Report of the Board of Directors On the Company's Business Operations and the State of Its Assets For the Year 2009

(Dear shareholders, ladies and gentlemen,

Allow me to present to you the most important performance results of ČEZ, a. s. in the past year and its plans for the future.)

In 2009, CEZ Group's performance was characterized by further growth in turnover and profit. As the ongoing economic recession had already had some impact on income levels, this underlined the positive contribution of measures taken in the past to encourage operational excellence at CEZ Group.

slide Graph 2008, 2009

The year 2009 was a favorable one in terms of overall financial performance. Return on invested capital (ROIC) last year was approximately 17%, falling just 0.5 of a percentage point year-on-year.
Income before other income (expenses), income taxes, depreciation, and amortization (EBITDA) reached CZK 91.1 billion, up CZK 2.4 billion (+2.7%) year-on-year. Net income was CZK 51.9 billion, up CZK 4.5 billion (+9.5%) year-on-year.

slide Graph 2009, 2010E

In 2010 the full impact of the economic crisis will be felt in the energy industry. As a result, we expect to see EBITDA fall to approximately 2008's level, i.e. to CZK 88.7 billion. That would mean a decrease of CZK 2.4 billion compared to 2009. In operating income, a CZK 5.1 billion drop is forecasted. According to our estimates, net income will decrease to CZK 46.7 billion, i.e. CZK 5.2 billion lower than in 2009.

While the 2009 results were positively affected by electricity sales realized in 2008, in the 2010 results we will see the full impact of falling selling prices of electricity, including forward prices. A second forecasted negative factor in 2010 is distribution companies' obligation to purchase, at subsidized prices, electricity generated from renewable sources. Thus, lower electricity prices and mandatory purchasing represent the principal factors in the lower profit forecast. On the other hand, some more optimistic prospects are emerging for CEZ Group in the future. Material positive external influences include a change in the electricity consumption trend that began to be seen in late 2009 and the opening months of 2010. Internal influences are represented, *inter alia*, by the Operational Excellence program, the projects of which aim to increase generation in the existing Dukovany and Temelín Nuclear Power Stations and to lower operating expenses.

slide ČEZ, a. s. Share Price

In 2009, the shares of ČEZ continued to grow in price, giving you, dear shareholders, reason for satisfaction. The share price was up 10.1% for the whole year, far outpacing the energy industry average, expressed by the Bloomberg European Utilities Index, which fell 0.8% over the same period. In late 2009 the shares of ČEZ were trading for approximately CZK 80 more than at the beginning of the year.

ČEZ's market capitalization was influenced by a decrease in the Company's stated capital during 2009, when 9.16% of the shares were stricken from the booked securities register. As the decrease in the number of shares offset the growth in the share price, market capitalization was unchanged for the year, at CZK 464.8 billion. Without the share repurchasing, the market capitalization would have grown CZK 42.6 billion year-on-year.

Dear shareholders, now I would like to provide you with more details concerning the financial performance. Before I do that, allow me to comment briefly on the reporting structure used.

The results of CEZ Group are monitored by segments, which divide the Group's operations both territorially between Central Europe and Southeastern Europe, and by sector between Power Production & Trading, Distribution & Sale, Mining, and other important operations such as information and communication technology services, property management, logistics, and others.

slide Contribution of Geographical-Sector Segments to EBITDA

As seen in past periods, the largest share was attributable to the Power Production & Trading Segment, which is comprised in particular of generation of electricity in the Czech Republic and Poland, and trading in electricity. This segment's nearly CZK 69 billion contribution to EBITDA was up 5.6% year-on-year. This growth was attributable to hedging of favorable electricity prices, a successful trading strategy, and adaptation of electricity generation to the lower demand.

A CZK 1.7 billion year-on-year decrease in the Distribution & Sale Central Europe segment meant a decline of 15.7% and for the most part was brought about by a one-off adjustment of volume and valuation methodology of unbilled electricity in 2008. Another negative factor was a loss that arose when certain customers returned a portion of electricity volume they reserved at times when prices were higher. However, within CEZ Group this loss was offset in the Power Production & Trading Central Europe segment. The electricity was subsequently sold for the current – substantially lower – price. One positive factor was a methodology change in how distribution grid connection fees are accounted for. The fees began to be recognized fully in revenues, whereas before this was done on an accrual basis over a period of years.

The Mining Central Europe segment contributed CZK 5.3 billion to EBITDA and sold 22.0 million metric tons of coal. In volume terms, coal sales fell slightly (by 0.2 million tons) year-on-year, primarily in conjunction with lower generation in coal-fired power plants. However, sales expressed in financial terms were up CZK 0.5 billion.

The Other Central Europe segment posted a profit of CZK 4.6 billion, down CZK 0.4 billion year-on-year. A year-on-year decline in profit was recorded by the information and telecommunications services provider ČEZ ICT Services due to a one-off reversal of unused provisions in 2008.

In Southeastern Europe, the Distribution & Sale segment accounted for the bulk of EBITDA. Its contribution was CZK 3.1 billion, up 1.3% from 2008. The change in collection fee accounting methodology had a positive effect, adding CZK 0.2 billion to the revenues of both the Romanian and Bulgarian distribution companies. EBITDA was up CZK 0.4 billion in the Romanian companies, primarily on lower creation of provisions and valuation allowances on receivables owed by electricity customers. In the Bulgarian companies, on the other hand, EBITDA was down CZK 0.4 billion due to lower supplies and sales of electricity at the medium voltage level. The new acquisition in Albania closed the year with negative EBITDA of CZK 0.4 billion which can be attributed to corporate reorganization-related initiatives commenced there. The soonest these initiatives can be expected to contribute positively to the income result is 2010. End customer sales volume in the segment as a whole grew 37.0%; however, when adjusted for the newly acquired Albanian company it remained at 2008's level.

The Power Production & Trading Southeastern Europe segment moved into the black in 2009, posting a profit of CZK 0.2 billion. A positive factor here was growth in the margin from holding and activating a cold reserve. Also favorable was the fact that the Bulgarian market regulator required less electricity from Varna Power Station, as electricity generated in this way is supplied to customers at a less advantageous, regulated price.

slide CEZ Group Financial Performance

Dear shareholders, despite the impact of the crisis in 2009 we managed to grow CEZ Group's operating revenue by 6.7% year-on-year, to CZK 196.4 billion. Net income passed the CZK 50 billion mark, growing CZK 4.5 billion (+9.5%) to CZK 51.9 billion. The pace of growth in net income per share was even faster – over 11%. The return on equity was up moderately, while the return on assets fell slightly due to the large increase in assets brought about by capital expenditure activities.

slide Balance Sheet

CEZ Group consolidated assets passed the CZK 500 billion mark, growing CZK 57.1 billion (+12.1%) year-on-year to CZK 530.3 billion. The biggest factor in this increase was growth in property, plant and equipment and other non-current assets in conjunction with capital expenditure and acquisitions. Property, plant and equipment, gross, grew CZK 52.9 billion (+9.8%) year-on-year. The largest investments were in the ČEZ, a. s. plant portfolio renewal program, record investments in the distribution grid, and the construction of wind power plants in Romania. Other non-current assets were up CZK 30.7 billion (+55.5%). In particular, this represents the value of stakes in the MIBRAG mines in Germany and the commencement of the Pražská teplárenská acquisition process.

Equity, including non-controlling interests, was up CZK 21.3 billion year-on-year to a level of CZK 206.7 billion, particularly in conjunction with the 2009 income. At the same time, equity was decreased by the treasury shares that were stricken from the register on February 27, 2009 and by a CZK 26.7 billion dividend that was announced. Long-term liabilities were up CZK 55.0 billion to CZK 177.2 billion. Bonds outstanding as at December 31, 2009 totaled CZK 111.0 billion, up CZK 41.1 billion year-on-year. Long-term borrowings, including current portion, at year end 2009 totaled CZK 14.5 billion, up CZK 13.1 billion year-on-year. The proceeds from the bond issues and borrowings were used to finance investments in property, plant and equipment, acquisitions, and dividend pay-outs, which in 2009 represented a cash outlay of CZK 122.5 billion.

In 2009 ČEZ issued ten bond issues, five of which were for the purpose of refinancing approximately 82% of a loan taken out by CEZ Group member CEZ MH B.V. The volume of the bills of exchange issued in this way totaled CZK 7 billion at year end, and all of them were purchased by end investors. In order to refinance the Fântânele wind farm, CEZ Group members took out approximately CZK 6.8 billion in 15-year financing. Also, ČEZ, a. s. took out a CZK 7.8 billion loan to finance capital expenditure in ČEZ Distribuce.

slide Cash Flows

Compared to the 2008 result, net cash provided by operating activities grew CZK 16.8 billion, due primarily to a CZK 10.6 billion increase in income before income tax after adjustments to reconcile income before income taxes to net cash provided by operating activities. Another factor was a CZK 6.3 billion change in working capital which arose, in particular, out of a decrease in receivables from trades on the Prague Energy Exchange. Cash used in investing activities also grew. The year-on-year increase of CZK 38.9 billion was driven by higher investments in new acquisitions and property, plant and equipment, each of which rose by nearly CZK 25 billion. This was partially offset by a reduction in CEZ Group acquisition-related lending. Cash flows from financing activities ended with a positive value of CZK 22.2 billion, due primarily to a CZK 20.8 billion net increase in borrowings and a CZK 12.7 billion decrease in share repurchasing expenditures. Share dividend expenditures, on the other hand, rose CZK 5.3 billion.

A court decision on registration of the decrease in the Company's stated capital entered into force in mid-February 2009 and on the last business day in February the shares representing 9.16% of the stated capital were struck from the register of booked shares. The remaining nearly 5 million treasury shares were retained by the Company. No more share buy-backs took place for the rest of 2009.

Now, dear shareholders, I will discuss figures relating only to ČEZ, a. s.

In December 2009 the credit rating agency Moody's reaffirmed the Company's A2 rating with stable outlook and in January 2010 Standard & Poor's reaffirmed its A- rating with stable outlook.

slide Separate ČEZ, a. s. Results

ČEZ, a. s., the parent company of the entire Group, saw its net income fall 3.6% in 2009, due to a lower result in the financing area. The lower income was also the cause of decreases in the return on equity and the return on assets; however, in both cases the values remained above 2007's levels. Operating income grew CZK 4.1 billion (+8.4%), mostly as a result of successful forward sales of electricity, particularly in 2008.

slide Dividends

The dividend paid to you, our dear shareholders, has risen steadily over the past years. Improving financial performance made it possible to share with you an ever-growing portion of our joint success through the dividend policy, which means distributing 50–60% of consolidated profit amongst you. This year the proposed dividend is CZK 53 per share, which would represent growth of 6% over the previous year. The actual dividend amount paid, dear shareholders, will be determined by your decision.

Now I will turn to the principal initiatives of CEZ Group, generation, and activities in the commodity markets.

slide Efektivita Program

The objective of the Efektivita Program is to increase efficiency and make processes more cost-effective. In 2009 we began to see the full benefits of the optimization measures already carried out, particularly in terms of streamlining ancillary and shared services, management of selected overhead expenses, integration of foreign companies, and optimization of nuclear power plant safety and output. The program's contribution compared to the base year – 2006 – reached an aggregate total of CZK 12.9 billion. For 2010 we expect to see the benefit at the level of EBITDA rise to CZK 13.8 billion compared to the base year 2006.

A new project added to the Efektivita Program in January 2009 focuses on extending the useful life of Dukovany Nuclear Power Station. The project's goal is to prepare equipment and personnel to secure plant operation up to 2025 with an outlook for a further extension until 2045. The projected is interlinked with a plan to build a new plant at the same location.

2009 brought a number of significant events related to plant portfolio renewal in the Czech Republic. We expended CZK 15.4 billion on the plant portfolio renewal program. At Tušimice II Power Station, units 23 and 24 were connected to the grid and the comprehensive retrofit of units 21 and 22 commenced. Construction work continued on a new generating unit at Ledvice Power Station and preparations for a CCGT power plant project in Počerady were successfully completed.

In 2010 the comprehensive renewal of Czech coal-fired power plants continued. Key projects will include the comprehensive retrofit of units 21 and 22 at Tušimice II Power Station, planned for completion in 2011, and an extensive overhaul of unit 22 at Prunéřov II Power Station. The coal-fired power plants Mělník III, Chvaletice and Tisová, the hydro power plants Slapy and Štěchovice, and the Vítkovice power heating plant, are to undergo repairs as well.

December 2009 brought the completion of one of the original projects – the Customer Project. The aim of the project, to ensure that CEZ Group takes a place among the top companies in terms of customer services in the Czech Republic, was achieved. One-off aggregate benefits of the Customer Project in the years 2007–2009 came to CZK 1.1 billion. In this respect I would like to mention that in September 2009 ČEZ Zákaznické služby won the European Call Centre Award in the category “Best Multi-Channel Contact Centre”.

In August 2009, Request For Proposal (RFP) proceedings were commenced to find a supplier for two more generating units at Temelín Nuclear Power Station with a possible option for up to three more generating units in Europe. Three bidders applied within the time limit, and all three met the qualification conditions. The pre-bidding negotiation process began in March 2010, with the purpose of finding one or more appropriate solutions capable of satisfying the needs and requirements of ČEZ. Subsequently, ČEZ will integrate these solutions into the information memorandum the bidders will use as a basis for preparing their bids.

slide Strategic Temple

In 2009, CEZ Group expanded its strategy by adding another element – Innovation. This is in response to growing trends in the sector: strict environmental regulation, demands for increasing efficiency, and roll-out of new, clean technologies. In order to fulfill and manage the Innovation initiative, the FutureMotion (Energy of Tomorrow) initiative was launched, consisting of four subprograms: research and development, environmental investment, small-scale cogeneration, and smart grids.

Dear shareholders, I would now outline developments in the electricity generation area.

slide Electricity Generation

CEZ Group electricity generation fell 2.3 TWh year-on-year, to 65.3 TWh. Within this figure, ČEZ, a. s. generation decreased 0.5 TWh to 59.9 TWh. Lower generation in coal-fired power plants was attributable in particular to optimization of generation in response to the year-on-year decrease in electricity prices and increased plant failure rates late in the year. Shorter planned and failure-related shutdowns at Temelín Nuclear Power Station led to an increase in generation at nuclear power plants. The Polish power plants generated 2.3 TWh of electricity and Varna Power Station contributed another 2.2 TWh of electricity.

Generation from renewable sources of energy, including generation from biomass, was up 24.2% year-on-year, with the highest growth being in generation in hydro power plants. The primary factor was increased flow rates during the summer of 2009. Following that was combustion of biomass in the Czech Republic and Poland. The growth in electricity generated in this manner was 5.3% in the Czech Republic and 18.6% in Poland. Solar power stations exhibited strong growth, with generation going from 8 MWh to 207 MWh, a movement related to an expansion of the CEZ Group production portfolio in this type of installation.

As early as this year, we plan to commission the wind farm in Fântânele, Romania. We are also preparing to implement other renewable energy projects in the Czech Republic and abroad.

2009 brought a reversal in the long-term growth trend in electricity demand. It fell 5.6%, and if we take weather factors into account, it fell even more – 5.9%. This decline was attributable predominantly to a slump in demand on the part of large end-customers, due to the economic crisis's impact on this customer segment. Late in the year, however, demand began to show slight year-on-year growth and we expect this growth to continue later, in 2010, as well.

slide Sales of Natural Gas

In 2009 CEZ Group began selling a new commodity in the retail market. We took advantage of the fact that the Czech Republic's natural gas market is already fully liberalized and offered customers gas supplies through our sales company, ČEZ Prodej. In the last quarter of 2009, the first supplies of natural gas were made to end customers and, at the same time, we conducted our first sales campaign, in which we contracted 1,726 GWh of natural gas supplies for 2010, for a 2.1% share in the end-customer market. In the large end-customer market CEZ Group's share was even higher (4.3%). The successful launch of natural gas sales in the Czech Republic accelerated preparations for selling this commodity in the Slovak Republic as well. As of late 2009 we hold the necessary license and we expect to realize the first supplies of gas to customers from January 1, 2011. In addition, the relevant company in Romania also obtained a license to sell natural gas.

slide CEZ Group International Operations

2009 saw a further expansion of CEZ Group's international operations. We made a breakthrough in terms of penetrating new markets and expanding our operations in existing ones.

In the target territory of Central and Southeastern Europe, we succeeded in gaining entry to the Albanian market. Upon winning a tender we became the owner of the sole Albanian distribution company, OSSh, which is also a retail seller. We hold a 76% stake in the company; the remaining shares are held by the Albanian State.

During 2009 we continued to build wind power plants at the Fântânele site in Romania. These plants will expand CEZ Group's operational portfolio in the country. A significant change took place in the ownership structure of equity stakes in Romania. In a series of steps, ČEZ bought out the stakes of minority shareholders in the distribution company CEZ Distributie and in the sales company CEZ Vanzare, and in October we became the 100% owner of both companies. Also, in September 2009 we increased to 63% our stake in CEZ Servicii, which provides shared services to CEZ Group companies.

A tender for MIBRAG, the German brown coal-mining company, brought a major expansion in our operations in this neighboring country. The tender was won by a consortium consisting of Severočeské doly, part of CEZ Group, and J & T Group. Their joint-venture obtained a 100% stake in the company MIBRAG which in addition to mining coal in its two brown coal mines near Leipzig also generates electricity in three cogeneration installations with a combined installed capacity of 208 MW. In 2009 MIBRAG exceeded our expectations, selling over one million tons of coal more than planned.

CEZ Group has operations in another new and promising market, Turkey. As of February 2009 we own, together with a local partner, a stake in the distribution company Sakarya

Elektrik Dagitim and in May we took a stake in the generation company Akenerji Elektrik Üretim. Akenerji owns three gas-fired power plants and one wind power plant and its subsidiaries also do business in the power sector. In 2009 construction continued on six hydro power plants and preparations were underway for building a CCGT power plant with 800 MW of installed capacity on the southeastern coast of Turkey.

In terms of our international expansion, we are focusing on countries of Central and Southeastern Europe and especially on those countries where we already have operations. We have ceased monitoring territories adjoining the target area, where we did not have an ambition to become a major market player. Those territories were Ukraine and Russia. In 2010, a consortium consisting of ČEZ and AES withdrew from a tender to upgrade and build a power plant in Kosovo and the consortium itself was wound up. We have also, for the time being, suspended a plan to build a new CCGT power plant in Varna, Bulgaria. These steps demonstrate how closely linked our acquisition and investment policy is with economic viability criteria.

slide ČEZ Against the Crisis

In 2009 CEZ Group launched an initiative to protect customers and the Czech Republic's economy in conjunction with the economic crisis. The initiative had three parts, the first of which was an acceleration of over CZK 5 billion in planned investment in generation and distribution. As a result approximately 5,600 jobs in the Czech Republic were or will be created or preserved. The second part of the initiative helped self-employed businesspeople in the Czech Republic by deferring advance electricity payments by 30 days. In total, 3,393 businesspeople expressed interest in this offering. Households that are customers of CEZ Group benefited directly from the third part of the initiative, which consisted of insurance against job loss. Everyone who lost their job had the option of not paying three monthly advance electricity payments and having the insurance company pay them instead, on their behalf. This offer was accepted by over 25,000 households, who received insurance benefits totaling over CZK 120 million.

However, our offerings to customers did not stop there. For a period of two months in the spring, we offered a CZK 1,000 contribution toward the purchase of a new, energy-saving appliance upon satisfying certain conditions. This offer was utilized by 10,423 customers. In conjunction with the summer floods, we gave the option of not paying three monthly advance electricity payments to those customers whose lives were affected by the flooding.

In an expression of our efforts toward continual improvement in customer care, as of October 2009 CEZ Group has its own Ombudsman. His role is to enable customers to resolve situations that deviate from the norm. At the same time, the move creates a forum for customers to share their ideas concerning our communications and services.

(Dear shareholders, based on the results presented above, I would like to express my conviction that CEZ Group will pass through the current crisis unscathed, taking advantage of opportunities afforded by it and emerge well-prepared for the period of renewed growth that is sure to follow.

Thank you for your attention and interest in developments at ČEZ.)