

## BASE PROSPECTUS

**ČEZ, a. s.**

*(incorporated with limited liability in the Czech Republic)*

**€6,000,000,000**

### **Euro Medium Term Note Programme**

Under this €6,000,000,000 Euro Medium Term Note Programme (the **Programme**), ČEZ, a. s. (the **Issuer** or **ČEZ**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €6,000,000,000 (or its equivalent in other currencies calculated as described in the Amended and Restated Programme Agreement described herein), subject to increase as described herein.

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

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

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities to approve this document as a base prospectus.

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

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

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

### **Arrangers**

**BNP PARIBAS**

**Citi**

The date of this Base Prospectus is 31 March 2010.

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

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

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

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

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

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

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

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

connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

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

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

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

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

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

All references in this document to *U.S. dollars* and *U.S.\$* refer to United States dollars and to *Czech crowns*, *CZK* and *Kč* refer to the lawful currency for the time being of the Czech Republic. In

addition, all references to *euro*, *EUR* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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

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

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

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

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

### **Factors that may affect the Issuer's ability to fulfil its obligations under the Notes**

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

#### **(A) Issuer Ownership**

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

The Czech state holds via MoF and MoLSA approximately 69.78% of all shares in ČEZ as of 9 March 2010. There can be no assurance that this or any future government will not ultimately seek to undertake any partial or full privatisation of ČEZ resulting in the sale of its entire shareholding in ČEZ. Such privatisation could have a material adverse effect on CEZ GROUP's business, dividend policy, financial condition and results of operation. Nevertheless, the Issuer believes that the government has no current intention to partially or fully privatise ČEZ.

***The majority shareholder may pursue decisions that reflect Czech government policy***

The Czech state holds via its shareholding the power to nominate and elect two-thirds of the members of ČEZ's Supervisory Board. ČEZ's Supervisory Board elects members to the Board of Directors. Consequently, certain of ČEZ's decisions may reflect Czech Government policy. ČEZ can give no assurance that these decisions will not adversely affect its business, prospects, financial condition or results of operations.

#### **(B) Regulatory risk factors**

***Future regulation and legal requirements could have a significant adverse effect on CEZ GROUP's business and its profitability***

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

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

Accordingly, if the transmission prices or related financial conditions change, ČEZ can give no assurance that the possible increase in transmission prices would not adversely affect its business, prospects, financial condition or results of operations. Furthermore, CEZ GROUP can give no assurance that the specific regulatory or other relationship that actually develops with respect to the transmission of electricity will not adversely affect its business, prospects, financial condition or results of operations.

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

Under Czech law and EU regulatory requirements, the distribution of electricity must have been separated and independent from the generation of electricity by 1 January 2007. The process of separation, called “unbundling”, is outlined in Act No. 458/2000 Coll., on energy (the **New Energy Act**) and in the relevant EU directives (2003/54/EC and 2004/8/EC). The unbundling process commenced in other countries as well (including Bulgaria and Romania).

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

***State support for selected power generation sources could adversely affect CEZ GROUP's business***

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

***The costs charged for radioactive waste disposal may increase***

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

***The amounts ČEZ has to keep as restricted fund for future decommissioning of CEZ GROUP's nuclear power plants and for decommissioning and reclamation of mines and mining damages may increase; CEZ GROUP may become liable for increased costs of future decommissioning***

Under Czech law, CEZ GROUP is required to keep amounts as restricted funds based on the expected costs of future decommissioning of its nuclear power plants. These funds can be used only for such decommissioning and only with the permission of the Repository Authority. As CEZ GROUP is involved in open pit mining in the Czech Republic via its 100% subsidiary Severoceske doly a.s., and in Germany via its 50% stake in MIBRAG GmbH, it is also required to keep funds for obligations to decommission and reclaim mines at the end of their operating lives. The regulation with regards to this type of excavation requires the respective mining companies to reclaim land impacted by its own operation. The costs of the reclamation depend on the selected way of reclamation and are subject to periodical reviews. The relevant mining authorities require or may require collateral to secure the reclamation obligations can be met. Such collateral typically may be in the form of cash collateral on the mining company's balance sheet in the form of restricted cash, parent company or bank guarantee or pledge over certain assets. Furthermore in addition to creation of reclamation reserves the relevant authorities may require other payments related to the mining licences to be paid.

CEZ GROUP can give no assurance that these amounts kept as restricted funds will not increase as a result of increased expected costs of decommissioning or other factors determining the amount of its annual contributions. Additionally, if the cash amounts kept as restricted funds are not sufficient to pay the decommissioning costs, CEZ GROUP may be required to pay additional amounts.

Furthermore the methodology for determination of reclamation costs and/or other payments may change as well as requirements related to the collateralisation of reclamation obligations. Such changes may have a negative impact on the operations of the CEZ GROUP.

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

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

### ***CEZ GROUP could incur unforeseen tax penalties and/or sanctions***

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

### ***As a result of a pending EU Antimonopoly investigation, CEZ Group may incur significant penalties***

On 24 November 2009 the inspectors of the Commission of the European communities started an inspection at the headquarters of ČEZ in Prague and office of Severočeské doly, a member company of CEZ GROUP. The European Commission stated that it had been informed that CEZ GROUP might have attempted to restrict development of the competition on the wholesale electricity market. The statement mentions that CEZ GROUP might have created obstacles for power plant projects of its competitors, that it might be involved in limitation of the trade in brown coal and that it might influence the prices on the Czech wholesale electricity market. The inspection is being conducted based on the Commission's decision ordering the companies in question to submit to the inspections under art. 20 (4) of Regulation 1/2003. If found guilty of manipulating the market, ČEZ could face a maximum fine of 10% of its 2008 revenues.

### **(C) Business risk factors**

#### ***Political developments in the Czech Republic could negatively impact economic conditions in the Czech Republic and CEZ GROUP's business***

The parliamentary elections are expected to take place in May 2010. Any composition of parliament and government resulting from the elections may have an adverse effect on the overall stability of the Czech Republic and consequently on CEZ GROUP's economic and financial situation. CEZ GROUP can give no assurance that any new government will continue the energy, economic, fiscal, and regulatory policies of former governments. Nor can there be any assurance that any changes in such policies will not have a material adverse effect on CEZ GROUP's business, prospects, financial condition or result of operations. Moreover, any potential change in the government may affect the structure of the presidium of the MoF and/or the structure of ČEZ's Supervisory Board and ČEZ's Board of Directors.

#### ***CEZ GROUP's strategies may not be successful***

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

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

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

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

CEZ GROUP competes 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 (see “*Description of the Business of CEZ GROUP – Liberalisation of the Czech Electricity Market*”). As a consequence of that, the customers may purchase electricity from suppliers other than those within CEZ GROUP, which might reduce CEZ GROUP revenues. CEZ GROUP can provide no assurance that decisions of the independent supply companies or final customers will not adversely affect its business, prospects, financial condition or results of operations.

### ***There are risks associated with international operations***

ČEZ is highly active in the mergers and acquisitions activity in Central and South-eastern Europe (see “*CEZ GROUP's strategies may not be successful*” above) and also monitors opportunities in western European markets. CEZ GROUP will continue to evaluate opportunities abroad and may expand its investments in these countries or in new markets. There are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, default of joint-venture partners, trade barriers including import and export controls, tariffs, customs, duties, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, expropriation, nationalisation, war and other political risks, fluctuations in currency exchange rates, foreign exchange controls which restrict or prohibit repatriation of funds, technology export and import restrictions or prohibitions and potentially adverse tax consequences, any of which could adversely impact the success of CEZ GROUP's international operations.

### ***Risks associated with generation capacity expansion and diversification***

ČEZ's current power capacity mix predominantly consists of coal and nuclear. The goal of ČEZ GROUP is to diversify and expand the existing capacity in order to reduce the relative CO<sub>2</sub> emissions, increase flexibility of the generation fleet and increase its generation potential to meet future demand. On the back of this CEZ GROUP (i) invests in coal power plants upgrade and replacement, (ii) invests in construction of new gas power plants, (iii) has initiated preparatory works for construction of several new nuclear reactors and (iv) contemplates substantial capacity increase in renewable power generation. Such investments will require significant capital expenditures, substantially higher than in previous years. The investments will also require substantial managerial attention to complete the contemplated projects on time and within the budget. Failure to properly control the above mentioned capital expenditures may result in higher utilisation of CEZ GROUP's debt capacity. Failure to contract the relevant supplies on terms substantially comparable to those of its competitors may lower the competitiveness of CEZ GROUP's generation fleet. Failure to complete the respective projects on budget and on schedule may result in additional cost.

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

In 2005, ČEZ concluded an agreement with Czech Coal Services (formerly *Mostecká uhelná a.s.; Czech Coal*) which provided for a long term cooperation between the companies as regards lignite (brown coal) deliveries for ČEZ's power plant in Počerady after 2016. Pursuant to the agreement the companies agreed to conclude by mid-2007 a long term purchase agreement for the deliveries of lignite. Czech Coal refused to enter into such an agreement. ČEZ has, therefore commenced legal action against the Czech Coal Group with the aim to uphold the long-term coal purchase contract.

The future outcome of the legal action is unknown at the moment. Currently the lignite from Czech Coal is purchased under a medium-term contract which is valid until 2012.

### ***Risks associated with the Temelín nuclear power plant litigation***

In ongoing litigation before Austrian courts based on suits filed by Austrian persons (demanding cease-and-desist from generating alleged ionizing radiation from Temelín Nuclear Power Station), deliberations in the period in question centered on whether Austrian courts have jurisdiction over the dispute. In this matter, the Supreme Court in Vienna asked the European Court of Justice in Luxembourg (the “ECJ”) for an interpretation of the Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters (the “Brussels Convention”). In its “preliminary issue proceedings,” the ECJ decided that the relevant provisions of the Brussels Convention do not support the Austrian courts’ jurisdiction over the matter. Despite this ECJ decision, the Supreme Court in Vienna issued a decision that jurisdiction is given by internal Austrian law. Based on this decision, the matter was returned to the Linz Regional Court, as the court of first instance. On 20 December 2007, this court issued a resolution announcing that, on the basis of an expert opinion prepared at the behest of ČEZ, a. s. by Professors Schroeder and Weber from the University of Innsbruck, it is opening proceedings on the preliminary issue before the ECJ, as it has doubts concerning the applicability of Section 364(a) of the Austrian Civil Code. In connection with the litigation before the ECJ four standpoints of Austria, the Czech Republic, Poland and the European commission were submitted. The final decision of the ECJ was issued on 27 October 2009. The ECJ ruled, *inter alia*, that the principle of non-discrimination on the grounds of nationality under the EAEC Treaty requires the recognition of public law permits issued by another EU member state; if a company has received the required official permissions for operating of a nuclear power plant under the laws of its own country which is a member state, it must be treated as if it received such permissions under the laws of the country in which it is being sued. Accordingly, Austrian courts must deem the approvals granted by Czech authorities as equivalent to those issued in Austria. In the course of 2010 a final decision may be expected by the Linz Regional Court which based on the quoted decision by the ECJ should decline or dismiss the said action filed by Upper Austria. The results of these litigations are out of ČEZ’s control and could adversely affect CEZ GROUP’s business, prospects, financial condition or results of operations.

### ***Risks associated with the renewable power plants***

The energy business environment is strongly influenced by the EU ambition to increase the share of renewable energy resources, which was confirmed by approval of the “EU climate package” in 2008. According to this package CEZ GROUP is effectively forced, through economic incentivisation, to reflect it within its own strategy. The implementation of this strategy or impact of this external strategy on ČEZ competitors or suppliers may seriously affect CEZ GROUP’s business, prospects, financial condition or results of operations.

#### **(D) Operational risk factors**

##### ***CEZ GROUP could incur significant losses if it suffered a nuclear accident***

In accordance with the Vienna Convention, the Nuclear Act provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to CZK 8 billion per accident. The Nuclear Act also provides that operators of nuclear facilities, such as ČEZ, are obliged to acquire insurance covering potential liabilities for nuclear damages in an amount of not less than CZK 2 billion. CEZ GROUP has concluded insurance policies for both the *Dukovany* and *Temelín* nuclear power plants which provide coverage at these amounts. However, notwithstanding such limitation of liability and CEZ GROUP’s additional coverage, any nuclear accident at a nuclear power station could have a material adverse effect on its business, prospects, financial condition or results of operations due to, *inter alia*, potential shut-down of the nuclear facility involved in the accident and the resulting loss of generation capacity, remedial and replacement expenses and negative public response. In addition, as the Nuclear Act has not been tested in court, CEZ GROUP can give no assurance that judicial interpretations will be consistent with its stated limitation of liabilities.

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

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

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

The load factor at the *Temelín* nuclear power plant was 68% and 75%, respectively, in 2008 and 2009 (compared to 90% and 86% at the *Dukovany* nuclear power plant for the same years). The relatively low load factor percentages at *Temelín* have been caused by unplanned outages relating to faults at the non-nuclear part of the power plant. However, ČEZ expects that there may be continued technical interruptions at *Temelín* in the future, until the load factor level at *Temelín* will be comparable to those currently at *Dukovany*. Such technical interruptions would have an adverse effect on the performance of the *Temelín* power plant and financial results of CEZ GROUP.

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

***ČEZ needs to successfully replace the nuclear fuel supplier for Temelín***

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

***CEZ GROUP's insurance does not fully cover its risks and facilities***

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

***Integration of newly acquired foreign subsidiaries could encounter obstacles, negatively influencing CEZ GROUP's business***

Since 2005, ČEZ acquired major or 100% stakes in three distribution companies, the *TPP Varna EAD* power plant in Bulgaria, the distribution company *Electrica Oltenia S.A.* in Romania, and *Elektrownia Skawina S.A.* and *Elektrociepłownia Chorzów "ELCHO" Sp. z o.o.* power plants in Poland. In August 2008, ČEZ bought the wind farm project in Romania "*Fantanele and Cogelac*" and in February 2009 completed together with its Turkish partner Akkök Group, the takeover of the Turkish distribution company *Sakarya Elektrik Dagitim A.Ş. (Sedaş)*. In May 2009 ČEZ acquired a 37% stake in Turkish power generation company *Akenerji Elektrik Uterim* and a 76% stake in Albanian distribution company *Operatori i Sistemit te Shperndarjes Sh.A. (OSSH)*. In June 2009 ČEZ acquired a 50% stake in German mining company *MIBRAG*.

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

**(E) Market risk factors**

***If the world-wide financial and economical crisis deepens, CEZ GROUP's business could be impacted negatively***

Profitability of CEZ GROUP is exposed to the development of global and/or European economy and capital markets.

*Commodity prices.* CEZ GROUP sells a substantial majority of its electricity for prices derived from the European market prices, which are mainly driven by the European aggregate supply/demand balance and by the world oil, coal and gas prices as well as by the prices of European Union Allowances (the **EUA**). Changes in the global commodities prices and/or decline of electricity demand in Europe, for example as a result of a continued economic slowdown or further downturn, may adversely impact CEZ GROUP's business, prospects, financial condition or results of operations.

*Asset prices.* The value of certain of CEZ GROUP's assets and financial investments (incl. JV structures) is sensitive to the performance of the global, and especially to the European, economy, including the performance of certain capital markets. CEZ GROUP holds a substantial share in *MOL*, the Hungarian oil company. CEZ GROUP also holds substantial amounts in certain – mainly Czech Republic's Government – bonds. The future fluctuations of the capital markets could negatively influence the value of those assets and thus adversely impact CEZ GROUP's business, prospects, financial condition or results of operations.

*Liquidity, costs of financing, receivables collection.* Since the second half of 2007, the disruption in the global credit markets, coupled with the re-pricing of credit risk, created increasingly difficult conditions in the financial markets, and in particular for corporates. These conditions have resulted in historically high volatility, low or no liquidity, widening of credit spreads and a lack of price transparency in certain markets. Furthermore with a continued slow down of the global economy CEZ GROUP may experience late or no payments from its customers. If the situation of global economy and financial markets further worsens CEZ GROUP may face liquidity problems and/or would see increased costs of its funding.

***If the Czech economy performs poorly, CEZ GROUP's business could be impacted negatively***

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

***Political and economic development in other countries where CEZ GROUP has or plans to have a business presence could negatively impact CEZ GROUP's business***

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

***CEZ GROUP is exposed to foreign exchange financial risks***

A significant part of ČEZ's revenues is generated in currencies other than CZK, namely in Euro, Bulgarian lev, Romanian lei, Turkish Lira and Polish zloty; relevant costs are generated in Czech crowns, Bulgarian lev, Romanian lei, Polish zloty, Turkish lira, Euro and in US dollars. The share of direct revenues in EUR has grown significantly since launching the Prague Energy Exchange in 2007. A significant part of ČEZ's debt is denominated in other currencies than Czech crowns, namely in Euro. ČEZ's major Euro debt is designated as a natural FX hedge of the EUR denominated revenues.

Further the Czech Republic has experienced growing public finance deficits which could potentially destabilise the Czech crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic through lower debt ratings, and subsequently for CEZ GROUP as well. The Czech crown volatility is further exposed to impacts of the overall development of the global economy and the relative perception of risks associated with new EU members and/or other CEE countries. CEZ GROUP can give no assurance that the Czech crown and inflation in the Czech Republic will not significantly change in future years. Another relevant risk factor is the date of the Czech Republic joining the Euro zone. The previously generally expected date has been delayed due to the growing public and budget deficit of the Czech Republic and due to political developments. As of the date of this Base Prospectus there is no official target date of joining the Euro zone.

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

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

*Costs structure and variable electricity prices.* The operation of CEZ GROUP's power plants, in particular its nuclear power plants, is characterised by high fixed costs. Additionally, some of CEZ GROUP's costs are not faced by its non-nuclear competitors because they are unique to the nuclear power generation industry. CEZ GROUP's ability to generate sufficient turnover at sufficient margin to cover its fixed costs is dependent, in part, on favourable electricity prices and CEZ GROUP's sales and trading strategy. Electricity prices depend on a number of market and other factors. Because CEZ GROUP's costs are relatively fixed in nature, they cannot be reduced in periods of low electricity prices. Therefore, in these

circumstances, it is possible that CEZ GROUP may not produce sufficient free CF from its electricity sales and/or trading activities.

*CO<sub>2</sub> Emission allowances.* In 2005, the EU introduced the ETS (the Emission Trading Scheme) (see “CO<sub>2</sub> Emission Allowances”). Within ETS, each emitter is allocated a certain cap by the national government, which is in turn allocated a national cap by the EU Commission, within which it is allowed to emit CO<sub>2</sub>. Any emissions in excess of this cap must be counterbalanced by CO<sub>2</sub> credits acquired in the open market at a market price, otherwise the emitter should be penalised. Allocated credits not off-set by actual emissions may be sold in the open market at a market price.

The allocations are fixed for a specific trading period. The allocations for the second period (2008-2012) were approved for the Czech Republic and EUAs for 2008-2009 were issued. Allocations in Poland were also approved, but there is a pending lawsuit between Poland and the EC about the authority to set the emission caps. The allocation in Bulgaria is expected to start in 2010.

In the second period (2008-12), companies can use Kyoto credits CER/ERU (Certified Emission Reductions/Emission Reduction Units) instead of the ETS allowances. The amount that can be used in the scheme is capped as a certain percentage of the company’s overall EUA allocation. The CER/ERU credits are generated by investments into projects that reduce greenhouse gas emissions in developing countries, following procedures set out by the Kyoto Protocol and other related inter-governmental agreements. CEZ GROUP is actively involved in trading CERs/ERUs.

Currently, CEZ GROUP does not need to buy additional credits for the second period (2008-2012) in the market. However an unexpected increase of demand for electricity or outages of nuclear power plants may lead to an unexpected increase of generation of coal power plants and deficit of CO<sub>2</sub> credits or CER/ERU, which would result in additional cost of the CO<sub>2</sub> credits purchased in the market with a negative impact on the cash flow of ČEZ.

In the periods after 2012 (especially the third period 2013-2020), a substantial part or even 100% of EUAs will not be allocated but sold in auctions to CEZ GROUP (for market price). The potential partial free allocation to CEZ GROUP is only to be allocated under condition of (i) approval from national governments and the EC and (ii) appropriate investing by CEZ GROUP into clean/renewable technologies. This means that from 2013 the CEZ GROUP’s costs will grow and further open to the future CO<sub>2</sub> price volatility risks. To mitigate the existing post-2012 price risk of emissions, CEZ executes a hedging strategy of acquiring a certain volume of EUAs before this period (as EUAs are transferable), although, in the event of potential decreases of EUA prices, this hedging strategy could itself adversely impact CEZ GROUP’s business.

Allocations of CO<sub>2</sub> credits in the coming trading periods and/or development of the prices of CO<sub>2</sub> credits may result in an increase of the generation variable costs, thus making electricity price offered by ČEZ uncompetitive. In addition thereto, excess CO<sub>2</sub> credits may be sold at lower than anticipated prices.

## **Factors which are material for the purpose of assessing the market risks associated with the Notes**

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

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

### ***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

#### *Notes subject to optional redemption by the Issuer*

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

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

#### *Index Linked Notes and Dual Currency Notes*

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

Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;

- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

### ***Partly-paid Notes***

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

### *Variable rate Notes with a multiplier or other leverage factor*

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

### *Inverse Floating Rate Notes*

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

### *Fixed/Floating Rate Notes*

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

### *Notes issued at a substantial discount or premium*

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

## ***Risks related to the Notes generally***

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

### *Meetings of Noteholders and modification*

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

### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States (including the Czech Republic which implemented the Directive into the Section 38 fa (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 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)<sup>1</sup> to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

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

### *Change of law*

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

### *Notes where denominations involve integral multiples: definitive Notes*

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

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<sup>1</sup> Belgium previously also operated a transitional withholding system but has now opted, by two Royal Decrees dated 27 September 2009 and published in the Belgian State Gazette on 1 October 2009, to provide details of payments of interest in accordance with the EC Council Directive 2003/48/EC, as from 1 January 2010.

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

### ***Risks related to the market generally***

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

#### *The secondary market generally*

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

#### *Exchange rate risks and exchange controls*

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

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

#### *Interest rate risks*

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

#### *Credit ratings risks*

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

### ***Legal investment considerations may restrict certain investments***

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

## OVERVIEW OF THE PROGRAMME

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

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

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

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

<b>Programme Size:</b>	Up to €6,000,000,000 (or its equivalent in other currencies calculated as described in the Amended and Restated Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Amended and Restated Programme Agreement.
<b>Distribution:</b>	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Notes may be denominated in euro, Sterling, U.S. dollars, yen and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
<b>Redenomination:</b>	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
<b>Maturities:</b>	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
<b>Issue Price:</b>	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
<b>Form of Notes:</b>	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
<b>Fixed Rate Notes:</b>	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
<b>Floating Rate Notes:</b>	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li> <li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) -on such other basis as may be agreed between the Issuer and the relevant Dealer.</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>

<b>Index Linked Notes:</b>	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
<b>Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:</b>	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
<b>Dual Currency Notes:</b>	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
<b>Zero Coupon Notes:</b>	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
<b>Redemption:</b>	<p>The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "<i>Certain Restrictions – Notes having a maturity of less than one year</i>" above.</p>
<b>Denomination of Notes:</b>	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see " <i>Certain Restrictions – Notes having a maturity of less than one year</i> " above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

<b>Taxation:</b>	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
<b>Negative Pledge:</b>	The terms of the Notes will contain a negative pledge provision as further described in Condition 3.
<b>Cross Default:</b>	The terms of the Notes will contain a cross default provision as further described in Condition 10.
<b>Status of the Notes:</b>	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
<b>Rating:</b>	The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms.
<b>Listing, Approval and admission to trading:</b>	<p>Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>
<b>Governing Law:</b>	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
<b>Selling Restrictions:</b>	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and the Czech Republic), Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see " <i>Subscription and Sale</i> ".

## DOCUMENTS INCORPORATED BY REFERENCE

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

The auditors report and audited consolidated and non-consolidated annual financial statements of the Issuer for the two financial years ended 31 December 2008 and 31 December 2009 including the information set out at the following pages in particular:

	<i>2008 Annual Report</i>		<i>2009</i>	
	<i>Consolidated</i>	<i>Non-consolidated</i>	<i>Consolidated financial statements</i>	<i>Non-consolidated financial statements</i>
Balance Sheet .....	Page 130	Page 176	Pages C to D	Pages C to D
Statement of Income .....	Page 131	Page 177	Page E	Page E
Accounting Principles... and Notes.....	Pages 134 to 174	Pages 180 to 212	Pages 1 to 65	Pages 1 to 48
Audit Report.....	Pages 128 to 129	Page 175	Pages A to B	Pages A to B

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

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

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Luxembourg.

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

## TECHNICAL TERMS AND PRESENTATION OF OTHER DATA

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

<b>CO</b>	Carbon monoxide.
<b>CO<sub>2</sub></b>	Carbon dioxide.
<b>Demand</b>	Consumption of the final consumer not including transmission and distribution losses and self consumption by ČEZ (including electricity used in pump storage facilities) and other electricity generators and distributors.
<b>EIA</b>	Environmental impact assessment.
<b>ERO</b>	Energy Regulatory Office.
<b>ETS</b>	The European Trading System for CO <sub>2</sub> emission credits.
<b>FBB</b>	Fluidised-bed boiler, a kind of boiler which reduces the content of sulphur dioxide emissions in the flue gases during the combustion process.
<b>FGD</b>	Flue-Gas Desulphurisation, a flue stack technology for reducing sulphur dioxide content in power plant emissions.
<b>GW; GWh</b>	One gigawatt equals 1,000 MW; one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1 GW.
<b>I&amp;C</b>	Instrumentation and control system for a nuclear power station.
<b>IAEA</b>	The International Atomic Energy Agency.
<b>Installed capacity</b>	The highest constant level of generation of electricity which a power plant is designed to be capable of maintaining.
<b>IPP</b>	Independent Power Producer.
<b>KV</b>	A kilovolt is a unit of electric tension; one kilovolt equals one thousand volts.
<b>KW; kWh</b>	A kilowatt is a unit of power, representing the rate at which energy is produced; one kilowatt-hour represents one hour of electricity consumption at a constant rate of 1kW.
<b>MIT</b>	The Ministry of Industry and Trade of the Czech Republic.
<b>MoF</b>	The Ministry of Finance of the Czech Republic.
<b>MW; MWh</b>	One megawatt equals 1,000 kW; one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW.
<b>NO<sub>x</sub></b>	Nitrogen oxides.
<b>OPEC</b>	The Organisation of the Petroleum Exporting Countries.
<b>NSA</b>	The Nuclear Safety Authority of the Czech Republic.

<b>PWR</b>	A type of pressurised water nuclear reactor designed in the United States. This type of reactor uses water as both a moderator (the medium in the reactor core which facilitates the chain reaction) and coolant (the medium which conveys the heat generated in the reactor to a steam generator).
<b>REAS</b>	The original, State-owned, regional distribution companies in the Czech Republic.
<b>SAP</b>	Software for information system SAP.
<b>SO<sub>2</sub></b>	Sulphur dioxide.
<b>t/h</b>	Tons of steam per hour.
<b>Ton</b>	Metric ton.
<b>TSO</b>	Transmission System Operator.
<b>TW; TWh</b>	One terawatt equals 1,000 GW; one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW.
<b>VVER</b>	A type of PWR designed in the former Soviet Union which uses water as both a moderator and coolant.
<b>WANO</b>	The World Association of Nuclear Operators.

Unless otherwise indicated, all figures in this Base Prospectus presenting units of generation of electricity are gross (i.e. including the electricity consumed by the power plants themselves).

The Issuer has provided the data contained in this Base Prospectus as to installed capacity, generation and other market share information with respect to the electricity and heating industries in the Czech Republic. The Issuer compiles and publishes certain of this data on a regular basis, and also supplies certain of this data to the Czech Statistical Office for use in compiling national data on the energy sector.

## FORM OF THE NOTES

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

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

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

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

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

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

such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

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

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

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

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

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

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 9. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 19 March 2009 and executed by the Issuer.

## APPLICABLE FINAL TERMS

[Date]

ČEZ, a. s.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the €6,000,000,000  
Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 31 March 2010 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at *www.bourse.lu* and during normal business hours at the registered office of the Issuer and at the offices of the Paying Agents for the time being in London and Luxembourg.

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [*original date*]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Base Prospectus dated 31 March 2010 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [*original date*] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 31 March 2010 and [*original date*]. Copies of such Base Prospectus are available for viewing at *www.bourse.lu* and during normal business hours at the registered office of the Issuer and at the offices of the Paying Agents for the time being in London and Luxembourg.

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

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

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

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

4. Aggregate Nominal Amount:
- (a) Series: [ ]
- (b) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. Specified Denominations: [ ]
- (Note – where multiple denominations above €50,000 or equivalent are being used the following sample wording should be followed:*
- “[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000]. No Notes in definitive form will be issued with a denomination above [€99,000].”)*
- (N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €50,000 minimum denomination is not required.)*
- (a) Calculation Amount: [ ]
- (If only one Specified Denomination, insert the Specified Denomination.*
- If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
8. Maturity Date: [Fixed rate – specify date/
- Floating rate – Interest Payment Date falling in or nearest to [specify month and year]]*
9. Interest Basis: [[ ] per cent. Fixed Rate]
- [[LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]*
- [Zero Coupon]*
- [Index Linked Interest]*
- [Dual Currency Interest]*
- [specify other]*
- (further particulars specified below)*
10. Redemption/Payment Basis: [Redemption at par]
- [Index Linked Redemption]*
- [Dual Currency Redemption]*
- [Partly Paid]*

[Instalment]  
[specify other]

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

11. Change of Interest Basis or Redemption/Payment Basis [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
13. Status of the Notes: Senior
- (a) [Date [Board] approval for issuance of Notes obtained] [ ] [and [ ], respectively]]  
*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*
14. Method of distribution: [Syndicated/Non-syndicated]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]  
*(If payable other than annually, consider amending Condition 5)*
- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]/[specify other]  
*(N.B. This will need to be amended in the case of long or short coupons)*
- (c) [Fixed Coupon Amount(s): [ ] per Calculation Amount  
*(Applicable to Notes in definitive form.)*
- (d) Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]  
*(Applicable to Notes in definitive form.)*
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) [Determination Date(s): [ ] in each year
- (Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
- N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration*
- N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))]*

- (g) Other terms relating to the method of calculating interest for Fixed Rate [None/*Give details*]
16. Floating Rate Note Provisions [Applicable/Not Applicable]  
*If not applicable, delete the remaining subparagraphs of this paragraph*
- (a) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*[specify other]*]
- (c) Additional Business Centre(s): [ ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (f) Screen Rate Determination:
- Reference Rate: [ ]  
*(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Amended and Restated Agency Agreement)*
  - Interest Determination Date(s): [ ]  
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
  - Relevant Screen Page: [ ]  
*(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (g) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
- (h) Margin(s): [+/-] [ ] per cent. per annum
- (i) Minimum Rate of Interest: [ ] per cent. per annum
- (j) Maximum Rate of Interest: [ ] per cent. per annum
- (k) Day Count Fraction: [Actual/Actual (ISDA)]

Actual/365 (Fixed)  
 Actual/365 (Sterling)  
 Actual/360  
 30/360  
 30E/360  
 30E/360 (ISDA)  
 Other]  
 (See Condition 5 for alternatives)

- (l) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [ ]

17. Zero Coupon Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) Accrual Yield: [ ] per cent. per annum  
 (b) Reference Price: [ ]  
 (c) Any other formula/basis of determining amount payable: [ ]  
 (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.5(c) and 7.10 apply/specify other]

18. Index Linked Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*  
*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

- (a) Index/Formula: [give or annex details]  
 (b) Calculation Agent: [give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)]  
 (c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent, and address): [ ]  
 (d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [need to include a description of market disruption or settlement disruption events and adjustment provisions]

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

#### **PROVISIONS RELATING TO REDEMPTION**

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

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

21. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (c) Notice period (if other than as set out in the Conditions): [ ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
22. Final Redemption Amount: [[ ] per Calculation Amount/specify other/see Appendix]  
*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
23. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7.5): [[ ] per Calculation Amount/specify other/see Appendix]

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24. Form of Notes:
- (a) [Form:] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

*(N.B. The exchange upon notice option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: “[€50,000] and integral multiples of [€1,000] in excess thereof up to and including [€99,000].” Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*

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

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

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

## DISTRIBUTION

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

## PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the Bourse de Luxembourg, and admission to the Official List of the Luxembourg Stock Exchange of the Notes described herein pursuant to the €6,000,000,000 Euro Medium Term Note Programme of ČEZ, a. s.

## RESPONSIBILITY

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

Signed on behalf of ČEZ, a. s.:

By: .....

Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

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

### 2. RATINGS

Ratings: The Notes to be issued have been rated:

[S & P: [ ]]

[Moody's: [ ]]

[[Other]: [ ]]

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

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

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

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

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

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

### 5. YIELD *(Fixed Rate Notes only)*

Indication of yield: [ ]

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

**6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING** (*Index-linked Notes only*)

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

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

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

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

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

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

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

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

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

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

**8. OPERATIONAL INFORMATION**

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]

- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]
- [Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]
- [include this text if “yes” selected in which case the Notes must be issued in NGN form]*

## TERMS AND CONDITIONS OF THE NOTES

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

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

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

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

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (such Amended and Restated Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Amended and Restated Agency Agreement**) dated 31 March 2010 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

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

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

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

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects

(including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 19 March 2009 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

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

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

## **1. FORM, DENOMINATION AND TITLE**

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

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

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

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

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

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all

purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

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

## **2. STATUS OF THE NOTES**

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

## **3. NEGATIVE PLEDGE AND OTHER COVENANTS**

### **3.1 Negative pledge**

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

- (a) any Lien on any asset acquired, constructed or improved by the Issuer or any Subsidiary after the date of issue of the Notes, which Lien is created, incurred or assumed contemporaneously with, or within 180 days after, such acquisition (or, in the case of any such asset constructed or improved, after the completion or commencement of commercial operation of such asset, whichever is later) to secure or provide for the payment of any part of the purchase price of such asset or the costs of such construction or improvement (including costs such as escalation, interest during construction and finance costs); provided that, in the case of any such construction or improvement, the Lien shall not apply to any such asset previously owned by the Issuer or any Subsidiary, other than previously unimproved real property on which the asset so constructed, or the improvement, is located;
- (b) any Lien existing over any asset at the time of the acquisition of such asset and which is not created as a result of or in connection with or in anticipation of such acquisition;
- (c) any Lien on any asset acquired from a corporation which is merged with or into the Issuer or any Lien existing on any asset of a corporation which existed at the time such corporation becomes a Subsidiary and, in either such case, which is not created as a result of or in connection with or in anticipation of any such transaction;
- (d) any Lien which secures only Indebtedness owing by a Subsidiary to the Issuer, to one or more Subsidiaries or to the Issuer and one or more Subsidiaries;

- (e) any extension, renewal or replacement (or successive extensions, renewals or replacements; in whole or in part, of any Lien referred to in the foregoing clauses; provided, however, that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement and that such extension, renewal or replacement shall be limited to all or part of the asset which secured the Lien so extended, renewed or replaced (plus improvements on such asset); or
- (f) any Lien securing obligations of the Issuer or any Subsidiary to the Czech Republic in connection with a guarantee or similar assurance provided by the Czech Republic to third parties for the benefit of the Issuer.

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

### **3.2 Limitations on sale and lease-back transactions**

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

### **3.3 No consolidation or merger**

For so long as any Note or Coupon is outstanding, the Issuer may not consolidate with or merge into any other corporation or convey or transfer its properties and assets substantially as an entirety to any Person, unless (i) the successor corporation shall be a corporation 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 Amended and Restated Agency Agreement) shall have happened and be continuing; and (iii) the Issuer shall have delivered to the Fiscal Agent a certificate signed by two directors of the Issuer and an opinion of independent legal advisers of recognised standing each stating that such consolidation, merger, conveyance or transfer and any such deed comply with the foregoing provisions relating to such a transaction. In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for the Issuer

as obligor under the Notes and Coupons, with the same effect as if it had been named in the Notes as such obligor.

### 3.4 Certain definitions

In these Conditions:

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

**Attributable Value** means, as to any particular Sale and Lease-Back Transaction under which the Issuer or any Subsidiary is at any time liable as lessee and any date as of which the amount thereof is to be determined, the total net obligations of the lessee for rental payments during the remaining term of the lease (including any period for which such lease has been extended) discounted from the respective due dates thereof to such date at a rate per annum equivalent to the interest rate inherent in such Sale and Lease-Back Transaction (as determined in good faith by the Issuer in accordance with generally accepted financial practice);

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

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

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

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

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

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

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

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

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

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

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

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

## 4. REDENOMINATION

### 4.1 Redenomination

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

The election will have effect as follows:

- (a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of euro 50,000 and/or such higher amounts as the Agent may determine and notify to the Noteholders and any remaining amounts less than euro 50,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 6; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;
- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
  - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and

- (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

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

- (g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

## 4.2 Definitions

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

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

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

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

**Relevant Notes** means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 50,000 and which are admitted to trading on a regulated market in the European Economic Area.

## 5. INTEREST

### 5.1 Interest on Fixed Rate Notes

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

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

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

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

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

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

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

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

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

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

## 5.2 Interest on Floating Rate Notes and Index Linked Interest Notes

**(a) Interest Payment Dates**

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

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

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

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

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

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and

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

**(b) Rate of Interest**

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

**(i) ISDA Determination for Floating Rate Notes**

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

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

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

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

**(ii) Screen Rate Determination for Floating Rate Notes**

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

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

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest

Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

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

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

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

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

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

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount

payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

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

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

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

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

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

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

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

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and D<sub>2</sub> will be 30.

**(e) Notification of Rate of Interest and Interest Amounts**

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

stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

**(f) Certificates to be final**

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

**5.3 Interest on Dual Currency Interest Notes**

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

**5.4 Interest on Partly Paid Notes**

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

**5.5 Accrual of interest**

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

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

**6. PAYMENTS**

**6.1 Method of payment**

Subject as provided below:

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

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

## **6.2 Presentation of definitive Notes, Receipts and Coupons**

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

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

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

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

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

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

### 6.3 Payments in respect of Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

### 6.4 General provisions applicable to payments

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

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

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

### 6.5 Payment Day

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) the relevant place of presentation;
  - (ii) London;
  - (iii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the

place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## **6.6 Interpretation of principal and interest**

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

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

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

## **7. REDEMPTION AND PURCHASE**

### **7.1 Redemption at maturity**

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

### **7.2 Redemption for tax reasons**

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

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

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

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

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

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

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

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

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

### **7.4 Redemption at the option of the Noteholders (Investor Put)**

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

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which

the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

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

## 7.5 Early Redemption Amounts

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

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

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

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

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

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

## **7.6 Instalments**

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

## **7.7 Partly Paid Notes**

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

## **7.8 Purchases**

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

## **7.9 Cancellation**

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

## **7.10 Late payment on Zero Coupon Notes**

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

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

## **8. TAXATION**

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

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

As used herein:

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

## 9. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

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

## 10. EVENTS OF DEFAULT

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

- (a) **Non-payment of Interest:** any amount of interest in respect of the Notes is not paid within 30 days of the due date for payment thereof; or
- (b) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and (except where such default is not capable of remedy) such default remains unremedied for 60 days after written notice specifying such default or breach and requiring it to be remedied has been delivered to the Issuer; or
- (c) **Cross-acceleration:** any present or future indebtedness of the Issuer or any Material Subsidiary of the Issuer (excluding any such indebtedness owed to trade creditors not

evidenced by a note, bond, debenture or similar instrument) having an aggregate principal amount exceeding U.S.\$30,000,000 (or its equivalent in any other currency or currencies) other than the Notes becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) such Material Subsidiary; or

- (d) ***Insolvency etc:*** (i) the Issuer or any Material Subsidiary becomes insolvent, stops payment on its obligations generally or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any Material Subsidiary or of the whole or any part of the undertaking, assets and revenues of the Issuer or (as the case may be) any Material Subsidiary is appointed, (iii) the Issuer or any Material Subsidiary takes any action for a readjustment or deferment of its obligations generally or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness, (iv) the Issuer or any Material Subsidiary is declared to be bankrupt by any court or (v) an application for a declaration of bankruptcy in relation to the Issuer or any Material Subsidiary is refused by any court and the court specifies that the sole ground on which such declaration has been refused is that the Issuer or (as the case may be) such Material Subsidiary has insufficient assets out of which to meet the costs and expenses of any bankruptcy proceedings; or
- (e) ***Winding up, etc:*** a legally effective and non-appealable order is made or a legally effective and non-appealable resolution is passed for the winding up, liquidation or dissolution of the Issuer or any Material Subsidiary; or
- (f) ***Cessation of Business:*** the Issuer ceases to conduct or to be authorised to conduct the business of the generation or sale of electricity; or
- (g) ***Analogous Event:*** any event occurs which under the laws of the Czech Republic or the jurisdiction of the relevant Material Subsidiary has an analogous effect to any of the events referred to in paragraphs (d) or (e) above.

## 11. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

## 12. PAYING AGENTS

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

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

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

- (d) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated.

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

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

### **13. EXCHANGE OF TALONS**

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

### **14. NOTICES**

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

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

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

## **15. MEETINGS OF NOTEHOLDERS AND MODIFICATION**

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

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

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

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

## **16. FURTHER ISSUES**

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

## **17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

## **18. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **18.1 Governing law**

The Amended and Restated Agency Agreement, the Deed of Covenant, the Notes, the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with the Amended

and Restated Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

## **18.2 Submission to jurisdiction**

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

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

## **18.3 Appointment of Process Agent**

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

## **18.4 Waiver of immunity**

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

## **USE OF PROCEEDS**

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

## DESCRIPTION OF THE ISSUER

### Introduction

CEZ GROUP forms one of the largest electricity conglomerates in Central and South-eastern Europe. The core business of CEZ GROUP is the generation and subsequent distribution and sale of electricity, including the related provision of power system ancillary services. CEZ GROUP's businesses also include the generation, distribution and sale of heat, the mining and processing of raw materials, construction and civil engineering, maintenance and upgrades of power plants and the distribution grid, as well as information technologies, telecommunications and scientific research in selected fields. ČEZ shares are listed on the Prague Stock Exchange and the Warsaw Stock Exchange, but also traded in Frankfurt, Berlin and Munich (unsolicited listing).

In the Czech Republic, CEZ GROUP is the dominant electricity producer with a market share of 74% of generated electricity, a 48.6% market share of lignite mining, 62%<sup>2</sup> of electricity distribution and 44% of electricity supply in the Czech Republic,<sup>3</sup> making it the most vertically integrated electricity company in the Czech Republic. ČEZ is the largest company in the Czech Republic in terms of total assets and profitability. CEZ GROUP also owns the *Elcho* (238MW) and the *Skawina* (490MW) power plants in Poland and the Varna (1,260MW) power plant in Bulgaria (see "*Strategy and Initiatives - International Expansion*" and "*Significant Foreign Stakes and Investment Opportunities*" below). As of 31 December 2009, CEZ GROUP consisted of 97 companies (including ČEZ, as the parent company), 67 of which are incorporated in Central and Western Europe (53 in the Czech Republic) and 30 in South-East Europe.

As of 12 February 2010, CEZ GROUP was 69.37% owned by the Ministry of Finance of the Czech Republic (**MoF**) and 0.41% owned by the Ministry of Labour and Social Affairs (**MoLSA**). As of 12 February 2010, the registered capital of ČEZ amounts to CZK 53,798,975,900.

The address of ČEZ's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic, telephone number +420 211 041 111. ČEZ is registered in the Commercial Register administered by the Municipal Court in Prague, File B, Section 1581, and its identification number is 45274649.

### History and Development of CEZ GROUP

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

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<sup>2</sup> As of 31 December 2009; Source: ERO

<sup>3</sup> Source: ČEZ, ERO

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

### *Unbundling*

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

Through *ČEZ Prodej, s.r.o.*, CEZ GROUP services approximately 3.28 million supply points in the Czech Republic.

The total installed capacity of the generation facilities of CEZ GROUP amounted to 14,395 MW as at 31 December 2009. In 2009, CEZ GROUP generated 65,344 GWh and purchased 23,821 GWh and CEZ GROUP consumed 6,193 GWh. Out of the total electricity procured, 82,972 GWh, CEZ GROUP sold 52 % to end consumers, 38 % on the wholesale market, and distribution grid losses accounted for the remaining 9 % of total electricity procured.

In 2009, coal-fired plants accounted for 56% of production, nuclear power plants for 42% and hydroelectric, solar, wind and combined cycle and gas power plants together accounted for the remaining 2% of electricity produced. CEZ GROUP's power plant portfolio consists of 68 power plants, including 21 coal or heat power plants, 35 hydroelectric plants, 2 nuclear power plants, 3 wind converters and 7 photovoltaic (solar) power plants. For the year 2009, CEZ GROUP electricity generation decreased by 3% to 65,344 GWh (compared to 67,595 in 2008). A drop in the electricity generation was caused primarily by the lower coal power plants' generation with respect to the emission rights optimisation.

### **Liberalisation of the Czech Electricity Market**

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

On 5 March 2007 the Prague Energy Exchange (**PXE**) was established. It is a new business platform for trading with electricity in the Czech Republic and Slovak Republic. The PXE is the first market of its kind in Central and Eastern Europe. Inspiration for its establishment and pricing system derives from the energy exchanges already operating elsewhere in Europe. By its activities, the PXE intends to create a solid and standardised platform for electrical energy trading, both from the point of view of its size and liquidity.

The PXE introduces a competitive environment to the electrical energy market, thereby promoting its liberalisation. It provides all PXE participants with the same trading conditions regardless of the size of their transactions. One of the main advantages of energy trading on the PXE is the transparency in energy pricing that is based on principles identical to those commonly used in other countries of the European Union. Another major benefit of the new market is the continuous energy trading three years in advance, instead of just one year; thus bringing price stabilisation to the market which facilitates price development forecasts, in turn significantly helping to eliminate price shocks.

## **Strategy and Initiatives**

CEZ GROUP aims to be the leader in the electricity markets of Central and South-eastern Europe. Within the Czech Republic, CEZ GROUP strives to maintain a strongly hedged position and achieve operational excellence across the group. In Central and South-eastern Europe, CEZ GROUP will look to build upon its strongly hedged positions through strategic acquisitions which it will then integrate into CEZ GROUP. With the objective of fulfilling these strategies, CEZ GROUP will focus on four key pillar initiatives (*Operational Excellence, Plant Portfolio Renewal, International Expansion, Innovation*):

### ***Operational Excellence***

The first pillar for fulfilling CEZ GROUP's vision is operational excellence through continual improvements in efficiency. Increased productivity, cost savings, and improvements in the services comprise the foundation for sustained growth in the company's market value and its competitiveness. CEZ GROUP began pursuing integration and efficiency improvements in the Czech Republic with the VIZE 2008 project, whose primary goal was to transform the legacy organisation, which was based on geographically defined subsidiaries, into a standard process-based organisation and implement unbundling (see above). The VIZE 2008 project and subsequent changes to the organisation and optimisation of individual processes have yielded cumulative benefits of CZK 12 billion for the 2004 - 2007 period (compared to the reference year 2003). A new Operational Excellence program was announced in March 2007. The aim of the program is to increase performance and improve the cost effectiveness of key processes in order to make CEZ GROUP one of the most efficient players in the European power industry by 2012. In order to flesh out the new program CEZ GROUP selected over 20 initiatives and launched eight strategic projects - The Efektivita (Czech for "efficiency") program focusing on key processes in electricity generation and distribution both in the Czech Republic and abroad – i.e., processes related to customer service and principal ancillary processes. More initiatives will be added to the program as time goes on.

#### *Key Initiatives of the Efektivita Program:*

##### 1) Transformation of ICT services

The purpose of this project is, by 2010, to roll out a cost-effective model for managing and providing information and communication technology (**ICT**) services in CEZ GROUP. The project's principal tasks include implementing a model for managing demand for ICT services, a model for managing the level of services, and a reorganisation of ICT services providers. Following this initiative IT company ČEZData, s.r.o. and telecommunication company ČEZnet, a.s. merged in 2008 into consolidated ICT services provider (ČEZ ICT Services, a.s.).

## 2) The Customer

The project's aim is to ensure that CEZ GROUP is among the best corporations in the area of mass end customer services in the Czech Republic. The project's basic motto is: *available, professional, helpful*. The Customer project is to achieve the defined goals primarily by optimising service processes throughout Group companies, effective churn management, and bringing out products that respond effectively to market developments. Another part of the project will be to create a price setting methodology linked to continuous trading and market development.

## 3) Best practice in distribution

This project focuses on optimising and improving the effectiveness of processes in the area of distribution asset management, operation, and maintenance. The aim is to reach the level of leading power companies in Europe. The key activities of this project include targeted management of investments, minimising costs by applying unified technical policies, optimising the location and number of work sites in operation, maintenance, and electricity metering and optimising works management in distribution grid operation and maintenance.

## 4) Integration of international holdings

The principal objective of this initiative is, by 2012, to fully integrate the international holdings into CEZ GROUP standard structures and fully optimise processes. Currently, the integration process itself applies to holdings in Bulgaria, Romania, and Poland. The main tasks of integration include implementing the so-called "geographical" model of managing international holdings and realisation of synergies through adoption of CEZ GROUP corporate best practices in the international companies.

## 5) Safely 15 TERA – *Temelín* nuclear power plant

The aim of this initiative is to technically and organisationally stabilise *Temelín* nuclear power plant so as to improve its fault rate down to the level of the top quarter of the world's nuclear power plants, improve available capacity and reduce equipment failure rates. The project is divided into the following five areas: equipment, organisation and management, partnership projects, team of professionals, and communication. Each area is further divided into subprojects with assigned accountability and stipulated success criteria. By 2012, the project should help *Temelín* nuclear power plant achieve a generation level of 15 TWh/year.

## 6) Safely 16 TERA – *Dukovany* nuclear power plant

This project aims to modify *Dukovany* nuclear power plant's equipment in a way that increases performance. In order for the project to achieve its defined aims and effects, it will primarily concern itself with shortening outages, reducing the technical failure rate and increasing availability. The Safely 16 TERA project contains subprojects focusing on improving the efficiency of *Dukovany* nuclear power plant's generating units and introducing a system of three types of refueling outages with an overall reduction in the duration of planned refueling outages. As a result, *Dukovany* nuclear power plant should achieve an electricity generation output of 16 TWh/year from 2013.

## 7) Streamlined corporation

This project focuses on two basic areas: CEZ GROUP's management and governance model and optimising overhead expenses. While the project's various activities will take place primarily at ČEZ headquarters, other selected CEZ GROUP companies that provide shared and supporting services are also included in the project. The project's primary activities include effective functioning of CEZ GROUP shared and support services and the introduction of management and accountability tools enabling effective allocation of financial resources to selected administrative overhead items.

8) Long Term Operation of *Dukovany* nuclear power plant – “LTO EDU”

In January 2009 project “LTO EDU” was approved by the Board of Directors of ČEZ. The aim of the first phase of the project is to secure the licence for the operation of the *Dukovany* nuclear power plant from 2015 to 2025 with the view of further prolonging of the licence to 2045.

***Plant Portfolio Renewal***

A significant portion of CEZ GROUP’s thermal blocks will reach the end of their prescribed lifetime between 2010 and 2020. In addition, a significant percentage of CEZ GROUP’s desulphurisation equipment will expire in 2015-2020 and emission limits on SO<sub>2</sub> and NO<sub>x</sub> will get much stricter as of 2016. Therefore, CEZ GROUP has drawn up a plan for renewal of its brown coal-fired power plants and is currently renewing its coal generation portfolio and also preparing steam gas projects, such as the construction of the new CCGT power plant in Počerady. The specific energy consumption of the retro-fitted plants will be 15% lower than the existing plants and a retro-fit will extend each plant’s life by 25 years. New coal-fired power plants will increase fuel efficiency by 25%. This would reduce the electricity generation costs and bring about a major reduction in greenhouse gas emissions. The reduction in CO<sub>2</sub> would be in line with the decrease in specific energy consumption, while nitrogen oxide reduction for the retro-fitted and new plants would be approximately 60% and SO<sub>2</sub> emissions would fall by approximately 50%.

Plant renewal started with retrofit of the brown coal-fired *Tušimice II*. In February 2006, plans for the complex refurbishment of the *Tušimice II* power plant were approved. Construction started in June 2007 and should be completed in 2010. In February 2006, business plans for the complex refurbishment of the *Prunéřov II* power plant were approved and will be realised following the renewal of the *Tušimice II* power plant. Both power plants will be supplied from the adjacent lignite mine *Libouš* until 2035. The second part of the renewal programme consists of the construction of modern lignite-fired blocks using commercially affordable modern technology with supercritical parameters of steam securing corresponding efficiency of production and compliance with emission limits set for such sources. In November 2005, the business plan for the construction of the first supercritical unit in the Czech Republic, the 660 MW lignite-fired unit at the *Ledvice* power plant was approved. It will be supplied from the adjacent *Bílina* mine and the contemplated date for the start of its operation is June 2012. For *Počerady*, a feasibility study for the second project of the same capacity was elaborated and the business plan was approved in April 2006. In order to reduce the CO<sub>2</sub> emissions of ČEZ plants portfolio ČEZ is preparing projects of combined cycle power plants. Late 2007 saw approval of a business plan for an 880 MW combined cycle plant in Počerady and conditions for construction of combined cycle plants in other locations in the Czech Republic are being analysed. Consequently ČEZ is developing a CCGT power plant also in Hungary, Slovakia and Turkey.

In Bulgaria a pre-feasibility study for renewal of Varna power plant was finished and following the study a gas-steam unit is being considered. The project company ČEZ Power Generation Bulgaria EAD continues preparatory works on the development of the new CCGT Varna unit.

The programme of capital expenditures will be updated periodically to take into account new developments in the market and in environmental protection, in particular the regulation of CO<sub>2</sub> emissions. The useful lifespan of existing plants will be managed to ensure optimum economic utilisation of available fuel reserves. In the event that additional coal reserves are made available for exploitation, CEZ GROUP will consider projects for new generating facilities, and options for building gas and/or black coal-fired plants will continue to be considered throughout.

As well as preparing for the retro-fit of its fossil power plants, CEZ GROUP also aims to create conditions for extending the useful lifespan of its nuclear plants. *Dukovany* power plant is currently undergoing modernisation. New operational systems are being introduced which will increase the capacity of the plant to 4x500MW by 2013 and extend the life of the plant to 40 - 50 years. CEZ GROUP’s other nuclear power plant, *Temelín*, is currently having high-pressure components modernised.

CEZ GROUP initiated the “Safely 15 Terra” programme at *Temelín nuclear power plant* (see “Operational Excellence” above).

Similar project “Safely 16 Terra” was initiated at *Dukovany* nuclear power plant and in January 2009 project “LTO EDU” was approved by the board of directors of ČEZ (see “*Operational Excellence*” above).

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

### ***International Expansion***

In order to pursue its objective of being the leader in the electricity markets of Central and South-eastern Europe, CEZ GROUP continuously looks to integrate foreign subsidiaries and will continue in the programme of acquisitions in Central and South-eastern Europe. CEZ GROUP will also expand its activities in the international electricity market for all types of trades, as well as strengthen its presence in target countries through local representative offices. Successful acquisitions in Albania, Bulgaria, Germany, Romania, Poland and Turkey have opened up new markets for CEZ GROUP.

In 2005, CEZ GROUP completed the acquisition of three Bulgarian distribution companies, *Elektrozpredelenie Pleven AD*, *Elektrozpredelenie Sofia Oblast AD* and *Elektrozpredelenie Stolichno AD*, introducing 1.9 million new customers to CEZ GROUP, and in the third quarter of 2005 it acquired the Romanian distributor *Electrica Oltenia S.A.*, which has a further 1.4 million customers.

In 2006, CEZ GROUP purchased majority stakes in the Polish electricity generation companies *Elektrownia Skawina S.A. (Skawina)* and *Elektrociepłownia Chorzów “ELCHO” Sp. z o.o. (Elcho)* with a combined installed capacity of 728 MW. In May 2006, ČEZ executed agreements to acquire a 100% share in the second largest Bulgarian power plant, *TPP Varna EAD*, with an installed capacity of 1,260 MW.

In 2007, CEZ GROUP completed the acquisition of *Severočeské doly a.s.*, obtained full control over *ŠKODA PRAHA a.s.* and acquired the 100% shareholding in *Teplárenská, a.s.*, a heat distributor in the North of the Czech Republic. Key suppliers of *Teplárenská, a.s.* are power plants of CEZ GROUP, in particular Tušimice, Pruněřov and Ledvice.

In 2008, CEZ GROUP purchased a wind project in Romania from Continental Wind Partners LLC, a major renewable power developer. Fantanele and Cogeaalac wind farms will together be the largest onshore wind farm in Europe, with a total capacity of 600 megawatts. The project will become operational in stages. The first stage of the project called Fantanele (347.5 MW) consists of 139 wind turbines. Commissioning of Fantanele is planned to take place at the end of 2010. The second stage of the project called Cogeaalac (252.5 MW) consists of the construction of 101 wind turbines and the commissioning is planned to take place at the end of 2011.

In 2008, CEZ GROUP received the official decision of the Romanian company Termoelectrica on its success in the tender for a strategic partner for the project of a new power plant construction in the area of the existing natural gas and heavy fuel oil power plant Galati 535 MW (3x105 MW, 2x60 MW, 1x100 MW). The project should include modernisation of the existing power plant and construction of a new unit. Initially, it is presumed that an up to 400MW gas power plant will be constructed. However, the final version of the project will be decided upon once the feasibility study is developed.

In February 2009, AKCEZ ENERJI YATIRIMLARI SANAYIVE TICARET A.Ş., the joint venture of CEZ GROUP and Turkish Akkök Group which was founded for acquisition of Turkish electricity distribution company Sakarya Elektrik Dagitim A.Ş. (**Sedaş**), took over 100% of the shares of Sakarya Elektrik Dagitim A.Ş. Sedaş is the start of a series of investments of CEZ GROUP and Akkök Group in Turkish energy sector. Both Groups are currently analysing plans for new projects under the company Akenerji (in which both parties will hold an equal share interest) for up to 3,000 MW of power generation capacity.

In May 2009 ČEZ completed the purchase of an interest in Turkish Akenerji. The Akkok Group and the CEZ GROUP have thus become holders of a majority interest amounting to approximately

75% in the Akenerji company (the remaining shares of the company are tradable on the stock market) with equal ownership interest in the amount of approximately 37.4 %. This interest has been purchased by ČEZ at a price of US\$ 302.6 million.

In May 2009, ČEZ and JAVYS signed a shareholder agreement that will allow them to establish a joint venture for the building of a new nuclear power station at Jaslovské Bohunice, Slovakia. ČEZ's share in the company will be 49% and the managerial control will work on the principle of equality of both partners that will be present in all company bodies.

In March 2009, a new joint venture ENERGO NUCLEAR S.A. was incorporated in Romania as a part of strategic alliance concluded between European energy companies. The joint venture was founded with a goal to develop and operate the 3rd and 4th blocks of the Romanian Cernavoda nuclear power plant. Its registered capital amounts to RON 19,694,500. ČEZ owns a 9.15 % stake. Majority shareholder of the Company is Romanian Societatea Nationala Nuclearelectrica S.A., which holds 51 % of the shares.

In March 2009, ČEZ signed a purchase agreement for 76% share in Albanian distribution company (*OSSH Operatori i Sistemit te Shperndrjes Sh.A.*) and one month later established a new subsidiary – CEZ Albania Sh. A., which shall focus particularly on support of the activities of CEZ Group in Albania.

In June 2009 ČEZ, via its 100% subsidiary Severočeské doly, successfully completed an acquisition of 50% of the shares in the German mining company Mitteldeutsche Braunkohlengesellschaft GmbH (**MIBRAG**). The other 50% is owned by EP Holding, controlled by J&T and PPF. For the purpose of the acquisition of MIBRAG, CEZ GROUP and J&T established a company, "*JTSD – Braunkohlebergbau GmbH*" (**JTSD**), where ČEZ, through its 100% subsidiary has a 50% shareholding. The remaining 50% is owned by EP Holding. The registered capital of JTSD is EUR 3,759,406.

In October 2009 ČEZ became 100% owner in its Romanian companies ČEZ Distribuție S.A. and ČEZ Vanzare S.A. when it purchased 30% stake from Romanian company Fondul Proprietatea for EUR 229.6 million and 19% stake from Electrica SA for EUR 145.36 million. A call option for the respective stakes was incorporated in the privatization agreement by which ČEZ acquired 51% stake in Electrica Oltenia in 2005.

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

There are several pending and/or potential acquisition targets in the region. Some are privatisation tenders, such as opportunities in Romania, Poland and Turkey, although a limited number of private transactions are available as well. In addition, primarily in the countries of former Yugoslavia green-field and brown-field transactions in the form of joint ventures with local State-owned power companies will also be considered. For more information concerning possible acquisition see below "*Significant Foreign Stakes and Investment Opportunities*".

### ***Innovations***

In 2009 CEZ GROUP expanded its strategy initiatives by a new element – Innovation. Implementation of the fourth pillar of CEZ GROUP's strategy was in reaction to the recent trends within the industry of strict environmental regulation in the area of emission production, requirements on the increase in the effectiveness and orientation on clean technologies. CEZ GROUP is aware of the present trends and intends to become the market leader in the area of new technologies. This new element will also strengthen the social responsibility of the company.

For the purpose of implementation and management of “Innovation”, an initiative “FutureMotion” has been announced which is being fulfilled by four activities:

- Research and Development
- Environmental Investment
- Small co-generation and energy savings
- Smart Grids

The initiative FutureMotion has become a platform for management, coordination and implementation of activities within the area of innovation through CEZ GROUP focusing on its long term targets. By the support of research and development CEZ GROUP aims to achieve:

- better utilisation of sources in production, distribution and consumption
- development and support of innovative environmentally friendly technologies in energy production
- expansion of the options available to consumers to enable them to decide about energy utilisation
- employment of electricity within the road transport

### ***Demand for Electricity***

Electricity demand is the net consumption of the final consumer, which does not include transmission losses, self-consumption and electricity used by pump storage facilities. Compared to 2008, demand for electricity in the Czech Republic in 2009 decreased by 3,366 GWh (5.6 %), reaching a level of 57,112 GWh. Demand by large-scale customers decreased by 9.1%, household electricity consumption decreased by 0.1%.

### **Operating Results**

#### Revenues

The following table sets out the revenues of CEZ GROUP for the years ended 31 December 2008 and 2009:

	<b>2008</b>	<b>2009</b>	<b><i>Index 09/08</i></b>
	<b><i>CZK millions</i></b>		
<b>Revenues</b> .....	183,958	196,352	106.7%
<b>Sales of electricity</b> .....	165,317	173,494	104.9%
<i>Gains and losses from electricity, coal and gas derivative trading, net</i> .....	4,095	6,894	168.4%
<i>Heat sales and other revenues</i> .....	14,546	15,964	109.7%

In 2009, the total revenues of CEZ GROUP increased by 6.7% compared to 2008. Sales of electricity accounted for 88.4% of total revenues. Gains and losses from electricity, coal and gas derivative trading increased by 68.4% in 2009. Heat sales and other revenues increased by 9.7% .

The hedging of electricity selling prices for more years in advance, together with trading activities, had a positive impact on operational results. However, the operational results were negatively affected by lower demand for electricity and declining spot prices.

### Operating Expenses

(i) The following table sets out CEZ GROUP's operating expenses for the years ended 31 December 2008 and 2009.

	2008	2009	Index 09/08
	<i>CZK millions</i>		
<b>Total operating expenses</b>	-117,304	-128,153	109.2%
Fuel	-16,176	-15,805	97.7%
Purchased power and related services	-41,670	-48,170	115.6%
Repairs and maintenance	-5,597	-6,043	108.0%
Depreciation and amortisation	-22,047	-22,876	103.8%
Salaries and wages	-16,956	-18,116	106.8%
Materials and supplies	-4,589	-5,272	114.9%
Emission rights, net	1,998	305	15.3%
Other operating expenses	-12,267	-12,176	99.3%

In 2009, the total operating expenses of CEZ GROUP increased by 10,849 CZK billion, or by 9.2% compared to 2008.

In 2009, CEZ GROUP income before other expenses, income taxes and depreciation and amortisation (**EBITDA**) amounted to CZK 91,075 million, representing an increase of 2.7% compared with 2008. Income before other expenses and income taxes amounted to CZK 68,199 million, representing an increase of 2.3%. Net income grew by 9.5% totalling CZK 51,855 million.

### Principal Activities

#### Electricity Generation

In 2009, CEZ GROUP produced 65,344 GWh of electricity; 93 % of which was produced in the Czech Republic, which represents 74% of the total electricity produced in the Czech Republic. The following two tables provide a breakdown of ČEZ's electricity generation based on the method of production, as well as a breakdown of its installed capacity.

	2008	2009
	<i>GWh</i>	
Coal-Fired Plants.....	39,497	36,030
Nuclear Plants.....	26,551	27,208
Hydro, Solar and Wind Power plants.....	1,547	2,106
<b>Total</b> .....	<b>67,595</b>	<b>65,344</b>
<b>2009</b>	<b>Installed Capacity</b>	<b>Installed Capacity</b>
	<i>(MW)</i>	<i>(%)</i>
Coal-Fired Plants.....	8,594	60
Nuclear Plants.....	3,830	26
Hydro, Solar and Wind Power plants.....	1,971	14
<b>Total</b> .....	<b>14,395</b>	<b>100</b>

## Coal-Fired Power Generation

CEZ GROUP owns and operates 13 coal-fired power plants and 8 heat power plants. In 2009, CEZ GROUP's coal-fired plants (including heat plants) generated 36.03 TWh of electricity. CEZ GROUP's coal-fired plants have a diversified age profile, and CEZ GROUP has a plan of regular repairs and overhauls for the generating units. Since 1 January 1999, all coal-fired plant units have been in compliance with the requirements of Act No. 86/ 2002 Coll. on air (the **Act on Air**). As of 31 December 2003, CEZ GROUP had FBB or FGD equipment installed on all of its entirely coal-fired capacity and had also installed or refurbished precipitators (which reduce emissions of ash) on all of its coal-fired power plants. The coal-fired plants owned by CEZ GROUP are situated in various locations throughout the Czech Republic, the largest concentration being in the lignite mining region in the North-west of the country, two coal-fired power plants are located in Poland (ELCHO, Skawina) and one is in Bulgaria (Varna).

CEZ GROUP's 13 coal-fired power plants are set out in the following table (as of 31 December 2009):

Location – Production	Owner	Type of coal	Installed capacity (MW)	Start of operations	Desulphurisation
Dětmárovice	ČEZ, a. s.	hard/brown	4 x 200	1975 – 1976	1998
Chvaletice	ČEZ, a. s.	brown	4 x 200	1977 - 1978	1997, 1998
Ledvice II	ČEZ, a. s.	brown	2 x 110	1966	1996
Ledvice III	ČEZ, a. s.	brown	1 x 110	1968	1998
Mělník II	ČEZ, a. s.	brown	2 x 110	1971	1998
Mělník III	ČEZ, a. s.	brown	1 x 500	1981	1998
Počerady	ČEZ, a. s.	brown	5 x 200	1970 - 1971, 1977	1994, 1996
Pruněřov I	ČEZ, a. s.	brown	4 x 110	1967-1968	1995
Pruněřov II	ČEZ, a. s.	brown	5 x 210	1981-1982	1996
Tušimice II	ČEZ, a. s.	brown	4 x 200	1974 - 1975	1997
Elcho	Elektrocieplownia Chorzów “ELCHO” Sp. z o.o.	hard	2 x 119.2	2003	x
Skawina	Elektrownia Skawina S.A.	hard	4 x 110; 1 x 50	1957 1968-1969,	x
Varna	TEC Varna EAD	hard	6 x 210	1977-1979	x
<b>Total Coal Power Plants</b>			<b>7,928.4</b>		

CEZ GROUP's 8 heat power plants are set out in the following table (as of 31 December 2009):

Location – Production	Owner	Type of coal	Installed capacity (MW)	Start of operations	Desulphurisation
Dvůr Králové nad Labem	ČEZ, a. s.	brown	1 x 6.3; 1 x 12	1955, 1963	1997
Hodonín	ČEZ, a. s.	lignit	1 x 50; 1 x 55	1954-1958	1996-1997
Ostrava - Vítkovice	ČEZ, a. s.	hard	2 x 16; 1 x 25; 1 x 22	1983-1995	x
Poříčí	ČEZ, a. s.	hard / brown	3 x 55	1957 - 1958	1996, 1998
Tisová I	ČEZ, a. s.	brown	3 x 57; 1 x 12.8	1959 - 1960	1996-1997
Tisová II	ČEZ, a. s.	brown	1 x 112	1961	1997
Otín u Jindřichova Hradce	Energetické centrum s.r.o.	biomass	1 x 6.272	2008	x
Otín u Jindřichova Hradce	Energetické centrum s.r.o.	HFO/gas	1 x 2.5	1970	x
<b>Total Heat power plants</b>			<b>671.9</b>		

## *Types and Sources of Coal*

The majority of CEZ GROUP's coal-fired power plants (approximately 70 % of coal power plants' total installed capacity) utilise lignite. Hard coal is used in two power plants and part of another power plant in the Czech Republic (*Dětmarovice and Ostrava-Vítkovice*, part of *Poříčí*) in two power plants in Poland (*Elcho and Skawina*) and in one power plant in Bulgaria (*Varna*). ČEZ has three main domestic suppliers of lignite, the main one (*Severočeské Doly a.s.*) being ČEZ's 100% subsidiary, and one domestic supplier of hard coal.

Most of CEZ GROUP's coal-fired power plants are located in the vicinity of the North Bohemian brown coal basin. Conveyor belts from nearby mines directly supply coal to three power plants, *Ledvice II and III*, *Tisová I, II* and *Tušimice II*. In other cases, rail is primarily used to transport coal supplies over relatively short distances. *Elcho* and *Skawina* are located in Upper Silesia and Lesser Poland respectively and are supplied with hard coal from mines in the region. Sea shipping is used for coal supplies to *Varna*.

## *Coal Contracts*

CEZ GROUP purchases the largest amount of coal in the Czech Republic. In 2009, CEZ GROUP purchased in the Czech Republic 27.6 million tons of power generation coal, out of which 95.3 % was lignite (brown coal). CEZ GROUP purchases:

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

In 2005, CEZ GROUP concluded a framework agreement on a future long-term contract for coal with *Mostecká uhelná, a.s.*, a member of Czech Coal Group. Czech Coal Group rejects the concluded agreement, and CEZ GROUP therefore took legal steps against Czech Coal Group with the aim to conclude such long-term purchase coal contract. Currently the coal from *Mostecká uhelná a.s.* is purchased under a medium-term contract. For more information, please refer to the "Risk Factors" section.

*Severočeské doly a.s.* supplies approximately 62.74 % of ČEZ's total consumption of lignite, *Czech Coal, a.s.* supplies approximately 30.04 % and *Sokolovská uhelná, a.s.* supplies approximately 7.22 %.

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

In 2009 in Poland, the principal supplier of coal to the *Elcho* power plant was under a long-term contract *Kompania Weglowa SA*. The *Skawina* power plant sources coal from multiple suppliers under one-year contracts and purchase orders, with amongst others *Kompania Weglowa SA*, *Katowicky Holding Weglowy SA*.

The *Varna* power plant in Bulgaria fires anthracite, most of which is imported by sea from Russia and Ukraine based on short-term contracts.

### *Expenses for Coal, Lime and Limestone*

Total expenses of CEZ GROUP for lignite, hard coal, biomass, gas and liquid fuel consumed in 2009 amounted to CZK 15,805 million, representing 12 % of CEZ GROUP's total operating expenses. The total expenses of CEZ GROUP for lime and limestone consumed in 2009 amounted to approximately CZK 834 million, representing 1 % of CEZ GROUP's total operating expenses.

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

In the Czech Republic, approximately 48.3% of the total amount is supplied by *Lomy Mořina spol. s r.o.*, in which ČEZ holds a 51.05% share. Long-term contracts have been concluded until the end of operating life of powerplants to which *Lomy Mořina spol. s r.o.*, supplies lime and limestone. Long-term contracts also protect ČEZ from any annual increase in price of lime and limestone.

In addition, *KOTOUČ ŠTRAMBERK, spol. s r. o.* supplies approximately 22.4% of CEZ GROUP's total limestone and lime needs in Czech Republic under medium-term contract which protects ČEZ from any annual increase in prices. The medium-term contract is possible to prolong upon ČEZ's request.

Approximately 26.7% of lime and limestone is supplied by *Vápenka Čertovy schody a.s.* under medium-term contracts at prices which are renegotiated each year. These prices do not differ significantly from market prices.

The last 2.6% of the amount of lime and limestone consumption of ČEZ is supplied by *Krkonošské vápenky Kunčice, a.s.*

Regarding the lime and limestone consumption in Poland, in *Elcho* 100% of lime and limestone supply is provided by a Polish company *Nordcalk. Skawina* power plant purchases lime and limestone on the local market based on ad-hoc contracts.

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

### *Final Disposal of Coal Waste*

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

### *Reclamation and redevelopment of waste dumps*

To cover the costs of reclamation and redevelopment of waste dumps CEZ GROUP is required by law to keep amounts specified by law as restricted funds. Restricted funds representing accumulated provision for reclamation totalled CZK 459 million (as of 31 December 2009) and CZK 445 million (as of 31 December 2008).

### *Sources of Working Materials*

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

## Nuclear Power Generation

CEZ GROUP currently owns and operates two nuclear power plants situated at *Dukovany*, in the South Moravian District of *Třebíč* and *Temelín*, in the South Bohemian district of *České Budějovice*. In 2009, CEZ GROUP's nuclear power plants generated 27,208 GWh of electricity, representing 42% of its total electricity production.

<b>Location – Production</b>	<b>Owner</b>	<b>Installed capacity (MW)</b>	<b>Start of operations</b>
Dukovany	ČEZ, a. s.	3 x 456 (Unit 1,2,4) 1 x 500 (Unit 3)	1985 – 1987 1985 – 1987 (reconstruction 2009)
Temelín	ČEZ, a. s.	2 x 1,000	2002 – 2003
<b>Total</b>		<b>3,868</b>	<b>x</b>

### *Nuclear power plants*

#### Dukovany nuclear power plant

The construction of the *Dukovany* nuclear power plant began in January 1979 and its four units became operational between May 1985 and July 1987. The power plant uses four Soviet designed VVER 440-213 PWRs with a total installed capacity of 1,868 MW. Outside the former Soviet Union, such reactors are in operation in the Czech Republic, Finland, Hungary, Bulgaria and the Slovak Republic. The design of a VVER plant is generally considered identical to the design of PWR plants based on U.S. technology (in which water also acts as the moderator and the coolant) and which is the most common reactor type used commercially around the world.

The year 2009 was another one in a line of successful years in the history of the *Dukovany* nuclear power plant. The output of Unit 3 was increased to 500 MWe while the output of other three Units to 456 MWe via the implementation of modernisation programmes. At the same time the production reached 13,955 GWh, the third highest in history. Operation of the *Dukovany* nuclear power plant in 2009 was generally evaluated as safe and reliable. According to WANO indicator results the power plant joined 30% of the world's best operated nuclear units among pressurised water reactors (using the WANO combining performance Index). In 2009 *Dukovany* also obtained the certification of the title Safe Company and Ecological Company - ISO 14001.

Over the past 10 years, CEZ GROUP has been improving the safety standards at the *Dukovany* nuclear power plant in accordance with the requirements of the NSA, and in respect of further operations. As part of its modernisation programme, CEZ GROUP has also been progressively implementing recommendations resulting from domestic and foreign technical audits, including recommendations by the IAEA.

Capital expenditures at *Dukovany* nuclear power plant went on upgrading the plant and improving the efficiency of power generation. Similar to the preceding years, in 2009, *Dukovany* nuclear power plant continued the process of implementing several major investment projects such as reconstruction of the I&C system (Modules M1–M2, M3–M5). The M1 and M2 modules were implemented gradually during planned outages between 2002 and 2009 and constituted the largest investment project at *Dukovany* nuclear power plant. The M3–M5 modules cover the reconstruction of automatics and control circuits of the primary and secondary circuits and should be completed across all units by 2015. Another significant project is the “Use of design reserves“ – the process covers a number of replacements of technologies such as parts of the turbines, generator, unit transformer, etc. with the goal of improving efficiency and increasing total capacity from the original 440 MWe to approx. 500 MWe.

This increase of *Dukovany*'s output is a part of CEZ GROUP's "Safely 16 Tera EDU" key program, of which a target is the securing of annual production of 16 terawatt-hours from the *Dukovany* nuclear power plant by 2012 and beyond (for more information see "*Strategy Initiatives*"). Increase of efficiency of all four units, use of designed power reserves of the units and better efficiency of the outage mode will all contribute to such high production.

Another vital project is the Long-Term-Operation (LTO) project that counts among the most extensive projects of the CEZ GROUP. It consists of approximately 230 smaller sub-projects with costs over CZK14 billion. Their coordination and correct implementation from 2009 to 2015 is the biggest challenge ČEZ faces as it influences all activities of the *Dukovany* nuclear power plant. The goal of the project is to prepare the power plant to operate beyond its original designed lifespan. In January 2009, the project "LTO EDU" was approved by the board of directors of ČEZ. The aim of the first phase of the project is to secure the licence for operation of the *Dukovany* nuclear power plant from 2015 to 2025 with the view of further prolonging of the licence to 2045. In 2009 ČEZ commenced the activity of the project team by solving the first steps – continuation of modernisation and recovery of the power plant equipment, including security improvements, fulfilment of NSA requirements for operations after 2015, introduction of operating life management and staff restoring including knowledge management.

The projected lifetime of a nuclear power plant is 40 years, with extension by an additional 20 years being technically possible. The NSA grants operating licences that are renewable upon application. The following table sets forth the status of licences at the *Dukovany* nuclear power plant:

Unit	<u>Licence Valid Until:</u>
1 .....	31 December 2015
2 .....	31 December 2016
3 .....	31 December 2017
4 .....	31 December 2017

In 2009, the *Dukovany* nuclear power plant generated a total of 13,955 GWh of electricity. From the beginning of its commercial operation to 31 December 2009, the *Dukovany* nuclear plant has generated total 308,107 GWh of electricity. In 2008 and 2009, the nuclear plant's average load factor per year was approximately 90% and 86%, respectively.

#### Temelín nuclear power plant

The construction of the *Temelín* nuclear power plant commenced in 1986. According to the original project, the power plant was to have four Soviet designed units with a capacity of 1,000 MW each. Following the fall of the communist regime in 1989 and as a result of an ensuing uncertainty with respect to the energy policy of the Czech Republic, construction of the *Temelín* nuclear power plant was delayed. In March 1993, the government approved the completion of two, out of the originally planned four, units and at the same time ordered a fundamental change in the design of the reactor, primarily to enhance operational safety of the nuclear power plant. This change consisted of adapting the Soviet plant technology to function with Western I&C systems. 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, ČEZ loaded Unit 1 of the *Temelín* nuclear power plant with nuclear fuel and in October 2000 it essentially completed construction on Unit 1 with initial nuclear reaction and testing activities beginning shortly thereafter. Unit 1 commenced operation in 2002.

In early 2002, the phase of non-active testing of Unit 2 was completed. At the end of June 2002, following the successful physical start-up, the phase of energy generation start-up commenced. Unit 2 commenced operation in 2003.

The delays with the commencement of the commercial operation of the *Temelín nuclear power plant* resulted in ČEZ being entitled to a CZK 700 million contractual penalty, payable by ŠKODA PRAHA a.s. ČEZ agreed to settle this claim by means of a debt equity swap and, in January 2004, became a majority shareholder in ŠKODA PRAHA a.s. with a 68.9% holding, subsequently increased to a 100% holding.

ČEZ is considering completion of units 3 and 4 in the *Temelín nuclear power plant*. An independent energy committee established by the Czech government was introduced on 4 July 2008. The conclusions of the committee and following discussions indicate that political decisions on a potential completion of the *Temelín nuclear power plant* will not be made until the EIA is carried out. In July 2008, ČEZ submitted a request for an EIA to be carried out to the Ministry of the Environment. In February 2009, the Ministry of Environment issued an opinion listing conditions for EIA process. In June 2009 the business plan of the project of completion of *Temelín nuclear power plant* was approved by the board of directors of ČEZ.

The projected lifetime of a nuclear power plant is 40 years, with extension by an additional 20 years being technically possible. The NSA grants operating licences that are renewable upon application. The following table sets forth the status of licences at the *Temelín power plant*:

Block	<u>Licence Valid Until:</u>
1 .....	11 October 2010
2 .....	31 May 2012

In August 2009 ČEZ commenced the procurement procedures for the supplier of 2 blocks in *Temelín nuclear power plant*. In February 2010 all suppliers that submitted a request for participation in the public tender fulfilled the qualification conditions.

In 2009 and 2008 the *Temelín nuclear power plant* generated 13,252 GWh and 12,103 GWh of electricity, respectively. Since the start of its operation, *Temelín* has generated 92,032 GWh of electricity. Its load factor in 2008 and 2009 was approximately 68% and 75%, respectively. At the *Temelín nuclear power plant* in 2009 preparatory works for the construction of a spent fuel storage facility continued, as did project “Safely 15 TERA” so as to improve the fault rate of the *Temelín nuclear power plant* down to the level of the top quarter of the world’s nuclear power plants, improve available capacity and reduce equipment failure rates. An upgrade of high-pressure components of the 1,000 MW aggregate continued as well. In 2009 several investment actions also continued, aiming to increase the level of nuclear safety and operational reliability.

***Nuclear Act***

On 24 June 1994, the Czech Republic became a party to the Vienna Convention on Civil Liability for Nuclear Damage (the **Vienna Convention**). On the basis of the principles of the Vienna Convention, the government initiated and Parliament enacted Act No. 18/1997 (the **Nuclear Act**). The Nuclear Act came into force on 1 July 1997. In accordance with the Vienna Convention, the Nuclear Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and that the operator’s liability for such damage is limited to CZK 8 billion per incident. The Nuclear Act also provides that operators of nuclear facilities, such as ČEZ, are obliged to acquire insurance covering potential liabilities for nuclear damages in the amount of not less than CZK 2 billion. The *Dukovany* and *Temelín nuclear power plants* are currently fully insured in accordance with the Nuclear Act and the Vienna Convention. See “*Insurance Matters*” below for more information about ČEZ’s insurance.

The Nuclear Act contains a provision to the effect that, subject to the conditions of this Act, the Czech Republic shall guarantee the safe final disposal of nuclear waste. The Nuclear Act requires the MIT to establish the Repository Authority as a State organisation, which carries out particular activities associated with disposal of nuclear waste. The Repository Authority was established on 1 June 1997. The Nuclear Act provides that a generator of nuclear waste, such as ČEZ, will remain responsible for storage of nuclear waste and related costs until the handover of the waste to the Repository Authority. The Repository Authority centrally organises, supervises and is responsible for all final disposal facilities and deposition of nuclear waste therein. The establishment and activities of the Repository Authority are financed through the Nuclear Account funded by the generators of nuclear waste. The Nuclear Account is managed by the MoF. CEZ GROUP contributes to the Nuclear Account CZK 50 per MWh of electricity produced in the nuclear power plant and CZK 15 per MWh thermal of heat produced in the research reactor. Since 1 October 1997, CEZ GROUP has made regular payments to the Nuclear Account based on the nuclear MWh generated. In 2009 and 2008, respectively, the total CEZ Group payments to the Nuclear Account amounted to CZK 1,360 million and CZK 1,328 million, respectively.

In addition to cash payments to Nuclear Account, CEZ GROUP has established provisions to recognise its estimated liabilities for spent fuel storage: CEZ GROUP continues to provide for the future cost of *interim storage* in the form of an accounting reserve, amounting to CZK 6,787 million as of 31 December 2009. The accounting reserve for the future costs of *long-term storage* of nuclear waste amounted for CZK 21,950 million as of 31 December 2009. The payments to the state Nuclear Account are charged against the accumulated provisions for the long-term storage.

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

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

### ***Nuclear fuel materials and fuel procurement***

Nuclear fuel materials and services (i.e. uranium, conversion and enrichment) have been procured on mid- and long-term contractual bases. This procurement is under supervision of the European Supply Agency (ESA), with ČEZ's procurement activities required to comply with the ESA strategy and limitations. ESA endorses and co-signs all new supply contracts. The main portion of the total uranium needs was provided from domestic sources in the past. Since Czech uranium production has been continuously decreasing in recent years originally with the prospect of almost full cessation in 2008, ČEZ concluded several new contracts in 2003 for long-term uranium supply for the future needs of the *Temelín* nuclear power plant in the world market. These contracts have broadened ČEZ's portfolio of suppliers and contributed to increased security of fuel materials supply. The improved prices in the uranium market enabled ČEZ to extend the Czech uranium production beyond the originally planned horizon. In 2008 ČEZ concluded a new supply contract with domestic uranium supplier Diamo s.p. for the period 2008 – 2010 with a delivery option for 2011 – 2012. Additional production capabilities of Diamo s.p. are currently being assessed based on the ongoing exploration program. In respect of the future needs of the *Dukovany* nuclear power plant, CEZ GROUP intends to buy uranium, together with conversion and enrichment services, as a package within the framework of its existing long-term fuel fabrication contract with Russian company JSC TVEL (TVEL) grandfathered by the European Supply Agency upon accession of the Czech Republic to the European Union. ČEZ also maintains a strategic / working inventory of nuclear materials in different stage of processing (concentrates, natural and enriched hexafluoride).

ČEZ GROUP's long-term nuclear fuel supplier for the *Temelín* nuclear power plant is *The Westinghouse Electric Company LLC* which produces nuclear fuel for ČEZ at its facilities in Columbia, South Carolina. Refuelling and shipments of nuclear fuel for the *Temelín* nuclear power plant from *The Westinghouse Electric Company LLC* are performed according to the requested schedule on the basis of a long-term contract. In April 2004, ČEZ opened a tender for supplies of nuclear fuel for the *Temelín* nuclear power plant for the period following the expiry of the current fuel contract. The last supplies of fuel from *The Westinghouse Electric Company LLC* were realised at the 1<sup>st</sup> block in 2009 and for the 2<sup>nd</sup> block are planned in 2010. *The Westinghouse Electric Company LLC* and a Russian company *TVEL* took part in the tender; based on the results of the tender the contract has been awarded to *TVEL* in May 2006. The plant will be refueled with the new *TVEL* fuel assemblies for the first time in 2010.

Nuclear fuel for the four *Dukovany* nuclear power plant reactors is provided under well established long-term agreements concluded with the Russian manufacturer *TVEL*. Deliveries of nuclear fuel designated for transition from the “four” to “five-year fuel cycle” have been carried out in recent years. Nuclear fuel design has also been modified in order to accommodate the operation of reactors at an increased power level. In 2006, an improved version of the second-generation fuel was supplied and a licence was obtained for its use. In 2008 the same process was successfully completed for the modified advanced second generation fuel. In 2000, an improved version of the second-generation fuel was supplied, which is now used at the 3<sup>rd</sup> block and is planned to be used in all the blocks. ČEZ maintains a strategic inventory of already fabricated fuel at *Dukovany* power plant site.

### ***Spent nuclear fuel storage***

#### ***Interim Spent Nuclear Fuel Storage Facility (ISFSF) – Dukovany nuclear power plant***

The first stage of interim storage facility for spent nuclear fuel, which utilises transport and storage casks (licensed and used in a number of East European countries) at the *Dukovany* nuclear power plant became operational in December 1995. The capacity of this facility was fully used up in the first half of 2006 (60 Castor casks). The second stage of ISFSF *Dukovany* was started in year 1997 (storage capacity 133 Castor casks). In 1999, the NSA issued a zoning permit for the second stage of ISFSF and an EIA was completed. In 2000, ČEZ received a local zoning permit for this interim storage facility and in 2001 ČEZ entered into an agreement for the provision of storage containers for this facility. ČEZ received a construction permit in 2003. This second storage facility was commissioned in October 2006 and became operational in December 2006. Its capacity will cover the power plant's operation for a period of 40 years and therefore, ČEZ expects that the capacity of the interim storage facility will be sufficient for the planned long term operation of *Dukovany* nuclear power plant. The spent fuel is stored in advanced CASTOR 440/84M casks and 12 casks are actually stored i.e. approximately 10% of second storage hall capacity.

#### ***Interim Spent Nuclear Fuel Storage Facility (ISFSF) – Temelín nuclear power plant***

ČEZ is also preparing for the construction of ISFSF for *Temelín* nuclear power plant directly at the *Temelín* site. The first stage is planned for approximately 150 casks capacity. ČEZ received offers for the storage and transport casks for *Temelín* ISFSF in 2006 and signed an agreement with German firm GNS. The start of trial operation is planned in summer 2010.

#### ***Central Interim Spent Nuclear Fuel Storage Facility (CISFSF) – Skalka***

As an alternative, an underground CISFSF at the *Skalka* site in Southern Moravia is being considered for the long term storage of spent fuel from both nuclear power plants. ČEZ obtained a local zoning permit for this site in March 2001. The start of operation is planned for after year 2065.

## ***Decommissioning of the nuclear power plants***

According to the Nuclear Act, CEZ GROUP will be responsible for decommissioning the nuclear power plants. CEZ GROUP is providing funds for the future costs of decommissioning of its plants on a straight-line basis over the operating life of the relevant plant. The total decommissioning costs are currently estimated to be CZK 17.3 billion for the *Dukovany* nuclear power plant and CZK 14.6 billion for the *Temelin* nuclear power plant. These decommissioning cost estimations are submitted for verification to the Repository Authority. In order to accumulate an adequate amount of funds for coverage of the ultimate costs of decommissioning of the plants after their useful life, CEZ GROUP periodically reviews the decommissioning cost estimates and updates its decommissioning provisions. The last update of decommissioning costs of the *Dukovany* nuclear power plant was made in 2008, and of the *Temelin* nuclear power plant in 2009.

To cover the costs of decommissioning, CEZ GROUP is required by the Nuclear Act to contribute to special escrow accounts. CEZ GROUP's annual contribution to the escrow accounts for 2009 is CZK 326 million (CZK 160 million in respect of *Temelin*, and CZK 166 million in respect of *Dukovany*) and CZK 318 million for 2008. These restricted funds are shown in the balance sheet under non-current financial assets and as at 31 December 2009, restricted funds representing accumulated provision for nuclear power plants decommissioning totalled CZK 6,954 million. CEZ GROUP has established provisions to recognise its estimated liabilities for nuclear decommissioning in the form of an accounting reserve, which as of 31 December 2009 amounted to CZK 8,415 million.

## ***Nuclear safety***

Under Czech law, the NSA is responsible for supervising the safe operation of nuclear power plants. The NSA supervises compliance with relevant regulations and decrees, and reviews the operation of nuclear facilities, the quality of selected activities, repair and maintenance, and personnel training. The NSA representatives (local inspectors) are permanently on site at both the *Dukovany* and *Temelin* nuclear power plants to monitor the facilities' performance and compliance with safety standards and operating procedures, and to make sure that improvements made by the licence holder are appropriate. Safe operation at the *Dukovany* and *Temelin* nuclear power plants is governed by documentation requirements, approved by the NSA (Technical Specifications, Radioactive Effluent & Emission Monitoring Programmes, etc). Compliance with regulations and requirements set out in the approved documentation is the plant's responsibility. The NSA carries out supervision by inspections.

Since initial operation, the *Dukovany* and *Temelin* nuclear power plants have been continuously monitoring (under the supervision of the NSA) levels of radiation in the immediate vicinity of the plants. To date, results of monitoring in the ventilation outlets and in the drains of the plants have indicated that radiation levels remain considerably below statutory limits.

Unlike analogous western nuclear power plants, the units of the *Dukovany* nuclear power plant have no full pressure containment. However, prevention of release of radioactive steam into the atmosphere in case of any breach of the primary circuit (the sealed circuit comprises the steel pressure vessel containing the reactor, the steam generator and the connecting pipe work) is ensured via hermetic zones complemented by bubbler towers, which can relieve hermetic zones from over-pressurisation. In the *Temelin* nuclear power plant, both units are constructed with standard full pressure containment of the Western type. The *Dukovany* and *Temelin* 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.

## *IAEA, WANO*

The Czech Republic is a member of the IAEA. ČEZ is also a member of the WANO and, like other members of these organisations, submits all its nuclear power plants to periodic peer review. These reviews are carried out regularly by international teams of experts from various professional organisations. In January 2009, a follow-up on the 2007 WANO Peer Review took place at *Dukovany* nuclear power plant. The mission confirmed that the power plant is well operated and declared that all the recommendations of the WANO peer review mission were implemented or are in the advanced stage of being implemented. In December 2006, WANO conducted inspection at *Temelín* and concluded that the plant complies with common safety standards.

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

In 1991, IAEA and the Nuclear Energy Agency of the OECD introduced a seven-grade international nuclear events scale (INES), an internationally recognised standard used to inform the public of the safety significance of a nuclear event. 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" - events without safety significance. Neither the *Dukovany* nor the *Temelín* nuclear power plants have experienced an incident assessed Grade 2 or higher.

### Hydroelectric Power Generation

CEZ GROUP operates 36 hydroelectric power plants, which include 7 Run-of-River power plants, 3 pumped storage hydro power plants and 26 Small-scale hydro power plants. Its hydroelectric power plants (excluding pumped storage hydro power plants) in 2009 generated 1,552 GWh of electricity which represents approximately 2% of CEZ GROUP's total electricity generation.

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

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

Neither conventional storage nor pump storage hydroelectric power plants release polluting emissions into the atmosphere. These plants also represent an inexpensive source of electricity, particularly in periods of peak demand. In addition, pump storage power plants allow the productive use of excess electricity generated by base load plants by operating storage pumps in periods of low demand.

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

CEZ GROUP operates 36 hydroelectric power plants shown in the following table:

<b>Location</b>	<b>Installed Capacity</b> (MW)	<b>Type of plant</b>	<b>Start of operation</b>
Kamyk	4x10	Accumulation	1961
Lipno I	2x60	Accumulation	1959
Orlik	4x91	Accumulation	1961 - 1962
Slapy	3x48	Accumulation	1954-1955
Stechovice I	2x11.25	Accumulation	1943 - 1944
Vrane	2x6.94	Accumulation	1936
Stfekov	3x6.5	Accumulation	1936
Dlouhe Strane II	1 x0.16	Small Hydro	2000
Hnevkovice	2x4.8	Small Hydro	1992
Kofensko I	2x1.9	Small Hydro	1992
Kofensko II	1x0.94	Small Hydro	2000
Lipno II	1x15	Small Hydro	1957
Mohelno	1x12; 1x056	Small Hydro	1977, 1999
Zelina	2x0.315	Small Hydro	1994
Brno — Kninicky	1x3 1	Small Hydro	1941
Brno — Komin	1x0.106; 1x0.140	Small Hydro	1923, reconstruction 2008
Cenkova pila	1 x 0 096	Small Hydro	1912
Cerne jezero	1 x 1.5; 1 x 0.04; 1x0.37	Small Hydro	1930,2004,2005
Hradec Kralove	3x0.25	Small Hydro	1926
Hracholusky	1 x255	Small Hydro	1964
Les Kralovstvi	2x1.105	Small Hydro	1923, reconstruction 2005
Obfistvi	2 x 1 679	Small Hydro	1995
Pardubice	1x1.96	Small Hydro	1978
Pracov	1x975	Small Hydro	1953, reconstruction 2001
Pastviny	1x3	Small Hydro	1938, reconstruction 2003
Plzeii - Bukovec	2x0315	Small Hydro	2007
Pfedmefice nad Labem	1x2.1	Small Hydro	1953
Pfelouc	2 x 0 68; 2 x 0 49	Small Hydro	1927, reconstruction 2005
Spalov	2x1.2	Small Hydro	1926, reconstruction 1999
Spytihnev	2x1 3	Small Hydro	1951
Veseli nad Moravou	1x0.12; 1x0.15	Small Hydro	1914, 1927
Vydra	2x32	Small Hydro	1939
Skawina/Skawinka	1 x 1.6	Small Hydro	1961
Dalesice	4x1125	Pump Storage	1978
Dlouhe Strane I	2x325	Pump Storage	1996
Stechovice II	1x45	Pump Storage	1947-1949, reconstruction 1996
<b>Total installed capacity</b>	<b>1.934.5</b>		

*Note: Plants in italic are not owned by CEZ, a. s. but are owned by other CEZ GROUP members.*

## Solar Power Generation

CEZ GROUP operates 7 solar power plants.

<b>Location</b>	<b>Owner</b>	<b>Installed capacity Type of plant (MW)</b>	<b>Start of operation</b>
Dukovany .....	ČEZ, a. s.	0.01	1998, 2003
Bežerovice .....	CZ INVEST – PLUS, a.s.	3.013	2009
Čekanice u Tábora.....	CZ INVEST – PLUS, a.s.	4.48	2009
Chýnov u Tábora.....	CZ INVEST – PLUS, a.s.	2.009	2009
Přelouč.....	CZ INVEST – PLUS, a.s.	0.021	2009
Hrušovany pod Jevišovkou.....	MALLA, a.s.	3.802	2009
Žabčice .....	Elektra Žabčice, a.s.	5.6	2009
<b>Total installed capacity .....</b>		<b>18.9</b>	

The total capacity of CEZ GROUP's wind power plants is 9.7 MW. The total capacity of CEZ GROUP's solar power plants is 18.9 MW. The majority of CEZ GROUP solar power plant portfolio was built up in 2009 with the prospects of further expansion in 2010.

## Wind Power Generation

<b>Location</b>	<b>Owner</b>	<b>Installed capacity Type of plant (MW)</b>	<b>Start of operation</b>
Nový Hrádek.....	ČEZ Obnovitelné zdroje, s.r.o.	4 x 0.4	2002
Věžnice .....	ČEZ Obnovitelné zdroje, s.r.o.	2 x 2.05	2009
Janov .....	Š-BET, s.r.o.	2 x 2	2009
<b>Total installed capacity .....</b>		<b>9.7</b>	

The total installed wind power generation capacity of CEZ GROUP will significantly increase by finishing 600 MW wind projects in Romania (see above "International Expansion"). The construction of the 1<sup>st</sup> stage of the project called Fantanele (347.5 MW) consisting of 139 wind turbines is planned to be finished by the end of 2010. The 2<sup>nd</sup> stage of the wind farm project - Cogeaalac (252.5 MW)- is expected to be finalised by the end of 2011.

During 2009, CEZ GROUP generated 1 GWh of electricity in the wind and solar power plants, representing less than 1% of total electricity generated by CEZ GROUP.

## "Biomass-Fired Power Generation

During 2009, more than 363 thousand tons of biomass were burnt in CEZ GROUP coal-fired power plants in the Czech Republic, all in form of co-burning with brown coal, generating almost 345 thousand MWh of electricity. Within CEZ GROUP's portfolio of renewable sources, biomass is the second most significant element after water power stations.

In April 2009, CEZ GROUP purchased a pure biomass-fired combined heat and power plant in Jindřichův Hradec, Czech Republic, with turbine output of 5.6 MWe, boiler output of 18.5 MWt, annual electricity production of 32,300 MWh and gross annual heat production of 178.9 TJ. The heat produced is supplied mainly to central distribution system of Jindřichův Hradec and covers approx. 35% of total town's heat consumption. The power plant started the operation in November 2008.

## Gas Power Generation

Compared to coal-fired plants, gas-fired power plants have considerably lower emissions of sulphur and nitrogen oxides and dust. At this moment ČEZ does not own any operational gas power plants, nevertheless, as already mentioned in other sections of the Base Prospectus and compliant with the supply

diversification strategy of CEZ GROUP, a number of projects are under development (800MW unit in Počerady in Czech Republic, 830MW DUFI CCGT in Hungary, 830MW Slovnaft CCGT in Slovakia and 900MW CCGT Hatay in Turkey) and others are still in the pipeline both in Czech Republic and abroad.

## Heat Generation

In general, heat is a by-product of the generation of electricity. ČEZ sells heat to municipalities, district heating companies and industrial consumers. At the present time, ČEZ supplies heat from a majority of its coal-fired plants. Heat is supplied to customers via steam/hot water pipelines operated by ČEZ and third parties. In 2009, CEZ GROUP supplied 13,040 TJ of heat to its customers, which represented a 7% decrease in comparison to 2008.

In 2009, total sales of heat of CEZ GROUP reached CZK 3.3 billion, which is the same result as achieved in 2008.

## Electricity Production and Trading

CEZ GROUP optimises its profit margins by flexibly arbitraging opportunities in domestic sales, exports and provision of ancillary services. In 2009, CEZ GROUP extended its trading activities and is an active trader of electricity and CO<sub>2</sub> allowances in Europe. From a geographical point of view, CEZ GROUP is active on the central and southeastern European markets, where it has built up its own business infrastructure and gained the necessary licenses for electricity trading. In addition, ČEZ participates in auctions on cross-border transmission capacity in the region.

The following tables show a breakdown of CEZ GROUP's electricity procurement and supplies for the two years ended 31 December 2008 and 2009.

### CEZ GROUP

	<b>2008</b>	<b>2009</b>	<b>Index 2009/2008</b>
	<b>GWh</b>	<b>GWh</b>	<b>(%)</b>
<b>Electricity procured</b>			
Produced in-house (gross) .....	67,595	65,344	96.7%
In-house and other consumption, including dumping in pumped- storage plants.....	-6,182	-6,193	100.0%
Supplied to customers .....	61,413	59,151	96.3%
Purchased for distribution and sale .....	18,996	23,821	125.4%
<b>Electricity procured, total.....</b>	<b>80,409</b>	<b>82,972</b>	<b>103.2%</b>
<b>Electricity consumed</b>			
Sold to end customers.....	41,230	43,492	105.5%
Of which: sold to end customers in CEZ GROUP, including sales to cover grid losses .....	2,533	2,096	82.7%
Sold in the wholesale market (net).....	33,439	31,855	95.3%
Sold outside of Central Europe segment .....	94,001	129,790	138.1%
Purchased outside of Central Europe segment.....	-60,562	-97,935	161.7%
Grid losses .....	5,739	7,625	132.9%
<b>Electricity consumed, total.....</b>	<b>80,409</b>	<b>82,972</b>	<b>103.2%</b>

### Central Europe segment

The Central Europe segment includes consolidated companies based in the Czech Republic, Netherlands, Hungary, Poland, Slovakia and Germany.

	<b>2008</b>	<b>2009</b>	<b>Index</b> <b>2009/2008</b>
	<i>GWh</i>	<i>GWh</i>	( <i>%</i> )
<b>Electricity procured</b>			
Produced in-house (gross) .....	63,985	63,103	98.6%
In-house and other consumption, including dumping in pumped- storage plants .....	-5,867	-5,989	102.1%
Supplied to customers .....	58,118	57,114	98.3%
Purchased for distribution and sale .....	3,547	3,129	88.2%
<b>Electricity procured, total .....</b>	<b>61,665</b>	<b>60,243</b>	<b>97.7%</b>
<b>Electricity consumed</b>			
Sold to end customers .....	29,174	27,203	93.2%
Of which: sold to end customers in CEZ GROUP, including sales to cover grid losses .....	2,285	1,980	86.7%
Sold in the wholesale market (net) .....	29,515	30,268	102.5%
Sold outside of Central Europe segment .....	89,014	129,316	145.3%
Purchased outside of Central Europe segment .....	-59,499	-99,048	166.5%
Grid losses .....	2,976	2,772	93.1%
<b>Electricity consumed, total .....</b>	<b>61,665</b>	<b>60,243</b>	<b>97.7%</b>

### Southeastern Europe segment

The Southeastern Europe segment includes consolidated companies based in Bulgaria, Romania, Kosovo, Albania, Serbia, Republika Srpska in Bosnia and Herzegovina, the Russian Federation, and Ukraine.

	<b>2008</b>	<b>2009</b>	<b>Index</b> <b>2009/2008</b>
	<i>GWh</i>	<i>GWh</i>	( <i>%</i> )
<b>Electricity procured</b>			
Produced in-house (gross) .....	3,610	2,241	62.1%
In-house and other consumption, including dumping in pumped- storage plants .....	-315	-204	64.7%
Supplied to customers .....	3,295	2,037	61.8%
Purchased for distribution and sale .....	15,449	20,692	133.9%
<b>Electricity procured, total .....</b>	<b>18,744</b>	<b>22,729</b>	<b>121.3%</b>
<b>Electricity consumed</b>			
Sold to end customers .....	12,056	16,290	135.1%
Of which: sold to end customers in CEZ GROUP, including sales to cover grid losses .....	248	116	46.8%
Sold in the wholesale market (net) .....	3,924	1,587	40.4%
Sold outside of Southeastern Europe segment .....	3,925	2,532	64.5%
Purchased outside of Southeastern Europe segment .....	-1	-946	
Grid losses .....	2,764	4,853	175.6%
<b>Electricity consumed, total .....</b>	<b>18,744</b>	<b>22,729</b>	<b>121.3%</b>

CEZ GROUP's total sales to end customers increased to 43.5 TWh in 2009 (in comparison to 41.2 TWh in 2008). In the central Europe CEZ GROUP sold to end customers 27.2 TWh of electricity.

Distribution companies in Bulgaria, Romania and Albania sold 16.3 TWh (out of which 16.2 TWh was sold outside CEZ GROUP) of electric power, which was 35% more than in 2008.

CEZ GROUP's sales on the wholesale market amounted to 31.9 TWh in 2009, out of which approximately 95 % was sold on the wholesale market in central Europe. On the Czech wholesale market ČEZ sells electricity for prices agreed by the contractual parties. Since 2002, the wholesale prices have no longer been regulated by the State. Since the launch of PXE on 17 July 2007, the major volume for the delivery year 2010 is intended to be sold via PXE. Introduction of PXE increased the transparency of the market.

### Electricity Distribution

In 2009 the volumes of distributed electricity by *ČEZ Distribuce, a.s.* amounted to 31,761 GWh. The decrease in comparison to 2008 by 2,199 GWh was caused mainly by the overall electricity demand decrease in the Czech Republic due to the economic crisis. Volumes of electricity distribution in Bulgaria reached 8,786 GWh, which is 0.4 % more than in 2008. In Romania, volumes of electricity distribution reached 7,073 GWh which is 14.6% less than in 2008. In Albania volumes of electricity distribution amounted to 4,112 GWh, which is 3.9% more than in 2008 and in Turkey volumes of electricity distribution reached 8,807 GWh.

### *Gas Supply to enterprise customers*

In August 2009 ČEZ started to offer gas supplies to its enterprise customers in addition to electric power supply. In four months ČEZ managed to gain, for deliveries from the beginning of the next year, over 90 companies to which it will supply in total 1.6 TWh of power to over 200 supply locations. With that CEZ achieved 4% share in the major customer segment. These include in particular supplies to industrial companies, however in the future ČEZ intends to extend its offer to smaller enterprises. Most supplies will be initiated at the beginning of 2010. Nevertheless some customers have already started to buy gas from ČEZ in the last months of 2009.

### **Provision of Ancillary Services**

To supply system services, Czech TSO ČEPS and Slovak TSO SEPS purchases ancillary services from CEZ GROUP. ČEZ is exposed to considerable competition in ancillary services. ČEZ's share on the Czech market was CZK 4,374 million in 2008 and CZK 4,428 in 2009.

### CO<sub>2</sub> Emission Allowances

2007 was the last year of the first three-year allocation period (NAP I) within the European Union Emission Trading Scheme (EU ETS). In 2008 NAP II commenced and ČEZ was granted emission allowances for 34.3 million tons of CO<sub>2</sub> per year for the 2008 – 2012 period. CO<sub>2</sub> emissions became an integral part of management and decision-making, not only at the coal-fired power plants which are directly affected by the trading, but also at non-fossil plants, which play a major role in optimising generation in terms of CO<sub>2</sub> emissions. The decision making process in the trade of CO<sub>2</sub> is based on comparison of the wholesale electricity price with generation costs which include the price of CO<sub>2</sub> emission allowances.

ČEZ actively trades in European Emission Allowance (EUA) and Certified Emission Reduction/Emission Reduction Units (CER/ERU) emission allowances, with regard to price developments and the needs of its power plants. Trading in the allowances takes place through the ECX (futures trading), PowerNext (spot trading), and bilateral contracts.

The following table summarises the movements in the quantity and book value of emission rights and credits held by the CEZ GROUP during 2009 and 2008:

	2009		2008	
	in thousands tons	in millions CZK	in thousands tons	in millions CZK
Emission rights and certified emission reductions (CERs) granted and purchased for own use:				
Granted and purchased emission rights at January 1 .....	41,751	1,274	43,224	231
Emission rights granted .....	42,494	-	42,022	-
Emission rights acquired in business combinations .....	2	27	-	-
Settlement of prior year actual emissions .....	(40,408)	-	(43,103)	(221)
Disposal of remaining emission rights from the first allocation period .....	-	-	(134)	-
Emission rights purchased .....	794	392	447	251
Emission rights sold .....	(4,066)	(7)	(3,215)	-
Emission credits purchased .....	929	332	2,510	1,023
Emission credits sold .....	(2,857)	(1,155)	-	-
Fair value adjustment .....	-	-	-	(1)
Currency translation differences .....	-	6	-	(9)
Granted and purchased emission rights and credits December 31 .....	38,659	869	41,751	1,274
Emission rights held for trading:				
Emission rights for trading at January 1 .....	-	-	-	-
Emission rights purchased .....	-	-	12	-
Emission rights sold .....	45,025	18,284	24,623	14,117
Emission rights sold .....	(45,025)	(18,292)	(24,347)	(14,084)
Emission credits purchased .....	3,967	1,484	-	-
Emission credits sold .....	(3,967)	(1,484)	-	-
Disposal of remaining emission rights from the first allocation period .....	-	-	(288)	-
Fair value adjustment .....	-	8	-	(33)
Emission rights held for trading at December 31 .....	-	-	-	-

During 2009 and 2008 total emissions of greenhouse gases made by the Group companies amounted to an equivalent of 37,168 thousand tons and 40,408 thousand tons of CO<sub>2</sub>, respectively

ČEZ implements its emission reduction action plan, particularly in the context of further development of renewable sources of energy and generally developing the ČEZ plant portfolio, where CO<sub>2</sub> emissions are one of the key factors used to evaluate investment opportunities.

## Coal Mining

One of the fully consolidated CEZ GROUP companies is *Severočeské doly a.s.*, the largest Czech brown coal mining company. In 2009, its share in the Czech Republic brown coal market was 48.6 % (up by 1.7% compared to 2008). It runs coal extraction operations in the Doly Nástup Tušimice and Doly Bílina mines. In 2009, *Severočeské doly a.s.* extracted a total of 22.6 million tons of brown coal, which is a 1% increase compared to 2008. Total revenues from coal sales reached CZK 4,031 million in 2009. CEZ GROUP power plants consumed 16.5 million tons (75 %) of the company's coal output, up by 0.1 %. Supplies to customers outside of CEZ GROUP decreased by 1.7% to 5.5 million tons.

## *Reclamation of mines and mining damages*

*Severočeské doly a.s* operates an open pit coal mine and is responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. To cover the costs of reclamation of mines and mining damages recorded by Severočeské doly a.s., it is required by law to contribute to a special escrow account. These restricted funds are shown in the balance sheet under restricted financial assets and as at 31 December 2009, restricted funds related to mining reclamation and damages totalled CZK 2,254 million. CEZ GROUP has established provisions to recognise its estimated liabilities for decommissioning and reclamation of mines and mining damages, which as of 31 December 2009 accumulated to CZK 6,448 million.

According to the legislation Mibrag GmbH is obliged to recultivate the mining area once the mines are exhausted. As of 31 December, 2009 the unfunded reclamation provisions amounted to EUR 106 million. The authorities may require a third party guarantee or cash collateral to secure such provisions in the future, however they have not done so far.

## Capital Investments

### *Strategic investment goals of ČEZ*

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

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

The following table sets out cash outflows related to additions to property, plant, equipment and other non-current assets (including capitalised interests) made from 2008 to 2009 (figures are consolidated in accordance with IFRS).

	<b>2008</b>	<b>2009</b>
	<b>CZK million</b>	
Additions to property, plant and equipment .....	45,136	55,677
<i>of which: nuclear fuel</i> .....	2,519	3,225
Additions to intangible assets .....	1,135	945
Additions to long-term financial assets .....	2,610	14,521
Change in balance of liabilities attributable to capital expenditures .....	-2,695	-352
<b>Total</b> .....	<b>46,186</b>	<b>70,791</b>

## *Nuclear Power*

### *Dukovany nuclear power plant*

The majority of investment projects during 2009 were aimed at modernisation of the *Dukovany* power plant and increasing the efficiency of the electric power generation. Renovation of the flow-through parts of low-pressure components of steam turbines on all four Units (new rotors with improved blades reducing the turbo-aggregate's heat rate by a minimum of 3.5%) was completed. Upon completion of these modifications, the achievable capacity of all four units of *Dukovany* nuclear power plant was increased to 456 MW. Continuing modernisation in 2009 permitted an increase in the output of Unit 3 by a further 44 MWe to 500 MWe. When all the planned modernisation works are finished, the *Dukovany* nuclear power plant is expected to reach 4 × 500 MWe capacity.

### ***Spent Nuclear Fuel Storage Facility at Dukovany nuclear power plant***

During October 2006, a new spent nuclear fuel storage facility was opened in the premises of *Dukovany* nuclear power plant (for details see above in chapter *Spent nuclear fuel storage*). Its capacity will cover the power plant's operation for a period of 40 years and therefore, ČEZ expects that the capacity of the interim storage facility will be sufficient for the planned long term operation of *Dukovany* nuclear power plant.

### ***Temelín nuclear power plant***

The primary objective of investment projects in the *Temelín* nuclear power plant was to increase the level of nuclear safety and reliability of operation. This mainly included an upgrade of high-pressure components of the 1,000 MW aggregate.

### ***Spent Nuclear Fuel Storage Facility at Temelín nuclear power plant***

In 2005, documentation was drawn up for zoning proceedings and for the facility location permit, as well as the information memorandum for a public tender to find a supplier of casks and an EIA of the project in which Austrian and German representatives participated. Both the Ministry of the Environment of the Czech Republic and the European Union issued consenting opinions on the proposed project. The NSA, as the administrative authority with jurisdiction over the matter, issued a nuclear facility location permit in 2005 and a construction permit in 2008. However, many community initiatives raised objections to the consenting opinions and appealed during zoning and construction proceedings and also to the court. The Ministry for Regional Development of the Czech Republic invalidated the zoning permit issued by regional authority of South Bohemia. In February 2009 the Ministry of Industry finally confirmed the validity of the construction permit. Subsequently the spent nuclear fuel storage facility construction started. In 2009, the preparation of the spent fuel storage facility continued according to the plan that envisages the launch of operation of the facility in 2010. The construction of the storage facility has begun and the first packaging sets have been manufactured. In December 2009 the fabric of the roof structure was finished.

### ***Public tender for a contractor for two nuclear units designed for Temelín***

In August 2009 ČEZ opened a public tender for the purpose of selecting a contractor for two nuclear units designed for their *Temelín* location. The public tender includes a requirement for unilateral options for the benefit of ČEZ regarding construction of up to 3 more nuclear units in other potential locations within Europe.

On 30 October 2009 the period for submission of applications for participation in the public tender for completion of two nuclear units and delivery of fuel for *Temelín* Nuclear Power Plant and potential option for construction of additional three nuclear units elsewhere in Europe ended. The application for participation is the sole legally valid registration of applicants for the public tender, which must contain documentation proving meeting of eligibility criteria defined by ČEZ. During next months ČEZ will examine collected applications and, if agreed by those entities who meet the eligibility criteria, will publish names of these entities that will be able to further participate in the tender.

### ***Investments in Temelín***

In line with the goal to further improve the performance of the power plant, a number of investment projects were carried out in 2009 aimed at increasing the nuclear safety levels as well as the reliability of the power generation. The most important investments concluded in 2009 are described in more detail hereafter:

*Replacement of low-pressure flow parts of the turbine 1000 MWe* – the new parts will improve the safety and reliability of the low-pressure turbine, thus increasing the thermo-dynamic efficiency (and boosting the output of the turbine system by approx. 22 MWe per turbine). The turbine system will be prepared for the expected increased nominal heat output of the reactors. In the course of 2009, this project was in the process of preparation and contracts were signed to carry out the replacement in the upcoming years.

*Modernisation of refueling machines at both reactor units* – adjustment of the existing rods, replacement of the telescopic rod, cables and driving unit. The replacement process was completed on both units.

*Reconstruction of the portal jib crane SKET 320 t* – replacement of the control system of the crane which will permit the synchronisation of the parallel running of both drivers, 160 t + 2 × 70 t, used in the transport of cassettes for spent fuel.

*Replacement of arc-flash protection system at the 6 kV switch rooms* – replacement of a set of short-circuit flash protection elements in 6 kV switch rooms consisting of optical cable loops sensitive to the light flash along the full length of the cable was carried out. The replacement was mostly carried out in 2008 and it was finished in 2009.

Replacement of protection systems of the generator and self-consumption supply at unit 1.

## **Conventional Power**

### *Plant Portfolio Renewal*

In accordance with the “Programme of Further Operation and Conception of Renewal of the ČEZ Plant Portfolio”, preparations were begun for the comprehensive retrofits of the *Tušimice II* and *Pruněřov II* power plants and the construction of new brown-coal generating units, each with 660 MW capacity in the existing sites of *Ledvice* and *Počerady* power plants. February 2006 saw the approval of the joint business and construction plan for the Comprehensive Retrofit of *Tušimice II* power plant, which called for the facility to retain its current generating capacity of 4 × 200 MW. Basic engineering documentation for the project was drawn up and in December 2005 an application was filed for a building permit. The actual construction of the project started in March 2007 and should finish in June 2010. In 2009 the first connection to the grid was finished and complex testing of reliability has commenced. As of 9 November 2009 unit management has been transferred to ČEZ, in order to ensure heat supplies in 2009/2010. In *Pruněřov II* the preparatory project works continued, basic designs have been approved and Engineering, Procurement, Construction (EPC) process has been initiated. The Environmental Impact Assessment (EIA) process continued and as of 3 December 2009 a public hearing took place. A construction permit for the 1<sup>st</sup> phase has been obtained whilst the start of the construction is subject to receipt of a positive EIA.

In May 2006, a plan was approved to build a new 660 MW unit with supercritical parameters, which would be the first of its kind in the Czech Republic. At the same time as its planned commissioning in 2012, units 2 and 3 of *Ledvice* power plant, each with 110 MW of capacity, are to be shut down. On 15 February 2007, the Ministry of the Environment issued a consenting opinion on the plan “New 660 MW Generating Facility at *Ledvice* power plant”. Commissioning of the new generating facility at *Ledvice* power plant is planned for June 2012. In 2009 construction works continued including finishing the foundation of a new cooling tower and construction of a waterpump station.

In 2009 a preparatory phase of the *Počerady* renewal was finished and an EPC contract for the delivery of power island equipment has been concluded. Furthermore a long term service agreement for the gas turbine and a gas connection agreement and gas supply agreement have been concluded with RWE Transgas Net and RWE Transgas respectively.

In the Czech Republic three projects for the construction of a combined cycle gas power plants are being considered, one in *Počerady*, *Mělník* and one in *Úžín* in the *Ústí nad Labem* Region.

## **Environmental Investments**

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

During 2009, CEZ GROUP invested a total of CZK 160.4 million into environmental protection, CZK 10.4 billion into renewable resources (while almost CZK 10 billion represented investment into a wind park in Fantanele) and CZK 5,207 million into plant renewal.

### ***Investments in Mining***

*Severočeské doly a.s.* invested a total of CZK 3.6 billion in its mining operations in 2009. The CAPEX programme mainly included projects for refurbishment and upgrade of existing extraction equipment at *Bílina Mines*.

### ***Investments in the Distribution Grid***

The initiatives in this area concerned high voltage, medium voltage, and low voltage grids: mainly refurbishment and renewal of underground and overhead medium and low voltage lines, build-outs of medium-/low-voltage distribution transformer plants, unification and projects required to meet customer requests for connection capacity. The companies of CEZ GROUP invested a total of CZK 12.3 billion in this area in 2009.

### **Research and Development, Patents and Licences**

#### *Research and Development*

CEZ GROUP hires external firms to perform research projects based on CEZ GROUP's technical assignments, evaluations, and performance check-ups. CEZ GROUP provides documentation, technical information and data to such entities. The research performed by the external entities covers numerous projects primarily in the areas of conventional power and nuclear energy.

*ÚJV Řež a.s.* is a CEZ GROUP company focused on Research and Development (R&D). The key mission of *ÚJV Řež* covers R&D, project engineering services, technical engineering, manufacture of specialised products and devices, and providing expert analyses and opinions in the areas of electric power, industry, and healthcare. *ÚJV Řež* is a significant part of the European Research Space, contributing to sustainable energy development both within the EU and in the Czech Republic. Its core activities are research, development, and project design services for power plant and equipment operators and suppliers

#### *Patents and Licences*

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

#### Insurance Matters

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

However, CEZ GROUP cannot guarantee that costs connected with nuclear disasters or other unforeseen events in the nuclear power plants would not have any negative effects on its business and financial situation. Insurance of CEZ GROUP does not fully cover all risks. The Nuclear Act sets limits for liabilities for nuclear damages by the operator of nuclear installations/licenses. The Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 8 billion per incident. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Nuclear Act also requires an operator/licensee to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). ČEZ has obtained all insurance policies with minimal limits as required by the law. ČEZ has concluded the mentioned insurance policies with Česká pojišťovna a.s. which represents the Czech Nuclear Insurance Pool (a group of insurance companies) and with European Liability Insurance for the Nuclear Industry, which is a mutual insurance company insuring nuclear liability risks.

ČEZ maintains insurance policies covering the assets of its fossil, hydro and nuclear power plants, insurance policies covering non-technological equipment, general third party liability insurance in connection with main operations of the Company and car insurance. ČEZ and the GROUP companies have insurance policies covering directors' and officers' liability. ČEZ also controls other property and liability insurance policies of the CEZ GROUP companies.

## **Risk Management**

CEZ GROUP is successfully developing an integrated risk management system with the objective of growing CEZ GROUP's shareholder value while taking risks that are acceptable to the shareholders. In the CEZ Group, risk is defined as a potential difference between the actual and the expected (planned) developments and is measured by means of the extent of such difference in CZK and the likelihood with which such a difference may occur.

Since 2005, CEZ GROUP has applied the risk capital concept, allowing the setting of basic frames and risking limits in various areas, unifying the quantification of various types of risks, and enabling individual companies or process owners to expose themselves to risk only to the extent it is proportional to their contribution to CEZ GROUP's Shareholder value. All quantified market, credit and operational risks are managed on a CEZ GROUP-wide basis within centrally approved risk limits.

The Risk Management Committee (CEO committee) makes all decisions on the development of an integrated system of risk management, makes decisions on an overall allocation of risk capital to the individual risks and organisational units, approves obligatory rules and limits, approves responsibilities and continuously monitors an overall risk impact to the CEZ GROUP's shareholder value, i.e. its expected and potential impact to:

- annual Budget targets
- Business plan targets
- Group debt capacity

### *Annual Budget risk management*

The Board of Directors approves the aggregate annual risk limit (**Group Profit@Risk**) based on the Risk Management Committee (RMC) proposal for every financial year. The proposed limit value is derived from historical volatility of profit and revenues of the Group (the top-down method). The approved value is set on the basis of a 95% confidence level and expresses a maximum profit decrease, which is CEZ GROUP is willing to take in order to reach the planned/budgeted annual profit.

The standard bottom-up methods are used for setting and updating rules and limits for individual risks. RMC approves so called Risk frames including the definition of risk and departments/units of the Group for which the frame is obligatory; definition of rules and responsibilities for individual risk management; permitted instruments and methods and actual risk limits, including a limit which expresses the share in the annual Group Profit@Risk limit. Overall risk impact to the annual budget is analysed and reported on a monthly basis to RMC.

### *Business Plan risk management*

RMC approves also Risk frames for monitoring and management of the key Business plan market risks, i.e. electricity price, emission allowances price and CZK/EUR rate. The Business plan market risks are monthly quantified for Y+1 to Y+5 horizon (**EBITDA@Risk**) according to the MonteCarlo simulation based on the historical volatility and correlation of the risk factors. The risk is actively managed through gradual generation electricity sale in the following 3-year horizon according to the Group position limits, through a complex Group CO<sub>2</sub> position management within EU regulation context and through FX hedging strategy in a medium-term horizon. Actual expected EBITDA and EBITDA@Risk for the Business plan horizon is analysed monthly and reported to RMC. The individual market risk strategies are actively adjusted in order to minimise the risk of not meeting the Business plan targets.

### *Group debt capacity risk management*

Actual expected internal operating cash flow sources (**Operating CF@Risk**) and Operating CF@Risk in Y+1 to Y+3 horizon (based on the MonteCarlo simulation) is analysed and reported to RMC on a monthly basis. The Operating CF@Risk quantification allows measurement of the entire and individual impact of the selected market risk factors on the internal and external financing sources (through the Net debt/Internal operating CF indicator derived from the Group rating and risk appetite). Together with the expected investment CF and financial CF the actual Group debt capacity for Y+1 to Y+3 horizon is quantified and compared with the targeted Group debt capacity. RMC monitors the actual Group debt capacity and the downside potential (derived from the Operating CashFlow@Risk value) in order to ensure the overall Group financial stability and to enable it to consider new investment and acquisition opportunities in the context of the overall Group debt capacity.

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

### *Market Risk*

The development of electricity, emission allowances, coal and gas prices is a key risk factor of the Group's value. The current system of commodity risk management is focused on (i) the margin from ČEZ's own electricity generation and the emission allowances costs (the potential risk is managed on the EaR, VaR and the EBITDA@Risk basis with 95% confidence level), and (ii) the margin from the proprietary trading of commodities within the whole Group (the potential risk is managed on the VaR basis with 95% confidence level).

CEZ GROUP foreign currency and interest rate positions are hedged using financial instruments and natural hedging by financing positions (predominantly by the EUR denominated debts and bonds) and by expected capital and operating expenditures.

### *Credit Risk*

With respect to the Group's activities (managed on a centralised level), credit exposures of individual financial partners and wholesale partners (electricity, CO<sub>2</sub> emission allowances, coal and gas trading partners) are managed in accordance with individual credit limits. The individual limits are set and continuously updated according to the counterparty's credibility according to the external rating and internal financial evaluation of counterparties with no external rating assigned.

With respect to the electricity sales to end customers in the Czech Republic, the actual credit risk is monitored for each business partner based on payment history (in addition, the financial standing is considered for selected partners). Its individual credit risk determines the payment conditions of partners (i.e. it indirectly determines an amount of the credit exposure) and also serves to quantify both the expected and the unexpected losses. In accordance with the risk methodology applied to the banking sector per Basel II, the expected and potential losses (on a 95% confidence level) are quantified on a monthly basis enabling quantification of the credit risk share in the aggregate annual Profit@Risk limit. Credit risk associated with selected suppliers' default is managed via a procurement department system by using standard forms of collateral such as bank or corporate guarantees.

### *Operational Risk*

Key operational risks include the risk of actual power plant output deviating from an annual plan. The operational risk of ČEZ nuclear power plants and of all coal power plants in the Czech Republic is quantified based on VaR with 95% confidence level. "Internal change" risks are managed via clear responsibility assessment and the standard project management tools. Other current operational risks include the integration of foreign equity stakes into CEZ GROUP and the implementation of the plant renewal process, i.e. upgrading existing coal/fired generating facilities. Property, casualty and other operational risks are managed via using insurance, emergency and crisis planning and preventive actions.

The liquidity risk is primarily perceived as an operational risk (risk of liquidity management) and a risk factor is the internal ability to effectively manage the future cash flows planning process in the Group and to secure the adequate liquidity and effective short-term financing (the risk is managed on a qualitative basis).

The fundamental liquidity risk management (i.e. liquidity risk within the meaning for banking purposes) is covered by the risk management system as a whole (within the Group debt capacity risk management).

### *Business Risk*

The most important business risks are those associated with international expansion in foreign countries, with investment into gas-fired powerplants and renewable energy facilities, risks associated with emission allowances regulation, and other regulatory risks – i.e. future decisions of the European Union, the Energy Regulatory Authority, and/or the Antitrust Office, as well as risks related to development of legislation in the region where CEZ GROUP is present. Business risks are managed by using clear responsibility assessment, key risk factors identification, systematic sensitivity and scenario analysis.

## **Regulation**

### *History*

Until 1990, one single state-owned conglomerate operated the whole electricity system. In 1990, the regional distribution companies were separated from the state enterprise. In 1994, they were transformed into joint stock companies, the REAS, and offered to the public as part of the voucher privatisation process in 1995. The Czech Republic, through the NPF, retained a controlling stake of approximately 47–49% of shares in each of the REAS. In 1992, the 100% State-owned company ČEZ was created from ČEZ, state enterprise. The Czech Republic retained a 67.8% majority stake in ČEZ and the remainder was offered to the public as part of two rounds of the voucher privatisation process in 1993 and 1995. In addition to the privatisation of REAS, several electricity producers, mainly local, have been partially privatised as well. In October 1998, ČEPS was created and the transmission grid was gradually transferred to it by ČEZ, which process was finished in 2003. The Former Energy Act created a strongly regulated system, which was based on the several Producers – one Transmitter – eight Distributors concept.

## ***The present regulation and liberalisation of the Czech Electricity Market***

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

### ***Regulatory and other bodies***

Additional regulatory bodies of the regulatory model are the MIT and the State Energy Inspection. The main regulatory body is the ERO. The ERO has a key role in regulating the energy market, having the right to issue licences, fix prices and adopt implementing legislation. The MIT is responsible for processing of state energy conception, and compliance with EU legislation. The State Energy Inspection is responsible for supervising the compliance of the electricity market participants with the relevant laws and for applying sanctions where necessary.

### ***Principles of regulation***

In the case of monopoly activities (electricity distribution) the price regulation is ensured via revenues limitation related to predicted distributed electricity volume. The revenues are calculated as the sum of three components: operation costs, depreciation and profit margin. The first component is updated (taking into account the inflation and the price index of market services) from the analytically acquired historical base (in the case of costs the efficiency factor enters into calculation which is constant for the five year regulation period). The allowed depreciation will be equal to planned depreciation for each year. Profit margin is a product of Weighted Average Cost of Capital (**WACC**) (for the five year regulation period) and RAB (regulatory assets base) that has been acquired analytically and is being updated by regulated assets increments.

### ***Licensing regime***

Participants on the electricity market must obtain a licence issued by the ERO for their activities. In order to avoid the possibility of the ERO making discriminatory decisions, the ERO is obliged to issue the licence if the applicant meets certain statutory requirements. The licences are granted for a specified period of time (up to a maximum of 25 years, with the exception of (i) the licence for electricity trading, which is issued for a set period of five years, and (ii) the licence for the market operator and other obliged participants on the electricity market, which is issued for a set period of 25 years). The list of licence owners is published in a bulletin issued by ERO. ČEZ and its subsidiaries hold all required licences to operate electric power generation, electricity distribution, electricity trading, heat generation, heat energy distribution, gas distribution and gas trading.

### ***Participants***

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

In addition, the dispatch centres (both the National Electricity Dispatch Centre and the Regional Electricity Dispatch Centres) were created by the transmission grid operator and each of the distribution grid operators respectively. The New Energy Act requires that each authorised electric energy distributor provides full electricity service coverage over the entire territory served by an authorised provider, if so requested, to the extent technically and economically practicable.

Since 2007 the electricity market is fully liberalised and the new energy act doesn't distinguish between the definitions of eligible and protected customer. The electricity prices are not regulated and the prices for transmission, distribution and other electricity services are regulated by the ERO.

Environmental Issues

### ***Environmental liability***

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

### ***Administrative liability towards the State***

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

The Acts set out environmental offences that may be committed by individuals and legal entities carrying out business activities in connection with the operation of business. The individual or entity does not need to be the owner of the business and the liability is strict. According to a provision of the Nuclear Act the relevant administrative body is entitled to penalise the individual or entity with a fine of up to CZK 100,000,000 in the event of utilisation of nuclear energy for other than peace purposes. Violation of the Waste Act can result in a fine of up to CZK 50,000,000 (in the case of repeated violation, up to CZK 100,000,000). Violation of the Water Act and the Act on Air Protection can be penalised by a fine of up to CZK 10,000,000 (in the case of repeated violation, up to CZK 20,000,000).

The relevant administrative body has the power to impose these penalties within one year from learning of the offence and not later than three years from the occurrence of the offence. Such penalties do not affect the liability to pay damages under Act No. 40/1964 Coll. (the **Civil Code**), which may be claimed separately.

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

### ***Criminal liability towards the State***

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

### ***Civil liability towards a third party***

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

### ***The "Polluter pays" principle***

The "Polluter pays" principle applies under administrative, criminal and civil law. The Polluter shall pay administrative fines, be subject to criminal sanctions and compensate for damages occurring to a third party. The law does not distinguish between instances where the Polluter is the owner operating its own property and a third party operating the property on the basis of a lease or any other agreement. Polluters are liable for their own damages. The responsibility of an owner of a business or property cannot be assumed by the lessee and vice versa. A current lessee cannot be held responsible for damages caused by former lessees or the owner.

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

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

### ***Act on Air 2002***

The Act on Air comprises not only the regulation aiming for the protection of the air, but also the protection of the climate system of the earth as a result of the Kyoto Protocol to the Framework U.N. Convention on Climate Change. The act is based on the "Polluter pays" principle and implements the economic instrument of the emission regulation i.e. the emissions charges. These emission allowances affect emissions of SO<sub>2</sub>, NO<sub>x</sub>, CO, solid pollutants (e.g. fly ash) and hydrocarbons. In 2009, the emission charges amounted to CZK 98 million .

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

### ***Water Act 2001***

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

### ***Waste Act 2001***

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

### ***Nuclear Waste Final Disposal***

Under the Nuclear Act, the responsibility for securing the final disposal of nuclear waste, including spent fuel, is that of the Repository Authority. ČEZ is required to finance the final disposal through contributions into a special fund. See "*Nuclear Power Generation*". The NSA supervises nuclear-related activities in general, in particular the safety of nuclear facilities. The approval of the NSA is required for the operation of nuclear facilities. ČEZ is currently in compliance with all requirements under the Nuclear Act.

### ***Coal Waste Storage***

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

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

Act No. 76/2002 Coll. on integrated pollution prevention and control, as amended, (the **IPPC Act**) fully implements IPPC Directive 2008/1/ES (previously 96/61/EC) into the Czech legal system. It introduces a new approach to limit industrial pollution according to the best available techniques. The users of certain installations must obtain an integrated permit prior to the launch of their operation. The main criterion for granting of the permit is compliance with the best available technology. In addition, the users of substances registered under the IPPC Act have to notify the respective administrative authority of the emissions of such substances if such emissions exceed set limits, which are then registered in the publicly accessible Integrated Pollutant Register (Act No. 25/2008 Coll. on Integrated Pollutant Register). The IPPC Act has been effective since 1 January 2003. However, there were transitional provisions on the “Existing” installations which included the obligation to obtain the integrated permit by October 2007 so they could operate after this date, and the “Old-New” installations which had to submit an application for the integrated permit within three months of the Act coming into effect. ČEZ is currently in compliance with all requirements under the IPPC Act.

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

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

On 10 January 2007, the European Commission launched its plans for the EU to achieve a 20% reduction in greenhouse gas emissions in 2020. The baseline was set off values from 2005. The Czech Republic has been obliged to increase share of renewable sources from 6.1% in 2005 to 13% in 2020.

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

### **Carbon Compliance**

In 2008, Phase II of the EU ETS started with several significant changes to Phase I: it covers five years (until 2012), credit transfers from Phase II into Phase III are allowed (effectively rendering a price collapse impossible) and offsets from JI (Joint Implementation) and CDM (Clean Development Mechanism) projects can be used in place of EUAs.

These changes have influenced CEZ GROUP’s carbon compliance strategy. First, CEZ GROUP began purchasing credits from JI and CDM projects both directly from project developers as well as from financial institutions on secondary markets. Second, CEZ GROUP has continued to prioritise its most efficient plants in its portfolio in order to save up or profit from spare allowances. Third, CEZ GROUP has carried on with the implementation of its Emissions Reduction Action Plan by increasing production from renewables and setting out to build new CCGT plants, and last, though by no means least, CEZ GROUP has been assessing the feasibility of its own CCS (Carbon Capture and Storage) demonstration unit at two locations in the Czech Republic.

With the adoption of the “climate and energy package” in the EU in December 2008, CEZ GROUP is looking to lower its carbon exposure even further in order to maintain shareholder value in an increasingly carbon-constrained world.

## **Employees**

The average number of employees for the fully consolidated companies of CEZ GROUP was 30,768 and 28,330 as of 31 December 2009 and 2008, respectively, out of which approximately 61 % is employed in Czech Republic. The ČEZ Collective Agreement for the period 2007-2010 was signed in 2006, updated several times in 2007 and 2008. Since the date of ČEZ’s foundation in 1992, ČEZ has reduced the number of employees to a level which brought the ratio of employees to installed MW capacity closer to ratios found in other advanced European power companies. The reduction has also resulted in an increase in the average level of education of its employees. ČEZ has completed the process of an organisational audit which resulted in lowering the number of its employees, and it is considering other options aimed at further lowering the number of employees. Czech law entitles all employees dismissed by reason of redundancy or organisational changes to a two month notice period and a severance payment in the amount of three months’ pay.

## **CEZ GROUP Consolidation Structure**

The consolidation unit as of 31 December 2009 included 98 companies as follows: 79 fully consolidated subsidiary companies (including the parent company ČEZ) and 19 associated companies. The following table lists the subsidiaries, associates and joint-ventures of CEZ GROUP consolidation unit as of 31 December 2009:

<b>Subsidiaries</b>	<b>Country of incorporation</b>	<b>% equity<sup>1)</sup> interest 2009</b>	<b>% equity<sup>1)</sup> interest 2008</b>	<b>% equity<sup>1)</sup> interest 2007</b>
ALLEWIA leasing s.r.o.	Czech Republic	-	100.00%	-
Bohemian Development, a.s.	Czech Republic	100.00%	-	-
CEZ Albania Sh.A.	Albania	100.00%	-	-
CEZ Bosna i Hercegovina d.o.o.	Bosnia and Herzegovina	100.00%	100.00%	-
CEZ Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%
CEZ Ciepło Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%
CEZ Deutschland GmbH	Germany	100.00%	100.00%	100.00%
CEZ Distributie S.A.	Romania	100.00%	51.01%	51.01%
CEZ Elektro Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%
CEZ Elektroprodukcija Bulgaria AD	Bulgaria	100.00%	100.00%	-
CEZ FINANCE B.V.	Netherlands	100.00%	100.00%	100.00%
CEZ Finance Ireland Ltd.	Ireland	100.00%	-	-
CEZ Hungary Ltd.	Hungary	100.00%	100.00%	100.00%
CEZ Chorzow B.V.	Netherlands	100.00%	100.00%	100.00%
CEZ International Finance BV	Netherlands	100.00%	-	-
CEZ Laboratories Bulgaria EOOD	Bulgaria	100.00%	100.00%	100.00%
CEZ MH B.V.	Netherlands	100.00%	100.00%	100.00%
CEZ Nova Skawina S.A.	Poland	100.00%	-	-
CEZ Poland Distribution B.V.	Netherlands	100.00%	100.00%	100.00%
CEZ Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%
CEZ Produkty Energetyczne Polska sp. z o.o.	Poland	100.00%	-	-
CEZ Razpredelenie Bulgaria AD	Bulgaria	67.00%	67.00%	67.00%
CEZ Romania S.R.L.	Romania	100.00%	100.00%	100.00%
CEZ RUS OOO	Russia	100.00%	100.00%	-
CEZ Servicii S.A.	Romania	63.00%	51.00%	51.00%
CEZ Silesia B.V.	Netherlands	100.00%	100.00%	100.00%
CEZ Slovensko, s.r.o.	Slovakia	100.00%	100.00%	100.00%
CEZ Srbija d.o.o.	Serbia	100.00%	100.00%	100.00%
CEZ Trade Albania Sh.P.K.	Albania	100.00%	-	-
CEZ Trade Bulgaria EAD	Bulgaria	100.00%	100.00%	100.00%
CEZ Trade Polska sp. z o.o.	Poland	100.00%	100.00%	100.00%
CEZ Trade Romania S.R.L.	Romania	100.00%	100.00%	100.00%
CEZ Ukraine CJSC	Ukraine	100.00%	100.00%	100.00%
CEZ Vanzare S.A.	Romania	100.00%	51.01%	51.01%
CZECH HEAT a.s.	Czech Republic	100.00%	-	-
CZ INVEST – PLUS, a.s.	Czech Republic	100.00%	-	-
ČEZ Bohunice a.s.	Czech Republic	100.00%	-	-
ČEZ Distribuce, a. s.	Czech Republic	100.00%	100.00%	100.00%
ČEZ Distribuční služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%
ČEZ Distribuční zařízení, a.s.	Czech Republic	100.00%	-	-
ČEZ Energetické produkty, s.r.o.	Czech Republic	100.00%	100.00%	-
ČEZ Energetické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%
ČEZ ICT Services, a. s.	Czech Republic	100.00%	100.00%	100.00%
ČEZ Logistika, s.r.o.	Czech Republic	100.00%	100.00%	100.00%
ČEZ Měření, s.r.o.	Czech Republic	100.00%	100.00%	100.00%
ČEZ Obnovitelné zdroje, s.r.o.	Czech Republic	100.00%	100.00%	100.00%
ČEZ Prodej, s.r.o.	Czech Republic	100.00%	100.00%	100.00%

<b>Subsidiaries</b>	<b>Country of incorporation</b>	<b>% equity<sup>1)</sup> interest 2009</b>	<b>% equity<sup>1)</sup> interest 2008</b>	<b>% equity<sup>1)</sup> interest 2007</b>
ČEZ Správa majetku, s.r.o.	Czech Republic	100.00%	100.00%	100.00%
ČEZ Teplárenská, a.s.	Czech Republic	100.00%	100.00%	100.00%
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%
ČEZData, s.r.o. <sup>2)</sup>	Czech Republic	-	-	100.00%
EDICOLLA a.s.	Czech Republic	100.00%	-	-
Elektra Žabčice a.s.	Czech Republic	100.00%	-	-
Elektrociepłownia Chorzów ELCHO sp. z o.o.	Poland	88.82%	88.82%	88.82%
Elektrownia Skawina S.A.	Poland	100.00%	99.91%	74.82%
Energetické centrum s.r.o.	Czech Republic	100.00%	-	-
Energetické opravny, a.s.	Czech Republic	-	-	100.00%
GENTLEY a.s.	Czech Republic	100.00%	-	-
I & C Energo a.s.	Czech Republic	-	-	100.00%
MALLA, a.s.	Czech Republic	100.00%	-	-
MARTIA a.s.	Czech Republic	100.00%	-	-
M.W. Team Invest S.R.L.	Romania	100.00%	100.00%	-
NERS d.o.o.	Bosnia and Herzegovina	51.00%	51.00%	51.00%
New Kosovo Energy L.L.C.	Kosovo	100.00%	100.00%	100.00%
Operatori i Sistemit te Shperndarjes Sh.A.	Albania	76.00%	-	-
Ovidiu Development S.R.L.	Romania	100.00%	100.00%	-
PPC Úžín, a.s.	Czech Republic	100.00%	100.00%	100.00%
PRODECO, a.s.	Czech Republic	100.00%	100.00%	-
SD - 1.strojírenská, a.s.	Czech Republic	100.00%	100.00%	100.00%
SD - Autodoprava, a.s.	Czech Republic	100.00%	100.00%	100.00%
SD - Kolejová doprava, a.s.	Czech Republic	100.00%	100.00%	100.00%
SD - KOMES, a.s.	Czech Republic	92.65%	92.65%	-
SD - Rekultivace, a.s.	Czech Republic	100.00%	100.00%	-
Severočeské doly a.s.	Czech Republic	100.00%	100.00%	100.00%
STE - obchodní služby spol. s r.o. v likvidaci	Czech Republic	100.00%	100.00%	100.00%
ŠKODA PRAHA a.s.	Czech Republic	100.00%	100.00%	100.00%
ŠKODA PRAHA Invest s.r.o.	Czech Republic	100.00%	100.00%	100.00%
Š-BET s.r.o.	Czech Republic	100.00%	-	-
TEC Varna EAD	Bulgaria	100.00%	100.00%	100.00%
TEPLEX s.r.o.	Czech Republic	100.00%	-	-
Tomis Team S.R.L.	Romania	100.00%	100.00%	-
Transenergo International N.V.	Netherlands	-	67.00%	100.00%
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46%	52.46%	52.46%
ZAO TransEnergo	Russia	-	67.00%	100.00%

Associates and joint-ventures	Country of incorporation	% equity <sup>1)</sup> interest 2009	% equity <sup>1)</sup> interest 2008	% equity <sup>1)</sup> interest 2007
Akcez Enerji A.S.	Turkey	44.31%	50.00%	-
Aken B.V.	Netherlands	37.36%	-	-
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	Turkey	33.63%	-	-
Akenerji Elektrik Üretim A.S. <sup>3)</sup>	Turkey	37.36%	-	-
Akka Elektrik Üretim A.S.	Turkey	33.63%	-	-
Akkur Enerji Üretim A.S.	Turkey	36.99%	-	-
AK-EL Yalova Elektrik Üretim A.S.	Turkey	33.65%	-	-
CM European Power International B.V.	Netherlands	50.00%	50.00%	-
CM European Power International s.r.o.	Slovakia	50.00%	50.00%	-
CM European Power Slovakia s.r.o.	Slovakia	50.00%	-	-
Coal Energy, a.s.	Czech Republic	-	40.00%	40.00%
Egemer Elektrik Üretim A.S.	Turkey	36.99%	-	--
Energonuclear S.A.	Romania	9.15%	-	-
Jadrová energetická spoločnosť Slovenska, a. s. <sup>3)</sup>	Slovakia	49.00%	-	-
JTSD - Braunkohlebergbau GmbH	Germany	50.00%	-	-
LOMY MOŘINA spol. s r.o. <sup>4)</sup>	Czech Republic	51.05%	51.05%	51.05%
Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S.	Turkey	36.99%	-	-
Mibrag B.V.	Netherlands	50.00%	-	-
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	50.00%	-	-
MOL - CEZ European Power Hungary Ltd.	Hungary	50.00%	-	-
Sakarya Elektrik Dagitim A.S. <sup>3)</sup>	Turkey	44.31%	-	-

1) The equity interest represents effective ownership interest of the CEZ GROUP. The % of equity interest for each company is equal to the % of the voting interest except companies under <sup>3)</sup>

2) Company ČEZData, s.r.o. merged as at 1 January 2008 with company ČEZnet, a.s. which was renamed to ČEZ ICT Services, a. s.

3) The companies with different % of voting interest:

- % voting interest of Elektrociepłownia Chorzów ELCHO sp. z o.o. is 75.20% in 2009, 2008 and 2007
- % voting interest of LOMY MOŘINA spol. s r.o. is 50.00% in 2009, 2008 and 2007
- % voting interest of Sakarya Elektrik Dagitim A.S. is 50.00% in 2009
- % voting interest of Jadrová energetická spoločnosť Slovenska, a. s. is 50.00% in 2009

<sup>4)</sup> merged with JTSD - Braunkohlebergbau GmbH as of 16 December 2009

## Principal Subsidiaries

The following paragraphs set out a description of each principal subsidiary of CEZ GROUP in the Czech Republic:

### ***ČEZ Distribuce, a.s.***

A wholly-owned subsidiary of ČEZ, *ČEZ Distribuce, a.s.*, was established on 31 March 2005 to comply with the requirement set by the Energy Act that distribution has to be separated from electricity sales. By having a single company operating the distribution grids, including the dispatching centre, cost savings were realised and thus the business became more effective. As of 31 December 2008, the company had a registered capital amounting to CZK 49.6 billion and is the only entity in CEZ GROUP that holds an electricity distribution licence in the Czech Republic.

### ***ČEZ Prodej, s.r.o.***

A wholly-owned subsidiary of ČEZ, *ČEZ Prodej, s.r.o.*, was established on 31 March 2005 with a registered capital of CZK 25 million and as of 31 December 2009 had a registered capital of CZK 5.5 billion. It sells electricity to end customers of CEZ GROUP in the Czech Republic. Parts of original regional power companies including their customers, contracts and liabilities were transferred to the company by the end of 2005 and *ČEZ Prodej, s.r.o.*, has been fully operational since 1 January 2006.

### ***ČEZ ICT Services, a. s.***

A wholly-owned subsidiary of ČEZ, *ČEZ ICT Services, a. s.*, with a registered capital of CZK 1.89 billion, was established by a merger of *CEZnet, a. s.*, and *CEZData, s. r. o.*, on 1 January 2008 in order to provide complex ICT services in the Czech Republic. *ČEZnet, a. s.*, and *ČEZData, s. r. o.*, were 100% subsidiaries of ČEZ. *ČEZnet, a. s.* was providing telecommunications services to CEZ GROUP members, including lease of devices connected to telecommunications networks, *ČEZData, s. r. o.* acted as a computer services and data processing services provider within CEZ GROUP. The key strategic principle of *ČEZ ICT Services, a. s.*, is a continuous growth of availability and operations quality of ICT services through the natural development of its activities with regard to optimisation of the target solution including its implementation and operating costs.

### ***ČEZ Zákaznické služby, s.r.o.***

A wholly-owned subsidiary of ČEZ, *ČEZ Zákaznické služby, s.r.o.*, with a registered capital of CZK 20 million was established in August 2004. It provides services to retail customers, operates the sales offices and CEZ GROUP central call centre. It also provides for billing and administers the accounts of all end electricity customers.

### ***ČEZ Logistika, s.r.o.***

A wholly-owned subsidiary of ČEZ, *ČEZ Logistika, s.r.o.* with a registered capital of CZK 200 million is CEZ GROUP's centralised procurement and logistics company, established in August 2004. The company conducts wholesale procurement and optimises the transport, handling, storage, and sale of materials and services needed for the operation and construction of distribution grids. Its principal customers are members of CEZ GROUP, but the company is also active in the market at large.

### ***ČEZ Měření, s.r.o.***

A wholly-owned subsidiary of ČEZ, *ČEZ Měření, s.r.o.*, with a registered capital of CZK 216 million commenced its operations in 2005. Its role in CEZ GROUP is to provide electricity metering services. With the objective of streamlining electric meter operations, the following functions, among others, were transferred to: data collection, processing, and verifying for operating, sales, and regulation purposes as well as administration, repairs, and inspections of all types of electric meters switching elements.

### **ČEZ Správa majetku, s.r.o.**

A wholly-owned subsidiary of ČEZ, *ČEZ Správa majetku, s.r.o.*, with a registered capital of CZK 3.4 billion commenced operating on 1 September 2005. Its principal business is the administration of CEZ GROUP's non-power-related assets.

### **ČEZ Obnovitelné zdroje, s.r.o.**

A wholly-owned subsidiary of ČEZ, *ČEZ Obnovitelné zdroje, s.r.o.*, with a registered capital of CZK 1.4 billion was established in 2000. Since January 2010, *ČEZ Správa majetku, s.r.o.*, holds 0.1% share in the company. The mission of the company is to act as a central repository of all CEZ GROUP operations relating to the production of electricity from renewable energy sources (small-scale hydroelectric power plants, wind power plants and solar power plants) in the Czech Republic and to work actively to further develop them.

### **ČEZ Distribuční služby, s.r.o.**

A wholly-owned subsidiary of ČEZ, *ČEZ Distribuční služby, s.r.o.*, with a registered capital of CZK 5.3 billion was established on 12 October 2005 and its principal business is to act as a comprehensive provider of distribution grid services and to operate a fault response service. The principal beneficiary of these services is *ČEZ Distribuce, a.s.* The company went operational in the second half of 2006.

### **ČEZ Energetické služby, s.r.o.**

A wholly-owned subsidiary of ČEZ, *ČEZ Energetické služby, s.r.o.*, was established in 2007 with a registered capital of CZK 446 million. The company provides comprehensive services in the area of power unit management, public lighting, delivery of gas, demineralised water, drinking water and waste water, and operation of a waste water treatment plant. It is engaged in troubleshooting, maintenance and repairs of the systems of these media distribution. The company has taken over these activities by virtue of a detachment of the company parts from Energetika Vítkovice.

### **ČEZ Energetické produkty, s.r.o.**

A wholly-owned subsidiary of ČEZ, *ČEZ Energetické produkty, s.r.o.*, with registered capital of CZK 5 million, was established in March 2008. The company overtook the activities related to adjacent energetic products from all ČEZ's power plants located in the Czech Republic and activities related to back fuel cycle.

### **Severočeské doly a.s.**

A wholly-owned subsidiary of ČEZ, *Severočeské doly a.s.*, with registered capital of CZK 9 billion, was established in 1994. This company's core businesses are prospecting for, extracting, processing, and selling brown coal and related raw materials (see "*Principal Activities – Coal-Fired Power Generation*"). ČEZ acquired 93.1% stake in *Severočeské doly a.s.* during 2005 when the Government of the Czech Republic resolved to privatise the State's equity stake by selling it directly to ČEZ. On the request of ČEZ, as the majority shareholder, the general meeting of the company held on 27 March 2006 approved the squeeze-out of minority shareholders and the transfer of their shares to ČEZ.

### **ŠKODA PRAHA a.s.**

A wholly-owned subsidiary of ČEZ, with a registered capital of CZK 95 million. ČEZ increased its participation from 68.88% to 97.6% as a result of a mandatory take-over bid as of 9 March 2005. After the general meeting held on 31 August 2005, which approved squeeze out of minority shareholders, ČEZ became a 100% owner as of 5 November 2005. The company's core businesses are the construction of power plant systems (conventional and nuclear power plants, combined-cycle power plants, peaking plants), refurbishment and retro-fitting of existing power plants, as well as industrial and municipal energy systems (heating power plants) and environmental projects (such as biomass combustion).

### ***ŠKODA PRAHA Invest s.r.o.***

A wholly-owned subsidiary of ČEZ, with a registered capital of CZK 650 thousand, was established in 2005. In April 2008 ČEZ purchased a 100% stake in company *ŠKODA PRAHA Invest s.r.o.*, from its previous owner ŠKODA PRAHA a.s. In September 2009 the registered capital was increased to CZK 30 million. The scope of business of this company is mainly in engineering activities in investment projects.

### ***ČEZ Teplárenská, a.s.***

A wholly-owned subsidiary, was acquired by ČEZ in June 2007 and has registered capital of CZK 215.2 million. Its business activities are related mainly to production and distribution of heat.

### ***ÚJV Řež a.s.***

A CEZ GROUP company focused on R&D, established in 1955. The registered capital amounts to CZK 524.1 million. ČEZ holds a share of 52.46%. The key mission of *ÚJV Řež* covers R&D, project engineering services, technical engineering, manufacture of specialised products and devices, and providing expert analyses and opinions in the areas of electric power, industry, and healthcare.

### ***Pražská teplárenská, a.s.***

In July 2009 ČEZ agreed to the purchase of approximately 48.67% of *Pražská teplárenská, a.s.* (Prague's major heat supplier which has a market share of heat deliveries in Prague of approximately 37.5%) from its new owner - J&T Group; the transaction is still subject to antimonopoly clearance of the pending purchase of the said stake by J&T Group from International Power. The purchase of the stake is expected to be completed in the following months. *Pražská teplárenská, a.s.* has registered capital CZK 4.14 billion. *Pražská teplárenská, a.s.* is the biggest producer and distributor of heat in Prague servicing approximately 265,000 households and operates some 490 MW installed electricity capacity, most of it (352 MW) via its 100% subsidiary Energotrans. Energotrans' power plant is located at the site of ČEZ's Mělník power plant.

### ***ČEZ Distribuční zařízení, a.s.***

In July 2009, ČEZ incorporated a company ČEZ Distribuční zařízení, a.s., where ČEZ is the sole shareholder. The company's registered capital is CZK 300 million and the main subject of its activity is the consolidation of as yet unclassified equipment for electricity distribution within the framework of the CEZ GROUP. As of 2 December 2009 registered capital of ČEZ Distribuční zařízení, a.s., was increased to CZK665,8 million.

### ***Dalkia Ústí nad Labem, a.s.***

On 9 November 2009 ČEZ entered into a contract with Dalkia Česká republika, a.s. for the purchase of an 85% share including a purchase option for the remaining 15% share in Dalkia Ústí nad Labem, a.s. for a price of CZK 6.3 billion as recalculated for a 100% stake, comprising variable and fixed component. Dalkia Ústí nad Labem, a.s. includes Trmice Heating Plant and approximately 20% share in Tepelné hospodářství města Ústí nad Labem s.r.o. (the Heat Economy of City of Ústí nad Labem). In the same time ČEZ will acquire 15% share in Dalkia Česká republika, a.s. for CZK 3.6 billion comprising fixed and variable component as well. Completion of the transaction is expected after approval of the appropriate authorities within the following months.

### ***Gentley a.s.***

On 31 December 2009 ČEZ purchased the 100% share in Gentley a.s., whose core activity involves development of renewable resources projects. The registered capital amounts to CZK 2 million.

### ***ČEZ Bohunice a.s.***

A wholly-owned subsidiary of ČEZ was established in March 2009 with registered capital CZK 2.4 million. Registered capital was increased by CZK 200 million in August 2009 and then by CZK 3 billion in November 2009. The registered capital of *ČEZ Bohunice a.s.* now amounts to CZK 3,202,400,000. *ČEZ Bohunice a.s.* has established a joint-venture with Slovakian company *JAVYS (Jadrová a vyrad'ovacia spoločnosť)* active in treatment liquidation of burnt nuclear fuel and nuclear waste and decommissioning of nuclear facilities in Slovakia. This joint-venture called *JESS (Jadrová Energetická spoločnosť Slovenska)* intends to develop and build a new nuclear power plant in Slovakia and will be active in production and sale of electric energy.

### ***Elektrárna Chvaletice a.s.***

A wholly owned subsidiary of ČEZ was registered on 1 February 2010 with registered capital of CZK 20 million. The company was established in order to detach the Chvaletice power plant as a separate organisational unit.

### ***Czech Heat a.s.***

A wholly owned subsidiary of ČEZ with registered capital of CZK 2 million was established in September 2006 and in April 2009 ČEZ purchased the 100 % share of the company from its existing owners. The company owns combined source for production of electricity and heat by clean combustion of biomass in Jindřichův Hradec. The produced heat is supplied mainly to central distribution systems of the town of Jindřichův Hradec. *Czech Heat a.s.* is the 100% owner of the company *Energetické centrum s.r.o.* which is based in Jindřichův Hradec and started its trial operation in November 2008.

## **Description of ČEZ target markets**

### ***Albania***

Almost all generation capacity and distribution is concentrated under the Albanian Power Corporation (KESH). The transmission operator was unbundled in 2006 into a separate state-owned company. Privatisation of the distribution unit of KESH (*OSSH Operatori i Sistemit te Shperndarjes Sh. A.*) started in 2008 and in 2009 ČEZ acquired the majority stake in this company. The wholesale market is completely regulated with very few large customers buying for market prices.

### ***Austria***

Due to the constitutional act the main Austrian electricity companies are owned by federal, provincial or municipal governments. The main generator is Österreichische Elektrizitätswirtschafts-AG (Verbund), followed by the provincial utilities: EVN, Wienstrom and BEWAG. The national grid is divided into three control areas, which are operated by Verbund's APG, TIWAG and VKW, with the distribution being controlled by vertically integrated provincial utilities. The retail market is dominated by Energie Allianz (EAA), formation of EVN, Wienstrom and BEWAG. The wholesale market relies on bilateral negotiation, the Austrian Energy Exchange (EXAA) and the German Power Exchange (EEX), which are closely interlinked.

### ***Bosnia and Herzegovina***

The power sector in Bosnia and Herzegovina consists of three vertically integrated state-owned monopolies: Elektroprivreda Bosne i Hercegovine (EBiH), Elektroprivreda Republike Srpske (ERS) and Elektroprivreda Hrvatske Zajednice Herceg Bosna (EHZHB). No competition among them; the companies operate exclusively within their ethnically based service territories. State company Elektroprenos Bosne i Hercegovine owns and operates single BiH transmission grid.

## ***Bulgaria***

Most generation (72%) is controlled by the state via Bulgarian Energy Holding (including Maritza East Mines, TPP Maritza East 2, NPP Kozloduy, NEK, grid operator ESO, Bulgargaz and Bulgartranzgas), which also owns transmission through the NEK subsidiary, ESO EAD. The distribution companies are controlled by foreign companies EVN, ČEZ, and E.ON. The wholesale market is officially liberalised but due to the quota system set by the regulator in Bulgaria, the majority of electricity has to be supplied for regulated prices to NEK. Only the minority of the market is thus effectively liberalised, but with no trading platform in place. Thus only bilateral contracts are concluded and more than 80% of the electricity is being sold at regulated prices.

## ***Croatia***

All generating assets are concentrated in the incumbent HEP Group, which holds prevailing control over its subsidiaries HEP Production, HEP transmission, HEP distribution, HEP Supply, HEP Gas and HEP District heating.

## ***Germany***

The largest power market in the EU and is fully liberalised. The electricity industry is dominated by four large vertically integrated companies (RWE, E.ON, Vattenfall and EnBW), which together directly or via their daughter companies control the majority of the country's generating capacity, with many large municipalities having their own CHP capacity. Electricity transmission in Germany is divided into 4 control zones and is operated in each region by one of the four large companies (E.ON, RWE, Vattenfall and EnBW). Distribution is operated by more than 700 companies, mostly or partially owned by municipalities.

## ***Greece***

Generation is highly concentrated in the state-owned company Public Power Corporation (PPC); its dominance is likely to fade as new generation from other private investors comes online. PPC also owns the distribution system, with transmission being operated by state-owned HTSO (Hellenic Transmission System Operator). HTSO also acts as power exchange operator and provides indicative prices for the whole region.

## ***Hungary***

The sector is largely run by foreign companies with state operated transmission networks. Fragmented generation – Magyar Villamos Művek Zrt. (**MVM**) is the biggest player and controls 24% capacity, with the top three companies controlling almost 60% of the electricity generation market. Consolidated distribution – E.ON and RWE control 83% of the market. Transmission is handled by Mavir (controlled by MVM). Although the wholesale forward market is still dominated by contracts between MVM and Universal Service Providers (**USP**), the spot market is relatively liquid and next to existing PXE, will soon be served by another new exchange (HUPX) as well.

## ***Macedonia***

In 2004 the existing state-owned ESM separated into AD MEPSO (transmission), AD ELEM (generation), AD ESM (distribution) and TEC. Negotino (oil-fired thermal power plant). Major electricity generation assets are state-owned (ELEM – Elektranina Makedonija and oil-fired plant TEC Negotino), ELEM also owns the lignite mines for its own supply. Transmission is handled by the state company MEPSO (Macedonian transmission system operator). The only distribution company Elektrostopanstvo na Makedonija (AD ESM, now EVN Macedonia AD) was taken private in spring 2006 by Austrian EVN AG, which also owns hydro generation capacity (0.2 GW). Production price from domestic sources is regulated on the basis of production costs.

### ***Montenegro***

The sector is dominated by the state-owned monopoly –Elektroprivreda Crne Gore (EPCG – Electric power of Montenegro). Transmission is handled by separate entity TSO EPCG.

### ***Poland***

New state-owned integrated companies unified the fragmented market on both generation and distribution side. Integration is based on geographical location (Enea, Tauron, Energa) except for PGE (that owns central and eastern distribution companies and power plants disseminated across Poland). The electricity market is liberalised, with some limits. In 2009 the biggest state energy company *PGE (Polska Grupa Energetyczna S.A.)* was privatised. Tender for sale of the state share in *ENEA S.A.* was not successful. Polish Electricity Grid (PSE – Operator) is responsible for the transmission. Long term PPAs cancelled; compensation mechanism substitutes the PPAs from 1 April 2008. Polish Power Exchange (POLPX) provides day-ahead electricity trading.

### ***Romania***

Transmission, generation and partially distribution are state-owned. The electricity market is unbundled and partially privatised. The liberalisation is ongoing, but approximately 60% of eligible customers are still regulated. Generation is split by fuel into separate companies – Termoelectrica, Hidroelectrica, Nuclearelectrica. Smaller generation sources, mostly CHPs, are also owned by counties and municipalities. Distribution is partially privatised – 3 regions are serviced by state-owned Electrica, the remaining 5 were privatised to foreign investors. In generation only minor hydros and selected inefficient gas/oil and lignite capacities are being privatized and foreign investment to new nuclear capacity is being negotiated. Transmission is handled by an independent state-owned company (Transelectrica).

### ***Serbia***

The sector is dominated by the state-owned monopoly – Elektroprivreda Srbije (EPS – Electric Power Industry of Serbia). Kosovian KEK is significant primarily in electricity generation due to lignite resources. Transmission is provided by the separate authority Elektromreza Srbije (EMS).

### ***Slovakia***

80% of electricity generation assets are controlled by ENEL (Slovenske elektrarne), with other plants being mainly CHPs or smaller industrial plants. Distribution operations are carried out by three distribution companies in which E.ON, RWE and EdF have managerial control but the state keeps the majority share. The state owns TSO (SEPS) and CHPs.

### ***Slovenia***

Slovenia's market is fragmented but overwhelmingly state-owned. Majority of electricity produced by Holding Slovenske Elektrarne (HSE), a state-owned entity of six companies (hydro plants, thermal plant Šoštanj, Premogovnik Velenje coal mines). ELES (Elektro-Slovenija) is a national transmission company but also directly supplies large consumers. Distribution operations are carried out by five state-owned providers as a service with a separate account management. An organised trading platform for electricity is operated by Borzen (owned by ELES).

## **Turkey**

The Turkish market is predominantly state owned and only partially liberalised; private players represent only approximately 20% of the market. The government plans to continue privatisation of state owned sources till 2012. The transmission is controlled by national company TEIAS. Out of 21 regional distribution companies, half of them are now private, while the rest are considered to be privatised. A large part of generation assets are owned by the state (EUAS). There are two types of wholesale market – the regulated market covered by contracts with the state trading company TETAS under regulated tariffs and the increasingly important Balancing and Settlement market, trading electricity to cover deficit on the regulated market, where prices are higher.

## **Significant Foreign Stakes and Investment Opportunities**

### *Members of CEZ GROUP*

#### **Albania**

In October 2008 ČEZ was announced as the winner of a tender for privatisation of a 76% share in an Albanian distribution company (*OSSH Operatori i Sistemit te Shperndarjes Sh. A.(OSSH)*). In March 2009 ČEZ and the Albanian Government signed the share purchase agreement. The payment of the purchase price EUR 102 million was subject to the fulfilment of some conditions precedent such as the approval by the Albanian Parliament of the share purchase agreement and the issuance of the partial risk guarantee in favour of OSSH by the World Bank. As of 1 June 2009 ČEZ became the owner of a 76% stake in the Albanian distribution company OSSH (the remaining 24% is held by the state). The investment was presented at a cost of CZK 2.8 billion. The company is the sole distributor and seller of the electricity in Albania.

In April 2009, a new subsidiary of ČEZ in Albania – *CEZ Albania Sh. A.* with registered capital of ALL 42,000,000 was established with a primary objective to provide support and managerial services to CEZ GROUP in Albania.

On 29 September 2009 a new subsidiary, "*CEZ Trade Albania sh.p.k.*", was registered by the Albanian Commercial Register. This subsidiary is solely owned by ČEZ and its registered capital amounts to Albanian Lek 40,000,000. Its primary objective is trading with electricity. It has held the licence since January 2010.

#### **Bosnia and Herzegovina**

The joint venture *NERS d.o.o. (NERS), Gacko* was registered on 22 December 2006. *Mješoviti Holding "Elektroprivreda" Republike Srpske Trebinje-Matično preduzeće akcionarsko društvo Trebinje* is the partner of CEZ GROUP in the venture, holding the other 49%. In 2007 after the signing of the Implementation Agreement, preparation of the realisation of the Gacko project was started. The purpose of the joint venture is to acquire and subsequently operate the *Gacko I* power plant (300 MW), including the adjoining mine and other assets (such as *Ponikva* limestone quarry) as well as to build a new power plant, *Gacko II*, in the same location. The Bosnian Serb partner is to invest an existing power plant and a lignite mine into the joint venture, while ČEZ is to invest or otherwise secure funds for construction of a new plant. The estimated investment amount is EUR 1.4 billion (approximately CZK 39 billion). In January 2009 ČEZ delivered to its project partner, company ERS (Elektroprivreda Republike Srpske) in Bosnia and Herzegovina, its request for exercise of the put option. On the basis of that ČEZ should sell to ERS its 51% share in the *NERS* joint venture for the amount covering its actual costs incurred on the Gacko project. The right to terminate the joint venture is open to ČEZ as a result of the repeated breach of the implementation contract by its partner. The deadline for ERS to accept the put option elapsed in February 2009. As a consequence, ČEZ started an international arbitration. Arbitration proceedings commenced in September 2009 before the International Arbitration Tribunal in Vienna.

In 2008 a new company *CEZ Bosna i Hercegovina d.o.o.* was established to support the development of CEZ GROUP business in the country as well as to trade electricity in the country. The registered capital of the company amounts to BAM 1,500,000.

### ***Bulgaria***

ČEZ took over 67% share in three Bulgarian distribution companies - Electricity Distribution Company Sofia Oblast AD, Electricity Distribution Company Pleven AD and Electricity Distribution Company Stolichno AD from the Bulgarian state in 2005. On 2 November 2007 the merger of these three companies was registered in the Companies Register. As per that date Electricity Distribution Company Sofia Oblast AD and Electricity Distribution Company Pleven AD ceased to exist without liquidation and their overall property was transferred to their legal successor which is Electricity Distribution Company Stolichno AD, whose name was, in January 2008, changed to *ČEZ Razpredelenie Bulgaria AD* (please see below). As of 3 January 2007, the unbundling process in Bulgaria was successfully finalised (in compliance with requirements given by Directive 2003/54/ES).

#### *ČEZ Razpredelenie Bulgaria AD*

The company operates in West Bulgaria and covers an area of approx. 40 000 sq km. 67% is owned by ČEZ, and 33% by the Ministry of Economy and Energy of the Republic of Bulgaria. In November 2007, ČEZ merged Electricity Distribution Stolichno AD, Electricity Distribution Sofia Oblast AD and Electricity Distribution Pleven AD and on 29 January 2008, the new company was renamed to *ČEZ Razpredelenie Bulgaria AD*. The company holds the licence for public electricity supply. Its primary objective is to develop the distribution grids and improve the quality of electricity supply and services.

#### *ČEZ Bulgaria EAD*

ČEZ Bulgaria EAD was established in the middle of 2005 in order to represent CEZ GROUP on the Bulgarian power market. The major activities of ČEZ Bulgaria EAD are focused particularly on support of the activities of CEZ GROUP in Bulgaria. In 2006 reorganisation of the company was initiated for the purpose of separation of activities connected with power supply from power distribution: The first stage of the restructuring was commenced on 1 September 2006 when the activities connected with provision of services in the area of human resources management, information technologies and public relations were centralised into ČEZ Bulgaria EAD, and when the management accounting and the activities of relations management became coordinated also by ČEZ Bulgaria EAD.

The second stage of restructuring was completed on 3 January 2007, when all the other services - accounting, cash operations, management accounting, customer services, logistics, property management and legal services had been centralised into ČEZ Bulgaria EAD. Centralisation of services provision facilitated unification of processes of the former above mentioned distribution companies in Bulgaria and resulted in the introduction of a single management of process procedures.

Another important role of ČEZ Bulgaria EAD is coordination of activities of all ČEZ companies in Bulgaria: ČEZ Elektro Bulgaria AD, currently the single distribution company ČEZ Razpredelenie Bulgaria AD, TEC Varna EAD, ČEZ Laboratories EOOD and ČEZ TradeBulgaria EAD.

#### *ČEZ Trade Bulgaria EAD*

A wholly-owned subsidiary of ČEZ with its seat in Sofia obtained an electricity trading licence in 2005, which is valid for 10 years. The aim of ČEZ Trade Bulgaria EAD is to strengthen the stable position on the Bulgarian electricity market and to cooperate with other entities in the area of the electricity market development, as well as to pursue trading activities.

## *ČEZ Elektro Bulgaria AD*

*ČEZ Elektro Bulgaria AD* is a company established in August 2006 with the registered capital amounting to 50,000 BGN. ČEZ owns 67%, the remaining 33% is owned by the Republic of Bulgaria. The company was established in order to comply with unbundling requirements and possesses a licence for public electricity supply and an electricity trading license. After completion of the “unbundling” the company took over supply activities from respective above mentioned distribution companies and pursues its activities in their territory. The company performs all the activities relating to purchase, sale and customer services.

## *ČEZ Laboratories Bulgaria EOOD*

This wholly-owned subsidiary of ČEZ was formed in 2006 as a limited-liability company in order to comply with the legislative requirement that activities related to electric meter certification should be separated from distribution (distribution companies) and purchasing of electric meters (ČEZ Bulgaria EAD), which separation is part of the unbundling process.

## *Varna power plant - TEC Varna*

In October 2006 ČEZ completed the acquisition of the Bulgarian black coal-fired power plant *Varna* for the purchase price EUR 206 million. *Varna* power plant is situated in north-east of Bulgaria close to the Black Sea port having the same name. *Varna* has installed capacity of 1,260 MW (6 x 210 MW), it is the largest conventional power plant of CEZ GROUP combusting imported black coal. *Varna* generated 2,241 GWh of electric energy in 2009. In connection with the new Varna project of a 800MW gas-steam power plant a new company *CEZ Elektroproizvodstvo Bulgaria AD* was set up.

## ***Republic of Croatia, Republic of Slovenia***

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

## ***Germany***

CEZ GROUP has operated in Germany since 2001, through a representation subsidiary named *ČEZ Deutschland GmbH*. The company, originally named *rpg Energiehandel GmbH*, operated as an electricity trader in the German market. Since these activities were taken over by ČEZ, the company's activities have been restricted to representing CEZ GROUP in Germany and supporting any acquisition opportunities.

In February 2009 a consortium of *Severočeské doly*, a member of the CEZ GROUP, and J&T Group won the tender for the 100% share in the German coal mining company *Mitteldeutsche Braunkohlengesellschaft GmbH* (MIBRAG) from two U.S. companies, *URS Corporation* and *NRG Energy Inc.* The total value of the transaction reached EUR 404 million.

In June 2009, the purchase received approval of the European Commission and the consortium closed the transaction by taking over the 100% share in MIBRAG. For the purpose of the acquisition of MIBRAG, CEZ GROUP and J&T established a company, "*JTSD – Braunkohlebergbau GmbH*" (JTSD), where ČEZ through its 100% subsidiary has a 50% shareholding. The remaining 50% is owned by EP Holding (controlled by J&T and PPF). The registered capital of JTSD is EUR 3,759,406.

JTSD purchased 100% of Dutch company *Mibrag B.V.* who was holder of 100% of MIBRAG and after the merger of *Mibrag B.V.* into JTSD in January 2010 MIBRAG is directly held by JTSD.

MIBRAG extracts brown coal in central German brown-coal basin near Leipzig. It owns and operates two opencast coal pits *Profen* and *United Schleenhain*, with combined annual production of 19 million tons. Proven reserves in current coal mines are around 530 million tons of lignite, with significant expansion options. MIBRAG also owns and operates 3 combined heat and power plants with total installed capacity of 208 MWe. In 2009, MIBRAG's generation fleet produced 1.321 TWh of electricity and 16,370 TJ of heat. MIBRAG also runs coal dust processing factory.

In July 2009, ČEZ reached an agreement with J&T Group on the acquisition of the exclusive rights to a construction project for a new power plant located in Profen. Through this transaction ČEZ has obtained rights to the construction of the new coal-fired power plant (KW Profen) with an installed output of approximately 600 MW. The plant shall be situated on the edge of a mine and fulfils requirements for a construction of a large supercritical coal-fired unit.

### **Hungary**

*ČEZ Hungary Ltd. – ČEZ Magyarország Kft.*, a 100% subsidiary of ČEZ, obtained an electricity-trading licence in March 2006 and its primary objective is trading activities in the Hungarian market.

### **Joint Venture CEZ/MOL**

On 20 December 2007, ČEZ and MOL (Hungary) created a strategic alliance and signed a joint venture agreement (the MOL JV). In July 2008 having obtained all necessary rulings from relevant anti-monopoly authorities ČEZ and MOL completed a creation of a joint venture in which each party has a 50% equity interest, equal voting rights and a similar split of operational decision making. The MOL JV will focus on gas-fired power generation and related gas infrastructure in Slovakia, Hungary, Croatia and Slovenia. The first major investment is the planned construction of Combined Cycle Gas Turbines (CCGTs) at the MOL group's refineries in Bratislava (Slovakia) and the Dufi – Százhalombatta refinery in Hungary. In both locations, the installed capacity will be 830 MW. In addition, in Bratislava the current thermal plant will be modernised and its capacity increased by 160 MW. The expected investment in both projects will be approximately EUR 1.55 billion. As a part of the MOL JV agreement, MOL will contribute the current heat plants at both sites and all related infrastructure. The financing plan for the venture intends to utilise project financing to the maximum extent possible.

The joint venture is incorporated in the Netherlands as *CM European Power International B.V.* and has registered capital of EUR 21,590,000. On 30 November 2009 the registered capital of CMEPI B.V. was increased by EUR 34,945,200 to EUR 56,535,200. As part of the transaction CEZ also settled a sale of 24,5% stake in the Slovakian company *CM European Power Slovakia, s.r.o.* to Slovnaft. In line with the joint venture agreement as of 31 March 2009 CM European Power International B.V. acquired the 100% stake in *Dunai Gozfejlesztó Kft.*, located in Százhalombatta, which was consequently renamed to "*MOL-CEZ European Power Hungary Ltd.*".

The strategic alliance with MOL brings a new growth platform and diversification to CEZ GROUP generation fleet via natural gas as a low- CO<sub>2</sub> fuel. Generation assets will be built in markets where ČEZ currently has no asset presence (Slovakia, Hungary and potentially Slovenia and Croatia). The partnership with ČEZ provides MOL with significant synergies and with a safer option to secure its own electricity supply. The agreement further enhances refinery efficiency and improves refinery complexity. Without the ČEZ-cooperation MOL would have to buy 60% of electricity and 15% of steam from external sources.

On 30 June 2008, ČEZ sold 100% of the shares of *I&C Energo* to MOL. This transaction is a part of the strategic alliance agreement between ČEZ and MOL.

To strengthen the strategic alliance, on 23 January 2008 ČEZ purchased a 7% stake in the common stock of MOL and at the same time sold to MOL an American call option (which may be exercised at any time before the expiry date) with a strike price of HUF 20,000. The option can be exercised at any time within three years from the date of signing. The call premium covers the spread between the strike and purchase price and guarantees ČEZ capital cost coverage until the option expires or is exercised. The purchase price of the shares has been financed with a one year credit facility provided by a club of three

banks; Československá obchodní banka a.s., ING Wholesale Banking and Intesa Sanpaolo S.p.A., which was extended for another year in January 2009. In January 2010 the credit facility was refinanced partially by a 2 year credit facility concluded with UniCredit Bank Czech Republic, a.s. and partially by private placement bond issuances.

On 9 October 2009 MOL and ČEZ agreed to terminate the original option agreement with immediate effect and signed a new call option agreement for the 7,677,285 series "A" MOL shares, exercisable at any time until 23 January 2014. The strike price for the call option remains unchanged and the variable fee will be determined twice a year in line with the actual capital markets conditions.

### ***Ireland***

On 28 May 2009 a new subsidiary of ČEZ, *CEZ Finance Ireland Limited*, was incorporated in Ireland. CEZ Finance Ireland Limited is solely owned by ČEZ and its registered capital amounts to EUR 120,000.

### ***The Netherlands***

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

In December 2007 another 2 subsidiaries of ČEZ were established in the Netherlands: *Transenergo International N.V.*, and *ČEZ MH B.V.* Through *ČEZ MH B.V.* ČEZ owns a 7% share in MOL Nyrt. (MOL Magyar Olaj – és Gázipari Nyilvánosan Működő Részvénytársaság), which was purchased in connection with the set up of a Joint Venture with MOL. Through *Transenergo International* ČEZ owned a 67% share in Russian company *ZAO TransEnergo*. In May 2009, ČEZ announced the transfer of 67% of the registered capital of its subsidiary *Transenergo International N.V.* to a third party Russian company *ZAO Infoterm* so ČEZ is no longer a shareholder of the company. In July 2008 a Joint Venture was set up between ČEZ and MOL, *CM European Power International B.V.* (each party holds 50% of the company) whose registered capital currently amounts to EUR 56,535,200.

On 27 May 2009, a new subsidiary of ČEZ, *CEZ International Finance B.V.*, was established and registered by the Dutch Commercial Register. *CEZ International Finance B.V.* is solely owned by ČEZ and its registered capital amounts to EUR 50,000.

CEZ GROUP also through its share in joint venture company, "*JTSD – Braunkohlebergbau GmbH*" (*JTSD*) held a share in Dutch company *Mibrag B.V.*, ČEZ through its 100% subsidiary has a 50% shareholding in *JTSD* which purchased 100% of *Mibrag B.V.* but in January 2010 *Mibrag B.V.* merged into *JTSD*.

In connection with its Turkish acquisitions ČEZ also partially holds through *Akenerji Elektrik Üretim A.S.* a stake in *Aken B.V.*

### ***Kosovo***

A wholly-owned subsidiary, *New Kosovo Energy L.L.C.* was established in Kosovo on 24 July 2006. The company was tasked with laying the groundwork for CEZ GROUP's participation in tenders in South-East Europe. In 2009 its registered capital was increased to EUR 1.1 million. On 30 October 2006 ČEZ also obtained a licence to trade electricity in Kosovo. In March 2010 CEZ and AES terminated their cooperation in the consortium which would not attend the tender proceeding for construction of new generation capacity and reconstruction of the existing power plant, including adjacent coal mine Sibovc in Kosovo.

## **Poland**

### *Members of CEZ GROUP*

On May 2006, ČEZ acquired majority stakes in Polish electricity companies *Elcho* and *Skawina* from *PSEG Europe B.V.* ČEZ paid EUR 202.5 million for a 75.2% share in *Elcho* power plant's voting rights and EUR 180 million for a 74.82% stake in *Skawina* power plant. *Elcho* is 24.8% owned by *Elektrownia Chorzow* and 75.2% by *ČEZ Chorzow B.V.* *ČEZ Chorzow B.V.* is 100% owned by *ČEZ Silesia B.V.* which is 100% owned by ČEZ. Whereas *Skawina* was formerly 25.01% owned by the Polish State (State treasury of the Republic of Poland) and 74.82% by *ČEZ Poland Distribution B.V.*, which is 100% owned by ČEZ, after the purchase of a minority stake in *Skawina* from Polish State in 2008 ČEZ owns through *ČEZ Poland Distribution* 99.91% share. At the end of 2008 it was started the process of a squeeze-out of minority shareholders of *Skawina*, which after a successful completion in March 2009 resulted in increasing the share of *ČEZ Poland Distribution B.V.* holding in *Skawina* to 100%.

*Elcho* and *Skawina* were gradually integrated into CEZ GROUP during the second half of 2006 and has been consolidated in the financial statements of CEZ GROUP since July 2006.

The installed capacity of the black-coal electricity company *Skawina* is 490 MW and it produces approximately 2-3 TWh of electricity annually. Due to the combined generation of electricity and heat, the electricity plant supplies the city of *Skawina* and the western part of *Krakow* with heat and hot water; its share of the heat market in the *Krakow* region exceeds 20%. The power plant is located close to the supplying mines.

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

In 2009, the *Skawina* and *Elcho* power plants produced 2.26 TWh, which is 20% less compared to 2008.

In 2006, ČEZ also established a new wholly owned company, *ČEZ Polska Sp. z o.o.*, whose mission is to provide managerial and other services to CEZ GROUP members in Poland and provide support for further acquisition activities. It was established having registered share capital of 1,200,000 PLN, which was in 2008 increased to 6,900,000 PLN.

In 2007, another 100% owned subsidiary was established: *ČEZ Trade Polska, Sp. z o.o.* having registered share capital of 1,900,000 PLN, which was in 2008 increased to 3,620,000 PLN. This company is seated in *Warsaw* and conducts electricity power trading in Poland for which activity it holds a licence.

On 19 January 2009 a new wholly-owned subsidiary *CEZ Produkty Energetyczne Polska sp. z o.o.* was established with a registered capital of PLN 800,000. Its primary objective is treatment with ancillary energetic products.

The registered capital of *CEZ Ciepło Polska* was increased by PLN 42,000 on 1 September 2009 and the registered capital of *CEZ Ciepło Polska* now amounts to PLN 130,000. This company was established in 2007 to support CEZ GROUP projects in the heat business.

On 10 September 2009 a new subsidiary of ČEZ, *CEZ Nowa Skawina S.A.* was incorporated with a registered capital of PLN 1,500,000. *CEZ Nowa Skawina S.A.* is solely owned by ČEZ, and it was established as the project company for the construction of the new gas power plant in *Skawina*.

## **Romania**

CEZ GROUP has had operations in Romania since 2005. These operations encompass electricity distribution, sale and trading.

### *Members of CEZ GROUP*

*CEZ Distributie S.A., CEZ Vanzare S.A., CEZ Servicii*

In September 2009 ČEZ finalized negotiations with Romanian Fondul Proprietatea for the purchase of a 30% stake in the Romanian companies *CEZ Distributie S.A.* and *CEZ Vanzare S.A.* for EUR 229.6 million and thus increased its shareholding to approximately 81 %. Furthermore in October 2009 ČEZ purchased the remaining 19% stake from Electrica S.A. for EUR145.36 million and became 100% owner in its Romanian companies *ČEZ Distributie S.A.* and *ČEZ Vanzare S.A.*

In addition in October 2009, ČEZ bought a 12% stake in *ČEZ Servicii* from Fondul Proprietatea for EUR 1.6 million becoming a 63% owner of the company, while the remaining 37% is still held by Electrica S.A.

*ČEZ Distributie S.A. (formerly Electrica Oltenia S.A.)*, the wholly-owned subsidiary of ČEZ, is the biggest distribution subsidiary for electricity among the eight regional distribution subsidiaries based in Romania, with the headquarters in Craiova. It provides distribution for electricity for Arges, Dolj, Gorj, Olt, Mehedinti, Teleorman, and Valcea and has seven regional branches. The electricity distribution network measures 52,716 km and serves an area of 41,828 sq. km.

*ČEZ Vanzare S.A.* a wholly-owned subsidiary of ČEZ, was spun off from Electrica Oltenia S.A. It sells electricity to final consumers. The seven districts served by Electrica Oltenia - Arges, Dolj, Gorj, Olt, Mehedinti, Teleorman and Valcea cover the largest number of consumers. It provides electricity for 1.37 million of consumers and covers a number of 3.5 million inhabitants. Since 2009 the company also holds a gas trading licence.

*ČEZ Servicii S.A.*, a 63% owned subsidiary, was founded in 2007 and its purpose is to provide shared services, in cooperation with ČEZ Romania S.R.L., to other CEZ GROUP companies in Romania

*ČEZ Trade Romania S.R.L.*, a wholly-owned subsidiary of ČEZ, whose main scope is the acquisition and sale of energy on the wholesale market. The company can also sell on the retail market but only standard products and large quantities. ČEZ Trade Romania has contracts for energy acquisition with partners from Romania, Hungary and Serbia.

*ČEZ Romania S.R.L.*, a wholly-owned subsidiary of ČEZ, was founded in 2005, and its primary objective is to provide support and managerial services to CEZ GROUP members as well as support acquisition teams in any future acquisitions.

### *Fantanele and Cogeaalac*

In August 2008 CEZ GROUP acquired a 600 MW Wind Farm Project from Continental Wind Partners - adjacent to wind farms Fantanele and Cogeaalac. The total investment of CEZ GROUP into the project will reach EUR 1.1 billion. Fantanele and Cogeaalac are situated in the Dobrogea province, north of Constanta, about 17 kilometers from the Black Sea. The project will become operational in stages -the first stage comprising of 347.5 MW and the second stage of 252.5 MW. The construction of the 139 wind turbines for the 1<sup>st</sup> stage (wind farm Fantanele) should be finished by the end of 2010. The 2<sup>nd</sup> stage (wind farm Cogeaalac) is expected to be finalised by the end of 2011.

*Tomis Team S.R.L.* is a subsidiary acquired in 2008 in connection with the acquisition of wind farm project Fantanele (see above). In 2009 ČEZ increased registered capital of the company from RON 200 to RON 467.77 million and increased its share from original 95% to 99.99998%. The remaining 0.000002% is held by *CEZ Poland Distribution B.V.*, a Dutch subsidiary of ČEZ. *Tomis Team S.R.L.* has a 100% subsidiary

*MW Team Invest S.R.L* who is also developing project Fantanele. In 2009 its registered capital was increased to RON 87.49 million.

*Ovidiu Development S.R.L.* is a subsidiary acquired in 2008 in connection with the acquisition of wind farm project Cogeaalac. ČEZ holds 95% of this subsidiary, the remaining 5% is held by *CEZ Poland Distribution B.V.*, a Dutch subsidiary of ČEZ.

#### *Cernavoda nuclear power plant*

*Energonuclear S.A.*, a new joint venture which was incorporated in March 2009 as a part of strategic alliance concluded between European energy companies, has registered capital RON 19,694,500. The shareholders are: company Societa Nationala Nuclearelectrica S.A. (51%) and six investors: Arcelor Mittal Galati (6.2%), ČEZ (9.15%), ENEL (9.15%), GDF SUEZ (9.15%), Iberdrola (6.2%) and RWE Power (9.15%). The company has been incorporated in order to develop, build and operate the 3rd and 4th blocks of the Romanian Cernavoda nuclear power plant, with projected installed capacity 2 x 720 MW.

#### *PPC Galati*

In November 2008 ČEZ signed a memorandum of understanding (**MoU**) with Romanian energy companies Termoelectrica and Electrocentrale Galati. The MoU defines all necessary steps to the set-up of a joint-venture between ČEZ and Electrocentrale Galati SA, where ČEZ will become the major shareholder. The purpose of the joint-venture is the modernisation of the existing gas power plant and construction of a new block. The planned capacity of a new gas block shall be 400 MW.

#### **Russian Federation**

*ČEZ RUS OOO*, a 100% owned company was established in February 2008 to support M&A activities in the Russian Federation and to be the service company to support all activities of CEZ GROUP in the region. Currently ČEZ is not considering the Russian Federation as its target market.

In 2009, ČEZ owned through a 67% Dutch subsidiary *Transenergo International N.V.*, a 100% share in Russian company *ZAO TransEnergo*. In May 2009, ČEZ sold the share in *Transenergo International N.V.* so ČEZ is no longer a shareholder of the company *ZAO TransEnergo*.

#### **Republic of Serbia**

*ČEZ Srbija d.o.o*, a wholly owned subsidiary of ČEZ, was established in March 2008. The purpose of the company is to support M&A activities in the region and to be a service company to support activities of the CEZ GROUP in the region, and support for electricity trading. It has also obtained a licence to trade in electricity in the territory of Serbia.

In June 2009 the registered capital of ČEZ Srbija was increased by EUR 500,000. The registered capital of ČEZ Srbija now amounts to EUR 1,700,000.

#### **Slovakia**

In June 2007, a new wholly-owned subsidiary, *ČEZ Slovensko, s.r.o.* was established in Slovakia. This subsidiary is involved in electricity power trading activities.

#### *CM European Power International s.r.o.*

In 2008, in Slovakia, a company *CM European Power International s.r.o.* was registered. The company is a wholly-owned subsidiary of Dutch company *CM European Power International B.V.*, in which ČEZ holds 50% of shares (the remaining 50% is held by MOL). The company will be developing an 830MW CCGT located in Slovnaft refinery in Bratislava.

### *CM European Power Slovakia s.r.o.*

The company, which has since 2009 been participating in a project with MOL, has since January 2010 been owned by *CM European Power International B.V.* (51%), Slovnaft and ČEZ (each 24.5%). Its primary business is generation and sale of electricity and heat, mainly for the purposes of the Slovnaft refinery.

### *JE Jaslovské Bohunice*

In December 2008 a memorandum of cooperation in the electricity sectors between the Czech Republic and Slovakia was signed. Following the signing of the memorandum ČEZ started preparation works on the construction of Jaslovské Bohunice nuclear power plant and set up a new joint venture between the wholly owned subsidiary *ČEZ Bohunice* and *JAVYS* (*Jadrová a vyrad'ovacia spoločnosť*), a Slovak state-owned company, the owner of the site for the construction of the power plant. This joint-venture called *Jadrová Energetická spoločnosť Slovenska, a.s.*, where JAVYS holds 51%, was established in December 2009 and was approved by the European Commission. Its registered capital amounts to EUR 216.36 million, from which so far 142.15 million has been paid-up. The company intends to develop and build a new nuclear power plant *Jaslovské Bohunice* in Slovakia and will be active in the production and sale of electric energy.

### *US Steel*

In January 2008, ČEZ and *U. S. Steel Kosice (USSK)* signed a memorandum of understanding which sets out the framework for the possible construction of a power generating capacity in the production site of *USSK* in the city of Kosice, eastern Slovakia. The expected generation capacity of the power plant should be up to 400 MW. *U. S. Steel Kosice*, a unit of United States Steel Corporation, is one of the leading producers of flat rolled products in Central Europe.

### **Turkey**

#### *SEDAŞ (Sakarya Elektrik Dagitim A.Ş.)*

The agreement for sale of 100% of the shares of the grid company *SEDAŞ* was signed in February 2009 between Prime Ministry Privatisation Administration and Akkök-Akenerji-CEZ (**AKCEZ**) consortium which won the tender with USD 600 million. *SEDAŞ* distributes electricity to 1.3 million consumers in a region encompassing Sakarya, Bolu, Düzce and Kocaeli where the heart of Turkish industry beats. USD 300 million of the total acquisition price of USD 600 million was paid in cash as of the acquisition date (11 February 2009), the 2 years-deferred payment option of the tender was used for the remaining payment amount, while the first installment was made in February 2010 using local bank financing.

#### *AKCEZ ENERJI A.S.*

*AKCEZ* consortium was registered in November 2008 and 5 % was owned by Akkök Group, 45% by Akenerji and 50% by ČEZ. *AKCEZ* paid USD 300 million cash for nearly 100% of shares of *SEDAŞ*, while the remaining amount will be paid in two years in equal instalments with an interest rate of Libor + 2.5%. On 14 May 2009 ČEZ assigned its 22.5% shareholding in *Akcez Enerji A.S.* to Akkök Sanayi Yatirim ve Gelistirme A.S. so both parties now hold a 27.5% share.

#### *Akenerji Elektrik Üretim A.S.*

In October 2008 an agreement was concluded relating to the purchase of 37.4% of the shares in *Akenerji Elektrik Üretim A.S.* Akkök Group and CEZ GROUP will together retain their majority of approximately a 75% stake in *Akenerji* with equal participation of 37.4% each, (the remaining shares of the company are tradable on the stock market), which means ČEZ will effectively control 50% of the company. ČEZ became a shareholder in this company after fulfilment of all conditions precedent in May 2009. The company will serve as the joint-venture local Turkish partner in this region and holds the majority of the shares in several subsidiaries active in the energy business – *Aken B.V.* based in The Netherlands, *Egemer Elektrik Üretim A.S.*, *AK-EL Yalova Elektrik Üretim A.S.*, *Akenerji Elektrik Enerjisi Ithalat Ihracet ve*

Toptan ve Ticaret A.S., Akkur Enerji Elektrik Üretim Sanayi ve Ticaret A.S., Mem Enerji Elektrik Üretim Sanayi ve Ticaret A.S. and AKKA Elektrik Üretim A.S. based in Turkey.

### **Ukraine**

ČEZ Ukraine CJSC, a company wholly-owned by ČEZ, was registered on 12 December 2006. The company was established to support projects of ČEZ in the Ukraine. In March 2009, the registered capital of ČEZ Ukraine CJSC was increased and paid up by UAH 4,380,000. The total registered capital after the contribution amounts to UAH 7,075,000. Currently ČEZ is not considering Ukraine as its target market.

#### **CEZ GROUP ratings**

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

In January 2010, Standard & Poor's confirmed its long-term credit rating of ČEZ as "A-", leaving the outlook at stable.

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

In December 2009, Moody's rating agency confirmed its long-term credit rating as "A2", leaving the outlook at stable.

#### **Title to land**

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

#### **Legal Proceedings**

CEZ GROUP is involved in certain legal proceedings that are incidental to the normal conduct of its business. CEZ GROUP does not believe that liabilities relating to such proceedings will have a material adverse effect on its financial condition or results of operations. As of 31 December 2009 no CEZ GROUP companies were involved in litigation that could have a material impact on CEZ GROUP financial performance, other than as disclosed below.

##### *Litigation over Temelín power plant*

In ongoing litigation before Austrian courts based on suits filed by Austrian persons (demanding cease-and-desist from generating alleged ionizing radiation from Temelín Nuclear Power Station), deliberations in the period in question centered on whether Austrian courts have jurisdiction over the dispute. In this matter, the Supreme Court in Vienna asked the European Court of Justice in Luxembourg (the "ECJ") for an interpretation of the Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters (the "Brussels Convention"). In its "preliminary issue proceedings," the ECJ decided that the relevant provisions of the Brussels Convention do not support the Austrian courts' jurisdiction over the matter. Despite this ECJ decision, the Supreme Court in Vienna issued a decision that jurisdiction is given by internal Austrian law. Based on this decision, the matter was returned to the Linz Regional Court, as the court of first instance. On 20 December 2007, this court issued a resolution announcing that, on the basis of an expert opinion prepared at the behest of ČEZ, a. s. by Professors Schroeder and Weber from the University of Innsbruck, it is opening proceedings on the preliminary issue before the ECJ, as it has doubts concerning the applicability of Section 364(a) of the Austrian Civil Code. In connection with the litigation before the ECJ four standpoints of Austria, the Czech Republic, Poland and the European commission were submitted. The final decision of the ECJ was issued on 27 October 2009. The ECJ ruled, *inter alia*, that the principle of non-discrimination on the grounds of nationality under the EAEC Treaty requires the recognition of public law permits issued by another EU member state; if a company has received the required official permissions for operating of a nuclear power plant under the laws of its own country which is a member state, it must be treated as if it received such permissions under the laws of the country in which it is being sued. Accordingly, Austrian courts must deem the approvals granted by Czech authorities as equivalent to those issued in Austria. In the course of 2010 a

final decision may be expected by the Linz Regional Court which based on the quoted decision by the ECJ should decline or dismiss the said action filed by Upper Austria

#### *Litigation with MUS over lignite supplies after 2012*

In 2005, ČEZ concluded an agreement with Czech Coal Services (formerly Mostecká uhelná a.s.; **Czech Coal**) which provided for a long term cooperation between the companies as regards lignite (brown coal) deliveries for ČEZ's power plant in Počerady after 2016. Pursuant to the agreement the companies agreed to conclude by mid-2007 a long term purchase agreement for the deliveries of lignite. Czech Coal refused to enter into such an agreement. ČEZ has, therefore, taken legal actions against the Czech Coal Group with the aim upholding the long-term coal purchase contract. The future outcome of the legal actions is unknown at the moment. Currently the lignite from Czech Coal is purchased under a medium-term contract which is valid until 2012.

#### *Participation in the insolvency proceedings of Moravia Energo*

On 5 March 2009, bankruptcy of MORAVIA ENERGO, a.s. (**ME**), one of the business counterparties of ČEZ, was declared. All electricity supplied by ČEZ to ME was settled by pre-payments. However, when ME stopped paying, ČEZ was forced to terminate the contracts concluded with ME for the period 2009 – 2011. In accordance with the business rules and the EFET (European Federation of Energy Traders) standards, ČEZ determined the value of the final settlement of prematurely ended deals with ME, based on the prices of electricity, at which ČEZ was able to sell the electricity (to be originally taken-off by ME) in the market as of the date of termination of the contracts between ČEZ and ME. After deduction of the already realised security, the final calculated claim of ČEZ amounted to approximately CZK 1.5 billion and was registered and attributed to ČEZ within the insolvency proceeding of ME. A special review hearing was held on 3 September 2009, where the proved claim was ascertained to its full extent. Currently the realisation of debtor's assets is under way.

#### *Arbitration in relation with the Gacko project*

In May 2009 ČEZ filed a petition for starting an arbitration in relation to the Gacko project for the reason of long-term failure to fulfil the obligations from the part of ČEZ's partners in the Republic of Serbia and Bosnia-Herzegovina.

#### *European Commission inspection*

On 24 November 2009 the inspectors of the Commission of the European communities started an inspection of the headquarters of ČEZ in Prague and offices of Severočeské doly, a member company of CEZ GROUP. The European Commission stated that it had been informed that CEZ GROUP might have attempted to restrict development of the competition on the wholesale electricity market. The statement mentions that CEZ GROUP might have created obstacles for power plant projects of its competitors, that it might be involved in limitation of the trade in brown coal and that it might influence the prices on the Czech wholesale electricity market. The inspection is being conducted based on the Commission's decision ordering the companies in question to submit to the inspections under art. 20 (4) of Regulation 1/2003.

#### Financing Related Matters

##### *Public and Private Placement Bond Issues*

ČEZ has issued under its EMTN programme bond issues in the amount of approximately EUR 3.17 billion (*the details of the issues are summarized in the table below*).

**Issues issued under EMTN Programme as of the date of Prospectus:**

<b>Public/Private</b>	<b>Date of Issue</b>	<b>Maturity</b>	<b>Amount</b>	<b>Coupon</b>
Public	12.10.2007	12.10.2012	EUR 500 million	5.125%
Public	18.7.2008	18.7.2014	EUR 600 million	6.0%
Private	17.9.2008	17.9.2038	JPY 12.0 billion	3.005%
Private	22.9.2008	22.9.2038	EUR 6 million	0.0%
Private	6.5.2009	6.5.2011	CZK 1.4 billion	0.0%
Private	19.5.2009	19.5.2011	CZK 1.6 billion	0.0%
Public	26.5.2009	26.5.2015	EUR 600 million	5.75%
Private	8.9.2009	8.9.2039	JPY 8.0 billion	2.845%
Public	19.10.2009	19.10.2021	EUR 600 million	5.0%
Private	4.11.2009	4.11.2019	EUR 50 million	6M EURIBOR+1.25%
Private	8.12.2009	8.12.2011	EUR 110 million	3M EURIBOR + 0.45%
Private	9.12.2009	9.12.2012	USD 100 million	3M USD LIBOR + 0.70%
Private	16.12.2009	16.12.2011	EUR 100 million	3M EURIBOR + 0.50%
Private	21.12.2009	21.12.2012	CZK 3.0 billion	6M PRIBOR + 0.62%
Tap	1.2.2010	19.10.2021	EUR 60 million	5.0%
Tap	5.2.2010	19.10.2021	EUR 90 million	5.0%

*Loan facilities*

On 30 June 2009 CEZ GROUP successfully signed a loan facility amounting to EUR 262,350,000 with German Export Credit Agency HERMES. The Mandated Lead Arrangers and Lenders are Bayerische Landesbank, BNP Paribas Bank N.V., Československá obchodní banka, a. s., and KBC Bank Deutschland AG. BNP Paribas Bank N.V. acted as Structuring and Coordinating Bank, Bayerische Landesbank acts as Agent. The purpose of the loan is financing of export contract on German equipment during the construction of Fantanele Wind Park project with installed capacity of 347.5 MW in Romania. The maturity of the loan is 15 years.

On 17 August 2009 CEZ GROUP signed up to a EUR 200 million a loan facility agreement with European Investment Bank to support the financing of investments into reinforcement and development of the distribution grid in the Czech Republic. On 30 November 2009 CEZ GROUP signed with the EIB the 2<sup>nd</sup> tranche of a loan facility agreement in the amount of EUR 100 million.

On 22 December 2009 CEZ GROUP concluded a loan facility agreement for the amount of EUR 75 million with UniCredit Bank Czech Republic, a.s. The maturity of the loan facility is 2 years and the proceeds will be used for the general corporate purposes of CEZ GROUP.

**Share capital**

As of 31 December 2009, the share capital of ČEZ registered in the Commercial Register totalled CZK 53,798,975,900. This amount was divided into 537,989,759 shares in denominations of CZK 100. All of these shares have been paid in full and are book-entry shares in bearer form.

As of 31 December 2009, the MoF held 69.37% of the stated share capital of ČEZ (and 0.41% was held by *MoLSA*).

## **Other Recent Developments**

### *Annual Shareholders Meeting*

On 13 May 2009, ČEZ held its annual shareholders meeting, which approved, amongst other matters, profit distributions, changes to the Articles of Association and the 2008 consolidated and non-financial statements of the Issuer.

The shareholders meeting approved the distribution of profits for 2008 as follows:

- (i) a payment of dividends to ČEZ's shareholders – gross CZK 50 per share, 26,659,487 thousand CZK in total; and
- (ii) a transfer to retained profits from previous years – 20,458,180 thousand CZK.

## MANAGEMENT

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

The Board of Directors is ČEZ's statutory body, which directs its operations and acts on its behalf. The powers and responsibilities of the Board of Directors are set forth in detail in the Articles of Association, which are available for shareholders to inspect at the General Meeting and which are archived in the Collection of Documents of the Commercial Register maintained by the Prague Municipal Court. Members of the Board of Directors are selected professionals who possess the necessary qualifications for the job and whose expertise contributes to the overall knowledge base of the Board. The Board of Directors is obliged to meet at least once a month. In practice, however, meetings are held almost weekly and a total of 47 meetings took place in 2009.

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

Committees of general director

### *Division Directors Committee*

This committee has been in place since 2007 as an advisory body of the general director for top management, mainly to deal with topics which go beyond the scope of individual divisions.

### *Development Committee*

This committee deals with the management of the development of the company in the main areas of CEZ GROUP businesses.

### *Audit Committee*

The Audit Committee has been established based on a decision of the General meeting in 2008. The members of the committee are Martin Kocourek, Ivan Fuksa, Zdeněk Hrubý, Drahošlav Šimek and Lubomír Klosík.

### *Risk Management Committee*

This committee was set up in 2003 as a committee of the general director, for the management of the risks of CEZ GROUP, services and allocates the risk capital and supervises the risk management.

## Remuneration

For the year ended 31 December 2009, the total salaries and wages paid by ČEZ amounted to CZK 18,116 million, representing an increase of 6.8 % from 2008. The remuneration of the members of the Board of Directors, the Supervisory Board, Chief Executive Officer and divisional directors and selected managers of departments with group field activity increased to CZK 443 millions in 2009 compared with CZK 434 millions in 2008.

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

## Board Members and Executive Officers

ČEZ's Supervisory Board elects members to the Board of Directors. Members of the Board of Directors serve for four-year terms, and re-election is possible. The business address of each member of the Board of Directors and the Executive Officers is Duhová 2/1444, 140 53 Prague 4, Czech Republic. The Clerk of the Board of Directors attends all Board meetings and keeps minutes.

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

Set out below are members of ČEZ's Board of Directors as at 14 February 2010.

- Martin Roman, Chairman of Board of Directors – held since February 2004, re-elected effective 20 February 2008
- Daniel Beneš, First Vice Chairman of Board of Directors – held since December 2005, Vice Chairman since May 2006
- Tomáš Pleskač, Second Vice Chairman of Board of Directors – held since January 2006, Vice Chairman since February 2008
- Peter Bodnár, Member of Board of Directors – held since August 2009
- Vladimír Hlavinka, Member of Board of Directors – held since January 2008
- Martin Novák, Member of Board of Directors – held since May 2008

Profiles:

### ***Martin Roman***

A graduate of the Charles University Law Faculty in Prague. His international studies included a one year study at Karl-Ruprechtsuniversität Heidelberg, Germany, and a one-year scholarship at the University of St. Gallen, Switzerland. Mr. Roman began his professional career in 1992 as a sales director of the Czech branch of *Wolf Bergstrasse ČR, s.r.o.* In 1994 he became CEO of Janka Radotín Company, where he was appointed Chairman of the Board after the entry of a strategic partner, the US company LENNOX, in 1998. During the period of 2000-2004 Mr. Roman held the position of the Chairman and CEO of ŠKODA HOLDING, renowned Czech mechanical engineering company. From 2001 to 2003 he was a member of the Board of Trustees of CMC Graduate School of Business o.p.s.

Besides being the Chairman of the Board and CEO of ČEZ since 2004, Mr. Roman has been Vice President of the Confederation of Industry of the Czech Republic since 29 April 2004 and as of 9 June 2005 he is a member of the Supervisory Board of the Prague Stock Exchange, from 20 April 2007 until 10 December 2009 he was a member of the Supervisory Board of České dráhy a.s., since January 2007 he is a member of the Board of Trustees of První obnovené reálné gymnásium, o.p.s. Since 1 July 2006 he has also been a member of the Science Council of the National Economy Faculty of the University of Economics, Prague and since 1 October 2008 he has been a member of the Board of Trustees of Academy of Fine Arts.

### **Daniel Beneš**

A graduate of the Mechanical Engineering Faculty, the Technical University of Ostrava and Brno International Business School – Nottingham Trent University (MBA). Between 2004 and 2006, he was a member of the Board of Directors of *Severočeské doly* a.s. He is Chairman of the Supervisory Board of *Severočeské doly* a.s. and Coal Energy, a.s. Chairman of the Board of Trustees in *ČEZ Foundation* since 2007. Since January 2009 he has been a member of the Supervisory Board of *ČEZ Obnovitelné zdroje, s.r.o.*, and since September 2009 Vice-Chairman of the Supervisory Board. Since March 2009 Chairman of the Supervisory Board of *ČEZ Bohunice a.s.* Since December 2009 Vice-Chairman of the Supervisory Board of *Jadrová energetická spoločnosť Slovenska, a. s.* and Vice Chairman of the Supervisory Board of *ČEZ Správa majetku, s.r.o.* He is ČEZ's Chief Operating Officer.

### **Tomáš Pleskač**

A graduate of the University of Agriculture, Brno, Faculty of Business and Economics. He also holds an MBA from the Prague International Business School. Since 2006, he has been a member of the Board of Directors of ČEZ and since 2008 Second Vice Chairman of Board of Directors. Since 2008 he has been the Chief International Affairs Officer. Since 2006 Chairman of the Supervisory Board of *CEZ Bulgaria EAD*, since 2006 a member of the Supervisory Board of *CEZ Razpredelenie Bulgaria AD*. Since 2008 Vice-Chairman of the Board of Directors of *CM European Power International B.V.* and since May 2009 a member of the Board of Directors of *Akenerji Elektrik Üretim A.S.*

### **Vladimír Hlavinka**

A graduate of the Brno University of Technology, where he studied thermal and nuclear machines and equipment, and the Faculty of Law of the Masaryk University in Brno. From 1989 to 1991 he worked for VUJE Trnava, and from 1991 to 2000 he worked for ČEZ. In 2000, he became a member of the board of directors at ALTA, a.s, where he was responsible for organisation and management, legal services and acquisitions. On 18 July 2006, he returned to ČEZ to become the director of the *Temelin* nuclear power plant. He is the Chief Production Officer and has been a member of Board of Directors since January 2008. He has been a member of the Supervisory Board of *Ústav jaderného výzkumu Řež a.s.* since December 2007 (Chairman since April 2008) and a member of the Supervisory Board of *ČEZ Obnovitelné zdroje, s.r.o.* since March 2008. Since November 2009 a member of the Supervisory Board of *ŠKODA PRAHA Invest s.r.o.* and since December 2008 a member of the Supervisory Board of *ČEZ Energetické produkty, s.r.o.*

### **Martin Novák**

A graduate of the University of Economics in Prague and began his career in 1993 as a tax advisor at PriceWaterhouseCoopers. He then moved to Česká rafinérská, where he worked from 1996 to 2001, including latterly in the role of Controller-Deputy Finance Director. He spent the next five years at Conoco in Houston and ConocoPhillips in London, acting as Financial Director for Central and Eastern Europe in the years from 2005 to 2006. In 2007, he undertook the Executive MBA programme at the University of Pittsburgh. He has been working in CEZ GROUP since 2006, commencing with the position of Accounting Section Director at ČEZ. Since 2007 he has been a member of the Supervisory Board of *ČEZ ICT Services, a.s.* (previously of ČEZnet, a.s.). Since 2007 he has been a member of the Supervisory Board of *ČEZ Správa majetku, s.r.o.* Since October 2009 he has been a member of the Supervisory Board of *ČEZ Obnovitelné zdroje, s.r.o.* Since 1 January 2008, he has been the Chief Finance Officer and since May 2008 a member of the Board of Directors.

## Peter Bodnár

A graduate of the machinery faculty of SVŠT in Bratislava with a specialisation in heat and nuclear energetic machineries. Since 21 August 2009 a Member of the Board of Directors of ČEZ, a. s. Since 1 January 2008, a director of the Investment Division of ČEZ, a. s. Since 1 June 2007, a director of the department of construction and refurbishment of energy sources of ČEZ, a. s. Between 2006 and 2007, a director of the quality division in Enel Pruduzione – member of Slovenské Elektrárne. Between 2002 and 2005, a Chief Executive officer of Alstom Power service for the Czech and Slovak republic. Since 31 October 2007 Vice-Chairman of the Supervisory Board of ŠKODA PRAHA a.s., since 1 July 2007 Vice-Chairman of the Supervisory Board of ŠKODA PRAHA Invest s.r.o. Since 12 May 2009 member of the Board of Directors of Akenerji Elektrik Üretim A.S. Since 19 March 2009 member of the Supervisory Board of ČEZ Bohunice, a.s. Since 31 December 2009 member of the Supervisory Board of Jadrová energetická spoločnosť Slovenska, a. s. Since 2009 member of the Supervisory Board of Ústav jaderného výzkumu Řež a.s.

### Division Heads

Peter Bodnár	(*1960)	Chief Investment Officer since 1. 1. 2008
Vladimír Hlavinka	(* 1966)	Chief Production Officer since 1. 1. 2008
Jiří Kudrnáč	(* 1965)	Chief Distribution Officer since 1. 1. 2008
Hana Krbcová	(* 1954)	Chief Personnel office since 1.10. 2009
Ivan Lapin	(* 1965)	Chief Administration office since 1. 7. 2007
Martin Novák	(* 1971)	Chief Finance Officer since 1. 1. 2008
Tomáš Pleskač	(* 1966)	Chief International Affairs officer since 1. 1. 2008
Alan Svoboda	(* 1972)	Chief Sales Office since 1. 1. 2005

### Other Executive Officers

Karel Böhlm	(* 1958)	Director, Safety and Security, since 1. 8. 2007
Jan Brožík	(* 1972)	Director, Financing, since 14. 2. 2007
Pavel Cyrani	(* 1976)	Director, Asset Management, since 1.1. 2010
Tomáš Dzik	(* 1967)	Director, Equity interests, since 1. 1. 2010
Jiří Feist	(* 1962)	Director, Development, since 1. 1. 2005
Miroslav Holan	(* 1950)	Director, Safety, since 1. 4. 2005
Michaela Chaloupková	(* 1975)	Director, Procurement, since 1. 1. 2008
Jan Kanta	(* 1966)	Director, Market&Legislation
Jan Klaus	(* 1974)	Director, Risk Management
Karel Kohout	(* 1953)	Director, Services in Distributive System, since 1. 1. 2008
Karel Křížek	(* 1953)	Director, Central Engineering, since 1. 7. 2007
Josef Lejček	(* 1975)	Director, Human Resources Remuneration, since 1. 6. 2006
Vít Martinovský	(* 1966)	Director, Taxes, since 1. 7. 2008
Martina Matoušková	(* 1970)	Director, Engineering Design, since 1. 7. 2007
Martin Pacovský	(* 1973)	Director, Foreign Acquisition Management since 1.2.2010
Jiří Pačovský	(* 1959)	Director, Production and Capability Planning, since 1. 7. 2008
Jiří Postolka	(* 1970)	Director, Planning & Controlling, since 1.3.2010
Pavel Puff	(* 1963)	Director, Director Strategical Recruitment, 1.1.2010
Daniel Rous	(* 1968)	Director, Safety and Security, since 1. 1. 2008
Vladimír Schmalz	(* 1966)	Director, Mergers and Acquisitions, 1. 1. 2005
Michal Skalka	(* 1975)	Director, Trading, since 1. 9. 2005
Radim Sladkovský	(* 1967)	Director, Accounting, since 1. 3. 2008
Juraj Szabó	(* 1969)	Director, Legal, since 1. 1. 2008
Peter Szenasy	(* 1975)	Director, Power Plant Development, since 2. 1. 2008
Milan Špatenka	(* 1970)	Director, Distribution Development, since 1.2.2009
Ladislav Štěpánek	(* 1957)	Director, Fuel Cycles, since 1. 9. 2004
Miloš Štěpanovský	(* 1957)	Director, Nuclear Power Plant Temelín, since 1. 12. 1997
Dag Wiesner	(* 1972)	Director, Power Plant Construction since 1. 1. 2008

Ivan Zavadil	(* 1963)	Director, Human Resources of CEZ GROUP, since 1.10.2009
Petr Závodský	(* 1970)	Director, Construction of Nuclear Power Plants, since 1.4.2009
Petr Zlámal	(* 1966)	Director, Asset Management – Supply system, since 1.1.2009
Tomáš Žák	(* 1962)	Director, Nuclear Power Plant Dukovany, since 1.1.2010

(\*) born

## Supervisory Board

As at 31 December 2009, the Supervisory Board of ČEZ has 12 members, eight of which are elected to and removed from office by the General Meeting and four are elected by the employees of ČEZ in accordance with Section 200(1) of Act No. 513/1991 Sb., the Commercial Code. This means the MoF, as ČEZ's majority shareholder, has the power to nominate and elect two-thirds of the members of ČEZ's Supervisory Board. Two from the four employee elected members were elected in January 2009: Lubomír Klosík and Petr Gross and two in May 2009: Vlastimil Jiřík and Miloš Kebrdle.

The Supervisory Board's powers include the power to elect members of the Board of Directors, to supervise the Board of Directors' exercise of its powers and responsibilities and ČEZ's business activities, to inquire into ČEZ's financial matters, to review the Report on Relations Among Affiliated Entities, to review the year-end financial statements, including profit allocation proposals and to grant prior consent for key decisions of the Board of Directors. In accordance with ČEZ's Articles of Association, the Supervisory Board meets at least once a month. In 2009, there were 11 regular and 4 extraordinary meetings and 1 per rollam voting. The Chairman of the Board of Directors regularly attends the meetings. Depending on the content and importance of matters on a particular meeting's agenda, meetings are attended by members of the Board of Directors or ČEZ employees who present oral reports on the matters at hand. The Clerk of the Supervisory Board attends all Supervisory Board meetings and keeps minutes.

Set out below are members of the Supervisory Board as of the date of this Base Prospectus:

<b>Name</b>	<b>Position</b>	<b>Appointed</b>	<b>Born</b>
Martin Kocourek	Chairman of the Supervisory Board	14.12.2006	1966
Zdeněk Židlický	Vice Chairman of the Supervisory Board	29.8.2006	1947
Zdeněk Trojan	Member of the Supervisory Board	26.1.2006	1936
Drahošlav Šimek	Member of the Supervisory Board	29.6.2006	1953
Zdeněk Hrubý	Member of the Supervisory Board	22.2.2007	1956
Petr Kalaš	Member of the Supervisory Board	23.4.2007	1940
Ivan Fuksa	Member of the Supervisory Board	23.4.2007	1963
Jan Demjanovič	Member of the Supervisory Board	18.5.2007	1953
Lubomír Klosík	Member of the Supervisory Board	22.1.2009	1951
Petr Gross	Member of the Supervisory Board	22.1.2009	1953
Vlastimil Jiřík	Member of the Supervisory Board	13.5.2009	1968
Miloš Kebrdle	Member of the Supervisory Board	13.5.2009	1950

Profiles:

### ***Martin Kocourek***

A graduate of the Czech Technical University, Prague, where he majored in Economics and Management, Mr. Kocourek has done internships in investment banking (London, 1994) and the financial sector (USA, 1997). Since July 2006 he has been an economic, financial, and organisational consultant and as of February 2009 he is an external economic consultant to the Prime Minister of the Government of the Czech Republic. He serves on the Supervisory Boards of the following institutions: Václav Klaus Foundation Fund (member since 22 December 1999), Classical Music Foundation Fund (member since 22 October 2004), and Baskets Against Drugs Foundation (Chairman since 22 November 2004) and on the Board of Trustees of CMC Graduate School of Business o.p.s. (since January 2008). In 1998–2006, Mr. Kocourek served in Parliament as Vice Chairman of the Budget Committee of the Chamber of Deputies. From April 1999 to January 2006 he was a member of the Supervisory Board of the National Property Fund of the Czech Republic (with a break from 9–22 October, 2002). From April 2002 to December 2005 he was a member of the Presidium of the Czech Republic Land Fund.

### ***Zdeněk Židlický***

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

### ***Zdeněk Trojan***

A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering, Mr. Trojan defended his dissertation in 1974 and graduated in 1991. He currently lectures at the Czech Technical University, Prague, Institute of Process and Manufacturing Technology. Since 20 January 1995 he has been President of the European Federation of National Engineering Associations (FEANI), since 17 December 2001 he has been a member of the Board of Trustees of the University of Hradec Králové and from 19 May 2000 to 16 April 2007 he was a member of the Supervisory Board of Střední průmyslová škola dopravní, a.s. (Vice Chairman from 17 December 2001 to 16 April 2007). In 2004–2005 he was an advisor to the Minister of Local Development, from 1 May 2005 to 30 June 2006 he was an advisor to the Prime Minister of the Government of the Czech Republic. From 17 August 1999 to 11 March 2003 he was a member of the Board of Directors of Dopravní podnik hl. m. Prahy, akciová společnost, from 14 December 1999 to 11 June 2003 he was a member of the Supervisory Board of Pražská Energetika, a.s., from 18 June 1999 to 2 June 2003 he was Chairman of the Supervisory Board of TCP - Vidoule, a.s., and from 27 June 2001 to 14 April 2003 he was a member of the Supervisory Board of Pražská energetika Holding a.s.

### ***Drahošlav Šimek***

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

### ***Zdeněk Hrubý***

A graduate of the Czech Technical University's Faculty of Electrical Engineering in Prague, where he majored in cybernetics, Mr. Hrubý holds a postgraduate degree in economics. Since 1996 he has been a university professor and scientist with the Institute of Economic Studies of the Charles University Faculty of Social Sciences. Since 13 September 2005 he has been a member of the Board of Directors of GARNET MINING a.s. and since 12 May 2003 he is a member of the Board of Administration of SEVEN, Středisko pro efektivní využívání energie, o.p.s. (Energy Efficiency Center). From 2002 to 15 April 2005 he served as Deputy Minister of Finance of the Czech Republic. From 20 February 2001 to 29 June 2004 he was a member of the Board of Directors of Sokolovská uhelná, a. s., from 12 June 2001 to 22 October 2002 he was a member of the Board of Directors of Kongresové centrum Prague, a.s., from October 2002 to 30 June 2005 he was Vice Chairman of the Presidium of the National Property Fund of the Czech Republic, from 20 December 2002 to 13 June 2003 he was a member of the Board of Directors of ČESKÝ TELECOM, a.s. and from 13 June 2003 he was a member and from 26 November to 23 June 2003 Vice Chairman of the Supervisory Board of the same company, from 9 April 2003 to 26 May 2004 he was a member of the Supervisory Board of České aerolinie, a. s., from 8 April 2004 to 23 June 2005 he was a member of the Supervisory Board of Eurotel Praha, spol. s r.o., from 24 February 2003 to 25 January 2006 he was Vice Chairman of the Supervisory Board of ČEZ, and from 26 January 2006 to 13 December 2006 he was Chairman of the Supervisory Board of ČEZ. Since 15 December 2008 he has been a member of Supervisory Board of Museum Kampa – Jan and Meda Mladek's Foundation.

### ***Petr Kalaš***

A graduate of the Czech Technical University's Faculty of Electrical Engineering in Prague, where he majored Economy of energetics. He worked as a consultant in various Swiss companies in the field of energy and industrial planning. He also acted as World Bank's coordinator for implementation of the Kyoto Protocol. From September 2006 till January 2007 he was a Minister of Environment of the Czech Republic, since February 2007 he has been an external consultant to the Chairman of the Government of the Czech Republic and to the Minister of Environment of the Czech Republic. He is also a member of Institution Council of The Silva Tarouca Research Institute for Landscape and Ornamental Gardening, member of the Board of Administration of the National Education Fund and of Holcim a.s.

### ***Ivan Fuksa***

A graduate of College of Transport and Communication in Žilina. From November 2002 till November 2006 he worked as a mayor of Příbram. Since 29 January 2007 he has acted as a 1<sup>st</sup> deputy of Minister of Finance of Czech Republic. Since 19 February 2007 he has been a member of a Board of Directors in Export Guarantee and Insurance Corporation (EGAP), since 20 February 2007 vice Chairman of Supervisory Board of Czech Export Bank, since 13 November 2008 a member of Supervisory Board of Letiště Praha a.s.

### ***Jan Demjanovic***

A graduate of the Mechanical Engineering Faculty of the Institute of Mechanical and Textile Engineering in Liberec. Since 30 June 2006, Mr. Demjanovič has been Chairman of the Board of Directors and General Manager of Severočeské doly a.s. His previous positions at Severočeské doly a.s. included Sales Director (until 30 June 2006) and member of the Board of Directors (from 25 June 1999 to 27 June 2003) and he was re-elected to the Board of Directors on 27 June 2003. He is also on the Board of Directors of Coal Energy, a.s. (member since 17 October 2001, Vice Chairman from 31 October 2001 to 17 January 2005, re-elected as a member on 30 November 2005, Vice Chairman since 7 December 2005). Other board memberships: Teplárna Ústí nad Labem, a.s. (member of the Supervisory Board from 17 June 1998 to 26 March 2002, member of the Board of Directors from 27 March 2002 to 7 May 2004), Severozápadní ENERGO GROUP, a.s. (member and Chairman of the Supervisory Board from 21 December 2000 to 30 May 2003), SD – Kolejová doprava, a.s. (Vice Chairman of the Supervisory Board from 7 November 2001 to 26 September 2002, member of the Supervisory Board from 26 September 2002, and again Vice Chairman of the Supervisory Board from 25 November 2002 to 20 July 2006), SD - Humatex, a.s. (member and Vice Chairman of the Supervisory Board from 16 December 2002 to 3 January 2003), and ENETECH a.s. (member and Chairman of the Supervisory Board from 23 April 2003 to 6 June 2004), COAL SEVEN s.r.o. in liquidation (partner from 19 August 1997 to 4 August 2007).

### ***Lubomír Klosík***

A graduate of Secondary industrial school chemical in Ostrava and a 3-year education program of Social-economic management at Mendel University, Brno. Since 1974 he has worked in the power plant Dětmárovice as shift foreman. Since 1990 he has been the chairman of the labour organisation in the Dětmárovice power plant.

### ***Petr Gross***

A graduate of secondary industrial school in Kutná Hora – his specialisation was measurement and regulation in computer technology. He served as an operative electrician. From 1977, he worked in the power plant Chvaletice as technician, and since 1980 as mechanic. In 1994 he was elected as the chairman of labour organisation in Chvaletice. Between the 1996 – 1999 he was a member of the committee for industrial relations ICEM (Committee for collective negotiations Luxembourg). He has been a member of the coordinating committee of ČOSE (Czech labor union of energetics) since 2005.

### ***Vlastimil Jiřík***

Worked as the advisor of the Minister of Finance responsible for the sale of 7 % of the equity share in ČEZ. In former times he held the office of the Chairman of the Board of Directors in companies such as XODAX, REDASH, SLEZAN Frýdek-Místek and XEMAX.

### ***Miloš Kebrdle***

A graduate of Institute of Chemical Technology in Prague. Between 29 June 2005 – 31 August 2006 member and Chairman of the Supervisory Board in AERO Vodochody a.s. Since 2005 works as a general secretary of the Czech Gas Association (Czech Gas Association (Český plynárenský svaz) used to be also the Chairman of the Board of Directors and the Managing Director of Středočeská plynárenská.

### **Stock Option Schemes**

A general meeting of ČEZ approved the company's stock option scheme in 2001 with respect to each member of the Board of Directors, Supervisory Board and some senior managers of ČEZ as part of their compensation package. The stock option scheme was amended several times between 2001 and 2009.

Members of the Board of Directors and selected managers are entitled to receive share options based on the conditions stipulated in the share option agreement. Pursuant to the resolution of the May 2008 General Meeting, members of the Board of Directors and selected managers are granted a certain quantity of share options each year of their tenure. The exercise price for the granted options is based on the average quoted market price of the shares on the regulated exchange in the Czech Republic during the one month period preceding the grant date each year. Options granted can be exercised at the earliest 2 years and latest 3.5 years after each grant date. The option right is limited so that the profit per share option will not exceed 100% of exercise price and the beneficiary has to hold in his account such number of shares exercised through options granted which is equivalent to 20% of the profit made on the exercise date until the end of share option plan.

In 2009 and 2008 ČEZ recognised a compensation expense of CZK 110 million and CZK 123 million relating to the granted options. ČEZ has settled all options exercised using treasury shares. The gains or losses on the sale of treasury shares were recognised directly in equity.

The share option plan for members of the Supervisory Board was cancelled by a decision of the shareholders on General Meeting held in June 2005.

## TAXATION

**The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of any Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.**

*Prospective purchasers of any Notes are advised to consult their own tax advisers as to the tax consequences, under the tax laws of each country of which they are residents and the Czech Republic, of a purchase of Notes including, without limitation, the consequences of receipt of interest and sale or redemption of the Notes or any interest therein.*

### **The Czech Republic**

*The information set out below is a summarised description of certain material Czech tax consequences of the purchase, holding and disposition of the Notes and it does not purport to be a complete analysis of all Czech tax considerations relating to the Notes that may be relevant to a decision to purchase the Notes. This summary does not take into account or discuss the tax laws of any country other than the Czech Republic nor does it take into account specific double taxation treaties nor the individual circumstances, financial situation or investment objectives of an investor in the Notes.*

*This summary is based on the tax laws of the Czech Republic as in effect on the date of this Prospectus and their prevailing interpretations available on or before such date. All of the foregoing is subject to change, which could apply retroactively and could affect the continued validity of this summary.*

*As this is a general summary, the holders of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents for tax purposes and the tax laws of the Czech Republic concerning the purchase, holding and disposition of the Notes and receiving payments of interest, principal and/or other payments under the Notes, including, in particular, the application to their concrete situation of the tax considerations discussed below as well as the application of state, local, foreign or other tax laws.*

### **Withholding tax**

All interest payments to be made by the Issuer under the Notes issued outside the Czech Republic<sup>5</sup> may be made free of withholding or deduction of, for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Czech Republic or any political subdivision or taxing authority thereof or therein.

### **Non-Czech Holders, holding and sale**

Interest income on the Notes 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 which is not for tax purposes treated as a resident of the Czech Republic (**Non-Czech Holders**) will be exempt from taxation in the Czech Republic.

Income realised by Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to 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.

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<sup>5</sup> Section 2(4) of the Act No. 190/2004 of the Collection of Laws of the Czech Republic, Bonds Act, as amended.

Income realised 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) which is for tax purposes treated as a resident of the Czech Republic or to an organisational unit of the Czech state (**Czech Holders**) or to a 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 realising 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; or

the Non-Czech Holder who is an individual 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 realised 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 paragraph), the Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying the income will be obliged to withhold an amount of 1% on a gross basis representing tax security, unless the Non-Czech Holder is for tax purposes a resident of a member state of the European Union or the European Economic Area or unless the obligation to withhold is waived based on the tax authority's decision. The tax security shall be credited against the final tax liability of the Non-Czech Holder.

A non-Czech Holder will not become or be deemed to become a resident in the Czech Republic solely by reason of holding of the Notes or the execution, performance, delivery and/or enforcement of the Notes.

### ***Czech Holders, holding and sale***

Interest income on the Notes held by Czech Holders is subject to tax in the Czech Republic and Czech corporate and personal income tax, as applicable, at the flat rates of 19 per cent. and 15 per cent. respectively is payable on a self-assessment basis (in the case of Czech Holders who are individuals the reporting obligation as well as the fact whether the interest income shall be declared on a cash or an accrual basis will depend on individual 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 recognise the interest income on an accrual basis for accounting purposes and, accordingly, include it in a general tax base for Czech income tax purposes in the given period.

Czech Holders that are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Notes for the purposes of trading may be, under certain conditions, required to revalue the Notes to fair value for accounting purposes, whereby the unrealised 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),<sup>6</sup> any losses will generally be tax deductible. By contrast, a loss realised by Czech Holders who are individuals other than those mentioned in the previous sentence is generally non-deductible. 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 holding period of the Notes exceeds six months and the Notes have not been held

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<sup>6</sup> In the case of Czech Holders who are individuals it is further assumed that the Notes are accounted for in the books of such Holders, i.e. the Notes are held in connection with their business activities.

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 (VAT)***

There is no Czech VAT payable in respect of payments in consideration for the issue of the Notes, or in respect of the payment of interest or principal under the Notes, or in respect of the transfer of the Notes.

### ***Other taxes or duties***

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty are payable in the Czech Republic by a Non-Czech Holder or a Czech Holder in respect of or in connection with the purchase, holding or disposition of the Notes, save for disposition in certain cases upon donation or inheritance.

### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (**Directive**), Member States (including the Czech Republic which implemented the Directive into the 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 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 in relation to such payments<sup>7</sup> (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirement described above.

### **Luxembourg Taxation**

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

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<sup>7</sup> Belgium previously also operated a transitional withholding system but has now opted, by two Royal Decrees dated 27 September 2009 and published in the Belgian State Gazette on 1 October 2009, to provide details of payments of interest in accordance with the EC Council Directive 2003/48/EC, as from 1 January 2010.

## Withholding Tax

### (i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it is currently levied at a rate of 20 per cent. and will be levied at a rate of 35 per cent. as of 1 July 2011. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 20 per cent.

### (ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

## SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the Amended and Restated **Programme Agreement**) dated 31 March 2010, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Amended and Restated Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

### The Czech Republic

No permit for the establishment of the Programme and the issue of any Notes has been obtained (including the obtaining of the approval of the terms and conditions of the Programme and the Notes) from the Czech National Bank under Act of the Czech Republic No. 190/2004 Coll., on Bonds (the **Bonds Act**). No action has been taken (including the obtaining of the base prospectus approval from the Czech National Bank and the admission to trading on a regulated market (as defined in section 55 of Act of the Czech Republic No. 256/2004 Coll., on Conducting Business in the Capital Market (the **Capital Market Act**)) for the purposes of any Notes to qualify as listed securities within the meaning of section 2(1)(l) of the Capital Market Act.

Each Dealer has represented and agreed with the Issuer and each other Dealer that it has complied with and will comply with all the requirements of the Capital Market Act and the Bonds Act and has not taken, and will not take, any action which would result in the Notes being deemed to have been issued in the Czech Republic, the issue of the Notes being classed as “accepting of deposits from the public” by the Issuer in the Czech Republic under Section 2(1) of Act of the Czech Republic No. 21/1992 Coll., on Banks (as amended) (the **Banks’ Act**) or requiring a permit, registration, filing or notification to the Czech National Bank or other authorities in the Czech Republic in respect of the Notes in accordance with the Capital Market Act, the Bonds Act, the Banks Act or the practice of the Czech National Bank.

Each Dealer has represented and agreed with the Issuer and each other Dealer that it has complied with and will comply with all the laws of the Czech Republic applicable to the conduct of business in the Czech Republic (including the laws applicable to the provision of investment services (within the meaning of the Capital Market Act) in the Czech Republic) in respect of the Notes.

#### Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

#### United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

#### Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949 as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

#### General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not directly or indirectly offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 28 May 2007 and 8 February 2010 and resolutions of the Supervisory Board of the Issuer dated 28 June 2007 and 16 February 2010.

### Listing, approval and admission to trading of Notes

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Notification to the Czech National Bank

Pursuant to Section 2(3) of the Bonds Act, the issuance of each Series and/or Tranche of the Notes must be notified to the Czech National Bank no later than on the date of issue of the relevant Notes setting out the place of issue and amount of relevant Series or Tranche and the form, yield and maturity of the relevant Notes.

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Luxembourg:

- (a) the Articles of Association (with an English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2008 and 31 December 2009 (with an English translation thereof). The Issuer currently prepares audited consolidated and non-consolidated accounts on an annual basis;
- (c) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares unaudited consolidated and non-consolidated interim accounts on a quarterly basis;
- (d) the Amended and Restated Programme Agreement, the Amended and Restated Agency Agreement and the Deed of Covenant, including the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (e) a copy of this Base Prospectus;
- (f) any future offering circular, prospectuses, information memoranda, supplements to this Base Prospectus and Final Terms (in each case, related to the Programme or the Notes) (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

- (g) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu).

#### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

#### Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

#### Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries since 31 December 2009 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since 31 December 2009.

#### Litigation

Except as described on page 125 under the heading "*Legal Proceedings*" neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or any of its subsidiaries.

#### Auditors

The auditors of the Issuer are Ernst & Young Audit, s.r.o., a member of the Chamber of Auditors of the Czech Republic, who have audited the Issuer's accounts, without qualification, in accordance with International Standards on Auditing for each of the two financial years ended on 31 December 2009. The auditors of the Issuer have no material interest in the Issuer.

#### Post-issuance information

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

#### Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

**REGISTERED OFFICE OF THE ISSUER**

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**AGENT**

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