

Internal Information

Report on the Application of WSE Corporate Governance Principles by ČEZ, a.s. (the Company) for the Financial Year Ended on 31 December 2010

- a) Indication of which corporate governance rules were not applied by the issuer and indication of under what circumstances and for what reasons the specific rule was not applied, and how the company intends to remove effects, if any, of not having applied a given rule and what steps it intends to take to mitigate the risk of the specific rule not being applied in the future;

Practice of CEZ Group in the following aspects differed from the provisions of the Corporate Governance code of Polish Stock exchange:

	RULE	COMPANY'S STATEMENT
II. Best Practice for Management Boards of Listed Companies		
	5) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;	<i>Candidates to the Supervisory Board are proposed by shareholders of CEZ, a.s. and therefore company and its representatives do not have tools to force shareholders to provide such information.</i>
	14) Information about the content of the company's internal rule of changing the company authorized to audit financial statements or information about the absence of such rule.	<i>There are no internal rules governing this issue. We feel that provisions of Act No. 93/2009 Coll on audit are sufficient.</i>
III. Best Practice for Supervisory Board Members		
1	In addition to its responsibilities laid down in legal provisions the Supervisory Board should:	
	3) review and present opinions on issues subject to resolutions of the General Meeting.	<i>According to Article of association supervisory board presents its opinion on the all proposals of Board of Directors to the General Meetings except the proposals required by law in which case it is being only notified.</i>
2	A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial,	<i>Company is not specifically requiring such disclosure from supervisory board members. However company requires that supervisory board members disclose conflicts of interests in a formal declaration to the company on annual basis.</i>

	family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.	
5	A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.	<i>Supervisory board can appoint substitute members to take office until the subsequent general meeting unless the number of members of the supervisory board elected by the general meeting drops under one half. We feel this rule is sufficient to prevent situations when resignation of a supervisory board member can cause its inability to act.</i>
6	At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the <i>Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board</i> . Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.	<i>According to the company statutes 2/3 of Supervisory Board Members are elected by shareholders and 1/3 of members is elected by employees. Thus in general terms the company cannot ensure that at least 2 members would be independent. However at the moment company fulfills this criterion.</i>
IV. Best Practices of Shareholders		
1	Presence of representatives of the media should be allowed at General Meetings.	<i>Presence of media representatives (which are not shareholders) can be granted based on the decision of the Board of Directors. Media representatives were present at the AGM but not at EGM held in 2010</i>
6	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	<i>Currently this rule is not reflected in any of the Company's internal regulations and thus company deals with it on one-time basis by decisions of general meeting on profit distribution.</i>
10	A company should enable its shareholders to participate in a General Meeting using electronic communication means through: 1) real-life broadcast of General Meetings; 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting; 3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary <i>This rule should be applied not later than 1 January 2012.</i>	<i>Company does not allow its shareholders to participate through electronic means. Company's Articles of Associations do not allow this option due to organizational and technical issues. We believe that participation through a representative is sufficient..</i>

b) Description of the procedures of the General Meeting and its main powers and the rights of the shareholders and procedures of their execution;**General Meeting**

The General Meeting is the Company's highest governing body. It is convened at least once per year, no later than six months after the last day of the accounting period. The powers of the General Meeting include, in particular, the following:

- decision on amendments to the Articles of Association;
- decision on increases and decreases of the share capital
- decision on issues of convertible and priority bonds;
- election and removal of members of the Supervisory Board, except for members elected and removed by the employees, approving the Supervisory Board membership contracts and rules for providing of to members of the Supervisory Board
- election and removal of the members for the Audit Committee, approval of contracts of Audit Committee members and approval of rules for providing discretionary benefits to members of the Audit Committee
- approval of the annual or extraordinary financial statements, consolidated financial statements and (in cases stipulated by law) interim financial statements, decisions on distribution of net income or settlement of loss, determination of Board member bonuses and dividends, and allocations of income to Company reserves;
- decision on remuneration of members of the Board of Directors and Supervisory Board, decision on payments of and rules for distribution of Board member bonuses among individual members of the Supervisory Board and the Board of Directors;
- decision on the Company's sponsorship budget for the period in question;
- decision on changes in the class or form of shares and changes in rights associated with a particular class of shares;
- decision on the Company's business policy and revisions thereof
- decision on auditor of financial statements and consolidated financial statements

Rights of shareholders

Shareholder rights are determined by Czech commercial code No. 513/1991 Coll. The key rights are outlined below:

- A shareholder is entitled to a proportion of the company's profit which the general meeting approved for distribution to shareholders (i.e. a dividend).
- Every shareholder is entitled to attend the general meeting, to vote, to ask for explanations and to receive answers to questions about matters concerning the company, if such matters are on its agenda, and to make proposals and counterproposals.

- A shareholder or shareholders of a company may ask the board of directors to convene an extraordinary general meeting to discuss proposed matters if they hold the shares with a total nominal value exceeding 3% of the registered capital for companies whose registered capital is greater than CZK 100 million.

c) Personal composition and procedures of the Company's managing and supervisory bodies and their committees;

Board of Directors

The Board of Directors has seven members, all of whom are elected and removed by the Supervisory Board. Members of the Board of Directors serve for four-year terms; re-election is possible. At its meetings, the Board of Directors takes decisions by majority of all members. Each member of the Board of Directors has one vote. In necessary cases, decisions may be taken outside of a regular meeting (per rollam). Decisions taken in this matter must be entered into the minutes of the next Board of Directors meeting. In order to implement certain decisions, the Board of Directors is required to request the prior consent of the Supervisory Board, as well as to request the Supervisory Board's opinion in selected Company matters.

Board of Directors had the following composition as of March 3, 2011:

Martin Roman - Chairman
Daniel Beneš - Vice Chairman
Peter Bodnár - Member
Vladimír Hlavinka - Member
Martin Novák - Member
Tomáš Pleskač - Member

Supervisory Board

The Supervisory Board is the Company's oversight body, which oversees the Board of Directors' exercise of authority and the Company's business activities. The Supervisory Board has twelve members. Two thirds of the members are elected and removed by the General Meeting; one third is elected and removed by the Company's employees. Members of the Supervisory Board serve for four-year terms, and re-election is possible. Supervisory Board takes a decision by majority of all its members unless Articles of Association state differently.

Supervisory board had the following composition as of March 3, 2011:

Martin Říman - chairman
Eduard Janota – vice chairman
Lubomír Klosík– vice chairman
Ivo Foltýn - Member
Petr Gross - Member
Lukáš Hampl - Member
Vladimír Hronek - Member
Zdeněk Hrubý - Member
Jan Kohout – Member

Jiří Kadrnka - Member
Drahošlav Šimek - Member

Committees of the Supervisory Board

Within the scope of its powers, the Supervisory Board sets up committees to which it elects and from which it removes committee members. Committee membership is open to Supervisory Board members only and the term of committee membership is concurrent with the term of Supervisory Board membership. Committees meet as needed but at least once a quarter.

The following three committees operated in 2010:

- **Strategic Committee of ČEZ, a. s. supervisory board**, which evaluates proposals for major business activities in the areas of investment and acquisition projects, proposals for establishing or winding up subsidiaries of ČEZ, a. s., building new generating plants and phasing out, selling or renewing production capacities;
Members: Ivo Foltýn – vice chairman
Lukáš Hampl - member
Jan Kohout – member
Martin Říman – member
- **Personnel Committee of ČEZ, a. s. supervisory board**, which makes proposals for the Supervisory Board regarding its personnel policies vis-a-vis the Board of Directors, proposes committee methods and procedures, nominates candidates for election to and removal from the Board of Directors, is responsible for submitting nominations of candidates for membership of the Board of Directors to the Supervisory Board for approval, and makes recommendations to the Supervisory Board regarding issuance of opinions in matters relating to the appointment and manner of remuneration of the Chief Executive Officer and members of the Board of Directors who are employees of the Company.
Members: Petr Gross – chairman
Jiří Kadrnka – member
Lubomír Hronek – member

Audit Committee of ČEZ, a.s.

Audit Committee is elected by general meeting. It is an advisory and oversight body for communication with internal and external auditors, monitoring their activity and evaluating the adequacy and effectiveness of the Company's system of internal controls:

Zdeněk Hrubý - chairman
Eduard Janota – vice chairman
Lubomír Klosík - member
Martin Říman - member
Drahošlav Šimek - member

d) Description of the basic features of the company's internal control and risk management systems related to the process of preparing financial statements.

The Management of the Company is responsible for the establishment and maintenance of internal control system in the Company and its efficiency in the process of preparing financial statements. Internal control system covers the entire activities of the Company. The Company has established a continuous process for identifying and managing various potential risks faced by the Company, and confirms that any appropriate actions have been taken, or are being taken, to address any issue. Financial statements, both for internal and external reporting purposes, are prepared by highly skilled professionals and reviewed by other independent personnel. The annual financial statements are subject to the independent examination by the external auditor.