .....	The Issuer may, at its option and without the consent of the then existing holders of Notes, issue additional Notes in one or more transactions after the date of this offering memorandum with terms and conditions (other than the issuance date and the amount and date of the first interest payment thereon and the issue price) identical to the Notes. These additional notes will be deemed to be part of the same series as the relevant Notes offered hereby and will provide the holders of these additional Notes the right to vote together with holders of the Notes issued hereby.
<b>Selling Restrictions</b> .....	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom and the Czech Republic. Please see “ <i>Subscription and Sale.</i> ”
<b>Risk Factors</b> .....	Investing in the Notes involves substantial risks. You should carefully consider all of the information in this offering memorandum and, in particular, you should evaluate the specific risk factors set forth in “ <i>Risk Factors—Risks Related to the Notes</i> ” before making a decision to invest in the Notes.
<b>Governing Law</b> .....	The Notes and any non-contractual obligation arising out of or in connection therewith, will be governed by, and shall be construed in accordance with, English law. See “ <i>Terms and Conditions of the 2022 Notes—Governing Law and Submission to Jurisdiction</i> ” and “ <i>Terms and Conditions of the 2042 Notes.</i> ”
<b>Listing</b> .....	Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the regulated market of the Luxembourg Stock Exchange.

<b>Security Codes</b> .....	<b>2022 Notes</b>
	<i>Restricted Global Note</i>
	<ul style="list-style-type: none"> <li>• ISIN: US157214AA57</li> <li>• Common Code: 076402850</li> <li>• CUSIP: 157214 AA5</li> </ul>
	<i>Unrestricted Global Note</i>
	<ul style="list-style-type: none"> <li>• ISIN: XS0764313614</li> <li>• Common Code: 076431361</li> </ul>
	<b>2042 Notes</b>
	<i>Restricted Global Note</i>
	<ul style="list-style-type: none"> <li>• ISIN: US157214AB31</li> <li>• Common Code: 076405093</li> <li>• CUSIP: 157214 AB3</li> </ul>
	<i>Unrestricted Global Note</i>
	<ul style="list-style-type: none"> <li>• ISIN: XS0764314695</li> <li>• Common Code: 076431469</li> </ul>
<b>Initial Purchasers</b> .....	Barclays Bank PLC, Citigroup Global Markets Inc., Goldman Sachs International and SG Americas Securities, LLC
<b>Fiscal Agent</b> .....	Citibank, N.A., London Branch
<b>Luxembourg Listing Agent</b> .....	Dexia Banque Internationale à Luxembourg
<b>Registrar</b> .....	Citigroup Global Markets Deutschland AG

## Summary Financial and Other Information

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

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

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

For the convenience of the reader, this offering memorandum contains translations of certain Czech crown amounts into U.S. dollars based on the Czech National Bank rate on December 31, 2011 of CZK 19.94 per U.S.\$1.00.

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

### Income Statement Data

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

	For the year ended December 31,				2011 (U.S.\$ in millions)
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	
	(CZK in millions)				
<b>Revenues:</b>					
Sales of electricity .....	173,494	175,277	175,277	181,793	9,117
Gains and losses from electricity, coal and gas derivative trading, net.....	6,894	5,392	5,392	5,843	293
Sales of gas, coal, heat and other revenues .....	15,964	18,179	18,179	22,125	1,110
<b>Operating expenses:</b>					
Fuel .....	(15,805)	(16,946)	(16,946)	(17,145)	(860)
Purchased power and related services .....	(48,170)	(54,353)	(54,353)	(65,865)	(3,303)
Repairs and maintenance .....	(6,043)	(5,465)	(5,465)	(5,014)	(251)
Depreciation and amortization.....	(22,876)	(24,032)	(24,060)	(25,770)	(1,292)
Salaries and wages.....	(18,116)	(18,717)	(18,717)	(18,105)	(908)
Materials and supplies .....	(5,272)	(4,844)	(4,844)	(5,478)	(275)
Emission rights, net .....	305	2,388	2,148	2,895	145
Other operating expenses.....	(12,176)	(11,822)	(11,823)	(13,737)	(689)
<b>Income before other income (expenses) and income taxes.....</b>					
Other income (expenses) .....	68,199	65,057	64,788	61,542	3,087
Income taxes .....	(3,253)	(6,108)	(6,108)	(9,590)	(481)
<b>Income before income taxes .....</b>	<b>64,946</b>	<b>58,949</b>	<b>58,680</b>	<b>51,952</b>	<b>2,606</b>
Income taxes .....	(13,091)	(11,791)	(11,739)	(11,199)	(562)
<b>Net income .....</b>	<b>51,855</b>	<b>47,158</b>	<b>46,941</b>	<b>40,753</b>	<b>2,044</b>



**Balance Sheet Data**

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

	As of December 31,				
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2011
	(CZK in millions)				(U.S.\$ in millions)
<b>Assets:</b>					
Total property, plant and equipment .....	328,805	361,066	362,510	386,863	19,401
Total other non-current assets .....	86,150	86,968	85,764	80,716	4,048
Total non-current assets .....	414,955	448,034	448,274	467,579	23,449
Total current assets .....	115,304	95,657	96,101	130,528	6,546
<b>Total assets</b> .....	<b>530,259</b>	<b>543,691</b>	<b>544,375</b>	<b>598,107</b>	<b>29,995</b>
<b>Equity and Liabilities:</b>					
Total equity attributable to equity holders of the parent .....	200,361	221,611	221,431	226,713	11,370
Total equity.....	206,675	227,051	227,052	232,078	11,639
Total long-term liabilities.....	177,181	198,061	198,061	223,691	11,218
Deferred tax liability .....	15,335	17,902	18,191	16,946	850
Total current liabilities .....	131,068	100,677	101,071	125,392	6,288
<b>Total equity and liabilities</b> .....	<b>530,259</b>	<b>543,691</b>	<b>544,375</b>	<b>598,107</b>	<b>29,995</b>

**Statement of Cash Flow Data**

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

	For the year ended December 31,				
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2011
	(CZK in millions)				(U.S.\$ in millions)
Net cash provided by operating activities .....	87,354	77,165	77,165	61,773	3,098
Total cash used in investing activities .....	(99,022)	(65,584)	(65,584)	(52,876)	(2,652)
Total cash provided by (used in) financing activities.....	22,230	(15,592)	(15,592)	(8,419)	(422)
Net effect of currency translation in cash .....	(1,138)	(530)	(530)	(602)	(30)
<b>Net increase (decrease) in cash and cash equivalents</b> .....	<b>9,424</b>	<b>(4,541)</b>	<b>(4,541)</b>	<b>(124)</b>	<b>(6)</b>
Cash and cash equivalents at the beginning of the period .....	17,303	26,727	26,727	22,186	1,113
Cash and cash equivalents at the end of the period.....	26,727	22,186	22,186	22,062	1,107

## Other Financial Information

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

	For the year ended December 31,				
	2009	2010	2010 (restated)	2011	2011
	(CZK in millions, except percentages)				(U.S.\$ in millions)
EBIT .....	68,199	65,057	64,788	61,542	3,086
EBITDA.....	91,075	89,089	88,848	87,312	4,379
EBITDA Margin.....	46.4%	44.8%	44.7%	41.6%	
Net Debt.....	124,412	134,538	134,538	159,363	7,992

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

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

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

	For the year ended December 31,				
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2011
	(CZK in millions)				(U.S.\$ in millions)
<b>Long-term debt:</b>					
Total bonds and debentures.....	111,031	137,166	137,166	151,107	7,578
Total long-term bank and other loans .....	14,522	17,660	17,660	32,842	1,647
<b>Short-term loans:</b>					
Short-term bank loans .....	25,310	8,306	8,306	4,333	217
Bank overdrafts .....	1,336	1,312	1,312	1,167	59
Other short-term borrowings.....	4,611	–	–	–	–
Cash and cash equivalents.....	(26,727)	(22,163)	(22,163)	(22,062)	(1,106)
Highly liquid financial assets <sup>(1)</sup> .....	(5,671)	(7,743)	(7,743)	(8,024)	(402)
<b>Net Debt.....</b>	<b>124,412</b>	<b>134,538</b>	<b>134,538</b>	<b>159,363</b>	<b>7,993</b>

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

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

	<b>For the year ended December 31,</b>				
	<b>2009</b>	<b>2010</b>	<b>2010 (restated)</b>	<b>2011</b>	<b>2011</b>
	<b>(CZK in millions, except percentages)</b>				<b>(U.S.\$ in millions)</b>
Net income.....	51,855	47,158	46,941	40,753	2,044
Income taxes.....	13,091	11,791	11,739	11,199	562
Total other income/(expenses).....	3,253	6,108	6,108	9,590	481
<b>EBIT</b> .....	68,199	65,057	64,788	61,542	3,087
Depreciation and amortization .....	(22,876)	(24,032)	(24,060)	(25,770)	(1,292)
<b>EBITDA</b> .....	91,075	89,089	88,848	87,312	4,379
EBITDA Margin .....	46.4%	44.8%	44.7%	41.6%	

## RISK FACTORS

*An investment in the Notes involves a high degree of risk. You should carefully consider the following risks, together with other information provided to you in this offering memorandum, in deciding whether to invest in the Notes. The occurrence of any of the events discussed below could materially adversely affect our business, results of operations and financial condition. If these events occur, the trading prices of the Notes could decline, and we may not be able to pay all or part of the interest or principal on the Notes, and you may lose all or part of your investment. The risks and uncertainties we describe below are not the only ones we face. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect our business, results of operations, financial condition and your investment.*

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

### **Risks Related to Our Business and Operations**

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

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

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

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

The electricity generation industry in Europe is strongly influenced by the European Union's policy, implemented in 2008 by the E.U. Climate and Energy Package, to increase the share of electricity generated by renewable energy sources. We are effectively obliged, due to economic incentives, to reflect the E.U. Climate and Energy Package within our own strategy. By 2020, the E.U. Climate and Energy Package requires a 20% decrease in carbon dioxide ("CO<sub>2</sub>") emissions, a 20% increase in energy efficiency and requires renewable energy sources to comprise 20% of total energy consumption. The implementation of the E.U. Climate and Energy Package, or any amendments to such targets, could have a material adverse effect on our business, results of operations and financial condition. Support for renewable sources may decrease energy prices, limit the production time, the stability of transmission and distribution grid, the profitability of distribution services provided by us and production quantity of conventional power plants that we operate and may decrease our market share. Continued or increased support for renewable energy sources in the European Union, particularly in the Czech Republic, may adversely affect our profit from nuclear, coal-fired and gas power plants, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

The operation of our power plants, in particular our nuclear power plants, is characterized by high fixed costs. Some of our costs are not faced by our non-nuclear competitors because they are unique to the nuclear power generation industry. Our ability to generate sufficient turnover at sufficient margin to cover our fixed costs is dependent, in part, on favorable electricity prices and our overall sales and trading strategy. Because our costs are relatively fixed in nature, they cannot be reduced in periods of low electricity prices. Therefore, in these circumstances, it is possible that we may not produce sufficient cash flows from our electricity sales or trading activities, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

Our revenues are sensitive to the performance of the Czech economy. As of December 31, 2011, approximately 83.6% of our assets were located in the Czech Republic and approximately 76.8% of our revenues

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

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

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

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

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

Our revenues are generated by sales to end-consumers or wholesale partners and state owned customers across European markets. There is a risk that some of our key counterparties, end-consumers (predominantly the state owned companies such as the national railway operators) or suppliers (predominantly the state owned electricity producers) could default on or dispute their contractual obligations towards us, which could have a material adverse effect on our business, results of operations and financial condition. Further, the majority of our forward sales are executed on the OTC market. The credit quality of our counterparties may deteriorate during adverse economic conditions, which may threaten the results of our hedging strategy, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

***We may not successfully implement our key strategies.***

Our key strategies include increasing the installed capacity of our nuclear power plants, building new conventional fuel power plants, developing renewable sources of power (as well as our related market position), improving our internal efficiencies and strengthening our market position in the heating and co-generation market. However, we face many risks that could adversely affect our ability to implement our key strategies, such as changes in electricity demand in the Czech Republic and in Central and South East Europe generally, changes in electricity and emission allowance prices and the regulatory framework, increases in generation and distribution costs, future developments affecting the electricity infrastructure within Central and South East Europe,



competition in the markets in which we operate, political and economic developments affecting Central and South East Europe, E.U. legal and regulatory requirements and the reliability of our future partners for expanding our business within Central and South East Europe. Any failure to implement our key strategies successfully could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

In addition, although due diligence reviews are undertaken in relation to acquisitions, such reviews may not reveal all existing or potential risks and liabilities and we cannot give any assurance that our acquisitions are not or will not become subject to liabilities of which we are unaware. While warranties and indemnities are generally obtained where practical and appropriate, we cannot give any assurance that we would be able to enforce our contractual or other rights against the relevant sellers or that any warranties and indemnities would be adequate to cover potential liabilities. The acquisition of businesses or assets with risks or liabilities of which we were or may be unaware, or did not correctly assess or assume, or against which we did not obtain full legal protection, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

In the trading periods after 2012, the majority of, or potentially all emission allowances will be sold in auctions rather than allocated for free. A potential partial free allocation is not within our control and will only be allocated to us subject to (i) receiving approval from national governments and the European Commission, and (ii) us investing in renewable technologies in an amount at least equal to the market price of the freely allocated emission allowances. From January 1, 2013, we will have to buy all or a substantial part of the emission allowances on the market. As a result, our emission allowances allocation after 2013 remain uncertain and from 2013 our costs may increase significantly, which could have a material adverse effect on our business, results of operations and financial condition. In addition, we will be more vulnerable to risks relating to volatility in the price of CO<sub>2</sub> emission allowances. To mitigate this volatility risk, we have in place a hedging strategy of acquiring a certain volume of emission allowances before this period, although, in the event of potential decreases in the price of emission allowances, this hedging strategy itself could have a material adverse effect on our business, results of operations and financial condition.

A continual decrease in the allocation of emission allowances across the European Union and, potentially, a greater decrease in the allocation of emission allowances than is currently expected in the next allocation period as well as any increase in the price of CO<sub>2</sub> emission allowances, may result in a substantial increase in our variable generation costs making the price of electricity offered by us uncompetitive, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

and financial condition. In addition, we may fail to respond swiftly and appropriately to changes in applicable laws and regulations or to changes in the energy industry generally, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

In accordance with the Vienna Convention, the Czech Nuclear Act provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to CZK 8 billion per accident and is obliged to

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

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

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

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

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

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

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



refinancing) could be limited, which could have a material adverse effect on our business, results of operations and financial condition. Lowering of our credit rating may also trigger our obligation to redeem certain debt securities prior to their scheduled redemption date which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

We face risks from our energy trading operations. In general, we seek to hedge risks associated with volatile energy-related prices (including the price of CO<sub>2</sub> emission certificates) by entering into fixed price bilateral contracts and futures contracts on commodity exchanges and swaps and options traded in over the counter

financial markets. For more information, please see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk.*” To the extent we are unable to hedge these risks, enter into hedging contracts that fail to address our exposure or incorrectly anticipate market movements, we may suffer significant losses which could have a material adverse effect on our business, results of operations and financial condition.

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

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

***We are exposed to risks on the wholesale energy and CO<sub>2</sub> emission allowances markets.***

We operate in the deregulated energy markets in Europe through our trading activities. As a result, we are exposed to price fluctuations in the wholesale energy markets (electricity, gas and coal) as well as in the CO<sub>2</sub> emission allowances market. These fluctuations are particularly significant in the current context of major tensions and volatility on the energy markets. Any shortage of products or lack of liquidity could limit our ability to close our exposure to risk quickly in the energy market. In addition, these markets remain in part partitioned by country, largely as a result of the lack of interconnections and may experience significant increases or decreases in price movements and liquidity crises that are difficult to predict. Any such fluctuations in the wholesale energy markets could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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



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

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

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

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

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

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

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

***External financing may increase our interest expense.***

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

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

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, holds approximately 69.8% of all shares in ČEZ, a. s. as of the date of this offering memorandum. Although we do not currently expect the Czech Government to privatize ČEZ, a. s., we cannot give any assurance that the Czech Government or any future government of the Czech Republic will not ultimately seek to undertake a partial or full

privatization of ČEZ, a. s. resulting in the sale of its entire shareholding in ČEZ, a. s. The credit rating of A- with a “stable” outlook currently assigned to ČEZ, a. s. by Standard & Poor’s Credit Market Services Europe Limited is based in part on the opinion of Standard & Poor’s Credit Market Services Europe Limited that the Czech Republic may potentially provide support to ČEZ, a. s. in the event of financial distress. This rating could come under pressure, potentially leading to a downgrade, if ČEZ, a. s. is fully or partially privatized and the Czech Republic is no longer a controlling shareholder, which could affect our ability to make repayments on our debt or otherwise have a material adverse effect on our business, results of operations and financial condition. Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, which is available on the ESMA website ([www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs)) (last updated January 6, 2012).

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

Our current generation capacity predominantly consists of coal and nuclear generation. We aim to expand our existing non-nuclear power generation as well as diversify our generation capacity in order to reduce CO<sub>2</sub> emissions, increase the flexibility of our generation facilities and increase our generation potential to meet future demand. We hope to achieve this by investing in the upgrade and replacement of coal-fired power plants, building new gas and wind power plants and increasing our renewable power generation capacity. All of these investments will require significant capital expenditure and substantial managerial attention. Furthermore, we may incur additional costs and loss of revenues if we fail to complete such expansion and diversification projects within budget and on schedule. Our failure to properly control these capital expenditures may result in higher utilization of our debt capacity and our inability to contract the relevant supplies on terms substantially comparable to those of our competitors, which could lower the competitiveness of our generation fleet. Any failure to expand and diversify our non-nuclear generation capacity could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

On November 24, 2009, inspectors of the European Commission performed an unannounced inspection at our headquarters in Prague and at the office of Severočeské doly, a.s., a wholly-owned member of our Group, as part of an investigation into allegations of anti-competitive behavior. It has been alleged that we may have attempted to restrict the development of competition on the Czech wholesale electricity market by obstructing power plant projects of our competitors, limiting trade in brown coal and influencing the prices on the Czech

wholesale electricity market. In August 2010, the European Commission requested written information from us and subsequently on August 30 and September 1, 2010, it conducted an announced inspection at our headquarters, where we provided all requested information and answered subsequent requests for information made by the European Commission. On July 11, 2011, the European Commission decided to start proceedings in respect of one alleged infringement concerning hoarding capacity on the transmission network and thus preventing access to the Czech wholesale electricity market. If we were found to have engaged in anti-competitive behaviour, we could face a maximum fine of 10% of our 2008 global turnover, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

***Risks associated with deliveries of coal from Sokolovská uhelná.***

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

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

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

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

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

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

Under Czech law, we are required to reserve restricted funds to meet the expected future costs of decommissioning our nuclear power plants. We pay these funds into escrow accounts that can be used only to meet decommissioning costs with the permission of the Czech Repository Authority. For the year ended December 31, 2011, our annual contribution to these escrow accounts was CZK 326 million (CZK 165.5 million in respect of the Dukovany nuclear power plant and CZK 160.5 million in respect of the Temelín nuclear power plant). We cannot give any assurance that amounts held by us as restricted funds will not increase as a result of increased projected costs of decommissioning or as a result of other factors determining the amount of our annual contributions. In addition, if such amounts are not sufficient to meet future decommissioning costs, we may be required to pay



additional amounts, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

We trade on the financial and energy wholesale markets. E.U. regulations, such as the Regulation on Energy Market Integrity and Transparency (REMIT), Markets in Financial Instruments Directive (MIFID) and the European Market Infrastructure Regulation (EMIR), require the implementation of wholesale commodity trading, including potential cash margining requirements, for all over-the-counter deals. These regulations may significantly modify current financial and commodity instrument rules based on rules of the European Federation of Energy Traders (EFET) and of the International Swaps and Derivatives Association (ISDA). Changes to credit and cash settlement requirements could require us to put-forward cash margining to cover mark-to-market of all our wholesale forward sales of electricity used for hedging our generation portfolio in case of power price increases. Due to the amount of our hedged production volume and the volatility of power prices, such requirements could result in significant liquidity needs that may be difficult to cover. In addition, foreign exchange and interest rate hedging transactions could also be affected. As a result, E.U. regulation of energy market

mechanisms, including any changes to credit and cash settlement requirements for trading of commodities and financial instruments, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

We own a significant amount of emission allowances and emission credits, which are registered as intangible assets by national registries in individual E.U. countries. National emission allowances and emission credits registries are operated by independent governmental bodies and are governed by E.U. law. We have no



control or influence over the security and operational processes of these national registries. The financial value of our assets registered in such registries is significant and any unauthorized transactions could have a material adverse effect on our business, results of operations and financial condition.

***Our insurance coverage may not be adequate.***

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

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

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

***Electromagnetic fields may have an adverse impact on public health.***

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

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

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

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

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

professional qualifications, or to recruit skilled professional and technical staff in pace with our growth, could have a material adverse effect on our business, results of operations and financial condition.

***Our mining operations, reserves and resource estimates are disclosed on a different basis from filings with the U.S. SEC that are made in accordance with U.S. SEC Industry Guide 7.***

Our mining operations, reserves and resources estimates are disclosed on a different basis than those disclosed in U.S. registration statements and other documents filed with the U.S. SEC in accordance with U.S. SEC Industry Guide 7 (“*Guide 7*”) and therefore may not be comparable to other companies. In particular, Guide 7 does not recognize classifications other than proved and probable reserves and the U.S. SEC does not permit mining companies to disclose mineral resources in U.S. SEC filings. Our coal reserve data are only estimates, which may differ materially from actual reserves or how such reserves might be disclosed in accordance with Guide 7. Furthermore, our reserve estimates may change substantially if new information becomes available. There are inherent uncertainties in estimating reserves, which require the consideration of a number of factors, assumptions and variables, many of which may be beyond our control and cannot be ascertained despite due investigation.

### **Risks Related to the Notes**

***The negative pledge covenant in the Notes permits the Issuer and its Material Subsidiaries to incur additional Indebtedness secured by Liens on Principal Property or enter into Sale and Lease-Back Transactions. Your right to receive payments on the Notes therefore may be structurally subordinated to other liabilities of the Issuer, its Material Subsidiaries and other of the Issuer’s subsidiaries.***

The negative pledge covenant in the Notes permits the Issuer and its subsidiaries to incur additional Indebtedness (restrictions relating to the Issuer’s and its Material Subsidiaries’ ability to incur additional Indebtedness secured by Liens on Principal Property, subject to a number of material exceptions) and to enter into Sale and Lease-Back Transactions (as such terms are defined in the Notes). Please see “*Terms and Conditions of the 2022 Notes—Negative Pledge and Other Covenants—Negative Pledge*,” “*Terms and Conditions of the 2022 Notes—Negative Pledge and Other Covenants—Limitations on Sale and Lease-Back Transactions*” and “*Terms and Conditions of the 2042 Notes*.” In addition, none of the Issuer’s subsidiaries will guarantee the Notes. As a result, there is a risk that the Notes will be structurally subordinated to future and existing indebtedness of the Issuer, its Material Subsidiaries and other of the Issuer’s subsidiaries.

The terms of the Notes do not require the Issuer to achieve or maintain any minimum financial results relating to its financial position or results of operations. The Issuer’s ability to recapitalize, incur additional debt, secure existing or future debt or take a number of other actions that are not limited by the terms of the Notes could have the effect of diminishing its ability to make payments on the Notes when due.

***The Issuer’s financial performance and other factors could adversely impact its ability to make payments on the Notes.***

The Issuer’s ability to make scheduled payments with respect to its indebtedness, including the Notes, will depend on its financial and operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors beyond its control.

***There is no established trading market for the Notes. If a market for the Notes does not develop, your ability to sell the Notes may be limited.***

The Notes are new issues of securities for which there is currently no established trading market. Accordingly, the Issuer cannot assure you as to:

- the liquidity of any market in the Notes;
- your ability to sell your Notes; or
- the prices at which you would be able to sell your Notes.

The Issuer will apply for admission to trading of the Notes on the Luxembourg Stock Exchange. However, the Notes may not become or remain listed on that exchange. Although the Initial Purchasers have advised the Issuer that they intend to make a market in the Notes as permitted by applicable laws and regulations, they are not obliged to do so and may discontinue their market-making activities at any time at their sole discretion and without notice.

The liquidity of the trading market in the Notes and the market price quoted for the Notes may be adversely affected by many factors, including, among other things, changes in the overall market for similar securities, interest rates, our financial performance or prospects or in the prospects for companies in our industry generally. Subsequent to their initial issue, the Notes may trade at a discount from their initial offering price, depending upon

prevailing interest rates, the market for similar notes, our operating performance and other factors. As a result, an active trading market for the Notes may not develop or, if developed, may not continue, and you may be unable to sell your Notes. If a market does develop, it may not be very liquid. Therefore, you may not be able to sell your Notes easily or at prices that will provide you with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes.

Further, it is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. As a result, the Issuer cannot give any assurance that there will be an active trading market for the Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all. In addition, the terms of the Notes allow the Issuer to issue additional Notes in the future which could adversely impact the liquidity of the Notes.

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

You must determine the suitability of an investment in the Notes in light of your own circumstances. In particular, you should:

- 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 in this offering memorandum and any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of your particular financial situation, an investment in the Notes and the impact the Notes will have on your overall investment portfolio;
- consider all of the risks of an investment in the Notes, including where your currency is not U.S. dollars;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behavior of financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

***The Issuer's credit ratings may not reflect all risks of an investment in the Notes.***

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

European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-E.U. credit rating agencies, unless the relevant credit ratings are endorsed by an E.U.-registered credit rating agency or the relevant non-E.U. rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

***The Notes will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.***

Unless and until definitive registered notes are issued in exchange for book-entry interests in the Notes, owners of the book-entry interests will not be considered owners or holders of the Notes. Instead, the registered

holder, or their respective nominee, will be the sole holder of the Notes. Payments of principal, interest and other amounts owing on or in respect of the Notes in global form will be made to Citibank, N.A., London Branch (as Fiscal Agent for the Notes), which will make payments to the relevant clearing system. Thereafter, payments will be made by the relevant clearing system to participants in these systems and then by such participants to indirect participants. After payment to the relevant clearing system neither the Issuer, nor Citibank, N.A. will have any responsibility or liability for any aspect of the records related to, or payments of, interest, principal or other amounts to owners of book-entry interests.

Unlike holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations or consents or requests for waivers or other actions from holders of the Notes that the Issuer may choose to make in the future. Rather, owners of book-entry interests will be permitted to act only to the extent that they have received appropriate proxies to do so from the relevant clearing system or, if applicable, from a participant. The Issuer cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any such solicitations or requests for actions on a timely basis.

***Transfers of the Notes are restricted, which may adversely affect their liquidity and the value of the Notes.***

The Notes are being offered and sold pursuant to an exemption from registration under the U.S. Securities Act and applicable state securities laws of the United States. The Notes have not been and will not be registered under the U.S. Securities Act. Therefore, you may not transfer or sell the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act, or pursuant to an effective registration statement, and you may be required to bear the risk of your investment in the Notes for an indefinite period of time. The Notes contain provisions that restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S under the U.S. Securities Act, or other exceptions under the U.S. Securities Act. In addition, by acceptance of delivery of any Notes, the holder thereof agrees on its own behalf and on behalf of any investor accounts for which it has purchased the Notes that it shall not transfer the Notes in an aggregate principal amount of less than U.S.\$200,000.

These restrictions will limit your ability to transfer your Notes and may prevent or impair an active trading market from developing. As a result, the restrictions on your ability to transfer your Notes may adversely impact the value of your Notes. Please see "*Subscription and Sale*" and "*Form of the Notes and Transfer Restrictions*."

***Czech insolvency laws to which the Issuer is subject may not be as favorable to the holders of the Notes as U.S. or other insolvency laws.***

The Issuer is incorporated and organized under the laws of the Czech Republic. Any insolvency proceedings relating to the Issuer, even if brought in the United States, might involve Czech insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of U.S. federal bankruptcy law. If the Issuer becomes insolvent, there is a risk that holders of Notes may not be able to enforce fully their rights under the Notes and that any claims may be considerably delayed.

Czech insolvency laws are set out in Czech Act No. 182/2006 Coll., on Insolvency, as amended (the "*Czech Insolvency Act*"). In the Czech Republic, insolvency proceedings are held before the Czech Insolvency Court, where the Czech Insolvency Court and an Insolvency Trustee appointed by the Czech Insolvency Court play an important role. Under the Czech Insolvency Act, a debtor is insolvent (in Czech: "*v úpadku*") if it (a) has at least two creditors; (b) has monetary obligations overdue for more than 30 days; and (c) is unable to satisfy such obligations. A debtor is deemed to be unable to satisfy its monetary obligations if (i) it has suspended payments of a substantial portion of its monetary obligations; (ii) it is in default with payment of its monetary obligations for more than three months; (iii) satisfaction of certain payable debtor's obligation is impossible by an enforcement of a court decision or seizure of debtor's assets; or (iv) it fails to submit the Insolvency Court with requested lists of its property, obligations and employees. A debtor, which is a corporate entity, is also insolvent if it is over-indebted (in Czech: "*predlužení*"). Over-indebtedness means that the debtor has multiple creditors and the sum of its liabilities exceeds the value of its assets. For the purposes of an assets valuation, the way in which the debtor conducts its business and manages its assets on an ongoing basis, as well as future profits, are taken into consideration if it is likely that the debtor will be able to continue to manage its assets or operate its business.

If the Czech Insolvency Court declares a debtor insolvent, its creditors must register their claims within the period set forth in the Czech Insolvency Act. Claims registered after such deadline has expired will be refused and will not be satisfied in the insolvency proceedings. An exception exists with respect to E.U. creditors, who are notified individually pursuant to the Czech Insolvency Act and the Council regulation (EC) No. 1346/2000 of May 29, 2000 on Insolvency Proceedings (the "*Insolvency Regulation*").



Upon the commencement of insolvency proceedings in the Czech Republic, the debtor's right to dispose of its property becomes limited and creditors lose their rights to assert their claims before other courts. Certain legal acts performed by the debtor within the five years preceding the declaration of insolvency, which negatively affect creditors' rights, may be declared ineffective by the Czech Insolvency Court. The rights of holders of Notes may also be disputed on this basis.

In the Czech Republic, claims secured by a security interest over the debtor's property and certain priority claims (such as costs of the insolvency proceeding, employees' claims, taxes, and fees) are settled preferentially prior to unsecured claims (such as any claims by the holders of Notes), which may result in the remaining creditors (including any holders of Notes) receiving less under their claims.

As in other E.U. jurisdictions, international aspects of Czech insolvency proceedings are subject to the Insolvency Regulation. In general, according to the Insolvency Regulation, the courts of the member state in which the debtor's center of main interests is situated (which shall be presumed to be the place of the debtor's registered office, in the absence of proof to the contrary) have jurisdiction to open insolvency proceedings under the law applicable in that member state. The opening of such proceedings permits the automatic opening of secondary insolvency proceedings in another member state, although the effects of any such secondary proceedings are restricted to the assets of the debtor situated within the territory of that member state.

The Issuer cannot give any assurance that Czech insolvency laws are as favorable as insolvency laws in the United States or in any other jurisdiction with which you may be familiar.

***Investors may experience difficulties in enforcing foreign judgments under U.S. federal securities laws.***

The Issuer is organized under the laws of the Czech Republic. None of the members of the Issuer's management and none of its executive directors (in Czech: "jednatel") are residents of the United States and all of its assets are located outside the United States. As a result, it may not be possible for you to effect service of process within the United States upon the Issuer or members of its management or its executive directors. Furthermore, it may not be possible to enforce any judgments obtained in U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws against the Issuer as judgments of U.S. courts may not be directly recognized and enforceable in the Czech Republic. Please see "*Service of Process and Enforcement of Judgments.*"

***The Notes bear interest at a fixed rate and changes in market interest rate may affect the value of the Notes.***

The Notes will bear interest at a fixed rate, which involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

***Investment laws and regulations may restrict certain investments.***

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

***Certain modifications to the Notes may be made without your consent.***

The Fiscal Agency Agreements contain provisions for calling meetings of holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Notes including holders of the Notes who did not attend and vote at the relevant meeting and holders of the Notes who voted in a manner contrary to the majority. In particular, under the terms of the Fiscal Agency Agreements, an Extraordinary Resolution (as defined in the Fiscal Agency Agreements) may be passed by the holders of only three quarters of the Notes voted at a meeting to reduce or cancel amounts due under the Notes, including principal.

***E.U. Savings Directive.***

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

conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-E.U. countries and certain dependent or associated territories of certain member states have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to (or collected by such a person for) an individual resident in a member state or to certain limited types of entity established in a member state. In addition, the member states have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to (or collected by such a person for) an individual resident in one of those territories or to certain limited types of entities established in one of those territories. The European Commission has proposed certain amendments to the E.U. Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

***Changes of law in England and Wales may impact the rights of noteholders.***

The terms of the Notes are based on the laws of England and Wales in effect as of the date of this offering memorandum. The Issuer cannot give any assurance as to the impact of any possible judicial decision or change to the laws of England and Wales or administrative practice after the date of this offering memorandum.



## EXCHANGE RATE INFORMATION

The following tables set forth, for the periods indicated, the high, low, period end and average Czech National Bank rate expressed as Czech crowns per U.S.\$1.00 and Czech crowns per €1.00. The average rate for a year means the average of the Czech National Bank rate on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Czech National Bank rate during that month, or shorter period, as the case may be.

The rates may differ from the actual rates used in the preparation of our audited consolidated financial statements and other financial information appearing in this offering memorandum. Neither we nor the Initial Purchasers represent that the U.S. dollar or Euro amounts referred to below could be or could have been converted into CZK at any particular rate indicated or at any other rate.

The Czech National Bank rate of the CZK on March 27, 2012 was CZK 18.46 per U.S.\$1.00 and CZK 24.61 per €1.00.

	Exchange Rates			
	High	Low	Period End	Average
	(CZK per U.S.\$1.00)			
<b><u>Year</u></b>				
2007.....	21.84	17.66	18.08	20.15
2008.....	20.44	14.45	19.35	17.11
2009.....	23.33	16.89	18.37	19.06
2010.....	21.70	17.12	18.75	19.17
2011.....	20.10	16.27	19.94	17.60
<b><u>Month</u></b>				
January 2012.....	20.32	19.11	19.11	19.79
February 2012.....	19.46	18.48	18.48	18.94
March 2012 (through March 27).....	18.96	18.46	18.46	18.72

	Exchange Rates			
	High	Low	Period End	Average
	(CZK per €1.00)			
<b><u>Year</u></b>				
2007.....	28.78	26.00	26.62	27.74
2008.....	26.93	22.97	26.93	25.05
2009.....	29.47	25.09	26.47	26.50
2010.....	26.37	24.41	25.06	25.27
2011.....	26.03	24.01	25.80	24.60
<b><u>Month</u></b>				
January 2012.....	25.91	25.16	25.19	25.53
February 2012.....	25.27	24.80	24.84	25.04
March 2012 (through March 27).....	24.89	24.47	24.61	24.67

## **USE OF PROCEEDS**

We estimate that the net proceeds from the sale of the Notes will be approximately U.S.\$988.9 million after deducting the Initial Purchasers' commissions and certain estimated expenses to be incurred in connection with this offering including legal, accounting and other professional fees incurred in connection therewith that are to be borne by the Issuer. The net proceeds from the sale of the Notes will be used for general corporate purposes.

## CAPITALIZATION

The following table sets forth on a consolidated basis our cash and cash equivalents and our capitalization as of December 31, 2011: (i) on an actual basis and (ii) as adjusted to reflect the issuance of the Notes and the use of proceeds. The historical financial information has been derived from our audited consolidated financial statements, prepared in accordance with IFRS, which are incorporated by reference into this offering memorandum.

You should read this table in conjunction with “*Risk Factors*,” “*Use of Proceeds*,” “*Description of Other Indebtedness*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and our audited consolidated financial statements, including the notes thereto, which are incorporated by reference into this offering memorandum. Except as set forth below, there have been no material changes to our capitalization since December 31, 2011.

	<b>As of December 31, 2011</b>		
	<b>Actual</b>	<b>Adjustments</b>	<b>As adjusted</b>
	<b>(CZK in millions)</b>		
<b>Cash and cash equivalents</b> .....	22,062	19,718 <sup>(1)(2)</sup>	41,780 <sup>(1)(2)</sup>
<b>Debt:</b>			
Short-term debt:			
Short-term bank loans .....	4,333	–	4,333
Bank overdrafts .....	1,167	–	1,167
<b>Total short-term debt</b> .....	5,500	–	5,500
Long-term debt:			
2022 Notes offered hereby <sup>(2)</sup> .....	–	13,808	13,808
2042 Notes offered hereby <sup>(2)</sup> .....	–	5,910	5,910
Other long-term debt .....	183,949	–	183,949
<b>Total long-term debt</b> .....	183,949	19,718	203,667
<b>Total debt</b> .....	189,449	19,718	209,167
<b>Total shareholders’ equity</b> .....	226,713	–	226,713
<b>Total capitalization</b> .....	416,162	19,718	435,880

(1) After deducting the estimated commissions, fees and expenses incurred in connection with the offering of the Notes.

(2) The translation of the U.S.\$1,000,000,000 aggregate principal amount of the Notes to Czech crowns is based on a conversion at the Czech National Bank rate on December 31, 2011 of CZK 19.94 per U.S.\$1.00. Please see “*Exchange Rate Information*.”

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

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

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

In March 2012, ČEZ, a. s. successfully priced a twenty-year registered bond issue (Namensschuldverschreibung) under German law for the amount of €40 million. The coupon was set at 4.700% per annum. The expected settlement date is April 2, 2012.

## SELECTED FINANCIAL INFORMATION

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

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

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

For the convenience of the reader, this offering memorandum contains translations of certain Czech crown amounts into U.S. dollars based on the Czech National Bank rate on December 31, 2011 of CZK 19.94 per U.S.\$1.00.

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

## Income Statement Data

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

	For the year ended December 31,				
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2011
	(CZK in millions)				(U.S.\$ in millions)
<b>Revenues:</b>					
Sales of electricity .....	173,494	175,277	175,277	181,793	9,117
Gains and losses from electricity, coal and gas derivative trading, net.....	6,894	5,392	5,392	5,843	293
Sales of gas, coal, heat and other revenues .....	15,964	18,179	18,179	22,125	1,110
<b>Operating expenses:</b>					
Fuel .....	(15,805)	(16,946)	(16,946)	(17,145)	(860)
Purchased power and related services .....	(48,170)	(54,353)	(54,353)	(65,865)	(3,303)
Repairs and maintenance .....	(6,043)	(5,465)	(5,465)	(5,014)	(251)
Depreciation and amortization.....	(22,876)	(24,032)	(24,060)	(25,770)	(1,292)
Salaries and wages.....	(18,116)	(18,717)	(18,717)	(18,105)	(908)
Materials and supplies .....	(5,272)	(4,844)	(4,844)	(5,478)	(275)
Emission rights, net .....	305	2,388	2,148	2,895	145
Other operating expenses.....	(12,176)	(11,822)	(11,823)	(13,737)	(689)
<b>Income before other income (expenses) and income taxes .....</b>					
Other income (expenses) .....	(3,253)	(6,108)	(6,108)	(9,590)	(481)
<b>Income before income taxes .....</b>					
Income taxes .....	(13,091)	(11,791)	(11,739)	(11,199)	(562)
<b>Net income .....</b>					
	51,855	47,158	46,941	40,753	2,044

## Balance Sheet Data

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

	As of December 31,				
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2011
	(CZK in millions)				(U.S.\$ in millions)
<b>Assets:</b>					
Total property, plant and equipment.....	328,805	361,066	362,510	386,863	19,401
Total other non-current assets.....	86,150	86,968	85,764	80,716	4,048
Total non-current assets .....	414,955	448,034	448,274	467,579	23,449
Total current assets .....	115,304	95,657	96,101	130,528	6,546
<b>Total assets .....</b>					
	530,259	543,691	544,375	598,107	29,995
<b>Equity and Liabilities:</b>					
Total equity attributable to equity holders of the parent .	200,361	221,611	221,431	226,713	11,370
Total equity .....	206,675	227,051	227,052	232,078	11,639
Total long-term liabilities .....	177,181	198,061	198,061	223,691	11,218
Deferred tax liability.....	15,335	17,902	18,191	16,946	850
Total current liabilities.....	131,068	100,677	101,071	125,392	6,288
<b>Total equity and liabilities .....</b>					
	530,259	543,691	544,375	598,107	29,995



## Statement of Cash Flow Data

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

	For the year ended December 31,				
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2011
	(CZK in millions)				(U.S.\$ in millions)
Net cash provided by operating activities .....	87,354	77,165	77,165	61,773	3,098
Total cash used in investing activities .....	(99,022)	(65,584)	(65,584)	(52,876)	(2,652)
Total cash provided by (used in) financing activities.....	22,230	(15,592)	(15,592)	(8,419)	(422)
Net effect of currency translation in cash.....	(1,138)	(530)	(530)	(602)	(30)
<b>Net increase (decrease) in cash and cash equivalents...</b>	<b>9,424</b>	<b>(4,541)</b>	<b>(4,541)</b>	<b>(124)</b>	<b>(6)</b>
Cash and cash equivalents at the beginning of the period...	17,303	26,727	26,727	22,186	1,113
Cash and cash equivalents at the end of the period.....	26,727	22,186	22,186	22,062	1,107

## Other Financial Information

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

	For the year ended December 31,				
	2009	2010	2010 (restated)	2011	2011
	(CZK in millions, except percentages)				(U.S.\$ in millions)
EBIT.....	68,199	65,057	64,788	61,542	3,086
EBITDA.....	91,075	89,089	88,848	87,312	4,379
EBITDA Margin .....	46.4%	44.8%	44.7%	41.6%	
Net Debt.....	124,412	134,538	134,538	159,363	7,992

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

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

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

For the year ended December 31,					
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2011
	(CZK in millions)				(U.S.\$ in millions)
<b>Long-term debt:</b>					
Total bonds and debentures .....	111,031	137,166	137,166	151,107	7,578
Total long-term bank and other loans.....	14,522	17,660	17,660	32,842	1,647
<b>Short-term loans:</b>					
Short-term bank loans.....	25,310	8,306	8,306	4,333	217
Bank overdrafts.....	1,336	1,312	1,312	1,167	59
Other short-term borrowings .....	4,611	–	–	–	–
Cash and cash equivalents .....	(26,727)	(22,163)	(22,163)	(22,062)	(1,106)
Highly liquid financial assets <sup>(1)</sup> .....	(5,671)	(7,743)	(7,743)	(8,024)	(402)
<b>Net Debt</b> .....	<u>124,412</u>	<u>134,538</u>	<u>134,538</u>	<u>159,363</u>	<u>7,993</u>

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

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

For the year ended December 31,					
	2009	2010	2010 (restated)	2011	2011
	(CZK in millions, except percentages)				(U.S.\$ in millions)
Net income .....	51,855	47,158	46,941	40,753	2,044
Income taxes .....	13,091	11,791	11,739	11,199	562
Total other income/(expenses) .....	3,253	6,108	6,108	9,590	481
<b>EBIT</b> .....	<u>68,199</u>	<u>65,057</u>	<u>64,788</u>	<u>61,542</u>	<u>3,087</u>
Depreciation and amortization.....	(22,876)	(24,032)	(24,060)	(25,770)	(1,292)
<b>EBITDA</b> .....	<u>91,075</u>	<u>89,089</u>	<u>88,848</u>	<u>87,312</u>	<u>4,379</u>
EBITDA Margin .....	46.4%	44.8%	44.7%	41.6%	

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the results of operations and financial condition based upon the audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2009, 2010 and 2011, as prepared in accordance with IFRS, as adopted by the E.U., which are incorporated by reference in this offering memorandum. Please see "Annex B—Documents Incorporated by Reference." We restated our financial statements for the year ended December 31, 2010, although this restatement did not materially affect our financial results. Please see "Presentation of Financial Information." You should read the following discussion in conjunction with the financial statements and related notes thereto incorporated by reference in this offering memorandum. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in the "Risk Factors" and "Forward-Looking Statements" sections of this offering memorandum. Our actual results may differ materially from those contained in, or implied by, any forward-looking statements.

### Overview

We are the largest electricity generation and distribution company and one of the largest companies in the Czech Republic on the basis of revenues and total assets. We had revenues of CZK 196.4 billion, CZK 198.8 billion and CZK 209.8 billion and EBITDA of CZK 91.1 billion, CZK 88.8 billion and CZK 87.3 billion (resulting in EBITDA Margins of 46.4%, 44.7% and 41.6%) for the years ended December 31, 2009, 2010 and 2011, respectively.

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

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

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

	Electricity generated, year ended December 31,			Electricity distributed to end-consumers, year ended December 31,			Electricity sold to end-consumers, year ended December 31,		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
	(GWh)								
<b>Central Europe:</b>									
Czech Republic .....	60,842	63,264	63,321	31,761	32,937	32,613	25,224	24,564	21,969
Poland .....	2,261	2,063	2,204	—	—	—	612	660	95
Other .....	—	—	—	—	—	—	1,452	2,169	2,432
Total .....	63,103	65,327	65,525	31,761	32,937	32,613	27,288	27,393	24,496
<b>South East Europe:</b>									
Albania .....	—	—	—	4,112	4,380	4,487	4,264	4,606	5,031
Bulgaria .....	2,241	2,850	3,043	8,786	8,892	9,193	9,054	9,376	10,024
Romania .....	—	256	641	7,073	6,994	7,335	3,213	3,219	3,295
Total .....	2,241	3,106	3,684	19,971	20,266	21,015	16,531	17,201	18,350
<b>Total .....</b>	<b>65,344</b>	<b>68,433</b>	<b>69,209</b>	<b>51,732</b>	<b>53,203</b>	<b>53,628</b>	<b>43,819</b>	<b>44,594</b>	<b>42,846</b>

## Factors That Affect Our Results of Operations

### Wholesale Electricity Prices

We sell a majority of the electricity we generate in liberalized markets, either to end customers or professional counterparties via OTC transactions at prevailing prices or via power exchanges (primarily the PXE in Prague and the EEX in Leipzig). As such, all related revenues are subject to fluctuations in wholesale electricity prices. Since electricity markets are liberalized in the Czech Republic and neighboring European Union countries, prices in these markets are closely correlated. In particular, wholesale electricity prices in the Czech Republic are fairly similar to those in Germany, with a difference fluctuating at around €1-€2/MWh, which reflects fluctuations in the cost of transferring electricity across the border. Accordingly, the prices at which CEZ entities sell the electricity they produce may reflect events outside their respective domestic territories, such as the development of gas and hard coal prices, prices of emission allowances, demand-supply dynamics in the German power market, and other factors. The impact of wholesale power price fluctuations on our operating profit is further exacerbated by the fact that the variable costs of generating electricity through our Czech generation fleet are fairly stable and not related to the factors that drive electricity prices in the region. Accordingly, our margins are directly impacted when electricity prices change. We also sell electricity in regional markets outside the Czech Republic, where different factors such as government and industry regulation and type and price of fuel used for generation may drive electricity prices. Our variable cost structure is different in those markets, leading to different patterns of volatility that impact our results.

In order to reduce the impact of this price volatility, we sell most of the electricity we generate on a one- to three-year forward basis, and recently began selling smaller amounts of electricity generated for as long as eight years forward in the wholesale market. As of December 31, 2011, we had sold substantially all of the electricity we expect to generate in 2012 (100% corresponds to 55-60 TWh of our expected annual generation in the Czech Republic) and we have entered into additional long-term contracts for approximately 1.75 TWh of annual delivery extended through 2020. Please see “*Business—Our Business—Trading.*” Accordingly, wholesale price decreases may not immediately affect our financial performance and results of operations. For example, the global economic crisis that began in 2008 caused substantial declines in electricity prices in the Czech Republic, when one year forward electricity prices fell from almost €90/MWh in the summer of 2008 to close to €40/MWh in early 2009. The decline did not fully affect us until the year ended December 31, 2010. Since 2009, prices have remained relatively stable in the €45/MWh to €55/MWh range, but increased above €55/MWh in March 2011, due to an accident at the Fukushima Daiichi nuclear reactor in Japan and the related shutdown of nuclear reactors in Germany. The table below sets forth the high, average and low prices for one year forward electricity prices in the Czech Republic for the years ended December 31, 2009, 2010 and 2011.

Year	One year forward electricity prices in the Czech Republic			
	High	Low	Period end	Average
				(€/MWh)
2009 .....	58.81	40.25	42.70	47.43
2010 .....	52.50	42.70	50.50	47.65
2011 .....	58.20	49.05	50.90	53.99

Source: Bloomberg

Our sales business procures electricity at prevailing market prices and resells it with certain margins. In most cases, these margins are determined by the competition in the relevant market. As such, the results of operations of our sales business are not significantly influenced by volatility of wholesale power prices.

We also enter into speculative electricity trades, whereas results of such trading activity depend on movements of wholesale electricity prices. Such activity, nevertheless, is fairly limited, particularly when compared to the exposure of our generation business to power prices. The maximum exposure we may take through proprietary trading is closely and continuously monitored by our Risk Management Unit and is subject to limits setting the maximum risk of loss on our proprietary trading portfolio (“Value at Risk”). The potential open positions over a longer time period are limited by a daily Value at Risk limit of CZK 163 million. As of December 31, 2011, our one day Value at Risk in our proprietary trading portfolio amounted to CZK 44 million.

### Currency Exchange Rate Fluctuations

We sell the electricity we generate in the Czech Republic on markets such as the PXE, the EEX and on the electronic OTC broker platform, which trade electricity contracts denominated in Euro, or to domestic end customers. As a result, the revenues we receive from these sales are either denominated in Euro or denominated in Czech crowns, but derived from Euro-denominated electricity prices and the €/CZK exchange rate at the time the

contract concludes. Please see “*Exchange Rate Information*” for the average €/CZK and U.S./CZK exchange rates for the years ended December 31, 2009, 2010 and 2011. Substantially all of our operating expenses and capital expenditure needs related to power generation in the Czech Republic are denominated in Czech crowns, however, leading to substantial foreign exchange risk. We use Euro-denominated liabilities and incur Euro-denominated debt as a natural hedge against exchange rate fluctuations, and endeavour to partially cover remaining open positions by entering into hedging transactions, primarily foreign exchange forward contracts. We account for and report our hedging activity under IFRS hedge accounting principles. Please see “—*Critical Accounting Policies and Estimates—Hedge Accounting*.” As of December 31, 2011, we had €5.6 billion in Eurobond and Euro-denominated bank loan indebtedness and the fair value of our currency forward contracts and swaps qualified as hedging instruments amounted to CZK (1,690) million. We also intend to enter into currency swaps with respect to the aggregate principal amount of the Notes.

Our non-Czech businesses typically operate within their domestic markets, but still encounter foreign exchange transaction risk, because, for example, they receive certain parts of their revenues in Euro (or derived from Euro-denominated prices) or have indebtedness denominated in currencies other than local currencies, and incur costs in local currencies or *vice versa*. Similarly to the Czech Republic, we seek to use natural hedging or enter into hedging transactions in order to mitigate foreign exchange risk.

In addition, we present our consolidated financial statements in Czech crowns. As a result, the assets, liabilities, revenue and expenses of all of our operations with functional currencies other than the Czech crown must be translated into Czech crown at the applicable exchange rate, being the spot rate for assets and liabilities, and the average period rate for revenues and expenses in the given period. Consequently, increases or decreases in the value of the Czech crown may affect the value of these items with respect to our non-crown businesses in our consolidated financial statements, even if their value has not changed in their original currency. Please see “—*Explanation of Key Income Statement Items—Other Income (Expenses)—Foreign exchange rate gains (losses), net*.” For example, a stronger Czech crown will reduce the reported results of operations of our non-CZK businesses, and conversely a weaker Czech crown will increase the reported results of operations of our non-CZK businesses. These translations could significantly affect the comparability of our results between financial periods or result in significant changes to the carrying value of our assets, liabilities and stockholders’ equity. Please see “—*Qualitative and Quantitative Disclosures about Market Risk—Foreign Currency Risk*.” In the years ended December 31, 2009, 2010 and 2011, we recognized foreign currency translation losses of CZK 1.2 billion, CZK 2.9 billion and CZK 0.6 billion, respectively.

### ***Consumers’ Demand for Electricity***

Consumers’ demand for electricity has a material effect on the results of our operations, mainly on the electricity sale businesses. Several factors affect the demand for electricity, such as weather, seasonality and general economic conditions and/or worsening economic conditions and industrial output. For example, revenues and operating profits within the Distribution and Sale segments (both CE and SEE) (as defined below) are typically slightly higher during the first and fourth quarters of the calendar year, reflecting the increased demand for electricity during winter months. Accordingly, unusually warm winter temperatures may reduce consumers’ demand for electricity, and correspondingly reduce our financial performance and results of operations.

According to the ERO, end-consumer electricity consumption in the Czech Republic fell by 5.6% for the year ended December 31, 2009 due to the global recession, but increased by 2.7% for the year ended December 31, 2010, as a result of the economic recovery and lower average temperatures in the Czech Republic (with wholesale demand increasing by 5.1% over the period), and increased by 1.1% for the year ended December 31, 2011 (with wholesale demand increasing by 1.9% over the period).

### ***Regulation***

Electricity generation and supply activities are liberalized in the Czech Republic and elsewhere throughout the European Union, although electricity distribution is not open to competition and is regulated. Accordingly, electricity generation and supply activities are exposed to competition, even though the degree of that exposure in practical terms differs from country to country. Nevertheless, individual countries and the European Commission apply various rules and utilize various schemes through which they try to influence behaviour of individual market participants, particularly with respect to electricity generation activities. Examples of these measures include various support schemes designed to encourage electricity generation by renewable sources, an E.U.-wide CO<sub>2</sub> trading scheme, emission limits, and measures aimed at increasing interconnection between national power transmission grids.

Our electricity distribution and heat businesses, which comprised 14.9%, 19.9% and 21.5% of our consolidated EBITDA for the year ended December 31, 2009, 2010 and 2011, respectively, is not liberalized



throughout the European Union, however, and regulators determine the prices that may be charged for these regulated activities. We are therefore exposed to pricing decisions of the regulators in those jurisdictions. Please see “*Risk Factors— Risks Related to Our Business and Operations— We are subject to differing regulatory regimes in all of the countries in which we operate and these regimes are complex and subject to change.*” In the Czech Republic, for example, the ERO regulates the price that can be charged for distributing electricity. The regulation allows the distribution company to recover its eligible costs plus profit, determined as WACC over certain Regulatory Asset Base. The ERO allowed us to realize gross margins on our Czech distribution business of CZK 16.7 billion for the year ended December 31, 2009, CZK 19.1 billion for the year ended December 31, 2010 and CZK 21.5 billion for the year ended December 31, 2011. Please see “*Regulation—Czech Republic— Transmission and Distribution of Electric Energy—Price of Electricity.*” Heat production is similarly regulated in the Czech Republic; the ERO provides the procedures for calculating the price that may be charged for heat, allowing for recovery of economically justifiable expenses, an approved profit margin and value added tax. Please see “*Regulation—Czech Republic— Heating Energy Sector—Heat Generation and Prices.*” Regulatory bodies in South East Europe have similar authority and use similar approaches. Please see “*Regulation.*”

### ***Changes in Tax Laws***

We are subject to tax laws across a number of jurisdictions. Changes in tax laws may have a material effect on our financial performance and results of operations. For example, the Czech government allocates free-of-charge emission allowances to ČEZ (as well as other CO<sub>2</sub> emitters) under the Emission Allowances Act (as defined below). In 2011, however, economic and political events in the Czech Republic caused the Czech government to amend tax laws, pursuant to which the free allocation of emission allowances in 2011 and 2012 became subject to a gift tax of 32% of the average market value of all allowances allocated (with market values to be determined by the Czech Ministry of Finance). Please see “*Regulation—Czech Republic—Electric Energy Sector—Electricity Generation—Taxation of allocated emission allowances during phase II.*” As a result of this new gift tax, we paid CZK 3.6 billion in new taxes for the year ended December 31, 2011 and we expect to pay CZK 2.1 billion in 2012 (based on the most recent market price for emission allowances).

In addition, jurisdictions across the European Union (including the Czech Republic) have begun imposing new taxes on photovoltaic plants. These new taxes in some cases effectively cancel out government “green energy” subsidies in the form of guaranteed minimum electricity purchase prices or “green bonuses.” Please see “*Regulation.*” In the Czech Republic, for example, the revenues derived from the sale of photovoltaic electricity under the Czech Republic’s guaranteed purchase price scheme are subject to a special 26% tax from 2010 through 2013 and the “green bonuses” received from the Czech government are subject to a special 28% tax in the same periods.

Our effective tax rate for the years ended December 31, 2009 and 2010 was 20% and was an estimated 22% for the year ended December 31, 2011.

### ***Fuel and Emission Allowances Prices***

We purchase two key commodities as part of our electricity generation activities: fuel (mainly brown coal and nuclear fuel) and emission allowances.

*Fuel.* As part of our electricity production activities, we are required to purchase and consume large quantities of brown coal and nuclear fuel, and smaller quantities of black coal, gas, biomass and other alternative fuels. Approximately 18 million tons, or 64%, of the coal we use to produce electricity is provided within the Group by Severočeké doly. The remainder is purchased from external providers, including Czech Coal a.s., Sokolovská uhelná a.s. and OKD a.s. Most of our brown coal-fired power plants in the Czech Republic are located in north Bohemia, near the mines that supply our coal, limiting relevant logistics costs. All nuclear fuel is procured from external providers DIAMO s.p. and JSC TEVEL. Our external fuel costs, including coal, nuclear fuel and biomass, increased by CZK 0.2 billion, or 1.2%, from CZK 16.9 billion in the year ended December 31, 2010 to CZK 17.1 billion in the year ended December 31, 2011, and accounted for 11.6% of our operating expenses for the year ended December 31, 2011, compared to 12.6% of our operating expenses for the year ended December 31, 2010. Our external fuel costs, including coal, nuclear fuel and biomass, increased by CZK 1.1 billion, or 7.2%, from CZK 15.8 billion in the year ended December 31, 2009 to CZK 16.9 billion in the year ended December 31, 2010), and accounted for 12.6% of our operating expenses for the year ended December 31, 2010, compared to 12.3% of our operating expenses for the year ended December 31, 2009. Please see “*Business—Fuel.*”

*Emission allowances.* In 2005, the European Union introduced an emission allowance trading scheme, and we were allocated free emission allowances by the Czech government and government entities in Poland and Bulgaria. Please see “*Regulation.*” We use emission allowances in two ways: first, we use emission allowances allocated by government entities (plus purchases of emission allowances on the open market, if needed) to offset

our actual emissions, and second, we buy and sell emission allowances (along with excess emission allowances not used in our production activities) as part of our trading activity. Such trading activity also includes trading in Emission Reduction Units and Certified Emission Reductions issued under the Kyoto Protocol, which may be used to offset our actual emissions (within certain limits), or may be converted into European Emission Trading Scheme CO<sub>2</sub> allowances the following year.

In the years ended December 31, 2009, 2010 and 2011, we recognized net gains of CZK 0.3 billion, CZK 2.1 billion and CZK 2.9 billion, respectively, with respect to emission allowance and trading activity. Starting in 2013, E.U. governments will be required to auction their respective emission allowances for cash consideration. A partial derogation from the rule has been granted to certain countries whose GDP per capita falls below a certain threshold and whose generation fleet relies heavily on hydrocarbon fuels—including the Czech Republic and Poland. The derogation applies to a maximum of 70% of emission allowances allocated in these countries in 2013 and scales down annually, reaching zero in 2020. In exchange for the derogation, the respective countries must ensure that the proceeds they would have otherwise obtained from the auctions will be invested in CO<sub>2</sub> emission-reducing projects approved by the European Commission. On September 21, 2011, the Czech government approved a national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector, which forms part of the application submitted on September 30, 2011 to the European Commission. If the European Commission does not approve this plan, we may be required to purchase emission allocations from the Czech government beginning in 2013 (to the extent our allowance needs will not be covered through open market purchases).

### ***Capital Expenditures***

Capital expenditures are necessary to maintain and improve the operations of our facilities and meet regulatory and prudent operating standards. Construction and maintenance costs have increased throughout the power industry over the past several years, and future costs will be highly dependent on the cost of components and availability of contractors that can perform the work necessary to maintain and improve respective facilities. Since January 1, 2009, we have invested approximately CZK 20.7 billion towards improving the efficiency of our current brown coal-fired power plants in the Czech Republic, CZK 29.9 billion towards increasing our renewable generation capacity (particularly a wind farm in Romania and photovoltaic power plants in the Czech Republic), CZK 37.8 billion to improve our distribution networks and CZK 25.4 billion to improve our nuclear energy generation facilities. Please see “—*Liquidity and Capital Resources—Capital Expenditures and Acquisitions.*” Our long term investment strategy also includes the construction of two new nuclear units at the Temelin nuclear power plant. This project is currently in the bidding stage, and the expected capital expenditure range is wide. We do not plan to commit to making any significant capital expenditures until the details of the design and all necessary permits are fully in place, which is expected to occur in 2016. We expect to finance the related capital expenditures through a combination of debt issuances and operating cash flow. Please see “—*Liquidity and Capital Resources—Capital Expenditures.*”

### ***Geographical and Operating Segments***

We manage and operate our business, and analyze and report our results, through two levels of segmentation: first, by the geographical location of the assets used to operate our business, and second, by the nature of the products and services that we offer within each geographic area.

We distinguish our results between two geographic regions: Central Europe (“*CE*”), consisting of our operations in the Czech Republic (which provided approximately 91%, 93% and 93% of the Group’s EBITDA in the years ended December 31, 2009, 2010 and 2011, respectively), Germany, Hungary, Ireland, the Netherlands (except for the Dutch company Aken B.V., which we include in the South East Europe geographic region because it is a subsidiary of a joint venture in Turkey), Poland and Slovakia, and South East Europe (“*SEE*”), consisting of our operations in Albania, Bosnia and Herzegovina, Bulgaria, Cyprus, Kosovo, Romania, Russia, Serbia, Turkey, and the Ukraine. Trading operations that are provided at the Group headquarters are presented in the CE geographic region.

We divide our operations within each of our geographic segments into four sub-segments according to the nature of the products we sell and services we provide. Accordingly, we report our results based on the seven segments set forth below.

- Power Production and Trading CE, which accounted for CZK 55.7 billion, or 63.9% of the Group’s consolidated EBITDA for the year ended December 31, 2011, and includes our electricity production activities in the Czech Republic and Poland, heat production and distribution activities in the Czech Republic and Poland, and energy trading activities in Central and South East Europe. Power

Production and Trading CE includes our core operating company, ČEZ, a. s., which produces electricity primarily for the Czech market.

- Distribution and Sale CE, which accounted for CZK 16.0 billion, or 18.3% of the Group's consolidated EBITDA for the year ended December 31, 2011, and (a) purchases electricity produced or procured by our Power Production and Trading CE businesses and other external producers and distributes it to industrial, commercial and household consumers in a substantial portion of the Czech Republic; (b) sells electricity distributed by the Group and other distributors to industrial, commercial and household consumers in the Czech Republic and Slovakia, and distributors in Poland; and (c) sells natural gas distributed by non-CEZ Group distributors to industrial, commercial and household consumers in the Czech Republic and Slovakia.
- Mining CE, which accounted for CZK 4.8 billion, or 5.5% of the Group's consolidated EBITDA for the year ended December 31, 2011, and comprises our mining activities in Central Europe. We primarily mine coal for use in our electricity and heat production activities, and sell any excess on the open market. All of our fully consolidated mining activity occurs in the Czech Republic. A portion of this segment's revenues and costs are eliminated when we consolidate our financial statements.
- Other CE, which accounted for CZK 5.0 billion, or 5.7% of the Group's consolidated EBITDA for the year ended December 31, 2011, and includes services provided to other companies in the Group (primarily in the Czech Republic), such as delivery of equipment purchased, produced and manufactured from other companies in this segment, reclamation of mines, and maintenance and repair services for our electricity distribution network. After ensuring that the Group's needs are met, businesses within this segment provide similar services to third parties. A substantial portion of this segment's revenues and costs is eliminated when we consolidate our financial statements, and this segment does not have a significant impact on our consolidated financial results.
- Power Production and Trading SEE, which accounted for CZK 2.3 billion, or 2.7% of the Group's consolidated EBITDA for the year ended December 31, 2011, and includes our fully consolidated electricity production activities in Bulgaria and Romania and a joint venture in Turkey.
- Distribution and Sale SEE, which accounted for CZK 3.6 billion, or 4.1% of the Group's consolidated EBITDA for the year ended December 31, 2011, and (a) purchases electricity produced or procured by our Power Production and Trading SEE businesses and by other external producers, (b) distributes it to industrial, commercial and household consumers in Albania and in certain parts of Bulgaria, Romania and Turkey and (c) sells electricity distributed to industrial, commercial and household consumers in Albania and in certain parts of Bulgaria, Romania and Turkey.
- Other SEE, which accounted for CZK 88 million, or 0.1% of the Group's consolidated EBITDA for the year ended December 31, 2011, and includes businesses that provide managerial and supporting services for CEZ Group companies in South East Europe. A substantial portion of this segment's revenues and costs is eliminated when we consolidate our financial statements, and this segment has an insignificant impact on our consolidated financial results.

The table below illustrates EBITDA for each of our reporting and operating segments for the years ended December 31, 2009, 2010 and 2011, and expresses each amount as a percentage of consolidated EBITDA for the relevant period.

	EBITDA			Percentage of Consolidated EBITDA		
	2009	2010 (restated)	2011	2009	2010 (restated)	2011
	(CZK in millions)			(% )		
Power Production and Trading CE .....	68,464	62,031	55,745	75.2	69.8	63.9
Distribution and Sale CE .....	9,316	13,382	15,996	10.2	15.1	18.3
Mining CE.....	5,287	4,273	4,793	5.8	4.8	5.5
Other CE .....	4,576	4,699	4,996	5.0	5.3	5.7
<b>Total CE</b> .....	<b>87,643</b>	<b>84,385</b>	<b>81,530</b>	<b>96.2</b>	<b>95.0</b>	<b>93.4</b>
Power Production and Trading SEE .....	244	611	2,310	0.3	0.7	2.6
Distribution and Sale SEE .....	3,086	3,690	3,551	3.4	4.2	4.1
Other SEE .....	82	103	88	0.1	0.1	0.1
<b>Total SEE</b> .....	<b>3,412</b>	<b>4,404</b>	<b>5,949</b>	<b>3.8</b>	<b>5.0</b>	<b>6.8</b>

We account for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is at current market prices or at applicable regulated prices.

### ***Changes to Operating Segments***

On January 1, 2010, as part of our efforts to integrate recently-acquired businesses into the Group, we reclassified certain businesses acquired in 2006 and 2007 from the Power Production and Trading CE segment to the Distribution and Sale CE segment. When acquired, each of these businesses conducted substantial trading activities and were therefore classified in the Power Production and Trading CE segment. In late 2009, we consolidated a majority of our trading activity conducted across the Group (by CEZ Slovensko, CEZ Trade Polska and CEZ Hungary), to our headquarters in Prague, and we started to provide electricity and natural gas to final customers through CEZ Slovensko and, as a result, the activities of each of the reclassified businesses were more aligned with our Distribution and Sale CE segment. Please see “—*Discussion and Analysis of Operations—Year Ended December 31, 2010 Compared With Year Ended December 31, 2009*” for a discussion of the ways this reclassification affected our financial condition and results of operations.

### **Restatement of 2010 Financial Statements**

The Group’s financial statements for the year ended December 31, 2010 were restated in 2011 to reflect the final accounting for our May 2010 acquisition of Teplárna Trmice, a.s. The Group’s financial statements as of and for the year ended December 31, 2010 were prepared using provisional accounting for the acquisition, based on book values. In connection with the preparation of our interim financial statements for the six months ended June 30, 2011, we completed the final accounting for the acquisition based on determined fair values of acquired identifiable assets and liabilities as of the date of the acquisition. This final accounting indicated variations from the initial accounting determined provisionally and used in the audited financial statements for the year ended December 31, 2010. As a result, for purposes of the audited financial statements for the year ended December 31, 2011 and to comply with IFRS 3, data for the 2010 comparison-year was restated to conform to the definitive valuations of acquired assets and liabilities. This restatement did not materially affect our financial results. Please see “*Summary—Summary Financial and Other Information.*”

### **Acquisitions and Divestitures**

We have acquired several businesses since the beginning of the year ended December 31, 2009, and we may continue to do so in the future. Our acquisitions may affect our results of operations and the period-to-period comparability of our financial statements. Please see “*Business—History and Development of the CEZ Group.*”

### **Explanation of Key Income Statement Items**

#### ***Revenues***

We present revenues divided into three main areas: sales of electricity, gains and losses from electricity, coal and gas derivative trading, net, and sales of gas, coal, heat and other revenues. We recognize revenues when it is probable that we will receive the economic benefits associated with the transaction and the revenues can be reliably measured. We recognize sales net of value added tax and discounts, if any. Revenues from the sale of goods are recognized when such goods are delivered and significant risks and rewards of ownership have passed to the buyer. Revenues from services provided to third parties are recognized when the services are rendered.

*Sales of electricity.* Sales of electricity includes revenues from the sale of electricity to end customers, electricity traders, distribution and transmission companies to cover their grid losses, or through energy exchanges when such transactions are not classified as derivative trading. Sales of electricity also includes revenues from the sale of services related to sale of electricity including revenues from sales of ancillary, system, distribution and other related services.

We recognize revenues from sales of electricity and related services based on the terms of the relevant contract. Differences between contracted amounts and amounts supplied are settled through the market operator in the relevant market (OTE a.s., for example, in the Czech Republic). Electricity supplied to customers, but not yet billed, is recognized at estimated amounts. Our estimate of monthly change in unbilled electricity is derived from the measured delivery of electricity after deducting invoiced consumption and estimated grid losses, and is also supported by comparisons to consumption levels for the last measured period for individual locations.

When cash flows from non-derivative sales of electricity denominated in Euro are hedged, we include the effect of hedging within the sales of electricity line item of our consolidated income statement. Amounts accumulated in equity from the inception of hedging are transferred to the sales of electricity line item of our consolidated income statement when the hedged item affects profit or loss.



*Gains and losses from electricity, coal and gas derivative trading, net.* Gains and losses from electricity, coal and gas derivative trading, net, primarily includes revenues from sales of electricity, coal and gas, cost of sold electricity, coal and gas when such transactions classify as derivative trading, as well as changes in the fair value of commodity derivatives.

*Sales of gas, coal, heat and other revenues.* Sales of gas, coal, heat and other revenues includes revenues from sales of gas, coal and heat to industrial, commercial and household consumers, goods sold, revenues from related services, revenues from connection fees received from industrial, commercial and residential consumers connecting to the distribution grid and other operating revenues. Connection fees received from customers are recognized as revenues when the fees are received.

### **Operating Expenses**

Operating expenses comprise the expenses we incur in the course of operating our business, and includes the following:

*Fuel.* Fuel expenses include consumption of fossil energy fuel such as coal and gas, amortization of the cost of nuclear fuel and consumption of alternative energy fuel such as biomass or waste. Amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel, to the extent such charges relate to the nuclear fuel consumed during the current accounting period.

*Purchased power and related services.* Purchased power and related services includes the cost of electricity purchased from third parties for resale, and costs associated with related services including system services of the transmission grid, reserved capacity of the transmission and distribution grid, border transmission capacity and related distribution services. Purchased power and related services also includes the cost of the gas we sell, including related distribution and storage services, and the cost of the electricity, water and other energies we use in the ordinary course of our business.

*Repairs and maintenance.* Repairs and maintenance comprises the costs incurred to repair assets or to keep assets operating at their present condition, such as maintenance, repairs, and replacement of minor items of property. Costs associated with the renewal and improvement of assets are capitalized and are therefore not reported on this line of income statement.

*Depreciation and amortization.* We depreciate the original cost of property, plant and equipment (less its residual value) by using the straight-line method over each item's estimated economic life. We depreciate each significant component of our property, plant and equipment separately. Intangible assets are amortized over their useful lives using the straight-line method. We estimate that our property, plant and equipment have useful economic lives ranging from four to fifty years, and the useful economic lives of our intangible assets range from three to fifteen years. We review residual values, useful lives and methods of amortization at each financial year end, and adjust our estimates when appropriate.

*Salaries and wages.* Salaries and wages includes employee salaries and wages, remuneration of the board members (including royalties), expenses related to granted share options, social and health security and other personal expenses, including future employee benefits.

Members of Board of Directors and selected managers have been granted options to purchase common shares of the Company. We measure the expenses related to the share option plan on the date of the grant, by reference to the fair value of the share options granted. In case of options that vest immediately, we recognize the expense directly in profit or loss, with a corresponding increase in equity. In all other cases, we accrue the expense over the vesting period of the equity instruments granted. The expense recognized reflects our best estimate of the number of share options that will ultimately vest.

*Materials and supplies.* Materials and supplies is principally composed of maintenance materials and spare parts for repairs and maintenance of tangible assets, and also includes the cost of consumed limestone and other similar materials needed for flue gas treatment. Materials and supplies are recorded in inventory when purchased, then expensed or capitalized to a plant, as appropriate, when used.

*Emission rights, net.* Emission rights represent facility owners' rights to emit CO<sub>2</sub> and other greenhouse gases into the atmosphere. Each emission right represents the right to emit one ton of CO<sub>2</sub> and other greenhouse gases during a calendar year. Certain companies of the CEZ Group have been granted emission rights free of charge. Each of these companies is responsible for determining, auditing and reporting the amount of carbon dioxide and other greenhouse gases produced by its facilities over a calendar year. Prior to April 30 of the following year, each company is required to remit the number of emission rights that correspond to the number of tons of CO<sub>2</sub> and other greenhouse gases actually emitted. In addition to using the emission rights we have been



allocated for our own emissions, we buy and sell excess emission rights on various exchanges, for operational and speculative purposes.

Emission rights, net, includes revenues and expenses related to transactions with emission rights, emission credits (certified emission reductions) and green and similar certificates, such as revenues from emission rights and credits sold, net book value of emission rights and credits sold, creation and settlement of provisions for CO<sub>2</sub> emissions, gains and losses on transactions with emission rights and credits classified as derivatives, changes in fair value of emission rights and credits held for trading, write off of consumed emission rights and credits and gained certificates.

#### ***Other Income (Expenses)***

Other income (expenses) is comprised of:

*Interest on debt, net of capitalized interest.* Interest on debt, net of capitalized interest, includes interest resulting from short-term and long-term interest bearing financial liabilities, in particular, from short-term and long-term bank loans and bonds payable, except capitalized interest. We capitalize all interest incurred in connection with our construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. Qualifying assets include assets for which construction represents a substantial period of time.

*Interest on nuclear and other provisions.* We have provisioned for our obligations to decommission our nuclear power plants at the end of their operating lives, store the related spent nuclear fuel and other radioactive waste, initially on an interim basis, and provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors. We have also recognized provisions for obligations to decommission and reclaim mines at the end of their operating lives. Each year, these recognized provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation. Interest on nuclear and other provisions represents these charges.

*Interest income.* Interest income represents interest revenues from our interest-bearing financial assets and investments or assets carried at amortized cost using effective interest method such as held-to-maturity investments.

*Foreign exchange rate gains (losses), net.* Each Group entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Group results are consolidated and reported in Czech crown, the reporting currency of the CEZ Group. Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains (losses), net, represents the net gain or loss resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, except when deferred in equity for qualifying cash flow hedges.

*Gain/Loss on sale of subsidiaries, associates and joint-ventures.* Gain/Loss on sale of subsidiaries, associates and joint-ventures is comprised of income from sales of subsidiaries, associates and joint ventures, and net book value of related net assets that have been disposed, including goodwill or the portion of goodwill allocated to the portion of cash-generating units that have been disposed.

*Goodwill impairment.* Goodwill impairment represents losses that result from impairment tests of goodwill. We review goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. We recognize an impairment loss where the recoverable amount of a cash-generating unit is lower than its carrying amount.

*Other income (expenses), net.* Other income (expenses), net, includes derivative gains or losses (except commodity derivatives), gains or losses on the sale of available-for-sale financial assets, changes in impairment of financial investments, amounts paid under the gift tax on granted emission rights and other financial income and expenses.

*Share of profit (loss) from associates and joint-ventures.* Share of profit (loss) from associates and joint-ventures is comprised of our share of the post-acquisition profits or losses of associates and joint ventures.

## Income Taxes

Our income tax provision includes current corporate tax expense on income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. Most of our revenues are earned in the Czech Republic and were taxed at 19% for the years ended December 31, 2010 and 2011, and 20% for the year ended December 31, 2009.

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

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity instead of recognizing on this line of the income statement.

## Results of Operations

The following table sets out, for the periods presented, the Group's consolidated income statement data. The information contained in the table below should be read in conjunction with our consolidated financial statements and the related notes. For the convenience of the reader, this offering memorandum contains translations of certain Czech crown amounts into U.S. dollars based on the Czech National Bank rate on December 31, 2011 of CZK 19.94 per U.S.\$1.00.

	Year ended December 31,			
	2009	2010 (restated)	2011	2011
	(CZK in millions)			(U.S.\$ in millions)
<b>Consolidated Income Statement Data:</b>				
<b>Revenues:</b>				
Sales of electricity .....	173,494	175,277	181,793	9,117
Gains and losses from electricity, coal and gas derivative trading, net .....	6,894	5,392	5,843	293
Sales of gas, coal, heat and other revenues .....	15,964	18,179	22,125	1,110
<b>Operating expenses:</b>				
Fuel .....	(15,805)	(16,946)	(17,145)	(860)
Purchased power and related services .....	(48,170)	(54,353)	(65,865)	(3,303)
Repairs and maintenance .....	(6,043)	(5,465)	(5,014)	(251)
Depreciation and amortization .....	(22,876)	(24,060)	(25,770)	(1,292)
Salaries and wages .....	(18,116)	(18,717)	(18,105)	(908)
Materials and supplies .....	(5,272)	(4,844)	(5,478)	(275)
Emission rights, net .....	305	2,148	2,895	145
Other operating expenses .....	(12,176)	(11,823)	(13,737)	(689)
<b>Income before other income (expenses) and income taxes</b>	<b>68,199</b>	<b>64,788</b>	<b>61,542</b>	<b>3,086</b>
Other income (expenses) .....	(3,253)	(6,108)	(9,590)	(481)
<b>Income before income taxes</b> .....	<b>64,946</b>	<b>58,680</b>	<b>51,952</b>	<b>2,605</b>
Income taxes .....	(13,091)	(11,739)	(11,199)	(562)
<b>Net income</b> .....	<b>51,855</b>	<b>46,941</b>	<b>40,753</b>	<b>2,044</b>
EBIT .....	68,199	64,788	61,542	3,086
EBITDA .....	91,075	88,848	87,312	4,379
EBITDA Margin .....	46.4%	44.7%	41.6%	41.6%

- (1) Please see "Summary—Summary Financial and Other Information—Other Financial Information" for a discussion as to how we define and calculate EBIT, EBITDA and EBITDA Margin, as well as a discussion as to other considerations with respect to using EBIT, EBITDA and EBITDA Margin to assess our financial performance.

## Discussion and Analysis of Operations

### Year Ended December 31, 2011 Compared With Year Ended December 31, 2010

The following table contains the Group's consolidated income statement data for the years ended December 31, 2011 and 2010.

	Year ended December 31,				Amount of Change (CZK in millions)	% Change (%)
	2010 (restated)		2011			
	(CZK in millions)	(% of revenues)	(CZK in millions)	(% of revenues)		
<b>Consolidated Income Statement Data:</b>						
<b>Revenues:</b>						
Sales of electricity .....	175,277	88.2	181,793	86.7	6,516	3.7
Gains and losses from electricity, coal and gas derivative trading, net .....	5,392	2.7	5,843	2.8	451	8.4
Sales of gas, coal, heat and other revenues .....	18,179	9.1	22,125	10.5	3,946	21.7
<b>Operating expenses</b>						
Fuel.....	(16,946)	8.5	(17,145)	8.2	(199)	(1.2)
Purchased power and related services .....	(54,353)	27.3	(65,865)	31.4	(11,512)	(21.2)
Repairs and maintenance .....	(5,465)	2.8	(5,014)	2.4	451	8.3
Depreciation and amortization.....	(24,060)	12.1	(25,770)	12.3	(1,710)	(7.1)
Salaries and wages .....	(18,717)	9.4	(18,105)	8.6	612	3.3
Materials and supplies.....	(4,844)	2.4	(5,478)	2.6	(634)	(13.1)
Emission rights, net.....	2,148	1.1	2,895	1.4	747	34.8
Other operating expenses.....	(11,823)	6.0	(13,737)	6.6	(1,914)	(16.2)
<b>Income before other income (expenses) and income taxes.....</b>						
	64,788	32.6	61,542	29.3	(3,246)	(5.0)
Other income (expenses).....	(6,108)	3.1	(9,590)	4.6	(3,482)	(57.0)
<b>Income before income taxes.....</b>						
	58,680	29.6	51,952	24.8	(6,728)	(11.4)
Income taxes.....	(11,739)	5.9	(11,199)	5.3	540	4.6
<b>Net income.....</b>						
	46,941	23.6	40,753	19.4	(6,188)	(13.2)
<b>EBIT.....</b>						
	64,788	32.6	61,542	29.3	(3,246)	(5.0)
<b>EBITDA.....</b>						
	88,848	44.7	87,312	41.6	(1,536)	(1.7)
<b>EBITDA Margin.....</b>						
	44.7%		41.6%			

(1) Please see "Summary—Summary Financial and Other Information—Other Financial Information" for a discussion as to how we define and calculate EBIT, EBITDA and EBITDA Margin, as well as a discussion as to other considerations with respect to using EBIT, EBITDA and EBITDA Margin to assess our financial performance.

#### Revenues

Revenues increased by CZK 11.0 billion, or 5.5%, from CZK 198.8 billion in the year ended December 31, 2010 to CZK 209.8 billion in the year ended December 31, 2011.

Revenues from sales of electricity increased by CZK 6.5 billion, or 3.7%, from CZK 175.3 billion in the year ended December 31, 2010 to CZK 181.8 billion in the year ended December 31, 2011. This increase is primarily attributable to an increase in the distribution tariffs the Czech regulator allows us to charge, which corresponds to the costs of the renewable energy the Czech regulator requires our distribution company to purchase in the Czech Republic (allowing us to pass these costs on to consumers) and also reflects combined generation of heat and electricity into the tariffs.

Revenues from gains and losses from electricity, coal and gas derivative trading, net increased by CZK 0.5 billion, or 8.4%, from CZK 5.4 billion in the year ended December 31, 2010 to CZK 5.8 billion in the year ended December 31, 2011. This increase is primarily attributable to an increase in revenues from electricity derivative trading, which resulted from changes in the fair value of electricity derivatives.

Revenues from heat sales and other revenues increased by CZK 3.9 billion, or 21.7%, from CZK 18.2 billion in the year ended December 31, 2010 to CZK 22.1 billion in the year ended December 31, 2011. This

increase is primarily attributable to additional revenues from gas sales in the Czech Republic and in Slovakia due to an increased number of customers and volume of gas sold.

#### Revenues by Segment

The following table illustrates the Group's revenues by segment, revenues from sales other than intersegment sales and intersegment sales for the years ended December 31, 2011 and 2010, as well as showing eliminations and consolidated revenues for each period.

	Sales other than intersegment sales, year ended December 31,		Intersegment sales, year ended December 31,		Total revenues, year ended December 31,		% change
	2010 (restated)	2011	2010 (restated)	2011	2010 (restated)	2011	
	(CZK in millions)						
Power Production and Trading CE.....	61,860	69,436	53,378	49,635	115,238	119,071	3.3
Distribution and Sale CE.....	91,721	93,793	6,728	9,946	98,449	103,739	5.4
Mining CE.....	4,688	4,806	5,850	6,083	10,538	10,889	3.3
Other CE.....	3,758	3,274	41,034	38,050	44,792	41,324	(7.7)
Power Production and Trading SEE.....	3,524	3,860	280	706	3,804	4,566	20.0
Distribution and Sale SEE.....	33,277	34,567	81	353	33,358	34,920	4.7
Other SEE.....	20	25	2,181	2,207	2,201	2,232	1.4
Combined.....	198,848	209,761	109,532	106,980	308,380	316,741	2.7
Elimination.....	—	—	(109,532)	(106,980)	(109,532)	(106,980)	(2.3)
<b>Consolidated Revenues</b> .....	<b>198,848</b>	<b>209,761</b>	<b>—</b>	<b>—</b>	<b>198,848</b>	<b>209,761</b>	<b>5.5</b>

*Power Production and Trading CE.* Revenues from our Power Production and Trading CE segment increased by CZK 3.9 billion, or 3.3%, from CZK 115.2 billion in the year ended December 31, 2010 to CZK 119.1 billion in the year ended December 31, 2011. This increase was primarily attributable to a CZK 4.6 billion increase in other revenues, particularly resulting from our gas business as we continued to increase our market share since starting to sell gas in 2009, and a CZK 0.5 billion increase in revenues from electricity derivative trading. These increases were partially offset by a CZK 1.2 billion decrease in sales of electricity, primarily due to a decrease in electricity prices, but also due to a decrease in hedged foreign exchange rate.

Of these revenues, CZK 53.4 billion, or 46.3%, was attributable to intersegment sales in the year ended December 31, 2010, compared to CZK 49.6 billion, or 41.7% attributable to intersegment sales in the year ended December 31, 2011. Accordingly, our Power Production and Trading CE segment contributed CZK 61.9 billion in revenues to our consolidated income statement in the year ended December 31, 2010, compared to CZK 69.4 billion in revenues in the year ended December 31, 2011, an increase of 12.2%.

*Distribution and Sale CE.* Revenues from our Distribution and Sale CE segment increased by CZK 5.3 billion, or 5.4%, from CZK 98.4 billion in the year ended December 31, 2010 to CZK 103.7 billion in the year ended December 31, 2011. This increase is primarily attributable to a CZK 7.8 billion increase in the distribution tariffs the Czech regulator allows us to charge, which corresponds to the costs of the renewable energy the Czech regulator requires our distribution company to purchase in the Czech Republic (allowing us to pass these costs on to consumers) and also reflects combined generation of heat and electricity into the tariffs, and a CZK 1.7 billion increase in sales of gas to end customers, primarily in the Czech Republic and Slovakia. These increases were partially offset by a CZK 4.3 billion decrease in sales of electricity due to 2.6 TWh decrease in the volume of electricity sold to final customers.

Of these revenues, CZK 6.7 billion, or 6.8% was attributable to intersegment sales in the year ended December 31, 2010, compared to CZK 9.9 billion, or 9.6%, attributable to intersegment sales in the year ended December 31, 2011. Accordingly, our Distribution and Sale CE segment contributed CZK 91.7 billion in revenue to our consolidated income statement in the year ended December 31, 2010, compared to CZK 93.8 billion in revenues in the year ended December 31, 2011, an increase of 2.3%.

*Mining CE.* Revenues from our Mining CE segment increased by CZK 0.4 billion, or 3.3%, from CZK 10.5 billion in the year ended December 31, 2010 to CZK 10.9 billion in the year ended December 31, 2011. This increase is primarily attributable to a 3.3 million ton increase in the amount of coal mined by Severočeské doly due to higher internal and external demand for coal, which increased by 2.4 million tons and 0.9 million tons, respectively, over the year ended December 31, 2010.

Of these revenues, CZK 5.9 billion, or 55.5%, was attributable to intersegment sales in the year ended December 31, 2010, compared to CZK 6.1 billion, or 55.9%, attributable to intersegment sales in the year ended December 31, 2011. Accordingly, our Mining CE segment contributed CZK 4.7 billion in revenues to our consolidated income statement in the year ended December 31, 2010, compared to CZK 4.8 billion in revenues the year ended December 31, 2011, an increase of 2.5%.

*Other CE.* Revenues from our Other CE segment decreased by CZK 3.5 billion, or 7.7%, from CZK 44.8 billion in the year ended December 31, 2010 to CZK 41.3 billion in the year ended December 31, 2011. This decrease is primarily attributable to a CZK 5.6 billion decrease in intercompany revenues in connection with services and products provided to entities within the Group, but was partially offset by a CZK 2.3 billion increase in intercompany revenues in connection with services related to mining excavation equipment provided to Severočeské doly.

Of these revenues, CZK 41.0 billion, or 91.6%, was attributable to intersegment sales in the year ended December 31, 2010, compared to CZK 38.1 billion, or 92.1%, attributable to intersegment sales in the year ended December 31, 2011. Accordingly, our Other CE segment contributed CZK 3.8 billion in revenues to our consolidated income statement in the year ended December 31, 2010, compared to CZK 3.3 billion in revenues the year ended December 31, 2011, a decrease of 12.9%.

*Power Production and Trading SEE.* Revenues from our Power Production and Trading SEE segment increased by CZK 0.8 billion, or 20.0%, from CZK 3.8 billion in the year ended December 31, 2010 to CZK 4.6 billion in the year ended December 31, 2011. This increase is primarily attributable to a CZK 0.6 billion increase in revenues attributable to a full year of operations at the Fântânele wind farm site, compared to less than a full year of operations during the year ended December 31, 2010, therefore increasing electricity generation by 0.3 TWh compared to the year ended December 31, 2010, and a 0.2 GWh increase in electricity generation by TEC Varna EAD, due to more frequent activation of its cold reserve (which is one of the ancillary services we provide to Bulgaria's transmission grid operator), which increased revenues by CZK 0.3 billion compared to the year ended December 31, 2010.

Of these revenues, CZK 0.3 billion, or 7.4%, was attributable to intersegment sales in the year ended December 31, 2010, compared to CZK 0.7 billion, or 15.5%, attributable to intersegment sales in the year ended December 31, 2011. Accordingly, our Power Production and Trading SEE segment contributed CZK 3.5 billion in revenues to our consolidated income statement in the year ended December 31, 2010, compared to CZK 3.9 billion in revenues in the year ended December 31, 2011, an increase of 9.5%.

*Distribution and Sale SEE.* Revenues from our Distribution and Sale SEE segment increased by CZK 1.5 billion, or 4.7%, from CZK 33.4 billion in the year ended December 31, 2010 to CZK 34.9 billion in the year ended December 31, 2011. This increase is primarily attributable to a methodological change in segments as of January 1, 2011, whereby we moved CEZ Trade Bulgaria from the Power Production and Trading CE segment to the Distribution and Sale SEE due to a change in its primary business activity from trading to the sale of electricity to end consumers. This change increased revenues in the Distribution and Sale SEE segment by CZK 1.2 billion. The increase is also attributable to a 0.1 TWh increase in distributed electricity in Albania, which increased revenues by an additional CZK 0.5 billion. These increases were partially offset by a CZK 0.2 billion decrease in revenues from distribution services in Romania, due to a year-over-year decrease in the distribution tariffs declared by the Romanian electricity regulator.

Of these revenues, CZK 0.08 billion, or 0.2%, was attributable to intersegment sales in the year ended December 31, 2010, compared to CZK 0.4 billion, or 1.0%, attributable to intersegment sales in the year ended December 31, 2011. Accordingly, our Distribution and Sale SEE segment contributed CZK 33.3 billion in revenue to our consolidated income statement in the year ended December 31, 2010, compared to CZK 34.6 billion in revenues in the year ended December 31, 2011, an increase of 3.9%.

*Other SEE.* Revenues from our Other SEE segment increased by CZK 0.03 billion, or 1.4%, from CZK 2.2 billion in the year ended December 31, 2010 to CZK 2.23 billion in the year ended December 31, 2011. This increase is attributable to an increase in the amounts invoiced for corporate services provided within the Group.

Of these revenues, CZK 2.2 billion, or 99.1%, was attributable to intersegment sales in the year ended December 31, 2010, compared to CZK 2.2 billion, or 98.9%, attributable to intersegment sales in the year ended December 31, 2011. Accordingly, our Other SEE segment contributed CZK 0.02 billion in revenues to our consolidated income statement in the year ended December 31, 2010, compared to CZK 0.03 in revenues the year ended December 31, 2011, an increase of 25.0%.



## Operating Expenses

The following table illustrates the Group's operating expenses for the years ended December 31, 2011 and 2010, as well as showing each expense as a percentage of consolidated revenue for the period.

	Year ended December 31,					
	2010		2011		Amount of change	
	(restated)					
	(CZK in millions)	(% of revenues)	(CZK in millions)	(% of revenues)	(CZK in millions)	(%)
<b>Operating expenses</b>						
Fuel .....	(16,946)	8.5	(17,145)	8.2	(199)	(1.2)
Purchased power and related services .....	(54,353)	27.3	(65,865)	31.4	(11,512)	(21.2)
Repairs and maintenance .....	(5,465)	2.8	(5,014)	2.4	451	8.3
Depreciation and amortization.....	(24,060)	12.1	(25,770)	12.3	(1,710)	(7.1)
Salaries and wages .....	(18,717)	9.4	(18,105)	8.6	612	3.3
Materials and supplies .....	(4,844)	2.4	(5,478)	2.6	(634)	(13.1)
Emission rights, net .....	2,148	1.1	2,895	1.4	747	34.8
Other operating expenses.....	(11,823)	5.9	(13,737)	6.6	(1,914)	(16.2)
<b>Total</b> .....	<u>(134,060)</u>	<u>67.4</u>	<u>(148,219)</u>	<u>70.7</u>	<u>(14,159)</u>	<u>(10.6)</u>

Operating expenses increased by CZK 14.2 billion, or 10.6%, from CZK 134.1 billion in the year ended December 31, 2010 (67.4% of revenues) to CZK 148.2 billion in the year ended December 31, 2011 (70.7% of revenues).

*Fuel.* Fuel increased by CZK 0.2 billion, or 1.2%, from CZK 16.9 billion in the year ended December 31, 2010 (8.5% of revenues) to CZK 17.1 billion in the year ended December 31, 2011 (8.2% of revenues). This increase is primarily attributable to higher consumption of coal in our Varna power plant in Bulgaria, due to increased production.

*Purchased power and related services.* Purchased power and related services increased by CZK 11.5 billion, or 21.2%, from CZK 54.4 billion in the year ended December 31, 2010 (27.3% of revenues) to CZK 65.9 billion in the year ended December 31, 2011 (31.4% of revenues). This increase is primarily attributable to a CZK 6.2 billion increase in the amount of renewable energy the ERO required our distribution company to purchase in the Czech Republic (the cost of which is passed on to consumers), a CZK 4.0 billion increase in expenses related to the purchase and storage of gas that we sell to end consumers, resulting from increased gas sales, and a CZK 1.2 billion increase in distribution expenses in connection with an increase in the amount of electricity we sold to end consumers in Romania.

*Repairs and maintenance.* Repairs and maintenance decreased by CZK 0.5 billion, or 8.3%, from CZK 5.5 billion in the year ended December 31, 2010 (2.8% of revenues) to CZK 5.0 billion in the year ended December 31, 2011 (2.4% of revenues). This decrease is primarily attributable to a decrease in the number of repairs to our distribution networks and production resources.

*Depreciation and amortization.* Depreciation and amortization increased by CZK 1.7 billion, or 7.1%, from CZK 24.1 billion in the year ended December 31, 2010 (12.1% of revenues) to CZK 25.8 billion in the year ended December 31, 2011 (12.3% of revenues). This increase is primarily attributable to increased investments into production resources, distribution networks and machinery, and related higher depreciation of the newly acquired assets.

*Salaries and wages.* Salaries and wages decreased by CZK 0.6 billion, or 3.3%, from CZK 18.7 billion in the year ended December 31, 2010 (9.4% of revenues) to CZK 18.1 billion in the year ended December 31, 2011 (8.6% of revenues). This decrease is primarily attributable to a lower provision for employees' benefits charged to operational expenses, as a result of a reduction in the anticipated amount of benefits that we will be required to pay in upcoming years.

*Materials and supplies.* Materials and supplies increased by CZK 0.6 billion, or 13.1%, from CZK 4.8 billion in the year ended December 31, 2010 (2.4% of revenues) to CZK 5.5 billion in the year ended December 31, 2011 (2.6% of revenues). This increase is primarily attributable to increased expenses for materials for repairs and maintenance, particularly those caused by higher petroleum and oil prices.

*Emission rights, net.* Emission rights, net increased by CZK 0.7 billion, or 34.8%, from CZK 2.1 billion in the year ended December 31, 2010 (1.1% of revenues) to CZK 2.9 billion in the year ended December 31, 2011 (1.4% of revenues). This increase is primarily attributable to an increase in the green certificates we received during the year ended December 31, 2011, as the result of a 0.3 TWh increase in production at the Fântânele wind farm.

*Other operating expenses.* Other operating expenses increased by CZK 1.9 billion, or 16.2%, from CZK 11.8 billion in the year ended December 31, 2010 (6.0% of revenues) to CZK 13.7 billion in the year ended December 31, 2011 (6.6% of revenues). This increase is primarily attributable to a CZK 0.9 billion increase in our estimation for nuclear provisions, a CZK 0.3 billion increase in provisions for spent nuclear fuel storage, and due to the non-occurrence of a one-off reversal of an allowance for doubtful receivables from the Czech Railway Infrastructure Administration Company, reflected in results for the year ended December 31, 2010, which positively affected expenses by CZK 0.8 billion.

#### *Other Income (Expenses)*

Other income (expenses) decreased by CZK 3.5 billion, or 57.0%, from CZK (6.1) billion in the year ended December 31, 2010 to CZK (9.6) billion in the year ended December 31, 2011. The following factors contributed to the decrease: (a) a CZK 3.8 billion share of loss from associates and joint-ventures, due to a CZK 3.0 billion impairment of MIBRAG assets classified as held for sale and a CZK 0.8 billion decrease in income received from our joint venture in Turkey, due to foreign exchange rate losses; and (b) a CZK 3.0 billion increase in other expenses, primarily resulting from the impact of a newly introduced gift tax on emission rights, which increases our expenses by CZK 3.6 billion, but partially offset by a CZK 0.6 billion gain of derivatives and the sale of available for sale securities. A further CZK 1.5 billion decrease is due to interest on debt, net of capitalized interest. These expenses were partially offset by a CZK 2.5 billion reduction in impairments for the year ended December 31, 2011 (when we recognized a CZK 0.3 billion goodwill impairment in Albania, compared to the year ended December 31, 2010, when we recognized CZK 2.8 billion in impairments on our Bulgarian distribution business and TEC Varna) and a CZK 2.4 billion decrease in foreign exchange rate losses.

#### *Income Taxes*

Income taxes decreased by CZK 0.5 billion, or 4.6%, from CZK 11.7 billion in the year ended December 31, 2010 to CZK 11.2 billion in the year ended December 31, 2011. This decrease is primarily attributable to a decrease in profit before tax. Our effective tax rate for the year ended December 31, 2010 was 20% and was an estimated 22% for the year ended December 31, 2011.

#### *Net Income*

As a result of the factors discussed above, net income decreased by CZK 6.1 billion, or 13.2%, from CZK 46.9 billion in the year ended December 31, 2010 to CZK 40.8 billion in the year ended December 31, 2011.

**Year Ended December 31, 2010 Compared With Year Ended December 31, 2009**

The tables and discussions set out below provide a separate analysis of each of the line items that comprise our consolidated income statement for the years ended December 31, 2010 and 2009.

	<b>Year ended December 31,</b>					
	<b>2009</b>		<b>2010</b>		<b>Amount of</b>	
	<b>(CZK in</b>	<b>(% of</b>	<b>(CZK in</b>	<b>(% of</b>	<b>(CZK in</b>	<b>(%)</b>
	<b>millions)</b>	<b>revenues)</b>	<b>millions)</b>	<b>revenues)</b>	<b>millions)</b>	<b>(%)</b>
<b>Consolidated Income Statement Data:</b>						
<b>Revenues</b>						
Sales of electricity .....	173,494	88.4	175,277	88.2	1,783	1.0
Gains and losses from electricity, coal and gas derivative trading, net .....	6,894	3.5	5,392	2.7	(1,502)	(21.8)
Sales of gas, coal, heat and other revenues .....	15,964	8.1	18,179	9.1	2,215	13.9
<b>Operating expenses</b>						
Fuel .....	(15,805)	8.1	(16,946)	8.5	(1,141)	(7.2)
Purchased power and related services .....	(48,170)	24.5	(54,353)	27.3	(6,183)	(12.8)
Repairs and maintenance .....	(6,043)	3.1	(5,465)	2.8	578	9.6
Depreciation and amortization .....	(22,876)	11.7	(24,060)	12.1	(1,184)	(5.2)
Salaries and wages .....	(18,116)	9.2	(18,717)	9.4	(601)	(3.3)
Materials and supplies .....	(5,272)	2.7	(4,844)	2.4	428	8.1
Emission rights, net .....	305	0.2	2,148	1.1	1,843	604.3
Other operating expenses .....	(12,176)	6.2	(11,823)	5.6	353	2.9
<b>Income before other income (expenses)</b>						
<b>and income taxes</b> .....	68,199	34.7	64,788	32.6	(3,411)	(5.0)
Other income (expenses) .....	(3,253)	1.7	(6,108)	3.1	(2,855)	(87.8)
<b>Income before income taxes</b> .....	64,946	33.1	58,680	29.5	(6,266)	(9.7)
Income taxes .....	(13,091)	6.7	(11,739)	5.9	1,352	10.3
<b>Net income</b> .....	51,855	26.4	46,941	23.6	(4,914)	(9.5)
EBIT .....	68,199	34.7	64,788	32.6	(3,411)	(5.0)
EBITDA .....	91,075	46.4	88,848	44.7	(2,227)	(2.5)
EBITDA Margin .....	46.4%	—	44.7%	—	—	—

(1) Please see "Summary—Summary Financial and Other Information—Other Financial Information" for a discussion as to how we define and calculate EBIT, EBITDA and EBITDA Margin, as well as a discussion as to other considerations with respect to using EBIT, EBITDA and EBITDA Margin to assess our financial performance.

**Revenues**

Revenues increased by CZK 2.5 billion, or 1.3%, from CZK 196.4 billion in the year ended December 31, 2009 to CZK 198.8 billion in the year ended December 31, 2010.

Revenues from sales of electricity increased by CZK 1.8 billion, or 1.0%, from CZK 173.5 billion in the year ended December 31, 2009 to CZK 175.3 billion in the year ended December 31, 2010. This increase is primarily attributable to an increase in electricity revenues resulting from increased production of electricity from renewable sources (Romania and the Czech Republic) and traditional sources (Bulgaria), accompanied by an increase in electricity sales, particularly due to the sale of electricity to final consumers market in Slovakia, which was a new market for the Group in the year ended December 31, 2010. Additional increases in revenues from our Czech distribution business due to an increase in the tariffs we were allowed to charge, and resulting from electricity distribution in Albania (due to the acquisition of CEZ Spërndarje in May 2009) were offset by a decrease in the revenues of ČEZ, a. s. due to fall in electricity prices and appreciation of the Czech crown against the Euro.

Revenues from gains and losses from electricity, coal and gas derivative trading, net decreased by CZK 1.5 billion, or 21.8%, from CZK 6.9 billion in the year ended December 31, 2009 to CZK 5.4 billion in the year ended December 31, 2010. This decrease is primarily attributable to a 32% decrease in average wholesale electricity prices in 2009, reflecting the effects of the global economic crisis that began in 2008, and the appreciation of the Czech crown against the Euro during this period. This decrease did not fully affect the Group

until the year ended December 31, 2010, however, because we sell electricity on a forward contract basis. Please see “—Factors That Affect Our Results of Operations—Wholesale Electricity Prices.”

Revenues from heat sales and other revenues increased by CZK 2.2 billion, or 13.9%, from CZK 16.0 billion in the year ended December 31, 2009 to CZK 18.2 billion in the year ended December 31, 2010. This increase is primarily attributable to the acquisition of the Teplárna Trmice heat plant, which had CZK 1.5 billion in revenues during the year ended December 31, 2010, and higher volume produced and sold by our other Czech heat plants and Polish power plants.

#### Revenues by Segment

The following table illustrates, by segment, revenues from sales other than intersegment sales and intersegment sales for the years ended December 31, 2010 and December 31, 2009, as well as showing eliminations and consolidated revenues for each period.

	Sales other than intersegment sales, year ended December 31,		Intersegment sales, year ended December 31,		Total revenues, year ended December 31,		% change
	2009	2010 (restated)	2009	2010 (restated)	2009	2010 (restated)	
	(CZK in millions)						
Power Production and Trading CE.....	73,033	61,860	53,066	53,378	126,099	115,238	(8.6)
Distribution and Sale CE.....	81,932	91,721	4,126	6,728	86,058	98,449	14.4
Mining CE.....	4,523	4,688	6,641	5,85	11,164	10,538	(5.6)
Other CE.....	3,931	3,758	33,735	41,034	37,666	44,792	18.9
Power Production and Trading SEE.....	2,871	3,524	294	280	3,165	3,804	20.2
Distribution and Sale SEE.....	30,042	33,277	123	81	30,165	33,358	10.6
Other SEE.....	20	20	2,676	2,181	2,696	2,201	(18.4)
Combined.....	196,352	198,848	100,661	109,532	297,013	308,380	3.8
Elimination.....	—	—	(100,661)	(109,532)	(100,661)	(109,532)	8.8
<b>Consolidated Revenues</b> .....	<b>196,352</b>	<b>198,848</b>	<b>—</b>	<b>—</b>	<b>196,352</b>	<b>198,848</b>	<b>1.3</b>

*Power Production and Trading CE.* Revenues from our Power Production and Trading CE segment decreased by CZK 10.9 billion, or 8.6%, from CZK 126.1 billion in the year ended December 31, 2009 to CZK 115.2 billion in the year ended December 31, 2010. This decrease was caused primarily by a CZK 6.3 billion decrease in revenues from ČEZ, a. s., as a result of falling electricity prices in the wholesale market and a strengthening of the Czech crown against the Euro and the re-classification of CEZ Trade Polska sp. z o.o., CEZ Hungary Ltd., and CEZ Slovensko, s.r.o. to the Distribution and Sale CE segment in 2010 (resulting in a CZK 7.0 billion decrease in the Power Production and Trading CE segment). These decreases were partially offset by a CZK 2.3 billion increase in revenues from gas and heat sales, in particular the trading in natural gas, a new product in 2010 (an increase of CZK 1.1 billion), revenues of heat (an increase of CZK 1.1 billion) resulting from the operations of the Teplárna Trmice heating plant acquired in May 2010, higher delivery volumes and gross margins of ČEZ Teplárenská, higher heat sales in Poland, and a higher volume of renewable energy produced by new solar plants in 2010 (an increase of CZK 0.4 billion).

Of these revenues, CZK 53.1 billion, or 42.1%, was attributable to intersegment sales in the year ended December 31, 2009, compared to CZK 53.4 billion, or 46.3%, attributable to intersegment sales in the year ended December 31, 2010. Accordingly, our Power Production and Trading CE segment contributed CZK 73.0 billion in revenues to our consolidated income statement in the year ended December 31, 2009, compared to CZK 61.9 billion in revenues in the year ended December 31, 2010, a decrease of 15.3%.

*Distribution and Sale CE.* Revenues from our Distribution and Sale CE segment increased by CZK 12.4 billion, or 14.4%, from CZK 86.1 billion in the year ended December 31, 2009 to CZK 98.4 billion in the year ended December 31, 2010. This increase is primarily attributable to the re-classification of CEZ Trade Polska sp. z o.o., CEZ Hungary Ltd., and CEZ Slovensko, s.r.o. to the Distribution and Sale CE segment, which increased revenues by CZK 7.6 billion). The increase in revenues was also attributable to the allowance of an additional CZK 2.1 billion in distribution revenue allowed by the Czech Energy Regulatory Office to compensate for investments we made to our distribution network and other compulsory expenditures, a CZK 0.9 billion increase in the balance of un-invoiced low-voltage electricity and a CZK 0.5 billion increase in prices paid by the end consumer due to an increases in the amounts of renewable energy that comprise the mix of electricity sold, and the combined production of electricity and heat. In addition, the increase in revenues is also attributable to a 1.3 TWh, or 3.7%, increase in electricity distributed and higher sales of gas to final customers in the Czech Republic (CZK 1.4 billion).

Of these revenues, CZK 4.1 billion, or 4.8%, was attributable to intersegment sales in the year ended December 31, 2009, compared to CZK 6.7 billion, or 6.8%, attributable to intersegment sales in the year ended December 31, 2010. Accordingly, our Distribution and Sale CE segment contributed CZK 81.9 billion in revenue to our consolidated income statement in the year ended December 31, 2009, compared to CZK 91.7 billion in revenues in the year ended December 31, 2010, an increase of 11.9%.

*Mining CE.* Revenues from our Mining CE segment decreased by CZK 0.6 billion or 5.6%, from CZK 11.2 billion in the year ended December 31, 2009 to CZK 10.5 billion in the year ended December 31, 2010. This decrease is primarily attributable to a 0.9 million ton decrease in the amount of coal demanded by our coal fired power plants in the Power Production and Trading CE segment, but was partially offset by a 0.6 million ton increase in the sale of coal to external customers. These combined factors ultimately resulted in a 0.3 million ton decrease in the amount of coal mined.

Of these revenues, CZK 6.6 billion, or 59.5%, was attributable to intersegment sales in the year ended December 31, 2009, compared to CZK 5.9 billion, or 55.5%, attributable to intersegment sales in the year ended December 31, 2010. Accordingly, our Mining CE segment contributed CZK 4.5 billion in revenues to our consolidated income statement in the year ended December 31, 2009, compared to CZK 4.7 billion in revenues the year ended December 31, 2010, an increase of 3.7% (caused by increase in the sale of coal to external customers).

*Other CE.* Revenues from our Other CE segment increased by CZK 7.1 billion, or 18.9%, from CZK 37.7 billion in the year ended December 31, 2009 to CZK 44.8 billion in the year ended December 31, 2010. The increase in revenues is primarily attributable to a CZK 6.3 billion increase in intercompany revenues in connection with services provided to entities within the Group, the acquisition of ČEZ Energioservis (which contributed CZK 0.6 billion in revenues for the year ended December 31, 2010), and a CZK 0.6 billion increase in revenues of subsidiaries of Severočeské doly, due to increased mining-related services activity within the Group (such as reclamation of old mines).

Of these revenues, CZK 33.7 billion, or 89.6%, was attributable to intersegment sales in the year ended December 31, 2009, compared to CZK 41.0 billion, or 91.6%, attributable to intersegment sales in the year ended December 31, 2010. Accordingly, our Other CE segment contributed CZK 3.9 billion in revenues to our consolidated income statement in the year ended December 31, 2009, compared to CZK 3.8 billion in revenues in the year ended December 31, 2010, a decrease of 4.4%.

*Power Production and Trading SEE.* Revenues from our Power Production and Trading SEE segment increased by CZK 0.6 billion, or 20.2%, from CZK 3.2 billion in the year ended December 31, 2009 to CZK 3.8 billion in the year ended December 31, 2010. This increase is primarily attributable to increased electricity production at our Varna power plant in Bulgaria (from 2.2 TWh of electricity produced during the year ended December 31, 2009 to 2.9 TWh of electricity produced during the year ended December 31, 2010, up 0.7 TWh), which increased our revenues by CZK 0.3 billion, and the addition of electricity production at the Fântânele wind farm site in Romania beginning in June 2010, which increased our revenues by an additional CZK 0.3 billion.

Of these revenues, CZK 0.3 billion, or 9.3%, was attributable to intersegment sales in the year ended December 31, 2009, compared to CZK 0.3 billion, or 7.4%, attributable to intersegment sales in the year ended December 31, 2010. Accordingly, our Power Production and Trading SEE segment contributed CZK 2.9 billion in revenues to our consolidated income statement in the year ended December 31, 2009, compared to CZK 3.5 billion in revenues in the year ended December 31, 2010, an increase of 22.7%.

*Distribution and Sale SEE.* Revenues from our Distribution and Sale SEE segment increased by CZK 3.2 billion, or 10.6%, from CZK 30.2 billion in the year ended December 31, 2009 to CZK 33.4 billion in the year ended December 31, 2010. This increase is primarily attributable to the full-year effect of our acquisition of the Albanian distributor and supplier CEZ Shpërndarje Sh.A. in May 2009, which contributed CZK 7.7 billion to our revenues during the year ended December 31, 2010, compared to CZK 4.3 billion during the year ended December 31, 2009, and a CZK 0.1 billion increase in revenues of our Romanian distributor CEZ Distribuție, due to a 0.2 TWh increase in electricity distributed. These increases were partially offset by a CZK 0.5 billion decrease in revenues from our Bulgarian distributor CEZ Elektro Bulgaria AD, due to a 12.5% decrease in the tariffs the Bulgarian energy regulator allowed us to charge end-consumers for electricity consumption.

Of these revenues, CZK 0.1 billion, or less than 1.0%, was attributable to intersegment sales in the year ended December 31, 2009, compared to CZK 0.08 billion, or less than 1.0%, attributable to intersegment sales in the year ended December 31, 2010. Accordingly, our Distribution and Sale SEE segment contributed CZK 30.0 billion in revenue to our consolidated income statement in the year ended December 31, 2009, compared to CZK 33.3 billion in revenues in the year ended December 31, 2010, an increase of 10.8%.



*Other SEE.* Revenues from our Other SEE segment decreased by CZK 0.5 billion, or 18.4%, from CZK 2.7 billion in the year ended December 31, 2009 to CZK 2.2 billion in the year ended December 31, 2010. This decrease was primarily attributable to a CZK 0.5 billion decrease in revenues of CEZ Bulgaria EAD, due to lower revenues from intercompany services within Group. Please see “—Operating Segments—Other/South East Europe.”

Of these revenues, CZK 2.7 billion, or 100.0%, was attributable to intersegment sales in the year ended December 31, 2009, compared to CZK 2.2 billion, or 100.0%, attributable to intersegment sales in the year ended December 31, 2010. Accordingly, our Other SEE segment contributed CZK 0.02 billion in revenues to our consolidated income statement in the year ended December 31, 2009, compared to CZK 0.02 billion in revenues in the year ended December 31, 2010, a change of 0%.

#### *Operating Expenses*

The following table illustrates the Group’s operating expenses for the years ended December 31, 2010 and 2009, as well as showing each expense as a percentage of consolidated revenue for the period.

	<b>Year ended December 31,</b>					
	<b>2009</b>		<b>2010</b>		<b>Amount of</b>	
	<b>(CZK in</b>	<b>(% of</b>	<b>(CZK in</b>	<b>(% of</b>	<b>(CZK in</b>	<b>(%)</b>
	<b>millions)</b>	<b>revenues)</b>	<b>millions)</b>	<b>revenues)</b>	<b>millions)</b>	<b>(%)</b>
<b>Operating expenses</b>						
Fuel .....	(15,805)	8.1%	(16,946)	8.5%	(1,141)	(7.2)
Purchased power and related services .....	(48,170)	24.5%	(54,353)	27.3%	(6,183)	(12.8)
Repairs and maintenance .....	(6,043)	3.1%	(5,465)	2.8%	578	9.6
Depreciation and amortization.....	(22,876)	11.7%	(24,060)	12.1%	(1,184)	(5.2)
Salaries and wages.....	(18,116)	9.2%	(18,717)	9.4%	(601)	(3.3)
Materials and supplies .....	(5,272)	2.7%	(4,844)	2.4%	428	8.1
Emission rights, net .....	305	0.2%	2,148	1.1%	1,84	604.3
Other operating expenses.....	(12,176)	6.2%	(11,823)	5.6%	353	2.9
<b>Total</b> .....	<b>(128,153)</b>	<b>65.3%</b>	<b>(134,060)</b>	<b>67.4%</b>	<b>(5,907)</b>	<b>(4.6)</b>

Operating expenses increased by CZK 5.9 billion, or 4.6%, from CZK 128.2 billion in the year ended December 31, 2009 to CZK 134.1 billion in the year ended December 31, 2010.

*Fuel.* Fuel increased by CZK 1.1 billion, or 7.2%, from CZK 15.8 billion in the year ended December 31, 2009 (8.1% of revenues) to CZK 16.9 billion in the year ended December 31, 2010 (8.5% of revenues). This increase is primarily attributable to a CZK 0.7 billion increase in nuclear fuel costs due to a change in nuclear fuel suppliers (which are not part of the Group), which required us to replace certain fuel components before they were fully used up, and a CZK 0.6 billion increase in coal costs due to increased electricity production at our Varna coal-fired electricity plant.

*Purchased power and related services.* Purchased power and related services increased by CZK 6.2 billion, or 12.8%, from CZK 48.2 billion in the year ended December 31, 2009 (24.5% of revenues) to CZK 54.4 billion in the year ended December 31, 2010 (27.3% of revenues). This increase in costs is primarily attributable to an increase in distribution revenues due to mandatory purchases of energy from renewables (CZK 4.2 billion) and increase in ancillary services to transmission grid operators (CZK 0.7 billion) and the introduction of our natural gas sale and distribution business, which required us to purchase CZK 1.2 billion in natural gas during the year ended December 31, 2010, compared to no natural gas purchased during the year ended December 31, 2009.

*Repairs and maintenance.* Repairs and maintenance decreased by CZK 0.6 billion, or 9.6%, from CZK 6.0 billion in the year ended December 31, 2009 (3.1% of revenues) to CZK 5.5 billion in the year ended December 31, 2010 (2.8% of revenues). This decrease is primarily attributable to savings in our plants, primarily in the Power Production and Trading CE segment.

*Depreciation and amortization.* Depreciation and amortization increased by CZK 1.2 billion, or 5.2%, from CZK 22.9 billion in the year ended December 31, 2009 (11.7% of revenues) to CZK 24.1 in the year ended December 31, 2010 (12.1% of revenues). This increase is primarily attributable to CZK 0.4 billion related to the acquisition of CEZ Shpërndarje Sh. A. and Teplárna Trmice, a. s. and a CZK 0.8 billion increase in investments made to our plants, distribution network and machinery.

*Salaries and wages.* Salaries and wages increased by CZK 0.6 billion, or 3.3%, from CZK 18.1 billion in the year ended December 31, 2009 (9.2% of revenues) to CZK 18.7 billion in the year ended December 31, 2010 (9.4% of revenues). This increase is primarily attributable to CZK 0.3 billion in salaries and wages of employees for which we became liable as the result of our acquisition of CEZ Shpërndarje Sh. A. and Teplárna Trnice, a. s. and due to slightly increased wages and salaries and associated expenses throughout the Group.

*Materials and supplies.* Materials and supplies decreased by CZK 0.4 billion, or 8.1%, from CZK 5.3 billion in the year ended December 31, 2009 (2.7% of revenues) to CZK 4.8 billion in the year ended December 31, 2010 (2.4% of revenues). This decrease is primarily attributable to a re-allocation of expenses totalling CZK 0.3 billion to the other operating expenses line of our consolidated financial statements for the year ended December 31, 2010 (due to change in allocation on production orders).

*Emission rights, net.* Emission rights, net increased by CZK 1.8 billion, or 604.3%, from CZK 0.3 billion in the year ended December 31, 2009 (0.2% of revenues) to CZK 2.1 billion in the year ended December 31, 2010 (1.1% of revenues). This increase is primarily attributable to a CZK 3.4 billion increase in revenues generated from the sale of granted emission rights and derivatives, but was partially offset by a CZK 1.6 billion increase in the provisions we made for future purchases of emission rights. Please see “—Explanation of Key Income Statement Items—Operating Expenses—Emission rights, net.”

*Other operating expenses.* Other operating expenses decreased by CZK 0.4 billion, or 2.9%, from CZK 12.2 billion in the year ended December 31, 2009 (6.2% of revenues) to CZK 11.8 billion in the year ended December 31, 2010 (6.0% of revenues). This decrease is primarily attributable to a CZK 1.4 billion decrease in expenses connected with a change in our estimated provision for the cost of storing spent nuclear fuel, but was partially offset by a CZK 0.4 billion increase due to acquisition of CEZ Spërndarje Sh. A. and a CZK 0.1 billion increase in expenses incurred in connection with mine reclamation activities, and a CZK 0.3 billion increase in material and supplies expenses, due to a re-allocation of expenses from the materials and supplies line of our consolidated financial statements for the year ended December 31, 2010.

#### *Other Income (Expenses)*

Other income (expenses) decreased by CZK 2.9 billion, or 87.8%, from CZK (3.3) billion in the year ended December 31, 2009 to CZK (6.1) billion in the year ended December 31, 2010. This decrease is primarily attributable to a CZK 2.8 billion decrease in our share of the profit/loss from associates and joint-ventures (due to a CZK 3.1 billion write-off of negative goodwill including secondary costs, which was partially offset by a CZK 0.3 billion increased portion of profit) and higher interest on debt (CZK 0.2 billion) due to increased volume of issued bonds and bank loans, accompanied by lower interest income (CZK 0.5 billion). The impact of the goodwill impairment (CZK 0.4 billion) is caused by a CZK 2.8 billion goodwill write-off in Bulgaria in 2010, compared to a CZK 3.3 billion goodwill write-off in Poland in 2009. Increased amount of profit from derivatives (CZK 1.9 billion; in line of other income/expenses) was offset by foreign exchange rate losses (CZK 1.8 billion) due to appreciation of CZK against the Euro.

#### *Income Taxes*

Income taxes decreased by CZK 1.4 billion, or 10.3%, from CZK 13.1 billion in the year ended December 31, 2009 to CZK 11.7 billion in the year ended December 31, 2010. This decrease is primarily attributable to a decrease in profit before tax.

#### *Net Income*

As a result of the factors discussed above, net income decreased by CZK 4.9 billion, or 9.5%, from CZK 51.9 billion in the year ended December 31, 2009 to CZK 46.9 billion in the year ended December 31, 2010.

### **Liquidity and Capital Resources**

Our financial condition and liquidity is and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- the level of our outstanding indebtedness, and the interest we are obligated to pay on such indebtedness, which affects our finance costs;
- prevailing interest rates, which affect our debt service requirements;
- our ability to continue to borrow funds from banks and international debt capital markets;
- our level of acquisitions activity; and
- our capital expenditure requirements and development projects.

Our cash requirements consist mainly of the following:

- funding capital expenditures;
- operating costs and working capital;
- servicing our indebtedness and the indebtedness of our subsidiaries;
- paying taxes; and
- paying dividends to our shareholders.

Our sources of liquidity consist mainly of the following:

- cash generated from our operating activities;
- existing cash and external borrowings, including CZK 30 billion available in committed back-stop credit lines; and
- potential future borrowings.

Our principal sources of liquidity are cash generated primarily from our own operations, but also dividends and other distributions from our subsidiaries, joint ventures and external financings. Operating expenses, capital expenditures, development projects and acquisition projects are financed from a combination of our own liquidity or liquidity available within the Group, bank loans and borrowings under debt securities. In addition, we have CZK 30 billion available to us in the form of committed back-stop credit lines, CZK 11.0 billion of which is available with a three year tenor and CZK 19.0 billion of which is available on a short-term basis. As of December 31, 2011, only CZK 1.0 billion of the CZK 30.0 billion available to us had been drawn.

#### **Cash Flow Data**

The following is a discussion and analysis of our cash-flow data for the years ended December 31, 2011, 2010 and 2009, which has been derived from the consolidated statement of cash flows contained in our respective consolidated financial statements. Please see “—*Restatement of 2010 Financial Statements*” for a description of the restatement affecting the comparability of the periods below.

The following table summarizes our consolidated cash flow statement for the years ended December 31, 2009, 2010 and 2011.

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

#### *Net cash provided by operating activities*

Our consolidated operating activities generated CZK 61.8 billion in net cash in the year ended December 31, 2011, a decrease of CZK 15.4 billion over the year ended December 31, 2010, when we generated CZK 77.2 billion in net cash from operating activities. This decrease in net cash from operating activities is primarily attributable to a CZK 13.0 billion increase in working capital, caused primarily by faster growth of receivables than liabilities (CZK 6 billion), a CZK 2.1 billion increase in highly liquid securities held and a CZK 2.0 billion increase in fossil fuels stock; and to a CZK 1.7 billion increase in interest paid on our borrowings. The decrease was partially offset by a CZK 3.0 billion decrease in income taxes paid.

Our consolidated operating activities generated CZK 77.2 billion in net cash in the year ended December 31, 2010, a decrease of CZK 10.2 billion over the year ended December 31, 2009, when we generated CZK 87.4 billion in net cash from operating activities. This decrease in net cash from operating activities is primarily due to the decrease in income before income taxes in the year ended December 31, 2010, compared to the year ended December 31, 2009, and a decrease in liabilities (particularly those resulting from derivatives and trading deals) that occurred more quickly than a decrease of receivables (particularly trade receivables).

### *Total cash used in investing activities*

Our total cash used in investing activities totalled CZK 52.9 billion in the year ended December 31, 2011, a decrease of CZK 12.7 billion compared to the year ended December 31, 2010, when our total cash used in investing activities totalled CZK 65.6 billion. This decrease in total cash used in investing activities was primarily attributable to reduction in our investment program, both in capital expenditures (which decreased by CZK 10.6 billion for the year ended December 31, 2011) and financial investments (which decreased by CZK 7.0 billion for the year ended December 31, 2011), accompanied by a CZK 4.1 billion decrease in loans made and repayments, net during the year ended December 31, 2011, as compared to the year ended December 31, 2010.

Our total cash used in investing activities totalled CZK 65.6 billion in the year ended December 31, 2010, a decrease of CZK 33.4 billion compared to the year ended December 31, 2009, when our total cash used in investing activities totalled CZK 99.0 billion. This decrease in total cash used in investing activities was partially attributable to a CZK 17.2 billion decrease in investments in shares of subsidiaries, associates, and joint ventures during the year ended December 31, 2010. The decrease in total cash used in investing activities was also attributable to a CZK 7.8 billion reduction in investments property, plant and equipment (including capital expenditures) during the year ended December 31, 2010, as compared to the year ended December 31, 2009, and a CZK 11.0 billion decrease in loans made and repayments, net during the year ended December 31, 2010, as compared to the year ended December 31, 2009.

### *Total cash provided by (used in) financing activities*

Total cash provided by (used in) financing activities decreased by CZK 7.2 billion in the year ended December 31, 2011, to CZK 8.4 billion provided by (used in) financing activities, compared to CZK 15.6 billion provided by (used in) financing activities in the year ended December 31, 2010. This decrease is primarily attributable to a CZK 4.8 billion decrease in the balance of borrowings and payments during the year ended December 31, 2011, as compared to the year ended December 31, 2010, and a CZK 1.6 billion decrease in dividends paid during the year ended December 31, 2011, as compared to the year ended December 31, 2010.

Total cash provided by financing activities decreased by CZK 37.8 billion in the year ended December 31, 2010, to CZK 15.6 billion used in financing activities, compared to CZK 22.2 billion provided by financing activities in the year ended December 31, 2009. This decrease is primarily attributable to a CZK 35.6 billion decrease in the balance of borrowings and payments during the year ended December 31, 2010, as compared to the year ended December 31, 2009, and a CZK 1.7 billion increase in dividends paid during the year ended December 31, 2010, as compared to the year ended December 31, 2009.

### ***Borrowings***

The following table illustrates the Group's Net Debt as of December 31, 2009, 2010 and 2011. Net Debt, as described below and defined by the Group, is a non-IFRS financial measure. Please see "Presentation of Financial Information—Non-IFRS Measures."

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010 (restated)</b>	<b>2011</b>
	<b>(CZK in millions)</b>		
<b>Long-term debt:</b>			
Bonds and debentures .....	111,031	137,166	151,107
Long-term bank and other loans .....	14,522	17,660	32,842
<b>Short-term loans:</b>			
Short-term bank loans .....	25,310	8,306	4,333
Bank overdrafts .....	1,336	1,312	1,167
Other short-term borrowings .....	4,611	—	—
<b>Total</b> .....	<b>156,810</b>	<b>164,444</b>	<b>189,449</b>
Cash and cash equivalents .....	(26,727)	(22,163)	(22,062)
Highly liquid financial assets <sup>(1)</sup> .....	(5,671)	(7,743)	(8,024)
<b>Net Debt</b> .....	<b>124,412</b>	<b>134,538</b>	<b>159,363</b>

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

### Long-Term Loans

The following table illustrates the Group's long-term debt maturity profile as of December 31, 2011.

	<b>Year ended December 31, 2011</b>
	<b>(CZK in millions)</b>
Current portion .....	19,264
Between 1 and 2 years .....	15,260
Between 2 and 3 years .....	28,904
Between 3 and 4 years .....	17,888
Between 4 and 5 years .....	15,175
Thereafter .....	87,458
<b>Total long-term debt.....</b>	<b>183,949</b>

The Group's long-term debt increased by CZK 29.2 billion, or 23.2%, from CZK 125.6 billion as of December 31, 2009 to CZK 154.8 billion as of December 31, 2010. This increase is due to a CZK 26.1 billion increase in total bonds and debentures and a CZK 3.1 billion increase in long-term bank and other loans during the year ended December 31, 2010. The maturity profile of the new debt reflected our decision to extend the average maturity of our debt portfolio during the year ended December 31, 2010 to protect against possible future levels of low liquidity in debt capital markets. Accordingly, the average maturity of our debt increased by 25%, from approximately 6.1 years as of December 31, 2009 to approximately 7.6 years as of December 31, 2010.

The Group's long-term debt increased by CZK 29.1 billion, or 18.8%, from CZK 154.8 billion as of December 31, 2010 to CZK 183.9 billion as of December 31, 2011. This increase is due to a CZK 13.9 billion increase in total bonds and debentures and a CZK 15.2 billion increase in long-term bank and other loans during the year ended December 31, 2011. Volatility in the capital markets prevented us from aggressively continuing to extend debt maturities in 2011. The new debt we incurred in 2011 included some long term loans (primarily from the European Investment Bank) and several longer dated private placement bond issues. Their impact on overall debt maturity was offset by a public bond transaction and several bilateral loans, each with a maturity of five years or less. As a result, the average maturity of our debt marginally declined from approximately 7.6 years as of December 31, 2010 to approximately 7.4 years as of December 31, 2011.



The following table sets forth our long-term debt at December 31, 2009, 2010 and 2011.

	<b>As of December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<b>(CZK in millions)</b>		
4.625% Eurobonds, due 2011 (EUR 154 million).....	10,569	3,850	—
4.125% Eurobonds, due 2013 (EUR 500 million).....	13,153	12,474	12,863
5.125% Eurobonds, due 2012 (EUR 500 million).....	13,199	12,510	12,891
6.000% Eurobonds, due 2014 (EUR 600 million).....	15,768	14,954	15,419
3.005% Eurobonds, due 2038 (JPY 12,000 million).....	2,383	2,764	3,087
5.825% Zero Coupon Eurobonds, due 2038 (EUR 6 million) .....	30	30	33
4.270% Zero Coupon Eurobonds, due 2011 (CZK 1,400 million) ...	1,322	1,379	—
4.450% Zero Coupon Eurobonds, due 2011 (CZK 1,600 million) ...	1,504	1,573	—
5.750% Eurobonds, due 2015 (EUR 600 million).....	15,807	14,980	15,436
2.845% Eurobonds, due 2039 (JPY 8,000 million).....	1,590	1,844	2,060
5.000% Eurobonds, due 2021 (EUR 750 million).....	15,666	18,733	19,292
6M Euribor + 1.25% Eurobonds, due 2019 (EUR 50 million) .....	1,316	1,248	1,285
3M Euribor + 0.45% Eurobonds, due 2011 (EUR 110 million) .....	2,909	2,756	—
3M Libor + 0.70% Eurobonds, due 2012 (USD 100 million).....	1,831	1,871	1,992
3M Euribor + 0.50% Eurobonds, due 2011 (EUR 100 million) .....	2,644	2,505	—
6M Pribor + 0.62% Eurobonds, due 2012 (CZK 3,000 million) .....	2,996	2,998	2,999
4.875% Eurobonds, due 2025 (EUR 750 million).....	—	18,679	19,239
4.500% Eurobonds, due 2020 (EUR 750 million).....	—	18,544	19,119
2.160% Eurobonds, due 2023 (JPY 11,500 million) .....	—	—	2,962
4.600% Eurobonds, due 2023 (CZK 1,250 million).....	—	—	1,247
3.625% Eurobonds, due 2016 (EUR 500 million).....	—	—	12,798
2.150%*IRp Eurobonds, due 2021 (EUR 100 million).....	—	—	2,580
4.102% Eurobonds, due 2021 (EUR 50 million).....	—	—	1,284
4.500% registered bonds, due 2030 (EUR 40 million) .....	—	976	1,006
4.750% registered bonds, due 2023 (EUR 40 million) .....	—	—	1,016
9.220% Debentures, due 2014 (CZK 2,500 million).....	2,497	2,498	2,499
4.300% Debentures, due 2010 (CZK 6,000 million).....	5,847	—	—
Total bonds and debentures.....	111,031	137,166	151,107
Less: Current portion .....	(5,847)	(12,063)	(17,882)
Bonds and debentures, net of current portion.....	105,184	125,103	133,225
Long-term bank and other loans:			
Less than 2.00% p.a. ....	9,895	6,200	7,892
2.00% to 2.99% p.a. ....	3,736	10,609	14,679
3.00% to 3.99% p.a. ....	338	44	8,980
4.00% to 4.99% p.a. ....	552	431	384
6.00% to 6.99% p.a. ....	—	192	—
More than 6.99% p.a. ....	1	184	907
Total long-term bank and other loans .....	14,522	17,660	32,842
Less: Current portion .....	(785)	(2,723)	(1,382)
Long-term bank and other loans, net of current portion.....	13,737	14,937	31,460
Total long-term debt.....	125,553	154,826	183,949
Less: Current portion .....	(6,632)	(14,786)	(19,264)
Total long-term debt, net of current portion .....	118,921	140,040	164,685

The following table analyses the long-term debt at December 31, 2009, 2010 and 2011 by currency (in millions). Please see “*Description of Other Indebtedness*” for a description of certain provisions of our material other indebtedness.

	As of December 31,					
	2009		2010		2011	
	Foreign currency	CZK	Foreign currency	CZK	Foreign currency	CZK
	(in millions)					
Euro.....	3,791	100,321	5,506	137,982	6,407	165,312
U.S. dollar.....	110	2,020	115	2,149	112	2,233
Japanese yen.....	22,057	4,386	22,032	5,086	33,432	8,610
Polish zloty.....	9	61	6	38	3	17
Romanian lei.....	516	3,223	—	—	—	—
Albanian lek.....	—	—	508	89	406	76
South Korean won.....	4,469	71	4,838	77	4,942	85
XDR—IMF Special Drawing Rights.....	7	197	6	173	6	170
Czech crown.....	—	15,274	—	9,232	—	7,446
<b>Total long-term debt.....</b>		<u>125,553</u>		<u>154,826</u>		<u>183,949</u>

We use Euro-denominated liabilities and incur Euro-denominated debt as a natural hedge against exchange rate fluctuations resulting from generation of revenues in currencies other than the Czech crown, particularly the Euro, and endeavour to cover any remaining open positions by entering into hedging transactions, primarily foreign exchange forward contracts. Please see “—*Quantitative and Qualitative Disclosures About Market Risk*.” As of December 31, 2011, the fair value of our currency forward contracts qualified as hedging transactions amounted to CZK (1,690) million. We also intend to enter into U.S.\$/Euro currency swaps with respect to the aggregate principal amount of the Notes plus interest payable to maturity.

#### *Short-Term Loans*

The Group’s short-term loans decreased by CZK 21.6 billion, or 69.2%, from CZK 31.2 billion as of December 31, 2009 to CZK 9.6 billion as of December 31, 2010. This decrease was primarily due to a CZK 17.0 billion reduction in short-term bank loans during the year ended December 31, 2010, which resulted from our decision to extend the average maturity of our debt portfolio during the year ended December 31, 2010 to protect against possible future levels of low liquidity in debt capital markets. We therefore decreased short term bank financing and replaced it with longer term bond issues. Accordingly, the average maturity of our portfolio increased by 21%, from approximately 6.1 years as of December 31, 2009 to approximately 7.4 years as of December 31, 2011.

The Group’s short-term loans decreased by CZK 4.1 billion, or 42.7%, from CZK 9.6 billion as of December 31, 2010 to CZK 5.5 billion as of December 31, 2011. This decrease was primarily due to our continuous efforts to extend the average maturity of our debt portfolio and related lower drawings of the short term credit lines.

#### *Capital Expenditures and Acquisitions*

Our capital expenditure program is geared towards meeting our planned growth needs and ensuring that our facilities remain cost-efficient. Over the last three years, we have made significant investments in both acquisitions and capital expenditures, totalling CZK 203.5 billion. Our investments in acquisition of subsidiaries, associates and joint ventures, net of cash acquired reached CZK 25 billion, CZK 8 billion and CZK 1 billion for the years ended December 31, 2009, 2010, 2011, respectively.

Capital expenditures have totalled CZK 169.5 billion during the same period. These expenditures have enabled us to improve efficiencies and upgrade our generation fleet and distribution facilities. Due to this high level of investment over the past several years, we expect that our capital expenditure levels will substantially decrease over the next three years. Our long term investment strategy includes the construction of two new nuclear units at the Temelín nuclear power plant. This project is currently in the bidding stage, and the expected capital expenditure range is wide. We do not plan to commit to making any significant capital expenditures until the details of the design and all necessary permits are fully in place, which is expected to occur in 2016. We expect to finance the related capital expenditures through a combination of debt issuances and operating cash flow. The following table sets forth the Group’s capital expenditures by asset type for the years ended December 31, 2009, 2010 and 2011.

	Year ended December 31,		
	2009	2010 (restated)	2011
	(CZK in millions)		
Nuclear energy, including fuel procurement.....	8,418	7,814	9,118
Coal and CCGT power plants.....	17,274	20,473	15,829
of which: retrofits.....	5,433	8,552	6,717
new build.....	10,711	11,246	8,483
other.....	1,130	675	0,629
Renewables.....	9,987	13,599	6,349
Distribution of electricity.....	13,112	12,501	12,232
Generation and distribution of heat.....	483	273	0,546
Mining of raw materials.....	3,709	3,869	3,693
Environmental.....	167	504	0,826
Information systems.....	1,707	1,049	1,275
Waste management.....	3	1	0
Other.....	1,762	1,632	1,245
<b>Total</b> .....	<b>56,622</b>	<b>61,715</b>	<b>51,113</b>

The following table sets forth the Group's capital expenditures by operating segment for the years ended December 31, 2009, 2010 and 2011.

	Year ended December 31,					
	2009		2010 (restated)		2011	
	Capital expenditure	% of total	Capital expenditure	% of total	Capital expenditure	% of total
	(CZK in millions, except percentages)					
Power Production and Trading CE.....	28,720	50.7%	39,779	64.5%	27,533	53.9%
Distribution and Sale CE.....	9,788	17.3%	9,645	15.6%	9,670	18.9%
Mining CE.....	3,525	6.2%	3,990	6.5%	4,121	8.1%
Other CE.....	23,688	41.8%	27,456	44.5%	23,751	46.5%
Power Production and Trading SEE.....	9,657	17.1%	3,459	5.6%	4,886	9.6%
Distribution and Sale SEE.....	2,523	4.5%	2,994	4.9%	2,534	5.0%
Other SEE.....	921	1.6%	729	1.2%	775	1.5%
Elimination <sup>(1)</sup> .....	(22,200)	(39.2)%	(26,337)	(42.8)%	(22,157)	(43.5)%
<b>Total</b> .....	<b>56,622</b>	<b>100.0%</b>	<b>61,715</b>	<b>100.0%</b>	<b>51,113</b>	<b>100.0%</b>

(1) Elimination of capital expenditures is primarily attributable to the Other CE segment, which purchases new equipment for other segments, primarily the Power Production and Trading CE segment. Capital expenditures that appear in the elimination are accounted for in the relevant segment the following year.

### Contractual Obligations and Commercial Commitments

The table below sets out our contractual obligations and commitments as of December 31, 2011.

	Loans	Bonds and debentures	Trade payables and other liabilities	Derivatives <sup>(1)</sup>	Guarantees issued <sup>(2)</sup>
	(CZK in millions)				
Less than 1 year.....	7,611	24,974	52,116	338,258	6,034
Between 1 and 2 years.....	3,103	19,207	193	73,882	—
Between 2 and 3 years.....	11,558	23,730	82	15,514	—
Between 3 and 4 years.....	2,876	20,151	45	755	—
Between 4 and 5 years.....	2,741	16,623	58	748	—
Thereafter.....	14,550	97,188	—	13,474	—
<b>Total</b> .....	<b>42,439</b>	<b>201,873</b>	<b>52,494</b>	<b>442,631</b>	<b>6,034</b>

(1) Contractual maturities for derivatives represents contractual cash out-flows of derivative instruments, but at the same time the Group will receive corresponding consideration.

(2) We allocate the maximum amount of guarantees issued to the earliest period during which the respective guarantee could be called.

## Investment Program

We are engaged in an ongoing construction program, currently estimated as of December 31, 2011 to total CZK 225.4 billion over the next five years, as follows: CZK 64.3 billion in 2012, CZK 45.8 billion in 2013, CZK 44.3 billion in 2014, CZK 33.1 billion in 2015 and CZK 37.9 billion in 2016. These figures do not include the expected acquisitions of subsidiaries, associates and joint ventures, which will depend on the number of future investment opportunities, for which we will be a successful bidder and also considering the recoverability of these investments.

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

## Off-Balance Sheet Arrangements

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

## Quantitative and Qualitative Disclosures about Market Risk

### Commodity Risk

Our exposure to commodity risk principally consists of exposure to fluctuations in prices of electricity, emission allowances, coal and gas prices. Our primary exposure to commodity price risks arises from the substance of our physical assets, namely power plants, and to a lesser extent from proprietary trading activities.

We manage the natural commodity risk connected with our electricity generation activities primarily by selling the electricity we expect to produce on a one to three year forward basis. In addition, we purchase emission allowances on a forward basis and enter into long-term contracts for coal and gas. As of December 31, 2011, we had sold substantially all of the electricity we expect to generate in 2012 (100% corresponds to 55-60 TWh of our expected annual generation in the Czech Republic) and we have entered into additional long-term contracts for approximately 1.75 TWh of annual delivery extended through 2020.

We manage the commodity risk that results from our proprietary trading activities by establishing and maintaining a system of limits for each trader or portfolio. If a limit is broken, trading of the responsible trader/portfolio is restricted or ceased. The total limit allocated for trading activities is set in compliance with the value of aggregate annual risk limit approved by the Board of Directors.

### Foreign Currency Risk

We are exposed to transactional foreign currency risk in two main ways: on revenues and expenses that are denominated in currencies other than the Czech crown; and because a significant portion of our debt (including the Notes) is denominated in currencies other than the Czech crown. Please see "*Liquidity and Capital Resources—Borrowings.*"

We present our consolidated results in Czech crown. Accordingly, our reported financial results are subject to movements in exchange rates on the translation of financial information of businesses whose functional currencies are not denominated in Czech crown. In particular, the revenues from our electricity sales in the Czech Republic are denominated in Euro, and as a result, significant fluctuations in the exchange rates between the Euro and the Czech crown could affect our reported results. Additionally, a significant number of our subsidiaries use other currencies than Czech crown as their functional currency and fluctuations in the exchange rates between these currencies and the Czech crown can affect our reported results. In addition, outstanding bonds, loans and financing facilities denominated in currencies other than the Czech crown may also affect our overall exposure to a particular currency. Please see "*—Explanation of Key Income Statement Items—Other Income (Expenses)—Foreign exchange rate gains (losses), net.*"

We manage our foreign exchange exposure in two major ways:

- Natural hedging: our primary policy is to endeavour to match the currency of our income streams to the currency of our debt and expenditures whenever possible. Accordingly, we endeavour to match our Euro revenues with debt (applying hedge accounting principles) and expenses denominated in Euro. As of December 31, 2011, we had a notional amount of

€5.6 billion in outstanding Euro denominated liabilities classified as a cash flow hedge under IAS 39.

- Transactional hedging: we use FX forwards and FX swaps as a supplement to the natural hedging strategy discussed above, primarily in situations when either the current amount of natural hedging is not sufficient to fulfil our predetermined FX hedging strategy or when we want to take advantage of market conditions to lock-in favorable exchange rates. As of December 31, 2011, we had a notional amount of €1.2 billion in FX derivatives classified as a cash flow hedge under IAS 39, the fair value of these derivative hedging instruments amounted to CZK (1,690) million as of December 31, 2011. We also intend to enter into U.S.\$/Euro currency swaps with respect to the aggregate principal amount of the Notes plus interest payable to maturity.

### ***Credit Risk***

Credit risk is the risk that we will incur a loss because our customers or counterparties fail to discharge their contractual obligations. Our exposure to credit risk relates primarily to our operating and investing activities. We use pre-determined credit limits to manage our credit exposures to individual financial partners and wholesale partners. Our risk management team uses international credit ratings and internal financial evaluations of counterparties to determine each of our counterparties' credit-worthiness, then sets and continuously updates individual limits according to these ongoing determinations. We also monitor the payment history of our business partners involved in our electricity sales made to end customers in the Czech Republic, and set respective payment conditions accordingly. This system indirectly determines an amount of our approved credit exposure and serves to quantify expected and the potential losses. We have voluntarily adopted the robust credit risk methodology applied to the banking sector per Basel II, and we quantify expected and potential losses every month on a 95% confidence level.

### ***Liquidity Risk***

We are subject to liquidity risk to the extent that our current assets and available sources of funds may not be sufficient to meet current liabilities. Liquidity risk may be heightened in an organization, such as ours, which makes significant investments and has corresponding financial needs. Liquidity risk has been intensified since 2008 as banks and other sources of funding have adopted more stringent lending requirements in response to the deteriorating condition of global financial markets. Our main source of liquidity has been cash flow from our current operations and borrowings from third parties. We also use bilateral committed banking back-stop credit lines as a liquidity reserve which could be utilized in case of liquidity shortage. As of December 31, 2011, the volume of our back-stop credit lines was CZK 30 billion. Over the course of the year ended December 31, 2011 we extended the maturity of nearly 40% of our committed facilities from two to four years. Our bilateral facilities are provided by thirteen banking institutions and mature at various dates throughout the calendar year to prevent a large one-off impact should any institution fail to renew its respective commitment. As of December 31, 2011, we had not experienced any withdrawal of committed banking credit lines during the past three years.

### ***Interest Rate Risk***

Our exposure to interest rate risk relates primarily to the costs of future borrowings and, to a lesser extent, the costs of our floating rate borrowings. Changes in the level of interest rates can also affect, among other things, (i) the cost and availability of debt financing and our ability to achieve attractive rates of return on our investments; (ii) the debt financing capability of the investments and business in which we have invested; and (iii) the rate of return on our uninvested cash balances.

As of December 31, 2011, 79% of our external borrowing was issued with a fixed interest rate. To a certain extent we hedge the interest rate of the future borrowing we plan to incur in coming years, by using forward starting interest rate swaps and interest rate swaptions. As of December 31, 2011, we had zero-cost swaption collars (interest rate swaptions not requiring initial payment of premium) and an interest rate swap with the total notional amount of €550 million.

Our outstanding bonds, loans and financing facilities denominated in currencies other than Euro (mainly U.S.\$ and JPY) are generally hedged using cross rate swaps, in which we enter into an agreement to pay fixed interest flow in Euro in exchange for floating or fixed interest rate flow corresponding to the respective interest costs on these liabilities.

We also hold a significant amount of interest rate sensitive securities, primarily Czech government bonds, in restricted accounts used for the accumulation of cash balances for future nuclear decommissioning and fuel



storage and for decommissioning and reclamation of mines. The interest rate risk on these positions is mainly managed through maturity management.

### ***Stock Price Risk***

Stock price risk is the risk that changes in the price of the securities we hold will affect future cash flows or the fair values of financial instruments. Our exposure to the risk of changes in the price of the securities we hold relates primarily to our equity position in MOL. Please see note 4 to our consolidated audited financial statements for the year ended December 31, 2011, which have been incorporated into this offering memorandum by reference. The Group's board of directors review and approve all significant investment decisions and our management team monitors positions on a regular basis.

### **Critical Accounting Policies and Estimates**

We prepare our consolidated financial statements in compliance with IFRS as adopted by the European Union. As such, our management is required to make certain estimates, judgments and assumptions that it believes are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of income and expenses during the periods presented and the related disclosure of contingent assets and liabilities.

We evaluate our estimates on an ongoing basis, using previous experience, consultation with experts and other methods considered reasonable in the particular circumstances to ensure full compliance with IFRS and best practice. Actual results may differ significantly from our estimates, the effect of which is recognized in the period in which the facts that gave rise to the revision became known.

Our material accounting policies are set out in full in note 2 to our consolidated audited financial statements for the years ended December 31, 2009, 2010 and 2011, which have been incorporated into the offering memorandum by reference. Certain of our accounting policies have been identified as the most critical accounting policies by considering which policies involve particularly complex or subjective decisions or assessments and these are discussed below. The discussion below should be read in conjunction with the full statement of accounting policies.

### ***Provisions to Nuclear Decommissioning and Fuel Storage***

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

The provisions recognized represent our best estimates of the expenditures required to settle our present obligations at the current balance sheet date. The estimated costs are based on decommissioning studies that are approved by the Czech Nuclear Safety Authority and the Czech Repository Authority. The studies are updated regularly to reflect changes in the estimates. We must make annual payments to a special escrow account to cover future decommissioning costs. These payments depend on the estimated decommissioning costs, the estimated time of decommissioning and other factors. If these factors change, our annual payments can change in the future.

The decommissioning process is expected to continue for approximately fifty and sixty years with respect to the final operation of our Temelín and Dukovany plants, respectively. We anticipate that a permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075. The actual decommissioning and storage costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased labor, materials, and equipment costs or changes in the actual time required to complete all decommissioning, disposal and storage activities. Many of the factors that are integral to the determination of the estimates, such as governmental regulations and inflation, are beyond our control. Please see notes 2.24 and 18 of our consolidated financial statements for the year ended December 31, 2011.

### ***Goodwill***

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. We review goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The impairment test involves determining the recoverable amount of the cash-generating unit, which corresponds to the value in use. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit discounted using WACC. Value in use is determined on the basis of an enterprise valuation model and is assessed from a company internal perspective. Values in use are determined based on cash flow budgets, which are based on the medium-term budget approved by management for

a period of five years. These budgets are based on our past experience, as well as on expected future market trends. The actual cash flows of the cash-generating units as well as the actual cost of capital could vary substantially from the above estimates.

### ***Derivatives***

IAS 39 *Financial Instruments: Recognition and Measurement*, requires every derivative instrument (including certain derivative instruments embedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at its fair value. IAS 39 requires any changes in the derivative's fair value to be currently recognized in earnings, unless specific hedge accounting criteria are met.

The fair value of derivatives is estimated using valuation models. The use of valuation models requires making assumptions and estimates regarding the volatility of underlying and inputs of market data, such as currency rates, interest rate curves, etc. Results of the valuation models could differ significantly from values obtained from other valuation models because of different assumptions, estimates and market data used in those models.

### ***Hedge Accounting***

We use derivatives and other financial instruments such as interest rate swaps, foreign currency contracts, Euro-denominated liabilities and commodity contracts to hedge the risks associated with interest rate, foreign currency and commodity price fluctuations. We enter into cash flow hedges of future highly-probable forecast cash inflows from sales denominated in Euro against currency risk, cash flow hedges of future highly-probable purchases of emission allowances, and cash flow hedges of highly-probable forecasted electricity sales in the Czech Republic. For cash flow hedges the effective portion of the changes in the fair value of the hedging instruments is recognised in other comprehensive income and the amounts accumulated in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss. The application of this accounting policy depends on certain assumptions made by management, including the probability that the forecast transaction will occur in the expected period and amounts.

### ***Deferred Tax***

We have significant deferred tax assets and liabilities which are expected to be realized through the income statement over extended periods of time in the future. In calculating the tax-deferred items, we are required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the consolidated financial statements and their tax basis. Significant assumptions made include the expectation that: future operating performance for subsidiaries will be consistent with historical operating results; recoverability periods for tax credits and net operating loss carryforwards will not change; and existing tax laws and rates which we are subject to will remain unchanged into the foreseeable future.

We believe that we have used prudent assumptions and feasible tax planning strategies in developing the deferred tax balances. However, any changes to the facts and circumstances underlying the assumptions could cause significant change in the deferred tax balances and resulting volatility in its operating results.

### ***New Accounting Standards***

We did not adopt any new accounting policies during the years ended December 31, 2011 or December 31, 2009 that had a material impact on our financial position or performance.

During the year ended December 31, 2010, we adopted IFRS 3—Business Combinations (as revised) and IAS 27—Consolidated and Separate Financial Statements (as amended). IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after this date. These changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages, as well as the amount of goodwill recognized, the reported results in the period when an acquisition occurs and future reported results. IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary, as well as the loss of control of a subsidiary. As a result of the adoption of these revised standards, we charged transaction costs related to ongoing acquisitions and accumulated through December 31, 2009 directly to retained earnings as of January 1, 2010.

## REGULATION

*Below is a brief summary of the rules and regulations applicable to the CEZ Group in the Czech Republic, Bulgaria and Romania, certain of our principal markets. With the accession of the Czech Republic to the European Union on May 1, 2004, the Czech Republic adopted the customs, rules and regulations of the European Union, and therefore we have also included a description of the European Union Legislation as applicable to the CEZ Group. The following summary does not purport to be complete and is subject to the regulations of jurisdictions referred to below.*

### **European Union Legislation**

#### ***History of Energy Regulation***

By virtue of its membership in the European Union, the Czech Republic is required to adhere to E.U. energy legislation which has continuously developed in order to establish a competitive, secure and environmentally sustainable electricity market.

The European Commission began regulating the E.U. energy market by enacting Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. First Electricity Directive*”) and Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. First Gas Directive*”) in 1996 and 1998, respectively. The E.U. First Electricity Directive and the E.U. First Gas Directive were designed to open access to the internal electricity and gas markets of E.U. member states and to allow for better competition in these markets. In June 2003, the E.U. Energy Council repealed the E.U. First Electricity Directive and the E.U. First Gas Directive by adopting Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. Second Electricity Directive*”) and Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. Second Gas Directive*”).

The E.U. Second Electricity Directive required each E.U. member state to allow for full competition within its internal commercial and residential electricity markets by July 1, 2004 and July 1, 2007, respectively. The E.U. Second Electricity Directive also set forth general rules for the organization of the E.U. electricity market, such as the option of the member states to impose certain public service obligations, customer protection measures and provisions for monitoring the security of electricity supply in the European Union; the establishment of a regulatory body, independent from any interests of the electricity and gas industries, which would be in charge of ensuring non-discriminatory network access, monitoring effective competition and ensuring the efficient functioning of the electricity generation, distribution, and trade market; and the implementation of so-called “legal unbundling” meaning that each transmission and distribution system operator had to be separated, at least in terms of legal form, organization and decision-making, from other activities in the energy sector not relating to transmission or distribution.

The E.U. Second Electricity Directive further focused on enhancing customer rights by granting household customers the right to be supplied with electricity of a specified quality at reasonable, easily and clearly comparable and transparent prices. Moreover, it required electricity suppliers to provide their end-users with information on the energy sources and kinds of fuel used in the production of supplied electricity and on the environmental impact of the supplier’s activities, including the amount of carbon dioxides and radioactive waste produced.

Similar to the E.U. Second Electricity Directive, the E.U. Second Gas Directive, adopted on June 26, 2003, required each member state to allow for full competition within its internal commercial and residential gas market by July 1, 2004 and July 1, 2007, respectively. With regard to the independent regulatory authority and legal unbundling, the E.U. Second Gas Directive sets forth similar rules as the E.U. Second Electricity Directive.

The Czech Republic implemented these directives in 2003 and 2004.

#### ***Current E.U. Energy Regulation***

In 2007, the European Commission published an “energy package,” which contained proposals for the establishment of a new energy policy and strategy for a more integrated and competitive energy market within the European Union. Designed to ensure a stable energy supply and combat climate change, the energy package set certain targets, including:

- further liberalization of electricity markets;
- a reduction of at least 20% in greenhouse gas emissions by 2020;
- a 20% share of renewable energies in E.U. energy consumption by 2020; and
- for the sectors subject to emissions trading, a 20% reduction in CO<sub>2</sub> levels by 2020.

Subsequently, in 2009 the European Union adopted the climate and energy package (the “*E.U. Climate and Energy Package*”), including, but not limited to Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. Third Electricity Directive*”) and Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. Third Gas Directive*”). These directives were designed to complete the liberalization of the electricity and gas markets within the European Union. In particular, the E.U. Climate and Energy Package contemplates the further separation of supply and production activities from transmission network operations. To achieve this goal, member states are able to choose, subject to the respective conditions set forth in the E.U. Third Electricity Directive and the E.U. Third Gas Directive, between the following three options:

- Full ownership unbundling. This option entails vertically integrated undertakings selling their gas and electricity grids to an independent operator, which will carry out all network operations.
- Independent System Operator (“*ISO*”). Under this option, vertically integrated undertakings maintain the ownership of the gas and electricity grids, but they are obliged to designate an independent operator for the management of all network operations.
- Independent Transmission Operator (“*ITO*”). This option is a modification of the ISO option whereby vertically integrated undertakings do not have to designate an ISO, but need to abide by strict rules ensuring separation between supply and transmission. As further described below, the Czech Republic has opted for the full ownership unbundling with regard to electricity, and for ITO-unbundling option with regard to gas.

The E.U. Climate and Energy Package also enhanced consumers’ rights by establishing the right to (i) change electricity or gas supplier without cost (the process of switching must be completed within three weeks), and receive the final closure statement at the latest six weeks after the switch; (ii) obtain compensation if quality targets are not met; (iii) receive information on supply terms through bills and company websites; and (iv) see complaints dealt with in an efficient and independent manner.

Finally, the E.U. Climate and Energy Package provides for the creation of an agency within the European Union for the coordination of national energy regulators, which will issue non-binding framework guidelines for national agencies. It is expected that this will result in a more harmonized energy regulation across the European Union. The Czech Republic implemented the E.U. Climate and Energy Package in August 2011.

### ***Cross-Border Trading of Electricity***

Besides focusing on liberalizing internal energy markets in every member state, European energy regulation is also designed to improve cross-border trade of electricity. Accordingly, the European Union has also implemented Regulation (EC) No. 1228/2003 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity. This regulation required the establishment of a committee of national experts chaired by the European Commission, which adopted guidelines on (i) inter-transmission system operator compensation for electricity transit flows; (ii) the harmonization of national transmission charges; and (iii) network congestion management. This Regulation established a fund mechanism to cover costs resulting from cross-border trades, whereby transmission system operators contribute into a fund according to their net physical import and export flows. The distribution of the accumulated funds then depends on transit volume.

Although Regulation (EC) No. 1228/2003 was partially successful, the European Commission adopted Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity (the “*E.U. Regulation on Cross-Border Exchanges*”). The E.U. Regulation on Cross-Border Exchanges repealed Regulation (EC) No. 1228/2003 and established rules designed to alleviate cross-border exchange difficulties, with a view to improving competition and harmonization in the internal electricity market.

The E.U. Regulation on Cross-Border Exchanges created the European Network of Transmission System Operators (the “*ENTSO for Electricity*”), composed of designated transmission network operators from all member states. Some of ENTSO for Electricity’s responsibilities include:

- the adoption of a ten-year network development plan;
- recommendations relating to the coordination of technical cooperation between E.U. transmission system operators;
- an annual work program;
- the management of the electricity transmission system;

- allowing the trading and supply of electricity across borders in the European Union; and
- ensuring that there is continuous cooperation in congestion management.

Consequently, transmission system operators have a duty to put in place information exchange mechanisms in order to ensure the security of networks in the context of congestion management.

The costs related to the activities of the ENTSO for Electricity are borne by the transmission system operators which receive compensation for costs incurred as a result of hosting cross-border flows of electricity on their networks. Compensation is paid by the operators of national transmission systems from which cross-border flows originate. Charges for access to networks are also applied by operators.

## ***Energy Infrastructure***

### *Gas Infrastructure Legislation*

In November 2005, the European Commission adopted Regulation (EC) No. 1775/2005 on Conditions for Access to Natural Gas Transmission Networks, which covered access to all transmission networks in the European Union and addressed a number of issues such as access charges (which had to reflect the actual costs incurred), third party access services, capacity allocation mechanisms, congestion management, balancing and imbalance charges, secondary markets and information and confidentiality provisions. Regulation (EC) No. 1775/2005 established a committee of national energy experts, which has the authority to revise the rules annexed to the Regulation. In July 2009, it was replaced by Regulation 715/2009 on Conditions for Access to Natural Gas Transmission Networks (the “*E.U. Natural Gas Transmission Regulation*”).

The E.U. Natural Gas Transmission Regulation complements the E.U. Third Gas Directive and stipulates rules for natural gas transmission networks, gas storage and liquefied natural gas facilities. It concerns access to infrastructures, particularly by determining the establishment of tariffs (solely for access to networks), services to be offered, allocation of capacity, transparency and balancing of the network. It provides for access to maximum network capacity as well as storage and liquefied natural gas facilities for all market participants. Infrastructure operators have a duty to implement and publish non-discriminatory and transparent congestion-management procedures.

Like the E.U. Regulation on Electricity Cross-Border Exchanges, it creates the European Network of Transmission System Operators for Gas (“*ENTSO for Gas*”), composed of gas transmission network operators from all member states. ENTSO for Gas is responsible for adopting:

- common network operation tools;
- a ten-year network development plan;
- recommendations relating to the coordination of technical cooperation between Community transmission system operators; and
- annual work programs, annual reports and supply outlooks.

### *Security of Electricity and Gas Supply*

#### *Electricity supply*

In December 2003, the European Union adopted Directive 2005/89/EC Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment (the “*E.U. Electricity Security of Supply Directive*”), which requires E.U. member states to ensure a high level of security of electricity supply by taking necessary measures to facilitate a stable investment climate. The E.U. Electricity Security of Supply Directive stipulates that transmission system operators set minimum operational rules and obligations for network security, which may then require approval by the relevant authority. Member states must also prepare, in close cooperation with the transmission system operators, a system adequacy report according to E.U. reporting requirements. Member states were required to transpose the E.U. Electricity Security of Supply Directive into national law by February 24, 2008. The Czech Republic transposed the E.U. Electricity Security of Supply Directive into national law in 2009.

#### *Gas supply*

Following the Russian-Ukrainian gas crisis of January 2009, Regulation (E.U.) No. 994/2010 Concerning Measures to Safeguard Security of Gas Supply (the “*E.U. Gas Supply Directive*”) was adopted in order to strengthen the prevention and crisis response mechanisms.

The E.U. Gas Supply Directive imposed a number of new rules designed to prevent and mitigate potential disruptions to gas supplies, such as risk assessment mechanisms, preventive action plans and emergency plans,



duty to ensure gas supplies to households for at least 30 days under severe conditions or enhancing flexibility of the gas infrastructure, including enabling bi-directional physical capacity on cross-border interconnections.

#### *Proposed Changes for Energy Infrastructure*

The European Commission recently launched a proposal for a Regulation on Guidelines for trans-European energy infrastructure which would ensure completion of strategic energy networks and storage facilities by 2020.

To this end, the Commission has identified 12 priority corridors and areas covering electricity, gas, oil and carbon dioxide transport networks. The general objective of this initiative is to ensure sufficient and timely development of energy infrastructures across the European Union and neighboring countries in order to facilitate continuous and unrestricted cross-border energy flow. The Regulation proposes (i) a regime of “common interest” for projects contributing to implementing these priorities, (ii) the streamlining of permit-granting procedures to significantly reduce their duration for projects of common interest and (iii) the provision of direct E.U. financial support to projects of common interest based on certain specific eligibility rules. The territory of the Czech Republic is included in the project of Central/South Eastern Electricity Connections and in the project of North-South Gas Interconnections and Oil Supply which indicates the possibility of significant future investments with E.U. support into the Czech energy infrastructure in the next decade.

#### **Renewable Energy Sources**

The European Union made commitments to reduce greenhouse gas emissions under the Kyoto protocol for reducing greenhouse gas emissions (the “*Kyoto Protocol*”). Under the Kyoto Protocol, promotion of electricity from renewable energy sources, meaning electricity produced from non-fossil renewable energy sources such as wind, solar, geothermal, wave, tidal, hydroelectric, biomass and biogas energies, became a priority of the European Union. To this end, E.U. bodies adopted Directive 2009/28/EC on the promotion of the use of energy from renewable sources (and amending and subsequently repealing earlier Directives 2001/77/EC and 2003/30/EC) (the “*E.U. Renewable Energy Directive*”). The E.U. Renewable Energy Directive establishes a target for each member state based on the contribution of renewable energy to gross final consumption for 2020. This target is in line with the overall ‘20-20-20’ goal for the Community. Moreover, the contribution of renewable energy in the transportation sector must amount to at least 10% of final energy consumption in the sector by 2020.

#### **Czech Republic**

##### ***General Overview***

The Czech energy sector is governed by a wide range of laws and regulations which also implement the European legislation described above. The key law focusing solely on the energy sector is Act No. 458/2000 Coll., on conducting business and governmental oversight in the energy sectors, as amended (the “*Czech Energy Act*”) which provides the legal basis for conducting business in the energy sector and obtaining the necessary licenses for the production, distribution and sale of electricity, gas and heat. The Czech Parliament enacted the Czech Energy Act in 2000 and broadly amended it in August 2011 as a means of implementing the E.U. Third Electricity Directive. The Czech Energy Act contains provisions in compliance with applicable E.U. legislation. Its main principles are: (i) to conduct business in the electric energy sector only with licenses issued by the ERO; (ii) the unbundling of transmission and distribution system operators; (iii) the liberalization of the market by allowing competition in the energy sector; (iv) the establishment of a strong and independent regulatory authority (i.e. the ERO); and (v) the protection of end-consumers.

Other laws related to the energy sector include, but are not limited to:

- Act No. 86/2002 Coll., on protection of the air, as amended (the “*Czech Air Protection Act*”);
- Act No. 695/2004 Coll., on conditions for trading with emission allowances, as amended (the “*Czech Emission Allowances Act*”);
- Act No. 18/1997 Coll., the nuclear act, as amended (the “*Czech Nuclear Act*”);
- Act No. 180/2005 Coll., on the promotion of production of electricity from renewable energy resources, as amended (the “*Czech Renewable Energy Act*”);
- Act No. 44/1988 Coll., on Protection and Exploitation of Minerals, as amended (the “*Czech Mining Act*”); and
- Act No. 76/2002 Coll. on integrated pollution prevention and control, as amended, (the “*Czech IPPC Act*”).

## ***Regulatory Authorities***

The main governmental authorities supervising the energy sector are the ERO, the State Energy Inspectorate (the “SEI”), the Ministry of Industry and Trade of the Czech Republic (the “*Czech Ministry of Industry*”) and the Ministry of Environmental Matters of the Czech Republic (the “*Czech Ministry of Environmental Matters*”).

The Czech Ministry of Industry is responsible for processing the state energy conception in compliance with Czech legislation, for administering matters in connection with renewable energy resources and for compliance with applicable E.U. legislation. The Czech Ministry of Environmental Matters primarily administers matters in connection with emission allowances and air pollution. Following implementation of the E.U. Climate and Energy Package and the amendment of the Czech Energy Act in August 2011, a wide range of powers previously granted to the SEI were transferred to the ERO. Currently, the SEI is responsible for ensuring that electricity market participants comply with renewable energy legislation and legislation concerning energy economy, applying sanctions where necessary. The SEI will continue to monitor compliance with regulations regarding support of renewable energy resources.

The ERO is the Czech Republic’s primary energy regulatory body. The ERO has the right to issue licenses, fix prices and adopt rules implementing energy legislation. The ERO is also entitled to proceed independently from other governmental authorities and has been designated as the main supervisory authority in the energy sectors. The ERO has the right to review and certify the implementation of unbundling rules, review contractual relationships between vertically integrated companies, perform local inspections of business premises and request the provision of documents and information, as well as to perform market functioning analyses or cooperate with the Czech Office for Protection of Competition. In the event that applicable regulations under the Czech Energy Act are breached, the ERO may, in the case of holders of licenses for electricity production, trading and distribution, impose fines of up to CZK 50 million or 1% of the relevant company’s turnover, and in the case of transmission network operators, fines of up to CZK 100 million or 10% of the relevant company’s turnover. In respect of vertically integrated companies, a fine of up to CZK 50 million or 1% of company’s turnover may be imposed on the controlling company for giving instructions to its subsidiaries in breach of the applicable distribution unbundling legislation. In addition, the ERO may also require entities that breach applicable regulations to perform specific remedial measures. As of 2012, the ERO is financed by a fee of CZK 2.0 per MWh for electricity and CZK 1.0 per MWh for gas charged to market participants as a part of the regulated price of electricity and gas.

## ***Electric Energy Sector***

### ***Licensing Regime***

Under the Czech Energy Act, participants in the electricity market must obtain a license issued by the ERO for their activities. Licenses for electricity or gas trading granted in other E.U. member states are also recognized. An applicant is entitled to request a decision from the ERO on license recognition if such applicant already possesses a similar license issued by the competent authority in another E.U. member state; however, such license holder must establish a business entity or a branch office in the Czech Republic. In order to avoid the possibility of the ERO making discriminatory decisions, the ERO is obliged to issue the license if the applicant meets certain statutory requirements. The ERO may renew or extend a license if the same requirements for the issuance of a new license are met. However, there is no assurance that a license will be issued, renewed or extended. Licenses are granted for a specified period of time (up to a maximum of 25 years, with the exception of (i) the license for electricity trading, which is issued for a set period of five years; and (ii) the license for the market operator, which is issued for a set period of 25 years). The list of license owners is published in a bulletin issued by the ERO and the information about the license holders is published on the ERO website.

### ***Electricity Generation***

#### ***Authorization to construct power plants***

If a company wishes to construct a power plant with an installed electrical output of more than 100 kW, it must obtain an authorization from the Czech Ministry of Industry. The issuance of such authorization by the Czech Ministry of Industry is discretionary, however, the following factors must be taken into account:

- compliance with the state energy conception (which is a resolution of the Czech Government defining its strategic goals in the energy sector, including, among other things, its 30 year outlook);
- compliance with the national action plan for renewable sources of energy;
- compliance with the grid development plans;

- the geographic placement of the plant;
- use of primary sources of energy;
- energy efficiency; and
- financial soundness of the investor.

#### *Coal-fired power plants*

The operation of a coal-fired power plant requires possession of a power generation license, as well as various other licenses and authorizations, including construction-law and environmental-law permits. The statutes enumerated below regarding air pollution and carbon compliance materially impact the operation of coal-fired power plants.

#### *Czech Air Protection Act*

Coal-fired power plants must comply with several regulations under the Czech Air Protection Act. For example, the company operating a coal-fired power plant is subject to the “polluter pays” principle under which it must pay emission charges to the State Environmental Fund for emissions of specified volumes of various air pollutants, including sulfur oxides (“ $SO_x$ ”), mono-nitrogen oxides (“ $NO_x$ ”), carbon monoxide, methane and particulate matters (such as dust and grit). The State Environmental Fund is a separate budgetary organization under the administration of the Czech Ministry of Environmental Matters created for the purpose of protecting the environment and serves as a depository for all charges, contributions and fines. Additionally, the Czech Air Protection Act prescribes emission binding limits on the concentration of emitted air pollutants.

The Czech Air Protection Act also allows governmental and regional authorities to set aggregate emission limits on the total amount of air pollutants which power plants may emit into the air. Currently, such aggregate emission limits have been set by the government for so called “existing particularly large combustion plants” for which a building permit was issued prior to July 1, 1987. The owners of such plants must submit plans regarding emission limits to the competent authorities in order to comply with both the aggregate and individual emission limits.

The Czech Air Protection Act empowers the Czech Ministry of Environmental Matters to temporarily restrict emissions or reduce or shut down output from certain pollution sources if overall air pollution limits are exceeded, even if a given pollution source does not exceed applicable limits. The Czech Air Protection Act also empowers the Czech Environmental Inspection Agency to order any pollution source exceeding pollution limits to be shut down.

#### *Lower emission limits*

Starting January 1, 2016, the aggregate emission limits for  $NO_x$  assigned to “existing particularly large combustion plants” in the Czech Republic will be reduced by approximately 28–30%. Power plants for which a construction permit was issued between July 1, 1987 and December 31, 2002 and which have an installed capacity of at least 500 MW, will be subject to reduction of 50% in  $NO_x$  emission limits.

#### *Proposed new Czech Air Protection Act*

Amendments to the Czech Air Protection Act are pending which aim, among other things, to implement certain parts of the E.U. Directive 2010/75/EC on industrial emissions (on integrated pollution prevention and control) which entered into force on January 6, 2011 and must be transposed into Czech legislation by January 7, 2013 (“*Industrial Emissions Directive*”).

The Industrial Emissions Directive requires E.U. member states to impose  $NO_x$ , sulfur dioxide and dust emission limits on combustion plants, which are more stringent than such limits currently imposed by E.U. and Czech legislation. The specific value of such emission limits depends on various factors, including total rated thermal input, type of fuel used by the combustion plant or the date on which such plant was put into operation (or has been granted a permit). Combustion plants put into operation after January 7, 2014 will be required to comply with the most stringent emission limits. Less stringent emission limits apply to certain combustion plants put into operation prior to November 27, 2003 which do not exceed 1,500 operating hours per year.

The Industrial Emissions Directive allows for two exemptions from the new emissions limits described above. First, E.U. member states are not required to impose the new emission limits (except for certain emissions limits regarding  $NO_x$ ) in respect of combustion plants put into operation prior to November 27, 2003 if they implement a transitional national plan under which the relevant combustion plants will be permitted to retain their original emission limits but will be subject to an aggregate emissions ceiling which will be decreased on a linear basis until 2020. Second, E.U. member states may allow combustion plant operators to apply for an exemption

from the new emission limits, provided such plants will end their operations by December 31, 2023. According to publicly available information, the Czech government plans to implement both of these exemptions in the new amended Czech Air Protection Act.

#### *Carbon compliance – phase II*

Legislation adopted by the European Union as a result of the Kyoto Protocol has been fully transposed into Czech law. The legislation aims to combat climate change and establish a carbon emission allowances market within the European Union. Currently, the European Trading System for CO<sub>2</sub> emission allowances (“E.U. ETS”) is in Phase II. Phase II allows for offsets from Joint Implementation and Clean Development Mechanism projects to be used in place of emission allowances.

In addition, under Phase II, each European Union member state was obliged to submit a national allocation plan of carbon allowances to the European Commission for confirmation. This plan determined both the total amount of carbon allowances allocated to the respective European Union member state for the entire five year period of Phase II and the annual amount of carbon allowances allocated to certain identified facilities producing CO<sub>2</sub>. Phase II is scheduled to complete on December 31, 2012 and Phase III begins in 2013.

#### *Taxation of allocated emission allowances during phase II*

The Czech Republic assigned the emission allowances that it had been allocated under the Czech Emission Allowances Act without cost to certain CO<sub>2</sub> producing facilities. In the event that such facilities reduce their CO<sub>2</sub> emissions, they may sell the assigned emission allowances on the market for a profit. Conversely, in the event that such facilities require more emission allowances, they must buy the emission allowances on the market and, as a result, incur additional expenses.

Due to certain economic and political events, including the increase in the number of solar power plants in 2010, electricity prices increased and the Czech Parliament amended the Czech tax law. A tax was imposed on CO<sub>2</sub> emissions producers who sell electricity to third parties, which amounts to 32% of the average market value of all emission allowances allocated without cost to CO<sub>2</sub> emissions producers in a given year (where market value is determined by the Czech Ministry of Environmental Matters). Certain emission allowances obtained for the purpose of combined production of heat and electricity are exempt from the tax.

#### *Contestation by Czech senators*

Members of the Czech Parliament have filed a complaint with the Constitutional Court of the Czech Republic requesting that the Constitutional Court repeal certain changes adopted in connection with the Czech Renewable Energy Act tax and the abolition of the 5-year tax break, as described in “—Renewable Energy Sources—Amendment of the Czech Renewable Energy Act.” The case is still pending and a decision is expected to be reached in the course of 2012.

#### *Other obligations regarding carbon compliance*

The Czech Emission Allowances Act also requires that specified facilities producing CO<sub>2</sub> emissions, including coal-fired power plants, obtain a special license issued by the Czech Ministry of Environmental Matters permitting their operation and certifying they are capable of complying with various requirements, including monitoring and periodic reporting obligations to competent authorities.

#### *Carbon compliance – phase III*

Phase III begins on January 1, 2013. Directive 2009/29/EC dated April 23, 2009, established the basis for Phase III of the E.U. ETS. Phase III introduces significant changes, including a longer trading period (8 years, compared to 5 years under Phase II) and a greater harmonization of rules relating to emission allowances allocation. In addition, European Union member states will no longer submit their national allocation plans for approval. The European Commission will instead set an emission allowance cap for the European Union, which determines the maximum amount of emissions possible. Currently, the cap, subject to further possible adjustments, is set at approximately 2.04 billion emission allowances per annum.

From 2013 until 2020, the cap will decrease each year by 1.74% of the average annual total quantity of emission allowances issued by the member states between 2008 and 2012, which, in absolute numbers, is an annual reduction of approximately 37.4 million emission allowances. This annual reduction will continue beyond 2020 but may be subject to revision not later than 2025.

#### *Allocation of emission allowances during phase III*

Phase III rules prohibit the allocation of emission allowances without cost to electricity generators from 2013 onwards. Instead the electricity generators trade the emission allowances they require on the E.U. ETS



market. There is an exemption for the 10 newest European Union member states, including the Czech Republic, which may continue to allocate limited volumes of emission allowances without cost to installations that began to generate electricity before December 31, 2008 or for which the investment process was “physically initiated” by that date (the “*E.U. Emissions Exemption*”). The transitional period for the E.U. Emissions Exemption expires on December 31, 2019, so by 2020, all emission allowances must be paid for. European Union legislation requires installations benefiting from this exemption to invest in projects designed to modernize electricity generation in the European Union member state concerned. The value of the investments should mirror the value of the allocation.

#### *Application by the Czech government*

On September 21, 2011, the government of the Czech Republic, under the E.U. Emissions Exemption, approved a national plan for investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector, which forms part of the application submitted on September 30, 2011 to the European Commission. The European Commission has the task of assessing and approving or rejecting the proposed allocation of emission allowances without cost, within six months, taking into account the criteria set out in the 2003/87/EC Directive on greenhouse gas emission allowances. The final decision of the European Commission is expected by March 31, 2012.

#### *Nuclear Energy Power Plants*

Under Czech legislation, nuclear power plant operators are required to obtain special nuclear permits. These include permission from the Ministry of Environmental Matters and the Ministry of Industry and a license issued by the Czech Republic State Office for Nuclear Safety (“*SONS*”). Nuclear permits are renewed or extended if the requirements for the issuance of such a permit are satisfied. However, there is no assurance that nuclear permits will be issued, renewed or extended.

#### *Nuclear incident liability*

On June 24, 1994, the Czech Republic became a party to the Vienna Convention on Civil Liability for Nuclear Damage (the “*Vienna Convention*”). On the basis of the principles of the Vienna Convention, the Czech Parliament enacted the Czech Nuclear Act in July 1997. The Czech Nuclear Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and that the operator’s liability for such damage is limited to CZK 8 billion per incident. The Czech Nuclear Act also provides that operators of nuclear facilities are obliged to acquire insurance covering potential liabilities for damages resulting from the operation of nuclear facilities for a minimum of CZK 2 billion and for a minimum of CZK 300 million in connection with other activities (such as transportation of nuclear materials).

#### *Nuclear safety*

Pursuant to Czech law, SONS is responsible for supervising the safe operation of nuclear power plants, the quality of selected activities, repair and maintenance, personnel training and regulatory compliance. Inspectors are permanently on site at nuclear power plants to monitor performance and compliance with safety standards and operating procedures, and to make sure that appropriate improvements are made by the license holder. Safe operation of a nuclear power plant is governed by documentation and reporting requirements, approved by SONS (such as Technical Specifications and Radioactive Effluent & Emission Monitoring Programs).

#### *Nuclear fuel and nuclear waste*

Nuclear fuel materials and services (i.e. uranium, conversion and enrichment) are procured pursuant to medium- and long-term contractual arrangements. These procurement activities are under the supervision of the European Supply Agency (the “*ESA*”), which endorses and co-signs all new supply contracts, in full compliance with the ESA supply policy and related limitations.

The Czech Republic guarantees the safe disposal of nuclear waste. Pursuant to requirements of the Czech Nuclear Act, the Czech Repository Authority was established on June 1, 1997, which carries out particular activities associated with disposal of nuclear waste. The Czech Nuclear Act provides that a generator of nuclear waste remains responsible for storage of nuclear waste and related costs until the waste is transferred to the Czech Repository Authority. The Czech Repository Authority centrally organizes, supervises and is responsible for all final disposal facilities and deposition of nuclear waste therein.

The Czech Repository Authority is funded by the Czech Nuclear Account. All nuclear waste generators have a duty to contribute cash to the Czech Nuclear Account on a monthly basis. The contribution is determined based on the estimated total costs of management and liquidation carried out by the Czech Repository Authority, and on the share of the respective waste generator.



### *Maintenance contributions to SONS*

Since January 1, 2012, all operators of nuclear facilities and applicants for permits to operate nuclear facilities must pay contributions to fund the operation and maintenance of SONS. The contribution consists of: (i) a lump sum of between CZK 30 million and CZK 150 million, payable with an application for permission to commence operation of a nuclear facility; and (ii) a maintenance contribution which must not exceed CZK 4 million per month, payable by current holders of a permit to operate a nuclear facility. The amounts of maintenance contributions are determined by governmental decree and depend on the extent of operational risk of the relevant nuclear facility. The maintenance contribution is determined on a monthly basis and due annually.

### *Decommissioning of nuclear power plants*

The Czech Nuclear Act requires a contribution from every nuclear plant operator to special escrow accounts for future decommissioning of its facilities.

### *Other international regulation related to nuclear energy*

The Czech Republic is a member of the International Atomic Energy Agency (the “IAEA”) and, as a result, our nuclear power plants have been subject to a number of on-site IAEA assessments. The first Operational Safety Review Team (“OSART”) assessment took place at Dukovany nuclear power plant in 1989 and others took place in 1991 and in November 2001.

In 1991, IAEA and the Nuclear Energy Agency of the OECD introduced a seven grade international nuclear events scale, an internationally recognized standard used to inform the public of the safety of a nuclear event. Levels 4 to 7 are termed “accidents” with a significant radiation exposure off-site, whereas Levels 1 to 3 are termed “incidents” with exposure at the nuclear facilities only.

### *Renewable Energy Sources*

#### *History*

On January 10, 2007, the European Commission launched its climate and energy package for the European Union to achieve a 20% reduction in greenhouse gas emissions by 2020. Under this plan, the Czech Republic must increase the share of renewable sources (composed of renewable energy for heat, renewable energy for electricity and the use of biofuels in transport) in the total gross energy consumption from 6.1% (the share in 2005) to 13% by 2020. In 2005, the Czech Parliament enacted the Czech Renewable Energy Act as a means of implementing the first renewable energy directive, 2001/77/EC. Under the provisions of this statute, total energy consumption must comprise of at least 8% renewable energy by 2010. This statute also allowed support for power plant operators, consisting of (i) priority access to the distribution grid and (ii) financial support by means of either (x) fixed feed-in tariffs (meaning a guaranteed minimum purchase price for generated electricity), or (y) “green bonuses” representing a certain amount in excess of the market price of electricity.

#### *Amendment of the Czech Renewable Energy Act*

A high number of new solar power plants have been built on agricultural land in the Czech Republic. The legal obligation to support the owners of these solar power plants and the instable nature of solar energy caused an increase in electricity prices for end-consumers. As a result, in 2010 the Czech Parliament approved significant changes to the rules on support of solar power plants, including:

- significant limits on eligibility (e.g. support is only provided for small solar power plants on rooftops of buildings);
- in relation to facilities put into operation on or after January 1, 2011, the authority of the ERO to decrease fixed feed-in tariffs by more than 5%, provided that the investment repayment period is shorter than 11 years;
- withholding tax imposed on operators of solar facilities put into operation between January 1, 2009 and December 31, 2010, in the amount of (i) 26% of the income corresponding to the feed-in tariff or (ii) 28% of the income corresponding to the “green bonus,” as applicable. This tax is applicable until December 31, 2013;
- abolition of the exemption from income tax;
- increased fee for solar facilities being built on agricultural land; and
- state subsidies introduced as financial support for renewable energy.

### *Contestation by Czech senators*

For information on this contestation, see “—*Electric Energy Sector—Electricity Generation—Contestation by Czech senators.*”

### *The Czech New Renewable Resources Act*

New legislation relating to renewable resources is pending, the purpose of which is to implement the E.U. Directive 2009/28/EC (the “*Czech New Renewable Resources Act*”).

The Czech New Renewable Resources Act is designed to regulate all types of ecological energy sources, and support for these sources, as well as the co-generation of electricity and heat and specific measures designed to support co-generation. Under the Czech New Renewable Resources Act, the Czech Ministry of Industry will elaborate the “National Action Plan” that will mirror the targets set by the European Commission relating to the share of renewable resources in total energy consumption and the reduction of greenhouse gas emissions. The National Action Plan will require different types of renewable energy sources to contribute different shares of total consumption. The Czech New Renewable Resources Act differs from previous legislation in that only some renewable energy sources will be eligible for support and the support of new power plants will depend on compliance with the National Action Plan.

Pursuant to the Czech New Renewable Resources Act, subsidies paid to the power plant operators will be predominantly in the form of green bonuses. The option to sell the electricity under feed-in tariffs will be granted only to an extremely limited group of very small producers. The payment of green bonuses will be based upon offer and demand, in order to encourage operators to produce electricity only when there is a demand. The Czech New Renewable Resources Act retains all of the measures of previous legislation designed to prevent the exploitation of large solar power plant projects implemented. It only applies to new power plant constructions, whereas power plants that commenced operation prior to enforcement of the Czech New Renewable Resources Act (or during a given grace period) are subject to the former regime.

### ***Transmission and Distribution of Electric Energy***

#### *History*

Until 1990, one single state owned conglomerate operated the whole electricity system. In 1990, regional distribution companies were separated from the state enterprise and in 1994, they were transformed into joint stock companies (the “*REAS*”), and offered to the public as part of the privatization process in 1995. The Czech Republic, through the National Property Fund, retained a controlling stake of approximately 48% of shares in each of the REAS. The CEZ Group was initially 100% state owned but as part of the privatization process, a 33.2% stake in the Group was offered to the public (with the Czech Republic retaining a 67.8% majority stake). In addition to the privatization of the REAS, local electricity producers have been partially privatized. ČEPS, a.s., a company controlled by the Czech Ministry of Industry, was established in October 1998. By 2003, the CEZ Group had transferred the entire transmission grid to ČEPS, a.s.

#### *Current Structure*

Currently, following implementation of applicable E.U. legislation, the Czech electricity transmission and distribution system is structured as follows:

- the transmission system is owned by ČEPS, a.s.;
- the distribution system is predominantly owned by three companies being successors of the REAS: ČEZ Distribuce, a.s., E.ON Distribuce, a.s. and PREdistribuce, a.s.;
- ownership unbundling has been implemented in relation to the transmission system;
- management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- as a result of unbundling legislation, any applicant must be provided full access to the transmission and distribution networks and to transmit or distribute electricity through these networks, to the extent technically practicable; and
- since January 1, 2006 the electricity market has been fully liberalized and all end-consumers are considered as eligible customers who may freely choose their supplier of electricity based on current market conditions (instead of being considered as protected customers with the price of electricity being determined by the ERO).

The market operator (“OTE”) is a joint stock company owned by the Czech Republic, which administers and reports upon the regular electricity and gas market and (in cooperation with ČEPS, a.s. and NET4GAS, s. r. o.) administers accounting in respect of the energy balancing market.

#### *Participants*

Based on the above, the following categories of electricity market participants exist in the Czech Republic: (i) generators (producers); (ii) the transmission grid operator (ČEPS, a.s.); (iii) distribution grids operators; (iv) OTE; (v) electricity traders; and (vi) end-consumers.

#### *Price of Electricity*

The final price of electricity on the Czech market for end-consumers consists of two components, non-regulated and regulated. The first, non-regulated, component is the market price of electricity as a commodity which is freely negotiable between contracting parties. The second, regulated, component consists of the following items, the prices of which are set by the ERO:

- transport and distribution of electricity;
- system services;
- additional costs of energy generation from renewable sources and CHP; and
- the costs of operation of OTE and partly the ERO.

The ERO bases regulated prices of electricity transport and distribution on revenue limits related to predicted distributed electricity volume. The revenues are calculated as the sum of the following four components:

- price of using the grid which reflects costs of covering losses during the transportation;
- operating expenses, which are updated (taking into account the inflation and the price index of market services and sector efficiency factor) using historical data;
- depreciation; and
- regulatory rate of return (profit margin), which is a product of weighted average cost of capital (WACC) and regulatory assets base. WACC is annually updated based on the risk free rate, costs of debt, market risk premium related to the Czech Republic and tax rate.

#### *Trading*

As well as trading on the electricity spot market which is organized by OTE, trading on the electricity futures market is offered by the Power Exchange Central Europe (“PXE”). The spot market is also accessible through the PXE. Currently, the PXE offers power trading with standardized products for Czech, Slovak and Hungarian power on an anonymous basis and with secure settlement. The PXE is a subsidiary of the Prague Stock Exchange.

### ***Heating Energy Sector***

#### *Heat Generation and Prices*

Under the Czech Energy Act, heat generators and distributors must have a license from the ERO. The price of heating supply is calculated pursuant to applicable legislation and the ERO pricing regulations for the relevant calendar year. The ERO bases regulated prices on economically justifiable expenses, a profit margin and value added tax.

#### *Support of Co-Generation of Heat and Electricity*

The Czech Energy Act promotes co-generation by providing priority access for co-generation facilities to the distribution and transmission grid and by imposing an obligation on all heat distribution license holders to purchase heat produced through co-generation. Operators of efficient co-generation facilities are entitled to obtain bonuses on electricity prices. These bonuses depend on the installed capacity of the power plant and are funded by the regulated price of electricity.

#### *Exemption from Emission Allowances Gift Tax*

As stated above, certain emission allowances which are allocated without cost for the purpose of combined production of heat and electricity are exempt from the special 32% gift tax (see “—Electricity Generation— Taxation of allocated emission allowances during phase II” above). The specific amount of exempt emission allowances for a given electricity generator is determined based on the ratio of the average volume of electricity

produced from co-generation of heat and electricity in 2005 and 2006 to the average total volume of electricity produced in 2005 and 2006.

### **Gas Sector**

The E.U. First Gas Directive, the E.U. Second Gas Directive and the E.U. Third Gas Directive apply to the gas markets within the European Union, which are designed to liberalize such markets. The development of legislation in the Czech gas sector on the background of E.U. legislation is described above in “—*European Union Legislation—History of Energy Regulation.*”

#### *Licensing Regime*

Gas suppliers must obtain licenses from the ERO for transportation, distribution, trading and storage, as the case may be. In order to avoid the possibility of the ERO making discriminatory decisions, the ERO is obliged to issue the license if the applicant meets certain statutory requirements. Licenses are granted for a specified period of time (up to a maximum of 25 years, with the exception of the license for gas trading, which is issued for a set period of five years, and the license for the market operator on the gas market, which is issued for a set period of 25 years). The list of license holders is published in a bulletin issued by ERO and the information about the license holders is published on the ERO website.

#### *Transmission and Distribution of Gas*

##### *History and current structure*

The gas infrastructure in the Czech Republic was privatized between 2001 and 2003 by the sale of the company Transgas, a.s. and the regional gas distribution companies to the German based RWE Gas AG. In the gas sector, the CEZ Group focuses predominantly on trading of gas. Trading is performed by ČEZ, a.s. and its two subsidiaries ČEZ Prodej, s.r.o. and ČEZ Energetické služby, s.r.o.

Currently, following implementation of applicable E.U. legislation, including the E.U. Third Gas Directive, the Czech gas transmission and distribution system is structured as follows:

- the transmission system is owned by NET4GAS, s.r.o.;
- Independent Transmission Operator unbundling regarding the transmission network has been implemented in relation to vertically integrated undertakings. Full ownership unbundling has been implemented in relation to transmission network operators which are not part of vertically integrated companies;
- Under such rules, NET4GAS, s.r.o., being part of a vertically integrated undertaking in the Czech Republic, must abide by strict rules relating to the independence of transmission activities and non-discrimination in the gas market;
- any applicant must be provided full access to the transmission and distribution networks and must be able to transmit or distribute gas through the respective networks to the extent technically practicable;
- the distribution system is predominantly owned by: (i) the RWE AG Group through its four subsidiaries RWE GasNet, s.r.o., JMP Net, s.r.o., SMP Net, s.r.o., and VČP Net, s.r.o.; (ii) the EO.N Group through its subsidiary EO.N Distribuce, a.s.; and (iii) Pražská plynárenská Distribuce, a.s.;
- management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- since January 1, 2007 the gas market has been fully liberalized and all end-consumers are considered as eligible customers who may freely choose their supplier of gas based on current market conditions (instead of being considered as protected customers with the price of gas being determined by the ERO); and
- legal unbundling has been implemented in relation to gas storage facilities.

##### *Price of gas*

On the Czech liberalized market, the final price of gas for end-consumers consists of two components and its structure is the same as the structure on the electricity market (please see “—*Transmission and Distribution of Electric Energy—Price of Electricity*”). The regulated component of the price of gas is further divided into the payment for: (i) transportation of gas through the transmission network (based on an entry/exit basis); (ii) transportation of gas through the distribution systems (which also integrates the exit fees from the transmission network); and (iii) system services.

The prices of the services outlined above are regulated by the ERO through revenue limits and, as with electricity, the revenues are calculated as the sum of operating expenses, depreciation, losses and regulatory rate of return (profit margin).

### **Coal Mining**

#### *Regulation of Mining*

Mining is regulated by various statutes, but predominantly by (i) the Czech Mining Act, Act No. 61/1988 Coll., on Mining Activities, Explosives, as amended; and (ii) Czech Mining Office, Act No. 157/2009 Coll., on Disposing of Mining Waste. The authority overseeing mining activities in the Czech Republic and issuing decisions and permits necessary for commencing mining activities is the Czech Mining Office and local mining authorities.

Generally, opening a mine and conducting mining activities requires a number of approvals, decisions and permits, including, without limitation:

- a decision from the Czech Ministry of Environmental Matters on designation of the potential mining area and a permit for exploration and assessment;
- an approval from the Czech Ministry of Environmental Matters with the filing of an application for designation of the mining area;
- an environmental impact assessment (an “EIA”) from the Czech Ministry of Environmental Matters;
- a decision from the competent mining authority on designation and specification of the mining field;
- a mining permit from the competent mining authority;
- an authorization from the competent mining authority to perform mining activities; and
- an approval from the competent municipal authority.

The operator intending to conduct mining activities must also secure the transfer of legal title from the owners of the land that will be affected by the mining activities.

#### *Coal Prices*

Coal prices are liberalized and are determined on a contractual basis depending on market conditions. Coal “catalog” price lists are regularly published by all coal mining companies but the final purchase prices are subject to negotiation between suppliers and purchasers with regard to the individual business relationship, quantities and duration of the contract.

#### *Coal Mining Limits*

Even though there are substantial coal reserves in the Czech Republic, coal mining has been restricted in order to protect health and property interests of people living in the brown coal regions, primarily in Northern Bohemia. In 1991, the Czech Government set down mining limits that represent an obstacle to the extension of mining in certain areas.

#### *Reclamation of Mines and Redevelopment of Waste Dumps*

Coal mine operators are responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. To cover the costs of reclamation of mines and mining damages, coal mine operators are required by law to contribute to a special escrow account. Coal mine operators are also required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps by keeping certain amounts as restricted funds.

#### *Final Disposal of Coal Waste*

Act No. 185/2001 Coll. on waste, as amended, effective from January 1, 2002 (the “Czech Waste Act”) emphasizes waste prevention, defines the hierarchy of waste handling, and promotes the fundamental principles of environmental and health protection in waste handling. Coal mine operators have a duty to dispose of coal ash which is considered waste under the Czech Waste Act. Disposal may be performed by handing the waste over to another entity authorized to dispose or make other use of waste materials. Coal ash is further used as a certified material for reclamation and for improving the sanitary conditions of the landscape and disused shafts of existing mines. Coal mine operators also sell residue to certain producers of construction materials.



## ***Material Environmental and Other Related Regulation***

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

The Czech IPPC Act fully implements IPPC Directive 2008/1/ES into the Czech legal system. It is designed to limit industrial pollution according to the best available techniques. The users of certain installations must obtain an integrated permit prior to operation and the main criterion is compliance with the best available technology and with the conditions set out in applicable specific legislation. In addition, the users of substances registered under the Czech IPPC Act must notify the appropriate administrative authority if the emissions of certain substances exceed regulatory limits, which are then registered in the publicly accessible Integrated Pollutant Register.

### *Water Act 2001*

Under Act No. 254/2001 Coll., as amended, (the “*Czech Water Act*”), disposal of surface and underground water is subject to a permit with the exception of certain listed activities in the public interest. Off-take of more than 6,000 cubic meters of underground water per year is subject to a fee determined pursuant to the relevant provisions of the Czech Water Act. The release of effluent into water is governed by the best available technology principle and must comply with the water treatment adequate agricultural practice. The Czech Water Act is based on the “user pays” and “polluter pays” principles.

### *Waste Act 2001*

The Czech Waste Act regulates all aspects of waste generation, storage, transfer handling and disposal and requires permits for certain waste usage, disposal, collection or sale activities. An entity dealing with more than 100 tons of hazardous waste per year for two consecutive years has a duty to designate a waste manager. Certain types of waste and equipment are subject to a notification and record duty.

### *Environmental Impact Assessment Act 2001 (Act No. 100/2001 Coll., as amended)*

The Czech Environmental Impact Assessment Act requires certain parties to conduct an EIA prior to the approval of a new investment project by the relevant authorities. The Czech Environmental Impact Assessment Act distinguishes projects which always fall within the scope of the EIA, projects which are always excluded and, finally, projects in which the state authorities decide, on an ad hoc basis, whether the EIA is to be performed or not. Members of the public are allowed to participate in the EIA process subject to conditions stipulated in the Czech Environmental Impact Assessment Act.

### *General Liability*

Potential liability can arise under criminal, administrative, civil law and environmental law. The Czech Republic has the ability to enforce environmental rules and regulations pursuant to administrative and criminal law whereas individuals may enforce environmental rules and regulations under civil law. There has been little development in environmental case law to date in the Czech Republic; it is not binding and can only be used as a guide.

### *The “Polluter Pays” Principle*

The “polluter pays” principle applies under administrative, criminal and civil law in the Czech Republic. The person responsible for environmental damage (the “*Polluter*”) must pay administrative fines, is subject to criminal sanctions and must compensate any affected third party, irrespective of whether the Polluter operates their own property or whether a third party operates the property. Polluters are liable for their own damages. A current lessee cannot be held liable for damages caused by former lessees or the owner.

### *Criminal Liability Towards the State*

The Act No. 418/2011 Coll. on criminal liability of legal entities and proceedings against them (the “*Czech Legal Entity Criminal Act*”), now in force, has introduced a concept of corporate criminal liability for selected criminal offences, including various business and environmental law related offences. Under the Czech Legal Entity Criminal Act, legal entities may, among other things, be dissolved, fined or required to forfeit all or particular assets as a consequence of their criminal offenses. They could also be prohibited from conducting business activities and participating in public tenders or accepting state subsidies. Claims for damages under the Civil Code may be made separately.

The Czech Legal Entity Criminal Act does not apply to natural persons. Under Czech criminal law, criminal acts of natural persons can be committed both intentionally and negligently and can result in fines or imprisonment.

### *Administrative Liability Towards the State*

Administrative liability for environmental and other administrative offences is primarily governed by the Czech Water Act, the Czech Waste Act, Act No. 289/1995 Coll., as amended, the Czech IPPC Act, the Czech Nuclear Act, the Czech Air Protection Act and the Czech Emission Allowances Act.

These statutes contain environmental and other offences, which carry strict liability. The Czech Nuclear Act provides that the relevant administrative body is entitled to penalize the individual or entity with a fine of up to CZK 100 million in the event of utilization of nuclear energy for purposes that are not peaceful. Breach of the various statutes can result in fines ranging from CZK 10 million up to CZK 100 million. The relevant administrative body has the power to impose these penalties within one year of gaining knowledge of the offence and not later than three years from the occurrence of the offence. These penalties do not affect the liability to pay damages under the Civil Code, which may be claimed separately.

### *Remedial Measures Imposed by Administrative Authorities*

Act No. 17/1992 Coll., the Environment Act, as amended (the “*Czech Environment Act*”) has introduced into the Czech legal system a new concept of “Environmental Damage (Loss)” in order to ensure that damage caused to the environment is repaired regardless of whether a private claim for damages has been brought against the Polluter. The competent administrative body is authorized to order the Polluter to restore the natural functions of the impaired ecosystem.

The Czech Water Act, the Czech Waste Act and the Czech Air Protection Act include provisions for remedial measures to be taken by administrative authorities in order to ensure the repair of environmental damage. In the event that certain applicable environmental law regulations are breached, the competent authority or administrative body is entitled to shut down the business operations which are the source of environmental damage and to require the execution of specific remedial measures.

In addition, the Act No. 167/2008 Coll., on Prevention of Ecological Losses, as amended (the “*Czech Ecological Losses Prevention Act*”) authorizes the competent authorities to impose on Polluters preventive measures for impending ecological loss as well as all remedial measures necessary to restore an ecosystem. The Czech Ecological Losses Prevention Act further broadens the scope of environmental laws as it focuses on the occurrence of an ecological loss, irrespective of which segment of the environment was damaged. A Polluter can be fined up to CZK 5 million under the Czech Ecological Losses Prevention Act for failure to perform preventive or remedial measures.

Holders of licenses relating to the electricity, gas or heating energy markets pursuant to the Czech Energy Act are also liable for administrative offences committed thereunder.

### *Civil Liability Towards a Third Party*

As well as general liability for damages, the Czech Civil Code imposes, in certain circumstances, a “quasi strict liability” for most environmental damage cases. Such quasi strict liability is applied if the individual or legal entity causes damage to a third party in the course of the operation of its business. The individual or legal entity is only exempt from such liability if they can prove that the damage was caused by the conduct of the third party or that the damage was the result of an unavoidable event not having its origin in the operation of the individual’s or legal entity’s business. Compensation under civil law includes compensation for current and future damages, including lost profit. The statute of limitations generally applicable under Czech law applies to quasi strict liability.

## **Romania**

### ***General Overview***

Romanian regulations relating to the energy sector have been amended to reflect the relevant E.U. legislation on market liberalization, legal and functional unbundling of transmission and distribution system operators and promotion of generation of electricity from renewable sources of energy. The electricity field is governed primarily by Electricity Law No. 13/2007, as subsequently amended and supplemented, as well as secondary legislation enacted by ANRE (as defined below).

### ***Regulatory Authorities***

The energy sector is regulated by the Romanian Energy Regulatory Authority (“*ANRE*”), a national, independent, self-regulating, public body. It is coordinated by the Vice Prime Minister, managed by a president appointed by the Prime Minister and is financed entirely from the Romanian State budget. ANRE’s main roles in the energy sector include (i) issuing mandatory regulations; (ii) granting, amending, suspending and withdrawing authorizations and licenses; (iii) establishing tariffs and prices for system, transmission, distribution services and

regulated supply; and (iv) monitoring the energy market and compliance by the participants with the relevant regulations.

### ***Electric Energy Sector***

Electricity sector activities in Romania include generation, transmission, distribution and supply, system services and trading (including import/export of electricity), as well as the establishment and operation of related capacities.

#### *Licensing Regime*

Operators in the energy sector must obtain specific authorizations and licenses from ANRE in order to carry out their activities. For example a “setting up” authorization is required for the development and upgrading of generation facilities with an installed power capacity exceeding 1 MW. Licences are also required for electricity generation, distribution, transmission and system services (these are valid for 25 years), and for supply and trading activities (these are valid for 10 years).

#### *Regulated and Competitive Market Segments*

Pursuant to the European directives, the Romanian electricity market was fully liberalized as of July 1, 2007, following a gradual liberalization process which commenced in 2000. However, ANRE continues to regulate several segments of the market, such as transmission and distribution, electricity supply from “default suppliers” (who supply consumers that do not exercise their eligibility right and do not choose a supplier on the competitive market), supply from “last resort” suppliers (who are nominated by ANRE to supply electricity in the event that other operators have their licenses revoked) to certain categories of consumers and transactions between the producers and suppliers for electricity supplied on the regulated market. Regulated terms and prices apply to such transactions and services.

On the competitive market, electricity is traded either (i) under a wholesale system (i.e., acquisitions of electricity by suppliers from producers or from other suppliers) or (ii) under a retail system (i.e., sale of electricity to end-consumers for their own consumption). On the wholesale market, transactions are concluded through directly negotiated agreements or through bilateral agreements executed on the centralized market, which are operated by the Electricity Market Operator Opcom SA (“OPCOM”).

### ***Renewable Energy Sources***

#### *Romanian Renewable Energy Act*

New legislation regulating a promotion system for producers of electricity from renewable energy sources has been applicable since November 1, 2011. The promotion system is governed by Law No. 220/2008, as subsequently amended and supplemented, which is supported by secondary legislation of ANRE.

Subject to being accredited by ANRE and provided that the commissioning and refurbishment of the generation units occurs by the end of 2016, electricity producers are entitled to receive “green certificates” each month for electricity generated from renewable energy sources and delivered to the grid. New and refurbished hydropower plants with an installed capacity of maximum 10 MW receive 3 and 2 green certificates, respectively, for each MWh produced. Other hydropower units with an installed capacity of maximum 10 MW receive 1 green certificate for every 2 MWh produced. If producers use wind power, they receive 2 green certificates each month up to 2017 and 1 green certificate each month thereafter for each MWh produced. Suppliers and producers are obliged to achieve an annual mandatory quota of green certificates, depending on the annual quantity of electricity purchased for end-consumers and for their own consumption purposes.

#### *Trade of Renewable Electricity and Green Certificates*

Renewable electricity is traded at market price and until national targets regarding the percentage of electricity from renewable sources of the total final consumption are reached, the electricity benefiting from the promotion system may be traded only for covering the gross final consumption of energy in Romania.

Green certificates are traded on a competitive market, administered by OPCOM. This market operates separately from the electricity market, which means that trading green certificates is not conditional upon trading the corresponding quantities of electricity. The trading value of the certificates must fall within the prescribed value range of between €27 and €55. Certificates are currently traded at their maximum value.

#### *Adjustments of the Promotion System*

Operators of new power plants generating electricity from renewable sources with a capacity of more than 125 MW can access the new promotion system, which came into force in October 2011, and are entitled to receive

green certificates only if they have received an authorization decision from the European Commission. The European Commission may issue such authorization but can decide to issue fewer green certificates than prescribed by law and, as a result, ANRE modifies the number of certificates when granting the accreditation decision. However, power plants generating renewable electricity and with an installed capacity of more than 125 MW, which were operational when the new promotion system came into force are exempted for a period of 24 months and are entitled to receive the number of green certificates prescribed by law, provided they notify the European Commission within 3 months of accreditation. ANRE may reduce the number of green certificates to be awarded to such producers in order to maintain an appropriate internal rate of return.

If ANRE concludes in the future that the system of renewable energy promotion may give rise to overcompensation in the market (more specifically, an increase of the internal rate of return by more than 10% occurs, compared to the valuation accorded to it by the European Commission when issuing the authorization decision), it will propose measures designed to reduce the number of green certificates. Implementing such measures will be applied only to renewable energy power plants that commence operation after the respective decision enters into force of such decision. The current draft enactment before the Romanian parliament does not provide for such measures to be applied prior to January 1, 2014.

### ***Transmission and Distribution of Electric Energy***

#### *Current Structure*

Several distribution and supply companies were recently privatized and ČEZ, a. s. is now the sole owner of one of these companies (currently ČEZ Distribuție SA), which has exclusive access to the power distribution service and related infrastructure in a certain area.

#### *Participants*

Electricity generation may be carried out by licensed entities operating authorized generation units (if installed capacity is above 1 MW). Electricity distribution is a monopoly activity carried out by 8 entities based on the concession awarded by the Romanian State over the distribution service and related infrastructure.

#### *Price of Electricity*

As a result of the liberalization of the Romanian electricity market, suppliers can sell electricity on the competitive market at negotiated prices. All consumers are eligible and have the right to freely choose their supplier. Default suppliers must supply electricity to consumers who do not choose other suppliers for prices regulated by ANRE.

#### *Trading*

Electricity may be traded on the centralized markets operated by OPCOM, i.e., the Centralized Market of Bilateral Agreements, the Day-Ahead Market and the Intra-Day Market. These markets have specific operation regulations and aim to ensure transparent trading and competitive electricity prices.

## **Republic of Bulgaria**

### ***General Overview***

The energy sector in Bulgaria is primarily governed by the Bulgarian Energy Act of December 9, 2003 and related regulations. The Bulgarian Energy Act is compliant with the E.U. Second Electricity Directive and adheres to the following main principles: (i) free choice of supplier, (ii) freely negotiable price of electricity; (iii) non-discriminatory third party access to the distribution and transmission network; (iv) independent regulatory authority; and (v) protection of consumers. Bulgaria is in the process of transposing the E.U. Climate and Energy Package by amendments to the Bulgarian Energy Act. The focus of the forthcoming changes is on the implementation of the ITO as a model of unbundling of the transmission operator. A draft proposal has been submitted to the Council of Ministers for discussions and approval from Parliament is expected by the middle of 2012.

The Bulgarian Energy Act regulates (i) energy-related activities; (ii) terms and conditions for obtaining licenses; (iii) status and structure of the Bulgarian State Commission for Energy and Water Regulation (the regulatory authority); (iv) pricing regulation; (v) free market structure; and (vi) relations between the participants in the energy sector.

Some specific matters, such as the promotion of the renewable energy sources and environmental requirements, are provided for in other laws such as the Bulgarian Energy from Renewable Sources Act of May 3, 2011, the Bulgarian Clean Air Act of May 28, 1996 and the Bulgarian Environmental Protection Act of September 25, 2002.

## ***Regulatory Authorities***

The Bulgarian energy sector is regulated by the State Commission for Energy and Water Regulation (the “SCEWR”) and the Bulgarian Ministry of Economy, Energy and Tourism (the “MEET”). In certain specific areas, such as renewable energy sources and environment protection, the government regulation is undertaken by the Agency for Sustainable Energy Development (the “ASED”) and the Bulgarian Ministry of Environment and Waters (the “MEW”).

SCEWR is the primary regulatory authority in the energy sector. It is an independent body and its main powers are: (i) the determination of regulated prices in the electricity and gas sectors; (ii) the provision of licenses for energy-related activities; and (iii) supervision of energy enterprises to ensure compliance with E.U. and Bulgarian energy legislation.

MEET is responsible for implementation of government policy in the energy sector, which it ensures by enacting supplemental subordinated legislation. It is also responsible for the management of the state owned assets in the energy sector, (mainly through the state-owned Bulgarian Energy Holding), such as the transmission operators and the nuclear power plant.

ASED is a relatively new agency, established for the purpose of coordinating and conducting the renewable energy policy of the Bulgarian government. One of its most important powers is the provision of guarantees for the energy produced by renewable sources.

MEW is the government body responsible for the overall regulation and protection of the environment, including the implementation of the E.U. ETS in Bulgaria.

## ***Electric Energy Sector***

### *Licensing Regime*

Activities specified in the Bulgarian Energy Act, including generation of electricity, require a license from SCEWR. The applicant must prove that it is able to perform the activity and must meet statutory requirements. Licenses are granted for a period of up to 35 years. SCEWR manages a register of the licenses issued to the energy companies, which is available on the website of the regulator.

### *Electricity Generation*

#### *Authorization to construct power plants*

The Bulgarian Energy Act provides that a license for production of electricity must be obtained from SCEWR if the total installed capacity of the power plant exceeds 5 MW. The producer must provide evidence that technical, organizational, financial and environmental requirements for electricity production have been complied with.

#### *Coal-fired power plants*

Operators of coal-fired power plants must obtain certain licenses and permits issued by the competent national authorities. A power generation license is granted by SCEWR to entities registered under the Bulgarian Commercial Act of June 18, 1991. The power plant operator should also ensure energy facilities comply with the requirements for safe exploitation and protection of the environment. The Bulgarian Environmental Protection Act stipulates that operation of a power plant is possible only upon obtaining of a greenhouse gas emission license from the Bulgarian Executive Environment Agency. This license contains a description of the installation, permitted emissions and monitoring rules.

#### *Bulgarian Clean Air Act*

Operators of coal-fired power plants must comply with the requirements of Bulgarian Clean Air Act and are subject to the “polluter pays” principle. The Bulgarian Clean Air Act and implementing governmental decrees prescribe emission limits on the concentration of emitted air pollutants, such as sulphur dioxide, NOx and particulate matters, which are binding on every coal-fired power plant.

The Bulgarian Clean Air Act also allows governmental authorities to set aggregate emissions limits on the total amount of air pollutants that a respective power plant may emit in the air. The MEW and the Bulgarian Ministry of Health adopt regulations, setting out permissible limits for concentration of certain air polluting substances. MEW, together with other ministries, develops and submits for approval to the Council of Ministers programs for gradual reduction of annual emissions of air polluting substances released by large combustion plants.



The operation of any installation emitting greenhouse gases is subject to a special procedure, whereby the investor in the building site delivers protocols indicating quantity of measured emissions to municipal authorities and to MEW, as well as instructions for control of purifying facilities and a list of persons responsible for environmental protection and for the monitoring of the facilities. Based on this information, the local municipal authorities and representatives from MEW allow or prohibit the exploitation of the given installation.

The Bulgarian Clean Air Act requires natural persons and legal entities that conduct activities connected with emission of air polluting substances to (i) adhere to the relevant programs for technical maintenance of purifying installations; (ii) observe emission allowances, specified in the individual license; and (iii) inform municipal authorities or regional environment and water inspectorates of any change in activity or in identity of the installation's operator. This statute empowers MEW, its regional inspectorates and municipal authorities to restrict or suspend activities that lead to air pollution, health risks and environmental risks. It also imposes strict sanctions in the event that greenhouse gases or other polluting substances that damage the ozone layer are emitted.

#### *Carbon compliance – phase II*

Bulgarian law has implemented E.U. legislation arising from the Kyoto Protocol. The “20-20-20” objective described in “—European Union Legislation—Renewable Energy Sources” is implemented on a national level in Bulgaria.

Coal-fired power plants in Bulgaria are obliged to integrate and participate in the E.U. ETS. Operators of power plants are required to buy emission allowances if it is likely that their emissions will exceed the quota of emission allowances allocated to them. If operators of power plants use new technologies, resulting in lower emissions, they may sell some emission allowances. Pursuant to the Bulgarian Environmental Protection Act, MEW submitted to the European Commission in September, 2011, a complete list of installations in Bulgaria included in the E.U. ETS from 2013 onwards, as well as details of the total emission allowances allocated without cost to each installation.

The amendments to Directive 2003/87/EC by Directive 2009/29/EC set out the foundations for Phase III of the E.U. ETS. Phase III begins in 2013 and will last for 8 years (please see “—Czech Republic—Electric Energy Sector—Electricity Generation—Carbon compliance – phase III”). There will be an emission allowance cap for the European Union, which will decrease each year by a linear factor of 1.74% compared to the average annual total quantity of emission allowances issued by member states.

The Bulgarian energy sector is eligible to be exempted from the Phase III prohibition on allocation of emission allowances without cost until 2019 pursuant to Article 10C of Directive 2003/87/EC. If the exemption will be confirmed by the European Commission, Bulgaria will receive 70% of emission allowances free of charge in 2013 and this will reduce each year by 10% until 2020, by which date all emission allowances must be paid for.

Emission allowances allocated for auctioning are distributed on the basis of GNP – countries with lower GNP (including Bulgaria) receive additional quantities. Revenues generated from the auctions should be put towards the national budgets of member states and used for improvements in energy efficiency and for combating climate change.

#### *Taxation of allocated emission allowances during phase II*

Under local tax legislation, the emission allowances are perceived as intangible assets of the relevant enterprise. This means that any transfer of emission allowances is considered as a delivery of intangible assets and the profits generated from such sale are taxed like any other sale of assets. Bulgaria applies flat rate corporate tax of 10%. Transactions with emission allowances are also taxable with value added tax at a rate of 20% under the terms of the Bulgarian Value Added Tax Act of August 4, 2006.

#### *Allocation of emission allowances during phase III*

Bulgaria has applied for exemption under Article 10C of Directive 2003/87 for free allocation of certain amount of quotas of emissions to the energy sector. Under the conditions, an equal sum would be invested in creation and modernization of infrastructure for clean technologies.

#### *Application by the Bulgarian government*

Current priorities for Bulgaria are (i) the creation of a safe, secure and trustworthy energy system; (ii) the development of clean technologies; (iii) diminished dependency on energy resources import; (iv) effective regulatory control; and (v) increasing the amount of energy, produced by renewable sources. The Bulgarian Energy Strategy also prescribes regimes for the construction of new energy infrastructure (such as the “south gas corridor”), sustainable development and enhancement of competitiveness in energy sector. Bulgarian authorities

are awaiting a decision from the European Commission regarding the national application for distribution of emission allowances without cost, which is expected to be released by the end of March 2012.

### *Renewable Energy Sources*

#### *History*

In 2007, the Bulgarian Parliament adopted the Renewable and Alternative Energy Sources and Biofuels Act of June 19, 2007 (“*RAESBA*”), which established the incentives that resulted into a rapid increase of the investments in renewable energy projects in the next four years. The *RAESBA* introduced the feed-in tariff model for promotion of the production of electricity from renewable energy sources and additional incentives, including priority access to the grid, preferential prices for renewable energy sources and a limitation of the annual decrease of the preferential price. *RAESBA* was repealed by the new Bulgarian Energy from Renewable Sources Act (“*ERSA*”) which entered into force on May 3, 2011.

#### *The New Bulgarian Energy from Renewable Sources Act*

To implement the E.U. Climate and Energy Package, the *ERSA* was enacted, which established the target of Bulgaria for 16% share of renewable energy in the total gross annual energy consumption by 2020. In order to achieve this target *ERSA* introduced the following principles and regulations:

- connection to the grid based on the available capacity of the grid;
- preventing unreasonable capacity booking of the grid, in connection with development of new renewable energy resources projects;
- fixing of the preferential price for the entire period of the power purchase agreement;
- new terms for the power purchase agreements depending on the type of renewable energy source;
- guaranteed access to the grid; and
- fewer administrative barriers for small installations.

Following the adoption of *ERSA*, *SCEWR* determined new prices for the purchase of electricity produced from renewable energy sources. It is expected that the plans for the development of the transmission and distribution grid will be announced in the middle of 2012.

### ***Transmission and Distribution of Electric Energy***

#### *History*

By 2003, most of the assets of the Bulgarian electricity system were owned by the state-owned enterprise National Electricity System and there was no competitive market. With the restructuring of the electricity distribution companies and their privatization by foreign investors, approximately 67% of the capital of the distribution companies was sold to the following companies:

- Western Bulgaria – ČEZ, Czech Republic;
- Southeastern Bulgaria – EVN, Austria;
- Northeastern Bulgaria – E.ON, Germany.

The National Electricity System is currently the owner of the transmission electricity network and some of the major nuclear, water and coal-fired power plants.

#### *Current Structure*

Currently, the Bulgarian electricity transmission and distribution system is structured, as follows:

- the transmission system is owned by National Electricity Company;
- the distribution system is owned by three companies – ČEZ, EVN and Energo-Pro (which acquired its interest from E.ON in 2011);
- ITO unbundling model is to be implemented in relation to the transmission system (i.e. the transmission grid is to be owned by the Bulgarian State through the Ministry of Economy, Energy and Tourism and through an entity where the transmission grid assets shall be transferred);
- management, accounting and legal unbundling has been implemented in relation to the distribution systems;

- as a result of unbundling legislation, any applicant must be provided full access to the transmission and distribution networks and to transmit or distribute electricity through these networks, to the extent technically practicable; and
- since July 1, 2007, the electricity market has been fully liberalized and all consumers are considered as eligible customers who may freely choose their supplier and negotiate the price of electricity based on current market conditions (instead of being considered as protected customers and subject to regulated prices).

### *Participants*

The participants on the Bulgarian electricity market are similar to those in other E.U. member-states: (i) producers (renewable or conventional); (ii) transmission grid operator and market operator (Electro System Operator); (iii) distribution grid operators (ČEZ, EVN and Energo-Pro); (iv) transmission grid owner and public supplier (National Electricity Company); (v) electricity traders; and (vi) consumers. Electro System Operator is responsible for the overall management of the transmission network and the organization of the electricity market.

### *Price of Electricity*

The Bulgarian electricity market is fully liberalized and every consumer is entitled to freely negotiate the price and the supplier of the electricity. However, in practice, the market is not fully developed and electricity is traded on freely negotiated prices only to big industrial consumers, while small enterprises and the household customers are supplied under prices regulated by SCEWR. The forthcoming changes to the Bulgarian Energy Act provide for additional extension of the scope of the free market to the small enterprises, but these provisions are still under discussion.

SCEWR regulates the prices of the electricity between the following entities:

- suppliers of electricity to household consumers and companies with less than 50 employees and less than BGN 19.5 million annual turnover;
- producers of electricity, within the availability set by SCEWR, and end suppliers or the public provider;
- public provider selling to end suppliers any electricity purchased, within the availability set by SCEWR;
- transmission of electricity to consumers through the respective transmission or distribution networks; and
- connection to the networks.

In general, SCEWR determines the prices of electricity and the fee for transmission and distribution of electricity based on the annual estimated demand and the estimated quantity of supply for the relevant regulatory or price period.

### *Trading*

There is no operational electricity stock exchange in Bulgaria, although there are plans for establishing such market structure by the end of 2012. The free market is based mainly on bilateral contracts between consumers and producers or between consumers and traders of electricity. In practice, the traders purchase electricity by tenders organized by the dominant producers (the nuclear power plant “Kozloduy” and some coal-fired power plants) before offering the electricity to large and midsized enterprises. The trading of electricity to households is not offered due to regulatory and market issues.

## ***Heating Energy Sector***

### *Heat Generation and Prices*

Under the Bulgarian Energy Act, generators and distributors of heat must obtain a license from by SCEWR. In addition to the electricity production from the power plant, heat is supplied to customers via steam or hot water pipelines operated by the power plant.

The price of heating energy is calculated pursuant to applicable legislation and the pricing regulations of SCEWR for the relevant calendar year.

### *Support of Co-Generation of Heat and Electricity*

The Bulgarian Energy Act promotes co-generation by introducing the following incentives to investors: (i) the purchase of the entire quantity of electricity produced by the installation; (ii) a preferential price for the purchased electricity; and (iii) priority connection of installations for co-generation below 10 MW.

### ***Material Environmental and Other Related Regulation***

#### *Environment Protection Act*

The Bulgarian Environment Protection Act (“*Bulgarian EPA*”) fully implements IPPC Directive 2008/1/ES into the Bulgarian legal system. It is designed to limit industrial pollution according to the best available techniques. The users of certain installations must obtain an integrated permit prior to operation and the main criterion is compliance with the best available technology and with the conditions set out in applicable legislation. In addition, the users of substances registered under the Bulgarian EPA must notify the appropriate administrative authority if the emissions of certain substances exceed regulatory limits, which are then registered in the publicly accessible Register.

The Bulgarian EPA requires certain parties to conduct an EIA prior to the approval of a new investment project by the relevant authorities. The Bulgarian EPA distinguishes projects which always fall within the scope of the EIA, projects which are always excluded and, finally, projects in which the state authorities decide, on an ad hoc basis, whether the EIA is to be performed or not. The public is allowed to participate in the EIA process subject to conditions stipulated in the Bulgarian EPA.

#### *Water Act 1999*

Under the Bulgarian Water Act of August 4, 2006, as amended, disposal of surface and underground water is subject to a permit with the exception of certain listed activities. The release of effluent into water is governed by the best available technology principle and must comply with the water treatment adequate agricultural practice. The Bulgarian Water Act also recognizes the “user pays” and “polluter pays” principles.

#### *Waste Management Act 2003*

The Bulgarian Waste Management Act of September 30, 2003, as amended, regulates all aspects of waste generation, storage, transfer handling and disposal and requires permits for certain waste usage, disposal, collection or sale activities. Certain types of waste and equipment are subject to a notification and record duty.

#### *General Liability*

Potential liability can arise under criminal, administrative, civil law and environmental law. The Bulgarian state has the ability to enforce environmental rules and regulations pursuant to administrative and criminal law whereas individuals may enforce environmental rules and regulations pursuant to civil law.

#### *The “Polluter Pays” Principle*

The “polluter pays” principle applies under administrative, criminal and civil law in the Republic of Bulgaria. The Polluter must pay administrative fines, is subject to criminal sanctions and must compensate any affected third party, irrespective of whether the Polluter operates their own property or whether a third party operates the property. Polluters are liable for their own damages.

#### *Administrative Liability Towards the State*

Administrative liability for environmental and other administrative offences is primarily governed by the Bulgarian Environmental Protection Act, the Bulgarian Waste Management Act, the Bulgarian Clean Air Act and the Bulgarian Water Act. These statutes contain provisions for remedial measures to be taken by administrative authorities in order to ensure the repair of environmental damage. In the event that certain applicable environmental law regulations are breached, the competent authority or administrative body is entitled to shut down the business operations which are the source of environmental damage and to require the execution of specific remedial measures.

## BUSINESS

### Overview

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

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

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

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

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

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

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



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

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

### History and Development of the CEZ Group

Principal events during our history and development include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Organizational Structure**

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

Pursuant to the Czech Energy Act, since January 1, 2007, the distribution of electricity must be separate and independent from the generation, transmission and sale of electricity ("unbundling"). In 2005, we established two new separate companies ČEZ Distribuce, a.s. (for distribution of electricity) and ČEZ Prodej, s.r.o. (for sales of electricity to end-consumers), and during 2006 we transferred all corresponding assets and activities from the

REAS to these companies. Following a resolution of our Board of Directors in June 2007, we consolidated all assets and activities of the REAS into the CEZ Group. We completed this consolidation process by October 2007.

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

### ***Principal Subsidiaries***

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

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

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

### **Our Strengths**

We benefit from the following key strengths:

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

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ, a. s., the parent company of the CEZ Group. In August 2011, Standard & Poor’s Credit Market Services Europe Limited upgraded its rating of the Czech Republic by two notches to AA- (Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, which is available on the ESMA website ([www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs)) (last updated January 6, 2012)). We believe that being majority-owned by a government that is backed by a stable and open economy provides additional credibility in the electricity and credit markets and allows us to benefit from more favorable credit terms than competitors without similar backing.

#### ***Robust Credit Profile***

ČEZ’s credit ratings of A- (stable outlook) by Standard & Poor’s Credit Market Services Europe Limited and A2 (stable outlook) by Moody’s Investors Service Ltd are among the highest awarded to a European utility, reflecting our efforts to work proactively to maintain prudent leverage and liquidity positions (Standard & Poor’s Credit Market Services Europe Limited and Moody’s Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, which is available on the ESMA website ([www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs)) (last updated January 6, 2012)). We had a

relatively low Net Debt/EBITDA ratio of 1.8x as of December 31, 2011. Over the last five years we have adhered to a self-imposed ceiling of Net Debt/EBITDA ratio below 2.0x to 2.5x, which has been further tightened to 2.3x since 2010, which we believe is compliant with our current rating. We are a well established credit among European utilities having issued €5.6 billion in 26 public and private transactions under our EMTN program since 2007. We aim to maintain an adequate liquidity position with access to sufficient back-stop credit facilities should cash flows become negative.

### ***Highly Integrated, Large-Scale Domestic Operations***

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

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

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

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

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

The Czech Republic's power market is a fairly standardized market by E.U. standards. Power production and power supply are fully liberalized while distribution is regulated, in line with E.U. Directives and regulations. In addition, public opinion and practically all of the political parties in the Czech Republic (except the Greens, who are currently not represented in the Czech Parliament) support nuclear operations and new nuclear build up. Furthermore, the Czech Government has not to date introduced substantial windfall taxes as in many other countries. The only exception to this has been a set of measures aimed at mitigating the impact of solar power plants boost on regulated distribution charges in the election year of 2010. At that time, a temporary tax on freely allocated CO<sub>2</sub> emission allowances in 2011 and 2012 and another temporary tax on revenues of solar power plants in 2011 to 2013 were introduced. However, the Czech Republic participated in the so-called "derogation scheme" allowing certain countries to opt-out from the mandatory auctioning of CO<sub>2</sub> emission allowances in 2013 to 2020. As a result, if the Czech Republic's application is approved by the European Commission (currently expected by the end of October 2012) we may be eligible to obtain 75.2 million tons of CO<sub>2</sub> emission allowances between 2013 to 2020, the total market value of which, in current prices (€9/ton), is €677 million.

### ***Strong Market Position in the Czech Republic***

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



### ***Proven Corporate Strategy***

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

### ***Strong Presence in Several International Markets***

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

### ***Our Strategy***

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

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

We operate a diverse electricity generation portfolio, with 55.3% of the electricity we generated in the year ended December 31, 2011 generated by our coal-fired power plants, 40.9% generated by our nuclear power plants and 3.8% generated by our renewable power plants. In order to find a robust portfolio of assets to ensure greater stability of our results in power markets the predictability of which has declined continuously over the last several years and decrease our reliance on CO<sub>2</sub> emission intensive production we aim to concentrate on nuclear power generation and generation from renewable energy sources.

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

We aim to diversify further our electricity generation portfolio by expanding renewable resource generation capacity to 3,000 MW by 2016, particularly by investing in wind farm projects in Poland, Germany and Romania, where we already put into operation part of the Fântânele and Cogeaalac wind farm. Once completed, the Fântânele and Cogeaalac wind farm is expected to be the largest on-shore wind farm in Europe, with a total installed capacity of up to 600 MW. We believe that in addition to the positive contribution to decreasing the CO<sub>2</sub> emission factor of our generation fleet, the renewable portfolio will (in light of its largely regulated nature) also serve as a relatively liquid pool of assets which may be divested should our balance-sheet come under pressure during the nuclear expansion (assuming financing of the renewable portfolio will be structured without recourse to the CEZ Group).

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

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



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

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

### ***Increase Operational Efficiencies and Profitability***

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

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

### **Our Principal Markets**

#### ***Overview***

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

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

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

#### ***Central Europe***

##### ***Czech Republic***

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

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

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

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

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

#### *Poland*

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

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

#### ***South East Europe***

##### *Albania*

Almost all generation capacity and distribution in Albania was concentrated under the Albanian Power Corporation ("*KESH*"). The transmission operator was unbundled in 2006 into a separate state-owned company. Privatization of the distribution unit of KESH (*OSSH Operatori i Sistemit te Shperndarjes Sh. A.*) started in 2008 and in 2009 we acquired the majority stake in this distribution company. The wholesale market is completely regulated with a few large customers buying at market prices.

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

##### *Bulgaria*

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

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

##### *Romania*

Transmission and generation are state-owned in Romania and distribution is partly state-owned. The electricity market is unbundled but is not fully privatized. Liberalization of the Romanian electricity industry is

ongoing, but approximately 60% of eligible customers are still regulated. Generation is split by fuel into separate companies: Termoelectrica, Hidroelectrica and Nuclearelectrica. Smaller generation sources, mostly CHPs, are also owned by counties and municipalities. Distribution is partially privatized with three regions serviced by state-owned Electrica and the remaining five regions privatized and serviced by foreign investors. In the generation sector, only minor hydros and certain selected inefficient gas, oil and brown coal capacities are being privatized and foreign investment in new nuclear capacity is subject to ongoing negotiations. Transmission in Romania is handled by an independent state-owned company, Transelectrica.

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

## Our Business

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

### Electricity Generation

#### Overview

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

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

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

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

- (1) Includes 672 MW, 818 MW and 833 MW of installed capacity of our coal-, gas- and biomass-fired heat plants in the Czech Republic for the years ended December 31, 2009, 2010 and 2011, respectively.
- (2) Some of our power plants are operated under joint venture agreements which are not fully consolidated. The installed capacity of these power plants was therefore not included in our total installed capacity. For the year ended December 31, 2011, these amounts included:
- 114 MW of installed capacity of our power plant in Slovakia;
  - 208 MW of installed capacity of our coal-fired power plants in Germany;
  - 357.2 MW of installed capacity of our gas-fired power plants in Turkey;
  - 15 MW of installed capacity of our wind power plant in Turkey; and
  - 281.7 MW of installed capacity of our hydroelectric power plants in Turkey.

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

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

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

- (1) Includes electricity generated by our coal-, gas- and biomass-fired heat plants in the Czech Republic.
- (2) Some of our power plants are operated under joint venture agreements which are not fully consolidated. The amount of electricity they generated is therefore not included in our total electricity generated. For the year ended December 31, 2011, these amounts included:
- 508 GWh of electricity generated by our power plant in Slovakia;
  - 1,112.1 GWh of electricity generated by our coal-fired power plants in Germany;
  - 1,697 GWh of electricity generated by our gas-fired power plants in Turkey;
  - 51 GWh of electricity generated by our wind power plant in Turkey; and
  - 847 GWh of electricity generated by our hydroelectric power plants in Turkey.

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

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

#### *Central Europe*

##### *Coal-fired power generation*

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

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

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

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

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

In the year ended December 31, 2011, our coal-fired power plants in the Czech Republic consumed 27.7 million tons of brown coal and 1.4 million tons of black coal. For information on our coal mining activities and purchases of coal from third parties, please see “—Other Businesses—Coal Mining” and “—Fuel—Coal.” Our coal-fired power plants in the Czech Republic were assigned approximately 35.8 million tons of CO<sub>2</sub> emission allowances for the year ended December 31, 2011. For additional information on CO<sub>2</sub> emission allowances and the



allocation of CO<sub>2</sub> emission allowances after 2012, please see “*Regulation—Czech Republic—Electric Energy Sector*” and “*—Emission Rights.*”

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

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

*Poland.* We own and operate two black coal-fired power plants located in the southern region of Poland, the Elcho power plant with installed capacity of 238.4 MW and the Skawina power plant with installed capacity of 490 MW as of December 31, 2011. The Elcho power plant started operating in 2003. The Skawina power plant started operating in 1957 and was desulfurized in 2008. A license is necessary in order to generate electricity in Poland, which is issued by the Polish Energy Regulatory Office. The licenses of the Elcho power plant and the Skawina power plant for the generation of electricity and heat expire on December 31, 2023 and December 31, 2025, respectively.

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

In the year ended December 31, 2011, our coal-fired power plants in Poland consumed 1.1 million tons of black coal and 212,000 tons of biomass and emitted 2.0 million tons of CO<sub>2</sub> emissions.

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

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

#### *Nuclear power generation*

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

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

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

*Dukovany nuclear power plant.* The construction of the Dukovany nuclear power plant commenced in 1979 and its four units became operational between May 1985 and July 1987. The power plant uses four Soviet designed VVER 440-V213 reactors with a total installed capacity of 1,970 MW. Outside Russia, such reactors are

in operation in the Czech Republic, Finland, Hungary, Ukraine, Bulgaria and the Slovak Republic. The VVER 440-V213 reactors have proven to be robust and easy to operate with substantial safety margins, as demonstrated by the strong operational and safety performance of the reactors in such countries. The design of a VVER plant is generally considered to be identical to the design of PWR plants which are based on U.S. technology (in which water also acts as the moderator and the coolant) and which are the most common reactor type used commercially around the world.

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

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

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

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

<u>Unit</u>	<u>License valid from</u>	<u>License valid until</u>
1 .....	January 1, 2006	December 31, 2015
2 .....	January 1, 2007	December 31, 2016
3 .....	January 1, 2008	December 31, 2017
4 .....	January 1, 2008	December 31, 2017

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

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

The projected lifetime of the Temelín nuclear power plant is 40 years, although it is technically possible to extend the projected lifetime by an additional 20 years. SONS grants operating licenses that are renewable upon application. On October 7, 2010, before the original ten-year license expired on October 11, 2010, we obtained a license from SONS to operate Unit 1 of the Temelín nuclear power plant for a further ten-year period. In order to obtain the license, regular evaluations of the plant’s safety are carried out. These evaluations involve checks on

whether the power plant has been, is and will be for at least another ten years, safely operated. The license contains operational conditions stipulated by SONS. The license on Unit 2 expires on May 31, 2012. In February 2012, we requested a new license from SONS.

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

<u>Unit</u>	<u>License valid from</u>	<u>License valid until</u>
1 .....	October 11, 2010	October 12, 2020
2 .....	October 11, 2004	May 31, 2012

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

*Decommissioning of the nuclear power plants.* Pursuant to the Czech Nuclear Act, we will be responsible for decommissioning each of our nuclear power plants. We are providing funds for the future costs of decommissioning our nuclear power plants on a straight-line basis over the operating life of the relevant nuclear power plant. Total decommissioning costs are currently estimated to be CZK 17.3 billion for the Dukovany nuclear power plant and CZK 14.6 billion for the Temelín nuclear power plant. These decommissioning cost estimations are submitted for verification to the Czech Repository Authority. In order to accumulate an adequate amount of funds to cover the ultimate costs of decommissioning of the plants after their useful life, we periodically review the decommissioning cost estimates and update our decommissioning provisions. The last updates of decommissioning costs for the Dukovany and Temelín nuclear power plants were in 2008 and 2009, respectively. We currently expect to review these decommissioning cost estimates again in 2013 for the Dukovany nuclear power plant and 2014 for the Temelín nuclear power plant.

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

#### *Hydroelectric power generation*

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

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

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

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

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

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



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

#### *Solar power generation*

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

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

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

#### *Wind power generation*

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

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

#### *Gas-fired power generation*

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

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

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

#### *South East Europe*

##### *Coal-fired power generation*

*Bulgaria.* We own and operate the Varna coal-fired power plant in Bulgaria. In the year ended December 31, 2011, the Varna power plant generated 82.6% of our total electricity generated in South East Europe and 4.4% of our total electricity generated. In the year ended December 31, 2011, the Varna power plant had a total installed capacity of 1,260 MW and accounted for 8.3% of our total installed capacity. The Varna power plant commenced operations in 1968-1969 and has not been desulfurized (the process of removing sulfur dioxide (SO<sub>2</sub>) from exhaust flue gases of fossil-fuel power plants). A license is necessary in order to generate electricity in Bulgaria, which is issued by the State Commission for Energy and Water Regulation. The electricity generation license of TPP Varna expires in February 2021. If the Varna power plant is not desulfurized pursuant to the Integrated Pollution Prevention and Control (IPPC) permit, it may be decommissioned by the end of 2014. However, we currently expect to desulfurize the power units of the Varna power plant and extend production beyond 2015.



In the year ended December 31, 2011, the Varna power plant generated 3,043 GWh of electricity, representing an increase of 193 GWh, or 6.8%, from 2,850 GWh in the year ended December 31, 2010. This increase was primarily due to an increase in the amount of electricity generated by the Varna power plant for sale to the regulated market, in particular due to the activation of the cold reserve due to colder weather and higher electricity consumption at the end of 2011. The State Commission for Energy and Water Regulation approves the price of electricity sold to the national supplier and the price of available power (including cold reserve). Since 2007, the approved prices of electricity have generally been lower than the production costs of the Varna power plant. However, the main driver of profitability for the Varna power plant is available power from cold reserve (approximately 60% of the Bulgarian power reserve) and sales of CO<sub>2</sub> emission allowances allocated for free.

In the year ended December 31, 2011, the Varna power plant consumed a total of 1.3 million tons of black coal and emitted 3.2 million tons of CO<sub>2</sub> emissions. For more information on purchases of coal in Bulgaria, please see “—*Fuel—Coal*.”

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

#### *Hydroelectric power generation*

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

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

#### *Wind power generation*

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

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

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

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

#### *Gas-fired power generation*

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

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

and therefore will not be included in the calculations of our total electricity generated and our total installed capacity.

### ***Distribution and Sale of Electricity***

#### *Overview*

##### *Distribution of electricity*

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

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

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

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

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

##### *Sale of electricity*

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

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

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

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

#### *Central Europe*

##### *Distribution of electricity*

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

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

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

##### *Sale of electricity*

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

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

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

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

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

#### *South East Europe*

##### *Distribution of electricity*

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

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

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

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

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

Our distribution business in Albania is regulated by the Albanian Electricity Regulation Authority. A license is necessary in order to distribute electricity, which is issued by the Albanian Electricity Regulation Authority for a

maximum term of 30 years. Our license for the distribution of electricity in Albania was issued in June 2008 and expires in June 2038. Prices for distribution services are also regulated by the Albanian Electricity Regulation Authority.

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

#### *Sale of electricity*

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

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

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

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

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

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

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



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

## **Trading**

### *Overview*

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

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

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

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

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

believe are in accordance with international best practices. For more information, please see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk.*”

The risk limit set by the Risk Management Committee for our proprietary trading activities is CZK 1.2 billion. The potential open positions over a longer time period are limited by a daily value at risk limit of CZK 163 million. These relatively low limits and the strict rules set by our Risk Management Committee lead to a high number of transactions with a high aggregated volume on an annual basis but generally with a relatively low margin. The annual volume of electricity traded for own account can vary substantially depending on market conditions in the respective year, namely liquidity, price volatility and market trends.

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

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

#### *Central Europe*

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

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

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

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

#### *South East Europe*

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

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

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

### **Other Businesses**

#### *Coal Mining*

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

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

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

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

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

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

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

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

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

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

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

#### *Gas Supply to End-Consumers*

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

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

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

#### *Provision of Ancillary Services*

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

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

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

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

## Fuel

### Coal

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

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

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

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

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

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

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



## ***Nuclear Fuel***

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

Historically, the majority of our uranium needs have been met by domestic sources in the Czech Republic. However, uranium production in the Czech Republic has been continuously decreasing over the past decade. Improved pricing in the uranium market after 2004 enabled DIAMO s.p., a Czech uranium producer, to extend Czech uranium production. In 2008, we concluded a new supply contract with DIAMO s.p. which secured delivery of up to one third of our total annual needs of uranium up until 2014. The remainder of our uranium needs is met by market purchases of uranium on the basis of long-term contracts. To the extent authorized under the ESA supply policy, we also purchase uranium as a package (or “bundle”) together with conversion and enrichment services under existing long-term fuel fabrication contracts with the Russian company JSC TVEL (“*TVEL*”).

In respect of the needs of the Dukovany nuclear power plant, the ESA limitation on the amount of enrichment services that can be purchased together with fabrication as a package from TVEL does not apply as the existing long-term fuel contract was grandfathered upon the accession of the Czech Republic to the European Union. Between 2008 and 2011, we concluded new long-term contracts for uranium and conversion and enrichment services to meet the needs of the Temelín nuclear power plant, which expire partly in 2014 and partly in 2020 (2025 if certain options are exercised). We also maintain strategic and working inventories of nuclear material in different stages of processing (uranium concentrate, natural and enriched uranium hexafluoride).

Our long-term nuclear fuel supplier, TVEL, produces nuclear fuel for our nuclear power plants at its facilities in Elektrostal, Russia. The long-term fuel supply contract for the Temelín nuclear power plant, which expires in 2020, was awarded to TVEL in May 2006 as a result of a tender opened in April 2004, in order to replace a previous fuel contract with The Westinghouse Electric Company LLC which expired in 2010. The last fuel deliveries from The Westinghouse Electricity Company LLC were received for Unit 1 in 2009 and for Unit 2 in 2010. Unit 1 was fully refuelled with new TVEL fuel assemblies in 2010 and the refuelling of the entire core at Unit 2 followed in 2011. Nuclear fuel fabrication and shipments of nuclear fuel for the Temelín nuclear power plant from TVEL are performed upon our request according to conditions in the fuel supply contract.

Nuclear fuel for the four reactors at the Dukovany nuclear power plant is also provided by TVEL pursuant to a long-term supply contract, which expires in 2018. Deliveries of nuclear fuel designated for transition from the “four-year fuel cycle” to the “five-year fuel cycle” were carried out in previous years. Nuclear fuel design has also been modified in order to accommodate the operation of reactors at an increased power level. In 2008, a license for deployment of a modified advanced second generation fuel was obtained. In the same year, deliveries of this improved version of the second-generation fuel started and it was used at Unit 3 and it has since been regularly loaded into all of the units at the Dukovany nuclear power plant. We maintain a strategic inventory of fabricated fuel at the Dukovany nuclear power plant.

### *Spent nuclear fuel storage*

#### *Interim spent nuclear fuel storage facility*

*Dukovany nuclear power plant.* The first stage of an interim spent nuclear fuel storage facility (“*ISFSF*”) at the Dukovany nuclear power plant, which utilizes transport and storage casks (standard dry storage technology), became operational in December 1995. The capacity of this facility (60 Castor casks) was fully used up in the first half of 2006. In 1997, preparation started on the second stage of the Dukovany ISFSF with a storage capacity of 133 Castor casks. The second storage facility was commissioned in October 2006 and became operational in December 2006. Its capacity is expected to cover the Dukovany nuclear power plant’s operation for a period of 40 years and we therefore expect that the capacity of the Dukovany ISFSF will be sufficient for the planned long-term operation of the Dukovany nuclear power plant.

As of December 31, 2011, spent fuel is stored in advanced Castor 440/84M casks and 18 casks are exploited, representing approximately 14% of the entire storage capacity of the second storage hall.

*Temelín nuclear power plant.* The plan to build the Temelín ISFSF on the premises of the Temelín nuclear power plant went through a legislative procedure which also involved the neighboring countries of Austria and Germany. During the legislative process, the Ministry of Environment issued a positive EIA. SONS permitted the construction in terms of nuclear safety. A special expert committee of the European Union also assessed the

Temelín ISFSF. We were awarded positive opinions in all administrative actions. We received the final building permit in February 2009.

The ISFSF at the Temelín nuclear power plant was put into operation for a one-year trial period in September 2010. In December 2011, we received a license issued by SONS for the common operation, valid until 2021. The storage capacity of the Temelín ISFSF is 1,370 tons of uranium, which represents spent fuel for the 30-year operation of the Temelín nuclear power plant. In the event the useful lifespan of the Temelín nuclear power plant is extended, the capacity of the Temelín ISFSF may be expanded by building additional storage halls.

As of December 31, 2011, there were five CASTOR 1000/19 casks with 95 fuel assemblies in total at the Temelín ISFSF, of which approximately 3% of the entire storage capacity is exploited.

#### *Central interim spent nuclear fuel storage facility*

As an alternative, an underground central ISFSF at the Skalka site in Southern Moravia, Czech Republic is currently being considered for the long-term storage of spent fuel from both of our nuclear power plants. We obtained a local zoning permit for this site in March 2001. The locality is permanently observed as a stand-by alternative to the on-site Dukovany ISFSF and Temelín ISFSF.

### **Biomass**

Biomass in the form of wood chip, straw and pellets is mainly combusted in our coal-fired power plants and heat plants in the Czech Republic and Poland. Within our portfolio of renewable sources, biomass is the second most significant element after water power stations. Our main suppliers of biomass in the Czech Republic are Komaxo, s.r.o., Holomáč, s.r.o., Jiří Prágr and Ondřej Šimeček, with whom medium-term contracts are signed. These suppliers are farmers and owners of agricultural land. In Poland, we sign annual contracts with or make monthly orders from a number of local suppliers of biomass.

In the Czech Republic, we burned more than 440,000 tons of biomass in the year ended December 31, 2011, compared to more than 411,000 tons in the year ended December 31, 2010, mostly in the form of co-burning with brown coal, generating more than 428 GWh and 337 GWh of electricity, respectively.

In Poland, we burned more than 212,000 tons of biomass in the year ended December 31, 2011, compared to more than 128,000 tons in the year ended December 31, 2010, mostly in the form of co-burning with hard coal, generating more than 306 GWh and 158 GWh of electricity, respectively.

### **Property, Plant and Equipment**

We own all of our significant generation facilities and other properties and we hold the title to or have the right to use by virtue of leases all of the land underlying our facilities, including our coal mines. Our plant, property and equipment mainly comprise power plants and distribution networks as well as coal mining facilities, administrative buildings and other assets. As of December 31, 2011, we owned buildings with a total net book value of CZK 134.1 billion, plant and equipment with a net book value of CZK 159.3 billion and land with a net book value of CZK 6.0 billion.

As of December 31, 2011, we owned net plant in service pledged as a security for liabilities in the amount of CZK 289 million, representing approximately 0.07% of total net book value of plant in service as of December 31, 2011.

### **Capital Expenditures**

For information on our capital expenditures, please see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Expenditures and Acquisitions.*”

### **Employees**

We had an average of 30,768, 32,937 and 31,805 employees in the years ended December 31, 2009, 2010 and 2011, respectively, out of which approximately 64.4%, 62.4% and 64.7%, respectively, were employed in the Czech Republic. Since our foundation in 1992, we have reduced the number of our employees to a level which brings the ratio of employees to installed MW capacity closer to the ratios of other advanced European power companies. We have also completed an organizational audit which resulted in a decrease in our average number of our employees and we are taking further steps aimed at further lowering our average number of employees.

As of December 31, 2011, all of our employees in the Czech Republic were covered by our collective bargaining agreement in accordance with Czech law. Our collective bargaining agreement is valid until the end of 2014. Our collective bargaining agreement was amended twice in 2010 and once in 2011. In 2007, we also

established our European Work Council in accordance with applicable national and European laws. We have not experienced any strikes or work stoppages in the Czech Republic, although there were strike alerts in 2003 at our nuclear power plants but these did not result in actual strikes or work stoppages.

### **Research and Development**

Our research and development (“*R&D*”) significantly contributes to improving the safe, economical and reliable operation of our assets and to building our knowledge of innovative technologies in the energy sector. Our R&D projects are mainly performed by external, specialized R&D engineering and consultancy organizations. R&D covers numerous topics in nuclear energy and conventional power generation, innovative renewables, utilization of biomass and development of waste-to-energy concepts, energy storage, smart grids and life management of power plants and their components.

The development of human resources and support for energy-focused applied and industrial R&D in the Czech Republic are important co-benefits of our R&D projects. Cooperation with technical universities is an essential part of such activities. We are a founding member of the Czech Sustainable Energy Technology Platform, forum of utilities, vendors, research, engineering, and academic entities acting for the improvement of energy R&D in the Czech Republic and for the intensification of international cooperation.

We are also a member of VGB PowerTech and have full membership on the nuclear sector with the Electric Power Research Institute. In addition, we are intensively involved in international energy R&D projects, particularly in the E.U.’s Framework Programs, mainly in the areas of developing nuclear technologies, nuclear safety and radiation protection, but also in non-nuclear areas including developing smart grids and clean coal technologies. We are also a member of three European technology platforms: the Sustainable Nuclear Energy Technology Platform, the Zero-Emission Power and Smart Grids.

In the year ended December 31, 2011, we participated in research and development programs in the total amount of CZK 794.2 million, compared to CZK 709.0 million in the year ended December 31, 2010.

### **Licenses**

As of the date of this memorandum, we hold all licenses necessary for the operation of our business. For information on licenses and permissions required under the Czech Energy Act and under other applicable regulations, please see “*Regulation—Czech Republic—Electric Energy Sector—Licensing Regime.*”

### **Emission Rights**

In the years ended December 31, 2010 and 2011, we were granted 41.7 million tons of CO<sub>2</sub> emission allowances per year. CO<sub>2</sub> emissions became an integral part of our management and decision-making, not only at our coal-fired power plants which are directly affected by the trading, but also at non-fossil fuel-fired power plants, which play a major role in optimising generation in terms of CO<sub>2</sub> emissions. Our decision making process regarding the trade of CO<sub>2</sub> is based on a comparison of the wholesale electricity price with generation costs, which include the price of CO<sub>2</sub> emission allowances.

Emission producers, such as us, that sell electricity to third parties are subject to a tax in the Czech Republic on all EUAs that are freely allocated. In the year ended December 31, 2011, this tax was 32% of the average market value of all emission allowances allocated for free to CO<sub>2</sub> emission producers for the year (where the market value is determined by the Ministry of the Environment of the Czech Republic). Certain EUAs obtained for the purpose of combined production of heat and electricity are exempted from the tax. This tax amounted to CZK 3.64 billion in the year ended December 31, 2011.

The following table summarizes the movements in the quantity and book value of emission rights and credits held by us during 2009, 2010 and 2011.

	For the year ended December 31,						
	2009		2010		2011		
	(in thousand tons)	(CZK in millions)	(in thousand tons)	(CZK in millions)	(in thousand tons)	(CZK in millions)	(U.S.\$ in millions)
Emission rights and credits (CERs, ERUs) granted and purchased for own use:							
Granted and purchased emission rights and credits at January 1 .....	41,751	1,274	38,659	869	36,740	2,123	106
Emission rights granted .....	42,494	—	41,831	—	42,936	3,640	183
Emission rights acquired in business combinations .....	22	27	1,125	429	—	—	—
Settlement of prior year actual emissions.....	(40,408)	—	(37,319)	(46)	(39,122)	(2,513)	(126)
Emission rights purchased .....	794	392	2,585	1,267	2,282	984	49
Emission rights sold.....	(4,066)	(7)	(6,300)	—	(5,250)	(46)	(2)
Emission credits purchased .....	929	332	26	12	2,707	877	44
Emission credits sold.....	(2,857)	(1,155)	(6)	(2)	(5)	(2)	(0)
Reclassified to emission credits held for trading .....	—	—	(467)	(163)	(26)	(12)	(1)
Reclassified to assets classified as held for sale..	—	—	(3,394)	(241)	3,394	241	12
Currency translation differences.....	—	6	—	(2)	—	(35)	(2)
Granted and purchased emission rights and credits December 31 .....	38,659	869	36,740	2,123	43,656	5,257	263
Emission rights and credits held for trading:							
Emission rights and credits for trading at January 1 .....	—	—	—	—	1,570	472	24
Emission rights purchased .....	45,025	18,284	8,231	3,019	2,004	813	41
Emission rights sold.....	(45,025)	(18,292)	(8,231)	(3,021)	(2,004)	(627)	(32)
Emission credits purchased .....	3,967	1,484	2,313	933	1,121	456	23
Emission credits sold.....	(3,967)	(1,484)	(1,210)	(466)	(2,420)	(885)	(44)
Reclassified from emission credits for own use..	—	—	467	163	26	12	0
Fair value adjustment.....	—	8	—	(156)	—	(202)	(10)
Emission rights and credits held for trading at December 31.....	—	—	1,570	472	297	39	2

Our total emissions of greenhouse gases amounted to 37,319 thousand tons, 39,122 thousand tons and 38,906 thousand tons of CO<sub>2</sub> for the years ended December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, we recognized a total provision for CO<sub>2</sub> emissions in the amount of CZK 3,418 million.

In September, 2011, the government of the Czech Republic, under the E.U. Emissions Exemption, approved a national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector. The European Commission has the task of assessing and approving or rejecting the proposed allocation of emission allowances without cost, within six months, taking into account the criteria set out in the 2003/87/EC Directive on greenhouse gas emission allowances. For more information, please see “*Regulation—Czech Republic—Electric Energy Sector—Electricity Generation.*”

Subject to the approval of the European Commission, the Czech Republic proposed the following allocation of emission allowances without cost to our coal-fired power plants in the Czech Republic.

	2013	2014	2015	2016	2017	2018	2019	2020
	(in million tons)							
Dětmarovice .....	1,565,479	1,341,839	1,118,199	894,560	670,920	447,280	223,640	—
Chvaletice.....	1,360,846	1,166,440	972,033	777,626	583,220	388,813	194,407	—
Ledvice II .....	770,217	660,186	550,155	440,124	330,093	220,062	110,031	—
Ledvice III .....	1,954,346	1,675,154	1,395,961	1,116,769	837,577	558,385	279,192	—
Mělník II .....	424,860	364,165	303,471	242,777	182,083	121,388	60,694	—
Mělník III .....	891,494	764,137	636,781	509,425	382,069	254,712	127,356	—
Počerady.....	3,014,660	2,583,994	2,153,329	1,722,663	1,291,997	861,331	430,666	—
Prunéřov I.....	952,523	816,448	680,374	544,299	408,224	272,149	136,075	—
Prunéřov II .....	2,927,619	2,509,388	2,091,157	1,672,925	1,254,694	836,463	418,231	—
Tušimice II .....	3,282,518	2,813,587	2,344,656	1,875,725	1,406,794	937,862	468,931	—
Other <sup>(1)</sup> .....	1,651,394	1,415,480	1,179,566	943,654	707,741	471,826	235,912	—
<b>Total</b> .....	<b>18,795,956</b>	<b>16,110,818</b>	<b>13,425,682</b>	<b>10,740,547</b>	<b>8,055,412</b>	<b>5,370,271</b>	<b>2,685,135</b>	<b>—</b>

Source: Czech Ministry of the Environment

(1) Includes emission allowances allocated to certain of our other power and heat plants in the Czech Republic, including Hodonín, Elektrárna Poříčí, Tisová, Teplárna Dvůr Králové nad Labem, Teplárna Vítkovice, PPC Trmice, Teplárna Trmice and Temelín.

Due to the uncertainty regarding the free allocation of emissions and the requirements for purchasing emissions, we continue to seek ways to reduce our overall emissions, which includes considering the cost of CO<sub>2</sub> emissions when evaluating potential investment opportunities. Please see “*Risk Factors—Risks Related to Our Business and Operations—We are exposed to changes in the way emission allowances are allocated, including the conditions attaching to free allocations and the allocation of emission allowances after 2013, as well as volatility in the market prices of emission allowances that we need to acquire.*”

### Intellectual Property

We own the rights to numerous trademarks in relation to the name “ČEZ” and its “E” symbol as well as to the name “SKUPINA ČEZ” (“ČEZ GROUP”) and its “E” symbol. The trademark of the word “ČEZ” is protected in 32 states under the Madrid Agreement Concerning the International Registration of Marks and its Protocol (the “*Madrid Agreement*”). The trademark of the word “ČEZ” combined with the symbol “E” is protected in 38 states under the Madrid Agreement, and the trademark of the word “ČEZ GROUP” combined with the symbol “E” is protected in 22 states under the Madrid Agreement and the color symbol “E” is protected in 22 states under the Madrid Agreement. The registration of all essential trademarks is regularly extended.

We do not own rights to any patents, utility models or industrial designs.

### Insurance

We maintain several types of insurance to protect us against potential liabilities. These include property insurance for our conventional power plants and nuclear power plants and nuclear liability insurance, in addition to other liability and property insurance. Our general liability insurance also covers particular environmental liabilities that we may incur.

Our insurance coverage complies with the Czech Nuclear Act and the Vienna Convention requirements in respect of responsibility for damage caused by a nuclear incident. However, our insurance does not fully cover all risks and we cannot guarantee that costs connected with nuclear disasters or other unforeseen events in our nuclear power plants would not have any negative effects on our business, results of operations and financial condition (please see “*Risk Factors—Risks Related to Our Business and Operations—We could incur significant losses in the event of a nuclear accident*”). The Czech Nuclear Act sets limits on the liability of operators of nuclear facilities for nuclear damage. The Czech Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 8 billion per incident and limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Czech Nuclear Act also requires an operator/licensee to insure its liability for the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). We have obtained all necessary insurance policies with the minimum limits required by law for the operation of our nuclear power plants. We have concluded such insurance policies with Česká pojišťovna a.s., which represents the Czech Nuclear Insurance Pool (a group of insurance companies) and with the European Liability Insurance for the Nuclear Industry, which is a mutual insurance company insuring nuclear liability risks.



We maintain insurance policies covering the assets of our coal, nuclear and hydro power plants, as well as insurance policies covering non-technological equipment, general third party liability insurance in connection with our main operations and car insurance. We also have insurance policies covering directors' and officers' liability.

### **Safety and Quality Management**

Safety and quality management is an integrated part of our management system. It is implemented, maintained and evaluated in a top-down manner from the senior management level to the employee level. Our senior management is responsible to stakeholders for assuring and securing the resources necessary for quality, health and safety and environmental management. Through responsible management of our internal processes, we aim to assure added value for our customers.

Our quality management policy was approved by our Supervisory Board in October 2010. Our quality management policy is published to show the commitment of our management towards quality and to establish the main principles of quality for our employees to understand. Each Group-entity is responsible for implementing management system tools and for implementing the quality management policy in all day-to-day activities.

We signed the Czech Quality Charter in October 2010, which refers to activities of the Czech Republic in the European Union. By signing the Charter, we committed to share our knowledge and experience and best practices in quality and innovation. We were the first energy company to sign the Charter. We also initiated the foundation of the Energetic Technical Section alongside the Czech Quality Council.

Our safety management system is based on the management of safety processes close to risks in generation and distribution. We have created two segment centers which aim to guarantee and directly and methodically control our safety and environmental protection. We have created the Safety Inspectorate within our CEO Division, which is responsible for independent managerial oversight and feedback on all safety areas and environmental protection. We also have a new Safety and Environmental Protection Policy which has become a part of our strategic management. The policy contains safety goals which are split into divisional and organizational management systems.

### ***Nuclear Safety***

Under Czech law, SONS is responsible for supervising the safe operation of nuclear power plants. SONS supervises regulatory compliance, and reviews the operation of nuclear facilities, the quality of selected activities, repair and maintenance, and personnel training. SONS representatives (local inspectors) are permanently on site at both the Dukovany and Temelín nuclear power plants to monitor their performance and compliance with safety standards and operating procedures, and to make sure that any improvements made are appropriate. The safe operation of the Dukovany and Temelín nuclear power plants is governed by documented requirements, approved by SONS (for example, the Technical Specifications, Radioactive Effluent and Emission Monitoring Programs). It is the responsibility of each plant to comply with regulations and requirements set out in the approved documentation. SONS carries out supervision by inspections.

Since their initial operation, the Dukovany and Temelín nuclear power plants have, under the supervision of SONS, been continuously monitoring the levels of radiation in the immediate vicinity of the plants. To date, the results of the monitoring in the ventilation outlets and in the drains of the plants have indicated that radiation levels remain considerably below statutory limits.

The typical design feature of the Dukovany nuclear power plant units (VVER440) are hermetic boxes (zones) complemented by bubbler towers, which can relieve hermetic zones from over-pressure and prevent release of radioactivity into the atmosphere in the event of a large leak of the primary circuit (the sealed circuit comprises the steel pressure vessel containing the reactor, the steam generator and the connecting pipe work). A spray system is also installed to prevent overpressure in the long-term. In the Temelín nuclear power plant, both units (VVER320) are constructed with standard western type full pressure containment. The Dukovany and Temelín nuclear power plants are designed to withstand the maximum design accident caused by a guillotine break of the primary circuit piping (main circulation loops) and consequently to reduce the pressure and temperature inside the hermetic zones or containment facilities using spray systems.

### ***WANO***

We are a member of the World Association of Nuclear Operators (“WANO”) and, like other members of these organizations, we submit both of our nuclear power plants to periodic peer review. These reviews are carried out regularly by international teams of experts from various professional organizations.

In January 2009, a follow-up mission on the 2007 WANO Peer Review took place at the Dukovany nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the

recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. The next WANO Peer Review at the Dukovany nuclear power plant is scheduled to take place in 2013.

In 2006, a follow-up mission of the 2004 WANO Peer Review took place at the Temelín nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. Some additional proposals were suggested. The last WANO Peer Review was held at the end of November 2011. The review team identified several areas for improvement as well as several good practices for sharing among nuclear power plants engaged in WANO. The plant's senior management is preparing a set of remedial actions focused mainly on improving the control process.

### **IAEA**

The Czech Republic is a member of the IAEA and, as a result, the IAEA has carried out a number of on-site IAEA assessment missions.

The first OSART review took place at the Dukovany nuclear power plant in 1989 with a follow-up Re-OSART mission in 1991. In November 2001, the Dukovany nuclear power plant underwent its next OSART review. Based on the recommendations from this review, we prepared and fulfilled an action plan. In October 2003, a follow-up OSART mission was carried out to review our implementation of its earlier recommendations and subsequently declared its full satisfaction with our fulfillment of its recommendations. The last OSART review at the Dukovany nuclear power plant was held in June 2011. The review team identified a wide range of good practices as well as several areas for improvement to achieve even better results of operational safety. The plant's senior management has prepared a set of remedial actions to address these recommendations before the follow-up OSART mission which is scheduled to take place in the first half of 2013.

The first Pre-OSART review at the Temelín nuclear power plant was held in 1990 with a follow-up mission in 1992. A regular OSART mission at the Temelín nuclear power plant took place in 2001 and the follow-up OSART mission held in 2003 was aimed at assessing the power plant's response to the recommendations of the OSART mission in 2001. Most of the recommendations and proposals were included in the category "completed," and the team generally noted the progress in operational safety enhancement, recommendation implementation and power plant appearance.

In 1991, IAEA and the Nuclear Energy Agency of the OECD introduced a seven-grade international nuclear events scale ("*INES*"), an internationally recognized standard used to inform the public of the safety significance of a nuclear event. Levels 4 to 7 are termed "accidents" with a significant radiation exposure off-site, while Levels 1 to 3 are termed "incidents" with effects on the nuclear facilities only. Level 0 is called "below the scale" and refers to events that are not related to safety. According to the INES, applied retrospectively throughout the lifetime of our nuclear facilities, as of December 31, 2011, neither the Dukovany nor the Temelín nuclear power plant has experienced an incident assessed above Level 1.

### **Post Fukushima Stress Tests**

Stress tests of nuclear power plants required by the European Council are defined as a focused assessment of safety margins and resistance of nuclear plants, in light of the events that occurred at the Fukushima-Daiichi nuclear power plant in Japan following the tsunami on March 11, 2011.

The assessment of both of our nuclear power plants was performed by experts in nuclear safety, design of nuclear facilities, accident management, emergency preparedness and phenomenology research of severe accidents, fully qualified for the assessment. The evaluators complied with a deterministic approach to evaluate the expected successive failure of all preventive actions during extreme scenarios.

No conditions were identified during the assessment that required immediate remedial action. Both of our nuclear power plants were assessed to be able to safely manage even highly improbable extreme emergency conditions without posing any threat to their vicinity. Despite identifying the robustness of barriers, the evaluators concluded that opportunities still existed for further safety enhancement with respect to highly improbable situations. The proposed measures which are subject to further review are broken down into short- and medium-term measures, categorized according to their importance. Short-term measures include:

- proposing and implementing alternative means of communication and support during interventions at the nuclear power plant and for communicating with public authorities in the event of significant damage to infrastructure and the isolation of the site area;
- finalizing the remaining procedures and guidelines for severe accidents; and

- reviewing the existing qualifications and capacity of personnel to fulfill the vital functions of the nuclear power plant if all units on the site are affected, or in case of loss of the control centers.

Medium-term measures include:

- proposing and implementing alternative independent technical means (for example power sources and pumps) as another barrier to fulfilling the vital functions of the nuclear power plant including guideline implementation; and
- implementing the actions in process to reinforce the design against the effects of severe accidents.

### ***EMANI***

The periodical inspections of the European Mutual Association for Nuclear Insurance (“*EMANI*”) were held in 2011 on both of our nuclear power plants. These inspections were focused on operation, maintenance and overall condition of the plants. The inspectors concluded that the plants were well operated and the inspections did not give rise to any material findings or recommendations.

### **Risk Management**

We continue to develop our integrated risk management system in order to increase our fundamental value while taking into account the level of risk acceptable for shareholders. Our supreme risk authority is the Risk Management Committee (a committee of the Chief Executive Officer), which comprises of:

- seven permanent members: Chief Financial Officer, Chief Risk Officer, Chief Generation Officer, Chief Sales Officer, Trading director, Controlling director, Treasury and Financing director;
- five non-permanent members (being the other members of the Board of Directors): Chief Executive Officer, Chief Distribution and International Officer, Chief Investment Officer, Chief Strategy Officer, Chief Procurement Officer; and
- one permanent guest: Internal Audit director.

The Risk Management Committee makes decisions on the development of our integrated system of risk management and our overall allocation of risk capital to individual risks and organizational units, and monitors the overall risk impact on us, including our debt capacity utilization and rating requirement fulfillment on a monthly basis.

Since 2005, we have applied a risk capital concept that allows the setting of particular risk limits as well as an aggregate annual risk limit. The value of our aggregate annual risk limit is approved by our Board of Directors each year (together with the annual budget) based on the proposal of our Risk Management Committee. The proposed limit value, in CZK, is set on the basis of a 95% confidence level and expresses a maximum profit decrease that we are willing to take in order to achieve our planned profit for the year.

Since 2009, the main Business Plan market risks (electricity price, emission allowances price and currency exchange rate between the Euro and Czech crowns) have been quantified on a monthly basis by the EBITDA @ Risk model based on the MonteCarlo simulation in Y+1 to Y+5 horizon. Through the integration of the EBITDA @ Risk outputs with mandatory investments and financials (within the five year horizon), the total debt capacity (which is net debt/EBITDA) ratio is calculated each month and evaluated in light of our rating targets. We base all decisions about available amounts for future investments on these calculations, as well as on key CEZ Group risks, and we continuously adjust our hedging and investment strategy accordingly.

Since 2011, the central unified @Risk concept has been used in the CAPEX investment process, where a potential CAPEX increase and potential deadline delay is calculated on the basis of a 95% confidence level for each individual investment project. This concept enables a relevant comparison of the risk profile of actual net present value of each project and contributes to the effective internal competition of cash flow sources with limited development.

We divide risks into four categories:

- market risks, comprising financial risks, commodity risks, volumetric risks and market liquidity;
- credit risks, comprising counterparty default, supplier default and settlement;
- operational risks, comprising operating risk, internal change, liquidity management and security; and
- business risks, comprising strategic, political, regulatory and reputation risks.

All essential quantifiable risks are quantified on a unified basis at least once each month. Our methodology and data provide for a unified quantification of the following risks:

- market risks, comprising financial risks (such as currency, interest and stock price), commodity price risks (relating to prices of electricity, emission allowances, coal, gas), volumetric risks (such as volume of heat supply and volume of electricity buy-out produced by solar power plants);
- credit risks, comprising financial and business counterparty risk and electricity, gas and heat end-customer risk; and
- operational risks, comprising risks related to the operation of nuclear and fossil power plants in the Czech Republic and investment risks.

We aim to manage business risks by using clear responsibility assessment, key risk identification, systematic sensitivity and scenario analysis. Property, casualty and other operational risks are managed through using insurance, emergency and crisis planning and preventive actions. Our ten most important cash flow risks are centrally monitored and coordinated and are updated and reported to the Risk Management Committee on a quarterly basis.

In addition, our annual budget risks, business plan risks and debt capacity risks are reported on a monthly basis to the Risk Management Committee.

For more information relating to material risks that we face, please see “*Risk Factors*,” “*Management’s Discussion & Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk*” and Note 17 of our audited consolidated financial statements for the year ended December 31, 2011.

### **Environmental Matters**

As of the date of this offering memorandum, we are in compliance with all material requirements of the Czech Waste Act, the Czech Air Protection Act, the Czech IPPC Act, the Czech Water Act and the Czech Nuclear Act.

#### ***Czech Waste Act***

Pursuant to the Czech Waste Act, and pursuant to related regulations, we use coal ash as a certification material for reclamation and improving the sanitary conditions of landscape and disused shafts of our existing mines. A portion of coal ash is deposited on the landfills. We also sell residue to certain producers of construction materials. In addition, since 1994, we have also sold a portion of the FGD gypsum (a coal combustion product of coal-fueled power plants) remaining after the desulfurization process to certain producers of construction materials. This approach has the environmental advantage of saving natural materials, particularly in the building industry.

We are required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps. We are required by law to keep such amounts as restricted funds. Restricted funds representing our accumulated provision for waste storage and reclamation amounted to CZK 368.2 million as of December 31, 2011, compared to CZK 386.0 million as of December 31, 2010.

#### ***Czech Air Protection Act***

We fully comply with all applicable regulations and requirements under the Czech Air Protection Act. Since we own numerous coal-fired power plants classified as “existing particularly large combustion plants,” we have the advantage that under applicable legislation we may exchange and allocate the assigned aggregate emission limits between our coal-fired power plants in such a way as to ensure compliance with the Czech Air Protection Act and we are therefore able to optimize generation.

For the year ended December 31, 2011, our total emission charges amounted to CZK 91.7 million, decreasing by 5.1% from CZK 96.6 million for the year ended December 31, 2010.

#### ***Czech Nuclear Act***

On June 24, 1994, the Czech Republic became a party to the Vienna Convention. On the basis of the principles of the Vienna Convention, the Czech government initiated and Parliament enacted the Czech Nuclear Act, which came into force on July 1, 1997. In accordance with the Vienna Convention, the Czech Nuclear Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and that the operator’s liability for such damage is limited to CZK 8 billion per incident. The Czech Nuclear Act also provides that operators of nuclear facilities are obliged to acquire insurance covering potential liabilities for

nuclear damages in the amount of not less than CZK 2 billion. The Dukovany and Temelín nuclear power plants are currently fully insured in accordance with the Czech Nuclear Act and the Vienna Convention. For more information about our insurance coverage, please see “—*Insurance*.”

The Czech Nuclear Act contains a provision to the effect that the Czech Republic shall guarantee the safe final disposal of nuclear waste. The Czech Nuclear Act required the Czech Ministry of Industry and Trade to establish a Czech Repository Authority as a State organization, to carry out particular activities associated with disposal of nuclear waste. The Czech Repository Authority was established on June 1, 1997. The Czech Nuclear Act provides that a generator of nuclear waste will remain responsible for storage of nuclear waste and related costs until the handover of the waste to the Czech Repository Authority. The Czech Repository Authority centrally organizes, supervises and is responsible for all final disposal facilities and the disposal of nuclear waste therein. In 1999, we sold our repository for disposal of nuclear waste from the operation of both the Dukovany and Temelín nuclear power plants to the Czech Repository Authority. The Czech Repository Authority has engaged us to continue operating the repository located at the Dukovany nuclear power plant.

The activities of the Czech Repository Authority are financed through the Czech Nuclear Account funded by the generators of nuclear waste. The Czech Nuclear Account is managed by the Czech Ministry of Finance. We are required to contribute to the Czech Nuclear Account in the amount of CZK 50 per MWh of electricity generated by our nuclear power plants. Since October 1, 1997, we have made regular payments to the Czech Nuclear Account. In the year ended December 31, 2011, our total payments to the Czech Nuclear Account amounted to CZK 1,414 million.

The originator of radioactive waste is required by the Czech Nuclear Act to cover directly all costs associated with interim storage of spent fuel and the disposal of radioactive waste. The operator is also liable under the Czech Nuclear Act to finance the decommissioning of its nuclear power plants. For this particular purpose, financial resources are accumulated in a special blocked account and any drawings from this account are subject to receiving the Czech Repository Authority’s approval.

We have recognized provisions for our obligations to decommission our nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis as well as provisions for our obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors. Actual costs incurred are charged against such accumulated provisions. As of December 31, 2011 the provision for interim spent fuel storage amounted to CZK 6.4 billion, the provision for permanent spent fuel storage amounted to CZK 21.7 billion and the provision for decommissioning amounted to CZK 9.2 billion.

## **Legal Proceedings**

We are currently involved in a number of legal proceedings; however, we believe that liabilities relating to such proceedings would not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. Certain significant legal proceedings in which we are involved as of the date of this offering memorandum are described below.

### ***Litigation Relating to the Temelín Nuclear Power Plant***

In 2001, the State of Upper Austria filed a petition demanding us to cease-and-desist from generating alleged ionizing radiation from the Temelín Nuclear Power Plant. On January 4, 2012, the Linz Regional Court rejected the petition. The State of Upper Austria subsequently lodged an appeal against the decision of the Linz Regional Court. We have established a provision for contingent liabilities arising from these proceedings, however, this provision does not cover claims brought against us for which damages have not been quantified or in relation to which the plaintiffs’ prospects have been deemed by us to be remote. Due to their nature, we are not able to predict the ultimate outcome of legal proceedings currently pending against us, which may not be decided in our favor and may require us to pay damages to the plaintiff, incur costs in connection with the modification of parts of the Temelín nuclear power plant or temporarily remove parts of the Temelín nuclear power plant from service including, in some cases, so that we can comply with environmental laws regarding electromagnetic radiation.

### ***Litigation with Czech Coal***

In October 2010, we commenced proceedings against Czech Coal a.s., Czech Coal Services a.s. and Vršanská uhelná a.s. (companies belonging to the Czech Coal group of companies). In these proceedings, we are demanding compensation in the amount of CZK 11 billion for harm caused by Czech Coal’s anti-competitive conduct in connection with failed negotiations over a long-term purchase contract for brown coal supplies to our brown coal facility in Počerady after 2016. In addition, we are requesting payment of applicable contractual penalties in the amount of approximately CZK 327 million and payment of damages (mainly costs incurred) in the



amount of approximately CZK 13.8 million. At the time of commencing these proceedings, we withdrew former claims filed in 2007. The case is currently pending before the Regional Court in Ústí nad Labem.

#### ***Litigation with Sokolovská uhelná, právní nástupce, a.s.***

We are involved in a dispute with Sokolovská uhelná, právní nástupce, a.s. in relation to the amount of and price for brown coal supplies being supplied to us under a long-term supply agreement until 2027. Sokolovská uhelná, právní nástupce, a.s. has challenged the validity of the supply agreement in court. We have filed an unjust enrichment lawsuit against Sokolovská uhelná, právní nástupce, a.s. with the Regional Court in Plzen in the amount of approximately CZK 56 million. The Regional Court in Plzen has not yet ordered a hearing in this case.

#### ***Proceedings Relating to Reconstruction and Upgrade of Prunéřov II Power Plant***

The Integrated Pollution Prevention and Control (IPPC) permit and zoning permit for the reconstruction and upgrade of the Prunéřov II coal-fired power plant have been issued by the relevant Czech administrative authorities. However, the legality of these permits has been challenged by Ekologický právní servis, a non-governmental environmental organization, before the Czech administrative courts. Reconstruction and upgrade of the Prunéřov II power plant is also currently subject to pending building permit proceedings commenced by other non-governmental environmental organizations. The renovation and upgrade of the Prunéřov II power plant may be significantly delayed and we may incur significant losses if we are not successful in these proceedings and the IPPC or zoning permit is cancelled or the issue of the building permit is delayed.

#### ***Insolvency Proceedings of Moravia Energo***

In March 2009, one of our business counterparties, MORAVIA ENERGO, a.s., a Czech electricity trading company, was declared bankrupt. All electricity supplied by us to MORAVIA ENERGO, a.s. was settled by pre-payments. However, when MORAVIA ENERGO, a.s. stopped payments, we were forced to terminate our contracts concluded with MORAVIA ENERGO, a.s. for the period between 2009 and 2011. In accordance with the business rules and the European Federation of Energy Traders standards, we determined the value of the final settlement of prematurely ended deals with MORAVIA ENERGO, a.s., based on the prices at which we were able to sell electricity in the market as of the date of termination of the contracts between us and MORAVIA ENERGO, a.s. After deduction of the already realized security, our final claim amounted to approximately CZK 1.5 billion and was registered and attributed to us within the insolvency proceedings of MORAVIA ENERGO, a.s. On August 1, 2011, a partial distribution resolution was issued, according to which our claim was partially settled in the amount of CZK 71.3 million. Further realization of the debtor's assets is still in progress.

#### ***Insolvency Proceedings of Lignit Hodonín***

In the insolvency proceedings against Lignit Hodonín, s.r.o., a producer and supplier of brown coal, we have registered receivables in an amount exceeding CZK 115 million. This amount includes CZK 23 million corresponding to supplied and unpaid electricity and penalties under contracts. A special review hearing took place on May 31, 2010, at which our claim was recognized in full. The business enterprise of Lignit Hodonín was sold in September 2010 and the settlement of creditors of Lignit Hodonín is currently in progress. With regard to the amount gained in the course of the sale of the debtor's business and the total amount of the creditors' claims, and including those secured, it is envisaged that our satisfaction will be close to nil. In addition, the receiver filed a suit against us for damages amounting to CZK 196.2 million, allegedly resulting from our abuse of a dominant position in determining the purchase price of brown coal deliveries under a sales contract concluded with Lignit Hodonín, s.r.o., as the supplier. We deny the claim in full. On November 30, 2010, the acquirer of the business enterprise of Lignit Hodonín, UVR Mníšek pod Brdy, a.s., filed a law suit within the insolvency proceedings to exclude receivables in the amount of CZK 196.2 million from the debtor's assets. Until a legally binding decision is issued on whether to exclude the receivables from the debtor's assets, the proceedings concerning damages have been suspended.

#### ***Insolvency Proceedings of PLP***

In insolvency proceedings against PLP, a.s., a Czech bio-ethanol producer, we have registered a receivable of approximately CZK 191 million, which corresponds to the unpaid supply of electricity, heat and raw water to PLP, a.s., and a receivable of approximately CZK 28 million for contractual penalties. Both receivables were recognized in review hearings that took place in the first half of 2011.

#### ***Litigation Proceedings against SZDC***

In June, 2010, we filed with the Municipal Court of Prague a claim against Railway Infrastructure Administration, state organization ("SZDC") for damages in the total amount of CZK 805 million. Our claim arose out of the breach of the agreement on electricity supply by SZDC, which did not off-take its contracted amount of

electricity in 2010. The Municipal Court of Prague issued a request for payment and SZDC subsequently raised an objection. A hearing is currently pending.

### ***Squeeze-Out Proceedings***

In the Czech Republic, we are a party to the following pending proceedings in connection with the squeeze-out of former minority shareholders in our subsidiaries:

<b><u>Subsidiary</u></b>	<b><u>Amount of former minority shareholders' claim</u></b>	<b><u>Description of claim</u></b>	<b><u>Status</u></b>
Severomoravská energetika, a.s.	CZK 116 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the appellate court
	CZK 1,005 million	Payment of the difference from a takeover offer for shares made in 2005	Pending before the court of first instance
Západočeská energetika, a.s.	CZK 767 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Východočeská energetika, a.s.	CZK 188 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Severočeská energetika, a.s.	CZK 821 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Středočeská energetická a.s.	CZK 536 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Severočeské doly a.s.	CZK 1,608 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
ČEZ Teplárenská, a.s.	Not known	Review of the consideration paid to the minority shareholders in the squeeze-out of minority shareholders from United Energy, a.s., the legal predecessor of ČEZ Teplárenská, a.s.	Pending before the court of first instance

As of the date of this offering memorandum, it is not possible to predict the outcome of the above mentioned proceedings concerning the squeeze-out of former minority shareholders in our subsidiaries.

Former minority shareholders in the regional electricity distribution companies Severočeské doly a.s., and ČEZ Teplárenská, a.s., have filed claims seeking the court to declare that the resolutions of these General Meetings that decided on squeeze-outs are invalid. In three of these cases, the claims challenging the General Meetings of regional electricity distribution companies have been set aside.

### ***Proceedings on the Invalidity of the Contribution of Part of Undertakings or Nullification of the General Meeting's Resolutions***

The following suits have been filed by our minority shareholders in connection with the restructuring of the CEZ Group to comply with the unbundling requirements of the Czech Energy Act (please see “—*Organizational Structure*”), either seeking to declare as invalid contributions made to us as part of the undertakings of former

regional electricity distribution companies or the resolutions of the General Meetings which approved these contributions:

- a suit seeking to declare the resolution of the General Meeting of Středočeská energetická a.s. held on October 17, 2005, and of contracts on contribution of part of an undertaking, to be invalid. Proceedings before the court of first instance in the actual matter have not yet been completed and we cannot give any assurance as to the outcome of such proceedings; and
- a suit seeking to declare the resolution of the General Meeting of Středočeská energetická a.s. held on June 21, 2006, and of contracts on contribution of part of an undertaking, to be invalid. Court proceedings have not yet been completed and we cannot give any assurance as to the outcome of such proceedings.

To the best of our knowledge, no financial claim has been filed by the minority shareholders. However, we cannot exclude the potential right of minority shareholder to damages or other financial compensation.

#### ***CNB Investigation with Respect to Unauthorized Disclosure of Confidential Information***

We are subject to a pending investigation of the Czech National Bank with respect to the unauthorized disclosure of our 2011 half-year report by Reuters in August 2011. The Czech National Bank is currently considering the handling of our inside information (as specified in the Czech Capital Markets Act) but has not yet made a decision in this matter. We believe that we did not breach any statutory obligation relating to the handling of our inside information and we do not expect the outcome of the investigation to have a material adverse effect on our business, results of operations or financial condition.

#### ***Insolvency Proceedings of PORCELA PLUS and BCT Group***

In insolvency proceedings against PORCELA PLUS and BCT Group, we have registered receivables in a total amount exceeding CZK 285 million, which corresponds to the unpaid supply of electricity and accrued interest. This includes a receivable against SKLÁRNY KAVALIER, a.s. amounting to approximately CZK 120 million, a receivable against CRYSTALEX a.s. amounting to CZK 65.6 million, a receivable against Sklo Bohemia, a.s. amounting to CZK 64.5 million, a receivable against Karlovarský porcelán a.s. amounting to CZK 21.7 million, and a receivable against Sklářny Bohemia a.s. amounting to CZK 13.8 million. The remaining receivables registered do not exceed CZK 0.5 million. During the review proceedings, all of our registered receivables were determined to exist. Although most of the assets of the debtors were realised during 2009 and 2010, given the amount of debts owed to employees and secured creditors, satisfaction of the remaining debts will be minimal or nil, as was the case in insolvency proceeding against Sklo Bohemia where the resolution on cancellation of bankruptcy was handed down in January 2012.

#### ***Litigation with Lesy České republiky over Compensation for Damages***

We face 15 lawsuits initiated by the same plaintiff, Lesy České republiky s.p., a state-owned company. All of the suits have the same grounds, namely a claim for compensation of damage caused by our operations to forest crops between 1997 and 2009. The oldest suit is from 1999; the latest one is from 2011. The total amount claimed is CZK 235.1 million. These proceedings are all currently pending before the Prague District Courts.

#### ***Proceedings of Romanian Citizens***

In 2004, Romanian citizens filed claims against the Romanian state before the European Court of Human Rights claiming the illegal placement of electric facilities on their land by Electrica Oltenia S.A. (the regional distribution company owned by us). The complainants are seeking damages for the Romanian state's failure to protect their land ownership rights. The landowners' dispute could become material for us in Romania if the claim against the Romanian state is successful and similar disputes are brought against us.

#### ***Proceedings Relating to the Fântânele and Cogeaalac Wind Farm Project***

In connection with the Fântânele and Cogeaalac wind farm projects in Romania, we are a party to litigation commenced in 2008 by the town of Cogeaalac and certain Romanian individuals and entities, who object to certain outstanding building permits, other administrative permits and ownership titles to land parcels relating to the project and who seek to stop certain construction works. The claims are currently pending before the Constitutional Court of Romania. There is no monetary value to the claims against us, but these proceedings have adversely affected the timeline for completing the Fântânele and Cogeaalac wind farm projects.

### ***Litigation with CFR***

We have registered receivables against Compania Națională de Căi Ferate, the Romanian railways company, in the total amount of RON 368.4 million (approximately CZK 2.1 billion) which corresponds to the unpaid supply of electricity, accessories and penalties of which RON 175.7 million (approximately CZK 1 billion) has been applied to the court as of December 31, 2011.

### ***Proceedings in Albania***

We hold a 76% interest in the share capital of CEZ Shpërndarje Sh.a. (“*CEZ SH*”), a joint venture between ČEZ and the Republic of Albania, with the remaining 24% interest held by the Republic of Albania. CEZ SH is subject to a variety of proceedings in Albania, which are described in more detail below.

#### ***Proceedings Relating to Tariff Decisions in Albania***

The Albanian Electricity Regulation Authority (the “*Albanian ERE*”) has imposed new tariffs for electricity distribution and supply for the period between 2012 and 2014. As a result of such tariffs, the operational expenditures of CEZ SH could exceed the prices that may be charged for electricity distribution since the revenue from the regulatory asset base would not fully cover the related costs. In addition, the bad debt allowance, as currently applied in the new tariffs, would not fully cover the actual bad debts and CEZ SH would not be compensated for the losses incurred in previous regulatory periods as a result of lower bad debt allowances. Further, the recognized costs to cover losses in the network may not fully cover the actual costs associated with such losses.

On March 1, 2012, CEZ SH brought a court action before the Tirana court against the new tariffs imposed by the Albanian ERE. As of the date of this offering memorandum, the Tirana court has not issued a decision on the merits of the case. Unless the new tariffs change or further equity investment is made in CEZ SH, CEZ SH may face financial difficulties which, as we have been advised by our Albanian counsel, in turn, may lead to the commencement by the Albanian ERE of administrative proceedings or withdrawal of CEZ SH’s licenses and subsequently to the termination of CEZ SH’s business activities. In an effort to mitigate the risk of such adverse development, ČEZ, a. s. intends to provide CEZ SH with (i) a contribution to the share capital of CEZ SH in the amount of €20 million and (ii) a loan in the amount of €40 million. However, ČEZ, a. s. intends to provide this financing to CEZ SH only if a settlement concerning regulatory and related issues impairing the business of CEZ SH, as is currently being negotiated among CEZ SH, the Government of the Republic of Albania and related Albanian agencies and entities, is reached (for more information, please see “—*Settlement Discussions*” below).

#### ***Proceedings Relating to the Non-Approval of the Albanian ERE of the Bad Debt Study***

On December 13, 2011, CEZ SH brought a court action before the Tirana court against the decision of the Albanian ERE dated September 30, 2011, not to approve an independent bad debt study determining the methodology of the calculation of bad debts and the actual levels of bad debt. The level of bad debts is crucial for calculating the retail public supplier tariff of CEZ SH. As of the date of this offering memorandum, the Tirana court has not issued a decision on the merits of the case.

#### ***Proceedings Relating to the Energy Supply Agreement between CEZ SH and KESH Sh.a.***

On June 15, 2011, CEZ SH filed a court action with the Tirana court against a decision of the Albanian ERE to impose a new energy supply agreement between KESH sh.a. and CEZ SH for the sale and purchase of electricity for the year 2011. This decision is contested by CEZ SH because if KESH sh.a. delivers more energy than the amount used by the Albanian ERE for the calculation of tariffs for the regulatory period 2011, the price to be paid by CEZ SH for this additional amount of energy will be equal to the market price instead of being equal to the regulated (lower) price. As of the date of this offering memorandum, the Tirana court has not issued a decision on the merits of the case.

#### ***Proceedings Relating to the Enforcement of KESH’s Invoices against CEZ SH***

In November 2011, the Tirana court issued an enforcement order against CEZ SH for the enforcement of a claim of KESH sh.a. against unpaid invoices from KESH sh.a. for supplied electricity in the total amount of ALL 3.3 billion (approximately €23 million). CEZ SH contested the validity of the enforcement order and has proceeded with a lawsuit requesting the invalidity of the executive titles and the suspension of the enforcement order until after the lawsuit. On January 25, 2012, the Tirana court issued a preliminary injunction pursuant to which the enforcement process has been suspended until the final decision on the validity of the enforcement order is issued. As of the date of this offering memorandum, the Tirana court has not issued a decision on the merits of the case.



### *Settlement Discussions*

Settlement discussions are currently being held among ČEZ, a. s., CEZ SH, the Government of the Republic of Albania and related Albanian agencies and entities to resolve all contentious matters. On February 28, 2012, the Albanian electricity production company KESH sh.a., the Albanian electricity transmission company OST sh.a. and certain Albanian ministries entered into an agreement with CEZ SH regulating the contemplated set-off of the receivables between the parties which was required by the Albanian parties as a pre-condition for settlement negotiations. However, if all of the above remedies and settlement discussions fail, CEZ SH and consequently, ČEZ, a. s., may incur further significant losses and our investment in Albania may be threatened.

### ***Proceedings by the European Commission***

In November 2009, we received a decision of the European Commission dated November 16, 2009, ordering us to submit to an inspection by the European Commission pursuant to Article 20(4) of Council Regulation (EC) No. 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EEC Treaty (now Articles 101 and 102 of the Treaty on the Functioning of the European Union).

On July 11, 2011, the European Commission issued a “Decision on the Opening of Proceedings” pursuant to Chapter III of Council Regulation (EC) No. 1/2003 against us. By contrast with the initial focus of the inspection, the scope of the investigation was limited to a suspected breach of Article 102 of the Treaty on the Functioning of the E.U. relating to abuse of a dominant position. The suspicion concerns allegedly preventing the entry of competitors into the wholesale electricity generation market, specifically by reserving transmission grid capacities greater than needed for our existing and planned projects. At the start of the proceedings a procedural decision indicated that the investigation would be dealt with as a matter of priority. In August 2011, we received our fourth written request for information from the European Commission. The European Commission may either stop the proceedings or issue a statement of objections, although it has not yet announced its decision.

### ***Proceedings with the Bulgarian State Commission for Energy and Water Regulation***

In 2010, we appealed to the Bulgarian court of last instance against a decision of the Bulgarian State Commission for Energy and Water Regulation setting electricity prices for the period from July 1, 2010 to June 30, 2011. The State Commission for Energy and Water Regulation did not approve our proposals and did not in our view comply with procedural and substantive law in this matter. We estimate the value of the claim to be approximately BGN 3.6 million. Our appeals are currently pending.

### ***Proceedings Against the Decision of the Bulgarian Commission for Consumer Protection***

The Bulgarian Commission for Consumer Protection filed two class suits against CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD with the Sofia District Court, successfully asking the court to declare certain clauses of their General Terms and Conditions to be null and void. We filed an appeal against the court’s decision with the Sofia Court of Appeal, which confirmed the decision of the District Court. We subsequently filed an appeal with the Supreme Court of Cassation, the court of last instance, which has not yet reached a decision.

### ***Proceedings with the Bulgarian State Commission for Energy and Water Regulation Regarding Prices for Ancillary Services***

In 2010, the Bulgarian State Commission for Energy and Water Regulation set an upper limit for the prices of ancillary services provided by companies in Bulgaria. We appealed to the Supreme Administrative Court against this limit on the basis that the upper limit did not cover the cost of providing such ancillary services. The value of our claims are based on numerous assumptions and are therefore not possible to estimate. In 2011, the court rejected our initial appeal. Our second appeal is still pending as of the date of this offering memorandum.

### ***Litigation against the Turkish Government and the Turkish Ministry of Finance***

In 2006, Elektrik Üreticileri Derneği (Association of Electricity Producers) and Akenerji Elektrik Üretim A.S. (in which we hold a 37.36% interest) filed a suit with the Supreme Administrative Court of the Republic of Turkey against the Turkish Government and the Turkish Ministry of Finance against their decision to increase the unit price of natural gas (in a gaseous state) by 300%, as compared to a 50% increase in the price of certain other commodities. The case is pending before the Constitutional Court. If Elektrik Üreticileri Derneği (Association of Electricity Producers) and Akenerji Elektrik Üretim A.S. are successful, they may benefit from a cancellation of the decision of the Turkish Ministry of Finance but damages would not be payable. It is therefore not possible to estimate the value of the suit.



### ***Arbitration Proceedings Relating to the Gacko Project***

In 2007, we signed an implementation agreement and started work on the Gacko project in Bosnia and Herzegovina under a joint venture arrangement with Elektroprivreda Republike Srpske, which was to include the operation of the existing Gacko I power plant, the construction of a new power plant, and the opening of a new mine at the Gacko site. However, our joint venture partners did not meet their obligations under the implementation agreement and failed to invest the assets of the existing power plant and mine in the joint venture. As a result, in January 2009, we exercised our put option to sell our 51% share in the joint venture and withdrew from the joint venture. As a result of the breach of the implementation agreement and the failure of Elektroprivreda Republike Srpske to accept the put option, we started arbitration proceedings in May 2009 which are pending before the International Court of Arbitration in Vienna. All parties to the arbitration are bound by confidentiality obligations concerning the dispute. A decision of the arbitration tribunal is expected in the second half of 2013.

## MANAGEMENT AND CORPORATE GOVERNANCE

### General Overview

We have a two-tier board system consisting of a Board of Directors and a Supervisory Board. Our Board of Directors represents us in all matters and is responsible for our management, while our Supervisory Board is an independent body that oversees our Board of Directors and our Division Heads. The Board of Directors and Division Heads manage our day-to-day operations. Under the Czech Commercial Code and our Articles of Association, the Supervisory Board may not make management decisions and such decisions are reserved for the Board of Directors. However, the Supervisory Board's approval is needed for certain key management decisions, such as those relating to our entry into specific transactions with a value greater than CZK 500 million, or for the disposal of real estate, or our entry into long-term loans. In addition to the statutorily required Audit Committee, our Supervisory Board has formed a Strategy Committee and a Personnel Committee.

Our Board of Directors is a statutory body, which manages our operations and acts on our behalf. The powers and responsibilities of our Board of Directors are set forth in detail in our Articles of Association. For information on the availability of our Articles of Association, please see "*Listing and General Information—Documents on Display*."

### Supervisory Board

Our Articles of Association provide that our Supervisory Board shall comprise 12 members, with eight being elected by the General Meeting and four being elected by our employees. As a result, the Czech Ministry of Finance, as our majority shareholder, has the power to nominate and elect two-thirds of the members of our Supervisory Board. As of the date of this offering memorandum, our Supervisory Board comprises 10 members only. We currently expect at least one additional member to be appointed at a meeting of our Supervisory Board by the end of April 2012, although we do not currently know the identity or biographical details of any potential new members. The Supervisory Board may in a meeting appoint substitute members to hold office until the General Meeting immediately succeeding such meeting of the Supervisory Board, if at least 50% of the Supervisory Board members appointed by our General Meeting hold their office.

Our Supervisory Board's powers include, among other powers, the power to:

- elect and remove members of our Board of Directors;
- approve the management contracts and remuneration of the members of our Board of Directors, the Chief Executive Officer and the Division Heads, including the rules for providing remuneration to members of our Board of Directors;
- inspect all documents and records relating to our business and to inquire into our financial matters;
- supervise our Board of Directors' exercise of its powers and responsibilities;
- review the report of our Board of Directors, as well as our annual, extraordinary, consolidated, interim financial statements and income distribution proposals, including power to stipulate the amount and manner of payment of bonuses to members of our Board of Directors, dividends and loss settlement proposals; and
- discuss our quarterly financial results, half-year and yearly reports.

Generally, our Supervisory Board makes decisions by a simple majority of all its members. Under our Articles of Association, our Supervisory Board makes decisions by a majority of two thirds of its members in certain circumstances, such as decisions to elect members of the Board of Directors and confirmations in respect of members of the Board of Directors who do not meet certain legal requirements for the holding of their office. The quorum for a meeting of our Supervisory Board is a simple majority of its members. Each Supervisory Board member has one vote. When necessary in matters of urgency, a decision may be made by our Supervisory Board without holding a meeting (such decisions are referred to as *per rollam* and must be included in the minutes of the next Supervisory Board meeting). At its discretion, our Supervisory Board may invite members of our other governing bodies, our employees, or other persons to its meetings.

In accordance with our Articles of Association, our Supervisory Board meets at least once a month. In 2011, there were twelve regular and two extraordinary meetings. The Chairman of our Board of Directors regularly attends the meetings. The business address of each member of our Supervisory Board is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Supervisory Board to us and to their private interests or other duties.

Set out below are the members of our Supervisory Board as of the date of this offering memorandum.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of appointment</b>
Martin Roman.....	42	Chairman of the Supervisory Board	September 15, 2011
Ivo Foltýn.....	41	Vice Chairman of the Supervisory Board	November 22, 2010
Lubomír Klosík.....	60	Vice Chairman of the Supervisory Board	January 22, 2009
Liběna Dobrovolná.....	52	Member of the Supervisory Board	June 1, 2011
Ján Dzvoník.....	51	Member of the Supervisory Board	June 1, 2011
Petr Gross.....	58	Member of the Supervisory Board	January 22, 2009
Vladimír Hronek.....	47	Member of the Supervisory Board	September 30, 2010
Jiří Kadrnka.....	41	Member of the Supervisory Board	November 22, 2010
Jan Kohout.....	51	Member of the Supervisory Board	November 22, 2010
Drahošlav Šimek.....	57	Member of the Supervisory Board	September 30, 2010

*Martin Roman.* Dr. Roman has been the Chairman of our Supervisory Board since September 19, 2011, and a member of the Strategy Committee of our Supervisory Board since September 21, 2011. Dr. Roman was our Chief Executive Officer from 2004 until 2011, a member of our Board of Directors and Chairman of our Board of Directors from 2004 until 2011. Dr. Roman has been a member of the board of directors of MOL Hungarian Oil and Gas Plc since April 2010, vice chairman of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the board of trustees of the Academy of Fine Arts since October 2008, a chairman of the board of trustees of PORG – gymnázium a základní škola, o.p.s. since October 2007, a member of the Science Council of the National Economy Faculty of the University of Economics, Prague since July 2006, a member of the supervisory board of the Prague Stock Exchange since June 2005 and a member of the supervisory board of VIENNA INSURANCE GROUP Wiener Stadtische Versicherung AG since June 2010. From April 2007 until December 2009, Dr. Roman was a member of the supervisory board of České dráhy a.s. Between 2000 and 2004, Dr. Roman was chairman and chief executive officer of ŠKODA HOLDING, the Czech mechanical engineering company. From 2007 to 2011, Dr. Roman was vice president of the Confederation of Industry of the Czech Republic. In 1994 he became chief executive officer of Janka Radotín Company, where he became chairman of the board of directors after the entry of a strategic partner, the U.S. company LENNOX, in 1998. Dr. Roman began his professional career in 1992 as a sales director of the Czech branch of Wolf Bergstrasse ČR, s.r.o. Dr. Roman is a founder of Nadace Martina a Lenky Romanových (Foundation of Martin and Lenka Roman) and Nadace Martina Romana (Foundation of Martin Roman). Dr. Roman graduated from Charles University Law Faculty in Prague in 1993. His international studies included one year at Karl-Ruprechtsuniversität Heidelberg, Germany, and a one-year scholarship at the University of St. Gallen, Switzerland.

*Ivo Foltýn.* Mr. Foltýn has been Vice Chairman of our Supervisory Board since July 28, 2011, a member of our Supervisory Board since November 22, 2010, a member of the Strategy Committee of our Supervisory Board since December 2, 2010 and vice-chairman of the Strategy Committee of our Supervisory Board since November 29, 2011. Mr. Foltýn has been a member of the supervisory board of ČEZ OZ uzavřený investiční fond a.s. since September 7, 2011, the sole member of the board of directors and sole shareholder of Fox hole a.s. since July 29, 2009 and chairman of the supervisory board of nexum Trilog a.s. since December 15, 2010 and a member of the board of directors of Ambeat Health Care a.s. since September 23 2011. Mr. Foltýn was chairman of the board of directors of Penzijní fond České pojišťovny, a.s. from 1997 to 2009. Mr. Foltýn was chairman of the executive committee of Oborová zdravotní pojišťovna from 2007 to 2010. Mr. Foltýn was a member of the supervisory board of VUB Generali dochodkova spracovska spoločnosť, a.s. from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of Inphorce, Russia from 2008 to 2009. Mr. Foltýn was chairman of the board of directors of Penzijní fond “Generalli PPF,” Russia from 2007 to 2010. Mr. Foltýn was a member of the board of directors of Generalli PPF Life Insurance, Russia from 2005 to 2009. Mr. Foltýn was a member of the supervisory board of CJSC “IC”Generalli Life Insurance, Ukraine from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of Generalli Garant Life Insurance, Ukraine from 2008 to 2010. Mr. Foltýn was a member of the supervisory board of OJSC “UIC” Generalli Garant, Ukraine from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of CJSC “CZI Ukraine” Pension fund from 2007 to 2009. Mr. Foltýn was a member of the supervisory board of Česká pojišťovna, Kazakhstan from 2007 to 2009. Mr. Foltýn was a member the supervisory board of Česká pojišťovna, Belarus from 2007 to 2009. He was a member of the executive committee, Head of CIS Countries, Holding. Pensions & Health insurance of Generali PPF Holding, B. V. from 2008 to 2009. Mr. Foltýn obtained a MBA from the University of Chicago, United States in 2003 and graduated from the Mechanical Engineering Faculty, the Technical University of Brno in 1993 and the University of Economics in Prague in 1995.

*Lubomír Klosík.* Mr. Klosík has been Vice Chairman of our Supervisory Board elected by our employees since January 27, 2011 and has been a member of our Supervisory Board since January 22, 2009. Mr. Klosík has also been a member of our Audit Committee since May 13, 2009. Mr. Klosík has been a member of our European Work Council since 2007. Mr. Klosík was a member of the steering committee of the North Moravia Region Pact of Employment from 2007 until 2011. Mr. Klosík was a member of the managing committee of Eurest-T Beskydy (an international cooperation project) from 2007 until 2011. Mr. Klosík was a member of the council of the Association for Development of North Moravia Region from 2007 until 2011. Mr. Klosík was chairman of the Regional Confederation of Labor Unions of ČMKOS (Czech Confederation of Labor Unions) in the North Moravian region from 2007 until 2011. Mr. Klosík was vice chairman of our European Work Council from 2007 until 2011. Since 2004, he has been a member of the Presidium of the Labor Union ECHO. Mr. Klosík started his career as a shift foreman in the Detmarovice power plant where he worked from 1974 to 2004, becoming full time chairman of the labor organisation of the Detmarovice power plant in 2004. Mr. Klosík graduated from the Secondary Industrial Chemical School of Chemical Technology in Ostrava in 1971 and completed a three-year course in Social-Economic Management at Mendel University in Brno in 2002.

*Liběna Dobrovolná.* Ms. Dobrovolná has been a member of our Supervisory Board since June 1, 2011 and a member of the Personal Committee of our Supervisory Board since June 23, 2011. Ms. Dobrovolná was a judge at the civil appellate and commercial department of the Regional Court in Ústí nad Labem from 2005 until 2010. In 2010, Ms. Dobrovolná was a judge at the commercial department of the City Court in Prague. Ms. Dobrovolná graduated from Charles University Law Faculty in Prague in 1993.

*Ján Dzvoník.* Mr. Dzvoník has been a member of our Supervisory Board and a member of our Audit Committee since June 1, 2011. Mr. Dzvoník has been chairman of the supervisory board of MERO ČR, a.s. since June 2008, vice-chairman of the supervisory board of MERO GERMANY, a.g. since September 2009 and a member of the audit committee of MERO ČR, a.s. since December 2009. Mr. Dzvoník was from 2008 until 2010 an executive officer and a shareholder of ALIATROS spol. s r.o. Mr. Dzvoník graduated from the Management Faculty, the University Economics in Bratislava in 1983.

*Petr Gross.* Mr. Gross has been a member of our Supervisory Board elected by our employees since January 22, 2009, a member of the Personal Committee of our Supervisory Board since May 21, 2009 and chairman of the Personal Committee of our Supervisory Board since November 29, 2011. He has been a full time chairman of the labor organization of Chvaletice power plant. He worked in the Chvaletice power plant as a technician and as a mechanic. Mr. Gross started his career as an operative electrician. Mr. Gross graduated from the Secondary Industrial School in Kutná Hora specializing in measurement and regulation in computer technology.

*Vladimír Hronek.* Mr. Hronek has been a member of our Supervisory Board elected by our employees since September 30, 2010 and a member of the Personal Committee of our Supervisory Board Since December 2, 2010. He has been a member of our European Works Council since 2007 and vice chairman of our European Works Council since 2011. He has worked as an inspection electrician at the Temelín nuclear power plant and since 2006 he has been the full time chairman of labor organization of the Temelín nuclear power plant. Mr. Hronek graduated from the Secondary School of Electrical Engineering in Prague.

*Jiří Kadrnka.* Mr. Kadrnka has been a member of our Supervisory Board since November 22, 2010, a member of the Personal Committee of our Supervisory Board since December 2, 2010 and vice chairman of the Personal Committee of our Supervisory Board since December 12, 2010. Mr. Kadrnka has been an executive director since 1997, a shareholder of MOSS logistics s.r.o. since 1998 and the head of its Slovak branch since 2007. Mr. Kadrnka has been a member of the executive committee of Janáčkova akademie muzických umění in Brno (Music academy in Brno) since 2011. Mr. Kadrnka was a member of the board of directors of Energo Hustopeče, a.s. from 2000 to 2010. Mr. Kadrnka graduated from the Mechanical Engineering Faculty of the Czech Technical University in Prague in 1993 where he studied design of industrial robots and manipulators and machine tools.

*Jan Kohout.* Dr. Kohout has been a member of our Supervisory Board and a member of the Strategy Committee of our Supervisory Board since December 2, 2010 since November 22, 2010. Dr. Kohout was a vice chairman of the government of the Czech Republic and a Minister of Foreign Affairs of the Czech Republic from 2009 to 2010 and a Permanent Representative of the Czech Republic to the European Union from 2004 to 2008. Dr. Kohout was from 2010 until 2011 a shareholder of Permit spol. s r.o. and has been an executive officer of Permit spol. s r.o. since 2011. Dr. Kohout has been a president of Czech China Chamber of Collaboration since 2011. Dr. Kohout graduated from the Faculty of Philosophy of the Charles University in Prague in 1984.

*Drahošlav Šimek.* Mr. Šimek has been a member of our Supervisory Board since elected by our employees since June 29, 2006. He has also been a member of our Audit Committee since May 13, 2009. He joined us in

1974 and he currently works at the Dukovany nuclear power plant as a mechanical technician on the main generating unit. He has been a member of the Confederation of Labor Unions of Energy Sector Workers and the Labor Union of Shift Workers at Dukovany nuclear power plant since 1995. Mr. Šimek graduated from the Secondary Vocational School in Domažlice in electromechanics and from the Secondary Vocational School in Chomutov in operational metalwork.

Pursuant to a decision of the Czech National Bank dated May 15, 2008, a fine of CZK 50,000 was imposed on Mr. Roman for a breach of his obligation to notify the Czech National Bank of certain trades in the shares of the Issuer carried out by him. The trade was properly notified to the Czech National Bank one day after the expiration of the statutory deadline. The delay in notifying the Czech National Bank was caused by technical reasons.

### ***Committees of our Supervisory Board***

Our Supervisory Board has the power to establish committees and to elect and remove their members. Our Supervisory Board has established the Strategy Committee and the Personnel Committee. Only members of our Supervisory Board are eligible to be members of the Strategy and Personnel Committee. The term of office of committee members is identical to their term of office on our Supervisory Board. Committees of our Supervisory Board meet as needed, but no less than once every three months. Committees of our Supervisory Board make a decision by a simple majority of the votes of all members of the committee.

In accordance with Czech statutory requirements, we have also established an Audit Committee. The Audit Committee is comprised of members of our Supervisory Board and third parties. Please see “—*Audit Committee*” below.

#### *Strategy Committee*

The Strategy Committee of our Supervisory Board was established to improve our Supervisory Board’s decision-making in matters concerning our strategic development. The committee’s activities include evaluating proposals for major business activities such as capital expenditure, acquisition, and divestiture projects (in particular, purchases and sales of material assets or ownership participations in the Czech Republic and abroad), proposals for establishing or winding up our subsidiaries, construction of new generating plants and the phasing out, sale, or renewal of production plant and equipment.

In 2011, the Strategy Committee held nine meetings. As of the date of this offering memorandum, the members of the Strategy Committee were Mr. Ivo Foltýn (vice chairman), Mr. Jan Kohout and Mr. Martin Roman.

#### *Personnel Committee*

The Personnel Committee of our Supervisory Board, was established to make proposals for our Supervisory Board regarding its personnel policies for members of our Board of Directors, to present its opinion on proposals to elect and remove members of our Board of Directors, to present nominations of candidates for membership of our Board of Directors to our Supervisory Board for approval, to make recommendations to our Supervisory Board regarding issuance of opinions in matters relating to the appointment and manner of remuneration of our Chief Executive Officer and executive members of our Board of Directors, and to give to our Supervisory Board its recommendations concerning candidates proposed by our Board of Directors for nomination to the supervisory boards of companies in which we hold a stake in the registered capital exceeding CZK 500 million. More specifically, the contracts and remuneration of members of our Board of Directors who are also Division Heads are subject to the prior approval of the Supervisory Board. In addition, remuneration of members of our Board of Directors, Supervisory Board, and Audit Committee, including all benefits, is approved by the General Meeting of the shareholders. Please see “—*Compensation*.”

In 2011, the Personnel Committee held nine meetings. As of the date of this offering memorandum, the members of the Personnel Committee were Mr. Petr Gross (Chairman), Mr. Jiri Kadrnka (vice chairman), Ms. Libena Dobrovolná and Mr. Vladimír Hronek.

#### *Audit Committee*

The powers and responsibilities and decision making process of our Audit Committee are stipulated by our Articles of Association and Czech Act No. 93/2009 Coll., on auditors and include:

- monitoring the process of compiling our financial statements and consolidated financial statements;
- evaluating the effectiveness of our internal controls, internal audit, and risk management systems;
- monitoring the process of the mandatory audit of our financial statements and consolidated financial statements;



- evaluating the independence of our statutory auditor and audit firm, and, in particular, provision of supplementary services by that company; and
- recommending an auditor to audit our financial statements and consolidated financial statements.

The Audit Committee has five members, which are elected and removed by the General Meeting from among members of our Supervisory Board or third parties. Members of our Board of Directors and our procura holders are not eligible to be members of our Audit Committee. Members of our Audit Committee serve a four-year term. Members of our Audit Committee attend our General Meeting and are required to report to our General Meeting on the results of their activities. As a rule, our Audit Committee meets once every two months. Our Audit Committee held seven meetings in 2011. Our Audit Committee makes decisions by a simple majority of the votes of all its members.

The business address of each member of our Audit Committee is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Audit Committee to us and to their private interests or other duties.

Set out below are the members of our Audit Committee as of the date of this offering memorandum.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of appointment</u>
Ján Dzvoník .....	51	Member of the Audit Committee	June 1, 2011
Lubomír Klosík.....	60	Member of the Audit Committee	May 13, 2009
Drahošlav Šimek.....	57	Member of the Audit Committee	May 13, 2009

*Ján Dzvoník.* Mr. Dzvoník has been a member of our Audit Committee since June 1, 2011. For more information on Mr. Dzvoník, please see “—*Supervisory Board*” above.

*Lubomír Klosík.* Mr. Klosík has been a member of our Audit Committee since May 13, 2009. For more information on Mr. Klosík, please see “—*Supervisory Board*” above.

*Drahošlav Šimek.* Mr. Šimek has been a member of our Audit Committee since May 13, 2009. For more information on Mr. Šimek, please see “—*Supervisory Board*” above.

### **Board of Directors**

Our Supervisory Board elects members of our Board of Directors. Members of our Board of Directors serve four-year terms and may be re-elected. The business address of each member of our Board of Directors is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

Responsibilities of our Board of Directors include:

- managing our operations, including keeping of proper accounts;
- convening and organizing the General Meeting and submitting to the General Meeting certain information, including: draft amendments to our Articles of Association; proposals to increase/decrease our share capital; annual, extraordinary, consolidated, and interim financial statements; income distribution proposals including stipulation of dividend amount, manner of pay-out, and due date, participation in our profit sharing by members of our Board of Directors, and amounts to be allocated to reserves or the manner of settling any losses; yearly report on our business operations and the state of our assets;
- carrying out General Meeting resolutions;
- removing our Division Heads; and
- deciding on entering into agreements relating to the formation of business companies or acquisition of our ownership stakes in other legal entities, as well as winding up of business companies or disposing of our ownership stakes in other legal entities.

Our Board of Directors makes decisions by a simple majority of the votes of all its members. A quorum is present when a simple majority of members of our Board of Directors is present at a meeting. Each member of our Board of Directors has one vote. When necessary in matters of urgency, a decision may be made by our Board of Directors without holding a meeting. Our Board of Directors has discretion to invite to its meetings members of our other governing bodies, our employees, or other persons.

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

Our Articles of Association provide that our Board of Directors shall comprise seven members. Our Board of Directors is obliged to meet at least once a month. In practice, however, meetings are held almost weekly and a total of 45 meetings took place in 2011.

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

Set out below are members of our Board of Directors as of the date of this offering memorandum.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of appointment</b>
Daniel Beneš .....	42	Chairman of the Board of Directors	December 15, 2005
Martin Novák .....	40	Vice Chairman of the Board of Directors	May 21, 2008
Peter Bodnár .....	51	Member of the Board of Directors	August 21, 2009
Michaela Chaloupková...	36	Member of the Board of Directors	October 20, 2011
Pavel Cyrani .....	36	Member of the Board of Directors	October 20, 2011
Vladimír Hlavinka.....	45	Member of the Board of Directors	January 1, 2008
Tomáš Pleskač .....	45	Member of the Board of Directors	January 26, 2006

*Daniel Beneš.* Mr. Beneš has been a member of our Board of Directors since December 15, 2005 has been Chairman of our Board of Directors and our Chief Executive Officer since September 15, 2011. He was previously our Chief Operating Officer until September, 2011 and Vice Chairman of our Board of Directors from May 2006 until September 2011. He has been a member of the executive committees of the Technical University of Ostrava since 2009 and the South Bohemian University of České Budějovice since 2011, vice chairman of the supervisory board of Jadrová energetická spoločnosť Slovenska, a. s. since December 2009, chairman of the supervisory board of ČEZ Bohunice a.s. since March 2009, a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since January 2009 (and vice chairman since September 2009), chairman of the board of trustees of ČEZ Foundation since 2007, member of the supervisory board of Severočeské doly a.s. since February 2010 (and chairman since February 2012). Mr. Beneš was a member of the supervisory board of Coal Energy, a.s., v likvidaci, from April 2006 until December 2009. Between 2004 and 2006, he was a member of the board of directors of Severočeské doly a.s. Mr. Beneš graduated from the Mechanical Engineering Faculty, the Technical University of Ostrava and obtained a MBA from Brno International Business School – Nottingham Trent University.

*Martin Novák.* Mr. Novák has been our Chief Finance Officer since January 1, 2008 and has been the Vice Chairman of our Board of Directors since October 20, 2011 and a member of our Board of Directors since May 21, 2008. He has been a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since October 2009, a member of the supervisory board of ČEZ ICT Services, a.s. since May 2007, and a member of the supervisory board of ČEZ Bohunice, a.s. since February 2012 and a member of the supervisory board of ČEZ OZ uzavřený investiční fond, a.s. since September 2011. Mr. Novák joined us as our Accounting Section Director in 2006. From 2001 to 2006, Mr. Novák worked for ConocoPhillips in Houston, Texas and in its regional headquarters in London, acting as Financial Director for Central and Eastern Europe between 2005 and 2006. From 1996 to 2001, Mr. Novák worked for Česká rafinérská, where he became Controller-Deputy Finance Director. Mr. Novák began his career as a tax advisor at PriceWaterhouseCoopers. Mr. Novák undertook the Executive MBA program at the University of Pittsburgh in 2007 and graduated from the University of Economics in Prague.

*Peter Bodnár.* Mr. Bodnár has been our Chief Investment Officer since January 1, 2008 and has been a member of our Board of Directors since August 21, 2009. Since 2009, Mr. Bodnár has been a member of the supervisory board of Jadrová energetická spoločnosť Slovenska, a. s., a member of the supervisory board of Ústav jaderného výzkumu Řež a.s. since February 2009, a member of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the supervisory board of ČEZ Bohunice, a.s. since March 2009, a member of the supervisory board of ŠKODA PRAHA, a.s. since July 2007 and a member of the supervisory board of ŠKODA PRAHA Invest, s.r.o. from July 2007 to April 2010. Between 2006 and 2007, he was a director of the quality division in Enel Pruduzione – member of Slovenské Elektrárne and between 2002 and 2005 he was chief executive officer of Alstom Power service for the Czech and Slovak Republic. Mr. Bodnár graduated from the Faculty of Mechanical Engineering of the Slovak University of Technology in Bratislava specializing in heat and nuclear energetic machineries.

*Michaela Chaloupková.* Ms. Chaloupková has been a member of our Board of Directors since October 20, 2011. Ms. Chaloupková has been our Chief Purchasing Officer since January 1, 2012. Ms. Chaloupková joined us in 2003 and holds the position of Purchasing Department Manager. She was the Executive Purchasing Manager between January 1, 2007 and January 1, 2012. Ms. Chaloupková has been chairman of the supervisory board of ČEZ Logistika, s.r.o. since July 2007 and a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since November 2011. Ms. Chaloupková was a member of the supervisory board of ŠKODA PRAHA Invest, s.r.o. from December 2008 until April 2010, a member of the supervisory board of ČEZ Distribuce, a.s. from November 2010 until September 2011 and a member of the supervisory board of ČEZ ICT Services, a.s. from March 2006 until March 2011. Ms. Chaloupková graduated from the West Bohemian University Law Faculty in Prague in 1999 and obtained a MBA from KATZ School of Business, University of Pittsburgh in 2007.

*Pavel Cyrani.* Mr. Cyrani has been our Chief Strategy Officer and a member of our Board of Directors since October 1, 2011. Mr. Cyrani has been a member of the supervisory board of ČEZ Distribuce, a.s. since October 2011, a member of the supervisory board of Severočeské doly, a.s. since October 2011 and an executive officer and shareholder of Loyalty Consulting, s.r.o. since September 2003. Mr. Cyrani has been vice chairman of the board of directors of Loyalty Management CZ, a.s. since November 2003. Mr. Cyrani was a member of the supervisory board of Dalkia Česká republika, a.s. from May 2010 until February 12, 2012. Mr. Cyrani was a member of the supervisory board of ČEZ OZ uzavřený investiční fond, a.s. from September 2011 until November 2011. Mr. Cyrani joined us in 2005 and has managed our Asset Management Department as well as the Finance Division of our Controlling Department. Before joining us, he worked as a management consultant for McKinsey & Company, where he specialized in the energy industry. Mr. Cyrani obtained a MBA in finance from the Kellogg School of Management, United States and graduated from the Faculty of International Trade, University of Economics, Prague.

*Vladimír Hlavinka.* Mr. Hlavinka has been our Chief Production Officer since January 1, 2008 and has been a member of our Board of Directors since January 1, 2008. He has been a member of the supervisory board of CEZ Energetické produkty, s.r.o. since December 2007 and the chairman since November 2009. He has been a member of the supervisory board of Ústav jaderného výzkumu Řež a.s. since December 2007 and the chairman since April 2008. Mr. Hlavinka has been a member of the supervisory board of ČEZ Energo, s.r.o. since January 2011 and the chairman since February 2011. He has been a member of the committee of the Czech Radioactive Waste Repository Authority since December 2011. Mr. Hlavinka worked for us from 1991 to 2000. From 1989 to 1991 he worked for VUJE Trnava. Mr. Hlavinka graduated from the Mechanical Engineering Faculty, Brno University of Technology, and from the Faculty of Law of the Masaryk University in Brno.

*Tomáš Pleskač.* Mr. Pleskač has been our Chief International Affairs Officer since January 1, 2008 and has been a member of our Board of Directors since January 26, 2006. Mr. Pleskač was Vice Chairman of our Board of Directors from February 11, 2008 to June 29, 2010. Mr. Pleskač has been the chairman of the supervisory board of ČEZ Distribuce a.s. since January 2012, a member of the supervisory board of ČEZ OZ uzavřený investiční fond a.s. since November 2011, a member of the supervisory board of Mitteldeutsche Braunkohlengesellschaft mbH since June 2009, a member of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the board of directors of CM European Power International B.V. since July 2008 and vice chairman since August 2011, a member of the supervisory board of CEZ Bulgaria EAD since June 2006 and a member of the supervisory board of CEZ Razpredelenie Bulgaria AD since June 2006 and chairman since September 2006. Mr. Pleskač was chairman of the supervisory board of NERS d.o.o. from May 2007 until October 2009. Mr. Pleskač obtained a MBA from the Prague International Business School and graduated from the Faculty of Business and Economics, University of Agriculture, Brno.

### **Chief Executive Officer and Division Heads**

At the executive employees level, we are managed by the Chief Executive Officer and the Division Heads. The business address of our Chief Executive Officer and Division Heads is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of our Chief Executive Officer and the members of our Division Heads to us and to their private interests or other duties.

Set out below are our Division Heads as of the date of this offering memorandum.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of appointment</b>
Daniel Beneš.....	42	Chief Executive Officer	September 15, 2011
Peter Bodnár .....	51	Chief Investment Officer	January 1, 2008
Michaela Chaloupková ...	36	Chief Purchasing Officer	January 1, 2012
Pavel Cyrani .....	35	Chief Strategy Officer	October 1, 2011
Vladimír Hlavinka .....	45	Chief Production Officer	January 1, 2008
Hana Krbcová .....	57	Chief Personnel Officer	October 1, 2009
Jiří Kudrnáč .....	46	Chief Distribution Officer	January 1, 2008
Martin Novák.....	40	Chief Finance Officer	January 1, 2008
Tomáš Pleskač .....	45	Chief International Affairs Officer	January 1, 2008
Alan Svoboda .....	39	Chief Sales Officer	January 1, 2005

*Daniel Beneš.* Mr. Beneš has been our Chief Executive Officer since September 15, 2011. For information on Mr. Beneš, please see “—Board of Directors” above.

*Peter Bodnár.* Mr. Bodnár has been our Chief Investment Officer since January 1, 2008. For information on Mr. Bodnár, please see “—Board of Directors” above.

*Michaela Chaloupková.* Ms. Chaloupková has been our Chief Purchasing Officer since January 1, 2012. For more information on Ms. Chaloupková, please see “—Board of Directors” above.

*Pavel Cyrani.* Mr. Cyrani has been our Chief Strategy Officer since January 1, 2011. For information on Mr. Cyrani, please see “—Board of Directors” above.

*Vladimír Hlavinka.* Mr. Hlavinka has been our Chief Production Officer since January 1, 2008. For more information on Mr. Hlavinka, please see “—Board of Directors” above.

*Hana Krbcová.* Ms. Krbcová has been our Chief Personnel Officer since October 1, 2009. She was a Director of Human Resources for our regional distribution companies in 2005 and for our subsidiaries from 2005 until 2006. Ms. Krbcová was a Director of our Personnel Department from 2007 until 2009. She has been a member of the board of directors of People Management Forum (formerly Česká společnost pro rozvoj lidských zdrojů) since February 2007 and a member of the board of directors of Český svaz zaměstnavatelů v energetice (Czech Association of Energy Sector Employers) since September 2009. Ms. Krbcová graduated with a major in industrial economics from the University of Economics, Prague and from Charles University, Prague specializing in Labor Law and International Studies in Strategic Management.

*Jiří Kudrnáč.* Mr. Kudrnáč has been our Chief Distribution Officer since January 1, 2008. Mr. Kudrnáč has been a member of the supervisory board of CEZ Bulgaria AED since January 2012, a member of the supervisory board of ČEZ Distribuce, a.s. since May 2008 and the chairman since October 2010 and vice chairman of the supervisory board of ČEZ distribuční služby, s.r.o. since July 2010. Mr. Kudrnáč was a member of the executive committee of VOS Cesko-Saské Švýcarsko from January 2010 until November 2010. From 1990 until 2005 he held various positions in electricity distribution business. Mr. Kudrnáč also gained managerial and other professional experience in positions such as the director of the strategy department of Severočeská energetika, a.s. Mr. Kudrnáč graduated from the Faculty of Electrical Engineering, Czech Technical University, Prague.

*Martin Novák.* Mr. Novák has been our Chief Finance Officer since January 1, 2008. For more information on Mr. Novák, please see “—Board of Directors” above.

*Tomáš Pleskač.* Mr. Pleskač has been our Chief International Affairs Officer since January 1, 2008. For more information on Mr. Pleskač, please see “—Board of Directors” above.

*Alan Svoboda.* Mr. Svoboda has been our Chief Sales Officer since January 1, 2005. Mr. Svoboda has been vice chairman of the supervisory board of ČEZ Slovensko, a.s. since April 2011, a member of the Science Council of the Faculty of Business Administration, University of Economics, Prague since July 2010, a member of the board of directors of EFET since November 2009, a member of the Science and Pedagogic Council of the Institute of Economic Studies of the Faculty of Social Sciences, Charles University, Prague since December 2009, a deputy member of the board of directors of the Union of the Electricity Industry-EURELECTRIC since December 2005 and vice chairman of the supervisory board of ČEZ Prodej, s.r.o. and ČEZ Zákaznické Služby, s.r.o. since March 2005. Mr. Svoboda was a member of the general assembly and executive committee of the Foratom



from December 2005 to December 2009 and a member of our Board of Directors from April 2004 until April 2006. Mr. Svoboda gained managerial and other professional experience in other positions, including as a Partner at McKinsey & Company, focusing on the power industry. Mr. Svoboda obtained a MBA in Finance and a MA in Economics from the University of Missouri, Kansas City, Missouri, United States in 1996, and graduated with a major in information and financial management from the University of West Bohemia, Pilsen in 1998.

Pursuant to a decision of the Czech National Bank dated August 13, 2009, a fine of CZK 1,700,000 was imposed on Mr. Svoboda for a breach of insider trading rules. Mr. Svoboda disclosed the trades as required under Czech law and believes that he did not commit such an offence. An administrative complaint seeking to reverse the decision was filed with the administrative court. The administrative court has not yet made a decision.

### **Compensation**

For the year ended December 31, 2011, members of our Board of Directors, members of our Supervisory Board and our Division Heads who are not members of the Board of Directors were paid a total of CZK 220 million in salaries, wages and other payments by ČEZ, a. s.

Remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of our shareholders. In accordance with resolutions passed by our General Meeting, we enter into a membership contract with each member of these bodies. Remuneration of members of our Board of Directors, including all benefits, is approved by the Supervisory Board. In accordance with resolutions passed by our Supervisory Board, we enter into a membership contract with members of our Board of Directors. The contracts and remuneration of the Chief Executive Officer and our Division Heads are subject to the prior approval of the Supervisory Board.

Remuneration and benefits received by members of our governing bodies include:

- fixed remuneration;
- target remuneration based on fulfillment of specific tasks assigned by our General Meeting. Members of our Board of Directors may receive target remuneration up to six times the amount of his or her monthly remuneration;
- participation in our profit sharing by members of our Board of Directors and Supervisory Board by a decision of our General Meeting;
- stock options for members of our Board of Directors, but not for Members of our Supervisory Board or our Audit Committee;
- insurance against liability for damage caused to us or to third parties while discharging duties of office and endowment life insurance; and
- severance pay for members of our Board of Directors should their contract be terminated before it is due to expire. The severance pay amount is the aggregate total remuneration that would otherwise have been paid for the months remaining until the end of the term of their contract.

Remuneration of our Chief Executive Officer and our Division Heads is subject to the prior consent of our Supervisory Board. Remuneration and benefits of our Chief Executive Officer and our Division Heads include:

- base monthly wage paid for the amount of time worked;
- annual bonus in addition to the base monthly wage. The bonus amount depends on fulfillment of criteria stipulated in advance and may be as much as 77.8% for our Chief Executive Officer and 60.0% for our other Division Heads;
- strategic bonuses tied to fulfillment of specific, long-term tasks in the areas of plant construction and renewal, and acquisition activities;
- stock options subject to a decision of our Board of Directors and the consent of our Supervisory Board;
- endowment life insurance; and
- severance pay and cash settlement on termination of employment.

### **Shares and Share Options of Senior Management**

As of December 31, 2011, members of our Board of Directors, members of our Supervisory Board and our Division Heads held a total of 153,071 shares of CEZ, a. s. (including 220 shares held by Mr. Lapin, one of our Division Heads as of December 31, 2011, whose office terminated in January 2012).



As of December 31, 2011, our Board of Directors, members of our Supervisory Board, our Division Heads and certain departmental managers held a total of 2,663,000 options to acquire shares of ČEZ, a. s., of which 1,903,000 were held by members of our Board of Directors. For information on the number of share options granted to and exercised and forfeited by our senior management in the year ended December 31, 2011, please see Note 24 of our audited consolidated financial statements for the year ended December 31, 2011.

### **Corporate Governance**

Our corporate governance is based on the recommendations of the Czech 2004 Corporate Governance Codex compiled by the former Czech Securities Commission. For information on our governing bodies, a description of how they are established, their current composition, a description of how their members are remunerated, and a summary of Supervisory Board committees, please see “—*Supervisory Board*,” “—*Board of Directors*,” “—*Chief Executive Officer and Division Heads*,” “—*Audit Committee*” and “—*Compensation*” above.

In addition, we comply with all Czech Commercial Code provisions regarding shareholder rights, convening our General Meetings and ensuring equal treatment of our shareholders.

Further, as an issuer of securities accepted for trading on the Warsaw Stock Exchange, we also comply with the corporate governance requirements of the Warsaw Stock Exchange.

## PRINCIPAL SHAREHOLDERS

As of December 31, 2011, the registered capital of ČEZ, a. s. as recorded in the Commercial Register was CZK 53,798,975,900, comprising 537,989,759 shares, each with a nominal value of CZK 100. The issue price of all shares had been fully paid up and all of the shares were booked to owner and listed.

The registered capital of ČEZ, a. s. is comprised exclusively of common shares, with no special rights attached. All of the shares of ČEZ, a. s. are accepted for trading on the Prague Stock Exchange and the Warsaw Stock Exchange and are freely transferable without any restrictions. No other securities issued by ČEZ, a. s. are limited in their transferability, nor are any special rights attached thereto.

The following table sets forth the shareholdings of the Czech Republic as of December 31, 2011.

Shareholder	As of December 31, 2011		
	Number of shares	% of share capital	% of voting rights
Ministry of Finance of the Czech Republic .....	373,197,672	69.4	69.9
Ministry of Labor and Social Affairs of the Czech Republic .....	2,213,224	0.4	0.4
Czech Governmental Authority for Representation in Property Affairs .....	355	0.0	0.0
<b>Total</b> .....	<b>375,411,251</b>	<b>69.8</b>	<b>70.3</b>

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ a. s., the parent company of the CEZ Group. As our controlling shareholder, the Ministry of Finance of the Czech Republic exercises shareholder rights provided for in our Articles of Association and applicable laws (including the Czech Commercial Code and the Czech Capital Markets Act), which include the power to nominate and elect two-thirds of the members of our Supervisory Board, who in turn appoint all members of our Board of Directors. We have not entered into any agreements with the Ministry of Finance of the Czech Republic and there are no mechanisms in place to prevent abuse of control over the CEZ Group by the Ministry of Finance of the Czech Republic except for provisions contained in our Articles of Association and applicable laws (including the Czech Commercial Code and the Czech Capital Markets Act). For information on certain Czech statutory mechanisms preventing abuse of control by the Ministry of Finance of the Czech Republic, please see “*Related Party Transactions—Regulation by Czech Commercial Code.*”

As of December 31, 2011, no other shareholder held more than 5% of the share capital or of the voting rights of the shares of ČEZ, a. s.

To the best of our knowledge, as of the date of this offering memorandum, no agreements exist that could change the control structure of the Issuer at any date.

## RELATED PARTY TRANSACTIONS

The relationships between us and our related parties, identified according to the principles of Internal Accounting Standard 24 (“IAS 24”), primarily consist of business transactions relating to the sale and purchase of products, goods and services. They fall within the activities carried out by us in the ordinary course of our business. Please see Note 29 of our audited consolidated financial statements as of and for the year ended December 31, 2011, incorporated by reference into this offering memorandum, for information on our related party transactions.

### Regulation by Czech Commercial Code

Our transactions with related parties are regulated by the Czech Commercial Code. Under the Czech Commercial Code, if the value of assets to be acquired from or disposed to:

- the Czech Republic;
- any shareholder;
- any person close to a shareholder;
- our subsidiary;
- a member of the same concern; or
- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

exceeds one tenth of our registered capital, the value of the transferred assets shall be determined by an independent expert appointed by a Czech court, unless such transaction is entered into in the ordinary course of our business or on a regulated market or supervised by a state authority.

Under the Czech Commercial Code, we may provide a loan to or transfer assets for free to:

- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals); or
- any entity (unless such entity is our subsidiary) whose authorized representative is a member of our Board of Directors, a member of our Supervisory Board, our procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

only with the approval of our General Meeting of Shareholders and provided that such transaction is entered into in the ordinary course of our business.

Under the Czech Commercial Code, we may secure obligations of:

- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals); or
- any entity (unless such entity is our subsidiary) whose authorized representative is a member of our Board of Directors, a member of our Supervisory Board, our procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

only with the approval of our General Meeting.

### Our Related Party Transactions

We conduct transactions with the following related parties:

- the Czech Republic or other State-owned companies;
- our associates (or associated companies);
- our affiliates;
- our joint ventures; and
- certain members of our senior management or with certain companies over which we or our senior management may have a significant influence.

We believe that we conduct our business with these companies and individuals in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in us, if we did not have equity holdings in them, if they were not members of our senior management, or if we or our senior management did not have significant influence over them, as the case may be. With the exception of transactions with our subsidiaries,

associates (or associated companies) and joint ventures, none of these transactions is or was material to us or, to our knowledge, to the other party.

In our opinion, all agreements with related parties are conducted on an arm's length basis and we believe that all of the transactions between us and related parties take place at market prices, except prices for the transmission of electricity, which comprise a regulated price component (set by the ERO) in addition to a market price component.

### Transactions with the Czech Republic and State-owned Companies

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ, a. s. For detailed information on the interest held by the Czech Republic in our share capital, please see "Principal Shareholders."

In the ordinary course of business, we enter into transactions with the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises. Due to the large number of such entities and of transactions carried out by them, the limitations of the reporting system adopted by the CEZ Group and the immateriality of such transactions to our results, we believe that the presentation of such transactions is not necessary for an accurate view of the financial situation of the CEZ Group. However, we believe that all of the transactions between us and the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises take place on an arm's length basis.

For example, in 2010 and 2011, in connection with our dividend policy, we paid dividends to the Czech Republic in the amount of CZK 19,897 million and CZK 18,771 million, respectively. ČEZ, a. s. and its fully consolidated subsidiaries in the Czech Republic are taxpayers and pay taxes to the Czech Republic. The terms and regulations applicable to the CEZ Group in this respect are identical to those applicable to entities which are not the Czech Republic's related parties. On November 6, 2010, an agreement was entered into between ČEZ, a. s. and ČEPRO, a.s. (the Ministry of Finance of the Czech Republic is the sole shareholder of ČEPRO, a.s.) for the storage, purchase and sale of fuel. The intention of this agreement was to secure the storage, stocking, filing and release of diesel fuel owned by ČEPRO, a.s. in buildings of the Dukovany Nuclear Power Station and Temelín Nuclear Power Station. The agreement was entered into at arm's length and the consideration and counter-consideration provided was in line with customary business terms. In addition, we also entered into transactions on an arm's length basis with ČEPS, a.s., the state-owned transmission system operator in the Czech Republic.

### Transactions with Associates, Joint Ventures and Other Affiliates

We enter into transactions with associates (or associated companies), joint ventures and affiliates. The profits from such transactions are eliminated in proportion to the share that we have in such associated companies, joint ventures and affiliated companies. We believe that all of these transactions take place at arm's length. For a complete list of our associates (or associated companies), joint ventures and affiliates, please see Note 7 of our audited consolidated financial statements for the year ended December 31, 2011.

The following table summarizes the sales to and purchases from associates (or associated companies), joint ventures and affiliated companies for the years 2009, 2010 (both as restated and as originally reported) and 2011.

	Sales to Related Parties				Purchases from Related Parties			
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)
	(CZK in millions)							
<b>Associates, joint-ventures and other affiliates:</b>								
Akcez Enerji A.S. ....	118	49	49	112	—	—	—	—
Akermerji Elektrik Üterim A.S. ....	—	—	—	98	—	—	—	24
CM Eurpoean Power International s.r.o. ....	41	13	13	28	—	—	—	—
Coal Energy, a.s. ....	—	—	—	—	57	—	—	—
LACOMED, spol. s.r.o. ....	—	—	43	40	—	—	4	4
JTSD – Braunkohlebergau GmbH ....	42	2	—	—	—	—	—	—
LOMY MOŘINA spol. s.r.o. ....	—	24	24	16	139	151	151	175
MOL – CEZ European Power Hungary Ltd. ...	—	—	20	34	—	—	—	—
OSC, a.s. ....	—	—	—	—	95	113	113	106
SINIT, a.s. ....	4	3	3	2	117	96	96	71
Others.....	75	87	26	76	185	85	81	101
<b>Total</b> .....	<b>280</b>	<b>178</b>	<b>178</b>	<b>406</b>	<b>593</b>	<b>445</b>	<b>445</b>	<b>481</b>

The following table summarizes the receivables from, and payables to, associates (or associated companies), joint ventures and affiliated companies for the years ended December 31, 2009, 2010 (both as restated and as originally reported) and 2011.

	Receivables as of December 31,				Payables as of December 31,			
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)
(CZK in millions)								
<b>Associates, joint-ventures and other affiliates:</b>								
Akcez Enerji A.S. ....	118	161	161	55	85	84	84	73
Akernerji Elektrik Üterim A.S. ....	652	761	761	1,414	—	—	—	—
CM Eurpoean Power International B.V. ....	—	—	—	292	—	—	—	—
CM Eurpoean Power International s.r.o. ....	49	—	—	18	—	—	—	—
CM Eurpoean Power Slovakia s.r.o. ....	—	—	—	542	—	—	—	—
JTSD – Braunkohlebergau GmbH ....	6,502	—	—	—	—	—	—	—
LACOMED, spol. s.r.o. ....	12	11	11	14	—	—	—	—
LOMY MOŘINA spol. s.r.o. ....	—	3	3	5	10	10	10	21
MOL – CEZ European Power Hungary Ltd. ...	—	20	20	33	—	—	—	—
OSC, a.s. ....	—	—	—	—	42	18	18	24
SINIT, a.s. ....	1	1	1	1	11	33	33	33
Ustav aplikované mechaniky Brno s.r.o. ....	—	—	—	3	5	10	10	18
Výzkumný a zkušební ústav Plzeň s.r.o. ....	—	—	—	—	—	—	2	20
Others.....	9	4	4	19	35	21	19	29
<b>Total</b> .....	<b>7,343</b>	<b>961</b>	<b>961</b>	<b>2,396</b>	<b>188</b>	<b>176</b>	<b>176</b>	<b>218</b>

As of December 31, 2009, 2010 and 2011, guarantees provided to joint-ventures amounted to CZK 5,489 million, CZK 2,813 million and CZK 6,022 million, respectively (see Note 17.2 of our audited consolidated financial statements for the year ended December 31, 2010 and 2011).

#### Transactions with Senior Management

From January 1, 2009 to the date of this offering memorandum, we did not advance any loans nor provide any similar benefits to the members of the Board of Directors, the Supervisory Board, members of the Audit Committee, Division Heads or other senior management or their relatives. However, during the period under review, the members of the Board of Directors, the Supervisory Board, the Audit Committee, Division Heads and senior management received remuneration from the CEZ Group under, respectively, managerial contracts and appointments to the Supervisory Board and the Board of Directors. For further information on the compensation of such individuals please see “*Management and Corporate Governance—Supervisory Board—Committees of our Supervisory Board—Personnel Committee*” and “*Management and Corporate Governance—Compensation.*”



## DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of our material other indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. Please also see our description of our borrowings and indebtedness in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Borrowings” and Notes 15, 16, 17 and 20 of our audited consolidated financial statements for the year ended December 31, 2011, which are incorporated by reference into this offering memorandum.

### Our Indebtedness

Our indebtedness mainly consists of borrowings from financial institutions (including the European Investment Bank) and funding from capital markets. We maintain a flexible funding strategy and monitor domestic and foreign financial market conditions as part of our financing activities.

	<b>As of December 31, 2011</b>	
	<b>(CZK</b>	
	<b>in millions)</b>	<b>(% of total)</b>
Funding from capital markets <sup>(1)</sup> .....	151,107	79.8
Borrowings from financial institutions <sup>(2)</sup> .....	38,342	20.2
<b>Total</b> .....	<b>189,449</b>	<b>100.0</b>

(1) In January 2012, ČEZ, a. s. offered to purchase €500,000,000 5.125% notes due 2012 issued under its EMTN Program and €500,000,000 4.125% notes due 2013. As a result of this offer, ČEZ, a. s. repurchased the 2012 notes in the nominal amount of €221,711,000 and the 2013 notes in the nominal amount of €127,800,000. In March 2012, ČEZ, a. s. successfully priced a twenty-year registered bond issue (Namensschuldverschreibung) under German law for the amount of €40 million. The coupon was set at 4.700% per annum. The expected settlement date is April 2, 2012.

(2) In January 2012, the Group concluded a bilateral loan facility agreement in the amount of €40 million with Goldman Sachs Bank USA. The maturity of the loan facility is three years. The proceeds from the loan will be used for general corporate purposes. In February 2012, ČEZ, a. s. signed the first tranche of a loan facility agreement amounting up to €100 million with the European Investment Bank to support financing of investments into reinforcement and development of the distribution grid in the Czech Republic.

### ***Borrowings from Financial Institutions***

We have signed a variety of loan facilities, including with the European Investment Bank. These facilities have been used for general corporate purposes, but have also been used as funding for particular projects such as investments in reinforcing and developing the distribution grid in the Czech Republic; financing for the Fântânele Wind Park; financing for the Group’s Turkish distribution company Sakarya Elektrik Dagitim A.S. and financing of the acquisition of 7% of the shares in MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság. As of December 31, 2010 and 2011, borrowings from financial institutions amounted to CZK 27,278 million and CZK 38,342 million, respectively.

These loan facilities contain restrictive financial covenants relating to indebtedness and liquidity.

### ***Funding from Capital Markets***

We regularly issue bonds domestically and internationally (under our EMTN Program) as part of our strategy to diversify our funding sources and maintain longer liability maturities. As of December 31, 2010 and 2011, the balance of bonds issued by ČEZ was CZK 137,166 million and CZK 151,107 million, respectively. We issue bonds in a variety of currencies including Euro, Czech crowns, Japanese Yen and U.S. dollars. In connection with our bond issuances, our EMTN program has a current maximum issuance limit of €8,000 million, of which €5,183 million had been issued as of December 31, 2011. We proactively managed our short-dated bond maturities via a combined tender and exchange offer in 2010 and in January 2012, we offered to purchase €500,000,000 5.125% notes due 2012 issued under our EMTN Program and €500,000,000 4.125% notes due 2013. As a result of this offer, we repurchased the 2012 notes in the nominal amount of €221,711,000 and the 2013 notes in the nominal amount of €127,800,000. The bonds contain a mix of fixed and floating interest rates. We plan to continue to issue bonds in a balanced manner to institutional and individual investors both inside and outside of the Czech Republic in line with our strategy of maintaining longer maturities and diversified funding sources.

Subject to certain conditions, the bonds constitute direct, unconditional, unsubordinated and unsecured obligations of ČEZ and rank *pari passu* 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 ČEZ, from time to time outstanding. Further, the bonds referenced above contain customary covenants that may limit the operation of ČEZ such as:

- “negative pledge” clauses, pursuant to which ČEZ may not create or maintain (unless required by law) mortgages, pledges or other encumbrances affecting all or any part of its assets, in order to guarantee any listed (or to-be-listed) bonds, unless such security interests are equally or ratably extended to the Notes at issue;
- “*pari passu*” clauses, pursuant to which the Notes represent direct, unconditional, non-guaranteed obligations of ČEZ, without any preference and with the same seniority as other current or future bond issuances of ČEZ;
- “sale and leaseback” clauses and “no consolidation and merger” clauses which place certain limitations on those types of transactions;
- “event-of-default” clauses, under which, if certain circumstances were to arise (for example, failure to pay principal or interest, liquidation of ČEZ, etc.), a default would occur and the Notes would become due (pursuant to “cross default” clauses, in case of an event of default on any other financial debt (above certain thresholds) of ČEZ or of a significant subsidiary of the CEZ Group, a default would also occur with respect to the Notes at issue);
- “cross-acceleration” clauses which, in the case of certain defaults of other indebtedness, can cause cross default under the bonds; and
- “early redemption” clauses in case of relevant changes in taxation, pursuant to which the Notes may be redeemed at par.

### **Short-Term Indebtedness**

We have issued short-term debt as set forth in the table below.

	<b>As of December 31, 2011 (CZK in millions)</b>
Short-term bank loans .....	4,333
Bank overdrafts .....	1,167
Total short-term loans .....	5,500
Current portion of long-term debt .....	19,264
Short-term debt, total .....	<u>24,764</u>

Total short-term debt (without current portion of long-term debt) as of December 31, 2011 was CZK 5,500 million, representing 3% of our total debt as of December 31, 2011, while the ratio was 6% of our total debt as of December 31, 2010.

### **Long-Term Indebtedness**

We have issued long-term debt as set forth in the table below.

	<b>As of December 31, 2011 (CZK in millions)</b>
Long-term bank loans <sup>(1)</sup> .....	32,842
of which current portion .....	1,382
Bonds <sup>(2)</sup> .....	151,107
of which current portion .....	17,882
Long-term debt, total .....	<u>183,949</u>

(1) In January 2012, the Group concluded a bilateral loan facility agreement in the amount of €40 million with Goldman Sachs Bank USA. The maturity of the loan facility is three years. The proceeds from the loan will be used for general corporate purposes. In February 2012, ČEZ, a. s. signed the first tranche of a loan facility agreement amounting up to €100 million with the European Investment Bank to support financing of investments into reinforcement and development of the distribution grid in the Czech Republic.

(2) In January 2012, ČEZ, a. s. offered to purchase €500,000,000 5.125% notes due 2012 issued under its EMTN Program and €500,000,000 4.125% notes due 2013. As a result of this offer, ČEZ, a. s. repurchased the 2012 notes in the nominal amount of €221,711,000 and the 2013 notes in the nominal amount of €127,800,000. In March 2012, ČEZ, a. s. successfully priced a twenty-year registered bond issue (Namensschuldverschreibung) under German law for the amount of €40 million. The coupon was set at 4.700% per annum. The expected settlement date is April 2, 2012.

Total long-term debt as of December 31, 2011 was CZK 183,949 million, representing 97% of the total amount of our total debt as of December 31, 2011, while the ratio was 94% of our total debt as of December 31, 2010. Long-term borrowings from financial institutions comprised 18% of the long-term debt as of December 31, 2011.

Our long-term debt has both floating and fixed rates of interest which can expose us to interest rate risk and risks of changes in fair value of these financial instruments. 79% of the interest paid on long-term debt in the year ended December 31, 2011 was fixed rate interest, with the remainder being floating rate interest based mainly on EURIBOR, LIBOR, PRIBOR or CPI. For information regarding the repayment schedule of our long-term debt and interest rates for short and long-term debt, please see Notes 15, 16, 17 and 20 of our audited consolidated financial statements for the year ended December 31, 2011.

We have entered into interest rate swaps and other derivative contracts to manage risk associated with fluctuations in interest rates. For information with respect to derivative financial instruments and hedging, please see Note 17 of our audited consolidated financial statements for the year ended December 31, 2011.

## TERMS AND CONDITIONS OF THE 2022 NOTES

*The following are the Terms and Conditions of the 2022 Notes which will be incorporated by reference into each Global Note (as defined below) and, subject to amendment and completion and except for the text in italics, each Definitive Note (as defined below).*

The U.S.\$700,000,000 4.250% Notes due 2022 (the “**Notes**,” which expression includes any further notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) will be issued by ČEZ, a. s. (the “**Issuer**”). The Notes will be constituted by, and subject to, and have the benefit of a deed of covenant dated April 3, 2012 and made by the Issuer (such deed of covenant as amended and/or supplemented and/or restated from time to time, the “**Deed of Covenant**”) and will be subject to a fiscal agency agreement (such fiscal agency agreement as amended and/or supplemented and/or restated from time to time, the “**Fiscal Agency Agreement**”) dated April 3, 2012 and made between the Issuer, Citibank, N.A., London Branch, as fiscal agent (the “**Fiscal Agent**,” which expression shall include any successor fiscal agent) and Citigroup Global Markets Deutschland AG as registrar (the “**Registrar**,” which expression shall include any successor registrar appointed from time to time in connection with the Notes).

In these Conditions, “**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality, “**Noteholder**” or “**holder**” means the Person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and “**holders**” shall be construed accordingly.

Copies of the Fiscal Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the Specified Office (as defined in the Fiscal Agency Agreement) of each of the Paying Agents (as defined in the Fiscal Agency Agreement). The Noteholders are bound by and deemed to have notice of, and are entitled to the benefit of, all the provisions of the Fiscal Agency Agreement and the Deed of Covenant which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement.

Words and expressions defined in the Fiscal Agency Agreement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated.

References to “**Conditions**” are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Notes are in registered form and, in the case of definitive Notes, serially numbered, in U.S. dollars and will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (the “**Authorised Holding**”).

Notes will be sold (i) in offshore transactions in reliance on Regulation S (“**Regulation S**”) under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and (ii) to qualified institutional buyers (“**QIBs**”) in reliance on Rule 144A (“**Rule 144A**”) under the U.S. Securities Act.

#### 1.2 Title

Title to the Notes will pass upon registration of transfer as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*) in accordance with the provisions of the Fiscal Agency Agreement. The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined above) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder. A Definitive Note Certificate (as defined below) will be issued to each Noteholder in respect of its registered holding.

*Notes sold to QIBs in the United States in reliance on Rule 144A under the U.S. Securities Act, will be represented by a Restricted Global Note (the “Restricted Global Note”). Notes sold to investors outside the United States in reliance on Regulation S under the U.S. Securities Act will be represented by an Unrestricted Global Note (the “Unrestricted Global Note”) (and together with the Restricted Global Note, the “Global Notes”). The Unrestricted Global Note will be deposited with, and registered in the name of a nominee for a common depositary for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, société anonyme*

(“Clearstream, Luxembourg”). The Restricted Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of The Depository Trust Company (“DTC”).

Ownership of beneficial interests in the Restricted Global Note will be limited to persons that have accounts with DTC or persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances specified in the Global Note.

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, Clearstream, Luxembourg and DTC, as the case may be. References to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system as may otherwise be approved by the Issuer and the Fiscal Agent.

### **1.3 Third party rights**

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## **2. REGISTRATION**

The Issuer will cause a register (the “**Register**”) to be kept at the Specified Office of the Registrar outside the United Kingdom in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

## **3. TRANSFER OF NOTES**

### **3.1 Transfer**

Each Note may, subject to the terms of the Fiscal Agency Agreement and to Conditions 3.2 (*Formalities Free of Charge*), 3.3 (*Closed Periods*) and 3.5 (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant definitive note certificate (the “**Definitive Note Certificate**”) (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Paying Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

### **3.2 Formalities Free of Charge**

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

### **3.3 Closed Periods**

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of seven days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

### **3.4 Business Day**

In these Conditions, “**Business Day**” means a day (other than a Saturday or Sunday) 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 both New York City and the city in which the Specified Office of the Registrar or, as the case may be, the Paying Agent is located.

### **3.5 Regulations Concerning Transfer and Registration**

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes in Schedule 1 to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the approval of the Registrar.

### **3.6 Authorised Holdings**

No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings.

## **4. STATUS OF THE NOTES**

The Notes constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer which at all times will rank (i) *pari passu* among themselves and (ii) at least *pari passu* in right of payment with all other present and future unconditional, unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of law that are both mandatory and of general application and subject always to Condition 5 (*Negative Pledge and Other Covenants*).

## **5. NEGATIVE PLEDGE AND OTHER COVENANTS**

### **5.1 Negative Pledge**

So long as any Note remains outstanding (as defined in the Fiscal 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 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 Fiscal 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 5.1 (*Negative Pledge*) or enter into a Sale and Lease-Back Transaction that would otherwise be prohibited by the provisions of Condition 5.2 (*Limitations on Sale and Lease-Back Transactions*); 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.

## **5.2 Limitations on Sale and Lease-Back Transactions**

For so long as any Note 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 5.1 (*Negative Pledge*) 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 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, to 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 three years or less.

## **5.3 No Consolidation or Merger**

For so long as any Note 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 Fiscal 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 advisors 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, with the same effect as if it had been named in the Notes as such obligor.

## **5.4 Definitions**

“**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 of 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 5.1 (*Negative Pledge*) and 5.2 (*Limitations on Sale and Lease-Back Transactions*) 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 indemnified 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 or indemnities 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 Fiscal 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;

“**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).

## 6. INTEREST

### 6.1 Interest Accrual

Each Note bears interest from April 3, 2012 (the “**Issue Date**”) at the rate of 4.250% per annum (the “**Rate of Interest**”) payable semi-annually in arrear on April 3 and October 3 in each year (each, an “**Interest Payment Date**”), commencing on October 3, 2012, subject as provided in Condition 7 (*Payments*). Each period beginning on (and including) the Issue Date or any subsequent Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an “**Interest Period**.”

### 6.2 Cessation of Interest

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is five days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth day (except to the extent that there is any subsequent default in payment) in accordance with Condition 13 (*Notices*).

### 6.3 Calculation of Interest for an Interest Period

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

### 6.4 Calculation of Interest for any Other Period

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

## 7. PAYMENTS

### 7.1 Principal

Payment of principal in respect of each Note and payment of interest due on a redemption of the Notes other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or any of the Paying Agents.

### 7.2 Interest

Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

### 7.3 Record Date

“**Record Date**” means the seventh day before the due date for the relevant payment.

*The “Record Date” for Notes which are represented by a Global Note shall be one Business Day prior to the due date for the relevant payment.*

### 7.4 Payments

Each payment in respect of the Notes pursuant to Conditions 7.1 (*Principal*) and 7.2 (*Interest*) will be made by United States dollar cheque drawn on a branch of a bank in New York City mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Paying Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a United States dollar account maintained by the payee with a bank in New York City.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 7.1 (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 7.1 (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a United States dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest and other amounts on the due date for payment.

## **7.5 Agents**

The names of the initial Fiscal Agent and Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Fiscal Agency Agreement by giving to the relevant Paying Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to vary or terminate the appointment of/remove any Paying Agent or the Registrar and to appoint successor or additional Paying Agents or another Registrar, provided that it will at all times maintain:

- (a) a Fiscal Agent;
- (b) Paying Agents in at least one major European city;
- (c) a Paying Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Paying Agent or the Registrar will be given to Noteholders in accordance with Condition 13 (*Notices*) as soon as practicable.

## **7.6 Payments Subject to Fiscal Laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

## **7.7 Delay in Payment**

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day or (ii) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the due date for payment or being lost in the mail.

## **8. REDEMPTION AND PURCHASE**

### **8.1 Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its principal amount in U.S. dollars on April 3, 2022 (the "**Maturity Date**"), subject as provided in Condition 7 (*Payments*).

### **8.2 Redemption for Tax Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 13 (*Noteholders*), the Noteholders (which notice shall be irrevocable) at a price equal to 100% of their principal amount plus accrued and unpaid interest to (but excluding) the date fixed for redemption, 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 9 (*Taxation*) as a result of any change in, or amendment to, the laws, treaties, rulings or regulations of the Czech Republic or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, treaties, rulings or regulations, which change or amendment becomes effective on or after the Issue Date; 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 8.2 (*Redemption for Tax Reasons*), the Issuer shall deliver to the Fiscal 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 advisors of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 8.2 (*Redemption for Tax Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 8.2 (*Redemption for Tax Reasons*).

### **8.3 Redemption at the Option of the Issuer (Issuer Call)**

The Issuer may, at any time having given:

- (a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13 (*Notices*); and
- (b) not less than 15 days before the giving of the notice referred to in (i) above notice to the Fiscal Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes at a price equal to the greater of (i) 100% of the nominal amount of the Notes to be redeemed plus accrued and unpaid interest thereon, if any, to (but excluding) the date of redemption of the Notes or (ii) as determined by an Independent Investment Banker, the sum of the present values of the remaining scheduled payments of principal of the Notes to be redeemed and interest thereon discounted to the date of redemption of the Notes on a semi-annual basis (using the same interest rate convention as that used in computing interest on the Notes) at the Treasury Rate plus 35 basis points, plus accrued and unpaid interest on such Notes (or any portion thereof) being redeemed and additional amounts, if any, to (but excluding) the date of redemption of the Notes (or any portion thereof) being redeemed provided however that in the event that the Issuer redeems all or some only of the Notes following the occurrence of a Put Event (as defined in Condition 8.4 (*Redemption at the Option of the Noteholders (Investor Put)*) below), such Notes shall be redeemed at 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased to but excluding the date of redemption to the extent that the Issuer had given notice of its intention to redeem all or part of the Notes in accordance with this Condition 8.3 (*Redemption at the Option of the Issuer (Issuer Call)*) during the relevant Put Period (as defined in Condition 8.4 (*Redemption at the Option of the Noteholders (Investor Put)*) below).

In the case of a partial redemption of Notes, the serial numbers of the Notes to be redeemed will be published in accordance with Condition 13 (*Notices*) not less than 15 days prior to the date fixed for redemption. The Notes shall be selected for redemption in such place and in such manner as the Issuer deems appropriate.

### **8.4 Redemption at the Option of the Noteholders (Investor Put)**

If at any time while any Note remains outstanding there occurs a Put Event (as defined below), the holder of each Note will have the option (the "**Put Option**") (unless, prior to the occurrence of such Put Event (as defined below), the Issuer has given notice of its intention to redeem the Notes under Condition 8.3 (*Redemption at the Option of the Issuer (Issuer Call)*) to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of that Note on the date (the "**Optional Redemption Date**") which is the seventh day after the last day of the Put Period (as defined below) at 101% of the aggregate principal amount of Notes repurchased, plus accrued and unpaid interest, if any, on the Notes repurchased to but excluding the Optional Redemption Date.

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

- (a) any Person or Persons acting in concert come(s) to own or acquire(s) more than 50% of the issued share capital of the Issuer, or more than 50% of the voting rights normally exercisable at a general meeting of the Issuer (each a "**Change of Control**"); and
- (b) during the Change of Control Period (as defined below), the Notes carry from any of Standard & Poor's Credit Market Services Europe Limited, a division of The McGraw-Hill Companies, Inc., or Moody's Investors Service Ltd, or any of their respective successors (each a "**Rating Agency**") either:
  - (i) an investment grade credit rating (BBB-/Baa3, or equivalent, or better), and such rating from any Rating Agency is within the Change of Control Period either downgraded to a non-investment grade credit rating (BB+/Ba1, or equivalent, or worse) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency or (in the case of a withdrawal) replaced by, or reinstated to, an investment grade credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or

- (ii) a non-investment grade credit rating (BB+/Ba1, or equivalent, or worse), and such rating from any Rating Agency is within the Change of Control Period downgraded by one or more notches (for illustration, Ba1 to Ba2 being one notch) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better by such Rating Agency, or (in the case of a withdrawal) replaced by, or reinstated to, a credit rating equal to or better than such earlier credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or
  - (iii) no credit rating, and no Rating Agency assigns with the Change of Control Period an investment grade credit rating to the Notes; and
- (c) in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decisions(s) resulted, in whole or in part, from the occurrence of the Change of Control or the public notice of an arrangement that could result in a Change of Control.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a “**Put Event Notice**”) to the Noteholders in accordance with Condition 13 (*Notices*) specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the option contained in this Condition 8.4 (*Redemption at the Option of the Noteholders (Investor Put)*).

To exercise the right to require redemption of this Note, the holder must deliver such Note, at the Specified Office of any Paying Agent at any time during normal business hours of such Paying Agent on a Business Day falling within the period (the “**Put Period**”) of 45 days after a Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the Specified Office of any Paying Agent (a “**Put Option Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 8.4 (*Redemption at the Option of the Noteholders (Investor Put)*) accompanied by this Definitive Note Certificate or evidence satisfactory to the Paying Agent concerned that this Definitive Note Certificate will, following delivery of the relevant Put Option Notice, be held to its order or under its control.

The Paying Agent will issue to the holder concerned a non-transferable receipt (a “**Put Option Receipt**”) in respect of the Note so delivered. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the Notes in respect of which Put Option Receipts have been issued on the Optional Redemption Date, unless previously redeemed and purchased. Payment in respect of any Note so delivered will be made if the holder duly specified a bank account in the Put Option Notice to which payment is to be made, on the Optional Redemption Date by transfer to that bank account and in every other case on or after the Optional Redemption Date, in each case against presentation and surrender or (as the case may be) endorsement of such Put Option Receipt at the Specified Office of any Paying Agent in accordance with the provisions of this Condition 8.4 (*Redemption at the Option of the Noteholders (Investor Put)*).

*If this Note is represented by a Global Note and held through DTC, 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 Paying Agent of such exercise in accordance with the standard procedures of DTC, Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by DTC, Euroclear or Clearstream, Luxembourg or any common depositary for them to the Paying Agent by electronic means) in a form acceptable to DTC, 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 Paying Agent for notation accordingly.*

## **8.5 Purchases**

The Issuer or any of its subsidiaries may at any time purchase, or procure others to purchase for its account Notes, in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is outside the United States or, in the case of any Notes resold pursuant to Rule 144A, is only made to QIBs and, in each case, is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 8.6 (*Cancellation*) below. The Notes so purchased, while held by or on behalf of the Issuer or any subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 13 (*Noteholders*).

## 8.6 Cancellation

All Notes which are redeemed pursuant to Condition 8.2 (*Redemption for Tax Reasons*), 8.3 (*Redemption at the Option of the Issuer (Issuer Call)*) and 8.4 (*Redemption at the Option of the Noteholders (Investor Put)*) will forthwith be cancelled. All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.5 (*Purchases*) above shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

## 8.7 Definitions

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

“**H.15 (519)**” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System.

“**Independent Investment Banker**” means an independent investment banking institution of international standing in the U.S. dollar denominated bond markets appointed by the Issuer.

“**Treasury Rate**” means the annual rate equal to the semi-annual yield to maturity for United States Treasury securities maturing on the stated maturity of the Notes being redeemed and trading in the public security markets either:

- (a) as determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public security markets,
  - (i) one maturing as close as possible to, but earlier than, the stated maturity of the Notes being redeemed, and
  - (ii) the other maturing as close as possible to, but later than, the stated maturity of the Notes being redeemed, in each case as published in the most recent H.15 (519), or
- (b) if the weekly average yield to maturity for United States Treasury securities maturing on the stated maturity of the Notes being redeemed is reported in the most recent H.15 (519), this weekly average yield to maturity as published in such H.15 (519).

## 9. TAXATION

### 9.1 General

- (a) All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Czech Republic or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:
  - (i) *Other Connection*

presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Czech Republic other than the mere holding of the Note;
  - (ii) *Presentation more than 30 days after the Relevant Date*

surrendered for payment of principal more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;
  - (iii) *Payment to Individuals*

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union 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;

- (iv) *Payment by another Paying Agent*  
surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying Agent in a Member State of the European Union; or
  - (v) *Payment in Czech Republic*  
surrendered for payment in the Czech Republic.
- (b) If the Issuer becomes subject at any time to any taxing jurisdiction other than the Czech Republic, references in this Condition 9 (*Taxation*) to the Czech Republic shall be construed as references to the Czech Republic and/or such other jurisdiction.

## 9.2 Definitions

“**Relevant Date**” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition 9 (*Taxation*) or any undertaking given in addition to or substitution for it under the Fiscal Agency Agreement.

## 10. PRESCRIPTION

Claims in respect of principal and/or interest will become void unless the relevant Definitive Note Certificate is surrendered for payment as required by Condition 7 (*Payments*) 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 9 (*Taxation*)) therefor.

## 11. 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 15 days of the due date for payment thereof; or
- (b) *Non-payment of Principal*  
any amount of principal in respect of the Notes is not paid within 7 days of the due date for payment thereof;
- (c) *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 30 days after written notice specifying such default or breach and requiring it to be remedied has been delivered to the Issuer; or
- (d) *Cross-default*  
any present or future Indebtedness of the Issuer or any Material Subsidiary of the Issuer (excluding any such Indebtedness owed to trade creditors not evidenced by a note, bond, debenture or similar instrument) having an aggregate principal amount exceeding U.S.30,000,000 (or its equivalent in any other currency or currencies) other than the Notes (i) is not paid when due (after the expiration of any applicable grace period) or (ii) becomes, or becomes capable of being declared, due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) such Material Subsidiary; or
- (e) *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
- (f) *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
- (g) *Cessation of Business*
- the Issuer ceases to conduct or to be authorised to conduct the business of the generation or sale of electricity; or
- (h) *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.

## 12. REPLACEMENT OF NOTES

Should any Definitive Note Certificate be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or any Paying Agent subject to all applicable laws and stock exchange or other relevant authority requirements 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 Definitive Note Certificate must be surrendered before replacements will be issued.

## 13. NOTICES

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices to Noteholders will be valid if published, for so long as the Notes are admitted to trading on the Stock Exchange (as defined in the Fiscal Agency Agreement) and if the rules of such exchange so require, in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if, in the opinion of the Issuer, such publication is not practicable, in a leading English language daily newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

*So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in accordance with Condition 13 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that such notice is also delivered to the Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with Condition 13 (Notices) may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to the Stock Exchange.*

## 14. MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Fiscal 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 or any of the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by the Issuer



and shall be convened by the Issuer if required in writing by the Noteholders holding not less than 5% in principal amount of the outstanding Notes. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing not less than 50% in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of any proposals relating to any Reserved Matter (as defined in the Fiscal Agency Agreement) and 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 quorum shall be two or more persons holding or representing not less than three quarters in principal 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 principal 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.

The Issuer may agree, without the consent of the Noteholders, to:

- (a) any modification (except such modifications in respect of a Reserve Matter) of the Notes or the Fiscal Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes or the Fiscal 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 and any such modification shall be notified to the Noteholders in accordance with Condition 13 (*Notices*) as soon as practicable thereafter.

## 15. PROVISION OF INFORMATION

The Issuer shall, during any period in which it is not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the “**U.S. Exchange Act**”) nor exempt from reporting pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, duly provide to any holder of a Note which is a “**restricted security**” within the meaning of Rule 144(a)(3) under the U.S. Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the U.S. Securities Act.

## 16. FURTHER ISSUES

The Issuer shall be at liberty from time to time, in accordance with the Fiscal Agency Agreement, without notice to or the consent of the Noteholders 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.

*Noteholders should note that additional securities that are treated as a single series for non-tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount, as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.*

## 17. CURRENCY INDEMNITY

The Fiscal Agency Agreement provides that if any Noteholder receives or recovers any amount in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise), in respect of any sum expressed to be due to it from the Issuer that amount will only discharge the Issuer to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the relevant Noteholder under the Notes, the Issuer will indemnify such Noteholder against any loss sustained by it as a result of such shortfall on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar or any Paying Agent with its Specified Office in London. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

## **18. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **18.1 Governing Law**

The Fiscal Agency Agreement, the Deed of Covenant, the Notes and any non-contractual obligations arising out of or in connection with the Fiscal Agency Agreement, the Deed of Covenant and the Notes 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 that the courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes) and accordingly submits to the non-exclusive jurisdiction of the English courts.

The Issuer irrevocably waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Noteholders may take any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Notes (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Notes) 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 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 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 or award made or given in connection with any Proceedings.

## TERMS AND CONDITIONS OF THE 2042 NOTES

The terms and conditions of the U.S.\$300,000,000 5.625% Notes due 2042 (the “**2042 Notes**”) will be identical to those set out under “*Terms and Conditions of the 2022 Notes*” above, with the following alternative or supplemental provisions, references to the “Notes” in the Terms and Conditions of the 2022 Notes being construed as references to the 2042 Notes:

- (A) The reference in the first paragraph of the introduction section to “U.S.\$700,000,000 4.250% Notes due 2022” shall be replaced by a reference to “U.S.\$300,000,000 5.625% Notes due 2042.”
- (B) The reference in the first paragraph of the introduction section to the “**Deed of Covenant**” shall be construed as reference to the deed of covenant in respect of the 2042 Notes made by the Issuer in respect of the 2042 Notes.
- (C) The reference in the first paragraph of the introduction section to the “**Fiscal Agency Agreement**” shall be construed as reference to the fiscal agency agreement in respect of the 2042 Notes between the Issuer, the Fiscal Agent and the Registrar.
- (D) In Condition 6.1 (*Interest Accrual*), the words “rate of 4.250% per annum” shall be replaced by “rate of 5.625% per annum.”
- (E) In Condition 8.1 (*Redemption at Maturity*), the words “on April 3, 2022” shall be replaced by “on April 3, 2042.”

## FORM OF THE NOTES AND TRANSFER RESTRICTIONS

*The following information relates to the form, transfer and delivery of the Notes.*

### Form of the Notes

All Notes will be in fully registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Notes, in definitive fully registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Citibank Europe PLC, as common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of Citivic Nominees Limited, as nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Notes, in fully registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Closing Date with Citibank, N.A., acting through its London branch, as custodian (the “*Custodian*”) for, DTC. The Restricted Global Notes (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set forth under paragraph 3 below.

The Unrestricted Global Notes will have an ISIN number and a Common Code and the Restricted Global Notes will have a separate CUSIP number.

For the purposes of the Restricted Global Notes and the Unrestricted Global Notes, any reference in “*Terms and Conditions of the 2022 Notes*” and “*Terms and Conditions of the 2042 Notes*” to “*Note Certificate*” or “*Note Certificates*” shall, except where the context otherwise requires, be construed so as to include the Restricted Global Notes or, as the case may be, the Unrestricted Global Notes and interests therein.

### Notices

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in accordance with Condition 13 (*Notices*) (please see “*Terms and Conditions of the 2022 Notes—Notices*” and “*Terms and Conditions of the 2042 Notes*”) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that such notice is also delivered to the Luxembourg Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with Condition 13 (*Notices*) (please see “*Terms and Conditions of the 2022 Notes—Notices*” and “*Terms and Conditions of the 2042 Notes*”) may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to the Luxembourg Stock Exchange.

### Transfer Restrictions

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Fiscal Agency Agreements), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

A beneficial interest in a Restricted Global Note may also be transferred to a person who wishes to take delivery of such beneficial interest through an Unrestricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Fiscal Agency Agreements) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (which may or may not be available) under the U.S. Securities Act.

Any beneficial interest in either a Restricted Global Note or an Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the

United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

- (i) the purchaser (a) is a qualified institutional buyer within the meaning of Rule 144A, (b) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (c) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A;
- (ii) the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act, and the Notes offered hereby have not been and will not be registered under the U.S. Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below; and
- (iii) the Restricted Global Notes and any Restricted Note Certificates (as defined below) issued in exchange for an interest in a Restricted Global Note will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (WHICH MAY OR MAY NOT BE AVAILABLE) AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.”

- (iv) if the purchaser is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgement, representations and agreements on behalf of each such account; and
- (v) the Issuer, the Registrar, the Initial Purchasers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of Notes outside the United States pursuant to Regulation S, and each subsequent purchaser of such Notes in resales during the period which expires on and includes the 40th day after the later of the commencement of the offering of the Notes and the Closing Date (the “distribution compliance period”), will be deemed to have represented, agreed and acknowledged as follows:

- (i) it is, or at the time the Notes are purchased will be, the beneficial owner of such Notes and it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S);



- (ii) it understands that such Notes have not been and will not be registered under the U.S. Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities laws of any State of the United States; and
- (iii) the Issuer, the Registrar, the Initial Purchasers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

#### **Exchange of Interests in Global Notes for Note Certificates**

The Restricted Global Notes will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form (“*Restricted Note Certificates*”) if DTC (a) notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Restricted Global Notes or ceases to be a “clearing agency” registered under the U.S. Exchange Act, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default (as defined and set out in Condition 11 (*Events of Default*) of the Notes) occurs. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Unrestricted Global Notes will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form (“*Unrestricted Note Certificates*”) if (a) Euroclear or Clearstream Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention to permanently cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 11 (*Events of Default*) of the Notes) occurs. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that a Restricted Global Note is to be exchanged for Restricted Note Certificates or an Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together “*Note Certificates*”) the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of a Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in a Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “—*Transfer Restrictions*” above. Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in an Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in a Restricted Global Note.

In addition to the requirements described under “—*Transfer Restrictions*” above, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3 (*Transfer of Notes*) of the Notes. Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under “—*Transfer Restrictions*” above, or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the U.S. Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

## **Euroclear, Clearstream, Luxembourg and DTC Arrangements**

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depository is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal Agency Agreements, the Deeds of Covenant and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Fiscal Agent, any Paying and Transfer Agent or the Initial Purchasers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the U.S. Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the Fiscal Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the 15th day before the due date for such payment (the "*Record Date*"). Principal and interest with respect to the Restricted Note Certificates and the Unrestricted Note Certificates on redemption will be paid to the holder shown on the Register on the Record Date upon delivery and surrender of the relevant Note Certificate. Trading between the Restricted Global Notes and the Unrestricted Global Notes will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of Citivic Nominees Limited and Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg on the one hand and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Notes and the Restricted Global Notes will be in uncertificated book-entry form.

*Trading between Euroclear and/or Clearstream, Luxembourg Account Holders.* Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

*Trading between DTC Participants.* Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

*Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser.* When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in an Unrestricted Global Note (subject to such certification procedures as are provided in the Fiscal Agency Agreements), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the

settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar to (a) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by a Restricted Global Note and (b) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by an Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first Business Day following the settlement date. See above concerning the Record Date for payment of interest.

*Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser.* When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global Note (subject to such certification procedures as are provided in the Fiscal Agency Agreements), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m. Brussels or Luxembourg time, one Business Day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by an Unrestricted Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Restricted Global Note. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent, any Paying and Transfer Agent or any of the Initial Purchasers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

### **Prescription**

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Notes will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9 (*Taxation*) of the Notes).

### **Meetings**

The holder of a Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.\$1,000 in principal amount of Notes for which the Global Note may be exchanged.

### **Purchase and Cancellation**

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

### **Call Option**

No drawing of Notes will be required under Condition 8.2 (*Redemption for Tax Reasons*) of the Notes in the event that the Issuer exercises its call option in such Condition while the Notes are represented by a Global Note in respect of less than the aggregate principal amount of Notes outstanding. In such event, the partial redemption will be effected in accordance with the rules and procedures of DTC, Euroclear and 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).

## TAXATION

*The statements herein regarding taxation are based on the laws and published practice in force in the relevant jurisdictions as of the date of this offering memorandum and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the 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 or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisors concerning the overall tax consequences of their ownership of the Notes.*

### **Taxation in the Czech Republic**

The information set out below is a summarized description of certain material Czech tax consequences of the purchase, holding and disposition of Notes and it does not purport to be a complete analysis of all Czech tax considerations relating to the Notes that may be relevant to a decision to purchase the Notes. This summary does not take into account or discuss the tax laws of any country other than the Czech Republic nor does it take into account specific double taxation treaties nor the individual circumstances, financial situation or investment objectives of an investor in the Notes.

This summary is based on the tax laws of the Czech Republic as in effect on the date of this offering memorandum and their prevailing interpretations available on or before such date. All of the foregoing is subject to change, which could apply retroactively and could affect the continued validity of this summary.

As this is a general summary, holders of the Notes should consult their own tax advisors as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of the Czech Republic concerning the purchase, holding and disposition of the Notes and receiving payments of interest, principal and/or other payments under the Notes, including, in particular, the application to their own situation of the tax considerations discussed below as well as the application of state, local, foreign or other tax laws.

### ***Withholding Tax on Interest***

Assuming that the Notes are issued outside of the Czech Republic, all interest payments to be made by us under the Notes issued outside the Czech Republic may be made free of withholding or deduction of, for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Czech Republic or any political subdivision or taxing authority thereof or therein.

### ***Non-Czech Holders, Holding and Sale***

Assuming that the Notes are issued outside of the Czech Republic, interest income on the Notes held by an individual who is not for tax purposes treated as a resident of the Czech Republic or by a person (other than an individual) who is not for tax purposes treated as a resident of the Czech Republic, a “Non-Czech Holder,” will be exempt from taxation in the Czech Republic.

Income realized by Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to other Non-Czech Holders, not purchasing the Notes through a permanent establishment in the Czech Republic, will not be subject to taxation in the Czech Republic.

Income realized by Non-Czech Holders, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes to an individual who is for tax purposes treated as a resident of the Czech Republic or to a person (other than an individual) who is for tax purposes treated as a resident of the Czech Republic or to an organisational unit of the Czech state, a “Czech Holder,” or to a Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic, unless:

- the Non-Czech Holder realizing that income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country (such as the double taxation treaty between the Czech Republic and the United States), is the beneficial owner of that income, is entitled to enjoy the benefits of that double taxation treaty and does not have a permanent establishment in the Czech Republic to which the income would be attributable; or
- the Non-Czech Holder who is an individual did not hold a share in our registered capital or voting rights exceeding 5% in the 24-month period prior to the sale of the Notes and has held the Notes for more than six months prior to their sale and the Notes have not been held in connection with business



activities of the Non-Czech Holder and if so, the Notes will be sold after six months following the termination of such business activities at the earliest.

If income realized by a Non-Czech Holder, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), the Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying the income will be obliged to withhold an amount of 1% on a gross basis representing tax security, unless the Non-Czech Holder selling the Notes is for tax purposes a resident of a member state of the European Union or the European Economic Area or unless the obligation to withhold is waived based on a tax authority decision. The tax security shall be credited against the final tax liability of the Non-Czech Holder selling the Notes.

A Non-Czech Holder will not become or be deemed to become a tax resident in the Czech Republic solely by reason of holding of the Notes or the execution, performance, delivery and/or enforcement of the Notes.

### ***Czech Holders, Holding and Sale***

Interest income on the Notes held by Czech Holders is subject to Czech corporate and personal income tax, as applicable, at the flat rates of 19% and 15%, respectively, and is payable on a self-assessment basis (in the case of Czech Holders who are individuals, the reporting obligation, in addition to whether the interest income shall be declared on a cash or an accrual basis, will depend on the individual's circumstances in each case). Czech Holders that are subject to Czech accounting standards for entrepreneurs (most companies other than financial or insurance institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (including, in particular, banks) will be required to recognize the interest income on an accrual basis for accounting purposes and, accordingly, include it in their general tax base for Czech income tax purposes in the given period.

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Notes for the purposes of trading may be, under certain conditions, required to revalue the Notes to fair value for accounting purposes, whereby the unrealized gains or losses would be accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax deductible for Czech tax purposes.

Any gains upon a sale of the Notes will generally be taxable at the above mentioned rates and in the case of Czech Holders who keep accounting books (in principle, all legal entities and certain individuals), any losses will generally be tax deductible. By contrast, a loss realized by Czech Holders who are individuals (other than those mentioned in the preceding sentence) is generally non-deductible, except where such losses are compensated by taxable gains on sales of other securities and the income from the sale of the Notes is not exempt from tax. In the case of Czech Holders who are individuals, any gain derived from the sale of the Notes is exempt from Czech personal income tax if the individual did not hold a share in our registered capital or voting rights exceeding 5% in the 24-month period prior to the sale of the Notes and the holding period of the Notes exceeds six months and the Notes have not been held in connection with the business activities of the Czech Holders and, if so, the Notes will be sold after six months following the termination of such business activities at the earliest.

### ***Value Added Tax***

There is no Czech value added tax payable in respect of payments in consideration for the issue of the Notes, or in respect of the payment of interest or principal under the Notes, or in respect of the transfer of the Notes.

### ***Other Taxes or Duties***

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic by a Non-Czech Holder or a Czech Holder in respect of or in connection with the purchase, holding or disposition of the Notes, save for disposition in certain cases upon donation or inheritance.

## **E.U. Taxation Aspects**

### ***E.U. Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "*E.U. Savings Directive*"), member states (including the Czech Republic which implemented the E.U. Savings Directive into Section 38fa (Paying Agent) of the Czech Income Tax Act) are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to (or collected by such a person for) an individual resident in that other member state or to certain limited types of entities established in that other member state.



However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income elects for the exchange of information) in relation to such payments, deducting tax at a rate of 35% (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

A number of non-E.U. countries and certain dependent or associated territories of certain member states have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to (or collected by such a person for) an individual resident in a member state or to certain limited types of entities established in a member state. In addition, the member states have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to (or collected by such a person for) an individual resident in one of those territories or to certain limited types of entities established in one of those territories.

The European Commission has proposed certain amendments to the E.U. Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

### **U.S. Federal Income Tax Considerations**

This section summarizes certain U.S. federal income tax consequences to a holder of Notes. This discussion only applies to Notes that are purchased by initial holders at the “issue price” and are held as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the “*U.S. Code*”). This discussion does not apply to members of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a bank or other financial institution;
- an insurance company;
- a tax-exempt organization;
- a person that owns Notes that are a hedge or that are hedged against interest rate risks;
- a person that owns Notes as part of a straddle or conversion transaction for U.S. federal income tax purposes;
- a U.S. holder (as defined below) whose functional currency for U.S. federal income tax purposes is not the U.S. dollar; or
- a person that is not a U.S. holder (except to the extent discussed under “—*Information Reporting and Backup Withholding*”).

This summary is based upon provisions of the U.S. Code, existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section does not address the effect of U.S. federal alternative minimum tax, gift or estate tax laws, or any state, local or non-U.S. tax laws.

If a partnership (or an entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of a partnership holding Notes should consult their tax advisors.

**If you are considering buying Notes, we strongly suggest that you consult your tax advisors about the tax consequences of holding the Notes in your particular situation.**

### ***Circular 230 Disclosure***

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN BY US TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE, (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE NOTES, AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

### ***Tax Consequences to U.S. Holders***

For purposes of the following discussion, a “U.S. holder” means a beneficial owner of a Note that is, for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

### ***Additional Payments***

We believe that the potential for additional payments due to an exercise of the Put Option is remote or incidental. Accordingly, we do not intend to treat the potential payment of such amounts as part of the yield to maturity of the Notes. Our determination that this contingency is remote or incidental is binding on a U.S. holder unless such holder discloses its contrary position in the manner required by applicable Treasury regulations. However, the United States Internal Revenue Service (the “IRS”) may take a different position, which could require a U.S. holder to accrue income on its Notes in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of a Note. In the event such a contingency occurs, it would affect the amount and timing of the income recognized by a U.S. holder.

### ***Interest***

The gross amount of interest on a Note (including any additional payments made pursuant to “*Terms and Conditions of the 2022 Notes—Taxation*” and “*Terms and Conditions of the 2042 Notes*”) will generally be taxable to a U.S. holder as ordinary interest income at the time it is accrued or received in accordance with the U.S. holder’s method of accounting for U.S. federal income tax purposes.

In determining a U.S. holder’s U.S. federal income tax liability, such holder will be treated as actually receiving any amount withheld by us (and paid over to the Czech taxing authorities) with respect to a Note.

### ***Disposition of Notes***

Unless a non-recognition provision of the U.S. federal income tax law applies, upon the sale, redemption, retirement or other taxable disposition of a Note, a U.S. holder generally will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the disposition and the U.S. holder’s adjusted tax basis in the Note. For these purposes, the amount realized does not include any amount attributable to accrued but unpaid interest. Amounts attributable to accrued but unpaid interest are treated as interest as described above under “*U.S. Federal Income Tax Considerations—Interest*.” A U.S. holder’s adjusted tax basis in a Note generally will equal the price paid by the U.S. holder for the Note.

Gain or loss recognized on the sale, redemption, retirement or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the holding period for such Note is more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. holders generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### ***Foreign Tax Credit Considerations***

Interest (including any additional payments made pursuant to “*Terms and Conditions of the 2022 Notes—Taxation*” and “*Terms and Conditions of the 2042 Notes*”) paid on the Notes will constitute foreign source income, and will generally be “passive category income” (or “general category income” in the hands of certain persons engaged in financial businesses) for purposes of computing the foreign tax credit allowable to a U.S. holder.

A U.S. holder may, subject to certain limitations, be eligible to claim the Czech taxes, if any, withheld as a credit or deduction for purposes of computing its U.S. federal income tax liability, even though the payment of any such taxes would be remitted by us. The rules relating to the calculation and timing of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of complex rules that depend upon a U.S. holder’s particular circumstances. In addition, foreign tax credits generally will not be allowed for Czech taxes, if any, withheld from interest on certain short-term or hedged positions in the Notes, nor for taxes withheld in excess of the legally required amount. U.S. holders should consult with their own tax advisors with regard to the availability of a credit or deduction in respect of foreign taxes and, in particular, the application of the foreign tax credit rules to their particular situations.

### ***Information Reporting and Back-up Withholding***

In general, information reporting requirements may apply to payments of principal and interest on a Note and the proceeds of a sale of a Note made to holders. Back-up withholding may apply to such payments or proceeds if the beneficial owner fails to provide a correct taxpayer identification number and otherwise comply with the applicable back-up withholding rules. Certain persons and non-U.S. holders which provide an appropriate certification and otherwise qualify for exemption are not subject to the back-up withholding and information reporting requirements.

Back-up withholding is not an additional tax. Any amounts withheld under the back-up withholding rules from a payment made to a holder generally may be claimed as a credit against such holder's U.S. federal income tax liability provided the appropriate information is timely furnished to the IRS.

Certain U.S. holders must report information to the IRS with respect to their investment in the Notes on IRS Form 8938 if the Notes are not held through a custodial account with a U.S. financial institution. Investors who fail to report the required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding the application of these rules to their investment in the Notes.

**THE U.S. FEDERAL AND CZECH INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN THE U.S. FEDERAL, CZECH OR OTHER TAX LAWS.**

## SUBSCRIPTION AND SALE

Barclays Bank PLC, Citigroup Global Markets Inc., Goldman Sachs International and SG Americas Securities, LLC (collectively, the “*Initial Purchasers*”) are acting as joint book-running managers of the Offering and as representatives of the purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum (the “*Purchase Agreement*”), each Initial Purchaser named below has severally agreed to purchase and the Issuer has agreed to sell to that Initial Purchaser, the principal amount of the Notes set forth opposite the Initial Purchaser’s name.

<b>Initial Purchaser</b>	<b>Principal Amount of Notes</b>	
	<b>2022 Notes</b>	<b>2042 Notes</b>
Barclays Bank PLC .....	U.S.\$221,667,000	U.S.\$95,000,000
Citigroup Global Markets Inc.....	U.S.\$221,667,000	U.S.\$95,000,000
Goldman Sachs International .....	U.S.\$221,666,000	U.S.\$95,000,000
SG Americas Securities, LLC .....	U.S.\$35,000,000	U.S.\$15,000,000
<b>Total</b> .....	<b>U.S.\$700,000,000</b>	<b>U.S.\$300,000,000</b>

The Purchase Agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers may in their sole discretion purchase the Notes or arrange for the purchase of Notes by other persons. The Purchase Agreement also provides that if an Initial Purchaser defaults, the purchase commitments of non-defaulting Initial Purchasers may be increased or replaced or the offering may be terminated.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. Please see “*Form of the Notes and Transfer Restrictions.*” The price at which the Notes are offered may be changed at any time without notice.

We expect that delivery of the Notes will be made against payment on the Notes on or about the date of this offering memorandum, which will be five business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Exchange Act) in the United States following the date of pricing of the Notes (this settlement cycle is being referred to as “T + 5”). Under Rule 15c6-1 of the U.S. Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this offering memorandum or the next succeeding business day will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisors.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Please see “*Form of the Notes and Transfer Restrictions.*”

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Notes will constitute a new class of securities with no established trading market. However, the Issuer cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised the Issuer that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, the Issuer cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with the offering, the Initial Purchasers may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the Initial Purchasers of a greater number of Notes than they are required to purchase in the offering.

- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.
- Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Initial Purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, they may discontinue them at any time.

The Initial Purchasers have performed commercial banking, investment banking and advisory services for the Group from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers may, from time to time, engage in transactions with and perform services for the Group in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses.

The Issuer has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

Certain of the Initial Purchasers have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Group and its affiliates from time to time, for which they have received monetary compensation. Certain of the Initial Purchasers may from time to time also enter into swap and other derivative transactions with the Group and its affiliates. In addition, certain of the Initial Purchasers and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Group or its affiliates.

## **Notices to Investors**

### ***Notice to Prospective Investors in the United States***

The Notes have not been and will not be registered under the Securities Act and the Notes 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, or in a transaction not subject to, the registration requirements of, the U.S. Securities Act.

Each Initial Purchaser has agreed that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the “distribution compliance period”) within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) 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 substantially to the following effect:

*“The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”) and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S or Rule 144A under the U.S. Securities Act. Terms used above have the meanings given to them by Regulation S.”*

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the U.S. Securities Act.

The Purchase Agreement provides that each Initial Purchaser may directly or through its U.S. broker dealer affiliate arrange for the offer and resale of Notes within the United States only to qualified institutional buyers pursuant to Rule 144A.



Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

***Notice to Prospective Investors in the Czech Republic***

This offering memorandum has not been approved by, or passported to, the Czech National Bank (the “CNB”) and does not constitute an offering of the Notes to the public in the Czech Republic. The issue of Notes under this offering memorandum will not be an “issue of bonds in the Czech Republic” as defined in Act No. 190/2004 Coll., on Bonds, as amended (the “*Czech Bonds Act*”). No notification (other than notification to the CNB under Section 3(3) of the Czech Bonds Act, Section 5 of Act No. 219/1995 Coll., Foreign Exchange Act, as amended, and Section 8a of Czech Decree No. 34/2003 Coll.) has been made and no permit has been sought or obtained from the CNB for (i) the issue of the Notes (including the approval of the terms and conditions of the Notes) under the Czech Bonds Act, (ii) accepting the Notes for trading on a regulated market in the Czech Republic under Act No. 256/2004 Coll., on Doing Business on Capital Markets, as amended (the “*Czech Capital Markets Act*”), or (iii) public offering of the Notes in the Czech Republic under the Czech Capital Markets Act. Any offering of the Notes in the Czech Republic and/or any distribution of this offering memorandum in the Czech Republic can only be made under one or more exemptions from the obligation to publish a prospectus available under the Czech Capital Markets Act, including but not limited to, offering and/or distribution: (a) addressed exclusively to “qualified investors” as defined in the Czech Capital Markets Act, (b) addressed to less than 150 persons per E.U. member state (other than qualified investors), subject to obtaining the prior consent of the Initial Purchasers, or (c) under circumstances where the minimum investment per each investor is equal to or greater than €100,000 (or its equivalent in other currencies). The Notes may not be transferred or sold in the Czech Republic as part of their initial distribution in a manner which would result in the Notes being deemed to have been issued in the Czech Republic.

Each Initial Purchaser has represented and agreed that it has:

- (a) complied with and will comply with all requirements of the Czech Capital Markets 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, or requiring a permit, registration, filing or notification to the CNB (including, without limitation, in relation to an approval or the passporting of a prospectus under the Czech Capital Markets Act) or other authorities in the Czech Republic in respect of the Notes in accordance with the Czech Capital Markets Act, the Czech Bonds Act, the Czech Bonds Act, except for the notification of the CNB under Section 3(3) of the Czech Bonds Act, Section 5 of Act No. 219/1995 Coll., Foreign Exchange Act, as amended, and Section 8a of Czech Decree No. 34/2003 Coll.; and
- (b) to the extent applicable, 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 Czech Capital Markets Act in the Czech Republic) in respect of the Notes.

***Notice to Prospective Investors in the European Economic Area***

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “*Relevant Member State*”), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe

the Notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member State. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

***Notice to Prospective Investors in the United Kingdom***

Each Initial Purchaser has represented, warranted and agreed that:

- (a) 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 the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

***Notice to Prospective Investors in Switzerland***

This offering memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this offering memorandum nor any other marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the offering, nor the Issuer nor the Notes have been or will be filed with or approved by any Swiss regulatory authority.

***Notice to Prospective Investors in Canada***

The Notes will not be qualified for sale under the securities laws of any province or territory of Canada. Each Initial Purchaser has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute any Notes, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Each Initial Purchaser has also represented and agreed that it has not and will not distribute or deliver this offering memorandum, or any other offering material in connection with any offering of Notes, in Canada, other than in compliance with applicable securities laws.

***Notice to Prospective Investors in Hong Kong***

The notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

***Notice to Prospective Investors in Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the FIEA) and each Initial Purchaser has represented and agreed, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Notice to Prospective Investors in Singapore***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 of the SFA except:
- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

### **General**

No action has been or will be taken in any jurisdiction by the Issuer or any Initial Purchaser that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this offering memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this offering memorandum comes are required by the Issuer and the Initial Purchasers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this offering memorandum or any other offering material relating to the Notes, in all cases at their own expense.

## **LEGAL MATTERS**

The Issuer has been advised on certain U.S. law and English law matters by Weil, Gotshal & Manges and on certain Czech law matters by Weil, Gotshal & Manges s.r.o. advokátní kancelář in connection with the offering of the Notes.

The Initial Purchasers have been advised on certain U.S. law and English law matters by White & Case LLP and on certain Czech law matters by White & Case (Europe) LLP, organizační složka in connection with the offering of the Notes.

## **INDEPENDENT AUDITORS**

The audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2009, 2010 and 2011, as well as the audited financial statements of ČEZ, a. s. for the year ended December 31, 2011, which are incorporated by reference into this offering memorandum, have been audited without qualification by Ernst & Young Audit, s.r.o., Charles Square Center, Karlovo nám. 10, 120 00 Prague 2, Czech Republic.

Ernst & Young Audit, s.r.o., a member of the Chamber of Auditors of the Czech Republic, has audited our consolidated financial statements in accordance with the Act on Auditors and International Standards on Auditing as amended by implementation guidance of the Chamber of Auditors of the Czech Republic, as stated in its reports appearing in this offering memorandum.

Ernst & Young Audit, s.r.o., has no material interest in the Issuer.

As the Notes have not been and will not be registered under the U.S. Securities Act, Ernst & Young Audit, s.r.o., has not filed and will not be required to file a consent under the U.S. Securities Act.

## LISTING AND GENERAL INFORMATION

### Listing

Application has been made to the CSSF to admit the Notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange in accordance with the rules and regulations of that exchange. Prior to the listing, a legal notice relating to the issue of the Notes and the certified organizational documents of the Issuer will be deposited with the *Registre de Commerce et de Sociétés à Luxembourg*, where such documents may be examined and copies obtained.

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in accordance with Condition 13 (*Notices*) (please see “*Terms and Conditions of the 2022 Notes—Notices*” and “*Terms and Conditions of the 2042 Notes*”) including any notice of any additional redemption, change of control or any change in the rate of interest payable on the Notes, may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that such notice is also delivered to the Luxembourg Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with Condition 13 (*Notices*) may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to the Luxembourg Stock Exchange.

The Issuer will maintain a paying and transfer agent in Luxembourg for as long as any of the Notes are listed on the Luxembourg Stock Exchange. The Issuer reserves the right to change this appointment, and the Issuer will publish notice of such change of appointment in accordance with Condition 13 (*Notices*).

Application may be made to the Luxembourg Stock Exchange to have the Notes removed from listing on the Luxembourg Stock Exchange, including if necessary to avoid any new withholding taxes in connection with the listing.

The Issuer estimates that the total expenses related to the admission to trading of the Notes on the regulated market of the Luxembourg Stock Exchange are approximately €21,225.

### Clearing System

The Notes have been accepted for clearance through the DTC, Clearstream, Luxembourg and Euroclear systems with the following information:

#### *2022 Notes*

##### *Restricted Global Note*

- Common Code: 076402850;
- International Securities Identification Number: US157214AA57; and
- CUSIP Number: 157214 AA5.

##### *Unrestricted Global Note*

- Common Code: 076431361; and
- International Securities Identification Number: XS0764313614.

#### *2042 Notes*

##### *Restricted Global Note*

- Common Code: 076405093;
- International Securities Identification Number: US157214AB31; and
- CUSIP Number: 157214 AB3.

##### *Unrestricted Global Note*

- Common Code: 076431469; and
- International Securities Identification Number: XS0764314695.

### Documents on Display

For 12 months from the date of this offering memorandum and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the regulated market of the Luxembourg Stock Exchange and the rules and regulations of the Luxembourg Stock Exchange require, copies of



the following documents shall be available in the English language and available for inspection at the office of the Luxembourg Listing Agent during normal business hours on any business day:

- the Articles of Association;
- the audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2009, 2010 and 2011;
- the audited financial statements of ČEZ, a. s. for the year ended December 31, 2011;
- this offering memorandum;
- the Fiscal Agency Agreements; and
- the Deeds of Covenant.

In addition, a copy of this offering memorandum is available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

### **Information about the Issuer**

ČEZ, a. s. was incorporated as a joint stock company under the laws of the Czech Republic on May 6, 1992 with unlimited duration and was registered in the Commercial Register administered by the Municipal Court in Prague, File B, Section 1581, with identification number 45274649. Its registered office is at Duhová 2/1444, 140 53 Prague 4, Czech Republic and its telephone number at that address is +420 211 041 111.

### **Consents**

The Issuer has obtained all necessary consents, approvals and authorizations in connection with the offering of Notes. The offering of Notes under this offering memorandum has been duly authorized by resolutions of the Issuer's Board of Directors dated October 17, 2011 and resolutions of the Issuer's Supervisory Board dated November 29, 2011. Pursuant to Section 3(3) of the Czech Act No. 190/2004 Coll., on Bonds, as amended, the offering must be notified to the Czech National Bank no later than on the date of the offering setting out the place of issue and principal aggregate amount of the Notes and the form, yield and maturity of the Notes. Pursuant to Section 5 of Czech Act No. 219/1995 Coll., Foreign Exchange Act, as amended, in connection with Section 8a of Czech Decree No. 34/2003 Coll., the place of issue, aggregate principal amount, yield and maturity of the Notes shall be notified to the Czech National Bank within 15 days from the date when the subscription period for the Notes expires.

### **Material Adverse Change**

There has been no material adverse change in the prospects of the Issuer since December 31, 2011, being the date of its last published audited financial statements, nor has there occurred any significant change in the financial or trading position of the CEZ Group since that date.

As of the date of this offering memorandum, there are no recent events particular to the Issuer which are to a material extent relevant to the evaluation of its solvency.

### **Governmental, Legal or Arbitration Proceedings**

Except as described in "*Business—Legal Proceedings*," as of the date of this offering memorandum, the Issuer is not, nor has it been during the past 12 months, engaged in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the Issuer or the CEZ Group's financial position or profitability.

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## ANNEX A – GLOSSARY OF TERMS AND DEFINITIONS

Terms and definitions used in this offering memorandum have the meanings set forth below.

<b>Term/Definition</b>	<b>Meaning</b>
“2009 Regulatory Statement” .....	the regulatory statement approved by the Albanian government in 2009, containing regulatory principles
“2022 Notes” .....	the U.S.\$700,000,000 4.250% notes due 2022
“2042 Notes” .....	the U.S.\$300,000,000 5.625% notes due 2042
“Albanian ERE” .....	the Albanian Electricity Regulation Authority
“ANRE” .....	the Romanian Energy Regulatory Authority
“Articles of Association” .....	the articles of association of ČEZ, a. s.
“ASED” .....	the Bulgarian Agency for Sustainable Energy Development
“Audit Committee” .....	the audit committee of ČEZ, a. s.
“BlueNext Spot” .....	the BlueNext Spot (Environmental Trading Exchange) in Paris
“Board of Directors” .....	the board of directors of ČEZ, a. s.
“BGN” or “Bulgarian Lev” .....	the lawful currency of Bulgaria
“Bulgarian EPA” .....	the Bulgarian Environment Protection Act
“CCGT” .....	a combined cycle gas turbine
“CE” .....	the geographical region of Central Europe
“CER” .....	Certified Emission Reduction credits
“ČEZ” .....	ČEZ, a. s.
“CEZ Group,” the “Group,” “we,” “us” or “our” .....	ČEZ, a. s. and its consolidated subsidiaries
“CEZ SH” .....	CEZ Shperndarje sh.a.
“Clearstream, Luxembourg” .....	Clearstream Banking, société anonyme
“Closing Date” .....	April 3, 2012
“CNB” .....	the Czech National Bank
“CO <sub>2</sub> ” .....	carbon dioxide
“Corporate Governance Codex” .....	the Czech 2004 Corporate Governance Codex compiled by the former Czech Securities Commission
“CRA Regulation” .....	Regulation (EC) No. 1060/2009
“CSSF” .....	the <i>Commission de Surveillance du Secteur Financier</i> , the competent authority under the Prospectus Law
“CUSIP” .....	the Committee on Uniform Securities Identification Procedures
“Custodian” .....	Citibank, N.A., London Branch
“Czech Air Protection Act” .....	Czech Act No. 86/2002 Coll., on protection of the air, as amended
“Czech Bonds Act” .....	Czech Act No. 190/2004 Coll., on Bonds, as amended

<b>Term/Definition</b>	<b>Meaning</b>
“ <i>Czech Capital Markets Act</i> ” .....	Czech Act No. 256/2004 Coll., on Doing Business on Capital Markets, as amended
“ <i>Czech Commercial Code</i> ” .....	the Czech Act No. 513/1991 Coll., the Commercial Code, as amended
“ <i>Czech crowns</i> ,” “ <i>Czech koruna</i> ” and “ <i>CZK</i> ” .....	the lawful currency of the Czech Republic
“ <i>Czech Ecological Losses Prevention Act</i> ” .....	Czech Act No. 167/2008 Coll., prevention of ecological losses, as amended
“ <i>Czech Emission Allowances Act</i> ” .....	Czech Act No. 695/2004 Coll., on conditions for trading with emission allowances, as amended
“ <i>Czech Energy Act</i> ” .....	Czech Act No. 458/2000 Coll., on conducting business and governmental oversight in the energy sectors, as amended
“ <i>Czech Environment Act</i> ” .....	Czech Act No. 17/1992 Coll., the environment act, as amended
“ <i>Czech Insolvency Act</i> ” .....	Czech Act No. 182/2006 Coll., on Insolvency, as amended
“ <i>Czech IPPC Act</i> ” .....	Czech Act No. 76/2002 Coll., on integrated pollution and control, as amended
“ <i>Czech Legal Entity Criminal Act</i> ” .....	Czech Act No. 418/2011 Coll., on criminal liability of legal entities and proceedings against them, as amended
“ <i>Czech Mining Act</i> ” .....	Czech Act No. 44/1998 Coll., on Protection and Exploitation of Minerals, as amended
“ <i>Czech Ministry of Environmental Matters</i> ” .....	the Ministry of Environmental Matters of the Czech Republic
“ <i>Czech Ministry of Industry</i> ” .....	the Ministry of Industry and Trade of the Czech Republic
“ <i>Czech New Renewable Resources Act</i> ” .....	Czech legislation implementing the E.U. Directive 2009/28/EC
“ <i>Czech Nuclear Account</i> ” .....	the nuclear account administered by the Czech Ministry of Finance
“ <i>Czech Nuclear Act</i> ” .....	Czech Act No. 18/1997 Coll., the nuclear act, as amended
“ <i>Czech Renewable Energy Act</i> ” .....	Czech Act No. 180/2005 Coll., on the promotion of production of electricity from renewable energy sources, as amended
“ <i>Czech Repository Authority</i> ” .....	the regulatory authority Czech Radioactive Waste Repository Authority
“ <i>Czech Waste Act</i> ” .....	Czech Act No. 185/2001 Coll., on waste, as amended
“ <i>Czech Water Act</i> ” .....	Czech Act No. 254/2001 Coll., as amended
“ <i>Deeds of Covenant</i> ” .....	the deed of covenant in respect of the 2022 Notes and the deed of covenant in respect of the 2042 Notes, each made by the Issuer and dated April 3, 2012
“ <i>Division Heads</i> ” .....	the chief officers of ČEZ, a. s.
“ <i>DTC</i> ” .....	The Depository Trust Company
“ <i>EBIT</i> ” .....	income before income taxes and other income/(expenses)
“ <i>EBITDA</i> ” .....	income before income taxes and other income/(expenses) plus depreciation and amortization

<b>Term/Definition</b>	<b>Meaning</b>
“ <i>EBITDA Margin</i> ” .....	income before income taxes and other income/(expenses) plus depreciation and amortization, divided by total revenues, expressed as a percentage
“ <i>EDF</i> ” .....	Electricité de France S.A.
“ <i>EDP</i> ” .....	Energias de Portugal
“ <i>EEX</i> ” .....	the European Energy Exchange
“ <i>EIA</i> ” .....	an environmental impact assessment
“ <i>EMANT</i> ” .....	the European Mutual Association for Nuclear Insurance
“ <i>EMFs</i> ” .....	electromagnetic fields
“ <i>EMU</i> ” .....	the European Monetary Union
“ <i>EnBW</i> ” .....	EnBW Energie Baden-Württemberg AG
“ <i>ENEL</i> ” .....	ENEL S.p.A.
“ <i>ENTSO for Electricity</i> ” .....	the European Network of Transmission System Operators
“ <i>ENTSO for Gas</i> ” .....	the European Network of Transmission System Operators for Gas
“ <i>E.ON</i> ” .....	E.ON AG
“ <i>EPEX SPOT</i> ” .....	the European Power Exchange (Spot Markets) in Paris
“ <i>ERO</i> ” .....	the Czech Energy Regulatory Office
“ <i>ERSA</i> ” .....	the Bulgarian Energy from Renewable Sources Act
“ <i>ERU</i> ” .....	Emission Reduction Units
“ <i>ESA</i> ” .....	the European Supply Agency
“ <i>ESO</i> ” .....	the electricity system operator
“ <i>EUA</i> ” .....	E.U. Emission Allowances
“ <i>E.U. Climate and Energy Package</i> ” ....	the climate and energy package adopted by the European Union in 2009
“ <i>E.U. Electricity Security of Supply Directive</i> ” .....	Directive 2005/89/EC Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment
“ <i>E.U. Emissions Exemption</i> ” .....	the exemption under the E.U. ETS for the 10 newest European Union member states for allocation of emission allowances without cost
“ <i>E.U. ETS</i> ” .....	the E.U. Emission Trading Scheme for CO <sub>2</sub> emission allowances
“ <i>E.U. First Electricity Directive</i> ” .....	Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity
“ <i>E.U. First Gas Directive</i> ” .....	Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas
“ <i>E.U. Gas Supply Directive</i> ” .....	Regulation (E.U.) 994/2010 Concerning Measures to Safeguard Security of Gas Supply
“ <i>E.U. Natural Gas Transmission Regulation</i> ” .....	Regulation 715/2009 on conditions for Access to Natural Gas Transmission Networks
“ <i>E.U. Renewable Energy Directive</i> ” ....	Directive 2009/28/EC on the promotion of the use of energy from renewable sources



<b>Term/Definition</b>	<b>Meaning</b>
“Euratom Treaty” .....	the Treaty Establishing the European Atomic Energy Community
“EURIBOR” .....	the Euro Interbank Offered Rate
“Euro,” “EUR” and “€” .....	the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time
“Euroclear” .....	Euroclear Bank S.A./N.V.
“E.U. Regulation on Cross-Border Exchanges” .....	Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity
“E.U. Savings Directive” .....	the E.U. Council Directive 2003/48/EC on the taxation of savings income
“E.U. Second Electricity Directive” .....	Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity
“E.U. Second Gas Directive” .....	Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas
“E.U. Third Electricity Directive” .....	Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity
“E.U. Third Gas Directive” .....	Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas
“Financial Promotion Order” .....	the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005
“Fiscal Agency Agreements” .....	the fiscal agency agreement in respect of the 2022 Notes and the fiscal agency agreement in respect of the 2042 Notes, each between the Issuer, the Fiscal Agent and the Registrar and dated April 3, 2012
“Fiscal Agent” .....	Citibank, N.A., London Branch
“Fortum” .....	Fortum Corporation
“FSMA” .....	the Financial Services and Markets Act 2000
“General Meeting” .....	the general meeting of ČEZ, a. s.
“Global Notes” .....	the global notes representing the Notes, registered in the name of DTC or Euroclear or Clearstream, Luxembourg
“GreenX” .....	the Green Exchange (Environmental Markets) in New York
“Guide 7” .....	the U.S. SEC Industry Guide 7
“GW” .....	gigawatt, which is equal to 1,000 MW
“GWh” .....	gigawatt-hour, representing one hour of electricity consumption at a constant rate of 1 GW
“HTSO” .....	the Hellenic Transmission System Operator in Greece
“HUPX” .....	the Hungarian Power Exchange
“IAEA” .....	the International Atomic Energy Agency
“IARC” .....	the International Agency for Research on Cancer
“IAS 24” .....	International Auditing Standard 24

<b>Term/Definition</b>	<b>Meaning</b>
“ <i>Iberdrola</i> ” .....	Iberdrola S.A.
“ <i>ICE</i> ” .....	the London Intercontinental Exchange
“ <i>IFRS</i> ” .....	the International Financial Reporting Standards issued by the International Accounting Standards Board, including interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously referred to as the “Standing Interpretations Committee” (SIC), and, also including, International Accounting Standards, where the context requires, as endorsed by the European Commission for use in the European Union
“ <i>Industrial Emissions Directive</i> ” .....	Directive 2010/75/EC on industrial emissions (on integrated pollution prevention and control)
“ <i>INES</i> ” .....	the international nuclear events scale
“ <i>Initial Purchasers</i> ” .....	Barclays Bank PLC, Citigroup Global Markets Inc., Goldman Sachs International and SG Americas Securities, LLC
“ <i>Insolvency Regulation</i> ” .....	the Council regulation (EC) No.1346/2000 of May 29, 2000 on Insolvency Proceedings
“ <i>installed capacity</i> ” .....	the highest constant level of generation of electricity which a power plant is designed to be capable of maintaining
“ <i>IRS</i> ” .....	the United States Internal Revenue Service
“ <i>ISFSF</i> ” .....	an interim spent nuclear fuel storage facility
“ <i>ISIN</i> ” .....	International Security Identification Number
“ <i>ISO</i> ” .....	Independent System Operator
“ <i>Issue Date</i> ” .....	April 3, 2012
“ <i>Issuer</i> ” .....	ČEZ, a. s.
“ <i>ITO</i> ” .....	Independent Transmission Operator
“ <i>JPY</i> ,” “ <i>Yen</i> ” or “ <i>¥</i> ” .....	Japanese Yen, the lawful currency of Japan
“ <i>KESH</i> ” .....	the Albanian Power Corporation
“ <i>kW</i> ” .....	kilowatt, representing the rate at which energy is produced
“ <i>kWh</i> ” .....	kilowatt-hour, representing one hour of electricity consumption at a constant rate of 1 kW
“ <i>KYOTO Protocol</i> ” .....	the Kyoto protocol for reducing greenhouse gas emissions
“ <i>LIBOR</i> ” .....	the London Interbank Offered Rate
“ <i>LTO</i> ” .....	long-term-operation
“ <i>Madrid Agreement</i> ” .....	the Madrid Agreement Concerning the International Registration of Marks and its Protocol
“ <i>MEET</i> ” .....	the Bulgarian Ministry of Economy, Energy and Tourism
“ <i>MEW</i> ” .....	the Bulgarian Ministry of Environment and Waters
“ <i>MIBRAG</i> ” .....	Mitteldeutsche Braunkohlengesellschaft GmbH

<b>Term/Definition</b>	<b>Meaning</b>
“ <i>Moody’s Investors Service Ltd</i> ” .....	Moody’s Investors Service Ltd is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, which is available on the ESMA website ( <a href="http://www.esma.europa.eu/page/list-registered-and-certified-CRAs">www.esma.europa.eu/page/list-registered-and-certified-CRAs</a> ) (last updated January 6, 2012)
“ <i>MW</i> ” .....	megawatt, which is equal to 1,000 kW
“ <i>MWh</i> ” .....	megawatt-hour, representing one hour of electricity consumption at a constant rate of 1 MW
“ <i>Net Debt</i> ” .....	long-term debt, net of current portion plus short-term loans plus current portion of long-term debt minus cash and cash equivalents plus highly liquid financial assets
“ <i>Notes</i> ” .....	the 2022 Notes together with the 2042 Notes
“ <i>NO<sub>x</sub></i> ” .....	mono-nitrogen oxides
“ <i>OPCOM</i> ” .....	the Romanian Electricity Market Operator Opcom SA
“ <i>OSART</i> ” .....	the Operational Safety Review Team of the IAEA
“ <i>OTC</i> ” .....	over-the-counter
“ <i>OTE</i> ” .....	the Czech Electricity and Gas Market in Prague
“ <i>PCBs</i> ” .....	polychlorobiphenyls
“ <i>PGE</i> ” .....	Polska Grupa Energetyczna S.A.
“ <i>POLPX</i> ” .....	the Polish Power Exchange
“ <i>PRIBOR</i> ” .....	the Prague Interbank Offer Rate
“ <i>Prospectus Law</i> ” .....	the Luxembourg law of July 10, 2005 on Prospectuses for Securities
“ <i>Purchase Agreement</i> ” .....	the purchase agreement dated the date of this offering memorandum between the Issuer and the Initial Purchasers
“ <i>PXE</i> ” .....	the Power Exchange Central Europe
“ <i>QIB</i> ” .....	qualified institutional buyer (as defined in Rule 144A under the U.S. Securities Act)
“ <i>RAESBA</i> ” .....	the Bulgarian Renewable and Alternative Energy Sources and Biofuels Act of June 19, 2007
“ <i>REAS</i> ” .....	the original, state-owned, regional distribution companies in the Czech Republic
“ <i>Registrar</i> ” .....	Citigroup Global Markets Deutschland AG
“ <i>Regulation S</i> ” .....	Regulation S under the U.S. Securities Act
“ <i>Restricted Global Notes</i> ” .....	the one or more permanent global Notes representing the Notes which are offered and sold in reliance on Rule 144A
“ <i>RPS</i> ” .....	renewable portfolio standard
“ <i>RSA</i> ” .....	registration statement or application for license filed under Chapter 421 B of the New Hampshire Revised Statutes

<b>Term/Definition</b>	<b>Meaning</b>
“Rule 144A” .....	Rule 144A under the U.S. Securities Act
“RWE” .....	Rheinisch-Westfalishes Elektrizitätswerk
“R&D” .....	research and development
“SCEWR” .....	the Bulgarian State Commission for Energy and Water Regulation
“SEE” .....	the geographical region of South East Europe
“SEI” .....	the Czech State Energy Inspectorate
“SFA” .....	the Singapore Securities and Futures Act
“SONS” .....	the Czech State Office for Nuclear Safety
“SO <sub>x</sub> ” .....	sulfur oxides
“Stabilizing Manager” .....	Citigroup Global Markets Inc.
“Standard & Poor’s Credit Market Services Europe Limited” .....	Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, which is available on the ESMA website ( <a href="http://www.esma.europa.eu/page/list-registered-and-certified-CRAs">www.esma.europa.eu/page/list-registered-and-certified-CRAs</a> ) (last updated January 6, 2012).
“Supervisory Board” .....	the supervisory board of ČEZ, a. s.
“SZDC” .....	the Czech state organization Railway Infrastructure Administration
“TGE” .....	the Towarowa Gielda Energii in Poland
“Ton” .....	metric ton
“TVEL” .....	the Russian company JSC TVEL
“TW” .....	terawatt, which is equal to 1,000 GW
“TWh” .....	terawatt-hour, representing one hour of electricity consumption at a constant rate of 1 TW
“Unrestricted Global Notes” .....	the one or more permanent global Notes representing the Notes which are offered and sold in reliance on Regulation S
“U.S. Code” .....	the Internal Revenue Code of 1986, as amended
“U.S. dollars,” “USD” and “U.S.\$” .....	the lawful currency of the United States
“U.S. Exchange Act” .....	the U.S. Securities Exchange Act of 1934, as amended
“U.S. SEC” .....	the U.S. Securities and Exchange Commission
“U.S. Securities Act” .....	the U.S. Securities Act of 1933, as amended
“Verbund” .....	Verbund AG
“Vienna Convention” .....	the Vienna Convention on Civil Liability for Nuclear Damage
“WANO” .....	the World Association of Nuclear Operators
“WHO” .....	the World Health Organization

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## ANNEX B – DOCUMENTS INCORPORATED BY REFERENCE

The following documents comprising the auditor's report and audited consolidated financial statements of the CEZ Group for the years ended December 31, 2009, 2010 and 2011, as well as the audited financial statements of ČEZ, a. s. for the year ended December 31, 2011, which have previously been published and have been filed with the CSSF, shall be incorporated in, and form part of, this offering memorandum.

<b>Consolidated Financial Statements of the CEZ Group for the Year Ended December 31, 2009</b>	<b>Page</b>
Independent Auditor's Report.....	A-B
Consolidated Balance Sheet .....	C-D
Consolidated Statement of Income.....	E
Consolidated Statement of Comprehensive Income.....	F
Consolidated Statement of Changes in Equity .....	G-H
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<b>Consolidated Financial Statements of the CEZ Group for the Year Ended December 31, 2010</b>	<b>Page</b>
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Consolidated Statement of Comprehensive Income.....	F
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Consolidated Statement of Changes in Equity .....	G-H
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Notes to the Consolidated Financial Statements .....	1-66

The audited financial statements of ČEZ, a. s. for the year ended December 31, 2011, as well as any other information not listed above but contained in such documents, is incorporated by reference for information purposes only. No materials from our website or any other source other than those specifically identified above are incorporated by reference into this offering memorandum.

Copies of documents incorporated by reference in this offering memorandum can be obtained from the registered office of the Issuer and from the specified offices of the Fiscal Agent for the time being in London. The documents incorporated by reference will also be available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

## ISSUER

**ČEZ, a. s.**  
Duhová 2/1444  
140 53 Prague 4  
Czech Republic

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United Kingdom

*To the Issuer as to Czech law*

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Czech Republic

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**Goldman Sachs International**  
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**SG Americas Securities, LLC**  
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United States of America

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*To the Joint Lead Managers as to Czech law*

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Czech Republic

## AUDITORS

**Ernst & Young Audit, s.r.o.**  
Charles Square Center, Karlovo nám. 10  
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Czech Republic

## REGISTRAR

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Reuterweg 16  
60323 Frankfurt  
Germany

## FISCAL AGENT

**Citibank, N.A., London Branch**  
Citigroup Centre  
Canada Square, Canary Wharf  
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United Kingdom

## LUXEMBOURG LISTING AGENT

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