

CZK 30,000,000,000



10-Year Bond Offering Program

This document constitutes a base prospectus (the “**Base Prospectus**”) for bonds under an offering Program pursuant to Section 36a(1)(a) of Act No. 256/2004 Coll., the Capital Markets Act, as amended (the “**Capital Markets Act**” or “**CMA**”). Pursuant to the provisions of Section 11 of Act No. 190/2004 Coll., on Bonds, as amended (the “**Bonds Act**”), the bonds shall be issued under a bond Program (the “**Bond Program**”) launched by ČEZ, a. s., Identification No. 452 74 649, with its registered seat at Duhová 2/1444, Prague 4, Postal Code: 140 53, Czech Republic, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 1581 (the “**Issuer**” or “**ČEZ**”) on 27 June, 2011. Under the Bond Program, the Issuer may issue individual bond issues in accordance with legal regulations of general application (the “**Bond Issue**” or “**Issue**” or “**Bonds**”). The aggregate nominal value of all outstanding Bonds issued under the Bond Program may at no point exceed CZK 30,000,000,000. The term of the Bond Program during which the Issuer may issue individual Bond Issues under the Bond Program shall be 10 years. The Bond within any Issue under the Bond Program shall be at least in nominal value equal to EUR 100,000.

The application for the Bonds issued under the offering Program to be admitted on the regulated or, if applicable, non-regulated market of the Prague Stock Exchange (Burza cenných papírů Praha, a.s., the “**PSE**”) shall be filed by Komerční banka, a.s., with its registered seat at Na Příkopě 33/969, Prague 1, Postal Code: 114 07, Identification No. 453 17 054, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 1360 (“**KB**”); Česká spořitelna, a.s., with its registered seat at Olbrachtova 1929/62, Prague 4, Postal Code: 140 00, Identification No. 452 44 782, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 1171 (“**ČS**”); and/or Československá obchodní banka, a.s., with its registered seat at Radlická 333/150, Prague 5, Postal Code: 150 57, Identification No. 000 01 350, entered in the Commercial Register administered by the Prague Municipal Court, Section BXXXVI, File 46 (“**ČSOB**”); or any other person so authorized by the Issuer (KB, ČS, ČSOB or such other authorized person the “**Lead Manager**”).

The Issuer shall prepare a special document for each Bond Issue under the Bond Program (the “**Issue Supplement**”), which is to contain a supplement to the Bond Program, namely a supplement to the issue terms of the Bond Program for such Issue (the “**Bond Program Supplement**”). Each Bond Program Supplement shall, in particular, determine the nominal value and quantity of Bonds within the Issue, the date and method of the issue of the Bonds, proceeds from the Bonds under the given Issue and the issue price, due date, as well as other terms and conditions of the Bonds of the given Issue that are not regulated by the issue terms of the Bond Program in chapter “*Joint Terms and Conditions*” in this Base Prospectus (the “**Joint Terms and Conditions**”), or which are to be supplemented for individual Bond Issues in addition to the Joint Terms and Conditions. If the Issuer chooses to apply for admittance of any Bond Issue to trading in the regulated market as of the issue date, the Issue Supplement shall also contain final terms (the “**Final Terms**”) in order for each Issue Supplement, together with the Base Prospectus, to constitute a prospectus of the respective Issue. If the Issuer chooses to apply for admittance of any Bond Issue to trading on the regulated market only after such Bond Issue has been issued, the Issuer shall extend the respective Issue Supplement published or made accessible to the investors, as applicable, no later than as of the issue date by the Final Terms after it adopts a decision regarding such admittance of the Bond Issue to trading in the regulated market.

If individual Bond Issues are to be issued in order for the Bonds within such Issue to become listed securities, the Issuer shall apply for their admittance to trading in the free market of the PSE. The Issue Supplement may also contain a note that the Bonds will not be traded in any market (whether regulated or non-regulated).

The Issuer does not intend to make a public offering of the Bonds issued under the Bond Program. The Bonds shall be offered only to qualified investors based on one or several exceptions set out in Section 35(2) of the Capital Markets Act. If the information contained in this Base Prospectus significantly changes following approval of this Base Prospectus and prior to the end of the public offer (if any) of the Bonds or their admittance to trading on the regulated market, the Issuer shall update the Base Prospectus in the form of supplements. Each such supplement shall be subject to approval by the Czech National Bank and published in a statutory manner.

Payments under the Bonds issued under this offering program shall in all cases be made in accordance with the laws of general application in force at the time of making the relevant payment in the Czech Republic. Where required by the laws of the Czech Republic in force at the time of repayment of the interest and the nominal value (or, as the case may be, Discounted Value) to be set in the Bond Program Supplement as the value to be paid by the Issuer to Bondholders when due), the relevant taxes and charges shall be withheld from the payments being made to the Bondholders. The Issuer shall not be required to make any additional payments to the Bondholders in compensation for such withholding of taxes or charges. Under certain conditions, the Issuer shall pay the tax withheld from the bond proceeds (for details, see the chapter “*Taxation and Foreign Exchange Regulation in Czech Republic*”).

The Joint Terms and Conditions, as set out in this Base Prospectus, which shall be the same for the individual Bond Issues issued under the Bond Program, were made accessible to the investors through their publication together with the Base Prospectus on [●]. The Base Prospectus was approved by a decision of the CNB on [●], 2012, Ref. [●], which entered into force on [●], 2012.

The Base Prospectus itself does not constitute any public or other offer of any Bonds. Any potential investors in the Bonds within the individual Issues that may be issued under this offering program shall adopt their investment decisions in reliance on the information contained in this Base Prospectus, as well as any supplement to the Base Prospectus and any Issue Supplement relating to the particular Issue.

Any extension of the Base Prospectus and any offer, sale or purchase of the Bonds under the individual Issues issued under this offering program are subject to statutory restrictions in some countries. The Issuer will not apply for recognition of the Base Prospectus and the relevant Issue Supplement in any other country, and the relevant Bonds will not be listed, registered, permitted or approved by any administrative or other authority in any jurisdiction, except for the CNB and the Czech Republic, respectively (see also the chapter “*Important Notice*”).

The Base Prospectus was prepared as of October 24, 2012 and the information contained herein is only current as of such date, unless the Base Prospectus is updated by a supplement, in which case the information in the Base Prospectus shall be current as of the date specified in such supplement.

The Base Prospectus, any supplements or Issue Supplements, and any annual, semi-annual or other reports of the Issuer published after the date of this Base Prospectus, as well as any other documents referred to in this Base Prospectus, shall also be available in electronic form on the Issuer’s website at www.cez.cz.

Program Arrangers

Komerční banka, a.s.

Česká spořitelna, a.s.

Československá obchodní banka, a.s.

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IMPORTANT NOTICES

*This document constitutes the Base Prospectus of the offering program of the Bonds within the meaning of the Capital Markets Act, Article 5(4) of the Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, as amended by Directive 2010/73/EU (the “**Prospectus Directive**”), and Section 26 of Commission Regulation (EC) No. 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses, as well as the format, incorporation by reference and publication of such prospectuses and the dissemination of advertisements (the “**PD Regulation**”). The Base Prospectus also contains the Joint Terms and Conditions of the Bonds issued under the Bond Program within the meaning of Section 8 et seq. of the Bonds Act. The Joint Terms and Conditions were made accessible to the investors through their publication together with the Base Prospectus on [●] 2012. The Base Prospectus was approved by a CNB resolution dated [●] 2012, Ref. No. [●], which became effective as of [●] 2012.*

The distribution of this Base Prospectus, and the offering, sale, or purchase of the Bonds issued under the Bond Program are restricted by law in certain jurisdictions. Unless where explicitly stated otherwise herein or in the respective Issue Supplement for the given Bond Issue, the Bonds issued under the Bond Program will not be listed, registered, authorized, or approved in any jurisdiction by any administrative or other authority other than the Czech National Bank. In particular, the Bonds issued under the Bond Program will not be registered under the U.S. Securities Act of 1933, and may not be offered, sold, or delivered within the United States or to any U.S. persons other than in reliance on the exemption from the registration requirement of such Act or in a transaction that is not subject to such registration requirement. Persons into whose possession this Base Prospectus comes are responsible for compliance with any restrictions applicable in such jurisdictions to the offering, purchase, or sale of the Bonds issued under the Bond Program, or the possession and distribution of any materials relating to the Bonds issued under the Bond Program.

Neither the Issuer nor any of the Lead Managers have authorized any representation or information regarding the Issuer and/or the Bond Program other than as contained in this Base Prospectus, its supplements (if any) and the respective Issue Supplement. Any such representation or information should not be relied upon as having been authorized by the Issuer. Unless otherwise indicated, all information in this Base Prospectus is given as of the date of this Base Prospectus. The delivery of this Base Prospectus at any time does not imply that the information contained in it is correct as of any time subsequent to the date of this Base Prospectus. This information may be further amended or completed by means of supplements to the Base Prospectus and further specified or completed by means of the respective Issue Supplement.

Potential investors in the Bonds within the individual Issues that may be issued under this offering program shall adopt their investment decisions in reliance on the information contained in this Base Prospectus, any supplement to the Base Prospectus, and in the relevant Issue Supplement. Any decision concerning the underwriting of the offered Bonds shall be based solely on the information contained in these documents as a whole, and on the offering terms, including an independent analysis of the risk factors of an investment in the Bonds by each potential investor.

Information under the heading “Taxation and Foreign Exchange Regulation in Czech Republic”, and “Enforcement of Private Law Obligations against Issuer” is given solely as general information and has been obtained from public sources that have not been processed or independently verified by the Issuer. Prospective purchasers of the Bonds issued under the Bond Program should rely solely on their own analysis of the factors described under these headings, and on their own legal, tax, and other professional advisers. Purchasers of the Bonds issued under the Bond Program, especially those from foreign countries, are advised to consult with their own legal and other advisers as to the provisions of applicable laws, including, but not limited to, the foreign exchange and tax regulations of the Czech Republic, the countries of which they are residents, and any other relevant jurisdictions, as well as any international treaties and the impact thereof on the particular investment decision.

The Bondholders, including all prospective foreign investors, are required to keep themselves informed of all laws and regulations governing the possession of the Bonds, the sale of the Bonds abroad, the purchase of the Bonds from abroad, and any other transactions with the Bonds, and to comply with these laws and regulations.

To the extent required by generally binding laws and regulations and the regulations of the securities market on which the Bonds are admitted to trading (if applicable), the Issuer will publish reports on the results of its operations and its financial position, and comply with the information requirements.

The Base Prospectus, its supplements (if any), Issue Supplements, the Annual and Semi-annual Reports and copies of the relevant financial statements and audit reports are available for inspection without charge during regular office hours from 9:00 a.m. to 15:00 p.m. at the Issuer’s registered seat at Duhová 2/1444, 140 53 Prague 4, Czech Republic. The documents are also available on the Issuer’s website www.cez.cz.

The Base Prospectus is also available for inspection at no charge at the registered seats of the Arrangers at Komerční banka, a.s., Na Příkopě 33/969, 114 07 Prague 1, Czech Republic, Česká spořitelna, a.s., Olbrachtova 1929/62, 140 00, Prague 4, Czech Republic and Československá obchodní banka, a.s., Radlická 333/150, 150 57, Prague 5, Czech Republic, in all cases during regular office hours from 9:00 a.m. to 17:00 p.m.

As long as any of the Bonds issued under the Bond Program are outstanding, a counterpart of the relevant Fiscal and Paying Agency Agreement will be available for inspection without charge at the Paying Agent's Specified Office during regular business hours from 9:00 a.m. to 17:00 p.m. For more details, see the heading "Joint Terms and Conditions".

Any assumptions and projections concerning the future development of the Issuer, its financial situation, line of business, or its position in the market may not be construed as representations or promises of the Issuer regarding future events or performance, as such future events and performance are subject, in whole or in part, to effects and events beyond the direct or full control of the Issuer. Prospective purchasers of the Bonds issued under the Bond Program should make their own analysis of any developmental trends and projections contained in the Base Prospectus, or if required, conduct their own independent investigation, and base their investment decisions on the results of such independent analysis and investigation.

Unless otherwise indicated, all financial information of the Issuer is based on the International Financial Reporting Standards (the "IFRS"). Certain figures included in this Base Prospectus have been adjusted by rounding. Accordingly, figures shown for the same item of information presented at different places may vary slightly, and figures shown as sums of certain values may not be an arithmetic aggregate of the figures preceding such totals.

Definitions of certain terms used in the Base Prospectus are set forth under the heading "List of Definitions, Terms, and Abbreviations."

In case of translation of the Base Prospectus into other language(s), the English version shall prevail in the event of any interpretation inconsistencies between the English version and any other language version of the Base Prospectus.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. 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 Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but its inability to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons. The risks and uncertainties the Issuer describes below are not the only ones the Issuer faces. Additional risks not currently known to the Issuer or that the Issuer now deems immaterial may also harm the Issuer and affect its business, results of operations, financial condition and your investment. 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.

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

Risks Related to Our Business and Operations

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

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

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

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

The electricity generation industry in Europe is strongly influenced by the European Union's policy, implemented in 2008 by the E.U. Climate and Energy Package, to increase the share of electricity generated by renewable energy sources. We are effectively obliged, due to economic incentives, to reflect the E.U. Climate and Energy Package within our own strategy. By 2020, the E.U. Climate and Energy Package requires a 20% decrease in carbon dioxide ("CO₂") emissions, a 20% increase in energy efficiency and requires renewable energy sources to comprise 20% of total energy consumption. The implementation of the E.U. Climate and Energy Package, or any amendments to such targets, could have a material adverse effect on our business, results of operations and financial condition. Support for renewable sources may decrease energy prices, limit the

production time, the stability of transmission and distribution grid, the profitability of distribution services provided by us and production quantity of conventional power plants that we operate and may decrease our market share. Continued or increased support for renewable energy sources in the European Union, particularly in the Czech Republic, may adversely affect our profit from nuclear, coal-fired and gas power plants, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

As part of our strategy to meet future electricity demand, and in accordance with the energy policies and requirements of the Czech government, we currently intend to increase the nuclear generation capacity of the Temelín nuclear power plant (where two nuclear reactors are currently in operation). Pursuant to a tender process, we have initially selected three possible contractors (The Westinghouse Electric Corporation, AREVA NP and a consortium of ŠKODA JS, JSC Atomexport and JSC OKB Gidropress) to build two new nuclear reactors at the site of the Temelín nuclear power plant. In October 2011, we provided the final tender information memorandum to the qualified bidders. On July 2, 2012 we received binding offers expected to be evaluated in 2012 and 2013. On October 5, 2012 we informed AREVA that their bid had to be excluded from further evaluation as it failed to meet statutory requirements and other crucial criteria defined in the tender. On October 19, 2012 AREVA objected this decision. We currently expect to sign an agreement with the successful bidder by the end of 2013. The signing of such an agreement would result in a significant capital expenditure investment for the next decade, as well as imposing significant risks associated with building a nuclear power plant, particularly the overall debt capacity risks and the risks and uncertainties involved in such a long and complex project, which could have a material adverse effect on our business, results of operations and financial condition. In addition, any failure to complete the project within budget and on schedule may result in additional cost and loss of revenues, which could have a material adverse effect on our business, results of operations and financial condition. Moreover, the profitability of the project would be subject to many of the risk factors that we already face, including any political and regulatory developments, decrease in prices obtained for our electricity or default or delay by our counterparties, and would therefore be highly uncertain. Any significant decrease in expected revenues from the project or any significant increase in operating costs could have a material adverse effect on our business, results of operations and financial condition.

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

In the ordinary course of our business, we are exposed to the risk of decreases in the prices obtained for our electricity and heat. We sell the majority of our electricity at prices derived from European market prices, which are mainly driven by the prices of E.U. emission allowances and the cost of raw materials, as well as by

the European aggregate supply and demand balance; available cross-border capacities; global oil, coal and gas prices and E.U. and national regulation of the wholesale energy market. Furthermore, there is a strong correlation between the price of electricity in the Czech Republic and the price of electricity in Germany, which is one of our export markets and the primary price-setting market in the region. Changes in global commodity prices, available cross-border capacities (caused for example by renewable energy sources or flow-based allocation) or a decline in electricity demand in Europe, as a result of a continued economic slowdown or further economic downturn, could decrease the price of electricity and could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

Our revenues are sensitive to the performance of the Czech economy. As of December 31, 2011, approximately 83.6% of our assets were located in the Czech Republic and approximately 76.8% of our revenues for the year ended December 31, 2011 derived from the Czech Republic. Changes in economic, regulatory, administrative or other policies of the Czech government, as well as political or economic developments in the Czech Republic (including potential changes in the Czech Republic's credit ratings) over which we have no control, could have a significant effect on the Czech economy, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

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

for decommissioning of such power plants. As a result, our failure to obtain all of the necessary authorizations and to operate our nuclear power plants for the duration of such authorizations, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

We may not successfully implement our key strategies.

Our key strategies include increasing the installed capacity of our nuclear power plants, building new conventional fuel power plants, developing renewable sources of power (as well as our related market position), improving our internal efficiencies and strengthening our market position in the heating and co-generation market. However, we face many risks that could adversely affect our ability to implement our key strategies, such as changes in electricity demand in the Czech Republic and in Central and South East Europe generally, changes in electricity and emission allowance prices and the regulatory framework, increases in generation and distribution costs, future developments affecting the electricity infrastructure within Central and South East Europe, competition in the markets in which we operate, political and economic developments affecting Central and South East Europe, E.U. legal and regulatory requirements and the reliability of our future partners for expanding our business within Central and South East Europe. Any failure to implement our key strategies successfully could have a material adverse effect on our business, results of operations and financial condition.

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

Since our foundation, we have expanded our operations through mergers and acquisitions, especially in Central and South East Europe (please see "Description of the Issuer—History and Development of the CEZ Group"). We expect to continue to evaluate investment opportunities in the future and we may expand our

operations in other countries or in new markets. We face many risks inherent in expanding our operations and doing business on an international level, such as unexpected changes in regulatory requirements; default by our joint venture partners; trade barriers, including import and export controls, tariffs, customs and duties; difficulties in staffing and managing foreign operations; longer payment cycles and problems in collecting accounts receivable; political instability, expropriation, nationalization, war and other political risks; fluctuations in currency exchange rates; foreign exchange controls which restrict or prohibit repatriation of funds; technology export and import restrictions or prohibitions; and potentially adverse tax consequences. Any failure to manage the risks associated with expanding our operations could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

On September 21, 2011, the Czech government approved a national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector, which forms part of the application submitted on September 30, 2011 to the European Commission. On July 6, 2012 the Directorate-General for Climate Action approved the Czech Republic's national plan for investments allowing direct allocation of some allowances from 2013 - derogation. This investments plan is subject to notification to the European Commission's Directorate-General Competition. The result is expected in October 2012. The final allocation of allowances among the individual installations in the Czech Republic is the responsibility of the Ministry of Environmental Matters. For more detailed information on the national plan, please see "*Regulation—Czech Republic—Electric Energy Sector—Electricity Generation—Application by the Czech government.*" and "*Description of the Issuer-Emission Rights*". We cannot guarantee that this application will be approved by the European Commission. If it is not approved or is approved in a less favorable way than currently anticipated, we might be forced to purchase, at the prevailing market prices, a significant amount of emission allowances that we would otherwise be allocated without payment. We currently estimate that the potential cost of purchasing emission allowances on the market could amount to CZK 20 billion for the period 2013-2019 which could have a material adverse effect on our business, results of operations and financial condition.

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

In 2005, the European Union introduced the European Union Emission Trading Scheme (the “E.U. ETS”). Within the E.U. ETS, each greenhouse gas emitter is allocated a certain cap by the national government, which is in turn allocated a national cap by the European Commission, within which it is allowed to emit greenhouse gases (such as CO₂, methane and nitrogen monoxide). Any emissions in excess of this cap must be counterbalanced by emission allowances acquired in the open market at a market price, otherwise the emitter is penalized. Allocations are fixed for a specific trading period. In 2012, the allocation of emission allowances without cost in the Czech Republic to CO₂ emission producers selling electricity to third parties is subject to a tax in the amount of 32% of the average market value of all emission allowances allocated for free in a given year. We estimate that the new tax may impact our profits by approximately CZK 2 billion for the year ended December 31, 2012. This tax is only applicable for the years ended 2011 and 2012, but any extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, results of operations and financial condition.

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

In the trading periods after 2012, the majority of, or potentially all emission allowances will be sold in auctions rather than allocated for free. A potential partial free allocation is not within our control and will only be allocated to us subject to (i) receiving approval from national governments and the European Commission, and (ii) us investing in renewable technologies in an amount at least equal to the market price of the freely allocated emission allowances. From January 1, 2013, we will have to buy all or a substantial part of the emission allowances on the market. As a result, our emission allowances allocation after 2013 remain uncertain and from 2013 our costs may increase significantly, which could have a material adverse effect on our business, results of operations and financial condition. In addition, we will be more vulnerable to risks relating to volatility in the price of CO₂ emission allowances. To mitigate this volatility risk, we have in place a hedging strategy of acquiring a certain volume of emission allowances before this period, although, in the event of potential decreases in the price of emission allowances, this hedging strategy itself could have a material adverse effect on our business, results of operations and financial condition.

A continual decrease in the allocation of emission allowances across the European Union and, potentially, a greater decrease in the allocation of emission allowances than is currently expected in the next allocation period as well as any increase in the price of CO₂ emission allowances, may result in a substantial increase in our variable generation costs making the price of electricity offered by us uncompetitive, which could have a material adverse effect on our business, results of operations and financial condition.

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

We are subject to the laws of various countries and jurisdictions, including the laws of the Czech Republic, Albania, Bulgaria, Poland, Romania, Turkey and the European Union, as well as the regulations of the regulatory agencies of the countries in which we operate, including the Energy Regulatory Office and the State Office for Nuclear Safety in the Czech Republic (please see “*Regulation*”), the Energy Regulatory Office in Romania, and the State Commission for Energy and Water Regulation in Bulgaria. These laws and regulations affect many aspects of our business and, in many respects, determine the manner in which we conduct our business and the fees we charge or obtain for our products and services, including in respect of electricity generation (both traditional and from renewable sources). In particular, as an owner and operator of nuclear,

coal-fired and gas power plants (including combined heat and electricity power plants), renewable energy facilities and electricity distribution, heat distribution and mining businesses, we are subject to extensive governmental and other regulations in the markets in which we operate, including in relation to nuclear safety. Any new regulation or any changes in the existing regulations or requirements of the governments or regulatory authorities of the countries in which we operate, may require significant changes in our business in ways that we cannot predict, in particular the way in which we operate our nuclear assets. Any new regulations or requirements that cause us to restructure or otherwise change our business in any way, or that affect electricity generation, transmission, distribution or supply prices or related financial conditions, could have a material adverse effect on our business, results of operations and financial condition. In addition, we may fail to respond swiftly and appropriately to changes in applicable laws and regulations or to changes in the energy industry generally, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

We sell the electricity we generate in the Czech Republic on markets such as the PXE and the EEX, which trade electricity contracts denominated in Euro. As a result, the revenues we receive from these sales are either denominated in Euro or denominated in Czech crowns, but derived from Euro-denominated electricity prices and the Euro/CZK exchange rate at the time the contract concludes. However, a significant portion of our operating expenses and capital expenditure needs related to power generation in the Czech Republic are denominated in Czech crowns, leading to substantial foreign exchange risk. We also generate revenues and incur costs in currencies other than Euro and Czech crown, including Albanian lek, Bulgarian lev, Polish zloty, Romanian lei and Turkish lira. We believe our Euro denominated indebtedness acts as a natural foreign

exchange hedge for our exposure to Euro denominated revenues, however, any increase in our exposure to foreign exchange risks or our failure to manage or make use of financial or natural hedging in order to manage our exposure to foreign exchange risk could have a material adverse effect on our business, results of operations and financial condition.

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

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

In accordance with the Vienna Convention, the Czech Nuclear Act provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to CZK 8 billion per accident and is obliged to maintain insurance coverage for potential liabilities for nuclear damage in an amount not less than CZK 2 billion. We have insurance policies in place for both the Dukovany and Temelín nuclear power plants, which provide coverage at these amounts. However, notwithstanding any limitation of liability under the Czech Nuclear Act and any additional coverage under our insurance policies, any nuclear accident or failure at our nuclear power plants could result in us incurring significant losses in excess of such amounts due to, among other things, a potential shut-down of the nuclear facility and the resulting loss of generation capacity, remedial and replacement expenses and negative publicity from such an accident. As a result, any nuclear accident suffered by our nuclear power plants could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

As of the date of this Base Prospectus, ČEZ, a. s. has a credit rating of A- with a stable outlook by Standard & Poor's Credit Market Services Europe Limited and A2 with a stable outlook by Moody's Investors Service Ltd. Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the European Securities and Markets Authority (ESMA) website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated July 30, 2012). These ratings reflect each agency's opinion of our financial strength, operating performance and ability to meet our debt obligations as they become due. These ratings are near the low-end of the respective rating agency's scale of investment-grade ratings. Credit rating agencies now monitor companies more closely and have made liquidity, and the key ratios associated with it, such as gross leverage ratio, a particular priority. Our ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on our credit ratings. We currently expect to operate with sufficient liquidity to maintain our current ratings. However, this is dependent on a number of factors, some of which may be beyond our control. If we fail to maintain adequate levels of liquidity, our ratings may be downgraded. In the event our credit or debt ratings are lowered by the rating agencies, we may not be able to raise additional indebtedness on terms similar to our existing indebtedness or at all, and our ability to access credit and bond markets and other forms of financing (or refinancing) could be limited, which could have a material adverse effect on our business, results of operations and financial condition. Lowering of our credit rating may also trigger our obligation to redeem certain debt securities prior to their scheduled redemption date which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

Currently, operators of certain solar electricity producing facilities in the Czech Republic which were put into operation between January 1, 2009 and December 31, 2010 are subject to a withholding tax in the amount of (i) 26% of the income corresponding to the feed-in tariff, or (ii) 28% of the income corresponding to a “green bonus”. As of December 31, 2011, we own and operate 13 solar power plants in the Czech Republic, with installed capacity of 125.2 MW. The majority of these solar power plants were put into operation between January 1, 2009 and December 31, 2010 and are subject to the withholding tax. This tax is only applicable for the years ended 2011, 2012 and 2013, but any extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

We face risks from our energy trading operations. In general, we seek to hedge risks associated with volatile energy-related prices (including the price of CO₂ emission certificates) by entering into fixed price bilateral contracts and futures contracts on commodity exchanges and swaps and options traded in over the counter financial markets. To the extent we are unable to hedge these risks, enter into hedging contracts that fail to address our exposure or incorrectly anticipate market movements, we may suffer significant losses which could have a material adverse effect on our business, results of operations and financial condition.

We are also exposed to other financial risks. Financial markets have experienced volatility in recent years and markets may decline again or become even more volatile in the future. The value of certain of our assets and financial investments, including joint ventures, is sensitive to the performance of the European and

global economies. For example, we hold a 7% share in MOL, the Hungarian oil company, which represented 2.7% of our total assets as of December 31, 2011. We also hold substantial amounts in certain government bonds, particularly Czech government bonds. Any future fluctuations in the capital markets could negatively influence the value of those assets which could have a material adverse effect on our business, results of operations and financial condition. We are dependent on debt capital markets to fund the majority of our working capital and capital expenditures. Any volatility in the debt capital markets could negatively affect this source of funding, which could have a material adverse effect on our business, results of operations and financial condition.

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

We are exposed to risks on the wholesale energy and CO₂ emission allowances markets.

We operate in the deregulated energy markets in Europe through our trading activities. As a result, we are exposed to price fluctuations in the wholesale energy markets (electricity, gas and coal) as well as in the CO₂ emission allowances market. These fluctuations are particularly significant in the current context of major tensions and volatility on the energy markets. Any shortage of products or lack of liquidity could limit our ability to close our exposure to risk quickly in the energy market. In addition, these markets remain in part partitioned by country, largely as a result of the lack of interconnections and may experience significant increases or decreases in price movements and liquidity crises that are difficult to predict. Any such fluctuations in the wholesale energy markets could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

External financing may increase our interest expense.

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

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

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, holds approximately 69.8% of all shares in ČEZ, a. s. as of the date of this Base Prospectus. Although we do not currently expect the Czech Government to privatize ČEZ, a. s., we cannot give any assurance that the Czech Government or any future government of the Czech Republic will not ultimately seek to undertake a partial or full privatization of ČEZ, a. s. resulting in the sale of its entire shareholding in ČEZ, a. s. The credit rating of A- with a “stable” outlook currently assigned to ČEZ, a. s. by Standard & Poor’s Credit Market Services Europe Limited is based in part on the opinion of Standard & Poor’s Credit Market Services Europe Limited that the Czech Republic may potentially provide support to ČEZ, a. s. in the event of financial distress. This rating could come under pressure, potentially leading to a downgrade, if ČEZ, a. s. is fully or partially privatized and the Czech Republic is no longer a controlling shareholder, which could affect our ability to make repayments on our debt or otherwise have a material adverse effect on our business, results of operations and financial condition. Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated July 30, 2012).

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

Our current generation capacity predominantly consists of coal and nuclear generation. We aim to expand our existing non-nuclear power generation as well as diversify our generation capacity in order to reduce CO₂ emissions, increase the flexibility of our generation facilities and increase our generation potential to meet future demand. We hope to achieve this by investing in the upgrade and replacement of coal-fired power plants, building new gas and wind power plants and increasing our renewable power generation capacity. All of these investments will require significant capital expenditure and substantial managerial attention. Furthermore, we may incur additional costs and loss of revenues if we fail to complete such expansion and diversification projects within budget and on schedule. Our failure to properly control these capital expenditures may result in higher utilization of our debt capacity and our inability to contract the relevant supplies on terms substantially comparable to those of our competitors, which could lower the competitiveness of our generation fleet. Any failure to expand and diversify our non-nuclear generation capacity could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

On November 24, 2009, inspectors of the European Commission performed an unannounced inspection at our headquarters in Prague and at the office of Severočeské doly, a.s., a wholly-owned member of our Group, as part of an investigation into allegations of anti-competitive behavior. It has been alleged that we may have attempted to restrict the development of competition on the Czech wholesale electricity market by obstructing power plant projects of our competitors, limiting trade in brown coal and influencing the prices on the Czech wholesale electricity market. Since the beginning of the investigation, the European Commission requested several written information from us and on August 30 and September 1, 2010, it conducted an announced inspection at our headquarters, where we provided all requested information and answered subsequent requests for information made by the European Commission. On July 11, 2011, the European Commission decided to start proceedings in respect of one alleged infringement concerning hoarding capacity on the transmission network and thus preventing access to the Czech wholesale electricity market. In June 2012 we decided to end the investigation by means of settlement. As part of the settlement ČEZ undertook to sell one of its coal power plants with an installed capacity of some 800MW. We may not be successful with our proposal to European Commission or in the subsequent sale process of our coal power plants and the European Commission may continue its investigation. If we were found to have engaged in anti-competitive behavior, we could face a maximum fine of 10% of our 2008 global turnover, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

The energy markets in the countries in which we operate are undergoing a process of gradual liberalization, which is being implemented through different approaches and on different timetables from country to country. As a result of this liberalization, new competitors may enter many of our markets in the future. In relation to electricity, we compete in the retail electricity market and the wholesale electricity market. All suppliers have the right to offer their electricity and all customers have the right to choose their electricity supplier at their own discretion and we cannot give any assurance that our customers will not change their suppliers. Since January 1, 2006, the Czech electricity market has been fully liberalized and all end-consumers are considered to be eligible customers who may freely choose their supplier of electricity based on current

market conditions. If our existing customers or potential new customers purchase electricity from other suppliers, our revenues and our market share will decrease. Our ability to develop our business and improve our financial results may be constrained by new competition and we may be unable to offset the financial effects of decreases in production and sales of electricity through efficiency improvements, or expansion into new business areas or markets. As a result, any increase in competition in the markets in which we operate could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

Risks associated with deliveries of coal from Sokolovská uhelná.

We are currently involved in a dispute with Sokolovská uhelná, právní nástupce, a.s. relating to the amount and price of brown coal supplied to us under a long-term purchase contract expiring in 2027. Sokolovská uhelná, právní nástupce, a.s. has challenged the validity of the purchase contract. In relation to this dispute, we have filed a lawsuit for compensation relating to the unjust enrichment of Sokolovská uhelná, právní nástupce, a.s. in the amount of approximately CZK 56 million. In the event that Sokolovská uhelná, právní nástupce, a.s. is successful and the long-term purchase contract is found to be invalid, any failure to conclude a new agreement

on similar terms or at all could adversely affect the operation of our Tisová power plant and have a material adverse effect on our business, prospects, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We own a significant amount of emission allowances and emission credits, which are registered as intangible assets by national registries in individual E.U. countries. National emission allowances and emission credits registries are operated by independent governmental bodies and are governed by E.U. law. We have no control or influence over the security and operational processes of these national registries. The financial value of our assets registered in such registries is significant and any unauthorized transactions could have a material adverse effect on our business, results of operations and financial condition.

Our insurance coverage may not be adequate.

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

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

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

Electromagnetic fields may have an adverse impact on public health.

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

the adoption of more stringent security measures for the operation or construction of our generation facilities and distribution networks, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

Risks concerning Bonds

General Factors

Bonds can be a complex financial instrument, and the investor must carefully consider the suitability of such an investment.

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

The Issuer is not limited in accepting additional debt financing.

There are no major legal restrictions with respect to the volume and conditions of any future unsubordinated debt financing of the Issuer that would stem from the Joint Terms and Conditions. The acceptance of any additional debt financing could ultimately mean that in the event of an insolvency proceeding, the Bondholders' claims under the Bonds will be satisfied to a lesser extent than in the absence of any such debt financing. Any increase in debt financing of the Issuer also entails a risk that the Issuer may be in default in the performance of its obligations under the Bonds.

Trading in Bonds may be less liquid than in the case of other bonds.

It is impossible to estimate the nature and scope of any secondary bond market, and potential investors in Bonds should consider the expected liquidity of the Bonds. If the Bonds within any Issue are issued as listed securities, the Issuer intends to apply for their admission to trading on the regulated market of the PSE, with the specific segment of the regulated market of the PSE to be made more precise in the respective Issue Supplement. An Issue Supplement may also determine that the Bonds within such Issue are to be traded on a market other than the regulated securities market or that they are not to be traded on any regulated securities market. Regardless of any listing of Bonds, it cannot be guaranteed that the Bonds in fact will be actively traded on such regulated market, and there is no warranty that a sufficiently liquid secondary market with the Bonds will be formed, or if such market is formed, that such secondary market will last. The fact that the Bonds may be listed on a regulated market does not necessarily have to result in a higher level of liquidity of listed Bonds over unlisted Bonds, whereas in the case of unlisted Bonds, it may be difficult to evaluate them, which may negatively affect their liquidity. Insufficient liquidity of Bonds may prevent the Bondholders from selling the Bonds on the market at all, or selling them only for a price below their original investment.

Bonds denominated in foreign currency are exposed to currency exchange risks.

The holder of a Bond denominated in a foreign currency is exposed to a risk of movements in exchange rates, which may affect the final yield or the amount of the payment to be made upon redemption of such Bonds. For instance, any change in the value of any foreign currency vis-à-vis Czech crown results in the relevant change in the CZK value of the Bond denominated in this foreign currency, and in the relevant change in the value of the principal and interest payments made in this foreign currency in accordance with the terms and conditions of the Bonds. If an initial exchange rate drops and the CZK value increases as a result, the price of a Bond and the value of the principal and the interest payments denominated in CZK will diminish in this particular case.

The value of Bonds may be affected by legislative changes.

The rights and obligations attached to Bonds are based on Czech law as in force and effect as of the Bonds' issue date. After the Bonds' issue date, laws applicable to the rights and obligations attached to the Bonds may change, even with retroactive effect. No representation or warranty can be given by the Issuer as to the impact of such possible changes on the value of the Bonds.

Legal investment considerations may restrict certain investors' investment in Bonds, or even prevent them from investing in Bonds.

Investment activities of certain investors are regulated by laws and orders and/or are subject to inspection or regulation by certain authorities. Each potential investor in Bonds should consult their legal advisers to determine whether and to what extent (i) the Bonds are legal investments for them, and (ii) other restrictions apply to their purchase or pledge or usage as a collateral. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

Return on investment in Bonds may be affected by various fees.

The overall return on investments in Bonds may be affected by the amount of the fees charged by the fiscal and paying agent of the Bond issue and/or an agent for the sale/purchase of the Bonds and/or charged by the relevant settlement system used by the investor. Any such person or institution may charge fees for the opening and keeping of an investment account, securities transfers, securities safekeeping services, etc. The Issuer recommends that the potential investors in the Bonds familiarize themselves with the materials that will serve as the basis for charging fees related to the Bonds.

Return on investment in Bonds may be affected by tax burden.

Potential investors in or sellers of the Bonds should realize that they may be subject to taxes or other claims or charges imposed by the laws and customs of the country in which the Bonds are being transferred, or in some other country relevant under the circumstances. In certain countries, it may happen that no official position of tax authorities or court decision related to financial instruments such as bonds will be available. When acquiring, selling or redeeming the Bonds, the potential investors should not rely on the brief summary of the tax issues contained in this Base Prospectus or, as the case may be, in the relevant Issue Supplement, but rather act

upon the recommendation of their tax advisors in view of their individual taxation issues. Investment considerations in view of the risks specified in this section should be made at least after reading the chapter “Taxation and Foreign Exchange Control in the Czech Republic” contained in this Prospectus, as well as any other chapters concerning taxation and contained in the relevant Issue Supplement.

Return on investment in Bonds may be affected by the inflation rate.

The potential investors in or sellers of the Bonds should realize that if the Bonds lack a no-inflation clause, the fair value of an investment in the Bonds may diminish concurrently with inflation, reducing the currency value. Inflation also reduces real yields on the Bonds. If the inflation rate exceeds the nominal yield on the Bonds, the real value of the yield on the Bonds will be negative.

With a view to the recent launch of the Central Depository, not all the practical aspects of the functioning of the two-tiered register are entirely clear or known yet.

The Central Depository was launched on July 7, 2010, and as of the date of this Base Prospectus, not all the practical aspects with respect to the functioning thereof (in particular, in relation to the two-tier system for the registration of securities) are known yet. As a result, the Issuer may temporarily face a lower degree of legal certainty with respect to certain operations relating to the registration and demonstration of the title to bonds or to the transfer thereof.

Bond Program Supplement may establish the Issuer’s right to early redemption of the Bonds within the given Issue, thus exposing the investor to the risk of a lower-than-expected yield.

A Bond Program Supplement may determine that the Issuer may redeem Bonds within an Issue before the final redemption date. If the Issuer redeems any Bonds within any Issue before the final redemption date, a Bondholder is exposed to a risk of a lower-than-expected yield on account of such early redemption. Depending on the wording of the relevant Bond Program Supplement, the Issuer may, for instance, exercise such right, if the yield on comparable bonds on the capital markets declines, which means that an investor may be able to invest the repaid yields only into lower-yield bonds.

Binding procedures or standards for making adjustments to the Reference Rate may not be available to the Calculating Agent.

In cases where the Calculating Agent is authorized by the Joint Terms and Conditions to ascertain the value of any asset based on currently prevailing market practice, no binding procedures, standards or internal regulations regarding such adjustments may exist on the market or be available to the Calculating Agent. Furthermore, market practice can change significantly from time to time. Such adjustments made to the Reference Rate performed by the Calculating Agent may (negatively) influence the Bond yield as anticipated by an otherwise experienced investor at the time of the investment.

Special risk factors stemming from the method of determining the yield on Bonds

Fixed Rate Bonds

A holder of a fixed rate Bond is exposed to a risk of a decline in the value of such Bond as a result of a change in the market interest rates. While the nominal interest rate determined in the relevant Bond Program Supplement is fixed for the term of the Bonds, the current interest rate on the capital market (the “market interest rate”) generally changes every day. Every change in the market interest rate also entails a change in the price of fixed rate Bonds, but the other way around. This means that if the market interest rate rises, the price of the fixed rate Bond generally declines to a level when the yield on such Bond approximately equals the market interest rate. If the market interest rate declines, the price of the fixed rate Bond generally rises to a level when the yield on such Bond approximately equals the market interest rate.

Floating Rate Bonds

Floating rate Bonds may be considered a volatile investment, because a holder of such Bonds is exposed to the risk of floating interest rates and thus faces uncertainty as to the amount of interest income. If an investor does not create any security in relation to the risk of floating rate Bonds, it may only determine the overall rate of return of its investment in such Bonds with difficulty.

Discounted Bonds

The Bonds issued as discounted Bonds shall bear no interest, but their issue price is generally below their nominal value. Instead, yield on the discounted Bond shall be represented by the difference between the nominal value and a lower issue price and shall reflect the market interest rate. A holder of a discounted Bond is exposed to a risk of decline of the price of such Bond in response to a change in the market interest rates.

PRESENTATION OF FINANCIAL INFORMATION

With the exception of certain non-IFRS measures, the financial information as of and for the years ended December 31, 2009, 2010 and 2011 included in this Base Prospectus has been derived from the audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2009, 2010 and 2011, which are incorporated by reference into this Base Prospectus (please see “*Documents Incorporated by Reference*”). The audited financial statements of ČEZ, a. s. for the year ended December 31, 2011 are also incorporated by reference in this Base Prospectus (see “*Documents Incorporated by Reference*”).

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

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

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

Non-IFRS Measures

In this Base Prospectus, we present certain financial data and measures which are not recognized as accounting standards within the IFRS, such as “EBIT,” “EBITDA” and the related ratios. As presented herein:

- EBIT represents Income before other income (expenses) and income taxes;
- EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization consists of Income before other income (expenses) and income taxes plus depreciation and amortization;
- EBITDA Margin consists of Income before other income (expenses) and income taxes plus depreciation and amortization, divided by total revenues, expressed as a percentage; and

- Net Debt consists of long-term debt, net of current portion, plus short-term loans, plus current portion of long-term debt, minus cash and cash equivalents plus highly liquid financial assets.

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

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

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

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

Because of these limitations, our non-IFRS measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our IFRS results and using these non-IFRS measures only as supplemental means for evaluating our performance. Please see our audited consolidated financial statements and the notes thereto, which are incorporated by reference into this Base Prospectus.

FORWARD-LOOKING STATEMENTS

This Base Prospectus includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believe,” “estimate,” “anticipate,” “expect,” “forecast,” “foresee,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “will,” “would” or, in each case, similar expressions or the negative thereof, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realized. They appear in a number of places throughout this Base Prospectus and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

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

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

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

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

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

HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA

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

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

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

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

RESPONSIBLE PERSONS

Persons Responsible for Information Provided in Prospectus

The person responsible for the accuracy and completeness of information provided in the Base Prospectus, as well as for the accurate execution thereof, is the Issuer, ČEZ, a. s., with its registered seat at Duhová 2/1444, 140 53 Prague 4, Czech Republic, Identification No. 452 74 649, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 1581.

Issuer's Declaration

The Issuer hereby declares that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts, and the Base Prospectus makes no omission likely to affect the import hereof.

Further, the Issuer represents that the financial statements for the last three fiscal periods, *i.e.* the years ended December 31, 2009, December 31, 2010 and December 31, 2011, have been audited, and that the auditor's statement set forth in this Base Prospectus corresponds with the opinion set forth in the respective auditor's report.

As of the date of the Base Prospectus, in Prague

ČEZ, a. s.

Name: Martin Novák
Title: Vice-Chairman of the Board of Directors

Name: Tomáš Pleskač
Title: Member of the Board of Directors

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 CNB 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 financial years ended 31 December 2009, 31 December 2010 and 31 December 2011 including the information set out at the following pages in particular:

	<i>2009 Annual Report</i>		<i>2010 Annual Report</i>		<i>2011 Annual Report</i>	
	<i>Consolidated</i>	<i>Non-consolidated</i>	<i>Consolidated</i>	<i>Non-consolidated</i>	<i>Consolidated</i>	<i>Non-consolidated</i>
Balance Sheet.....	Page 164	Page 218	Page 212	Page 266	Page 202	Page 256
Statement of Income.....	Page 165	Page 219	Page 213	Page 267	Page 203	Page 257
Statement of Comprehensive Income.....	Page 166	Page 220	Page 214	Page 268	Page 204	Page 258
Statement of Changes in Equity.....	Page 166	Page 220	Page 214	Page 268	Page 204	Page 568
Statement of Cash Flows.....	Page 167	Page 221	Page 215	Page 269	Page 205	Page 259
Accounting Principles.....	Pages 168	Pages 222	Pages 216	Pages 270	Pages 206	Pages 260
and Notes.....	To 215	To 256	to 263	to 304	to 253	to 295
Audit Report.....	Pages 162 to 163	Pages 216 to 217	Pages 210 to 211	Pages 264 to 265	Pages 200 to 201	Pages 254 to 255

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

In August 2012, the Issuer published its consolidated unaudited interim financial statements and its non-consolidated interim unaudited financial statements, in each case as at and for the six month period ended 30 June 2012 (together the **Financial Statements**). The following extracts from the Financial Statements are incorporated by reference each as a separate document.

<u>Half-year Report 2012 - Consolidated Financial Statements</u>	Page	<u>Non-Consolidated Financial Statements</u>	Page
Balance Sheet	61-62	Balance Sheet	1
Statement of Income	63	Statement of Income	2
Statement of Comprehensive Income	64	Statement of Comprehensive Income	3
Statement of Changes in Equity	65	Statement of Changes in Equity	4
Statement of Cash Flows	66-67	Statement of Cash Flows	5
Notes to the Consolidated Financial Statements	68-79		

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CNB in accordance with Section 36j of the Capital Markets Act. 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 Fiscal and Paying Agent for the time being in the Czech Republic. The documents incorporated by reference will also be available on the website of the Issuer (www.cez.cz).

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 Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Bonds.

SELECTED FINANCIAL INFORMATION

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

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

Our consolidated financial statements as of and for the year ended December 31, 2010 were restated in 2011 to reflect the final accounting for our acquisition of Teplárna Trmice, a.s. in May 2010 (please see “*Presentation of Financial Information*”).

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

Income Statement Data

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

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

Balance Sheet Data

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

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

Statement of Cash flow Data

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

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

Other Financial Information

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

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

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

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

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

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

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

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

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

SUBSCRIPTION AND SALE

Under this Bond Program, the Issuer is entitled to issue from time to time individual Bond Issues, whereas the total nominal value of all outstanding Bonds issued under the Bond Program must at no time exceed CZK 30,000,000,000. Individual Bond Issues made under the Bond Program will be offered for subscription and sale in the Czech Republic.

The joint terms and conditions of the Bond Program as reproduced further below in the chapter "*Joint Terms and Conditions*" of this Base Prospectus have been made accessible to the investors through their publication on www.cez.cz; these shall be identical for all individual Bond Issues to be issued under the Bond Program. Such joint terms and conditions of the Bond Program, along with the individual Bond Program Supplements which the Issuer shall draw up in connection with each individual Bond Issue issued under the Bond Program (as set out in the respective Issue Supplement) and which the Issuer shall publish or make accessible to the investors entitle the Issuer to issue Bonds in accordance with the laws of the Czech Republic in force at the time of the respective Issue.

If the respective Issue Supplement states that the Issuer has requested or is requesting acceptance of the Bonds for trading in the free market of the PSE and if the Bonds are actually accepted for trading in such a regulated market upon fulfillment of all statutory prerequisites, then the Bonds become listed securities.

In certain jurisdictions, there exist restrictions on the expansion of this Base Prospectus and the offering, sale, or purchase of Bonds issued in the individual Issues. Unless where explicitly stated otherwise herein or in the respective Issue Supplement for the given Bond Issue, the Issuer will not ask for recognition of this Base Prospectus (and its supplements, if any) and of the respective Issue Supplement in other countries; the Bonds of the respective Issue will not be listed, registered, approved, or certified by any administrative or other body of any jurisdiction (other than the Czech National Bank), and in the same vein, their offering may not be *a priori* permissible, with the exception of the territory of the Czech Republic (and such other countries as recognize the Base Prospectus approved by the Czech National Bank and the Issue Supplement as a prospectus based upon which the Bonds may be offered in those countries without necessitating further steps). Anyone who acquires possession of this Base Prospectus is responsible for observance of the restrictions which may apply in individual countries to the offering, purchase, or sale of Bonds or the possession and distribution of any material related to the Bonds).

The Issuer has no intention to make a public offering of the Bonds issued under the Bond Program. Any potential offering of any Bonds issued under the Bond Program (including the distribution of this Base Prospectus, its supplements, if any, or the Issue Supplements to selected investors on the basis of confidentiality) shall be made on the basis of Section 35(2)(a) of the Capital Markets Act. Lead Managers, subscribers of individual Bond Issues, and any other persons must abide by the restrictions imposed on a public offering of bonds; if they offer Bonds issued under the Bond Program, they may do so exclusively in a manner which does not qualify as a public offering or, as it were, does not require the public dissemination of a prospectus. In such a case, they ought to inform the recipients of their offer of Bonds of this restriction.

Aside from the above, the Issuer urges subscribers and purchasers of the Bonds issued under the Bond Program to comply with the provisions of all applicable laws and regulations in effect in any jurisdiction (including the Czech Republic) where they will purchase, offer, sell, or deliver the Bonds issued by the Issuer under the Bond Program, or where they will distribute, make available, or otherwise circulate this Base Prospectus (including supplements, if any), any Issue Supplement, or any other offering or promotional material or information related to the Bonds, in all cases at their own cost and irrespective of whether the Base Prospectus and its supplements, the relevant Issue Supplement, or such other offering or promotional material or information related to the Bonds is in printed form or in an electronic or other intangible form only.

The Issuer assumes no liability for the actions of individual parties acquiring Bonds, who, in conflict with the provisions of the Capital Markets Act, make a public offering of Bonds without a public dissemination of the pertinent prospectus for these Bonds (where applicable). Such parties acquiring Bonds are fully responsible for their own actions, and the Czech National Bank may impose sanctions on them for breaking the law.

Each person who acquires a Bond issued under the Bond Program shall be deemed to have represented and agreed that (i) such person is familiar with all the relevant restrictions on the offer and sale of the Bonds (especially in the Czech Republic) related to such person and the relevant method of offer or sale, (ii) such person shall not offer for resale or resell the Bonds without complying with the relevant restrictions applicable to such person and to the relevant method of offer and sale, and (iii) before offering for resale or reselling the

Bonds, such person shall inform the prospective purchasers that the offer for resale or the resale of the Bonds may in various jurisdictions be subject to statutory restrictions that must be observed.

The Issuer points out to the prospective purchasers of the Bonds that the Bonds are not and will not be registered under the U.S. Securities Act of 1933, as amended (hereinafter the “**U.S. Securities Act**”), or by any securities commission or any other regulatory agency of any other regulatory agency of any state of the United States of America, and accordingly, the Bonds may not be offered, sold, or delivered within the United States or to U.S. persons (as such terms are defined in Regulation S under the U.S. Securities Act) other than by virtue of an exemption from the registration requirement under the U.S. Securities Act, or in a transaction that is not subject to the registration requirement under the U.S. Securities Act.

JOINT TERMS AND CONDITIONS

Bonds under this Bond Program (collectively also as the “**Bonds**”) shall be issued in accordance with Czech Act No. 190/2004 Coll., on Bonds, as amended (the “**Bonds Act**”) by ČEZ, a. s., with its registered seat at Duhová 2/1444, Prague 4, Postal Code: 140 53, Identification No. 452 74 649, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 1581 (the “**Issuer**”). The Bonds shall be governed by these Joint Terms and Conditions of the Bond Program and also by the respective Bond Program Supplement (as defined below).

These Joint Terms and Conditions of the Bond Program (the “**Joint Terms and Conditions**”), which shall be identical for individual Bond issues to be issued under the Bond Program, were published as a part of the Base Prospectus in accordance with the Bonds Act and Czech Act No. 256/2004 Coll., on Doing Business on the Capital Markets, as amended (the “**Capital Markets Act**”). If in case of any Bond issue the Issuer so decides or if so required by legal regulations, the Bonds shall be allocated individual ISIN codes by the central securities depository, i.e. Centrální depozitář cenných papírů, a.s., with its registered seat at Rybná 14, Prague 1, Postal Code: 110 00, Identification No. 25 08 14 89, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 4308 (“**CDCP**”), or by another entity authorized to allocate ISIN codes. Information on allocated ISIN codes, or if applicable, on any other identification detail in relation to the Bonds shall be given in the respective Bond Program Supplement. In addition, the Bond Program Supplement shall also specify whether the Issuer intends to apply for listing of the respective Bond issue in the regulated market, i.e. whether the Issuer intends to take any and all steps necessary for the Bonds of such issue to be listed securities. Further, the Bond Program Supplement shall specify the method for offering of the Bonds, with the Issuer not intending to offer the Bonds in a public offering. For the avoidance of any doubts, “regulated market”, “listed Bond”, and “public offering” shall have the meaning as ascribed to them in the Capital Markets Act.

These Joint Terms and Conditions shall be made more specific for each Bond issue issued under the Bond Program in a Bond Program Supplement, which shall be published or made accessible to the investors, as applicable, in accordance with applicable legal regulations. The terms and conditions of each Bond issue issued under the Bond Program shall be constituted by the provisions of these Joint Terms and Conditions and the provisions of the respective Bond Program Supplement and shall be published or made accessible to the investors, as applicable, in accordance with the applicable regulations.

To the extent permitted by the Commission Regulation (EC) No. 809/2004, implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (the “**PD Regulation**”) and subject to the Issuer’s consent, these Joint Terms and Conditions may be supplemented by a Bond Program Supplement in respect of any Bond issue issued under the Bond Program. However, this shall not be prejudicial to the wording of these Joint Terms and Conditions in respect of any other Bond issue issued under the Bond Program

Unless otherwise provided in the respective Bond Program Supplement, individual Bonds issues shall be arranged by Komerční banka, a.s., with its registered seat at Prague 1, Na Příkopě 33/969, Postal Code: 114 07, Identification No. 453 17 054, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 1360 (“**KB**”), Česká spořitelna, a.s., with its registered seat at Olbrachtova 1929/62, Prague 4, Postal Code: 140 00, Identification No. 452 44 782, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 1171 (“**CS**”), Československá obchodní banka, a.s., with its registered seat at Radlická 333/150, Prague 5, Postal Code: 150 57, Identification No. 000 01 350, entered in the Commercial Register administered by the Prague Municipal Court, Section BXXXVI, File No. 46 (“**CSOB**”) or any other entity, as may be authorized to perform the same by the Issuer (KB, CS, CSOB or any other so authorized entity as the “**Lead Manager**”).

Unless otherwise provided in the respective Bond Program Supplement or unless a change under Section 11.1.2 of these Joint Terms and Conditions occurs, KB shall act as a fiscal and paying agent in charge of the settlement and administration of payments in connections with the Bonds under the Program fiscal and paying agency agreement (the “**Program Fiscal and Paying Agency Agreement**”). In respect of any Bond issue, the Issuer may delegate the performance of the services of the fiscal and paying agent related to the settlement and administration of payments in connection with the Bonds to any other person having a license for the conduct of such activities, which person shall be specified in the respective Bond Program Supplement (KB or any such other person also as the “**Fiscal and Paying Agent**”) under an issue fiscal and paying agency agreement (the “**Issue Fiscal and Paying Agency Agreement**”) and together with the Program Fiscal and Paying Agency

Agreement also as the “**Fiscal and Paying Agency Agreement**”). The Bondholders (as defined below) are advised to make themselves familiar with the Fiscal and Paying Agency Agreement, as it is important, inter alia, for the actual making of payments to the Bondholders.

Unless otherwise provided in the respective Bond Program Supplement and unless a change under Section 11.2.2 of these Joint Terms and Conditions occurs, KB shall perform the services of the Calculation Agent related to calculations for certain Bond issues under the Program Fiscal and Paying Agency Agreement. In respect of any Bond issue, the Issuer may delegate the performance of the services of the Calculation Agent related to calculations for certain Bond issues to any other person having a license for the conduct of such activities (KB or such other person also as the “**Calculation Agent**”) under the Fiscal and Paying Agency Agreement.

Unless otherwise provided in the respective Bond Program Supplement and unless a change under Section 11.3.2 of these Joint Terms and Conditions, the respective Lead Manager shall act as the Listing Agent in respect of issues of listed Bonds, i.e. shall list such Bonds on the respective regulated market. In respect of any particular Bond issue, the Issuer may delegate the performance of the services of the Listing Agent consisting in listing of such Bonds in the respective regulated market to any other person having a license for the conduct of such activity (the respective Lead Manager or such other person also as the “**Listing Agent**”) under a Listing Agency Agreement (the “**Listing Agency Agreement**”).

Certain terms used in these Joint Terms and Conditions are defined in Section 15 hereof. Certain terms used in these Joint Terms and Conditions not defined in Section 15 or in these Joint Terms and Conditions shall be defined in the respective Bond Program Supplement.

1. General Characteristics of Bonds

1.1 Form, Type, Nominal Value, and Other Characteristics of Bonds

The Bonds issued under this Bond Program shall be book-entry registered or bearer securities. The Bonds shall be issued each having the nominal value and with the aggregate anticipated nominal value, in the quantity, and numbering (if applicable), as specified in the respective Bond Program Supplement, with the minimum nominal value of each Bond of any Issue issued under the Bond Program to equal to the amount of no less than EUR 100,000.

The Bond Program Supplement shall also specify the currency of the Bonds, or if applicable, rating of the Bonds, and if applicable, the Issuer’s right to increase the volume of the Bond issue, including the terms and conditions of such an increase. No pre-emptive or conversion rights shall be attached to the Bonds. The name of each Bond issue issued under this Bond Program shall be specified in the respective Bond Program Supplement.

1.2 Bondholders, Transfer of Bonds

1.2.1 Separation of Rights to Interest on Bonds

There will be no separation of the right to receive interest payable on the Bonds issued under the Bond Program through issuing coupons as separate securities, to which the right to receive interest on the Bonds is attached..

1.2.2 Transferability of Bonds

Transferability of the Bonds is not restricted..

1.2.3 Holders and Transfers of Bonds

- (a) Unless the contrary is proved, a holder of the Bond (the “**Bondholder**” is any person, in favor of which a holder’s account has been established with CDCP or with any register linked to the central register, on which account such Bonds are recorded.
- (b) The transfer of bearer and registered Bonds shall occur upon registration of such transfer on a holder’s account in CDCP in accordance with applicable legal regulations and CDCP regulations. In case of Bonds registered in CDCP on a client’s account, the transfer of such bearer and registered Bonds shall occur upon registration of the transfer on the client’s account in accordance with applicable legal

regulations and CDCP regulations, with the owner of the client's account being obligated to promptly register such transfer on the holder's account as of the time of registration on the client's account.

- (c) Unless the Issuer is conclusively notified of facts evidencing that a Bondholder is not the owner of the securities in question, the Issuer and the Fiscal and Paying Agent shall consider the Bondholder to be the authorized owner of the Bonds in all respects, and make payments to such Bondholder in accordance with these Joint Terms and Conditions and the respective Bond Program Supplement.

2. Issue Date and Issue Method, Issue Price

2.1 Issue Date; Issue Period

The Issue Date of each Bond issue and the Issue Period shall be specified in the respective Bond Program Supplement. Unless as of the Issue Date the Issuer issues all Bonds forming the respective Bond issue, it may issue the balance of the Bonds at any time within the Additional Issue Period by way of successive steps (in tranches). As of the Issue Date or within the Additional Issue Period, the Issuer has the right to issue Bonds in a higher volume than the anticipated volume of the Bond issue. The Issuer shall notify Bondholders of the decision to determine the Additional Issue Period which shall end no later than on the respective Record Date for Nominal Value Repayment and shall make it public or accessible, as applicable, in the same manner, in which the terms and conditions of the respective Bond issue have been published or made accessible, as applicable.

Without undue delay after the Additional Issue Period has expired, the Issuer shall notify the Bondholders and the respective person authorized to maintain a register of the Bonds of the aggregate nominal value of all Bonds issued in the respective Bond issue, however, only if the aggregate nominal value of all Bonds issued in the respective issue is lower or higher than the aggregate anticipated nominal value of the relevant issue of Bonds. The Issuer shall make such fact public or accessible, as applicable, in the same manner, in which the terms and conditions of the respective Bond issue have been published or made accessible, as applicable.

2.2 Issue Price

The Issue Price of all Bonds issued as of the Issue Date or the method of its calculation shall be specified in the Bond Program Supplement. The Issue Price of any Bonds issued within the Additional Issue Period after the Issue Date shall be determined by the Issuer in all cases so as to reflect prevailing up-to-date market conditions. The Issue Price of any Bonds issued after the Issued Date shall be further increased by the corresponding aliquot interest or aliquot portion of the difference between the nominal value of the Bond and the Issue Price as of the Issue Date.

2.3 Method and Place of Underwriting Bonds

The method and place of underwriting the Bonds of each issue of Bonds issued under this Bond Program, including information on persons involved in the arrangement of the Bond issue shall be specified in the respective Bond Program Supplement.

The Issuer does not intend to offer the Bonds issued under the Bond Program in a public offering. Any prospective offering of the Bonds issued under the Bond Program (including the distribution of this Base Prospectus, its supplements (if any), or Issue Supplements to certain investors on a confidential basis), shall be made under certain exceptions specified in Section 35(2) of the Capital Markets Act.

2.4 Withdrawal Right

An investor who agreed to purchase or subscribe for any Bonds and has not acquired the title to such Bonds before the changes to the Joint Terms and Conditions requiring a prior consent of the Meeting were made accessible, is entitled to withdraw from purchase or subscription of such Bonds within five (5) working days following such change to the Joint Terms and Conditions having been made accessible to such investor.

3. Status of Bonds

The Bonds issued in individual issues of the Bond Program and all of the Issuer's payment obligations with respect to Bondholders arising under the Bonds constitute direct, general, unsecured, unconditional, and unsubordinated obligations of the Issuer, which, as to the order of their satisfaction, rank and will rank without

preference (*pari passu*) among themselves, as well as with any other present or future unsubordinated and unsecured obligations of the Issuer, except for such obligations of the Issuer where mandatory provisions of Czech law stipulate otherwise. The Issuer undertakes to grant equal treatment on the same terms and conditions to all Bondholders in the same Bond issue.

4. Negative Pledge

So long as any Bond remains outstanding 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 Bonds shall (x) be secured equally and ratably 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 a resolution of Bondholders Meeting; 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 Bonds, 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 Section 4; provided that the aggregate amount of such Indebtedness of the Issuer and its Material 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, 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.

For the purposes of the Joint Terms and Conditions, the following terms have the following meanings:

“**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, unamortized 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 organization 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 Bonds 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; 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).

5. Yield on Bonds

5.1 Fixed Rate Bonds

- (a) Bonds designated in the respective Bond Programme Supplement as fixed rate Bonds shall bear a fixed interest determined in the Bond Programme Supplement.
- (b) Interest shall accrue as of the first day of each Interest Period (as defined in Section 15 of these Joint Terms and Conditions) until the last day included in such Interest Period, at the rate pursuant to paragraph (a) of this Section.
- (c) The interest for each Interest Period shall be payable on the Interest Redemption Date (as defined in Section 7.2 of these Joint Terms and Conditions). The interest set with respect to each individual Bond for each Interest Period by the Calculation Agent shall be rounded up in accordance with mathematical rules to 2 (two) decimal points according to the 3rd (third) decimal point.
- (d) The Bonds shall cease to bear interest as of the Redemption Date unless, following the satisfaction of all conditions and requirements, the Issuer wrongfully retains the amount due or declines to pay the same. In such case, the interest shall continue to accrue at the rate provided in paragraphs (a) and (b) above, until the earlier of (i) the day when any and all amounts due as of that day are paid to the Bondholders, or (ii) the day when the Fiscal and Paying Agent advises the Bondholders that it has received all the amounts due in connection with the Bonds, unless a further wrongful retention or refusal of payment occurs following such notification.
- (e) The interest amount per Bond and each regular year period shall be determined as the multiple of the nominal value of the Bond (or its unredeemed portion, if the nominal value is not redeemed as an one-off payment) and the applicable interest rate (expressed as a decimal number). The interest amount per Bond for any period shorter than a regular year shall be determined as the multiple of the nominal value of the Bond (or its unredeemed portion, if the nominal value is not redeemed as an one-off payment), the applicable interest rate (expressed as a decimal number) and the applicable Day Fraction.

5.2 Floating Rate Bonds

5.2.1 *Accrual of Interest on Floating Rate Bonds*

- (a) Bonds designated in the respective Bond Program Supplement as floating rate Bonds shall bear a floating interest corresponding to the applicable (i) Reference Rate increased or reduced by the applicable Margin (where applicable) during the individual consecutive Interest Periods.
- (b) Interest shall accrue as of the first day of each Interest Period until the last day included in such Interest Period, at the rate applicable to such Interest Period.
- (c) The interest rate applicable to each Interest Period shall be determined by the Calculation Agent as the applicable Reference Rate established by the Calculation Agent on the Reference Rate Date, at the time customary for the respective currency in the Clearing Center, adjusted for the applicable Margin. The interest for each Interest Period shall be rounded up by the Calculation Agent in accordance with mathematical rules to 2 (two) decimal points according to the 3rd (third) decimal point. The interest rate for each Interest Period shall be communicated by the Calculation Agent to the Fiscal and Paying Agent upon its determination, and the Fiscal and Paying Agent shall communicate the same to the Bondholders without undue delay in accordance with Section 13 of these Joint Terms and Conditions.
- (d) The interest for each Interest Period shall be payable on the Interest Redemption Date. The interest set with respect to each individual Bond for each Interest Period by the Calculation Agent shall be rounded up in accordance with mathematical rules to 2 (two) decimal points according to the 3rd (third) decimal point.
- (e) The Bonds shall cease to bear interest as of the Redemption Date unless, following the satisfaction of all conditions and requirements, the Issuer wrongfully retains the amount due or declines to pay the same. In such case, the interest shall continue to accrue at the rate provided in paragraphs (a) through (c) above, until the earlier of (i) the day when any and all amounts due as of that day are paid to the

Bondholders, or (ii) the day when the Fiscal and Paying Agent advises the Bondholders that it has received all the amounts due in connection with the Bonds, unless a further wrongful retention or refusal of payment occurs following such notification.

- (f) The interest amount per Bond for the period of 1 (one) regular year shall be determined as the multiple of the nominal value of the Bond (or its unredeemed portion, if the nominal value is not redeemed as an one-off payment) and the applicable interest rate (expressed as a decimal number). The interest amount per Bond for any period shorter than 1 (one) regular year shall be determined as the multiple of the nominal value of the Bond (or its unredeemed portion, if the nominal value is not redeemed as an one-off payment), the applicable interest rate (expressed as a decimal number) and the applicable Day Fraction.

5.2.2 Determination of the Reference Rate on the Basis of Interest Rate

If the Reference Rate is to be determined on the basis of interest rate(s), the Reference Rate for the applicable Interest Period shall be calculated by the Calculation Agent in the manner provided for herein and the applicable interest rate(s) shall be obtained by the Calculation Agent from the Reference Rate Source on the respective day and at the time customary at the respective Clearing Center.

5.2.3 Determination of the Reference Rate on the Basis of the Index

If the Reference Rate is to be determined on the basis of the Index, or a change to the Index within a specified time period, the Reference Rate for the applicable Interest Period shall be calculated by the Calculation Agent in the manner provided for herein.

The Index values, shall be obtained by the Calculation Agent from the respective Reference Rate Source on the relevant day as the final values for that business day.

If after the last day on which the Calculation Agent establishes the Index, the composition of the Index or the weight allocated to any of the components of the Index changes, or any other adjustment occurs, whereby the Calculation Agent deems at its discretion that the value of the Index following such adjustment is not comparable to the value of the Index prior to the adjustment in its material respects, the value of the Index shall be determined by the Calculation Agent at its sole discretion in such a way that the value so set is comparable to the value of the Index prior to the adjustment in its material respects.

If the Index ceases to exist (and at the Calculation Agent's sole discretion, no reasonable acceptable Index replacing the defunct Index in all material respects is available), the Calculation Agent shall determine the value of the Index at its sole discretion so as to make such value comparable to the value of the Index calculated by means of the formula and method used before such adjustment.

If a Market Disruption Event occurs with respect to an asset comprising a part of the Index, the Calculating Agent may base its determination of the percentage share of such asset on the value of the Index on a comparison of (i) a part of the Index corresponding to such asset (immediately before the occurrence of the Market Disruption Event) and (ii) the Index as a whole (immediately before the occurrence of the Market Disruption Event).

When exercising its sole discretion and opinion in all cases referred to above, the Calculation Agent shall be obliged to act with due diligence of a securities trader, and in accordance with practice customary at the time on capital markets.

5.2.4 Determination of the Reference Rate on the Basis of the Basket

If the Reference Rate is to be determined on the basis of the Basket, or a change to the Basket within a specified time period, the Reference Rate for the applicable Interest Period shall be calculated by the Calculation Agent as a weighted average of the values of the individual components comprising the Basket, where each component carries the weight stipulated in the Bond Program Supplement; if no weight is stipulated for the individual items in the Bond Program Supplement, they are deemed to be of equal weight.

The values of the individual items comprising the Basket shall be obtained by the Calculation Agent from the respective Reference Rate Source; provided that if any item comprising the Basket ceases to exist, or other change occurs, as a result of which the value of such item is not comparable to its value previously established, the Calculation Agent shall, at its sole discretion, determine the value of the item so as to make the value of the Basket following such change comparable to the value of the Basket prior to such change.

If a Market Disruption Event occurs with respect to an asset comprising a part of the Basket, the Calculating Agent may base its determination of the percentage share of such asset on the value of the Basket on a comparison of (i) a part of the Basket corresponding to such asset (immediately before the occurrence of the Market Disruption Event) and (ii) the Basket as a whole (immediately before the occurrence of the Market Disruption Event).

5.2.5 *Determination of the Reference Rate on the Basis of Exchange Rate*

If the Reference Rate is to be determined on the basis of the Exchange Rate, or a change to the Exchange Rate within a specified time period, the Reference Rate for the applicable Interest Period shall be obtained by the Calculation Agent at the relevant time and on the relevant day from the applicable Reference Rate Source.

5.2.7 *Minimum Interest Rate Applicable to the Bonds*

If the respective Bond Program Supplement stipulates the minimum interest rate applicable to the Bond, or the minimum Reference Rate, then in case that the interest rate applicable to the Bond or the Reference Rate (as applicable), calculated by the Calculation Agent for any Interest Period, is lower than the minimum interest rate applicable to the Bond or the minimum Reference Rate stipulated in such Bond Program Supplement, the interest rate applicable to the Bond or the Reference Rate (as applicable) for such Interest Period shall equal the minimum interest rate applicable to the Bond or the minimum Reference Rate (as applicable) for that Interest Period. The minimum interest rate applicable to the Bond, or the minimum Reference Rate (as applicable) shall apply to all Interest Periods.

5.2.8 *Maximum Interest Rate Applicable to the Bonds*

If the respective Bond Program Supplement stipulates the maximum interest rate applicable to the Bond, or the maximum Reference Rate, then in case that the interest rate applicable to the Bond or the Reference Rate (as applicable), calculated by the Calculation Agent for any Interest Period, is higher than the maximum interest rate applicable to the Bond or the maximum Reference Rate stipulated in such Bond Program Supplement, the interest rate applicable to the Bond or the Reference Rate (as applicable) for such Interest Period shall equal the maximum interest rate applicable to the Bond or the maximum Reference Rate (as applicable) for that Interest Period. The maximum interest rate applicable to the Bond, or the maximum Reference Rate (as applicable) shall apply to all Interest Periods.

5.3 *Discounted Bonds*

- (a) The Bonds issued as discounted Bonds shall bear no interest. Yield on the discounted Bonds shall be represented by the difference between the nominal value of the Bond and its lower issue price.
- (b) Unless the amount (Discounted Value or nominal value) in connection with any interest-free discounted Bond is duly paid by the Issuer when it becomes due and payable, such amount shall bear interest at the applicable Discount Rate until the earlier of (i) the date all amounts due and payable as of that date have been paid to the Bondholders, or (ii) the date, on which the Fiscal and Paying Agent notifies the Bondholders that it has received all amounts due and payable in connection with the Bonds, unless additional retention or withholding of payments occurs after such notice. The calculation for a period shorter than 1 (one) year shall be made using the respective Day Fraction determined in the respective Bond Program Supplement.

6. Redemption of Bonds

6.1 Final Redemption

Unless early redeemed by the Issuer for reasons specified in these Joint Terms and Conditions, the nominal value of the Bonds shall be repaid on the Final Redemption Date in accordance with Section 7 of these Joint Terms and Conditions. The entire nominal value of the Bonds shall be repaid on the Final Redemption Date in a single payment.

6.2 Early Redemption at Option of Issuer

6.2.1 *Admissibility of Early Redemption at Option of Issuer*

(a) Unless provided to the opposite in the respective Bond Program Supplement in accordance with clause (b) below, the Issuer may not, at its option, call all outstanding Bonds for redemption before the Final Redemption Date for the respective Bond issue, save for the early redemption of Bonds due to tax reasons as described below in this Section 6.2.1 and/or the early redemption of Bonds held by the Issuer in accordance with Section 6.5 of these Joint Terms and Conditions. In each case, the Issuer may, at its option, call all outstanding Bonds for redemption before the Final Redemption Date for the respective Bond issue if, 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 Section 8 as a result of any change in, or amendment to, the laws or regulations of the Czech Republic 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 Bonds, and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

(b) The respective Bond Programme Supplement may provide that the Issuer may, at its option, call all outstanding Bonds for redemption before the Final Redemption Date for the respective Bond issue, at any time for any reason or without a reason.

6.2.2 *Early Redemption Notice*

If the respective Bond Program Supplement enables the early redemption of the Bonds at the option of the Issuer under Section 6.2.1(b) or, if the respective conditions for early redemption of the Bonds under Section 6.2.1(a) occur, then the Issuer may, at its option, call all outstanding Bonds of the particular issue by giving notice of its option to the Bondholders in accordance with Section 13 of these Joint Terms and Conditions no more than 60 (sixty) days and no less than 45 (forty-five) days prior to the intended date of early redemption set in the Issuer's notice (the "**Early Redemption Date**").

6.2.3 *Early Redemption*

The notice of early redemption at the option of the Issuer pursuant to Section 6.2.2 of the Joint Terms and Conditions shall be irrevocable and shall bind the Issuer to early redemption of all the Bonds of the relevant Bond issue in accordance with the provision of this Section 6.2 and the respective Bond Program Supplement. In such event the Issuer shall repay all outstanding Bonds of the relevant issue together with accrued and undistributed interest (if applicable).

6.3 Early Redemption at Option of Bondholders

6.3.1 *Admissibility of Early Redemption at Option of Bondholders*

(a) Unless provided to the opposite in the respective Bond Program Supplement in accordance with clause (b) below, the Bondholder may not, at its option, request the repayment of the Bonds before the Final Redemption Date for the respective Bond issue, save for the early redemption of the Bonds in accordance with Sections 9., 12.4.1, and 12.4.2 of these Joint Terms and Conditions.

(b) The respective Bond Programme Supplement may provide that the Bondholders may, at their option, require the Issuer to redeem all outstanding Bonds before the Final Redemption Date for the respective Bond issue, if the following events occur:

- (1) any Person or Persons acting in concert come(s) to own or acquire(s) more than 50 per cent. of the issued share capital of the Issuer, or more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer (each a “**Change of Control**”); and
- (2) during the Change of Control Period (as defined below), the Bonds carry from any of Standard & Poor’s Credit Market Services Europe Limited, or Moody’s Investors Service Ltd., or any of their respective successors (each a “**Rating Agency**”) either:
 - (a) an investment grade credit rating (*BBB-/Baa3, or equivalent, or better*), and such rating from any Rating Agency is within the Change of Control Period either downgraded to a non-investment grade credit rating (*BB+/Ba1, or equivalent, or worse*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency or (in the case of a withdrawal) replaced by, or reinstated to, an investment grade credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or
 - (b) a non-investment grade credit rating (*BB+/Ba1, or equivalent, or worse*), and such rating from any Rating Agency is within the Change of Control Period downgraded by one or more notches (*for illustration, Ba1 to Ba2 being one notch*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better by such Rating Agency, or (in the case of a withdrawal) replaced by, or reinstated to, a credit rating equal to or better than such earlier credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or
 - (c) no credit rating, and no Rating Agency assigns within the Change of Control Period an investment grade credit rating to the Bonds; and
- (3) in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decisions(s) resulted, in whole or in part, from the occurrence of the Change of Control or the public notice of an arrangement that could result in a Change of Control.

“**Change of Control Period**” means the period from the date of the public notice of an arrangement that could result in a Change of Control until the end of a 180-day period following public notice of the occurrence of a Change of Control (or such longer period as the rating of the Bonds is under publicly announced consideration for rating review).

Promptly upon the Issuer becoming aware that a Change of Control has occurred, the Issuer shall give notice (a “**CoC Notice**”) to the Noteholders in accordance with Section 13 specifying the nature of the Change of Control and the circumstances giving rise to it [and the procedure for exercising the option contained in this Section 6.3.1(b)].

6.3.2 **Early Redemption Notice**

If the respective Bond Program Supplement enables the early redemption of the Bonds at the option of the Bondholders under Section 6.3.1(b) and the Change of Control occurs, then any Bondholder may, at its discretion, request early redemption of the Bonds held by it as of any such date, however, provided that it gives notice of its option to the Issuer and delivers it to the Fiscal and Paying Agent to the address of the Fiscal and Paying Agent’s Specified Address no more than 60 (sixty) days and no less than 45 (forty-five) days after the CoC Notice is given (the “**Early Redemption Notice**”).

6.3.3 Early Redemption

The notice of early redemption at the option of the Bondholders pursuant to Section 6.3.2 of these Joint Terms and Conditions shall be irrevocable and shall bind the Bondholder to accept early redemption of all the Bonds of the relevant Bond issue, which early redemption it requested in the notice pursuant to Section 6.3.2 above, in accordance with the provision of this Section 6.3 and the respective Bond Program Supplement and to provide the Issuer or the Fiscal and Paying Agent with any and all cooperation, as the Issuer, or the Fiscal and Paying Agent may require in connection with such early redemption. In such event, the Issuer shall repay all outstanding Bonds of the relevant issue in the, together with accrued and undistributed interest (if applicable).

6.3.4 Purchase of Bonds

The Issuer shall be entitled to purchase the Bonds at any time in the market or otherwise at any price.

6.4 Cancellation of Bonds

The Bonds purchased in accordance with Section 6.3.4 of these Joint Terms and Conditions shall not be cancelled, and the Issuer shall have discretion in deciding whether to hold, and if applicable, resell or whether to declare them due and payable before maturity by notice to the Fiscal and Paying Agent. In such event, the Bonds shall automatically terminate by virtue of a merger of the rights and obligations in a single person (for the avoidance of doubt, the provision of Section 7.3 of these Joint Terms and Conditions shall not be applied).

6.5 Deemed Payment

In the event the Issuer deposits with the Fiscal and Paying Agent the full payment for the nominal value of the Bonds (or the Discounted Value) and accrued interest (if applicable) payable in connection with the repayment of the Bonds pursuant to Sections 5., 6., 9., 12.4.1, and 12.4.2 of these Joint Terms and Conditions and in accordance with the respective Bond Program Supplement, all obligations of the Issuer under the Bonds shall be deemed fully discharged for the purposes of Section 4 of these Joint Terms and Conditions as of the date such payments are credited to the account of the Fiscal and Paying Agent.

7. Payment Terms and Conditions

7.1 Currency of Payments

The Issuer undertakes to pay the interest (if applicable) and the nominal value of the Bonds (or if applicable the Discounted Value) exclusively in the currency, in which the nominal value of the Bonds is denominated in the respective Bond Program Supplement, unless the respective Bond Program Supplement allows the payment of the interest (if applicable) and/or the nominal value (or if applicable Discounted Value) in other currency or currencies. The interest (if applicable) and nominal value of the Bonds (or if applicable Discounted Value) shall be paid to the Bondholders subject to these Joint Terms and Conditions, and the tax, foreign exchange, and other applicable laws and regulations of the Czech Republic as in effect at the time of the relevant payment.

If any currency or national currency unit, in which the Bonds are denominated and/or in which payments shall be made in connection with the Bonds in accordance with the respective Bond Program Supplement, ceases to exist and is superseded by the euro (i) denomination of such Bonds shall be changed to euro in accordance with applicable law, and (ii) all the sums payable under such Bonds shall automatically and without further notice to the Bondholders be payable in euro, with the official rate (i.e. the fixed conversion ratio) in accordance with applicable law being used as the exchange rate between the respective currency or national currency unit and the euro. Such replacement of the applicable currency or the national currency unit (i) shall not, in any respect, affect the existence or enforceability of the Issuer's obligations arising under the Bonds and (ii) for the avoidance of doubt, shall not be deemed to constitute any change to these Joint Terms and Conditions or the Bond Program Supplement in respect of the relevant Bonds or an Event of Default under these Joint Terms and Conditions.

7.2 Redemption Date

The repayment of the interest (if applicable) and the nominal value of the Bonds (or if applicable the Discounted Value) shall be made by the Issuer through the Fiscal and Paying Agent on such dates as specified in these Joint Terms and Conditions and in the respective Bond Program Supplement (each such date being hereinafter referred to, according to its meaning, as the “**Interest Redemption Date**” or “**Final Redemption Date**” or

“**Early Redemption Date**” or also as the “**Redemption Date**”). If specified in the respective Bond Program Supplement that the Redemption Dates are subject to adjustment in accordance with the Business Day convention, then should any Redemption Date fall on a date which is not a Business Day, such Redemption Date shall fall on the Business Day, which:

- (a) is the nearest following Business Day provided that the Bond Program Supplement specifies the Business Day convention as “**Following**”; or
- (b) is the nearest following Business Day, however, should such nearest following Business Day fall in the following calendar month, the Redemption Date shall instead fall on the nearest preceding Business Day provided that the Bond Program Supplement specifies the Business Day convention as “**Adjusted Following**”; or
- (c) is the nearest preceding Business Day provided that the Bond Program Supplement specifies the Business Day convention as “**Preceding**”,

provided that the Issuer shall not be obligated to pay interest or any other additional charge for any time delay due to the determined Business Day convention.

7.3 Determination of Right to Receive Payments Related to Bonds

- (a) The payees to whom the Issuer is to pay interest on Bonds are: (i) persons, on whose holder’s account kept with the respective registrar of securities or in the records of a person managing any register linked to the central register the Bonds are registered at the close of the respective Record Date for Interest Repayment (the “**Payees**”). For the purposes of determining the recipient of the interest, neither the Issuer nor the Fiscal and Paying Agent shall take account of transfers of any Bonds effected from the Ex-Coupon Date pertaining to such payment, inclusive of such day.
- (b) The nominal value of the Bonds (or if applicable the Discounted Value) shall be paid by the Issuer to persons, on whose holder’s account kept with the respective registrar of securities or in the records of a person managing any register linked to the central register the Bonds are registered at the close of the respective Record Date for Nominal Value Repayment (or if applicable for the repayment of the Discounted Value) (such person also as the “**Payees**”). For the purposes of determining the recipient of the nominal value of the Bonds (or if applicable the Discounted Value), neither the Issuer nor the Fiscal and Paying Agent shall take account of transfers of any Bonds effected from the Ex-Principal Date until the relevant Redemption Date. Unless it is contrary to applicable law, transfers of all Bonds may be suspended from the Ex-Principal Date until the relevant Redemption Date, and at the request of the Fiscal and Paying Agent, the Bondholder shall be obligated to provide any assistance necessary to suspend such transfers.

7.4 Payments

- (a) The Fiscal and Paying Agent shall make payments to each Payee by wire transfer to such Payee’s account according to an instruction that shall be communicated by the Payee to the Fiscal and Paying Agent at the address of the Fiscal and Paying Agent’s Specified Office in a verifiable manner no less than 5 (five) Business Days prior to the Redemption Date. Such instruction shall be in the form of a written statement (with a notarized signature or signatures), and contain sufficient details of such account to allow the Fiscal and Paying Agent to make the payment, and shall be accompanied by an original or an officially certified copy of a certificate evidencing the domicile of the Payee for the relevant taxable period and in the case of a legal entity shall be further accompanied by an original or an officially certified copy of an extract from the Commercial Register in respect of the Payee as of the Redemption Date not older than 3 (three) months (such instruction, together with the extract from the Commercial Register (if applicable) and the tax domicile certificate and other relevant schedules is hereinafter also referred to as the “**Instruction**”). Any originals of foreign official instruments or any instruments notarized abroad must be super-legalized or certified by the Hague Convention apostille (whichever is relevant). The Instruction must be reasonable satisfactory in form and substance to the Fiscal and Paying Agent, and the Fiscal and Paying Agent shall be entitled to require that reasonably satisfactory evidence be given of the authority of the signatory of such Instruction on behalf of the Payee. Such evidence shall also be delivered to the Fiscal and Paying Agent no less than 5 (five) Business Days prior to the Redemption Date. In this respect, the Fiscal and Paying Agent shall be in

particular authorized to require (i) a power of attorney be delivered in the event that the Payee is acting through an agent (if required, along with an officially certified translation into Czech), and (ii) the Instruction from the Payee be subsequently confirmed. Notwithstanding such rights, neither the Fiscal and Paying Agent nor the Issuer shall verify the authenticity and completeness of such Instructions, or be liable for any damage incurred in connection with any delay in the delivery of such Instruction by any Payee, or with the delivery of incorrect or otherwise defective Instruction. An Instruction shall be deemed proper if it contains all items required by this Section, is communicated to the Fiscal and Paying Agent in accordance with this Section, and meets the requirements of this Section.

- (b) The Issuer's obligation to pay any amount owing in connection with the Bonds shall be deemed discharged in a proper and timely manner if the relevant amount has been remitted to the Payee in accordance with the Instruction under item (a) of this Section, and if on or before the maturity date such amount is (i) credited to the account of such Payee's bank with the clearing center of the Czech National Bank, if the payment is made in Czech crowns or in a currency that replaces the Czech crown (provided that settlement in such currency is made through the clearing center of the Czech National Bank), or (ii) entered to the debit of the Fiscal and Paying Agent's account if the payment is made in a currency other than the Czech crown (save for currency that replaces the Czech crown, provided that settlement in such currency is made through the clearing center of the Czech National Bank). If any Payee has failed to deliver a proper Instruction to the Fiscal and Paying Agent in accordance with item (a) of this Section, then the Issuer's obligation to pay any amount owing shall be deemed discharged in a proper and timely manner with respect to the Payee if the relevant amount has been remitted to the Payee in accordance with a proper Instruction under item (a) of this Section and if no less than 5 (five) Business Days following the day on which the Fiscal and Paying Agent received the proper Instruction the relevant amount has been (x) credited to the account of such Payee's bank with the clearing center of the Czech Republic if the payment is made in Czech crowns or in a currency that replaces the Czech crown (provided that settlement in such currency is made through the clearing center of the Czech National Bank), or (y) entered to the debit of the Fiscal and Paying Agent's account if the payment is made in a currency other than the Czech crown (save for currency that replaces the Czech crown, provided that settlement in such currency is made through the clearing center of the Czech National Bank), in which case such Payee shall have no right to receive any interest or additional payment on account of the delay.
- (c) Neither the Issuer nor the Fiscal and Paying Agent shall be liable for any delay in the payment of any amount owing caused by (i) the failure of the Payee to deliver in time the proper Instruction or any other documents or information required in this Section 7.4, (ii) such Instruction, document, or information being incomplete, inaccurate, or untrue, or (iii) circumstances beyond control of the Issuer or the Fiscal and Paying Agent, and no Payee shall be entitled in any such event to receive any additional payment, interest for any such delay in the relevant payment.

7.5 Business Terms and Conditions for Payments

To the extent not provided for in these Joint Terms and Conditions, payments made in connection with the Bonds shall be governed by business terms and conditions of the Fiscal and Paying Agent effective at the time of the payment or, as the case may be, by the terms and conditions of the respective Fiscal and Paying Agency Agreement. The Issuer together with the Fiscal and Paying Agent shall be entitled to decide on a change in making the payments, unless such change has a material adverse effect on the rights of the Bondholders. Notice of such decision shall be given to the Bondholders in accordance with Section 13 of these Joint Terms and Conditions.

8. Taxation

The repayment of the interest (if applicable) and the nominal value of the Bonds (or, if applicable, the Discounted Value) may be subject to withholding of tax at the rate of 15% (Czech Act No. 586/1992 Coll., on Income Taxes, as amended ("ITA"), Section 36(1)(b)(1) and 36(2)(a)) or to withholding of tax securing (ITA, Section 38e(1) and 38e(2)). Please see section "Taxation and Foreign Exchange Regulation in the Czech Republic" for details. If such withholding is required by the ITA at the time of such payment, the Issuer shall not be obligated to pay to the Bondholders any additional amounts as compensation for such withholdings.

9. Early Redemption of Bonds upon Occurrence of Events of Default

9.1 Events of Default

If any of the following events occurs and is continuing (each an “**Event of Default**”):

(a) ***Breach of Issuer’s Obligations:***

The Issuer defaults in the performance or observance of any of its obligations under or in respect of the Bonds 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

(b) ***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 USD 30,000,000 (or its equivalent in any other currency or currencies) other than the Bonds 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

(c) ***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

(d) ***Winding-up, etc.:***

A legally effective and non-appealable order is issued 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

(e) ***Cessation of Business:***

The Issuer ceases to conduct or to be authorised to conduct the business of the generation or sale of electricity; or

(f) ***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 (c) or (d) above.

In that event:

any Bondholder may, at its discretion, request early redemption of the Bonds held by it as of the Early Redemption Date by a written notice to that effect intended for the Issuer and delivered to Fiscal and Paying Agent’s Specified Office (the “**Early Redemption Notice**”), such redemption to be requested in the nominal value of the Bonds and accrued and undistributed interest (if applicable) in accordance with Section 5.1 or 5.2 of these Joint Terms and Conditions, as of the Early Redemption Date. The Issuer shall be obligated to redeem such Bonds (if applicable, together with accrued and undistributed interest) in accordance with Section 9.2 of these

Joint Terms and Conditions provided that the Bondholder has not transferred the Bonds prior to the Early Redemption Date.

9.2 Maturity of Bonds Accelerated Pursuant to Section 9.1

All amounts payable by the Issuer to any Bondholder under Section 9.1 of these Joint Terms and Conditions shall become due and payable as of the last Business Day of the month following the month in which the Bondholder delivered to the Fiscal and Paying Agent to the address of the Fiscal and Paying Agent's Specified Office the respective Early Redemption Notice intended for the Issuer (the "Early Redemption Date").

9.3 Withdrawal of Early Redemption Notice

Any Early Redemption Notice may be withdrawn by each Bondholder, but only with respect to the Bonds held by such Bondholder and provided that such withdrawal was addressed to the Issuer and delivered to the Fiscal and Paying Agent to the address of the Fiscal and Paying Agent's Specified Office before the relevant amount became due and payable pursuant to preceding Section 9.2 of these Joint Terms and Conditions. However, any such withdrawal shall have no effect on Early Redemption Notices given by other Bondholders.

9.4 Other Conditions for Early Redemption of Bonds

The provisions of Section 7 of these Joint Terms and Conditions shall be applied, as appropriate, to the early redemption of the Bonds pursuant to Section 9. In addition, by filing the Early Redemption Notice the Bondholder shall be obliged to provide the Issuer and the Fiscal and Paying Agent with any and all cooperation, as the Issuer or the Fiscal and Paying Agent may request in relation to early redemption and shall not transfer the Bonds prior to the Early Redemption Date.

10. Prescription

Any claim arising under the Bonds shall be prescribed and become unenforceable unless made within 10 (ten) years from the date, on which such claim becomes due.

11. Fiscal and Paying Agent, Calculation Agent, Listing Agent

11.1 Fiscal and Paying Agent

11.1.1 Fiscal and Paying Agent, Fiscal and Paying Agent's Specified Office

Unless otherwise provided in the Bond Program Supplement and unless there is a change pursuant to Section 11.1.2 of these Joint Terms and Conditions, KB shall be the Fiscal and Paying Agent. Unless otherwise provided in the Bond Program Supplement and unless there is a change pursuant to Section 11.1.2 of these Joint Terms and Conditions, the Fiscal and Paying Agent's Specified Office shall be at the following address:

Komerční banka, a.s.
Václavské nám. 42
114 07 Prague 1

11.1.2 Additional or Another Fiscal and Paying Agent and Fiscal and Paying Agent's Specified Office

The Issuer reserves the right to appoint an additional or another Fiscal and Paying Agent at any time and to designate an additional or another Fiscal and Paying Agent's Specified Office. Before any particular Bond issue is made, the respective Fiscal and Paying Agent's Specified Office and the Fiscal and Paying Agent shall be specified in the respective Bond Program Supplement. If there is a change in the Fiscal and Paying Agent or the Fiscal and Paying Agent's Specified Office in respect of Bond issue already made, the Issuer shall give notice of any such change to the Bondholders and shall make such fact public or accessible, as applicable, in the manner, in which the terms and conditions of the respective Bond issue have been published or made accessible, as applicable. Any such change shall become effective within 15 (fifteen) calendar days following such notice unless a later date is specified in such notice. In any event, any such change that would otherwise become effective less than 30 (thirty) calendar days before or after the Redemption Date for any amount payable under the Bonds shall become effective on the 30th (thirtieth) calendar day following such Redemption Date.

11.1.3 Relationship between the Fiscal and Paying Agent and the Bondholders

In connection with the discharge of obligations arising under the Fiscal and Paying Agency Agreement concluded between the Issuer and the Fiscal and Paying Agent, the Fiscal and Paying Agent shall act as the Issuer's agent and shall not be in any legal relationship with the Bondholders.

11.2 Calculation Agent

11.2.1 Calculation Agent

Unless otherwise provided in the Bond Program Supplement and unless there is a change pursuant to Section 11.2.2 of these Joint Terms and Conditions, KB shall be the Calculation Agent.

11.2.2 Additional or Another Calculation Agent

The Issuer reserves the right to appoint an additional or another Calculation Agent. Before any particular Bond issue is made, the respective Calculation Agent shall be specified in the respective Bond Program Supplement, unless such new appointment has a material adverse effect on the rights of the Bondholders. If there is a change in the Calculation Agent in respect of a Bond issue already made, the Issuer shall give notice of any such change to the Bondholders and shall make such fact public or accessible, as applicable, in the manner, in which the terms and conditions of the respective Bond issue have been published or made accessible, as applicable. Any such change shall become effective within 15 (fifteen) calendar days following such notice unless a later date is specified in such notice. In any event, any such change that would otherwise become effective less than 15 (fifteen) calendar days before or after the day, on which the Calculation Agent is supposed to make any calculation in connection with the Bonds, shall become effective on the 15th (fifteenth) calendar day following such day, on which the Calculation Agent made such calculation.

11.2.3 Relationship between Calculation Agent and Bondholders

In connection with the discharge of obligations arising under the Fiscal and Paying Agency Agreement concluded between the Issuer and Calculation Agent, the Calculation Agent shall act as the Issuer's agent and shall not be in any legal relationship with the Bondholders.

11.3 Listing Agent

11.3.1 Listing Agent

Unless otherwise provided in the Bond Program Supplement and unless there is a change pursuant to Section 11.3.2 of these Joint Terms and Conditions, the respective Lead Manager shall be the Listing Agent.

11.3.2 Additional or Another Listing Agent

The Issuer reserves the right to appoint an additional or another Listing Agent. Before any particular Bond issue is made, the respective additional or another Listing Agent shall be specified in the respective Bond Program Supplement.

11.3.3 Relationship of Listing Agent and Bondholders

In connection with the discharge of obligations arising under the Fiscal and Paying Agency Agreement, or the Listing Agency Agreement concluded between the Issuer and the Listing Agent, the Listing Agent shall act as the Issuer's agent and shall not be in any legal relationship with the Bondholders.

12. Meeting and Changes to terms and conditions of Bond issue

12.1 Authority of and Convening Meeting

12.1.1 Right to Convene Meeting

The Issuer or any Bondholder or Bondholders may convene a meeting of the Bondholders (a "Meeting", provided that in respect of a meeting of Bondholders convened by the Issuer this term also includes a common

meeting of Bondholders if the Issuer issued more than one Bond issue under the Bond Program) in accordance with these Joint Terms and Conditions, the respective Bond Program Supplement and applicable legal regulations if so required to decide on common interests of the Bondholders. The cost of organizing and convening a Meeting shall be borne by the person convening the meeting, unless otherwise stipulated by generally binding legal regulation. The person convening a Meeting (if such person is any Bondholder or the Bondholders) shall, no later than the day on which notice of the Meeting is published (see Section 12.1.3 of these Joint Terms and Conditions) deliver to the Fiscal and Paying Agent a request for procuring evidence of the number of all Bonds within the issue, in respect of which the Meeting is held and which entitle the same to attend the Meeting convened thereby, i.e. an extract from the relevant register in relation to the Bond issue and if applicable, pay to the Fiscal and Paying Agent an advance for costs associated with its services in relation to the Meeting. The due and timely delivery of the request as specified above and the payment of the advance for the costs are the prerequisite to the valid convening a Meeting.

12.1.2 Meeting Convened by Issuer

The Issuer shall be obligated to convene a Meeting, or a common Meeting, as the case may be, and to request an opinion of the Bondholders of Bonds issued in one issue or under this Bond Program in such cases as specified in this Section 12.1.2 below and in other cases determined by the applicable generally binding legal regulations (each such case hereinafter as the “**Material Change**”):

- (a) a proposed change or changes to the terms and conditions of the respective Bond issue, which are formed by these Joint Terms and Conditions and the respective Bond Program Supplement, except where no consent of the Bondholders to such change is required under applicable legal regulations;
- (b) a proposal for a transformation of the Issuer;
- (c) a proposal for entering into a controlling agreement or a profit transfer agreement, irrespective of which party the Issuer is;
- (d) a proposal for entering into an agreement on the disposition of all or any part of a business or an agreement on the lease of all or any part of a business, irrespective of which party the Issuer is, to the extent that the due and timely repayment of the obligations under the respective Bond issue may be jeopardized;
- (e) the Issuer’s default in the satisfaction of the rights attached to the respective Bond issue for more than 7 (seven) days following the day, on which the right could be exercised;
- (f) a proposal for the filing of an application for withdrawal of the respective Bond issue from trading in the EU regulated market or foreign market similar to such regulated market or in the multilateral trading facility of an operator seated in an EU member state or another country in the European Economic Area, to which the Bonds of the respective Bond issue have been admitted for trading;
- (g) any other changes that may significantly impair the Issuer’s ability to discharge its obligations under the respective Bond issue.

12.1.3 Notice of Meeting

The person convening a Meeting shall be obligated to publish a notice of the Meeting in the same way as the Joint Terms and Conditions of the respective Bonds and/or on the Issuer’s website no later than 15 (fifteen) calendar days prior to the Meeting, unless otherwise provided by generally binding legal regulation.

If a Meeting is convened by any Bondholder or the Bondholders, such Bondholder(s) shall deliver a notice of the Meeting to the Issuer to the address of the Fiscal and Paying Agent’s Specified Office within the same time limit. The notice of the Meeting shall contain at least (i) the business name, the business identification number and the registered office of the Issuer, (ii) the designation of the Bonds, in respect of which the Meeting is held, at least: name of the Bond, Issue Date, and ISIN, (iii) the venue, date, and hour of the Meeting, with the venue being solely a place in Prague, the date being a Business day and the hour being not earlier than 10:00 a.m. and not later than 16:00, (iv) the agenda of the Meeting, including full proposals for resolutions relating to individual items of the agenda, and (v) Record Date for Attendance at the Meeting. The Meeting shall be authorized to

decide on the proposed resolutions that have not been contained in the notice of the Meeting only in presence and upon consent of all Bondholders.

12.2 Persons Entitled to Attend and Vote at Meeting

12.2.1 Authorized Attendees

A person entitled to attend and vote at a Meeting (the “**Authorized Attendee at Meeting**”) shall only be the Bondholder of the respective issue which:

(a) was registered as the Bondholder in the respective register at the close of the day that is 7 (seven) days prior to the date of the relevant Meeting (the “**Regulated Record Date for Attendance at the Meeting**”) in respect of the Bonds admitted to trading on a foreign market similar to the regulated market or on the multilateral trading facility of an operator seated in an EU member state or another country in the European Economic Area,

(b) was registered as the Bondholder in the respective register at the close of the day that is determined in the Issue Supplement and is no more than 30 (thirty) days prior to the date of the relevant Meeting (the “**Non-Regulated Record Date for Attendance at the Meeting**”); and together with the Regulated Record Date for Attendance at the Meeting, the “**Regulated Record Date for Attendance at the Meeting**”) or which produces a certificate of the person in whose client account kept with the respective registrar the relevant number of Bonds was recorded on the Record Date for Attendance at the Meeting certifying that it is the holder of the Bonds and that such Bonds are registered in the account of the former for the purposes of their administration thereby, in each case in respect of the Bonds other than listed above under (a). The certificate pursuant to the preceding sentence must be satisfactory in form and substance to the Fiscal and Paying Agent.

No transfers made after the Record Date for Attendance at the Meeting shall be taken into account.

12.2.2 Voting Right

Authorized Attendee at Meeting shall have a number of votes of the total number of votes as corresponds to the ratio of the nominal value of the Bonds held by such Bondholder on the Record Date for Attendance at the Meeting to the aggregate outstanding nominal value of the Bond issue on the Record Date for Attendance at the Meeting. No voting right shall be attached to any Bonds that were held by the Issuer on the Record Date for Attendance at the Meeting and that did not terminate at the option of the Issuer within the meaning of Section 6.5 of these Joint Terms and Conditions and no such Bonds shall be counted in determining the presence of a quorum at the Meeting. When the Meeting decides on recalling a common proxy, the common proxy may not exercise the voting rights related to the Bonds held by it and its voting rights shall not be included in the total number of votes required for the Meeting to constitute quorum.

12.2.3 Attendance of Other Persons at Meeting

The Issuer shall be obligated to attend the Meeting, either in person or by proxy. Other persons entitled to attend a Meeting are proxies of the Fiscal and Paying Agent, common proxy of the Bondholders within the meaning of Section 12.3.3 of these Joint Terms and Conditions (unless otherwise entitled to attend the Meeting) and any guests invited by the Issuer and/or the Fiscal and Paying Agent.

12.3 Proceedings of Meeting; Action by Meeting

12.3.1 Quorum

Subject to Section 12.2.3, a Meeting shall constitute quorum if attended by Authorized Attendees at Meeting, which on the Record Date for Attendance at the Meeting held Bonds, the nominal value of which represents more than 30% (thirty per cent) of the aggregate nominal value of the issued and outstanding Bonds of the respective issue as of the Record Date for Attendance at the Meeting. In case of a common meeting of Bondholders, the Meeting shall constitute quorum if attended by Authorized Attendees at Meeting, which on the Record Date for Attendance at the Meeting held Bonds, the nominal value of which represents more than 30% (thirty per cent) of the aggregate nominal value of the outstanding part of each issue so far made as of the Record Date for Attendance at the Meeting; unless the Meeting addresses matters common to all issues under the Bond Program, it is required to be attended by holders of 30% (thirty per cent) of the nominal value of outstanding part of such Bond issues, to which the matters relate. Prior to the opening of the Meeting, the person convening the

same shall present information on the number of all Bonds, in respect of which the Authorized Attendees at Meeting are entitled, in accordance with these Joint Terms and Conditions and the respective Bond Program Supplement, to attend and vote at the Meeting.

12.3.2 Chairman of the Meeting

The Meeting convened by the Issuer shall be chaired by the chairman appointed by the Issuer. The Meeting convened by a Bondholder or the Bondholders shall be chaired by the chairman elected by a majority of the attending Authorized Attendees at Meeting. Until the chairman is elected, the Meeting shall be chaired by the person appointed by the convening Bondholder or Bondholders. The election of the chairman must be the first item on the agenda of any Meeting not convened by the Issuer.

12.3.3 Common Proxy

The Meeting may elect, by resolution, an individual or legal entity to be a common proxy and entrust the common proxy in accordance with legal regulations with the joint assertion of rights before a court or another body or with the monitoring of the fulfillment of these Joint Terms and Conditions and the respective Bond Program Supplement. The Meeting may recall the common proxy in the same way, in which the common proxy was elected, or may substitute the same with another common proxy.

12.3.4 Action by Meeting

The Meeting shall decide on the matters submitted in the form of a resolution. To be adopted, any resolution that approves changes to these Joint Terms and Conditions or the Bond Program Supplement, which changes are, under Section 12.1.2 (a) of these Joint Terms and Conditions, subject to the approval by the Meeting, and any resolution that appoints or recalls a common proxy of the Bondholders shall require the affirmative vote of at least $\frac{3}{4}$ (three-quarters) of the votes of the Authorized Attendees at Meeting present. Any other resolutions by the Meeting shall be adopted upon receiving the affirmative vote of a majority of the Authorized Attendees at Meeting.

12.3.5 Adjournment of Meeting

(a) Subject to paragraph (b) below, if within 1 (one) hour from the time appointed for the Meeting a quorum is not present, then (i) if the Meeting was convened at the request of a Bondholder or the Bondholders, such Meeting shall be automatically dissolved, and (ii) if the Meeting was convened by the Issuer, it shall be adjourned for such time and to such place as determined by the chairman of the Meeting. The provisions applicable to the holding of a regular Meeting shall apply, mutatis mutandis, to the holding of an adjourned Meeting.

(b) If within 1 (one) hour from the time appointed for the Meeting, agenda of which is to decide on the change of these Joint Terms and Conditions, a quorum is not present, then, if still necessary, a convenor shall convene a substitute Meeting (a “**Substitute Meeting**”) which shall take place within six (6) weeks from the date on which the original Meeting was planned to take place. A time and place of the Substitute Meeting with unchanged agenda shall be notified to the Bondholders no later than fifteen (15) days from the date on which the original Meeting was to take place. A Substitute Meeting shall constitute quorum regardless of the conditions referred to in Section 12.3.1 of these Joint Terms and Conditions.

12.3.6 Cancellation of the Meeting

If the reason for convocation of a Meeting ceases to exist, the person convening such Meeting shall cancel such Meeting in the same manner as it has been convened.

12.4 Certain Additional Rights of Bondholders

12.4.1 Consequences of Voting Against Certain Resolutions of Meeting

If a Meeting consented to any Material Changes as specified in Section 12.1.2 (a) through (g) of these Joint Terms and Conditions, the Authorized Attendee at Meeting, who according to the minutes of the Meeting, voted against a resolution or failed to attend the Meeting (also referred to as the “**Applicant**”), may, within 30 (thirty) days of the respective Meeting, request the repayment of the nominal value of the Bonds including accrued

interest (or, if applicable, the Discounted Value), held by the Authorized Attendee at Meeting as of the Record Date for Attendance at the Meeting. Such right must be exercised by the Applicant within 30 (thirty) days of publication of the resolution of the Meeting by written notice (also referred to as the “**Application**”) intended for the Issuer and delivered to the Fiscal and Paying Agent at the address of the Fiscal and Paying Agent’s Specified Office, or else the said right terminates. The amounts referred to above shall become due and payable within 30 (thirty) days following the delivery of the Application to the Fiscal and Paying Agent (also referred to as the “**Early Redemption Date**”).

12.4.2 Resolution on Early Redemption of the Bonds

If the agenda of the Meeting contains any of the Material Changes as specified in Section 12.1.2 (b) through (g) of these Joint Terms and Conditions and the Meeting does not consent to such Material Change, then the Meeting may decide, above and beyond the agenda of the discussed items, that the Issuer, if it were to proceed in conflict with such a resolution by the Meeting, must provide early repayment of the nominal value of the Bonds including accrued interest (or, if applicable, the Discounted Value) to any Bondholder who thus requests (the “**Applicant**”). Such right must be exercised by the Applicant within 30 (thirty) days of publication of the resolution of the Meeting by written notice (also referred to as the “**Application**”) intended for the Issuer and delivered to the Fiscal and Paying Agent at the address of the Fiscal and Paying Agent’s Specified Office, or else the said right terminates. The amounts referred to above shall become due and payable within 30 (thirty) days following the delivery of the Application to the Fiscal and Paying Agent (also referred to as the “**Early Redemption Date**”).

12.4.3 Required Content of the Application

The Application must list the number of Bonds for which repayment is sought in line with this Section. The Application must be made in writing and signed by the Applicant (or, as the case may be, individuals who are authorized to act on behalf of the Applicant), whereas the signatures must be certified. Within the same time period, the Applicant must deliver all documents required for payout under Section 7 hereof to the Fiscal and Paying Agent, at the address of the Fiscal and Paying Agent’s Specified Office. In addition, by filing the Application the Bondholder shall be obliged to provide the Issuer and the Fiscal and Paying Agent with any and all cooperation, as the Issuer or the Fiscal and Paying Agent may request in relation to early redemption and shall not transfer the Bonds prior to the Early Redemption Date.

12.5 Minutes of the Meeting

The Meeting shall be recorded in minutes by the person who convened it (either by themselves or through an authorized agent) within 30 (thirty) days from the day on which the Meeting was held; these minutes shall state the conclusions reached by the Meeting, i.e., in particular, the resolutions adopted by the Meeting. If the Meeting was convened by the Bondholder or the Bondholders, then the minutes of the Meeting must also be delivered to the Issuer (to the address of the Fiscal and Paying Agent’s Specified Office) within 30 (thirty) days from the day on which the Meeting was held. The Issuer must archive the minutes of the Meeting until the rights vested in the Bonds have become statute-barred. The minutes of the Meeting shall be available for inspection by the Bondholders during regular business hours at the Fiscal and Paying Agent’s Specified Office. Within 30 (thirty) days from the day on which the Meeting was held, and either by itself or through an authorized agent (i.e., in particular, the Fiscal and Paying Agent), the Issuer shall make public or accessible, as applicable, all decisions reached by the Meeting, and in doing so shall proceed in the same manner in which it published or made accessible, as applicable, these Joint Terms and Conditions and the respective Bond Program Supplement. If the Meeting discussed any of the Material Changes referred to in Section 12.1.2 (a) through (g) hereof, then a notarial deed must be drawn up with respect to attendance at the Meeting and with respect to the decisions made by the meeting. If the Meeting passed any of these changes, then the notarial deed shall name those Bondholders who voted in favor of the change, and the number of Bonds of the given issue which each of these Bondholders holds as at the Record Date for Attendance at the Meeting.

13. Notices

Unless where stipulated otherwise by law or in the terms and conditions of Bond issue, any notice addressed to Bondholders (with the exception of the Notice of Meeting referred to in Section 12.1.3 hereof) shall be valid upon publication in English or any other language provided for in the Issue Supplement on the website of the Issuer www.cez.cz or, as the case may be, another website whose address will be announced beforehand by way of a notice given in accordance with this Section (“**Issuer’s Website**”). The date of such a notice shall be the

date on which it was first published on the Issuer's Website. In the event that the law requires a different procedure of public announcement for specific notices to Bondholders, then such notices shall be valid upon having been given in the manner prescribed by law.

Changes to these Joint Terms and Conditions, together with amended and restated version of the Joint Terms and Conditions, and any Bond Program Supplements shall be made public or accessible, as applicable, in the same manner as the present Joint Terms and Conditions.

14. Governing Law, Language

Any and all rights and obligations arising from the Bonds shall be governed by and interpreted in accordance with the laws of the Czech Republic. Any disputes between the Issuer and Bondholders in relation to the Bonds arising from these Joint Terms and Conditions and any of the Bond Program Supplements shall be resolved by the Prague Municipal Court. These Joint Terms and Conditions and the Bond Program Supplements may be translated into other languages. In such case, the English version shall prevail in the event of any discrepancy between various language versions.

15. Definitions

For the purposes of these Joint Terms and Conditions, the terms stated below shall have the following meaning:

“**Accounting Reference Day Close**” means the moment after which CDCP or any person maintaining an independent or follow-up records of the Bondholders (whichever is relevant in relation to the given issue of Bonds) registers transfer of the relevant Bond in accordance with the laws and rules binding on it (depending on what is relevant to the given issue of Bonds) as of the following day.

“**Additional Issue Period**” shall mean the period set out by the Issuer in accordance with Section 2.1 of these Joint Terms and Conditions and in accordance with the applicable laws.

“**Applicant**” shall have the meaning set out in Sections 12.4.1 and 12.4.2 of these Joint Terms and Conditions.

“**Application**” shall have the meaning set out in Sections 12.4.1 and 12.4.2 of these Joint Terms and Conditions.

“**Authorized Attendee at Meeting**” shall have the meaning set out in Section 12.2.1 of these Joint Terms and Conditions.

“**Basket**” means the value of a portfolio of securities, other assets, interest rates or other items indicated in the Bond Program Supplement as values on which the calculation of the Basket is based, to be determined as of each applicable date by the Calculation Agent using the Reference Rate Source.

“**Bond Program**” means the bond Program of the Issuer in the maximum volume of outstanding Bonds of CZK 30,000,000,000 (thirty billion Czech crowns), the Program term being 10 (ten) years.

“**Bond Program Supplement**” means a supplement to these Joint Terms and Conditions for each individual issue of Bonds issued under the Bond Program.

“**Bondholder**” shall have the meaning set out in Section 1.2 of these Joint Terms and Conditions.

“**Bonds Act**” means Act No. 190/2004 Coll., on Bonds, as amended, or any act or acts replacing it.

“**Bonds**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Business Day**” means (a) in relation to the CZK denominated Bonds, any day on which banks in the Czech Republic are open for business and on which inter-bank trades in CZK are cleared, (b) in relation to EUR denominated Bonds, any day on which banks are open in the Czech Republic and on which inter-bank trades are cleared, and on which the TARGET clearing system is also opened for business, and, for Bonds denominated in other than CZK or EUR, any day on which banks are opened and foreign exchange trades are cleared in the Czech Republic and the main Clearing Center for the currency in which the Bonds are denominated.

“**Calculation Agent**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Capital Markets Act**” means Act No. 256/2004 Coll. the Capital Markets Act, as amended, or any act or acts replacing it.

“**CDCP**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Clearing Center**” for each individual currency means a place where Reference Rates are listed for the given currency and where inter-bank payments in such currency are cleared.

“**Day Fraction**” for calculation of interest on the Bonds for a period shorter than 1 (one) year means:

- (a) if the interest convention “actual number of days/actual number of days” or “Act/Act” is specified in the relevant Bond Program Supplement as the Day Fraction, the actual number of days in a period for which the interests are calculated divided by 365 (or if any part of the interest calculation period falls to a leap year, then the sum of (i) the actual number of days in that part of the interest calculation period, which falls to a leap year divided by 366, and (ii) the actual number of days in that part of the interest calculation period, which falls to a regular year, divided by 365);
- (b) if the interest convention “Actual Number of Days/365” or “Act/365” is set out in the relevant Bond Program Supplement as the Day Fraction, the actual number of days in the interest calculation period divided by 365;
- (c) if the interest convention “Actual Number of Days/360” or “Act/360” is set out in the relevant Bond Program Supplement as the Day Fraction, the actual number of days in the interest calculation period, divided by 360;
- (d) if the interest convention “30/360” or “360/360” is set out in the relevant Bond Program Supplement as the Day Fraction, the number of days in the interest calculation period divided by 360 (where the number of days is set based on a 360-day year divided into 12 (twelve) months with 30 (thirty) days each; however, if (i) the last day of the interest calculation period falls to the 31st (thirty first day) in a month and concurrently the first day of the same period is other than the 30th (thirtieth) or 31st (thirty first) day in a month, the number of days in a month whose 31st (thirty first) day is the last day of the period shall not be reduced to 30 (thirty) days or (ii) the last day of the interest calculation period falls to February, February shall not be extended to a month with 30 (thirty) days);
- (e) if the interest convention “30E/360” or “BCK Standard 30E/360”, is set out in the relevant Bond Program Supplement as the Day Fraction, the number of days in the interest calculation period divided by 360 (where the number of days is set based on a 360-day year divided into 12 (twelve) months with 30 (thirty) days each, divided by the entire period of the calendar year).

“**Discount Rate**” means an interest rate fixed as such in the relevant Bond Program Supplement. If the Discount Rate is not defined in the relevant Bond Program Supplement, it shall be deemed equal to the interest rate at which the Discounted Value of the Bonds as of the Issue Date would be equal to the issue price of the Bonds as of the Issue Date (i.e. the interest rate that necessary for retroactive discounting of the Bonds’ nominal value from the Redemption Date to the Issue Date, in order for the Discounted Value as of the Issue Date to be equal to the Bonds’ issue price as of the Issue Date). For the avoidance of any doubt, the Discount Rate shall not be identical with the discount rate of the Czech National Bank or any other Clearing Center.

“**Discounted Value**” means, in relation to an interest-free discounted Bond, a nominal value of such Bond discounted by the Discount Rate from the Redemption Date as of the date of calculation of the Discounted Value. In cases concerning calculation for periods of less than 1 (one) year, such calculation shall be made based on the relevant Day Fraction.

“**Early Redemption Date**” shall have the meaning set out in Sections 6.2.2, 6.3.2, 7.2, 9.2, 12.4.1 and 12.4.2 of these Joint Terms and Conditions and also any other day denoted as such in the Bond Program Supplement.

“**Early Redemption Notice**” shall have the meaning set out in Section 9.1 of these Joint Terms and Conditions.

“**EUR**” means the single currency of the European Union.

“**EURIBOR**” means:

- (A) interest rate in per cent p.a. offered for EUR and indicated at “Reuters Screen Service”, EURIBOR page (or any successor page or other official source quoting such rate) for the period corresponding to the applicable Interest Period and applicable to the day in respect of which EURIBOR is being established. If the Interest Period is a period for which no EURIBOR is provided on the EURIBOR page, the Calculation Agent shall determine the EURIBOR on the basis of EURIBOR for the closest longer period for which EURIBOR is provided on the EURIBOR page, and EURIBOR for the closest shorter period for which EURIBOR is provided on the EURIBOR page. If EURIBOR cannot be established in the manner described in this item (A), item (B) below shall apply.
- (B) If EURIBOR cannot be established on any day in accordance with item (A) above, EURIBOR for such day shall be determined by the Calculation Agent as an arithmetic mean of interest rate quotations for the sale of interbank deposits denominated in EUR for the period corresponding to the applicable Interest Period, and amounts obtained on that day after 11 a.m. (eleven) Brussels time from at least 3 (three) banks selected at the Calculation Agent’s discretion and operating on the relevant interbank market. If EURIBOR cannot be established even in this manner, the interest rate per annum shall equal EURIBOR established in accordance with item (A) above on the closest preceding Business Day on which EURIBOR could be established in that manner.

“**Event of Default**” shall have the meaning set out in Section 9.1 of these Joint Terms and Conditions.

“**Exchange Rate**” means the exchange rate indicated in the respective Bond Program Supplement, the value of which shall be determined as of each date for which it is to be established by the Calculation Agent by obtaining the value from the relevant Reference Rate Source.

“**Ex-Coupon Date**” means a day immediately following the Record Date for Interest Repayment; for the purposes of setting the Ex-Coupon Date, it shall be understood that the Ex-Coupon Date shall not be rolled in accordance with the Business Day convention.

“**Ex-Principal Date**” means a day immediately following the Record Date for Nominal Value Repayment (or that of Discounted value); for the purposes of setting the Ex-Principal Date, it shall be understood that the Ex-Principal Date shall not be rolled in accordance with the Business Day convention.

“**Final Redemption Date**” shall mean each date denoted as such in Section 7.2 of these Joint Terms and Conditions.

“**Fiscal and Paying Agency Agreement**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Fiscal and Paying Agent**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Fiscal and Paying Agent’s Specified Office**” shall mean the Fiscal and Paying Agent’s specified office and place of payment.

“**Index**” means the index indicated in the respective Bond Program Supplement, the value of which shall be determined as of each date for which it is to be established by the Calculation Agent by obtaining the value from the relevant Reference Rate Source.

“**Instructions**” shall have the meaning set out in Section 7.4 (a) of these Joint Terms and Conditions.

“**Interest Period**” means the period starting on the Issue Date (inclusive) and ending on the first Interest Redemption Date (exclusive), and further each consecutive period starting on the Interest Redemption Date (inclusive) and ending on the following Interest Redemption Date (exclusive), up until the Final Redemption Date; the Interest Redemption Date shall not be shifted in accordance with the business day convention for the purposes of the commencement of any Interest Period.

“**Interest Redemption Date**” shall mean the date denoted as such in Section 7.2 of these Joint Terms and Conditions.

“**Issue Date**” shall mean the date denoting the first day on which it is possible to issue Bonds within the relevant issue to the first investor and which is set out in the relevant Bond Program Supplement.

“**Issue Fiscal and Paying Agency Agreement**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Issue Period**” means the underwriting period set out in the relevant Bond Program Supplement.

“**Issuer’s Website**” shall have the meaning set out in Section 13 of these Joint Terms and Conditions.

“**Issuer**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Joint Terms and Conditions**” shall mean these terms and conditions of the Bond Program.

“**Lead Manager**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**LIBOR**” means:

- (A) interest rate in per cent p.a., offered for the relevant currency and indicated at “Reuters Monitor“, LIBOR (or any successor page or other official source quoting such rate) for the period corresponding to the applicable Interest Period and applicable to the day in respect of which LIBOR is being established. If the Interest Period is a period for which no LIBOR is provided on the LIBOR page, the Calculation Agent shall determine the LIBOR on the basis of LIBOR for the closest longer period for which LIBOR is provided on the LIBOR page, and LIBOR for the closest shorter period for which LIBOR is provided on the LIBOR page. If LIBOR cannot be established in the manner described in this item (A), item (B) below shall apply.
- (B) If LIBOR cannot be established on any day in accordance with item (A) above, LIBOR for such day shall be determined by the Calculation Agent as an arithmetic mean of interest rate quotations for the sale of interbank deposits denominated in the respective currency for the period corresponding to the applicable Interest Period, and amounts obtained on that day after 11 a.m. (eleven) London time from at least 3 (three) banks selected at the Calculation Agent’s discretion and operating on the London interbank market. If LIBOR cannot be established even in this manner, the interest rate per annum shall equal LIBOR established in accordance with item (A) above on the closest preceding Business Day on which LIBOR could be established in that manner.

“**Listing Agency Agreement**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Listing Agent**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Margin**” means the margin related to the Reference Rate for the determination of interest on the floating rate Bonds, as determined in the respective Bond Program Supplement.

“**Market Disruption Event**” shall mean that in relation to any underlying asset any of the following situations has occurred or currently exists: (i) an interruption or limitation of trading with the respective underlying asset on the market, resulting in an outage on the affected market regardless of the cause (whether due to over-limit price values or otherwise), which the Calculating Agent in its sole discretion identifies as significant; or (ii) any event, which, in the sole discretionary opinion of the Calculating Agent, results in a significant decline or disruption of the market participants’ standard ability to conduct transactions with the respective underlying assets or to determine their market value on the respective outage-stricken market; or (iii) a closure of the respective outage-stricken market during any Business Day before the usual close of business, unless such prematurely closed market notifies such premature closure at least one (1) hour before the earlier of (a) the regular close of trading on such outage-stricken market or (b) the deadline for placing trading orders on such outage-stricken market; or (iv) any change in domestic or foreign financial, political or economic conditions, exchange rates or foreign exchange regulations, the impact of which the Calculating Agent deems to be

sufficiently important and detrimental so as to preclude or render reasonably unfeasible the calculation of the Reference Rate under the conditions and in the form and manner specified by these Joint Terms and Conditions.

“**Material Change**” shall have the meaning set out in Section 12.1.2 of these Joint Terms and Conditions.

“**Meeting**” shall have the meaning set out in Section 12.1.1 of these Joint Terms and Conditions.

“**Payees**” shall have the meaning set out in Section 7.3 of these Joint Terms and Conditions.

„**PRIBOR**“ means:

- (A) interest rate in per cent p.a., as indicated on “Reuters Screen Service“, PRBO page (or any successor page or other official source quoting such rate) as the value of interest rate fixing for sale on the Prague market of inter-bank deposits denominated in CZK for the period corresponding to the applicable Interest Period, stipulated by the Czech National Bank and applicable to the day in respect of which PRIBOR is being established. If the Interest Period is a period for which no PRIBOR is provided on the PRBO page (or other official source), the Calculation Agent shall determine the PRIBOR on the basis of PRIBOR for the closest longer period for which PRIBOR is provided on the PRBO page (or other official source) and PRIBOR for the closest shorter period for which PRIBOR is provided on the PRBO page (or other official source). If PRIBOR cannot be established in the manner described in this item (A), item (B) below shall apply.
- (B) If PRIBOR cannot be established on any day in accordance with item (A) above, PRIBOR for such day shall be determined by the Calculation Agent as an arithmetic mean of interest rate quotations for the sale of interbank deposits denominated in CZK for the period corresponding to the applicable Interest Period, and amounts obtained on that day after 11 a.m. (eleven) Prague time from at least 3 (three) banks selected at the Calculation Agent’s discretion and operating on the Prague interbank market. If PRIBOR cannot be established even in this manner, PRIBOR shall equal PRIBOR established in accordance with item (A) above on the closest preceding Business Day on which PRIBOR could be established in that manner.

For the avoidance of doubt, if PRIBOR ceases to exist or is generally no longer used on the market for interbank deposits, a rate commonly used on the market for interbank deposits in the Czech Republic shall be used in its stead.

“**Program Fiscal and Paying Agency Agreement**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Record Date for Attendance at the Meeting**” shall have the meaning set out in Section 12.2.1 of these Joint Terms and Conditions.

“**Record Date for Interest Repayment**” means a day that precedes the relevant Redemption Date by 30 (thirty) days; however, it shall be understood that when determining the Record Date for Interest Repayment, the Redemption Date shall not be rolled in accordance with the Business Day convention.

“**Record Date for Nominal Value Repayment**” means a day that precedes the relevant Redemption Date by 30 (thirty) days; however, it shall be understood that when determining the Record Date for Nominal Value Repayment, the Redemption Date shall not be rolled in accordance with the Business Day convention.

“**Redemption Date**” means the Interest Redemption Date, the Final Redemption Date and the Early Redemption Date, as stated in Section 7.2 of these Joint Terms and Conditions.

“**Reference Rate**” means the respective interest rate (as specified in more detail below in this paragraph), Index (or a change thereof), Basket (or a change thereof), or Exchange Rate (or a change thereof), as applicable. In respect of Reference Rate on the basis of interest rate, Reference Rate means PRIBOR, EURIBOR or LIBOR. PRIBOR shall be deemed to be the Reference Rate for floating rate Bonds with nominal value denominated in CZK, EURIBOR shall be the Reference Rate for Bonds denominated in EUR, and LIBOR for the respective currency shall be the Reference Rate for Bonds denominated in any currency other than Czech crowns and Euro.

“**Reference Rate Source**” means the source identified in the Bond Program Supplement from which the Calculating Agent can ascertain the value of the Reference Rate or, if applicable, its individual components comprising the Reference Rate.

- (a) If the Reference Rate or its individual components are quoted in the Reference Rate Source for differing periods of time, the Calculating Agent shall use the Reference Rate or individual component thereof for a period identical with the duration of the Interest Period for which the Reference Rate or its individual component is to be ascertained. In case the Reference Rate or its individual component is not quoted for such period, the Calculating Agent shall determine its value at its sole discretion while taking into account the Reference Rate for the next shorter and next longer period for which the Reference Rate or its individual component is quoted in the Reference Rate Source.
- (b) If the Reference Rate Source constitutes a specific page in an information service and the Reference Rate or its individual component is not quoted therein on any date in which the Reference Rate or its individual component is to be ascertained, the Calculating Agent shall ascertain the value of the Reference Rate or its individual component from the succeeding page of the information service or from a different page of a succeeding information service.
- (c) If on any date it becomes impossible to ascertain the value of the Reference Rate or its individual component in the manner described above, the Calculating Agent shall determine the value of the Reference Rate or its individual component at its sole discretion and while exercising the due care of a securities broker.

ISSUE SUPPLEMENT FORM

This section contains an Issue Supplement form setting out the final terms of Bonds offering, which shall be made out for each individual Issue issued under this offering program requiring preparation of a prospectus. In cases where no prospectus is required for the particular Issue, the Issuer may prepare, and, pursuant to the Bonds Act, shall make public or accessible to investors, as applicable, a Bond Program Supplement together with the amended and restated version of the Joint Terms and Conditions in the same manner as the Joint Terms and Conditions.

Important Notice: *The following text serves as an Issue Supplement form (without cover page, which is to be attached to each Issue Supplement) containing the final terms of the particular Bond issue, i.e. the terms and conditions specific for that particular Issue. Only the arrangement contained in the particular Issue Supplement shall be of relevance.*

ISSUE SUPPLEMENT

Terms and conditions (the “**Joint Terms and Conditions**”) of a bond program of ČEZ, a. s., with its registered seat at Duhová 2/1444, Prague 4, Postal Code: 140 53, Identification No. 45274649, entered in the Commercial Register administered by the Prague Municipal Court, Section B, File No. 1581, (the “**Issuer**”), in the maximum volume of outstanding bonds of CZK 30,000,000,000, the program term being 10 years (the “**Bond Program**”), with the minimum nominal value per bond within any issue under the Bond Program to be at least equal to EUR 100,000 have been made public as part of the Base Prospectus in accordance with the Bonds Act and the Capital Markets Act.

By Decision Ref. [●], dated [●] 2012, which entered into force on [●] 2012, the CNB approved the base prospectus of the Bond Program [as amended by a supplement approved by CNB Decision Ref. [●], dated [●], which entered into force on [●] (the “**Base Prospectus**”).

The issue supplement (the “**Issue Supplement**”) constitutes the final terms and conditions of the [●]. Bond issue, i.e. that together with the Base Prospectus, it constitutes a full prospectus of the Bonds specified below. This Issue Supplement comprises (i) a bond program supplement which is a supplement to the Joint Terms and Conditions, which was made public or accessible to the investors, as applicable, on [●] 2012 (the “**Bond Program Supplement**”), and (ii) additional information related to the [●]. Bond issue and the Issuer, which form the statutory prerequisites of a prospectus and which are not part of the Base Prospectus nor are they contained in the Bond Program Supplement (the “**Additional Information**”).

Distribution of this Issue Supplement and the Base Prospectus, and the offering, sale or purchase of Bonds is restricted by law in some countries. [Neither the Bonds, the Issue Supplement, nor the Base Prospectus have been or shall be notified, listed, registered, permitted, recognized or approved on an application of the Issuer by any authority of any jurisdiction other than the CNB in accordance with the laws of the Czech Republic. In particular, the Bonds shall not be so registered in accordance with the U.S. Securities Act of 1933 and may not be offered, sold or delivered within the territory of the United States or to U.S. residents other than based on an exemption from the registration duty under the said Act or as part of a transaction exempt from such registration duty. Persons getting possession of this Issue Supplement or the Base Prospectus shall be liable for compliance with the restrictions applicable in the individual countries to any offering, purchase or sale of the Bonds or possession and distribution of any materials related to the Bonds.

The terms not defined herein shall have the meaning ascribed thereto in the Joint Terms and Conditions, unless the context of their use herein requires otherwise. This Issue Supplement, including the final terms of the Bonds, has been prepared for the purpose of Article 5(4) of the Prospectus Directive and shall be read in conjunction with the Base Prospectus, including any supplements thereto, in order to get the full information. The Base Prospectus (including any supplements thereto) is available for download at the Issuer’s website: www.cez.cz.

RESPONSIBLE PERSONS

The Issuer, i.e. ČEZ, a. s., with its registered seat at Duhová 2/1444, Prague 4, Postal Code: 143 53, Identification No. 452 74 649, entered in the Commercial Register administered by the Prague Municipal Court,

Section B, File No. 1581, is a responsible person for the accuracy and completeness of the information contained in this Issue Supplement.

The Issuer represents that having exerted all the reasonable care, it states that to its best knowledge, the information contained in this Issue Supplement reflects the reality and that no information apt to change its import has been concealed from the Issue Supplement.

For ČEZ, a. s.

<i>Name</i>	<i>Name</i>
<i>Title</i>	<i>Title</i>

A. BOND PROGRAM SUPPLEMENT

This Bond Program Supplement together with the Joint Terms and Conditions form the terms and conditions of the bonds specified below in further detail (the “**Bonds**”), which are issued under the Bond Program. The Joint Terms and Conditions for the Bond Programme are available for download at the Issuer’s website: www.cez.cz.

The Bonds are being issued pursuant to Act No. 190/2004 Coll., on Bonds, as amended. This Bond Program Supplement was made [public / accessible to the investors] on [●] 2012.

The capitalized terms shall have the same meaning as in the Joint Terms and Conditions. The below-stated parameters of the Bonds make the previously published or made accessible Joint Terms and Conditions (as specified above) more specific and supplement the same in connection with this Bond issue.

- | | | |
|-----|--|---|
| 1. | Bonds ISIN: | [●] |
| 2. | Bonds Listing / Relevant Regulated Market / Public Offer: | [Yes/No.] / [Free market of PSE/other market of PSE. The Bonds will not be publicly offered. The Bonds shall be offered for underwriting mainly in the Czech Republic under Section 35(2)(a) [and (c)], or under any other exception contained in the Capital Markets Act.] |
| 3. | The earliest date on which the Bonds will be admitted to trading: | [● / Not applicable.] |
| 4. | Estimated expenses related to the admission to trading: | [● / Not applicable.] |
| 5. | Type of Bonds: | Book-entry security registered in the central securities register kept by Centrální depozitář cenných papírů, a.s. |
| 6. | Form of Bonds: | [Bearer / Registered.] |
| 7. | Nominal Value of Bond: | [●]
(no less than EUR 100,000) |
| 8. | Aggregate Anticipated Nominal Value of Bond Issue: | [●] |
| 9. | Quantity of Bonds: | [●] |
| 10. | Currency of Bonds: | [●] |
| 11. | Issuer’s Right to Increase Quantity of Bonds / Terms of Such Increase: | [Not applicable / As per Section 2.1 of the Joint Terms and Conditions.] |
| 12. | Title of Bonds: | [●] |

13.	Issue Date:	[●]
14.	Method and Time Limit of Bond Issue (Issue Period):	[●]
15.	Issue Price of Bond as of Issue Date or Method of Calculation:	[●]
16.	Method and Place of Underwriting of Bonds / Information on Persons Involved in Securing the Bond Issue:	[●]
17.	Interest/Yield:	[Fixed / Floating / Discounted.]
18.	Day Fraction:	[“Act/Act” / “Act/365” / “Act/360” / “30/360” / “30E/360”, or “BCK Standard 30E/360”.]
19.	In Case of Fixed Rate Bonds:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	19.1 Interest Rate:	[●]
	19.2 Interest Redemption:	[Annually in arrears / Semiannually in arrears / Quaterly in arrears.]
	19.3 Interest Redemption Date(s):	[●]
20.	In Case of Floating Rate Bonds:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	20.1 Type of Reference Rate:	[Interest rate / Index / Basket / Exchange rate.]
	20.2 Reference Rate:	[●]
	20.3 Description of the Underlying Assets:	[● / Not applicable.]
	20.4 Reference Rate Source:	[●]
	20.5 Market Disruption Event:	[As per the Joint Terms and Conditions / ●.]
	20.6 Adjustment Rules with Relation to Events Concerning the Reference Rate:	[As per the Joint Terms and Conditions / ●.]
	20.7 Margin:	[● / Not applicable.]
	20.8 Method of Determination of Interest for Particular Interest Period:	[Reference Rate [plus/minus] Margin.]
	20.9 Reference Rate Date:	[●]
	20.10 Interest Redemption:	[Annually in arrears / Semiannually in arrears / Quaterly in arrears.]
	20.11 Interest Redemption Date(s):	[●]
	20.12 Minimum Interest Rate:	[● / Not applicable.]
	20.13 Maximum Interest Rate:	[● / Not applicable.]
21.	In Case of Discounted Bonds:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	21.1 Discount Rate:	[●]
22.	Final Redemption Date:	[●]
23.	Early Redemption of Bonds upon Issuer’s	[As per Section 6.2.1(b) of the Joint Terms and

	Decision (other than under Section 6.2.1 (a) of the Joint Terms and Conditions):	Conditions / Not applicable.]
24.	Early Redemption of Bonds upon Bondholders' Decision (if different from Section 6.3.1 (a) of the Joint Terms and Conditions):	[As per Section 6.3.1(b) of the Joint Terms and Conditions / Not applicable.]
25.	Currency in which Interest and/or Nominal Value or Discounted Value Shall Be Redeemed (if different from the currency in which the Bonds are denominated):	[● / As per Section 7.1 of the Joint Terms and Conditions.]
26.	Business Day Convention to Determine Redemption Date:	[“Following”/ “Adjusted Following” / “Preceding”.]
27.	Fiscal and Paying Agent:	[● / As per Section 11.1 of the Joint Terms and Conditions.]
28.	Specified Office of Fiscal and Paying Agent:	[● / As per Section 11.1.1 of the Joint Terms and Conditions.]
29.	Calculation Agent:	[● / As per Section 11.2 of the Joint Terms and Conditions.]
30.	Listing Agent:	[● / As per Section 11.3 of the Joint Terms and Conditions.]
31.	Notices to Bondholders:	[● / As per Section 13 of the Joint Terms and Conditions.]
32.	Clearing Center:	[●]
33.	Rating of the Bonds:	<p>[Not applicable / The Bonds to be issued [have been/are expected to be] rated:</p> <p>[●] by Standard & Poor's Credit Market Services Europe Limited</p> <p>[●] by Moody's Investors Service Ltd</p> <p>[●] by [other rating agency].</p> <p>[Credit rating agency] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. / [Credit rating agency] is established in the European Union domiciled in [country] and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website ([insert link to ESMA web page]) (last updated on [date]) / [Credit rating agency] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011. / [Credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as</p>

amended by Regulation (EU) No 513/2011. However, the application for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, of [the relevant EU CRA affiliate that applied for registration], which is established in the European Union, disclosed the intention to endorse credit ratings of [credit rating agency]. / [Credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011. The ratings have been/are expected to be endorsed by [name of the relevant EU-registered credit rating agency] in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011. [The relevant EU-registered credit rating agency] is established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011. / [Credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, but it is certified in accordance with such Regulation.]

- | | | |
|-----|--|-----------------------|
| 34. | Resolutions, Authorisations and Approvals Relating to the Bonds: | [● / Not applicable.] |
| 35. | Capacity in Which Advisors on the Issue Acted: | [● / Not applicable.] |
| 36. | Interest of Persons Involved in Issuance/Offering of Bonds Relevant for the Issue (Other Than Mentioned in the Base Prospectus): | [● / Not applicable.] |

B. ADDITIONAL INFORMATION

This section is intended for listing specific limitations (if any) to offering or selling the Bonds.

USE OF PROCEEDS

The Issuer will use the total net proceeds from each Issue to further develop its business. The respective final terms of each Issue will contain further information on how the proceeds generated by the Issue will be used, including their designated main purpose.

DESCRIPTION OF THE ISSUER

Overview

According to ERO and our internal data, we are the largest electricity generation and distribution company in the Czech Republic. According to Sdružení CZECH TOP 100 and our internal data, we are one of the largest companies in the Czech Republic on the basis of our revenues and our total assets. In the years ended December 31, 2009, 2010 and 2011, we had revenues of CZK 196.4 billion, CZK 198.8 billion and CZK 209.8 billion, respectively, and net income of CZK 51.9 billion, CZK 46.9 billion and CZK 40.8 billion, respectively. As of December 31, 2011, we had total assets of CZK 598.1 billion. In the year ended December 31, 2011, we had an average of 31,805 employees.

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

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

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

As of and for the year ended December 31, 2011								
	Installed capacity		Electricity generated		Electricity distributed to end-consumers		Electricity sold to end-consumers	
	(MW)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Central Europe:								
Czech Republic	12,814	84.8	63,321	91.5	32,613	60.8	21,969	51.3
Poland	730	4.8	2,204	3.2	--	--	95	0.2
Other	--	--	--	--	--	--	2,432	5.7
Total	13,543	89.6	65,525	94.7	32,613	60.8	24,496	57.2
South East Europe:								
Albania	--	--	--	--	4,487	8.4	5,031	11.7
Bulgaria	1,260	8.3	3,043	5.3	9,193	17.1	10,024	23.4
Romania	318	2.1	641	--	7,335	13.7	3,295	7.7
Total	1,578	10.4	3,684	5.3	21,015	39.2	18,350	42.8
Total	15,122	100	69,209	100	53,628	100	42,846	100

The total installed capacity of our generation facilities is 15,122 MW, of which 84.8% is in the Czech Republic, 8.3% is in Bulgaria, 4.8% is in Poland and 2.1% is in Romania. In the year ended December 31, 2011, we generated 69,209 GWh of electricity, of which 91.5% was generated in the Czech Republic. In the same year, 55.3% of our total electricity generated was generated by our coal-fired power plants, 40.9% was generated by our nuclear power plants and the remaining 3.8% was generated by our hydroelectric, solar and wind power plants.

We distributed electricity to more than 3.5 million connection points in the Czech Republic covering an area of approximately 52.7 thousand square kilometers as of December 31, 2011, making us the largest of the three regional distributors of electricity in the country (source: ERO). In the year ended December 31, 2011, we distributed a total of 53,628 GWh of electricity to end-consumers, 60.8% of which was distributed to end-consumers in the Czech Republic. In addition, we are one of the largest of eight regional distribution companies in Romania (source: ANRE, CEZ) and we have majority interests in the principal distribution company in Albania and Bulgaria.

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

History and Development of the CEZ Group

Principal events during our history and development include:

- 1992** ČEZ, a. s. was established on May 6, 1992 through the aggregation of formerly State-owned power generation and distribution assets in the Czech Republic into one enterprise.
- 2002** The Czech Republic's electricity market began a process of market liberalization in accordance with the Czech Energy Act.
- We acquired the Czech Government's shares in the eight regional distribution utilities (the "REAS"), which were previously held by the Czech National Property Fund and the Czech Consolidation Agency. We subsequently held a majority interest in five of the REAS and a minority interest in three of the REAS.
- 2004** An amendment to the Czech Energy Act required the distribution of electricity to be separate and independent from the sale of electricity to end-consumers (so-called "unbundling") from January 1, 2007.
- 2005** We established ČEZ Distribuce, a.s. for electricity distribution and ČEZ Prodej, s.r.o. for electricity sales.
- We acquired three Bulgarian distribution companies, Elektrorazpredelenie Pleven AD, Elektrorazpredelenie Sofia Oblast AD and Elektrorazpredelenie Stolichno AD, which together had approximately 1.9 million customers in Bulgaria.
- We acquired a 51% stake in the Romanian distributor Electrica Oltenia S.A., which had approximately 1.4 million customers in Romania.
- 2006** We acquired Severočeské doly a.s., a brown coal mining company located in North Bohemia, which supplies a significant portion of brown coal to our power plants in the Czech Republic.
- We acquired a 100% share in TPP Varna EAD with installed capacity of 1,260 MW.
- We acquired a 75.2% share in the voting rights of Elektrociepłownia Chorzów "ELCHO" Sp. z o.o. and a 74.82% stake in Elektrownia Skawnia S. A. These Polish electricity generation companies had a combined installed capacity of 830 MW in 2006.

- 2007** We acquired 100% control over the five previously majority-owned REAS: Severočeská energetika, a.s., Severomoravská energetika a.s., Východočeská energetika, a.s., Západočeská energetika, a.s., and Středočeská energetická, a.s. Following the acquisition of the REAS, our distribution network became the largest in the Czech Republic.
- We formed a strategic alliance and signed a joint venture agreement with MOL Nyrt to focus on gas-fired power and heat generation and related gas infrastructure. The most significant planned investment of this joint venture is the construction of a combined cycle gas turbine (“CCGT”) at MOL Nyrt’s refinery in Dufi, Hungary, which is currently subject to ongoing negotiations.
- 2008** We acquired the Fântânele and Cogeaalac wind farm project in Romania which, once completed, is expected to be the largest onshore wind farm in Europe, with a total installed capacity of up to 600 MW.
- 2009** Pursuant to a joint venture arrangement with the Akkok Group, we acquired 100% of Sakarya Elektrik Dagitim A.S., the Turkish electricity distribution company which has the right to operate the distribution grid in the Sakarya region of Turkey for 30 years.
- We acquired a 76% interest in ČEZ Shpërndarje Sh. A. (formerly known as Operatori i Sistemit te Shpërnadrjes Sh.A.), the Albanian distribution company which is 24% owned by the Republic of Albania.
- We acquired the remaining minority share in Elektrowina Skawina S. A., becoming the 100% owner of this Polish power plant.
- We agreed to acquire from J&T Group and paid for a 48.67% interest in Pražská teplárenská, Prague’s heat supplier, with a view to acquiring its 100% subsidiary Energotrans, a.s., a producer of heat for Prague. The acquisition of Pražská teplárenská has not been completed. The investment is classified as available-for-sale as we do not currently expect to exercise any significant influence.
- We signed a shareholders’ agreement with JAVYS a.s. to establish a joint venture to develop a new nuclear power plant at Jaslovské Bohunice, Slovakia, for which a feasibility study is currently being prepared. Our share in the joint venture is 49% and we exercise managerial control together with JAVYS a.s.
- Our joint venture with Energetický a průmyslový holding, a. s. acquired 100% of Mitteldeutsche Braunkohlengesellschaft GmbH (“MIBRAG”), the German coal mining company.
- We commenced the procurement procedures for the supply of two reactor units for the Temelín nuclear power plant and the potential supply of up to three further reactor units in Europe. We currently expect to sign a contract with the successful bidder by the end of 2013.
- We became the 100% owner of ČEZ Distributie S. A. and ČEZ Vanzare S.A. when we purchased a 30% stake in ČEZ Distributie S.A. and a 19% stake in ČEZ Vanzare S.A.
- We acquired 37.36% of our Turkish joint venture partner, Akenerji Elektrik Üretim A.S., and became the joint holders of a majority interest amounting to approximately 75%, with the remaining shares being traded on the Istanbul Stock Exchange.
- 2010** We acquired a further 24.8% interest in Elektrociepłownia Chorzów “ELCHO” Sp. z o.o. and became the 100% owner of this Polish electricity company.
- 2011** We agreed to acquire, subject to merger clearance and other conditions, a 100% holding in Energotrans, a.s., a company supplying heat from Mělník to Prague. Upon the completion of the acquisition, the amount paid to acquire a 48.67% interest in Pražská teplárenská will be off-set against the liability arising from the acquisition of Energotrans, a.s.

We acquired 67% of the shares of Eco-Wind Construction S.A. with an option to acquire the remaining 33% share. Eco-Wind Construction S.A. develops wind parks and owns several projects in various stages of development.

We signed an agreement, subject to merger clearance, the successful acquisition of Energotrans, a.s. and other conditions, to dispose of our 50% interest in MIBRAG to Energetický a průmyslový holding, a. s., our joint venture partner who currently owns the other 50% holding in MIBRAG.

2012 Our Board of Directors approved the incorporation of a wholly-owned SPV with the intention to transfer to it our 100% interest in the Počerady brown coal-fired power plant with the aim of increasing our flexibility to optimize our generation portfolio and our use of assets in the future.

In June 2012 the transactions of acquiring Energorans and selling a 50% stake in MIBRAG were settled. ČEZ acquired a 100% interest in Energotrans a.s. and sold to EP Energy 50% stake in JTSD Braunkohlebergbau GmbH – the sole owner of the mining corporation of MIBRAG.

Recent Developments

ČEZ Extraordinary Shareholders' Meeting

On October 22, 2012 ČEZ decided on the date of holding an extraordinary shareholders' meeting, December 18th this year. The reason for convening the shareholders' meeting on this date is to set up a time schedule for spinning off Dětmarovice power station into a separate subsidiary (as was the case in the past with Chvaletice and Počerady power stations).

All details will be stated in the announcement to hold the shareholders' meeting which will be published sufficiently in advance as required by law.

The spinoff of Dětmarovice power station (same as in the case of the previously spun off power stations) is merely a process matter to prepare the power station for potential sale, but it does not mean that it will be actually sold. The selling process takes place completely separately from this administrative process.

ČEZ is offering for sale one of its coal-fired power stations. Candidates are Počerady, Chvaletice, Tisová together with Mělník 3 power station and Dětmarovice. The considered sale is related to the decision taken by ČEZ to terminate the investigation being conducted with the European Commission since 2009 in the form of a so called settlement. In this settlement ČEZ has undertaken to sell one of its coal-fired power stations. With the exception of Počerady (1000 MW), all the other candidate power stations are roughly 800 MW facilities. Selling one of its power stations is in harmony with the ČEZ's strategy to operate in the future only a limited number of modernised coal-fired power stations.

In the case of Počerady and Chvaletice power stations, the reason for considering their sale is the uncertainty of coal supplies from 2013 due to as yet not concluded negotiations with the coal supplier, Czech Coal.

By signing the settlement agreement, ČEZ will be obliged to sell one of the above named plants. However, this does not preclude the possibility that, for business and strategic reasons, the Group may ultimately accept more offers and sell more power stations if the offers are attractive.

AREVA Failed to Comply with Public Contract Requirements Defined for Building Temelín NPP Units 3 and 4; ČEZ Had to Disqualify This Bidder

On October 10, 2012 ČEZ informed AREVA that they have in their bid failed to meet statutory requirements for building two new units of the Temelín Nuclear Power Plant. Moreover, AREVA has not fulfilled some other crucial criteria defined in the tender. Since the award procedure has been conducted in accordance with the Public Procurement Act, AREVA's bid had to be excluded from further evaluation.

ČEZ has informed AREVA in detail about the specific grounds for excluding their bid; the reasons are of both commercial and legislative nature and concern crucial requirements. On October 19, 2012 AREVA objected this decision. Other bidders have not yet been found to have failed to fulfill the awarding entity's requirements.

Short-dated Private Placement Bond Issue

In October 2012 ČEZ, a. s. successfully issued EUR 150 mil. private placement bond issue, with a floating coupon of 3M EURIBOR + 0.36% p.a. and issue price of 100%, maturing on 30 June 2012. The proceeds from the issue were used to repay short-term debt.

Long-dated Private Placement Bond Issues

In August and September 2012 ČEZ, a. s., successfully issued private placement bonds within its EMTN programme. First thirty year private placement bond issue of a nominal amount EUR 50 million with coupon 4.375% p.a. was issued on 8th August 2012, next thirty-five year private placement bond issue of a nominal amount EUR 50 million with coupon 4.500% p.a. was issued on 20th August 2012 and last thirty-five year private placement bond issue of a nominal amount EUR 60 million with coupon 4.383% p.a. was issued on 3rd September 2012.

The ČEZ Group's Net Profit Grew by 14% YoY Over the First Half of 2012, Reaching CZK 27.2 Billion

The sales generated by the ČEZ Group increased by CZK 9.4 billion (9%) year on year, and reached thus CZK 113 billion. Operating Profit Before Depreciation (EBITDA) increased by CZK 4.5 billion (10%) year on year to CZK 48.4 billion. The group's Net Profit rose by CZK 3.3 billion (14%) year on year to CZK 27.2 billion. The main factors that contributed to the profit growth were higher sale prices of electricity combined with a weaker crown, and a collection of past-due receivables from the Romanian State Railways. The full-year outlook remains unchanged – the ČEZ Group expects a higher Net Profit year on year at CZK 41 billion.

The year-on-year sales growth enjoyed by the ČEZ Group can further be attributed to a greater output of the wind turbines in Romania and a power generation capacity growth in the Czech Republic (up by 1.4 TWh or 4%) to 33.2 TWh. This primarily stems from a higher power generation level after the Tušimice power plant overhaul and upgrade was completed. The ČEZ Group's results were also positively influenced by the settlement of its past-due receivables from the Romanian State Railways (CFR) at CZK 965 million.

On the other hand, the year-on-year EBITDA figures were negatively affected by the Albanian regulator's decision on the tariffs and conditions of business for the power distribution company in the country and the growth of the market prices of electricity imported to Albania to cover the loss. Nevertheless, we succeeded at obtaining a new decision from the regulator, which reduced the input price of electricity purchased from the state-owned KESH power stations from 2,830 to 2,200 ALL/MWh with retroactive effect on electricity supplied since January 1, 2012. Moreover, a study has been approved that defines a more objective method of calculating the initial amount of the distribution company's bad debt in line with an independent analysis.

In mid May we completed a project of increasing the installed capacity of the Dukovany Nuclear Power Plant (from the original 4 * 440 MW to 4 * 510 MW); however, its positive effect on the amount of power generated in the second quarter was eliminated by the related longer down times. ČEZ also reached an agreement with the European Commission on putting an end to its investigation by means of settlement. As part of the settlement, ČEZ, a. s. is going to divest one of its coal power plants in the Czech Republic with an installed capacity over 800 MW. Divesting a power plant is consistent with ČEZ' strategy to operate in the future just a limited number of upgraded coal power plants with secured coal supplies.

The ČEZ Group continues to fulfill its five strategic initiatives; the one with the highest priority is to complete two new blocks of the Temelín Nuclear Power Plant. On July 2, 2012, ČEZ, a. s. received bids from three qualified bidders (AREVA, a consortium of the Westinghouse Electric Company, LLC and WESTINGHOUSE ELECTRIC ČR, and a consortium of ŠKODA JS, Atomstroyexport, and Hidropress) who had fulfilled the requirements for envelope opening stipulated by the Public Procurement Law. On October 5, 2012 we informed AREVA that their bid had to be excluded from further evaluation as it failed to meet statutory requirements and other crucial criteria defined in the tender. On October 19, 2012 AREVA objected this

decision. ČEZ also intends to consider the possibility of a strategic partnership in the completion of the Temelín Nuclear Power Plant. ČEZ has received bids from several interested parties and has decided to select the potential partner in a transparent tender. The partnership will probably be formed after the contract with the selected supplier is signed, which is expected to happen in 2013.

Annual Meeting

The Annual General Meeting of ČEZ, a. s., held on 26 June 2012 adopted the following resolutions:

1. Opening, election of the General Meeting chairman, minutes clerk, minutes verifiers and persons authorized to count the votes.

The General Meeting of ČEZ, a. s. elects Mr. Jan Zelený as Chairman of the General Meeting, Ms. Marcela Ulrichová as Minutes Clerk, Ms. Iva Kohoutová and Ms. Eliška Zykmondová as Minutes Verifiers, and Mr. Antonín Králík and Mr. Václav Novotný as persons to count the votes (scrutineers).

2. Board of Director's report on the Company's business operations and the state of its assets in the year 2011 and Summary report pursuant to Section 118(8) of the Act on Doing Business in the Capital Market.
3. Supervisory Board report on the results of control activities.
4. Audit Committee report on the results of activities.
5. Approval of the financial statements of ČEZ, a. s. and consolidated financial statements of ČEZ Group for the year 2011.

The General Meeting of ČEZ, a. s.

1. approves the financial statement of ČEZ, a. s. for 2011,
 2. approves the consolidated financial statement of the ČEZ Group for 2011.
6. Decision on the distribution of profit of ČEZ, a. s. for 2011.

The General Meeting of ČEZ, a. s. approves the distribution of profit for 2011 as follows:

- Dividends equal to CZK 45 before tax calculated
from the total number of issued shares CZK 24,209,539 thousand
- Royalties to members of the Board of Directors
and Supervisory Board CZK 25,500 thousand
- Retained profit from previous years CZK 13,102,418 thousand

The decisive day for exercising the right to a dividend is 2 July 2012. The dividends allocated to treasury shares held by the company as of the decisive day will not be paid. The sum corresponding to the dividend allocated to treasury shares held by the company as of the decisive day for application of the right to dividends will be transferred to the account of retained profit from previous years. Dividends are mature on 1 August 2012. The payment of dividends will be made in the way proposed on this general meeting.

The general meeting of ČEZ, a. s. approves the even division of royalties among the members of the Board of Directors and Supervisory Board. The share of each member of the statutory or supervisory body will be stipulated according to the term for which he/she held the function in the respective body in the course of 2011. Members of the Supervisory Board who were appointed to the Supervisory Board by a state administrative authority and were employees thereof are not entitled to royalties for the period during which this obstacle existed.

7. Appointment of auditor to perform the statutory audit, including verification of the financial statements of ČEZ, a. s. and consolidated financial statements of the ČEZ Group for the financial period of calendar year 2012

The General Meeting of ČEZ, a. s. appoints as the auditor to perform the statutory audit, including the verification of the financial statements of ČEZ, a. s., and the consolidated financial statements of ČEZ Group for the financial period of the calendar year 2012, the auditing company - Ernst & Young Audit, s.r.o., identification number 26704153, registered office in Prague 2, Karlovo náměstí 10, Postal Code 120 00.

8. Decision on amendment to the Company's Articles of Association.

The General Meeting of ČEZ, a. s. approves the Board of Directors' proposal for amendment to the Articles of Association of the Company.

9. Decision on the volume of financial means for granting donations.

The General Meeting of ČEZ, a. s.

1. approves the funds for donations in the amount of CZK 221 million in 2013.
2. approves the granting of non-monetary donations for a total value of CZK 648,000 in 2012 and CZK 21 million in 2013.

10. Confirmation of co-opting, recall and election of Supervisory Board members.

The General Meeting of ČEZ, a. s. confirms Mr. Martin Roman, date of birth 29 October 1969, residing at U Bažantnice 484/43, 159 00 Prague 5, as a member of the Supervisory Board of ČEZ, a. s.

The General Meeting of ČEZ, a. s. recalls Mr. Ján Dzvonič, date of birth 19 January 1961, residing at Prague 5, Stodůlky, Vstavačová 1284/12, Postal Code 155 00, from the Supervisory Board of ČEZ, a. s.

The General Meeting of ČEZ, a. s. recalls Mrs. Liběna Dobrovolná, date of birth 17 October 1959, residing at Ústí nad Labem, Rooseveltova 2, Postal Code 400 01, from the Supervisory Board of ČEZ, a. s.

The General Meeting of ČEZ, a. s. elects Mr. Robert Vacek, date of birth 15 November 1971, residing at Kladno, Hřebečská 2642, Postal Code 272 01, as a member of the Supervisory Board of ČEZ, a. s.

The General Meeting of ČEZ, a. s. elects Mr. Milan Bajgar, date of birth 18 April 1958, residing at Čeladná 868, Postal Code 739 12, as a member of the Supervisory Board of ČEZ, a. s.

The General Meeting of ČEZ, a. s. elects Mr. Jiří Volf, date of birth 20 August 1941, residing at Prague 5, K zahrádkám 999/10, Postal Code 155 00, as a member of the Supervisory Board of ČEZ, a. s.

11. Confirmation of co-opting, recall and election of Audit Committee members.

The General Meeting of ČEZ, a. s. confirms Mr. Ivo Foltýn, date of birth 5 June 1970, residing at Nová 848/7, 184 00 Prague 8, as a member of the Audit Committee of ČEZ, a. s.

12. Approval of the contracts for performance of the function of Supervisory Board members.

General Meeting of ČEZ, a. s. approves:

1. the Contract for performance of the function of Supervisory Board member between ČEZ, a. s. and Mrs. Liběna Dobrovolná, which was concluded on 23 June 2011,
 2. the Contract for performance of the function of Supervisory Board member between ČEZ, a. s. and Mr. Ján Dzvoník, which was concluded on 23 June 2011,
 3. the Contract for performance of the function of Supervisory Board member between ČEZ, a. s. and Mr. Aleš Klepek, which was concluded on 23 June 2011,
 4. the Contract for performance of the function of Supervisory Board member between ČEZ, a. s. and Mr. Martin Roman, which was concluded on 21 September 2011,
 5. Amendment No. 1 to the Contract for performance of the function of Supervisory Board Member between ČEZ, a. s. and Mr. Ivo Foltýn, which was concluded on 19 September 2011, and
 6. Amendment No. 1 to the Contract for performance of the function of Supervisory Board Member between ČEZ, a. s. and Mr. Martin Říman, which was concluded on 21 September 2011.
13. Approval of the contracts for performance of the function of Audit Committee member.

General Meeting of ČEZ, a. s. approves:

1. the Contract for performance of the function of Audit Committee member between ČEZ, a. s. and Mr. Ján Dzvoník, which was concluded on 23 June 2011, and
 2. the Contract for performance of the function of Audit Committee member between ČEZ, a. s. and Mr. Ivo Foltýn, which was concluded on 26 April 2012.
14. Granting approval of the contract on contribution of a part of the enterprise "Power Plant Počerady" to the registered capital of Elektrárna Počerady, a.s.

General meeting of ČEZ, a. s. grants, in accordance with the provision of Section 67a of Act No. 513/1991 Coll., Commercial Code, as amended, approval of the contract on contribution of a part of the enterprise – organizational unit "Power Plant Počerady" – to the registered capital of Elektrárna Počerady, a.s., to be made between ČEZ, a. s., as the contributor, and Elektrárna Počerady, a.s., with the registered office located in Prague, Duhová 1444/2, Postcode: 140 53, Registration No. 242 88 110, as the recipient of the contribution.

15. Granting approval of the contract on contribution of a part of the enterprise "EVI heat distribution and district networks" to the registered capital of ČEZ Teplárenská, a.s.

General Meeting of ČEZ, a.s., grants, in accordance with § 67a of the Commercial Code, approval to the Contract on the investment of a part of ČEZ, a.s., "EVI heat distribution and district networks" in the registered capital of ČEZ Teplárenská, a.s., which is to be concluded between the ČEZ, a.s., as a investor and ČEZ Teplárenská, a.s., with its registered office at Říčany, Bezručova 2212/30, ZIP Code 251 01, ID no. 273 09 941 as the investment acquirer.

Organizational Structure

As of December 31, 2011, the CEZ Group consisted of ČEZ, a. s. and 99 fully consolidated entities. As of December 31, 2011, we also had interests in 21 associates and joint ventures consolidated by the equity method of accounting. For a complete list of our subsidiaries, associates and joint ventures as of December 31, 2011, please see Note 7 of our audited consolidated financial statements for the year ended December 31, 2011.

Pursuant to the Czech Energy Act, since January 1, 2007, the distribution of electricity must be separate and independent from the generation, transmission and sale of electricity ("unbundling"). In 2005, we established two new separate companies ČEZ Distribuce, a.s. (for distribution of electricity) and ČEZ Prodej, s.r.o. (for sales of electricity to end-consumers), and during 2006 we transferred all corresponding assets and activities from the REAS to these companies. Following a resolution of our Board of Directors in June 2007,

we consolidated all assets and activities of the REAS into the CEZ Group. We completed this consolidation process by October 2007.

To ensure the independence and separation of distribution activities from all other activities, senior management responsible for our electricity distribution business must be different from senior management responsible for our electricity generation and sales business and we are required to take appropriate steps to prevent professional conflicts of interest between persons responsible for our electricity distribution business and our electricity generation and sales businesses. The Czech Energy Act also restricts how much control can be exercised by shareholders over distribution businesses.

Principal Subsidiaries

ČEZ Distribuce, a.s., a wholly owned subsidiary of the CEZ Group, was established on October 1, 2010, following the merger of ČEZ Distribuce, a.s. (a company of the same name which was incorporated on March 31, 2005 to comply with the requirement of the Czech Energy Act to separate our distribution business from our sales business, which ceased to exist with effect from the date of the merger) and ČEZ Distribuční zařízení, a.s. (a company incorporated in July 2009 to consolidate unclassified equipment for electricity distribution within the CEZ Group, which ceased to exist with effect from the date of the merger). The accounting record date for this transaction occurred on January 1, 2010. ČEZ Distribuce, a.s. is the only entity in the CEZ Group, other than ČEZ a. s., that holds an electricity distribution license in the Czech Republic. In the year ended December 31, 2011, ČEZ Distribuce, a.s. contributed 15.9% of our EBITDA. For more information on our distribution business, please see “*Our Business—Distribution and Sale of Electricity*”.

ČEZ Prodej, s.r.o., a wholly-owned subsidiary of the CEZ Group, was established on March 31, 2005 to comply with the requirement of the Czech Energy Act to separate our sales business from our distribution business. Parts of our original regional power companies, including their customers, contracts and liabilities were transferred to ČEZ Prodej, s.r.o. by the end of 2005. ČEZ Prodej, s.r.o. has been fully operational since January 1, 2006 selling electricity to end-consumers in the Czech Republic. In the year ended December 31, 2011, ČEZ Prodej, s.r.o. contributed 2.8% of our EBITDA. For more information on our sales business, please see “*Our Business—Distribution and Sale of Electricity*.”

Severočeské doly a.s., a wholly-owned subsidiary of the CEZ Group, was established in 1994. The core activities of Severočeské doly a.s. are prospecting for, extracting, processing, and selling brown coal and related raw materials. Severočeské doly a.s. is the largest brown coal mining company in the Czech Republic (source: www.sdas.cz). We acquired a 93.1% stake in Severočeské doly a.s. from the Government of the Czech Republic during 2005. Upon our request, as the majority shareholder, the general meeting of Severočeské doly a.s. held on March 27, 2006 approved the squeeze-out of minority shareholders and the transfer of their shares to us. In the year ended December 31, 2011, Severočeské doly a.s. contributed 5.5% of our EBITDA. For more information on our mining operations, please see “*Our Business—Other Businesses—Coal Mining*.”

Our Strengths

We benefit from the following key strengths:

Majority State-Owned Company, Backed by a Stable and Open Economy

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ, a. s., the parent company of the CEZ Group. In August 2011, Standard & Poor’s Credit Market Services Europe Limited upgraded its rating of the Czech Republic by two notches to AA- (Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated July 30, 2012)). We believe that being majority-owned by a government that is backed by a stable and open economy provides additional credibility in the electricity and credit markets and allows us to benefit from more favorable credit terms than competitors without similar backing.

Robust Credit Profile

ČEZ's credit ratings of A- (stable outlook) by Standard & Poor's Credit Market Services Europe Limited and A2 (stable outlook) by Moody's Investors Service Ltd are among the highest awarded to a European utility, reflecting our efforts to work proactively to maintain prudent leverage and liquidity positions (Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated July 30, 2012)). We had a relatively low Net Debt/EBITDA ratio of 1.8x as of December 31, 2011. Over the last five years we have adhered to a self-imposed ceiling of Net Debt/EBITDA ratio below 2.0x to 2.5x, which has been further tightened to 2.3x since 2010, which we believe is compliant with our current rating. We aim to maintain an adequate liquidity position with access to sufficient back-stop credit facilities should cash flows become negative.

Highly Integrated, Large-Scale Domestic Operations

We benefit from highly integrated operations in the Czech Republic providing approximately 91% of our total consolidated EBITDA in the year ended December 31, 2011.

In the Czech Republic, we operate a low cost generation fleet which produced a total of 63 TWh of electricity, or 72% of the country's total electricity generated during the year ended December 31, 2011 (according to data published by the ERO), of which 52% was produced by our brown coal-fired power plants. Approximately 65% of our brown coal consumption is provided by our mines, which is provided at the cost of extraction only on a consolidated basis. In addition, brown coal is not a traded commodity as its transportation is not economical and we are therefore not exposed to large fluctuations in the global commodities market. Approximately 45% of our total electricity generation output in the Czech Republic was generated by our nuclear power plants where variable costs are relatively low and stable (as opposed to initial construction costs). Furthermore, unlike in neighboring Austria and Germany, public opinion as well as political representation in the Czech Republic are relatively favorable towards nuclear power generation. The composition of our generation fleet results in relatively stable and low variable costs which is a chief reason for our EBITDA margin of approximately 42% for the year ended December 31, 2011, being one of the highest among our European peers (EdF, EdP, EnBW, Enel, E.ON, Fortum, Iberdrola, RWE and Verbund) over the last five years. EBITDA generated by our Power Production and Trading and Mining Segments in the Czech Republic accounted for approximately 67% of our consolidated EBITDA for the year ended December 31, 2011.

In the Czech Republic, we distributed 33 TWh of electricity to end-consumers, or 56% of the total net electricity consumed in the Czech Republic, in the year ended December 31, 2011 (source: ERO; CEZ Group Annual Report 2011). The ERO has an eleven-year track record of fair and transparent regulation in line with E.U. directives and regulations. EBITDA generated by our distribution business in the Czech Republic accounted for approximately 16% of our total consolidated EBITDA for the year ended December 31, 2011.

We sold approximately 22 TWh of electricity to end-consumers in the Czech Republic for a market share of 37.9% (source: CEZ Group Annual Report 2011). While our market share as an incumbent electricity provider has declined over the last several years (from approximately 44% in the year ended December 31, 2009, source: CEZ Group Annual Report 2009) we have established ourselves as the largest alternative gas supplier over the last two years (source: www.ote-cr.cz) which has compensated for a significant part of the foregone margin. EBITDA generated by our sales business in the Czech Republic accounted only for approximately 2% of our consolidated EBITDA for the year ended December 31, 2011.

Stable Domestic Market without Regulatory Excesses Seen in Some Other Parts of Europe

The Czech Republic's power market is a fairly standardized market by E.U. standards. Power production and power supply are fully liberalized while distribution is regulated, in line with E.U. Directives and regulations. In addition, public opinion and practically all of the political parties in the Czech Republic (except the Greens, who are currently not represented in the Czech Parliament) support nuclear operations and new nuclear build up. Furthermore, the Czech Government has not to date introduced substantial windfall taxes as in many other countries. The only exception to this has been a set of measures aimed at mitigating the impact

of solar power plants boost on regulated distribution charges in the election year of 2010. At that time, a temporary tax on freely allocated CO₂ emission allowances in 2011 and 2012 and another temporary tax on revenues of solar power plants in 2011 to 2013 were introduced. However, the Czech Republic participated in the so-called “derogation scheme” allowing certain countries to opt-out from the mandatory auctioning of CO₂ emission allowances in 2013 to 2020. On July 6, 2012 the Directorate-General for Climate Action approved the Czech Republic’s national plan for investments allowing direct allocation of some allowances from 2013 - derogation. This investments plan is subject to notification to the European Commission's Directorate-General Competition. The result is expected in October 2012. The final allocation of allowances among the individual installations in the Czech Republic is the responsibility of the Ministry of Environmental Matters. As a result, if the Czech Republic’s application is finally approved we may be eligible to obtain 75.2 million tons of CO₂ emission allowances between 2013 to 2020, the total market value of which, in current prices (€8/ton), is €602 million.

Strong Market Position in the Czech Republic

We operate in the liberalized E.U. power markets which are well integrated with most of their neighbors. As a result of this, Czech power prices are driven by the same fundamentals as those of neighboring countries, specifically Germany, the most liquid market. This allows us to benefit from the structure of our generation fleet which is positioned towards the cheaper end of the merit order of the German market.

Proven Corporate Strategy

Our senior management team has long-term experience in the utility industry and has demonstrated the flexibility and commitment to implement successfully a corporate strategy, particularly in times of economic stress. For example, our management team emphasizes continual improvement in efficiency and has successfully implemented specific programs to maximize efficiencies across the CEZ Group. Following the successful completion of our Vision 2008 Program announced in 2004, which led to a significant improvement in our profitability, we launched a new project - entitled “NEW VISION” - in September 2010, as a response to the realities faced by the power industry following the economic crisis.

Strong Presence in Several International Markets

In addition to cultivating our leading position in the Czech market, we have also applied our expertise in managing a power business to developing leading market positions across power markets in Central and South East Europe, including in Albania, Bulgaria, Poland and Romania. We also have operations in Germany, Hungary, Slovakia and Turkey and trading activities in other European countries. In Bulgaria, for example, we distributed 9.2 TWh of electricity to more than two million connection points, which according to data published by the State Commission for Energy and Water Regulation represent approximately 40% share of the Bulgarian electricity distribution market and sold 10.8 TWh of electricity to end-consumers during the year ended December 31, 2011. In addition, we also distribute electricity to the Romanian market and, through our joint venture companies to market in Turkey (where we have a 37.5% stake in power producer Akenerji). In Romania, we are building one of the largest on-shore wind farms in Europe with total anticipated installed capacity of 600 MW, 300 MW of which is already generating electricity. We believe our international portfolio provides us with opportunities to leverage the significant expertise and knowledge gained in our domestic market which as a result allows us to further grow outside our domestic market, where our growth potential is limited.

Our Strategy

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

Further Diversify our Electricity Generation Portfolio, with a Focus on Nuclear Power and Renewable Energy

We operate a diverse electricity generation portfolio, with 55.3% of the electricity we generated in the year ended December 31, 2011 generated by our coal-fired power plants, 40.9% generated by our nuclear power

plants and 3.8% generated by our renewable power plants. In order to find a robust portfolio of assets to ensure greater stability of our results in power markets the predictability of which has declined continuously over the last several years and decrease our reliance on CO₂ emission intensive production we aim to concentrate on nuclear power generation and generation from renewable energy sources.

In the long-term, in the area of nuclear power generation, we aim to build two new nuclear power blocks in the Temelín nuclear power plant by 2025 with the aim of minimizing construction and other risks (for example, by conducting a competitive tender process, structuring EPC contracts and managing the regulatory approval process) and ensuring financing and the profitability of the project. In addition, we aim to extend the service life of the Dukovany nuclear power plant beyond 2025. In the short-term, by 2016 we aim to increase the capacity of both the Temelín and the Dukovany nuclear power plants by upgrading their turbines.

We aim to diversify further our electricity generation portfolio by expanding renewable resource generation capacity to 3,000 MW by 2016, particularly by investing in wind farm projects in Poland, Germany and Romania, where we already put into operation part of the Fântânele and Cogeaalac wind farm. Once completed, the Fântânele and Cogeaalac wind farm is expected to be the largest on-shore wind farm in Europe, with a total installed capacity of up to 600 MW. We believe that in addition to the positive contribution to decreasing the CO₂ emission factor of our generation fleet, the renewable portfolio will (in light of its largely regulated nature) also serve as a relatively liquid pool of assets which may be divested should our balance-sheet come under pressure during the nuclear expansion (assuming financing of the renewable portfolio will be structured without recourse to the CEZ Group).

Optimize Production and Secure Consistent Supply of Fuel for our Coal-Fired Power Plants

In addition to further diversifying our means of electricity generation, we focus on securing fuel for the operation of our coal-fired power plants until the end of their useful commercial life. In order to decrease further our CO₂ emissions we finalized the retrofit of our coal-fired power plant in Tušimice (4 x 200 MW) and aim to finalize retrofit of our brown coal-fired power plant in Pruněřov (2 x 250 MW) and complete a new brown coal-fired power plant in Ledvice (660 MW).

Build a Stronger Presence in the Energy Sector in the Czech Republic

The regional heating sector in the Czech Republic is going through changes driven by decreasing coal quality and reserves, increasing coal prices, more stringent environmental legislation, development of new technologies and use of alternative fuels. We therefore aim to make use of these changes and strengthen our position in heating, co-generation, biomass and alternative fuel at the regional level in the Czech Republic.

Increase Operational Efficiencies and Profitability

We intend to retain our position as a leading Central and South East European power utility by making our operations more efficient and profitable. Accordingly, we have started to implement a number of cost-saving initiatives as part of our NEW VISION program, which we devised in 2010 and began implementing in 2011. Our principal objectives are: optimizing our internal functioning and cost structure; actively hedging the proceeds of electricity sales in the forward market; revising our acquisition strategy to emphasize countries where we have already developed leading market positions; and updating our capital expenditure program to reflect our changed goals and infrastructure needs. We also aim to secure additional savings in our cash-flow for our growth initiatives and improve our performance in the long-term in order to sustain our financial position. In achieving these savings, we seek to reduce the number of our subsidiaries and share best practice for managing our assets and support processes across all our business segments.

Our international operations have provided us leading positions in key markets in Central and South East Europe, and we believe we can build on these established market shares to enhance further our position. At this stage we are concentrating on integrating and consolidating our acquisitions, which includes speeding up the repatriation of finances and optimizing our cost structure in line with best practices.

Our Principal Markets

Overview

Our core business is the generation, distribution and sale of electricity in the Czech Republic. In the year ended December 31, 2011, 84.8% of our total installed electricity generation capacity, 91.5% of our total electricity generation, 60.8% of our total electricity distributed to end-consumers and 51.3% of our total sales of electricity to end-consumers was in the Czech Republic. In the year ended December 31, 2011, our operations in the Czech Republic contributed approximately 91% of our EBITDA.

According to the ERO, we accounted for approximately 72% of electricity generated, 63% of installed electricity generation capacity, 61% of electricity distribution in terms of the number of connection points and 38% of electricity sold to end-consumers in the Czech Republic in the year ended December 31, 2011. In addition, we are the largest producer of brown coal in the Czech Republic accounting for approximately 54% of the total volume of brown coal produced in the Czech Republic in 2011 (source: www.sdas.cz). In 2011, the remaining 28% share of electricity generated in the Czech Republic came from independent power producers and self generators.

To a lesser extent, we also generate electricity in Bulgaria, Poland and Romania and distribute and sell electricity to end-consumers in Albania, Bulgaria and Romania. In the year ended December 31, 2011, our operations in Albania, Bulgaria, Poland and Romania contributed approximately 0.9%, 2.5%, 2.2% and 3.3%, respectively, of our EBITDA.

Central Europe

Czech Republic

Macroeconomic conditions in the Czech Republic are relatively stable and have benefited from the performance of the Czech crown, lower levels of unemployment and the Czech Republic's recovery in growth since 2009. The strength of the Czech crown since 2009 is primarily due to sustained levels of low inflation and low interest rates in the Czech Republic. The Czech Republic has been a member of the European Union since 2004, however, in light of fiscal uncertainty in the European Monetary Union (the "EMU"), the Czech Government has indeterminately postponed the EMU accession process.

The Czech Republic is a medium-sized, manufacturing based and open economy driven by exports, predominantly to Germany. The Czech National Bank's stress tests indicate that the Czech banking system is prepared to absorb losses from severe adverse shock because of its low exposure to highly indebted European countries. CDS levels have also remained consistently below those of other Central Eastern European countries. In August 2011, the Czech Republic's credit rating was upgraded by Standard & Poor's Credit Market Services Europe Limited to AA- (Standard & Poor's Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated July 30, 2012)).

The Czech electricity market is an integral part of the wider European electricity market and the Czech Republic has a positive trade balance with most of its neighbors. The PXE was established in 2007 as a new business platform for trading electricity in the Czech Republic and the Slovak Republic. Due to cross-border integration and fully liberalized power prices, markets in the region are integrated and the primary price-setting market is Germany and its exchange in Leipzig. We expect that changes in Germany's energy policies and its shift away from nuclear and coal generation, will create expansion opportunities in these markets for well-positioned companies like the CEZ Group.

The Czech power market and sales to end-consumers are fully liberalized. The gas market is also fully liberalized and the basic rules governing its operation are similar to those governing the electricity market. For an overview of such rules, please see "*Regulation—Czech Republic*." Access to the transmission and distribution grids is regulated. The wholesale market in the Czech Republic is a part of the larger Central European market, primarily due to extensive cross-border transmission capacities between the Czech Republic and the transmission grids of neighboring countries. The Czech transmission system is operated by ČEPS, a.s.,

the sole holder of an electricity transmission license for the Czech Republic under the Czech Energy Act. Based on transmission services agreements, ČEPS, a.s. provides electricity transfer in the Czech Republic, controls power flows across the Czech transmission system, taking into account electricity exchange schedules agreed with neighboring transmission system operators as well as cooperating with distribution system operators.

According to the ERO, in the year ended December 31, 2011, electricity consumption by end-consumers in the Czech Republic decreased by 0.7 TWh, or 1.2%, to 58.6 TWh from 59.3 TWh in the year ended December 31, 2010.

Poland

The fragmented electricity generation and distribution market in Poland has been unified by new state-owned integrated companies: ENEA S.A, TAURON Polska Energia, Energa and Polska Grupa Energetyczna S.A. (“PGE”). Integration is based on the geographical location of these companies, except in relation to PGE which owns central and eastern distribution companies and power plants across Poland. The electricity market in Poland is liberalized (with some limits). In 2009, PGE, the largest state energy company in Poland, was privatized, whereas the tender for the sale of the state’s share in ENEA S.A. was unsuccessful. The Polish Electricity Grid is responsible for transmission in Poland and the Polish Power Exchange (the “POLPX”) provides electricity trading.

According to the Polish Energy Regulatory Office (Urząd Regulacji Energetyki), in the year ended December 31, 2011, electricity consumption by end-consumers in Poland increased by 3 TWh, or 1.9%, to 157.9 TWh from 154.9 TWh in the year ended December 31, 2010.

South East Europe

Albania

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

According to the Albanian Electricity Regulation Authority, in the year ended December 31, 2011, electricity consumption by end-consumers in Albania increased by 0.4 TWh, or 9.2%, to 5 TWh from 4.6 TWh in the year ended December 31, 2010.

Bulgaria

Approximately 72% of electricity generation in Bulgaria is controlled by the state through Bulgarian Energy Holding, which also owns the transmission grid (through its subsidiaries, National Electricity Company, ESO and EAD). In Bulgaria, the distribution companies are controlled by foreign companies: EVN Bulgaria, E.ON and us. The wholesale market is officially liberalized but due to the quota system set by the Bulgarian regulator, the majority of electricity has to be supplied for regulated prices to the transmission operator. Accordingly, only a small part of the market is effectively liberalized, but with no trading platform in place. As a result, only bilateral contracts are concluded and more than 80% of electricity generated is sold at regulated prices.

According to the Bulgarian electricity system operator (ESO), in the year ended December 31, 2011, electricity consumption by end-consumers in Bulgaria increased by 1.0 TWh, or 2.9%, to 35.0 TWh from 34.0 TWh in the year ended December 31, 2010.

Romania

Transmission and generation are state-owned in Romania and distribution is partly state-owned. The electricity market is unbundled but is not fully privatized. Liberalization of the Romanian electricity industry is ongoing, but approximately 60% of eligible customers are still regulated. Generation is split by fuel into separate companies: Termoelectrica, Hidroelectrica and Nuclearelectrica. Smaller generation sources, mostly CHPs, are also owned by counties and municipalities. Distribution is partially privatized with three regions serviced by state-owned Electrica and the remaining five regions privatized and serviced by foreign investors.

In the generation sector, only minor hydros and certain selected inefficient gas, oil and brown coal capacities are being privatized and foreign investment in new nuclear capacity is subject to ongoing negotiations. Transmission in Romania is handled by an independent state-owned company, Transelectrica.

According to ANRE, in the year ended December 31, 2011, electricity consumption by end-consumers in Romania increased by approximately 2.3 TWh, or 5.4%, to approximately 45.8 TWh from 43.4 TWh in the year ended December 31, 2010.

Our Business

Our core business activities include the generation of electricity in the Czech Republic, Poland, Bulgaria and Romania; the distribution and sale of electricity to end-consumers in the Czech Republic, Albania, Bulgaria and Romania; and the trading of electricity and energy commodities in the wholesale market for sale to our end-consumers as well as for our own account.

Electricity Generation

Overview

In the year ended December 31, 2011, we generated 69,209 GWh of electricity, of which 91.5% was generated in the Czech Republic. In the year ended December 31, 2011, 55.3% of our total electricity generated was generated by our coal-fired power plants, 40.9% was generated by our nuclear power plants and the remaining 3.8% was generated by our hydroelectric, solar and wind power plants. The total installed capacity of our generation facilities is 15,122 MW, of which 84.8% is in the Czech Republic, 8.3% is in Bulgaria, 4.8% is in Poland and 2.1% is in Romania.

In the Czech Republic, we own and operate 10 coal-fired power plants with total installed capacity of 5,940 MW, two nuclear power plants with total installed capacity of 3,970 MW, 35 hydroelectric power plants with total installed capacity of 1,935 MW, 13 solar (photovoltaic) power plants with total installed capacity of 125 MW and three wind power plants with total installed capacity of 10 MW. In addition, we own and operate a number of heat plants in the Czech Republic with total installed capacity of 833 MW.

The following table sets forth a breakdown of the total installed capacity of our power plants for the years ended December 31, 2009, 2010 and 2011.

	As of December 31,					
	2009		2010		2011	
	(MW)	(%)	(MW)	(%)	(MW)	(%)
Coal-fired power plants⁽¹⁾:						
<i>Central Europe</i>						
Czech Republic.....	6,612	45.9	6,758	45.0	6,773	44.8
Poland.....	728	5.1	728	4.8	728	4.8
Central Europe total.....	7,340	51.0	7,486	49.8	7,501	49.6
<i>South East Europe</i>						
Bulgaria.....	1,260	8.7	1,260	8.4	1,260	8.3
Total.....	8,600	59.7	8,746	58.2	8,761	57.9
Nuclear power plants:						
Czech Republic.....	3,830	26.6	3,900	26.0	3,970	26.3
Hydro, solar and wind power plants, biogas plants:						
<i>Central Europe</i>						
Czech Republic.....	1,963	13.7	2,070	13.8	2,071	13.7
Poland.....	2	0.0	2	0.0	2	0.0
Central Europe total.....	1,965	13.7	2,072	13.8	2,073	13.7
<i>South East Europe</i>						
Romania.....	-	-	300	2.0	318	2.1
Total.....	1,965	13.7	2,372	15.8	2,390	15.8
Total installed capacity⁽²⁾	14,395	100	15,018	100	15,122	100

(1) Includes 672 MW, 818 MW and 833 MW of installed capacity of our coal-, gas- and biomass-fired heat plants in the Czech Republic for the years ended December 31, 2009, 2010 and 2011, respectively.

(2) Some of our power plants are operated under joint venture agreements which are not fully consolidated. The installed capacity of these power plants was therefore not included in our total installed capacity. For the year ended December 31, 2011, these amounts included:

- 114 MW of installed capacity of our oil-fired power plant in Slovakia;
- 208 MW of installed capacity of our coal-fired power plants in Germany;
- 357.2 MW of installed capacity of our gas-fired power plants in Turkey;
- 15 MW of installed capacity of our wind power plant in Turkey; and
- 281.7 MW of installed capacity of our hydroelectric power plants in Turkey.

As of December 31, 2011, the total installed capacity of our generation facilities was 15,122 MW, representing an increase of 15 MW, or 0.1%, from 15,018 MW as of December 31, 2010. As of December 31, 2011, 12,813 MW, or 84.8% of our total installed capacity, was in the Czech Republic, of which 52.9% was coal-fired, 31.0% was nuclear and 16.2% was hydroelectric, solar and wind power combined.

The following table sets forth a breakdown of the total electricity generated by our power plants by type of energy for the years ended December 31, 2009, 2010 and 2011.

	For the year ended December 31,					
	2009		2010		2011	
	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Coal⁽¹⁾:						
<i>Central Europe</i>						
Czech Republic.....	31,530	48.3	32,912	48.1	33,031	47.7
Poland.....	2,259	3.4	2,059	3.0	2,198	3.2
Central Europe total.....	33,789	51.7	34,971	51.1	35,229	50.9
<i>South East Europe</i>						
Bulgaria.....	2,241	3.4	2,850	4.2	3,043	4.4
Total.....	36,030	55.1	37,821	55.3	38,272	55.3
Nuclear:						
Czech Republic.....	27,208	41.7	27,998	40.9	28,283	40.9
Hydro, solar and wind:						
<i>Central Europe</i>						
Czech Republic.....	2,104	3.2	2,353	3.4	2,007	2.9
Poland.....	2	0.0	5	0.0	6	0.0
Central Europe total.....	2,106	3.2	2,358	3.4	2,013	2.9
<i>South East Europe</i>						
Romania.....	-	-	256	0.4	641	0.9
Total.....	2,106	3.2	2,614	3.8	2,654	3.8
Total electricity generated⁽²⁾	65,334	100	68,433	100	69,209	100

⁽¹⁾ Includes electricity generated by our coal-, gas- and biomass-fired heat plants in the Czech Republic.

⁽²⁾ Some of our power plants are operated under joint venture agreements which are not fully consolidated. The amount of electricity they generated is therefore not included in our total electricity generated. For the year ended December 31, 2011, these amounts included:

- 508 GWh of electricity generated by our oil-fired power plant in Slovakia;
- 1,112.1 GWh of electricity generated by our coal-fired power plants in Germany;
- 1,697 GWh of electricity generated by our gas-fired power plants in Turkey;
- 51 GWh of electricity generated by our wind power plant in Turkey; and
- 847 GWh of electricity generated by our hydroelectric power plants in Turkey.

In the year ended December 31, 2011, 63,321 GWh of electricity, or 91.5% of our total electricity generated, was generated in the Czech Republic, of which 52.2% was generated by our coal-fired power plants and 44.7% was generated by our nuclear power plants.

In the year ended December 31, 2011, we generated 69,209 GWh of electricity, representing an increase of 776 GWh, or 1.1%, from 68,433 GWh in the year ended December 31, 2010. This increase was mainly due to an increase in electricity generated by the Dukovany nuclear power plant as a result of an increase in installed capacity, an increase in electricity generated by the Varna power plant in Bulgaria as a result of more frequent activation of its cold reserve, as well as an increase in electricity generated by our solar power plants in the Czech Republic and the Fântânele wind power plant in Romania, partially offset by a decrease in electricity

generated by our hydroelectric power plants in the Czech Republic as a result of lower water inflows compared to 2010.

Central Europe

Coal-fired power generation

Czech Republic. We own and operate 10 coal-fired power plants in the Czech Republic with installed capacity of 5,940 MW as of December 31, 2011. Our coal-fired power plants are situated in various locations throughout the Czech Republic, the largest concentration being in the brown coal mining region in the north-west. In the year ended December 31, 2011, our coal-fired power plants in the Czech Republic generated 33,031 GWh of electricity, representing 50.4% of our total electricity generated in Central Europe and 47.7% of our total electricity generated. Our coal-fired power plants in the Czech Republic accounted for 43.9% of our total installed capacity in Central Europe and 39.3% of our total installed capacity as of December 31, 2011 (Excluding 833 MW of installed capacity of our coal-, gas- and biomass-fired heat plants in the Czech Republic).

The following table sets forth certain information regarding our coal-fired power plants in the Czech Republic as of December 31, 2011.

Plant	Type of coal	Installed capacity (MW)	Start of operation	Desulphurization	Generation licenses valid until
Dětmarovice	Black/brown	4 x 200	1975 - 1976	1998	September 6, 2026
Chvaletice	Brown	4 x 200	1977 – 1978	1997, 1998	September 1, 2035
Ledvice II	Brown	2 x 110	1966	1996	September 6, 2026
Ledvice III	Brown	1 x 110	1968	1998	September 6, 2026
Mělník II	Brown	2 x 110	1971	1998	September 6, 2026
Mělník III	Brown	1 x 500	1981	1998	September 6, 2026
Počerady	Brown	5 x 200	1970 – 1971, 1977	1994, 1996	September 6, 2026
Pruněšov I	Brown	4 x 110	1967 – 1968	1995	September 6, 2026
Pruněšov II	Brown	5 x 210	1981 – 1982	1996	September 6, 2026
Tušimice II	Brown	4 x 200	1974 – 1975	1997	September 6, 2026
Total installed capacity		5,940			

As of December 31, 2011, we also owned and operated a number of heat plants in the Czech Republic with total installed capacity of 833 MW. Heat is also a by-product of the generation of electricity by our coal-fired power plants. Heat supplied by our power plants in the Czech Republic is sold to municipalities, district heating companies and industrial consumers. Heat is supplied to customers through steam/hot water pipelines that are owned and operated by us and third parties. In the year ended December 31, 2011, our coal-fired power plants and heat plants in the Czech Republic generated 14,281 TJ of heat.

Our coal-fired power plants have a diversified age profile which is affected by various factors including the availability of coal. We have a schedule of regular repairs and overhauls for our coal-fired power plants. Since January 1, 1999, all of our coal-fired power plants in the Czech Republic have complied with the requirements of the Czech Act on Air. Since December 31, 2003, fluidized-bed boiler (a type of boiler that reduces the content of sulfur dioxide emissions in the flue gasses during the combustion process) or flue-gas desulphurization (flue stack technology which reduces sulfur dioxide content in power plant emissions) equipment has been installed on all of our entirely coal-fired power plants and we have also installed or refurbished precipitators (which reduce emissions of ash) on all of our coal-fired power plants in the Czech Republic.

In the year ended December 31, 2011, our coal-fired power plants in the Czech Republic consumed 27.7 million tons of brown coal and 1.4 million tons of black coal. For information on our coal mining activities and

purchases of coal from third parties, please see “*Other Businesses—Coal Mining*” and “*Fuel—Coal*.” Our coal-fired power plants in the Czech Republic were assigned approximately 35.8 million tons of CO₂ emission allowances for the year ended December 31, 2011. For additional information on CO₂ emission allowances and the allocation of CO₂ emission allowances after 2012, please see “*Regulation—Czech Republic—Electric Energy Sector*” and “*—Emission Rights*”

Biomass in the form of wood chip, straw and pellets is combusted in our coal-fired power plants and heat plants in the Czech Republic. In the Czech Republic, we also own and operate one small heat plant that only burns biomass. Within our portfolio of renewable sources, biomass is the second most significant element after water. In the year ended December 31, 2011, we burned more than 440,000 tons of biomass in our power and heat plants in the Czech Republic, mostly in the form of co-burning with brown coal.

As part of our investment program to replace older power plants in the Czech Republic with new, more efficient and cleaner power plants, in 2007, we started work in connection with the construction of a new 660 MW unit at our Ledvice coal-fired power plant. The new unit is expected to commence operation by 2015 with an expected service life of 40 years. In 2007, we also started work in connection with the renewal of four 200 MW units at our Tušimice coal-fired power plant. Two units were completed in 2010, one unit was completed in 2011 and the remaining unit was completed in April 2012. The renewal program is expected to extend the service life of the Tušimice coal-fired power plant until 2035. In addition, the renewal of three 250 MW units at the Prunéřov coal-fired power plant, planned to start operating by 2015, is expected to extend the service life of the Prunéřov coal-fired power plant by 25-30 years.

Poland. We own and operate two black coal-fired power plants located in the southern region of Poland, the Elcho power plant with installed capacity of 238.4 MW and the Skawina power plant with installed capacity of 490 MW as of December 31, 2011. The Elcho power plant started operating in 2003. The Skawina power plant started operating in 1957 and was desulfurized in 2008. A license is necessary in order to generate electricity in Poland, which is issued by the Polish Energy Regulatory Office. The licenses of the Elcho power plant and the Skawina power plant for the generation of electricity and heat expire on December 31, 2023 and December 31, 2025, respectively.

In the year ended December 31, 2011, our coal-fired power plants in Poland generated 2,198 GWh of electricity, representing 3.4% of our total electricity generated in Central Europe and 3.2% of our total electricity generated. In the same year, our power plants in Poland generated 4,915 TJ of heat.

In the year ended December 31, 2011, our coal-fired power plants in Poland consumed 1.1 million tons of black coal and 212,000 tons of biomass and emitted 2.0 million tons of CO₂ emissions.

Other. Under a joint venture arrangement with MOL Nyrt, we also operate one power plant in Bratislava, Slovakia. Part of this power plant is being reconstructed which is expected to increase its installed capacity to 149 MW by the end of 2012. Our interest in this joint venture arrangement is not fully consolidated and therefore is not included in the calculations of our total electricity generation and our total installed capacity.

We also had interests in three small coal-fired power plants in Germany owned by MIBRAG with a total installed capacity of 208 MW as of December 31, 2011. Our interests were held under a joint venture arrangement with Energetický a průmyslový holding, a. s. which is not fully consolidated and therefore was not included in the calculations of our total installed capacity and our total electricity generated. In July 2011, we signed an agreement for the disposal of our interest in MIBRAG and in June 2012 the transaction was settled.

Nuclear power generation

Czech Republic. We own and operate two nuclear power plants in the Czech Republic, the Dukovany nuclear power plant and the Temelín nuclear power plant. In the year ended December 31, 2011, nuclear power generation accounted for approximately 43.2% of our electricity generated in Central Europe and 40.9% of our total electricity generated, as compared to 42.9% and 40.9%, respectively, in the year ended December 31, 2010. In the year ended December 31, 2011, our nuclear power plants accounted for 29.3% of our installed capacity in Central Europe and 26.3% of our total installed capacity.

The following table sets forth certain information regarding our nuclear-powered plants as of December 31, 2011.

Plant	Installed capacity (MW)	Start of operation
Dukovany	3 x 510; 1 x 440	1985 – 1987, reconstruction in 2009 and 2010
Temelín	2 x 1,000	December 2000
Total installed capacity	3,970	

Dukovany nuclear power plant. The construction of the Dukovany nuclear power plant commenced in 1979 and its four units became operational between May 1985 and July 1987. The power plant uses four Soviet designed VVER 440-V213 reactors with a total installed capacity of 1,970 MW. Outside Russia, such reactors are in operation in the Czech Republic, Finland, Hungary, Ukraine, Bulgaria and the Slovak Republic. The VVER 440-V213 reactors have proven to be robust and easy to operate with substantial safety margins, as demonstrated by the strong operational and safety performance of the reactors in such countries. The design of a VVER plant is generally considered to be identical to the design of PWR plants which are based on U.S. technology (in which water also acts as the moderator and the coolant) and which are the most common reactor type used commercially around the world.

Over the past 10 years, we have improved the safety features of the Dukovany nuclear power plant in accordance with the requirements of SONS. As part of our modernization program, we have also been progressively implementing recommendations resulting from domestic and foreign technical audits, including recommendations by the IAEA. In 2011, a re-certification audits of the Dukovany nuclear power plant were successfully completed by the State Office of Occupational Health and Safety and Environmental Safety Management Company (ISO 14001 certification).

Our ongoing “Safely 16 Tera EDU” project at the Dukovany nuclear power plant targets an annual production of 16 terawatt-hours by 2013 as well as further improving safety features. We expect this target to be achieved by increasing the efficiency of all four Units, using the power reserves of the Units and using the outage mode more effectively. Output is being increased by making modifications to the main generating equipment to bring it up to its full design capacity. Through unit transformer and turbogenerator rebuilds, fuel modifications, and other improvements, the target output of 510 MWe has so far been achieved on Units 1, 3 and 4 – one by one starting in 2009. Project implementation on Unit 2 will be completed in 2012.

Another key project at the Dukovany nuclear power plant is the Long-Term-Operation (“LTO”) project. It consists of approximately 230 smaller sub-projects with combined estimated costs of more than CZK 14 billion between 2009 and 2015. The goal of the LTO project is to prepare the Dukovany nuclear power plant to operate beyond its original designed lifespan. The aim of the first phase is to secure the license for operation of the Dukovany nuclear power plant from 2015 to 2025 with the view to prolong the license even further to 2045. Since 2009, we have continued to modernize equipment at the Dukovany nuclear power plant, improve safety and security and fulfill SONS requirements for the operation of the Dukovany nuclear power plant after 2015.

The projected lifetime of the Dukovany nuclear power plant is 40 years, although it may be possible to extend the projected lifetime by up to an additional 20 years based on the level of usage. SONS grants operating licenses that are renewable upon application. The following table sets forth the status of our licenses at the Dukovany nuclear power plant as of the date of this Base Prospectus.

Unit	License valid from	License valid until
1	January 1, 2006	December 31, 2015
2	January 1, 2007	December 31, 2016
3	January 1, 2008	December 31, 2017
4	January 1, 2008	December 31, 2017

Temelín nuclear power plant. The construction of the Temelín nuclear power plant commenced in 1987. Following the fall of the Communist regime in 1989, completion of the Temelín nuclear power plant became a political issue and the government stopped construction of Unit 3 and Unit 4. In March 1993, the government approved the completion of two units, out of four units originally planned, and at the same time ordered a

fundamental change in the design of the power plant, primarily to enhance operational safety. This change consisted of adapting the Soviet plant technology to function with Western instrumentation and control systems. The adaptation of U.S. technology to the original Soviet plant construction was supplied by The Westinghouse Electricity Company LLC. It was the first such adaptation of its kind and as a result of extensive design and construction changes, the estimated completion date for the Temelín nuclear power plant was delayed several times. In July 2000, the Unit 1 reactor was loaded with nuclear fuel and started up on October 11, 2000 and it generated its first kilowatt-hour of electricity on December 21, 2000. On December 29, 2002, electricity was generated for the first time from Unit 2.

In September 2010, a new spent fuel storage facility became operational on a trial basis and the first spent fuel container was loaded to the prepared temporary storage. Fuel from Unit 1 was replaced with Russian TVEL fuel. A year later, the same change was also made at Unit 2. In 2011, our “Safely 15 Tera” project continued with its aim of improving available capacity and reducing equipment failure rates. We currently expect the Temelín nuclear power plant to generate an annual total of 15 TWh of electricity for the first time in the year ended December 31, 2012.

The projected lifetime of the Temelín nuclear power plant is 40 years, although it is technically possible to extend the projected lifetime by an additional 20 years. SONS grants operating licenses that are renewable upon application. On October 7, 2010, before the original ten-year license expired on October 11, 2010, we obtained a license from SONS to operate Unit 1 of the Temelín nuclear power plant for a further ten-year period. In order to obtain the license, regular evaluations of the plant’s safety are carried out. These evaluations involve checks on whether the power plant has been, is and will be for at least another ten years, safely operated. The license contains operational conditions stipulated by SONS. The license on Unit 2 expires on May 31, 2022.

The following table sets forth the status of licenses at the Temelín nuclear power plant as of the date of this Base Prospectus.

Unit	License valid from	License valid until
1	October 11, 2010	October 12, 2020
2	October 11, 2004	May 31, 2022

In 2009, our business plan for completion of the Temelín nuclear power plant was approved by our Board of Directors and we subsequently started the procurement procedures for the supply of two new reactor units, with a possible option for up to three additional reactor units in Europe. The qualification phase of the tender was completed in February 2010 with The Westinghouse Electric Corporation, AREVA NP and a consortium of ŠKODA JS, JSC Atomexport and JSC OKB Gidropress all fulfilling the conditions for qualification. In October 2011 the final tender information memorandum was provided to the qualified bidders. In July 2012 we received bids, on October 5, 2012 we informed AREVA that their bid had to be excluded from further evaluation as it failed to meet statutory requirements and other crucial criteria defined in the tender. On October 19, 2012 AREVA objected this decision. We expect to sign an agreement with the successful bidder by the end of 2013.

Decommissioning of the nuclear power plants. Pursuant to the Czech Nuclear Act, we will be responsible for decommissioning each of our nuclear power plants. We are providing funds for the future costs of decommissioning our nuclear power plants on a straight-line basis over the operating life of the relevant nuclear power plant. Total decommissioning costs are currently estimated to be CZK 17.3 billion for the Dukovany nuclear power plant and CZK 14.6 billion for the Temelín nuclear power plant. These decommissioning cost estimations are submitted for verification to the Czech Repository Authority. In order to accumulate an adequate amount of funds to cover the ultimate costs of decommissioning of the plants after their useful life, we periodically review the decommissioning cost estimates and update our decommissioning provisions. The last updates of decommissioning costs for the Dukovany and Temelín nuclear power plants were in 2008 and 2009, respectively. We currently expect to review these decommissioning cost estimates again in 2013 for the Dukovany nuclear power plant and 2014 for the Temelín nuclear power plant.

To cover the costs of decommissioning, we are required by the Czech Nuclear Act to contribute to special escrow accounts. For the years ended December 31, 2009, 2010 and 2011, our annual contribution to

the escrow accounts was CZK 326 million (CZK 165.5 million in respect of the Dukovany nuclear power plant and CZK 160.5 million in respect of the Temelín nuclear power plant). As of December 31, 2011, restricted funds representing accumulated provision for the decommissioning of our nuclear power plants totaled CZK 8,522 million, representing an increase of CZK 691 million, or 8.8%, from CZK 7,831 million as of December 31, 2010. These restricted funds are shown in the balance sheet of our audited consolidated financial statements, included elsewhere in this Base Prospectus, under “non-current financial assets.” We have established provisions to recognize our estimated liabilities for nuclear decommissioning in the form of an accounting reserve, which as of December 31, 2011 amounted to CZK 9,183 million, representing an increase of CZK 390 million, or 4.4%, from CZK 8,793 million as of December 31, 2010.

Hydroelectric power generation

Czech Republic. We own and operate 35 hydroelectric power plants in the Czech Republic, comprising seven accumulation power plants, three pumped storage hydro power plants and 25 small-scale hydro power plants. In the year ended December 31, 2011, our hydroelectric power plants in the Czech Republic generated 1,868 GWh of electricity, representing approximately 2.9% of our electricity generated in Central Europe and 2.7% of our total electricity generated, compared to 3.6% and 3.4%, respectively, for the year ended December 31, 2010. This decrease was primarily due to lower water inflows compared to in 2010. Our hydroelectric power plants in the Czech Republic accounted for 14.3% of our total installed capacity in Central Europe and 12.8% of our total installed capacity as of December 31, 2011.

Ten of our hydroelectric plants are situated on dams on the Vltava river in the Czech Republic creating a cascade operation (the Vltava Cascade) controlled by a central control system. The dams and related waterworks used by our hydroelectric power plants are owned by the relevant river-basin administrators with whom we have an agreement, although we own the Želina, Čeňkova Pila, Plzeň-Bukovec and Vydra dams and related waterworks.

Hydroelectric power plants have a high degree of flexibility in the regulation of their output. The ability to control hydroelectric power plants centrally, permits the hydroelectric plants to commence operation rapidly thereby facilitating the regulation of electricity output. Neither conventional storage nor pump storage hydroelectric power plants release polluting emissions into the atmosphere. These plants also represent an inexpensive source of electricity, particularly in periods of peak demand. In addition, pump storage power plants allow the productive use of excess electricity generated by base load plants by operating storage pumps in periods of low demand. Further development of hydroelectric power generation in the Czech Republic is limited by the topography and as a result we do not currently expect to construct any new hydroelectric power plants in the Czech Republic.

Our hydroelectric power plants may sustain damage in floods. In 1997, one of our hydroelectric power plants suffered minor damage caused by flooding and in 2002, seven out of nine of our hydroelectric power plants located on the Vltava river were damaged by floods. This damage was covered by our insurance.

The following table sets forth certain information regarding our hydroelectric power plants in the Czech Republic as of December 31, 2011.

<u>Plant</u>	<u>Installed capacity (MW)</u>	<u>Type of plant</u>	<u>Start of operation</u>
Kamýk	4 x 10	Accumulation	1961
Lipno I	2 x 60	Accumulation	1959
Orlík	4 x 91	Accumulation	1961 – 1962
Slapy	3 x 48	Accumulation	1954 – 1955
Štěchovice I	2 x 11.25	Accumulation	1943 – 1944
Vrané	2 x 6.94	Accumulation	1936
Střekov	3 x 6.5	Accumulation	1936
Dlouhé Stráně II	1 x 0.163	Small Hydro	2000

Hněvkovice	2 x 4.8	Small Hydro	1992
Kořensko I	2 x 1.9	Small Hydro	1992
Kořensko II	1 x 0.94	Small Hydro	2000
Lipno II	1 x 1.5	Small Hydro	1957
Mohelno	1 x 1.2; 1 x 0.56	Small Hydro	1977, 1999
Želina	2 x 0.315	Small Hydro	1994
Brno — Kníničky	1 x 3.1	Small Hydro	1941, reconstruction 2010
Brno — Komín	1 x 0.106; 1 x 0.140	Small Hydro	1923, reconstruction 2008
Čenkova pila	1 x 0.096	Small Hydro	1912
Černé jezero	1 x 1.5; 1 x 0.04; 1 x 0.37	Small Hydro	1930, 2004, 2005
Hradec Králové	3 x 0.25	Small Hydro	1926
Hracholusky	1 x 2.55	Small Hydro	1964, reconstruction 2006
Les Kralovství	2 x 1.105	Small Hydro	1923, reconstruction 2005
Obříství	2 x 1.679	Small Hydro	1995
Pardubice	2 x 1.96	Small Hydro	1978, reconstruction during 2012
Práčov	1 x 9.75	Small Hydro	1953, reconstruction 2001
Pastviny	1 x 3	Small Hydro	1938, reconstruction 2003
Plzeň — Bukovec	2 x 0.315	Small Hydro	2007
Předmeřice nad Labem	1 x 2.6	Small Hydro	1953, reconstruction 2009
Přelouč	1 x 0.68 2 x 0.49	Small Hydro	1927, reconstruction 2005
Spálov	2 x 1.2	Small Hydro	1926, reconstruction 1999
Spytihněv	2 x 2	Small Hydro	1951, reconstruction 2009
Vydra	2 x 3.2	Small Hydro	1939, reconstruction 2006
Mělník	1 x 0.59	Small Hydro	2010
Dalešice	4 x 112.5	Pump Storage	1978
Dlouhé Stráně I	2 x 325	Pump Storage	1996
Štěchovice II	1 x 45	Pump Storage	1947 – 1949, reconstruction 1996
Total installed capacity	1,935.2		

Poland. We own and operate one small hydroelectric power plant in Poland with installed capacity of 1.6 MW. This hydroelectric power plant was built in 1961 and is located in the territory of our Skawina coal-fired power plant. In the year ended December 31, 2011, the Skawina hydro power plant generated 6 GWh of electricity.

Solar power generation

Czech Republic. In 2010, we acquired 13 solar power plants in the Czech Republic with total installed capacity of 125.2 MW and as a result we became eligible for feed-in tariffs in the Czech Republic. In the year ended December 31, 2011, our solar power plants in the Czech Republic generated 130 GWh of electricity.

All of our solar power plants in the Czech Republic are located in regions where the conditions are suitable for solar generation. The Vranovská Ves, Žabčice, Hrušovany nad Jevišovkou and Pánov solar power plants are situated in the southernmost part of the region of South Moravia which is generally the sunniest region in the Czech Republic, with the highest average number of days of sun. The majority of our solar power plants started operating in 2009 and 2010.

There was a significant increase in the number of newly connected renewable sources of electricity in the Czech Republic in 2009, primarily due to state support (mandatory purchasing and bonuses) for generation of

electricity from renewable sources of energy. In particular, solar power generation increased, primarily due to a significant decrease in the cost of solar (photovoltaic) technology. However, due to legislative amendments in the area of support for generation of electricity from renewable sources in 2010, the conditions for supporting solar power plants were not as favorable in 2011 and the trend towards rapid growth in the number of new solar generation installations, seen in 2009 and especially in 2010 did not continue.

Wind power generation

Czech Republic. We own and operate three wind power plants in the Czech Republic with total installed capacity of 9.7 MW. In the year ended December 31, 2011, these wind power plants generated 9.1 GWh of electricity.

Poland. In 2011, we acquired a 67% interest in Eco-Wind Construction S.A., a leading wind farm developer in Poland, with an option to acquire the remaining 33% share. Eco-Wind Construction S.A. develops wind farms and its portfolio of projects includes 21 wind farms at various stages of development, although six of these projects are currently expected to be divested.

Gas-fired power generation

Czech Republic. In April 2011, we started construction of a 841 MW gas-fired power plant in Počerady, Czech Republic with an expected service life of 30 years. We currently expect this power plant to be completed in 2013.

Other. A number of gas-fired power plant projects are currently under development. In 2010, we received a building permit to build the Dufi CCGT power plant in Hungary with our joint venture partner MOL nyrt. The Dufi CCGT power plant is expected to have an installed capacity of 830 MW and a service life of 30 years. Commissioning of the Dufi CCGT power plant is currently planned for 2015, although gas negotiations are currently ongoing.

The permit process and negotiations relating to the planned construction of the Slovnaft CCGT power plant in Slovakia with our joint venture partner MOL nyrt are currently on hold. The Slovnaft CCGT is expected to have an installed capacity of approximately 870 MW and a service life of 30 years from completion.

South East Europe

Coal-fired power generation

Bulgaria. We own and operate the Varna coal-fired power plant in Bulgaria. In the year ended December 31, 2011, the Varna power plant generated 82.6% of our total electricity generated in South East Europe and 4.4% of our total electricity generated. In the year ended December 31, 2011, the Varna power plant had a total installed capacity of 1,260 MW and accounted for 8.3% of our total installed capacity. The Varna power plant commenced operations in 1968-1969 and has not been desulfurized (the process of removing sulfur dioxide (SO₂) from exhaust flue gases of fossil-fuel power plants). A license is necessary in order to generate electricity in Bulgaria, which is issued by the State Commission for Energy and Water Regulation. The electricity generation license of TPP Varna expires in February 2021. If the Varna power plant is not desulfurized pursuant to the Integrated Pollution Prevention and Control (IPPC) permit, it may be decommissioned by the end of 2014. However, we currently expect to desulfurize the power units of the Varna power plant and extend production beyond 2015.

In the year ended December 31, 2011, the Varna power plant generated 3,043 GWh of electricity, representing an increase of 193 GWh, or 6.8%, from 2,850 GWh in the year ended December 31, 2010. This increase was primarily due to an increase in the amount of electricity generated by the Varna power plant for sale to the regulated market, in particular due to the activation of the cold reserve due to colder weather and higher electricity consumption at the end of 2011. The State Commission for Energy and Water Regulation approves the price of electricity sold to the national supplier and the price of available power (including cold reserve). Since 2007, the approved prices of electricity have generally been lower than the production costs of the Varna power plant. However, the main driver of profitability for the Varna power plant is available power from cold reserve (approximately 60% of the Bulgarian power reserve) and sales of CO₂ emission allowances allocated for free.

In the year ended December 31, 2011, the Varna power plant consumed a total of 1.3 million tons of black coal and emitted 3.2 million tons of CO₂ emissions. For more information on purchases of coal in Bulgaria, please see “*Fuel—Coal.*”

In the year ended December 31, 2011, the Varna power plant also generated and supplied a small amount of heat (5 TJ) to sites in its vicinity.

Hydroelectric power generation

Romania. We own and operate four hydroelectric power plants at the Resita Site in Romania with total installed capacity of 18 MW. In the year ended December 31, 2011, these hydroelectric power plants generated 21 GWh of electricity.

Turkey. We have a joint venture interest in five small hydroelectric power plants located in Turkey with total installed capacity of 281.7 MW as of December 31, 2011. Our interest is not fully consolidated and therefore is not included in the calculations of our total installed capacity and our total electricity generated.

Wind power generation

Romania. We own and operate one wind power plant in Fântânele, Romania. The Fântânele power plant generated 620 GWh of electricity in the year ended December 31, 2011, representing approximately 16.8% of our total electricity generated in South East Europe and 0.9% of our total electricity generated in the year ended December 31, 2011. As of December 31, 2011, the 120 wind turbines of the Fântânele power plant had a total installed capacity of 300 MW and accounted for 2.0% of our total installed capacity.

Our total installed wind power generation capacity has significantly increased following the completion of part of the construction of the 600 MW Fântânele and Cogeaalac wind power projects in Romania. The Fântânele and Cogeaalac project will become operational in stages with the first stage comprising 347.5 MW and the second stage comprising 252.5 MW. During 2011, we built 12 additional turbines in Fântânele as well as 13 turbines in Cogeaalac and these new turbines will be included in our installed capacity for the first time in 2012. By the end of 2011, 132 turbines from the first phase of the project were built and connected to the transmission system in Romania. We currently expect the second stage of the project in Cogeaalac to be completed by the end of 2012. As of December 31, 2011, our total investment in the Fântânele and Cogeaalac wind power projects is estimated at €1.1 billion.

Green certificates are awarded to the Fântânele wind power plant as part of the Romanian support scheme for renewables. The price range for green certificates is set by law at €27-55 per green certificate. Under current legislation, two green certificates should be received for each MWh of electricity generated until 2017, reducing to one green certificate per MWh of electricity generated thereafter.

Turkey. We also have an interest in the Ayyildiz RES wind power plant located in Turkey with total installed capacity of 15 MW as of December 31, 2011. Our interest in this joint venture arrangement is not fully consolidated and therefore is not included in the calculations of our total installed capacity and our total electricity generated.

Gas-fired power generation

Turkey. Pursuant to joint venture arrangements with the AKKÖK Group, we have interests in three gas-fired power plants in Turkey, with a total installed capacity of 357.2 MW as of December 31, 2011. Our interests in these joint venture arrangements are not fully consolidated and therefore are not included in the calculations of our total electricity generated and our total installed capacity.

In 2011, we started building an additional gas-fired power plant in Turkey, the Hatay (Egemer) CCGT power plant, as part of our joint venture with the AKKÖK Group. The Hatay CCGT power plant is expected to have a total installed capacity of 800-900 MW and a service life of 30 years. We currently expect this gas-fired power plant to be completed during 2014. Our interest in this joint venture arrangement will not be consolidated and therefore will not be included in the calculations of our total electricity generated and our total installed capacity.

Distribution and Sale of Electricity

Overview

Distribution of electricity

In the Czech Republic, we distributed electricity to more than 3.5 million connection points covering an area of approximately 52.7 thousand square kilometers as of December 31, 2011, making us the largest of the three regional distributors of electricity in the country (source: ERO). In addition, we are one of the largest of eight regional distribution companies in Romania (source: ANRE, CEZ) and we have majority interests in the principal distribution company in Albania and Bulgaria. In the year ended December 31, 2011, we distributed a total of 53,628 GWh of electricity to end-consumers, of which 60.8% was distributed to end consumers in the Czech Republic, 17.1% was distributed to end-consumers in Bulgaria, 13.7% was distributed to end-consumers in Romania and 8.4% was distributed to end-consumers in Albania.

The table below sets forth certain information regarding the volume of electricity distributed by us (including grid losses) in each of our principal markets in the year ended December 31, 2011.

	For the year ended December 31, 2011					
	Distributed to end-consumers		Distributed to others ⁽¹⁾		Grid losses	
	(GWh)	(%)	(GWh)	(%)	(Gwh)	(%)
Central Europe:						
Czech Republic.....	32,613	60.8	6,886	75.8	2,549	34.8
South East Europe:						
Albania.....	4,487	8.4	--	--	2,006	27.4
Bulgaria.....	9,193	17.1	3	0.0	1,429	19.5
Romania.....	7,335	13.7	2,193	24.2	1,337	18.3
South East Europe total.....	21,015	39.2	2,196	24.2	4,772	65.2
Total.....	53,628	100	9,082	100	7,321	100

⁽¹⁾ Electricity distributed to others mainly includes electricity distributed to our distribution centers, specifically our power plants for consumption by us.

As of December 31, 2011, we owned and operated 344,933 kilometres of high-, medium- and low-voltage electricity distribution lines, 46% of which were in the Czech Republic. Our distribution grid losses were 7,321 GWh of electricity in the year ended December 31, 2011, representing a decrease of 53 GWh, or 0.7%, from 7,374 GWh in the year ended December 31, 2010.

Sale of electricity

Our sales business sells electricity (procured by our trading business from our generation business and the wholesale market) to end-consumers in the Czech Republic, and, to a lesser extent, to end-consumers in Romania, Bulgaria and Albania. We are the largest of more than 40 suppliers of electricity currently operating in the Czech Republic in terms of volume of electricity sold to end-consumers (source: ERO). In the year ended December 31, 2011, we sold 42,846 GWh of electricity to end-consumers, of which 21,969 GWh was sold to end-consumers in the Czech Republic (10,085 GWh to industrial (high-voltage) customers, 3,579 GWh to commercial (medium- and low-voltage) customers and 8,305 GWh to household (low-voltage) customers).

The following table sets forth the volume of electricity sold by type of end-consumer in each of our principal markets in the year ended December 31, 2011.

	For the year ended December 31, 2011							
	Household		Commercial		Industrial		Total	
	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Central Europe:								
Czech Republic.....	8,305	49.5	3,579	42.8	10,085	57.0	21,969	51.3
Hungary.....	--	--	--	--	1,382	7.8	1,382	3.2
Poland.....	--	--	--	--	95	0.5	95	0.2
Slovakia.....	--	--	9	0.1	1,041	5.9	1,050	2.5
Central Europe total.....	8,305	49.5	3,588	42.9	12,603	71.2	24,496	57.2
South East Europe:								
Albania.....	2,646	15.8	999	12.0	1,386	7.8	5,031	11.7
Bulgaria.....	4,287	25.5	2,837	33.9	2,900	16.4	10,024	23.4
Romania.....	1,555	9.2	935	11.2	805	4.6	3,295	7.7
South East Europe total.....	8,488	50.5	4,771	57.1	5,091	28.8	18,350	42.8
Total.....	16,793	100	8,359	100	17,694	100	42,846	100

In the year ended December 31, 2011, approximately 44% of the total electricity sold to end-consumers was sold on a forward basis of one to three years, primarily to industrial customers.

Central Europe

Distribution of electricity

We distribute electricity in nine of the 14 regions of the Czech Republic, namely Plzeň, Karlovy Vary, Ústí nad Labem, Central Bohemia, Liberec, Hradec Králové, Pardubice, Olomouc, and Moravia-Silesia. In the year ended December 31, 2011, we distributed 32,613 GWh of electricity to end-consumers making us the largest of the three distribution companies in the Czech Republic (source: CEZ Group Annual Report 2011, ERO). We do not distribute electricity to end-consumers in any other country in Central Europe.

As of December 31, 2011, we owned and operated 158,267 kilometres of distribution lines in the Czech Republic, of which 6% were high-voltage, 32% were medium-voltage and 62% were low-voltage. Our distribution grid losses were 2,549 GWh of electricity in the year ended December 31, 2011, representing a decrease of 68.3 GWh, or 2.6%, from 2,617 GWh in the year ended December 31, 2010. We mainly cover losses in our distribution grid by purchasing electricity generated from renewable sources of energy.

Our distribution business in the Czech Republic is regulated by the ERO. A license is necessary in order to distribute electricity, which is issued by the ERO for a defined period, which is specified in the license. Our license for the distribution of electricity in the Czech Republic was issued on October 1, 2010 and expires on October 1, 2035. Prices for distribution services are also regulated by the ERO.

Sale of electricity

In the year ended December 31, 2011, we sold 21,969 GWh of electricity to end-consumers in the Czech Republic, representing a decrease of 12.6% compared to the year ended December 31, 2010. This decrease was primarily due to the increased competition for business from end-consumers in 2011. Our market share of sales to end-consumers in the Czech Republic in the year ended December 31, 2011 was approximately 37.9%, compared to 42.5% in 2010, according to data published by the ERO. In the year ended December 31, 2011, we sold 10,085 GWh of electricity to industrial customers, 3,579 GWh of electricity to commercial customers, and we sold the remaining 8,305 GWh of electricity to household customers, representing 23.5%, 8.4% and 19.4%, respectively, of our total sales of electricity to end-consumers.

In terms of the end-consumer market for electricity in the Czech Republic, 2010 was characterized by the aftermath of the economic crisis and the beginning of a recovery in demand, in the form of moderate growth in end-consumption. Competition in the end-consumer market was strong in 2010 and customers had the

choice of at least six offers from various electricity dealers. Pressure from smaller, alternative suppliers continued in 2010, while established electricity suppliers provided consumers with high-quality care and services, relative stability, and an ever-expanding offer of electricity products. However, we believe that we still have the most extensive portfolio in the Czech Republic, consisting of more industrial customers compared to the portfolios of our competitors.

Developments in the Czech market also correlate closely with the situation in European markets in the same period following market liberalization. In previous years, the liberalization of the electricity market did not have a significant effect on the commercial and household segment. However, in 2010, market players followed in the footsteps of companies in other European markets and began to compete intensely for these customers as well. A key role was played by smaller suppliers who made increased use of door-to-door sales. As a result, during 2010, the number of customers changing their electricity supplier increased to tens of thousands per month. The high number of people changing suppliers was also as a result of Rheinisch-Westfälisches Elektrizitätswerk (“RWE”), one of the largest German energy groups with operations in the Czech Republic, expanding its services portfolio to include electricity. For this reason, we focused our attention on retention activities in the small commercial and household segment with the objective of minimizing the number of customers leaving us to join our competitors.

In 2011, competition for end-consumers in the Czech Republic continued to be strong and there was a record number of supplier changes. Small suppliers continued to take advantage of door-to-door sales and offered low prices to household customers. During 2011, RWE became the strongest and most active competitor of our sales business in the Czech Republic. As a result, despite our retention activities, our market share in the household and commercial segment decreased in 2011.

The sale of electricity in the Czech Republic is regulated by the Czech Energy Act and the ERO. A license is necessary in order to sell electricity, which is issued by the ERO for a maximum of five years. Our license for the sale of electricity in the Czech Republic was issued on September 2, 2010 and expires on September 1, 2015. The price of electricity comprises two amounts: the regulated amount, to cover transmission, distribution and system services, and the unregulated amount, which is for the sale of the electricity itself.

South East Europe

Distribution of electricity

Romania. In the year ended December 31, 2011, we distributed 7,335 GWh of electricity to end-consumers making us one of the largest of eight regional distribution companies in Romania (source: ANRE, CEZ). As of December 31, 2011, we distributed electricity to approximately 1.4 million connection points in Romania and had a market share of approximately 16% according to data published by ANRE. Our distribution grid losses in Romania were 1,337 GWh of electricity in the year ended December 31, 2011, representing a decrease of 39 GWh, or 2.8%, from 1,376 GWh in the year ended December 31, 2010.

Our distribution business in Romania is regulated by ANRE. A license is necessary in order to distribute electricity, which is issued by ANRE for a maximum term of 25 years. Our license for the distribution of electricity in Romania was issued on April 29, 2002 and expires on April 28, 2027. Prices for distribution services are also regulated by ANRE and are established annually.

Bulgaria. We own a majority interest in the principal distribution company in Bulgaria. In the year ended December 31, 2011 we distributed 9,193 GWh of electricity to end-consumers. As of December 31, 2011, we distributed electricity to approximately 2.0 million connection points in Bulgaria and had a market share of approximately 40% according to data published by the State Commission for Energy and Water Regulation. Our distribution grid losses in Bulgaria were 1,429 GWh of electricity in the year ended December 31, 2011, representing a decrease of 41 GWh, or 2.8%, from 1,470 GWh in the year ended December 31, 2010.

Our distribution business in Bulgaria is regulated by the State Commission for Energy and Water Regulation. A license is necessary in order to distribute electricity, which is issued by the State Commission for Energy and Water Regulation for a maximum term of 35 years. Our license for the distribution of electricity in

Bulgaria was issued on August 13, 2004 and expires on August 13, 2039. Prices for distribution services are also regulated by the State Commission for Energy and Water Regulation.

Albania. We own a majority interest in the sole distribution company in Albania. In the year ended December 31, 2011, we distributed 4,487 GWh of electricity to end-consumers. As of December 31, 2011, we distributed electricity to approximately 1.1 million connection points in Albania and had a market share of 100% according to data published by the Albanian Electricity Regulation Authority. Our distribution grid losses in Albania were 2,006 GWh of electricity in the year ended December 31, 2011, representing an increase of 95 GWh, or 5.0%, from 1,911 GWh in the year ended December 31, 2010. The replacement of obsolete power lines with insulated cables and the installation of new electricity meters at all connection points helped us to reduce losses and increase the volume of electricity consumption invoiced in 2011 as compared to 2010.

Our distribution business in Albania is regulated by the Albanian Electricity Regulation Authority. A license is necessary in order to distribute electricity, which is issued by the Albanian Electricity Regulation Authority for a maximum term of 30 years. Our license for the distribution of electricity in Albania was issued in June 2008 and expires in June 2038. Prices for distribution services are also regulated by the Albanian Electricity Regulation Authority.

Turkey. In the year ended December 31, 2011, we distributed 8,256 GWh of electricity to end-consumers in Turkey through Sakarya Elektrik Dagitim A.S., an unconsolidated entity owned under a joint venture arrangement, representing an increase of 470 GWh, or 6.0%, from 7,786 GWh in the year ended December 31, 2010. Our Turkish distribution business is operated under a joint venture arrangement which is not fully consolidated and therefore is not included in the calculations of our total electricity distributed or our total electricity distributed to end-consumers.

Sale of electricity

Romania. In the year ended December 31, 2011, we sold 3,295 GWh of electricity to end-consumers in Romania, representing an increase of 1.4% compared to the year ended December 31, 2010. In the year ended December 31, 2011, we sold 805 GWh of electricity to industrial customers, 935 GWh of electricity to commercial customers and we sold the remaining 1,555 GWh of electricity to household customers, representing 1.9%, 2.2% and 3.6%, respectively, of our total sales of electricity to end-consumers. Our market share of sales to end-consumers in Romania in the year ended December 31, 2011 was approximately 8% according to data published by ANRE.

The sale of electricity in Romania is regulated by ANRE. A license is necessary in order to sell electricity in Romania, which is issued by the Romanian Energy Regulatory Authority for a maximum term of ten years. Our license for the sale of electricity in Romania was issued on March 15, 2007 and expires on March 14, 2017. The price of electricity on the unregulated market in Romania is unregulated and freely negotiable between market participants, except for the price of electricity supplied by default suppliers and last resort suppliers.

Bulgaria. In the year ended December 31, 2011, we sold 10,024 GWh of electricity to end-consumers in Bulgaria, representing an increase of 3.3% compared to the year ended December 31, 2010, primarily due to an increase in consumption by commercial customers. In the year ended December 31, 2011, we sold 2,900 GWh of electricity to industrial customers, 2,837 GWh of electricity to commercial customers and we sold the remaining 4,287 GWh of electricity to household customers, representing 6.8%, 6.6% and 10.0%, respectively, of our total sales to end-consumers. Our market share of sales to end-consumers in Bulgaria in the year ended December 31, 2011 was approximately 40% according to data published by the State Commission for Energy and Water Regulation.

The sale of electricity in Bulgaria is regulated by the State Commission for Energy and Water Regulation. A license is necessary in order to sell electricity in Bulgaria, which is issued by the State Commission for Energy and Water Regulation. Our license for the sale of electricity in Bulgaria was issued on November 29, 2006 and expires on August 13, 2039. The price of electricity in Bulgaria's regulated market is regulated by the State Commission for Energy and Water Regulation.

Albania. In the year ended December 31, 2011, we sold 5,031 GWh of electricity to end-consumers in Albania, representing an increase of 9.2% compared to the year ended December 31, 2010. This increase was primarily due to the installation of new electricity meters at all connection points which helped to increase the volume of electricity consumption invoiced. In the year ended December 31, 2011, we sold 1,386 GWh of electricity to industrial customers, 999 GWh of electricity to commercial customers and we sold the remaining 2,646 GWh of electricity to household customers, representing 3.2%, 2.3% and 6.2%, respectively, of our total sales to end-consumers. As the sole distributor and supplier of electricity in Albania, our market share of sales to end-consumers was 100% in the year ended December 31, 2011.

The difference between the amount of electricity distributed to end-consumers (4,487 GWh) and the amount of electricity sold to end-consumers (5,031 GWh) in Albania is due to the fact that electricity is sold to certain customers that are connected outside of our distribution grid. We expect to see steady growth at a moderate rate in Albania in terms of the amount of electricity distributed and the amount of electricity sold to end-consumers based on our position in the market and the outlook for continued growth in the Albanian economy. At the same time, we aim to continue to improve and make technical modifications to our invoicing system. As a result, the reported volumes of electricity distributed and sold may offset one another in year-on-year terms, despite the growth trend in electricity consumption.

The sale of electricity in Albania is regulated by the Albanian Electricity Regulation Authority. A license is necessary in order to sell electricity in Albania, which is issued by the Albanian Electricity Regulation Authority. Our license for the sale of electricity in Albania was issued in June 2008 and expires in June 2013.

Turkey. In Turkey, we sold 6,106 GWh of electricity to end-consumers in the year ended December 31, 2011 through Akenerji Elektrik Üretim A. S. and Akenerji Elektrik Enerjisi İthalat İhracat ve Toptan Ticaret A. S., unconsolidated entities operated under a joint venture arrangement. Our Turkish sales business is operated under a joint venture arrangement which is not fully consolidated and therefore our sales of electricity to end-consumers in Turkey are not included in the calculations of our total electricity sold to end-consumers or our total electricity sold by type of end-consumer.

Trading

Overview

Our trading activities encompass selling electricity generated by us in the wholesale markets and to our sales business; procuring in the wholesale markets electricity sold by our sales business to end-consumers; and trading electricity, E.U. emission allowances (“EUAs”), CER credits, natural gas and black coal in the wholesale markets for our own account.

The following table sets forth a breakdown of the volume of electricity purchased and sold by us in the wholesale markets (including our net electricity generated and total sales to end-consumers) for the years ended December 31, 2009, 2010 and 2011.

	For the year ended December 31,			Change in 2011 compared to 2010
	2009	2010	2011	
	(GWh)			(%)
Wholesale trading in electricity:				
Electricity purchased in the wholesale market.....	120,578	150,728	208,023	38.1
Electricity sold in the wholesale market.....	(128,286)	(160,712)	(220,388)	37.1
Balance of wholesale trading in electricity.....	(7,708)	(9,984)	(12,365)	23.8
Electricity generated and sold to end-consumers:				
Total electricity generated by us (gross).....	65,344	68,433	69,209	1.1
Own consumption of electricity generated.....	(6,193)	(6,481)	(6,677)	3.0
Total electricity generated by us (net).....	59,151	61,952	62,532	0.9
Distribution losses.....	(7,625)	(7,374)	(7,321)	(0.7)
Electricity sold by us to end-consumers.....	(43,818)	(44,594)	(42,846)	(3.9)
Balance between electricity generated by us and sold to our end-consumers.....	7,708	9,984	12,365	23.8

In the year ended December 31, 2011, we procured a total of 263,234 GWh of electricity (208,023 GWh of electricity in the wholesale market and 55,211 GWh of our electricity generated (net of own consumption and distribution losses)) and we sold a total of 263,234 GWh of electricity (220,388 GWh of electricity in the wholesale market and 42,846 GWh of electricity to end-consumers). In the year ended December 31, 2010, we purchased a total of 205,306 GWh of electricity (150,728 GWh of electricity in the wholesale market and 54,578 GWh of our electricity generated (net of own consumption and distribution losses)) and we sold a total of 205,306 GWh of electricity (160,712 GWh of electricity in the wholesale market and 44,594 GWh of electricity sold to end-consumers). The substantial increase in the volume of electricity purchased and sold on the wholesale electricity markets was due to an increase in the volume of electricity traded for our own account.

We carry out proprietary trading that consists of taking on energy commodity (gas, coal, electricity and emissions) exposures in European markets by means of financial derivative instruments and contracts for physical delivery exchanged on the regulated and over-the-counter markets, seeking to exploit arbitrage opportunities and speculating on price developments. By trading for our own account, we aim to generate additional profits, procure electricity for end-consumers, and make up for electricity shortfalls in the event of outages in one or more of our power plants. We carry out these activities within a formal governance framework with strict risk limits set by our Risk Management Committee, and compliance therewith is verified daily by our Risk Management Department which is independent from the groups carrying out our trading operations. We have specific controls in place in terms of quantitative risk limits (value at risk and other risk limits with inclusion of stop-loss). Credit risk management for trading operations is based on strict evaluation, assignment and monitoring procedures that we believe are in accordance with international best practices.

The risk limit set by the Risk Management Committee for our proprietary trading activities is CZK 1.2 billion. The potential open positions over a longer time period are limited by a daily value at risk limit of CZK 163 million. These relatively low limits and the strict rules set by our Risk Management Committee lead to a high number of transactions with a high aggregated volume on an annual basis but generally with a relatively low margin. The annual volume of electricity traded for own account can vary substantially depending on market conditions in the respective year, namely liquidity, price volatility and market trends.

We also trade smaller volumes of natural gas in the form of futures products on the London Intercontinental Exchange ("ICE"). Trading in natural gas futures serves as preparation for operating our planned gas-fired power plants in the future. Our trading also takes place on the European Energy Exchange

(“EEX”) in Leipzig, Germany, the Green Exchange (Environmental Markets) (“GreenX”) in New York, the Hungarian Power Exchange (“HUPX”), European Power Exchange (Spot Markets) (“EPEX SPOT”) in Paris, the BlueNext Spot (Environmental Trading Exchange) (“BlueNext Spot”) in Paris, the Towarowa Gielda Energii (“TGE”) in Poland, the PXE in Prague, OPCOM in Romania, the Hellenic Transmission System Operator (“HTSO”) in Greece and OTE in Prague.

Outside of the Czech Republic, we also trade directly in Austria, Germany, France, Poland, Hungary, Romania, Kosovo, Greece and Montenegro where a license is not required to trade in electricity or where the eligibility for such a license is not limited to entities established under the laws of the same country. In Slovakia, Bulgaria, Serbia, Bosnia and Herzegovina and Albania we operate through our subsidiaries that hold the necessary local licenses.

Central Europe

Czech Republic. On the Czech wholesale market, we sell electricity for contractually agreed upon prices. Since 2002, the wholesale prices have been unregulated. Since the launch of the PXE on July 17, 2007, the majority of our electricity generated for wholesale distribution is sold on the PXE and on the electronic OTC broker platforms. Due to cross-border integration and fully liberalized power prices, the primary price-setting market in our region is Germany and its exchange in Leipzig and there has historically been a strong correlation between power prices in the Czech and German markets. Prices in the wholesale market are set on the basis of supply and demand, through trading on the PXE and bilateral contracts. Instruments that can be traded on the Czech Republic’s exchange range from one-year contracts down to one-day contracts. Anonymous trading on a daily basis can also be realized through the organized markets of OTE. In addition to one-day trades, the organized markets of OTE also enable intra-day trading. Unlike the PXE, the OTE requires physical delivery.

In the Czech Republic, according to the ERO, the global economic recession led to a decline in domestic electricity consumption only in 2009 (of 5.9%). As of January 2010, according to the ERO, electricity consumption showed year-on-year growth of 2.4% (after adjustment for weather). We continued to sell the electricity that we generated almost exclusively in the Czech electricity market, either wholesale through the PXE, or through electronic broker market platforms, or to end-consumers. We continued to sell electricity on a forward basis, specifically, three years in advance, with the aim of leveraging market demand for these products to partially hedge sales against possible price volatility. This strategy helped us to maintain our results of operations even at a time of substantial declines in wholesale electricity prices.

As of December 31, 2011, we had entered into five long-term contracts for physical power supply until 2020 at a price which is structured and linked to EUA market prices. This price structure reflects the generation costs of our brown coal-fired power plants and includes a positive margin. As of December 31, 2011, we have entered into 200 MW of baseload power supply by means of such long-term contracts and we intend to sell further production of our brown coal-fired power plants under similar long-term contracts.

Poland. Electricity generated in Poland by our Skawina power plant and Elcho power plant is sold in Poland’s wholesale electricity market, both on the TGE power exchange and on the OTC broker platforms. In relation to the Elcho power plant, we took advantage of a compensation scheme, defined by Polish law, for entities that voluntarily agreed prematurely to terminate long-term electricity sale contracts.

South East Europe

Bulgaria. We sell electricity generated by the Varna power plant mainly to the regulated wholesale market in Bulgaria. We also procure electricity in the regulated and unregulated market to be sold by our sales business to household and eligible industrial end-consumers.

Romania. We sell electricity generated by the Fântânele wind farm on the unregulated wholesale market in Romania. We also procure electricity in the wholesale market to be sold by our sales business to household customers for regulated prices and to eligible end-consumers for unregulated prices. In Romania, we also trade green certificates, which are awarded to the Fântânele wind farm as part of the Romanian support scheme for renewables.

Albania. In Albania, we procure electricity in the regulated as well as the unregulated wholesale market to be sold by our sales business to end-consumers.

Other Businesses

Coal Mining

We mine, process and sell brown coal and its by-products in the Czech Republic. In the year ended December 31, 2011, we sold 25.1 million tons of brown coal, making us the largest producer of brown coal in the Czech Republic accounting for approximately 53.7% of the total volume of brown coal produced in the Czech Republic in 2011 (source: CEZ Group Annual Report 2011).

The Bílina Mines, operating in the Teplice-Bílina area in the North Bohemian Basin, mine coal that is characterized by a high heat content and a low proportion of hazardous substances. In the year ended December 31, 2011, the Bílina Mines extracted 10.4 million tons of brown coal. The mining activity permit for the Bílina Mine was issued on the basis of the Opening, Preparation, and Extraction Plan for the Years 2010-2030 by the District Mining Office in Most on November 8, 2010 and entered into legal force on January 26, 2011. Our mining operations in the Bílina Mines are permitted until 2030.

The Nástup Tušimice Mines operates in the westernmost portion of the Ústí Region of the Czech Republic in the Tušimice mining area in the North Bohemian Basin. In the year ended December 31, 2011, the Nástup Tušimice Mines extracted 14.9 million tons of brown coal. In the year ended December 31, 2011, all coal extracted from the Nástup Tušimice Mines went to the local power plants, Tušimice and Prunéřov, the Chvaletice and Mělník II power plants or to United Energy Coal Trading (Komořany heat plant). Our mining operations in the Libouš II-North mine within the Tušimice mining area are permitted until 2015.

The table below sets forth the amount of coal produced by our mines and the amount of which was delivered to our coal-fired power plants in the years ended December 31, 2009, 2010 and 2011.

	For the year ended December 31,					
	2009		2010		2011	
	Sold	Delivered for own consumption	Sold	Delivered for own consumption	Sold	Delivered for own consumption
	(in million tons)					
Bílina Mines.....	9.2	3.6	9.3	4.1	10.1	4.3
Nástup Tušimice Mines.....	12.8	12.8	12.5	12.2	15.0	14.5
Total.....	22.0	16.4	21.8	16.3	25.1	18.8

The table below sets forth information regarding the exploitable reserves of our mines as of December 31, 2009, 2010 and 2011.

	As of December 31,		
	2009	2010	2011
Exploitable reserves	(in million tons)		
Bílina Mines.....	183.7	174.5	164.4
Nástup Tušimice Mines.....	264.9	252.1	240.2
Total.....	448.6	426.6	404.6

In the year ended December 31, 2011, our plants consumed 18.8 million tons of our brown coal output, or 74.9% of our total brown coal output, compared to 16.3 million tons of our brown coal output, or 74.8% of our total coal output for the year ended December 31, 2010. In the year ended December 31, 2011, we sold a total of

6.3 million tons of brown coal to third parties, which generated total revenues of CZK 4.5 billion. In the year ended December 31, 2010, we sold a total of 5.4 million tons of brown coal to third parties, which generated total revenues of CZK 4.4 billion.

We carry out exploration works at the mines on an annual basis. Our exploration activities are primarily carried out in order to assess the characteristics of our reserves and the hydrogeological and geotechnical conditions as well as in order to optimize extraction. However, based on our historic exploration of current deposits, we do not expect any material adjustments to the exploitable reserves of these mines (within their current limits).

We operate open pit coal mines and are responsible for decommissioning and reclamation of the mines (the process of restoring land that has been mined to a natural or economically useable purpose) as well as for damage caused by the operations of the mines. To cover such costs we are required by Czech law to contribute to a special escrow account. These restricted funds are shown in our balance sheet under restricted financial assets and as of December 31, 2011, restricted funds related to mining reclamation and damages totaled CZK 3,023.5 million. We have also established provisions to recognize our estimated liabilities for decommissioning and reclamation of mines and damage cause by the operations of our mines. As of December 31, 2011, such provisions amounted to CZK 6,473 million compared to CZK 6,648 million as of December 31, 2010. In the year ended December 31, 2011, reclamation expenses totaled CZK 459 million, of which CZK 336.2 million was accounted for against the respective provisions and CZK 173.3 million was drawn from restricted funds (the escrow account) to cover reclamation costs at the Bílina Mines.

We used to hold a 50% interest (which was not fully consolidated) in Mittledeutsche Braunkohlenbergbau GmbH, through a joint venture arrangement with Energetický a průmyslový holding, a. s. Mittledeutsche Braunkohlenbergbau GmbH operates two brown coal mines in Germany (Sachsen and Sachsen-Anhalt) and in the year ended December 31, 2011 extracted 18.9 million tons of coal. In 2011, we signed an agreement to dispose of our interest in Mittledeutsche Braunkohlenbergbau GmbH to Energetický a průmyslový holding, a. s. The disposal of our interest was completed in June 2012.

Gas Supply to End-Consumers

We started to supply gas to industrial and commercial customers in the Czech Republic in August 2009 and gas to our household customers in the Czech Republic in June 2010. We purchase all of the gas that we sell to our customers on the wholesale market in the Czech Republic and abroad. In the year ended December 31, 2011, we supplied 3.4 TWh of gas to customers in the Czech Republic, which represents an increase of 72.4% compared to 2.0 TWh in the year ended December 31, 2010. In the year ended December 31, 2011, our revenues from the supply of gas were CZK 2,243 million, representing an increase of CZK 1,148 million, or 104.8%, from CZK 1,095 million in the year ended December 31, 2010.

Growth in the gas market in the Czech Republic is evidenced by the year-on-year increase in the number of supplier changes. In the Czech Republic, according to the ERO, the number of supplier changes in the year ended December 31, 2011 was 361,941, representing a significant increase from 84,392 supplier changes in the year ended December 31, 2010, and 33,327 supplier changes in the year ended December 31, 2009.

We started to supply gas to end-consumers in Slovakia in 2011. In the year ended December 31, 2011, we supplied 0.5 TWh of gas to wholesale and retail customers in Slovakia.

Provision of Ancillary Services

Ancillary services are generally defined as services provided by natural or legal persons for maintaining the operation of power systems and the quality and security of electricity supply. Ancillary services allow imbalances between electricity consumption and generation to be corrected by means of demand- or supply-side changes. Users of the power system who comply with the relevant technical and commercial terms and conditions set out by the transmission system operator generally have the right, but are not obliged, to offer ancillary services at market prices.

Ancillary services are purchased by transmission grid operators for stabilizing the grid in auctions for a wide range of products to be provided over various lengths of time. The Czech market is one of the most

competitive in Europe for the provision of ancillary services, with independent producers offering approximately half of the necessary capacity of ancillary services.

In 2011, the Skawina power plant and, to a lesser extent, the Elcho power plant, supplied ancillary services to the operator of Poland's transmission grid operator and the Varna power plant supplied ancillary services to Bulgaria's transmission grid operator.

Our revenues from the provision of ancillary services to transmission grid operators reached CZK 5,032 million in the year ended December 31, 2011, compared to CZK 4,623 million in the year ended December 31, 2010 and CZK 4,702 million in the year ended December 31, 2009.

Fuel

Coal

Approximately 70% of the total installed capacity of our coal-fired power plants burn brown coal. Brown coal is supplied by three companies in the Czech Republic, the main supplier being Severočeské Doly a.s., our wholly owned subsidiary. Black coal is used in the Dětmarovice power plant and the Ostrava-Vítkovice power plant and in part of the Poříčí power plant in the Czech Republic; in the Elcho power plant and the Skawina power plant in Poland and in the Varna power plant in Bulgaria.

The table below sets forth information relating to the total amount of coal consumed by our coal-fired power plants and the amount of which was purchased from third parties for the years ended December 31, 2009, 2010 and 2011.

	For the year ended December 31,					
	2009		2010		2011	
	Total consumed	Purchased from others	Total consumed	Purchased from others	Total consumed	Purchased from others
	(in million tons)					
Brown coal						
Czech Republic.....	25.9	9.7	26.7	10.3	27.7	9.9
Black coal						
Czech Republic.....	1.0	1.1	1.5	1.4	1.4	1.4
Poland.....	1.2	1.2	1.1	1.0	1.1	1.1
Bulgaria.....	1.0	1.0	1.3	1.1	1.3	1.4
Total black coal.....	3.2	3.3	3.9	3.5	3.8	3.9
Total	29.1	13.0	30.6	13.8	31.5	13.8

In the year ended December 31, 2011, we consumed 27.7 million tons of brown coal, of which 18.8 million tons, or 67.9%, were produced by our own mines (see “Other Businesses—Coal Mining”). According to data published by the ERO, we are the largest purchaser of brown coal in the Czech Republic. In the year ended December 31, 2011, approximately 28.7 million tons of brown coal were delivered to our coal-fired power plants in the Czech Republic, approximately 65% of which were supplied by our own mines, with the remainder purchased from Czech Coal a.s. (approximately 30%) and Sokolovská uhelná, právní nástupce, a.s. (approximately 5%). We currently purchase brown coal from Czech Coal a.s. under a medium-term contract that expires on December 31, 2012 and from Sokolovská uhelná, právní nástupce, a.s., under a long-term agreement that expires in 2027. We are currently in negotiations with Czech Coal a.s. for the supply of brown coal after the expiry of our agreement with Czech Coal a.s. Please see “Risk Factors—Risks Related to Our Business and Operations—Risks associated with the deliveries of coal from Czech Coal a.s.” and “—Legal Proceedings—Litigation with Czech Coal” and “—Legal Proceedings—Litigation with Sokolovská uhelná, právní nástupce, a.s.” The black coal used in our black coal-fired power plants is purchased primarily from OKD, a.s., Jastrzebska Spółka Wegłowa, Wegłokoks and Carbounion Bohemia spol. s r.o. on the basis of annual contracts.

Most of our coal-fired power plants are located in the vicinity of the North Bohemian brown coal basin in the Czech Republic. Conveyor belts from nearby mines supply brown coal directly to two power plants, Ledvice II and III and Tušimice II. For other coal-fired power plants, rail is primarily used to transport coal supplies over relatively short distances. Taking into account geographical restrictions, current mining limits and current estimates of our coal-fired generation needs, we currently estimate that there are sufficient brown coal reserves in the Czech Republic for the operation of our coal-fired power plants until 2035 for our retrofitted power plants and until 2050 for our newly built coal-fired power plants.

The Elcho power plant and Skawina power plant in Poland are located in Upper Silesia and Lesser Poland, respectively, and are supplied with black coal from mines in the region. The principal supplier of coal to the Elcho power plant in 2011 was Kompania Weglowa SA pursuant to a long-term contract. The Skawina power plant sources coal from multiple suppliers under one-year contracts and purchase orders, including from, among others, Kompania Weglowa SA and Katowicky Holding Weglowy SA.

In Bulgaria, we import black coal (anthracite) for the Varna power plant from Russia and Ukraine by sea under annual supply contracts concluded following a tender process. In 2011, our suppliers were Bulmineral EOOD and Euroquest Energy Ltd.

Nuclear Fuel

We procure nuclear fuel materials (uranium) and services (conversion and enrichment) pursuant to medium-and long-term contractual arrangements. Our procurement activities are supervised by the ESA, which endorses and co-signs, if required by the Treaty Establishing the European Atomic Energy Community (the “*Euratom Treaty*”), all new supply contracts, which must be in full compliance with the ESA supply policy and related limitations.

Historically, the majority of our uranium needs have been met by domestic sources in the Czech Republic. However, uranium production in the Czech Republic has been continuously decreasing over the past decade. Improved pricing in the uranium market after 2004 enabled DIAMO s.p., a Czech uranium producer, to extend Czech uranium production. In 2008, we concluded a new supply contract with DIAMO s.p. which secured delivery of up to one third of our total annual needs of uranium up until 2014. The remainder of our uranium needs is met by market purchases of uranium on the basis of long-term contracts. To the extent authorized under the ESA supply policy, we also purchase uranium as a package (or “bundle”) together with conversion and enrichment services under existing long-term fuel fabrication contracts with the Russian company JSC TVEL (“*TVEL*”).

In respect of the needs of the Dukovany nuclear power plant, the ESA limitation on the amount of enrichment services that can be purchased together with fabrication as a package from TVEL does not apply as the existing long-term fuel contract was grandfathered upon the accession of the Czech Republic to the European Union. Between 2008 and 2011, we concluded new long-term contracts for uranium and conversion and enrichment services to meet the needs of the Temelín nuclear power plant, which expire partly in 2014 and partly in 2020 (2025 if certain options are exercised). We also maintain strategic and working inventories of nuclear material in different stages of processing (uranium concentrate, natural and enriched uranium hexafluoride).

Our long-term nuclear fuel supplier, TVEL, produces nuclear fuel for our nuclear power plants at its facilities in Elektrostal, Russia. The long-term fuel supply contract for the Temelín nuclear power plant, which expires in 2020, was awarded to TVEL in May 2006 as a result of a tender opened in April 2004, in order to replace a previous fuel contract with The Westinghouse Electric Company LLC which expired in 2010. The last fuel deliveries from The Westinghouse Electricity Company LLC were received for Unit 1 in 2009 and for Unit 2 in 2010. Unit 1 was fully refueled with new TVEL fuel assemblies in 2010 and the refueling of the entire core at Unit 2 followed in 2011. Nuclear fuel fabrication and shipments of nuclear fuel for the Temelín nuclear power plant from TVEL are performed upon our request according to conditions in the fuel supply contract.

Nuclear fuel for the four reactors at the Dukovany nuclear power plant is also provided by TVEL pursuant to a long-term supply contract, which expires in 2018. Deliveries of nuclear fuel designated for transition from the “four-year fuel cycle” to the “five-year fuel cycle” were carried out in previous years. Nuclear fuel design has also been modified in order to accommodate the operation of reactors at an increased

power level. In 2008, a license for deployment of a modified advanced second generation fuel was obtained. In the same year, deliveries of this improved version of the second-generation fuel started and it was used at Unit 3 and it has since been regularly loaded into all of the units at the Dukovany nuclear power plant. We maintain a strategic inventory of fabricated fuel at the Dukovany nuclear power plant.

Spent Nuclear Fuel Storage

Interim spent nuclear fuel storage facility

Dukovany nuclear power plant. The first stage of an interim spent nuclear fuel storage facility (“ISFSF”) at the Dukovany nuclear power plant, which utilizes transport and storage casks (standard dry storage technology), became operational in December 1995. The capacity of this facility (60 Castor casks) was fully used up in the first half of 2006. In 1997, preparation started on the second stage of the Dukovany ISFSF with a storage capacity of 133 Castor casks. The second storage facility was commissioned in October 2006 and became operational in December 2006. Its capacity is expected to cover the Dukovany nuclear power plant’s operation for a period of 40 years and we therefore expect that the capacity of the Dukovany ISFSF will be sufficient for the planned long-term operation of the Dukovany nuclear power plant.

As of December 31, 2011, spent fuel is stored in advanced Castor 440/84M casks and 18 casks are exploited, representing approximately 14% of the entire storage capacity of the second storage hall.

Temelín nuclear power plant. The plan to build the Temelín ISFSF on the premises of the Temelín nuclear power plant went through a legislative procedure which also involved the neighboring countries of Austria and Germany. During the legislative process, the Ministry of Environment issued a positive EIA. SONS permitted the construction in terms of nuclear safety. A special expert committee of the European Union also assessed the Temelín ISFSF. We were awarded positive opinions in all administrative actions. We received the final building permit in February 2009.

The ISFSF at the Temelín nuclear power plant was put into operation for a one-year trial period in September 2010. In December 2011, we received a license issued by SONS for the common operation, valid until 2021. The storage capacity of the Temelín ISFSF is 1,370 tons of uranium, which represents spent fuel for the 30-year operation of the Temelín nuclear power plant. In the event the useful lifespan of the Temelín nuclear power plant is extended, the capacity of the Temelín ISFSF may be expanded by building additional storage halls.

As of December 31, 2011, there were five CASTOR 1000/19 casks with 95 fuel assemblies in total at the Temelín ISFSF, of which approximately 3% of the entire storage capacity is exploited.

Central interim spent nuclear fuel storage facility

As an alternative, an underground central ISFSF at the Skalka site in Southern Moravia, Czech Republic is currently being considered for the long-term storage of spent fuel from both of our nuclear power plants. We obtained a local zoning permit for this site in March 2001. The locality is permanently observed as a stand-by alternative to the on-site Dukovany ISFSF and Temelín ISFSF.

Biomass

Biomass in the form of wood chip, straw and pellets is mainly combusted in our coal-fired power plants and heat plants in the Czech Republic and Poland. Within our portfolio of renewable sources, biomass is the second most significant element after water power plants. Our main suppliers of biomass in the Czech Republic are Komaxo, s.r.o., Holomáč, s.r.o., Jiří Prágr and Ondřej Šimeček, with whom medium-term contracts are signed. These suppliers are farmers and owners of agricultural land. In Poland, we sign annual contracts with or make monthly orders from a number of local suppliers of biomass.

In the Czech Republic, we burned more than 440,000 tons of biomass in the year ended December 31, 2011, compared to more than 411,000 tons in the year ended December 31, 2010, mostly in the form of co-burning with brown coal, generating more than 428 GWh and 337 GWh of electricity, respectively.

In Poland, we burned more than 212,000 tons of biomass in the year ended December 31, 2011, compared to more than 128,000 tons in the year ended December 31, 2010, mostly in the form of co-burning with hard coal, generating more than 306 GWh and 158 GWh of electricity, respectively.

Property, Plant and Equipment

We own all of our significant generation facilities and other properties and we hold the title to or have the right to use by virtue of leases all of the land underlying our facilities, including our coal mines. Our plant, property and equipment mainly comprise power plants and distribution networks as well as coal mining facilities, administrative buildings and other assets. As of December 31, 2011, we owned buildings with a total net book value of CZK 134.1 billion, plant and equipment with a net book value of CZK 159.3 billion and land with a net book value of CZK 6.0 billion.

As of December 31, 2011, we owned net plant in service pledged as a security for liabilities in the amount of CZK 289 million, representing approximately 0.07% of total net book value of plant in service as of December 31, 2011.

Capital Expenditures

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

Employees

We had an average of 30,768, 32,937 and 31,805 employees in the years ended December 31, 2009, 2010 and 2011, respectively, out of which approximately 64.4%, 62.4% and 64.7%, respectively, were employed in the Czech Republic. Since our foundation in 1992, we have reduced the number of our employees to a level which brings the ratio of employees to installed MW capacity closer to the ratios of other advanced European power companies. We have also completed an organizational audit which resulted in a decrease in our average number of our employees and we are taking further steps aimed at further lowering our average number of employees.

As of December 31, 2011, all of our employees in the Czech Republic were covered by our collective bargaining agreement in accordance with Czech law. Our collective bargaining agreement is valid until the end of 2014. Our collective bargaining agreement was amended twice in 2010 and once in 2011. In 2007, we also established our European Work Council in accordance with applicable national and European laws. We have not experienced any strikes or work stoppages in the Czech Republic, although there were strike alerts in 2003 at our nuclear power plants but these did not result in actual strikes or work stoppages.

Research and Development

Our research and development (“R&D”) significantly contributes to improving the safe, economical and reliable operation of our assets and to building our knowledge of innovative technologies in the energy sector. Our R&D projects are mainly performed by external, specialized R&D engineering and consultancy organizations. R&D covers numerous topics in nuclear energy and conventional power generation, innovative renewables, utilization of biomass and development of waste-to-energy concepts, energy storage, smart grids and life management of power plants and their components.

The development of human resources and support for energy-focused applied and industrial R&D in the Czech Republic are important co-benefits of our R&D projects. Cooperation with technical universities is an essential part of such activities. We are a founding member of the Czech Sustainable Energy Technology Platform, forum of utilities, vendors, research, engineering, and academic entities acting for the improvement of energy R&D in the Czech Republic and for the intensification of international cooperation.

We are also a member of VGB PowerTech and have full membership on the nuclear sector with the Electric Power Research Institute. In addition, we are intensively involved in international energy R&D projects, particularly in the E.U.'s Framework Programs, mainly in the areas of developing nuclear technologies, nuclear safety and radiation protection, but also in non-nuclear areas including developing smart grids and clean coal technologies. We are also a member of three European technology platforms: the Sustainable Nuclear Energy Technology Platform, the Zero-Emission Power and Smart Grids.

In the year ended December 31, 2011, we participated in research and development programs in the total amount of CZK 794.2 million, compared to CZK 709.0 million in the year ended December 31, 2010.

Licenses

As of the date of this memorandum, we hold all licenses necessary for the operation of our business. For information on licenses and permissions required under the Czech Energy Act and under other applicable regulations, please see “*Regulation—Czech Republic—Electric Energy Sector—Licensing Regime.*”

Emission Rights

CO₂ emissions became an integral part of our management and decision-making, not only at our coal-fired power plants which are directly affected by the trading, but also at non-fossil fuel-fired power plants, which play a major role in optimising generation in terms of CO₂ emissions. Our decision making process regarding the trade of CO₂ is based on a comparison of the wholesale electricity price with generation costs, which include the price of CO₂ emission allowances.

Emission producers, such as us, that sell electricity to third parties are subject to a tax in the Czech Republic on all EUAs that are freely allocated. In the year ended December 31, 2011, this tax was 32% of the average market value of all emission allowances allocated for free to CO₂ emission producers for the year (where the market value is determined by the Ministry of the Environment of the Czech Republic). Certain EUAs obtained for the purpose of combined production of heat and electricity are exempted from the tax. This tax amounted to CZK 3.64 billion in the year ended December 31, 2011.

The below table summarizes the movements in the quantity and book value of emission rights and credits held by us during 2009, 2010 and 2011.

	For the year ended December 31,					
	2009		2010		2011	
	(in thousand tons)	(CZK in millions)	(in thousand tons)	(CZK in millions)	(in thousand tons)	(CZK in millions)
Emission rights and credits (CERs, ERUs) granted and purchased for own use:						
Granted and purchased emission rights and credits at January 1.....	41,751	1,274	38,659	869	36,740	2,123
Emission rights granted.....	42,494	-	41,831	-	42,936	3,640
Emission rights acquired in business combinations.....	22	27	1,125	429	-	-
Settlement of prior year actual emissions.....	(40,408)	-	(37,319)	(46)	(39,122)	(2,513)

Emission rights purchased.....	794	392	2,585	1,267	2,282	984
Emission rights sold.....	(4,066)	(7)	(6,300)	-	(5,250)	(46)
Emission credits purchased.....	929	332	26	12	2,707	877
Emission credits sold.....	(2,857)	(1,155)	(6)	(2)	(5)	(2)
Reclassified to emission credits held for trading.....	-	-	(467)	(163)	(26)	(12)
Reclassified to assets classified as held for sale.....	-	-	(3,394)	(241)	3,394	241
Currency translation differences.....	-	6	-	(2)	-	(35)
Granted and purchased emission rights and credits December 31.....	38,659	869	36,740	2,123	43,656	5,257
Emission rights and credits held for trading:						
Emission rights and credits for trading at January 1.....	-	-	-	-	1,570	472
Emission rights purchased.....	45,025	18,284	8,231	3,019	2,004	813
Emission rights sold.....	(45,025)	(18,292)	(8,231)	(3,021)	(2,004)	(627)
Emission credits purchased.....	3,967	1,484	2,313	933	1,121	456
Emission credits sold.....	(3,967)	(1,484)	(1,210)	(466)	(2,420)	(885)
Reclassified from emission credits for own use.....	-	-	467	163	26	12
Fair value adjustment.....	-	8	-	(156)	-	(202)
Emission rights and credits held for trading at December 31.....	-	-	1,570	472	297	39

Our total emissions of greenhouse gases amounted to 37,319 thousand tons, 39,122 thousand tons and 38,906 thousand tons of CO₂ for the years ended December 31, 2009, 2010 and 2011, respectively. As of December 31, 2011, we recognized a total provision for CO₂ emissions in the amount of CZK 3,418 million.

In September, 2011, the government of the Czech Republic, under the E.U. Emissions Exemption, approved a national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector. On July 6, 2012 the Directorate-General for Climate Action approved the Czech Republic's national plan for investments allowing direct allocation of some allowances from 2013 - derogation. This investments plan is subject to notification to the European Commission's Directorate-General Competition. The result is expected in October 2012. The final allocation of allowances among the individual installations in the Czech Republic is the responsibility of the Ministry of Environmental Matters.

Subject to the approval of the European Commission, the Czech Republic proposed the following allocation of emission allowances for production of electricity without cost to our coal-fired power plants in the Czech Republic.

	2013	2014	2015	2016	2017	2018	2019	2020
	(in tons)							
Dětmarovice	1,565,479	1,341,839	1,118,199	894,560	670,920	447,280	223,640	-
Chvaletice	1,360,846	1,166,440	972,033	777,626	583,220	388,813	194,407	-
Ledvice II	770,217	660,186	550,155	440,124	330,093	220,062	110,031	-
Ledvice III	1,954,346	1,675,154	1,395,961	1,116,769	837,577	558,385	279,192	-
Mělník II	424,860	364,165	303,471	242,777	182,083	121,388	60,694	-
Mělník III	891,494	764,137	636,781	509,425	382,069	254,712	127,356	-
Počerady	3,014,660	2,583,994	2,153,329	1,722,663	1,291,997	861,331	430,666	-
Pruněřov I	952,523	816,448	680,374	544,299	408,224	272,149	136,075	-
Pruněřov II	2,927,619	2,509,388	2,091,157	1,672,925	1,254,694	836,463	418,231	-
Tušimice II	3,282,518	2,813,587	2,344,656	1,875,725	1,406,794	937,862	468,931	-
Other ⁽¹⁾	1,651,394	1,415,480	1,179,566	943,654	707,741	471,826	235,912	-
Total	18,795,956	16,110,818	13,425,682	10,740,547	8,055,412	5,370,271	2,685,135	-

Source: Czech Ministry of the Environment

⁽¹⁾ Includes emission allowances allocated to certain of our other power and heat plants in the Czech Republic, including Hodonín, Elektrárna Poříčí, Tisová, Teplárna Dvůr Králové nad Labem, Teplárna Vítkovice, PPC Trmice, Teplárna Trmice and Temelín.

Due to the uncertainty regarding the free allocation of emissions and the requirements for purchasing emissions, we continue to seek ways to reduce our overall emissions, which includes considering the cost of CO₂ emissions when evaluating potential investment opportunities. Please see *“Risk Factors—Risks Related to Our Business and Operations—We are exposed to changes in the way emission allowances are allocated, including the conditions attaching to free allocations and the allocation of emission allowances after 2013, as well as volatility in the market prices of emission allowances that we need to acquire.”*

Intellectual Property

We own the rights to numerous trademarks in relation to the name “ČEZ” and its “E” symbol as well as to the name “SKUPINA ČEZ” (“ČEZ GROUP”) and its “E” symbol. The trademark of the word “ČEZ” is protected in 32 states under the Madrid Agreement Concerning the International Registration of Marks and its Protocol (the *“Madrid Agreement”*). The trademark of the word “ČEZ” combined with the symbol “E” is protected in 38 states under the Madrid Agreement, and the trademark of the word “ČEZ GROUP” combined with the symbol “E” is protected in 22 states under the Madrid Agreement and the color symbol “E” is protected in 22 states under the Madrid Agreement. The registration of all essential trademarks is regularly extended.

We do not own rights to any patents, utility models or industrial designs.

Insurance

We maintain several types of insurance to protect us against potential liabilities. These include property insurance for our conventional power plants and nuclear power plants and nuclear liability insurance, in addition to other liability and property insurance. Our general liability insurance also covers particular environmental liabilities that we may incur.

Our insurance coverage complies with the Czech Nuclear Act and the Vienna Convention requirements in respect of responsibility for damage caused by a nuclear incident. However, our insurance does not fully cover all risks and we cannot guarantee that costs connected with nuclear disasters or other unforeseen events in our nuclear power plants would not have any negative effects on our business, results of operations and financial condition (please see

“*Risk Factors—Risks Related to Our Business and Operations—We could incur significant losses in the event of a nuclear accident*”). The Czech Nuclear Act sets limits on the liability of operators of nuclear facilities for nuclear damage. The Czech Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 8 billion per incident and limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Czech Nuclear Act also requires an operator/licensee to insure its liability for the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). We have obtained all necessary insurance policies with the minimum limits required by law for the operation of our nuclear power plants. We have concluded such insurance policies with Česká pojišťovna a.s., which represents the Czech Nuclear Insurance Pool (a group of insurance companies) and with the European Liability Insurance for the Nuclear Industry, which is a mutual insurance company insuring nuclear liability risks.

We maintain insurance policies covering the assets of our coal, nuclear and hydro power plants, as well as insurance policies covering non-technological equipment, general third party liability insurance in connection with our main operations and car insurance. We also have insurance policies covering directors’ and officers’ liability.

Safety and Quality Management

Safety and quality management is an integrated part of our management system. It is implemented, maintained and evaluated in a top-down manner from the senior management level to the employee level. Our senior management is responsible to stakeholders for assuring and securing the resources necessary for quality, health and safety and environmental management. Through responsible management of our internal processes, we aim to assure added value for our customers.

Our quality management policy was approved by our Supervisory Board in October 2010. Our quality management policy is published to show the commitment of our management towards quality and to establish the main principles of quality for our employees to understand. Each Group-entity is responsible for implementing management system tools and for implementing the quality management policy in all day-to-day activities.

We signed the Czech Quality Charter in October 2010, which refers to activities of the Czech Republic in the European Union. By signing the Charter, we committed to share our knowledge and experience and best practices in quality and innovation. We were the first energy company to sign the Charter. We also initiated the foundation of the Energetic Technical Section alongside the Czech Quality Council.

Our safety management system is based on the management of safety processes close to risks in generation and distribution. We have created two segment centers which aim to guarantee and directly and methodically control our safety and environmental protection. We have created the Safety Inspectorate within our CEO Division, which is responsible for independent managerial oversight and feedback on all safety areas and environmental protection. We also have a new Safety and Environmental Protection Policy which has become a part of our strategic management. The policy contains safety goals which are split into divisional and organizational management systems.

Nuclear Safety

Under Czech law, SONS is responsible for supervising the safe operation of nuclear power plants. SONS supervises regulatory compliance, and reviews the operation of nuclear facilities, the quality of selected activities, repair and maintenance, and personnel training. SONS representatives (local inspectors) are permanently on site at both the Dukovany and Temelín nuclear power plants to monitor their performance and compliance with safety standards and operating procedures, and to make sure that any improvements made are appropriate. The safe operation of the Dukovany and Temelín nuclear power plants is governed by documented requirements, approved by SONS (for example, the Technical Specifications, Radioactive Effluent and Emission Monitoring Programs). It is the responsibility of each plant to comply with regulations and requirements set out in the approved documentation. SONS carries out supervision by inspections.

Since their initial operation, the Dukovany and Temelín nuclear power plants have, under the supervision of SONS, been continuously monitoring the levels of radiation in the immediate vicinity of the plants. To date,

the results of the monitoring in the ventilation outlets and in the drains of the plants have indicated that radiation levels remain considerably below statutory limits.

The typical design feature of the Dukovany nuclear power plant units (VVER440) are hermetic boxes (zones) complemented by bubbler towers, which can relieve hermetic zones from over-pressure and prevent release of radioactivity into the atmosphere in the event of a large leak of the primary circuit (the sealed circuit comprises the steel pressure vessel containing the reactor, the steam generator and the connecting pipe work). A spray system is also installed to prevent overpressure in the long-term. In the Temelín nuclear power plant, both units (VVER320) are constructed with standard western type full pressure containment. The Dukovany and Temelín nuclear power plants are designed to withstand the maximum design accident caused by a guillotine break of the primary circuit piping (main circulation loops) and consequently to reduce the pressure and temperature inside the hermetic zones or containment facilities using spray systems.

WANO

We are a member of the World Association of Nuclear Operators (“WANO”) and, like other members of these organizations, we submit both of our nuclear power plants to periodic peer review. These reviews are carried out regularly by international teams of experts from various professional organizations.

In January 2009, a follow-up mission on the 2007 WANO Peer Review took place at the Dukovany nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. The next WANO Peer Review at the Dukovany nuclear power plant is scheduled to take place in 2013.

In 2006, a follow-up mission of the 2004 WANO Peer Review took place at the Temelín nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. Some additional proposals were suggested. The last WANO Peer Review was held at the end of November 2011. The review team identified several areas for improvement as well as several good practices for sharing among nuclear power plants engaged in WANO. The plant’s senior management is preparing a set of remedial actions focused mainly on improving the control process.

IAEA

The Czech Republic is a member of the IAEA and, as a result, the IAEA has carried out a number of on-site IAEA assessment missions.

The first OSART review took place at the Dukovany nuclear power plant in 1989 with a follow-up Re-OSART mission in 1991. In November 2001, the Dukovany nuclear power plant underwent its next OSART review. Based on the recommendations from this review, we prepared and fulfilled an action plan. In October 2003, a follow-up OSART mission was carried out to review our implementation of its earlier recommendations and subsequently declared its full satisfaction with our fulfillment of its recommendations. The last OSART review at the Dukovany nuclear power plant was held in June 2011. The review team identified a wide range of good practices as well as several areas for improvement to achieve even better results of operational safety. The plant’s senior management has prepared a set of remedial actions to address these recommendations before the follow-up OSART mission which is scheduled to take place in the first half of 2013.

The first Pre-OSART review at the Temelín nuclear power plant was held in 1990 with a follow-up mission in 1992. A regular OSART mission at the Temelín nuclear power plant took place in 2001 and the follow-up OSART mission held in 2003 was aimed at assessing the power plant’s response to the recommendations of the OSART mission in 2001. Most of the recommendations and proposals were included in the category “completed,” and the team generally noted the progress in operational safety enhancement, recommendation implementation and power plant appearance.

In 1991, IAEA and the Nuclear Energy Agency of the OECD introduced a seven-grade international nuclear events scale (“INES”), an internationally recognized standard used to inform the public of the safety significance of a nuclear event. Levels 4 to 7 are termed “accidents” with a significant radiation exposure off-site, while Levels 1 to 3 are termed “incidents” with effects on the nuclear facilities only. Level 0 is called

“below the scale” and refers to events that are not related to safety. According to the INES, applied retrospectively throughout the lifetime of our nuclear facilities, as of December 31, 2011, neither the Dukovany nor the Temelín nuclear power plant has experienced an incident assessed above Level 1.

Post Fukushima Stress Tests

Stress tests of nuclear power plants required by the European Council are defined as a focused assessment of safety margins and resistance of nuclear plants, in light of the events that occurred at the Fukushima-Daiichi nuclear power plant in Japan following the tsunami on March 11, 2011.

The assessment of both of our nuclear power plants was performed by experts in nuclear safety, design of nuclear facilities, accident management, emergency preparedness and phenomenology research of severe accidents, fully qualified for the assessment. The evaluators complied with a deterministic approach to evaluate the expected successive failure of all preventive actions during extreme scenarios.

No conditions were identified during the assessment that required immediate remedial action. Both of our nuclear power plants were assessed to be able to safely manage even highly improbable extreme emergency conditions without posing any threat to their vicinity. Despite identifying the robustness of barriers, the evaluators concluded that opportunities still existed for further safety enhancement with respect to highly improbable situations. The proposed measures which are subject to further review are broken down into short- and medium-term measures, categorized according to their importance. Short-term measures include:

- proposing and implementing alternative means of communication and support during interventions at the nuclear power plant and for communicating with public authorities in the event of significant damage to infrastructure and the isolation of the site area;
- finalizing the remaining procedures and guidelines for severe accidents; and
- reviewing the existing qualifications and capacity of personnel to fulfill the vital functions of the nuclear power plant if all units on the site are affected, or in case of loss of the control centers.

Medium-term measures include:

- proposing and implementing alternative independent technical means (for example power sources and pumps) as another barrier to fulfilling the vital functions of the nuclear power plant including guideline implementation; and
- implementing the actions in process to reinforce the design against the effects of severe accidents.

EMANI

The periodical inspections of the European Mutual Association for Nuclear Insurance (“*EMANI*”) were held in 2011 on both of our nuclear power plants. These inspections were focused on operation, maintenance and overall condition of the plants. The inspectors concluded that the plants were well operated and the inspections did not give rise to any material findings or recommendations.

Risk Management

We continue to develop our integrated risk management system in order to increase our fundamental value while taking into account the level of risk acceptable for shareholders. Our supreme risk authority is the Risk Management Committee (a committee of the Chief Executive Officer), which comprises of:

- seven permanent members: Chief Financial Officer, Chief Risk Officer, Chief Generation Officer, Chief Sales Officer, Trading director, Controlling director, Treasury and Financing director;
- five non-permanent members (being the other members of the Board of Directors): Chief Executive Officer, Chief Distribution and International Officer, Chief Investment Officer, Chief Strategy Officer, Chief Procurement Officer; and
- one permanent guest: Internal Audit director.

The Risk Management Committee makes decisions on the development of our integrated system of risk management and our overall allocation of risk capital to individual risks and organizational units, and monitors the overall risk impact on us, including our debt capacity utilization and rating requirement fulfillment on a monthly basis.

Since 2005, we have applied a risk capital concept that allows the setting of particular risk limits as well as an aggregate annual risk limit. The value of our aggregate annual risk limit is approved by our Board of Directors each year (together with the annual budget) based on the proposal of our Risk Management Committee. The proposed limit value, in CZK, is set on the basis of a 95% confidence level and expresses a maximum profit decrease that we are willing to take in order to achieve our planned profit for the year.

Since 2009, the main Business Plan market risks (electricity price, emission allowances price and currency exchange rate between the Euro and Czech crowns) have been quantified on a monthly basis by the EBITDA @ Risk model based on the MonteCarlo simulation in Y+1 to Y+5 horizon. Through the integration of the EBITDA @ Risk outputs with mandatory investments and financials (within the five year horizon), the total debt capacity (which is net debt/EBITDA) ratio is calculated each month and evaluated in light of our rating targets. We base all decisions about available amounts for future investments on these calculations, as well as on key CEZ Group risks, and we continuously adjust our hedging and investment strategy accordingly.

Since 2011, the central unified @Risk concept has been used in the CAPEX investment process, where a potential CAPEX increase and potential deadline delay is calculated on the basis of a 95% confidence level for each individual investment project. This concept enables a relevant comparison of the risk profile of actual net present value of each project and contributes to the effective internal competition of cash flow sources with limited development.

We divide risks into four categories:

- market risks, comprising financial risks, commodity risks, volumetric risks and market liquidity;
- credit risks, comprising counterparty default, supplier default and settlement;
- operational risks, comprising operating risk, internal change, liquidity management and security; and
- business risks, comprising strategic, political, regulatory and reputation risks.

All essential quantifiable risks are quantified on a unified basis at least once each month. Our methodology and data provide for a unified quantification of the following risks:

- market risks, comprising financial risks (such as currency, interest and stock price), commodity price risks (relating to prices of electricity, emission allowances, coal, gas), volumetric risks (such as volume of heat supply and volume of electricity buy-out produced by solar power plants);
- credit risks, comprising financial and business counterparty risk and electricity, gas and heat end-customer risk; and
- operational risks, comprising risks related to the operation of nuclear and fossil power plants in the Czech Republic and investment risks.

We aim to manage business risks by using clear responsibility assessment, key risk identification, systematic sensitivity and scenario analysis. Property, casualty and other operational risks are managed through using insurance, emergency and crisis planning and preventive actions. Our ten most important cash flow risks are centrally monitored and coordinated and are updated and reported to the Risk Management Committee on a quarterly basis.

In addition, our annual budget risks, business plan risks and debt capacity risks are reported on a monthly basis to the Risk Management Committee.

For more information relating to material risks that we face, please see “*Risk Factors*” and Note 17 of our audited consolidated financial statements for the year ended December 31, 2011.

Environmental Matters

As of the date of this Base Prospectus, we are in compliance with all material requirements of the Czech Waste Act, the Czech Air Protection Act, the Czech IPPC Act, the Czech Water Act and the Czech Nuclear Act.

Czech Waste Act

Pursuant to the Czech Waste Act, and pursuant to related regulations, we use coal ash as a certification material for reclamation and improving the sanitary conditions of landscape and disused shafts of our existing mines. A portion of coal ash is deposited on the landfills. We also sell residue to certain producers of construction materials. In addition, since 1994, we have also sold a portion of the FGD gypsum (a coal combustion product of coal-fueled power plants) remaining after the desulphurization process to certain producers of construction materials. This approach has the environmental advantage of saving natural materials, particularly in the building industry.

We are required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps. We are required by law to keep such amounts as restricted funds. Restricted funds representing our accumulated provision for waste storage and reclamation amounted to CZK 368.2 million as of December 31, 2011, compared to CZK 386.0 million as of December 31, 2010.

Czech Air Protection Act

We fully comply with all applicable regulations and requirements under the Czech Air Protection Act. Since we own numerous coal-fired power plants classified as “existing particularly large combustion plants,” we have the advantage that under applicable legislation we may exchange and allocate the assigned aggregate emission limits between our coal-fired power plants in such a way as to ensure compliance with the Czech Air Protection Act and we are therefore able to optimize generation.

For the year ended December 31, 2011, our total emission charges amounted to CZK 91.7 million, decreasing by 5.1% from CZK 96.6 million for the year ended December 31, 2010.

Czech Nuclear Act

On June 24, 1994, the Czech Republic became a party to the Vienna Convention. On the basis of the principles of the Vienna Convention, the Czech government initiated and Parliament enacted the Czech Nuclear Act, which came into force on July 1, 1997. In accordance with the Vienna Convention, the Czech Nuclear Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and that the operator’s liability for such damage is limited to CZK 8 billion per incident. The Czech Nuclear Act also provides that operators of nuclear facilities are obliged to acquire insurance covering potential liabilities for nuclear damages in the amount of not less than CZK 2 billion. The Dukovany and Temelín nuclear power plants are currently fully insured in accordance with the Czech Nuclear Act and the Vienna Convention. For more information about our insurance coverage, please see “*Insurance*.”

The Czech Nuclear Act contains a provision to the effect that the Czech Republic shall guarantee the safe final disposal of nuclear waste. The Czech Nuclear Act required the Czech Ministry of Industry and Trade to establish a Czech Repository Authority as a State organization, to carry out particular activities associated with disposal of nuclear waste. The Czech Repository Authority was established on June 1, 1997. The Czech Nuclear Act provides that a generator of nuclear waste will remain responsible for storage of nuclear waste and related costs until the handover of the waste to the Czech Repository Authority. The Czech Repository Authority centrally organizes, supervises and is responsible for all final disposal facilities and the disposal of nuclear waste therein. In 1999, we sold our repository for disposal of nuclear waste from the operation of both the Dukovany and Temelín nuclear power plants to the Czech Repository Authority. The Czech Repository Authority has engaged us to continue operating the repository located at the Dukovany nuclear power plant.

The activities of the Czech Repository Authority are financed through the Czech Nuclear Account funded by the generators of nuclear waste. The Czech Nuclear Account is managed by the Czech Ministry of Finance. We are required to contribute to the Czech Nuclear Account in the amount of CZK 50 per MWh of electricity generated by our nuclear power plants. Since October 1, 1997, we have made regular payments to the Czech

Nuclear Account. In the year ended December 31, 2011, our total payments to the Czech Nuclear Account amounted to CZK 1,414 million.

The originator of radioactive waste is required by the Czech Nuclear Act to cover directly all costs associated with interim storage of spent fuel and the disposal of radioactive waste. The operator is also liable under the Czech Nuclear Act to finance the decommissioning of its nuclear power plants. For this particular purpose, financial resources are accumulated in a special blocked account and any drawings from this account are subject to receiving the Czech Repository Authority's approval.

We have recognized provisions for our obligations to decommission our nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis as well as provisions for our obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors. Actual costs incurred are charged against such accumulated provisions. As of December 31, 2011 the provision for interim spent fuel storage amounted to CZK 6.4 billion, the provision for permanent spent fuel storage amounted to CZK 21.7 billion and the provision for decommissioning amounted to CZK 9.2 billion.

Legal Proceedings

We are currently involved in a number of legal proceedings; however, we believe that liabilities relating to such proceedings would not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. Certain significant legal proceedings in which we are involved as of the date of this Base Prospectus are described below.

Litigation Relating to the Temelín Nuclear Power Plant

In 2001, the State of Upper Austria filed a petition demanding us to cease-and-desist from generating alleged ionizing radiation from the Temelín Nuclear Power Plant. On January 4, 2012, the Linz Regional Court rejected the petition. The State of Upper Austria filed an appeal, which was dismissed by the Linz Court of Appeal on April 12, 2012. The State of Upper Austria filed an appellate review with the Supreme Court in Vienna within the statutory time limit. We have established a provision for contingent liabilities arising from these proceedings, however, this provision does not cover claims brought against us for which damages have not been quantified or in relation to which the plaintiffs' prospects have been deemed by us to be remote. Due to their nature, we are not able to predict the ultimate outcome of legal proceedings currently pending against us, which may not be decided in our favor and may require us to pay damages to the plaintiff, incur costs in connection with the modification of parts of the Temelín nuclear power plant or temporarily remove parts of the Temelín nuclear power plant from service including, in some cases, so that we can comply with environmental laws regarding electromagnetic radiation.

Litigation with Czech Coal

In October 2010, we commenced proceedings against Czech Coal a.s., Czech Coal Services a.s. and Vršanská uhelná a.s. (companies belonging to the Czech Coal group of companies). In these proceedings, we are demanding compensation in the amount of CZK 11 billion for harm caused by Czech Coal's anti-competitive conduct in connection with failed negotiations over a long-term purchase contract for brown coal supplies to our brown coal facility in Počerady after 2016. In addition, we are requesting payment of applicable contractual penalties in the amount of approximately CZK 327 million and payment of damages (mainly costs incurred) in the amount of approximately CZK 9 million. At the time of commencing these proceedings, we withdrew former claims filed in 2007. The case is currently pending before the Regional Court in Ústí nad Labem.

Litigation with Sokolovská uhelná, právní nástupce, a.s.

We are involved in a dispute with Sokolovská uhelná, právní nástupce, a.s. in relation to the amount of and price for brown coal supplies being supplied to us under a long-term supply agreement until 2027. Sokolovská uhelná, právní nástupce, a.s. has challenged the validity of the supply agreement in court. We have filed an unjust enrichment lawsuit against Sokolovská uhelná, právní nástupce, a.s. with the Regional Court in Plzeň in the amount of approximately CZK 56 million. The case is being heard by the Regional Court in Plzeň, which has not decided yet.

Proceedings Relating to Reconstruction and Upgrade of Pruněřov II Power Plant

The Integrated Pollution Prevention and Control (IPPC) permit and zoning permit for the reconstruction and upgrade of the Pruněřov II coal-fired power plant have been issued by the relevant Czech administrative authorities. However, the legality of these permits has been challenged by Ekologický právní servis (EPS), a nongovernmental environmental organization, before the Czech administrative courts. Reconstruction and upgrade of the Pruněřov II power plant is also currently subject to pending building permit proceedings, in which the non-governmental environmental organization EPS is also a participant. The renovation and upgrade of the Pruněřov II power plant may be significantly delayed and we may incur significant losses if we are not successful in these proceedings and the IPPC or zoning permit is cancelled or the issue of the building permit is delayed.

Insolvency Proceedings of Moravia Energo

In March 2009, one of our business counterparties, MORAVIA ENERGO, a.s., a Czech electricity trading company, was declared bankrupt. All electricity supplied by us to MORAVIA ENERGO, a.s. was settled by prepayments. However, when MORAVIA ENERGO, a.s. stopped payments, we were forced to terminate our contracts concluded with MORAVIA ENERGO, a.s. for the period between 2009 and 2011. In accordance with the business rules and the European Federation of Energy Traders standards, we determined the value of the final settlement of prematurely ended deals with MORAVIA ENERGO, a.s., based on the prices at which we were able to sell electricity in the market as of the date of termination of the contracts between us and MORAVIA ENERGO, a.s. After deduction of the already realized security, our final claim amounted to approximately CZK 1.5 billion and was registered and attributed to us within the insolvency proceedings of MORAVIA ENERGO, a.s. On August 1, 2011, a partial distribution resolution was issued, according to which our claim was partially settled in the amount of CZK 71.3 million. Further realization of the debtor's assets is still in progress.

Insolvency Proceedings of Lignit Hodonín

In the insolvency proceedings against Lignit Hodonín, s.r.o., a producer and supplier of brown coal, we have registered receivables in an amount exceeding CZK 115 million. This amount includes CZK 23 million corresponding to supplied and unpaid electricity and penalties under contracts. A special review hearing took place on May 31, 2010, at which our claim was recognized in full. The business enterprise of Lignit Hodonín was sold in September 2010 and the settlement of creditors of Lignit Hodonín is currently in progress. With regard to the amount gained in the course of the sale of the debtor's business and the total amount of the creditors' claims, and including those secured, it is envisaged that our satisfaction will be close to nil. In addition, the receiver filed a suit against us for damages amounting to CZK 196.2 million, allegedly resulting from our abuse of a dominant position in determining the purchase price of brown coal deliveries under a sales contract concluded with Lignit Hodonín, s.r.o., as the supplier. We deny the claim in full. On November 30, 2010, the acquirer of the business enterprise of Lignit Hodonín, UVR Mníšek pod Brdy, a.s., filed a law suit within the insolvency proceedings to exclude receivables in the amount of CZK 196.2 million from the debtor's assets. Until a legally binding decision is issued on whether to exclude the receivables from the debtor's assets, the proceedings concerning damages have been suspended.

Insolvency Proceedings of PLP

In insolvency proceedings against PLP, a.s., a Czech bio-ethanol producer, we have registered a receivable of approximately CZK 191 million, which corresponds to the unpaid supply of electricity, heat and raw water to PLP, a.s., and a receivable of approximately CZK 59 million for contractual penalties. Both receivables were recognized in review hearings that took place in the first half of 2011.

Litigation Proceedings against SZDC

In June, 2010, we filed with the Municipal Court of Prague a claim against Railway Infrastructure Administration, state organization ("SZDC") for damages in the total amount of CZK 805 million. Our claim arose out of the breach of the agreement on electricity supply by SZDC, which did not off-take its contracted amount of electricity in 2010. The Municipal Court of Prague issued a request for payment and SZDC subsequently raised an objection. A hearing is currently pending.

Squeeze-Out Proceedings

In the Czech Republic, we are a party to the following pending proceedings in connection with the squeeze-out of former minority shareholders in our subsidiaries:

Subsidiary	Amount of former minority shareholders' claim	Description of claim	Status
Severomoravská energetika, a.s.	CZK 116 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	By resolution which became effective on April 2, 2012, the appellate court adjudicated the minority shareholders' claim for payment of further consideration. All former squeezed-out minority shareholders of Severomoravská energetika, a.s. shall have the benefit of the above mentioned resolution and have a right to claim further consideration. On the basis of an expert's report which has been recognized by the court, we estimate that the amount of the payment to former minority shareholders may be approximately CZK 74 million.
	CZK 1,030 million	Payment of the difference from a takeover offer for shares made in 2005	Pending before the court of first instance
Západočeská energetika, a.s.	CZK 786 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Východočeská energetika, a.s.	CZK 193 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Severočeská	CZK 843 million	Review of consideration and stipulation	Pending before the court of

energetika, a.s.		of further consideration to be paid to the minority shareholders in the squeeze-out	first instance
Středočeská energetika, a.s.	CZK 551 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
Severočeské doly a.s.	CZK 1,650 million	Review of consideration and stipulation of further consideration to be paid to the minority shareholders in the squeeze-out	Pending before the court of first instance
ČEZ Teplárenská, a.s.	Not known	Review of the consideration paid to the minority shareholders in the squeeze-out of minority shareholders from United Energy, a.s., the legal predecessor of ČEZ Teplárenská, a.s.	Pending before the court of first instance

As of the date of this Base Prospectus, it is not possible to predict the outcome of the above mentioned proceedings concerning the squeeze-out of former minority shareholders in our subsidiaries.

Former minority shareholders in the regional electricity distribution companies Severočeské doly a.s., and ČEZ Teplárenská, a.s., have filed claims seeking the court to declare that the resolutions of these General Meetings that decided on squeeze-outs are invalid. In three of these cases, the claims challenging the General Meetings of regional electricity distribution companies have been set aside. ***Proceedings on the Invalidity of the Contribution of Part of Undertakings or Nullification of the General Meeting's Resolutions***

The following suits have been filed by our minority shareholders in connection with the restructuring of the CEZ Group to comply with the unbundling requirements of the Czech Energy Act (please see “*Organizational Structure*”), either seeking to declare as invalid contributions made to us as part of the undertakings of former regional electricity distribution companies or the resolutions of the General Meetings which approved these contributions:

- a suit seeking to declare the resolution of the General Meeting of Středočeská energetická a.s. held on October 17, 2005, and of contracts on contribution of part of an undertaking, to be invalid. Proceedings before the court of first instance in the actual matter have not yet been completed and we cannot give any assurance as to the outcome of such proceedings; and
- a suit seeking to declare the resolution of the General Meeting of Středočeská energetická a.s. held on June 21, 2006, and of contracts on contribution of part of an undertaking, to be invalid. Court proceedings have not yet been completed and we cannot give any assurance as to the outcome of such proceedings.

To the best of our knowledge, no financial claim has been filed by the minority shareholders. However, we cannot exclude the potential right of minority shareholder to damages or other financial compensation.

Insolvency Proceedings of PORCELA PLUS and BCT Group

In insolvency proceedings against PORCELA PLUS and BCT Group, we have registered receivables in a total amount exceeding CZK 285 million, which corresponds to the unpaid supply of electricity and accrued interest. This includes a receivable against SKLÁRNÝ KAVALIER, a.s. amounting to approximately CZK 120 million, a receivable against CRYSTALEX a.s. amounting to CZK 65.6 million, a receivable against Sklo Bohemia, a.s. amounting to CZK 64.5 million, a receivable against Karlovarský porcelán a.s. amounting to CZK 21.7 million, and a receivable against Sklárný Bohemia a.s. amounting to CZK 13.8 million. The remaining

receivables registered do not exceed CZK 0.5 million. During the review proceedings, all of our registered receivables were determined to exist. Although most of the assets of the debtors were realized during 2009 and 2010, given the amount of debts owed to employees and secured creditors, satisfaction of the remaining debts will be minimal or nil, as was the case in insolvency proceeding against Sklo Bohemia where the resolution on cancellation of bankruptcy was handed down in January 2012.

Litigation with Lesy České republiky over Compensation for Damages

We face 15 lawsuits initiated by the same plaintiff, Lesy České republiky s.p., a state-owned company. All of the suits have the same grounds, namely a claim for compensation of damage caused by our operations to forest crops between 1997 and 2009. The oldest suit is from 1999; the latest one is from 2011. The total amount claimed is CZK 235.1 million. These proceedings are all currently pending before the Prague District Courts.

Litigation with VÍTKOVICE, a.s. over Compensation for Damages

Since May 2012, ČEZ Prodej, s.r.o. has been involved in a lawsuit with VÍTKOVICE, a.s., held by the Regional Court in Ostrava, in which it is seeking CZK 407 million in damages as a result of a breach of an electricity supply contract in 2011; in addition, CZK 10 million is claimed from the company on account of unpaid but consumed electricity in 2011. A compulsory payment order was issued in the case against which the defendant filed a protest.

Proceedings of Romanian Citizens

In 2004, Romanian citizens filed claims against the Romanian state before the European Court of Human Rights claiming the illegal placement of electric facilities on their land by Electrica Oltenia S. A. (the regional distribution company owned by us). The complainants are seeking damages for the Romanian state's failure to protect their land ownership rights. The landowners' dispute could become material for us in Romania if the claim against the Romanian state is successful and similar disputes are brought against us.

Proceedings Relating to the Fântânele and Cogealac Wind Farm Project

In connection with the Fântânele and Cogealac wind farm projects in Romania, we are a party to litigation commenced in 2008 by the town of Cogealac and certain Romanian individuals and entities, who object to certain outstanding building permits, other administrative permits and ownership titles to land parcels relating to the project and who seek to stop certain construction works. The claims are currently pending before the Constitutional Court of Romania. There is no monetary value to the claims against us, but these proceedings have adversely affected the timeline for completing the Fântânele and Cogealac wind farm projects.

Litigation with CFR

As at December 31, 2011, CEZ Distributie S.A. and CEZ Vanzare S.A. had brought a suit against state-owned companies in the group representing the Romanian Railways, Compania Națională de Căi Ferate "CFR", for debts amounting to RON 175.7 million (approx. CZK 1.0 billion). During H1 2012, the debts were settled based on agreements between CEZ Distributie S.A. and CEZ Vanzare S.A. and CFR and the Ministry of Transportation and Infrastructure. Therefore, CEZ Distributie S.A. and CEZ Vanzare S.A. withdrew their petitions and there is no litigation in the matter. ***Proceedings in Albania***

We hold a 76% interest in the share capital of CEZ Shpërndarje Sh.a. ("CEZ SH"), a joint venture between ČEZ and the Republic of Albania, with the remaining 24% interest held by the Republic of Albania. CEZ SH is subject to a variety of proceedings in Albania, which are described in more detail below.

Proceedings Relating to Tariff Decisions in Albania

The Albanian Electricity Regulation Authority (the "Albanian ERE") has imposed new tariffs for electricity distribution and supply for the period between 2012 and 2014. As a result of such tariffs, the operational expenditures of CEZ SH could exceed the prices that may be charged for electricity distribution since the revenue from the regulatory asset base would not fully cover the related costs. In addition, the bad debt allowance, as currently applied in the new tariffs, would not fully cover the actual bad debts and CEZ SH would not be compensated for the losses incurred in previous regulatory periods as a result of lower bad debt

allowances. Further, the recognized costs to cover losses in the network may not fully cover the actual costs associated with such losses.

Intensive negotiations with the Albanian ERE concerning a revision of its tariff decision for the regulatory period of 2012-2014 have been underway since the beginning of 2012. In June 2012 the Albanian ERE made the first step towards rectification of the regulatory environment in June, deciding that the 2012 regulated input price of electricity for CEZ SH would drop from ALL 2,830 to ALL 2,200 per MWh, with retroactive effect from January 1, 2012.

CEZ SH may face financial difficulties which, as we have been advised by our Albanian counsel, in turn, may lead to the commencement by the Albanian ERE of administrative proceedings or withdrawal of CEZ SH's licenses and subsequently to the termination of CEZ SH's business activities. In an effort to mitigate the risk of such adverse development, ČEZ, a. s. may provide CEZ SH with (i) a contribution to the share capital of CEZ SH and (ii) a loan. However, ČEZ, a. s. intends to provide this financing to CEZ SH only if a settlement concerning regulatory and related issues impairing the business of CEZ SH, as is currently being negotiated among CEZ SH, the Government of the Republic of Albania and related Albanian agencies and entities, is reached (for more information, please see "Settlement Discussions" below).

Proceedings Relating to the Non-Approval of the Albanian ERE of the Bad Debt Study

When the stake in CEZ SH was acquired, the Statement of Regulation stipulated that, due to inaccuracy and incompleteness of some data used as parameters for regulation, such as the amount of losses or bad debts, independent experts would prepare additional, independent studies to verify such data. The results of the studies were to be taken into consideration by the regulatory authority when defining tariffs. CEZ Shpërndarje Sh.A. provided the regulatory authority, Albanian ERE, with a detailed study of bad debts, showing a much higher ratio of bad debts than originally expected. In spite of the Statement of Regulation, Albanian ERE neither approved the study nor used its results in its decision on tariffs for 2012-2014. CEZ SH brought an action against Albanian ERE's decision. The District Court in Tirana partially admitted the action and revoked the Albanian ERE decision in the part disregarding the bad debt study. In response to the judgment, Albanian ERE issued a new decision on June 14, 2012, in which the bad debts were taken into consideration in accordance with the study. The level of bad debts is crucial for calculating the retail public supplier tariff of CEZ SH.

Proceedings Relating to the Energy Supply Agreement between CEZ SH and KESH Sh. a.

In March 2011, ERE made a decision approving the electricity purchase contract concluded between CEZ SH and KESH, sh.a. for 2011. It did so despite the objections raised by CEZ SH. The contract contains provisions that violate Albanian law. They entitle KESH, sh.a. to request compensation from CEZ SH in excess of what is stipulated by the Statement of Regulation, namely for the difference between the amount of electricity estimated for 2011 and the amount actually withdrawn. CEZ SH brought an action against Albanian ERE's decision. KESH, sh.a. stated in writing that it would invoice compensation exceeding ALL 5 billion (approx. CZK 1 billion). However, there has been no significant progress in the suit yet. *Proceedings Relating to the Enforcement of KESH's Invoices against CEZ SH*

The state-owned energy company KESH, sh.a., requested a judicial order to pay ALL 3.4 billion (approx. CZK 680 million) served to CEZ Shpërndarje Sh.A. in relation to unpaid liabilities of CEZ Shpërndarje Sh.A. The liabilities originated from the purchase of electricity in January – July 2011. The court issued the order to pay in spite of the fact that the invoices issued by KESH, sh.a., cannot be deemed a valid payment title under Albanian law and there was no due trial. CEZ Shpërndarje Sh.A. challenged the validity of the order to pay and achieved a preliminary ruling of a court that suspended the payment until a final decision on the legitimacy of the payment title. The court of first instance decided that the order to pay was invalid; however, KESH, sh.a. lodged an appeal. *Settlement Discussions*

Settlement discussions are currently being held among ČEZ, a. s., CEZ SH, the Government of the Republic of Albania and related Albanian agencies and entities to resolve all contentious matters. However, if all of the above remedies and settlement discussions fail, CEZ SH and consequently, ČEZ, a. s., may incur further significant losses and our investment in Albania may be threatened.

Proceedings by the European Commission

In November 2009, we received a decision of the European Commission dated November 16, 2009, ordering us to submit to an inspection by the European Commission pursuant to Article 20(4) of Council Regulation (EC) No. 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the EEC Treaty (now Articles 101 and 102 of the Treaty on the Functioning of the European Union).

On July 11, 2011, the European Commission issued a “Decision on the Opening of Proceedings” pursuant to Chapter III of Council Regulation (EC) No. 1/2003 against us. By contrast with the initial focus of the inspection, the scope of the investigation was limited to a suspected breach of Article 102 of the Treaty on the Functioning of the E.U. relating to abuse of a dominant position. The suspicion concerns allegedly preventing the entry of competitors into the wholesale electricity generation market, specifically by reserving transmission grid capacities greater than needed for our existing and planned projects. At the start of the proceedings a procedural decision indicated that the investigation would be dealt with as a matter of priority. Since the beginning of the investigation, we have received several written requests for information from the European Commission. The European Commission may either stop the proceedings or issue a statement of objections, although it has not yet announced its decision.

On June 28, 2012, ČEZ, a. s. presented to the Commission a proposal for commitments in which it undertook to sell one of its coal-fired power plants. On July 10, 2012, the European Commission invited comments on the proposed commitments of ČEZ, a. s. in a Market Test Notice, containing an overview of the proposed measures, published in the Official Journal of the EU. If the market test confirms that the proposed commitments remedy the Commission’s preliminary competition concerns, the Commission will issue a decision that will make the offered commitments legally binding on ČEZ, a. s. According to the contents of the proposed commitments, the company may choose which of the power plants in Počerady, Chvaletice, Tisová together with Mělník 3, or Dětmárovice it will sell. These are coal-fired power plants with an installed capacity of approx. 800 MW (1,000 MW at the Počerady Power Plant). Terminating proceedings by a settlement is common practice in the EU’s competition law. In such a case, the Commission will accept the commitments offered by the investigated entity and terminate the proceedings if it comes to the conclusion that the settlement results in sufficient increase in competition on the market so that no further investigation is needed.

Proceedings with the Bulgarian State Commission for Energy and Water Regulation

CEZ Razpredelenie Bulgaria AD, CEZ Elektro Bulgaria AD, and TPP Varna appealed against the decision of the State Commission for Energy and Water Regulation, stipulating prices for the period from July 1, 2011 to June 30, 2012. The Commission had not approved the prices and necessary revenues as proposed by the three companies and, in the opinion of the companies, had breached the rules of procedure and the law a number of times when making its decision. The suit of CEZ Elektro Bulgaria AD was dismissed by the court of first instance in a decision from June 2012; the company filed an appeal. Expert opinions were allowed in the cases of CEZ Razpredelenie Bulgaria AD and TPP Varna heard by courts of first instance.

Proceedings Against the Decision of the Bulgarian Commission for Consumer Protection

The Bulgarian Commission for Consumer Protection filed two class suits against CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD with the Sofia District Court, successfully asking the court to declare certain clauses of their General Terms and Conditions to be null and void. We filed an appeal against the court’s decision with the Sofia Court of Appeal, which confirmed the decision of the District Court. We subsequently filed an appeal with the Supreme Court of Cassation, the court of last instance, which has not yet reached a decision.

Litigation against the Turkish Government and the Turkish Ministry of Finance

In 2006, Elektrik Üreticileri Derneği (Association of Electricity Producers) and Akenerji Elektrik Üretim A.S. (in which we hold a 37.36% interest) filed a suit with the Supreme Administrative Court of the Republic of Turkey against the Turkish Government and the Turkish Ministry of Finance against their decision to increase the unit price of natural gas (in a gaseous state) by 300%, as compared to a 50% increase in the price of certain other commodities. The case is pending before the Constitutional Court. If Elektrik Üreticileri Derneği (Association of Electricity Producers) and Akenerji Elektrik Üretim A.S. are successful, they may benefit from a cancellation

of the decision of the Turkish Ministry of Finance but damages would not be payable. It is therefore not possible to estimate the value of the suit.

Arbitration Proceedings Relating to the Gacko Project

In 2007, we signed an implementation agreement and started work on the Gacko project in Bosnia and Herzegovina under a joint venture arrangement with Elektroprivreda Republike Srpske, which was to include the operation of the existing Gacko I power plant, the construction of a new power plant, and the opening of a new mine at the Gacko site. However, our joint venture partners did not meet their obligations under the implementation agreement and failed to invest the assets of the existing power plant and mine in the joint venture. As a result, in January 2009, we exercised our put option to sell our 51% share in the joint venture and withdrew from the joint venture. As a result of the breach of the implementation agreement and the failure of Elektroprivreda Republike Srpske to accept the put option, we started arbitration proceedings in May 2009 which are pending before the International Court of Arbitration in Vienna. All parties to the arbitration are bound by confidentiality obligations concerning the dispute. A decision of the arbitration tribunal is expected in the second half of 2013.

Proceeding with PPA Power s.r.o.

A lawsuit is currently pending before the District Court in Banská Bystrica, Slovak Republic, filed by ČEZ Slovensko, s.r.o. against PPA Power s.r.o. seeking EUR 12.187 million (approximately CZK 305 million) in damages arising out of breach of an electricity supply contract in 2010. A payment order was issued in the matter, which PPA Power s.r.o. appealed, and four court hearings have been held, so far without any final decision. The subject matter of the dispute is breach of contract by PPA Power s.r.o. when it failed to take delivery of the agreed amount of electricity in 2010, and resulting damages.

MANAGEMENT

General Overview

We have a two-tier board system consisting of a Board of Directors and a Supervisory Board. Our Board of Directors represents us in all matters and is responsible for our management, while our Supervisory Board is an independent body that oversees our Board of Directors and our Division Heads. The Board of Directors and Division Heads manage our day-to-day operations. Under the Czech Commercial Code and our Articles of Association, the Supervisory Board may not make management decisions and such decisions are reserved for the Board of Directors. However, the Supervisory Board's approval is needed for certain key management decisions, such as those relating to our entry into specific transactions with a value greater than CZK 500 million, or for the disposal of real estate, or our entry into long-term loans. In addition to the statutorily required Audit Committee, our Supervisory Board has formed a Strategy Committee and a Personnel Committee.

Our Board of Directors is a statutory body, which manages our operations and acts on our behalf. The powers and responsibilities of our Board of Directors are set forth in detail in our Articles of Association.

Supervisory Board

Our Articles of Association provide that our Supervisory Board shall comprise 12 members, with eight being elected by the General Meeting and four being elected by our employees. As a result, the Czech Ministry of Finance, as our majority shareholder, has the power to nominate and elect two-thirds of the members of our Supervisory Board. As of the date of this Base Prospectus, our Supervisory Board comprises 11 members only.

Our Supervisory Board's powers include, among other powers, the power to:

- elect and remove members of our Board of Directors;
- approve the management contracts and remuneration of the members of our Board of Directors, the Chief Executive Officer and the Division Heads, including the rules for providing remuneration to members of our Board of Directors;

- inspect all documents and records relating to our business and to inquire into our financial matters;
- supervise our Board of Directors' exercise of its powers and responsibilities;
- review the report of our Board of Directors, as well as our annual, extraordinary, consolidated, interim financial statements and income distribution proposals, including power to stipulate the amount and manner of payment of bonuses to members of our Board of Directors, dividends and loss settlement proposals; and
- discuss our quarterly financial results, half-year and yearly reports.

Generally, our Supervisory Board makes decisions by a simple majority of all its members. Under our Articles of Association, our Supervisory Board makes decisions by a majority of two thirds of its members in certain circumstances, such as decisions to elect members of the Board of Directors and confirmations in respect of members of the Board of Directors who do not meet certain legal requirements for the holding of their office. The quorum for a meeting of our Supervisory Board is a simple majority of its members. Each Supervisory Board member has one vote. When necessary in matters of urgency, a decision may be made by our Supervisory Board without holding a meeting (such decisions are referred to as *per rollam* and must be included in the minutes of the next Supervisory Board meeting). At its discretion, our Supervisory Board may invite members of our other governing bodies, our employees, or other persons to its meetings.

In accordance with our Articles of Association, our Supervisory Board meets at least once a month. In 2011, there were twelve regular and two extraordinary meetings. The Chairman of our Board of Directors regularly attends the meetings. The business address of each member of our Supervisory Board is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Supervisory Board to us and to their private interests or other duties.

Set out below are the members of our Supervisory Board as of the date of this Base Prospectus

Name	Born	Position	Date of appointment
Martin Roman	1969	Chairman of the Supervisory Board	September 15, 2011
Ivo Foltýn	1970	Vice Chairman of the Supervisory Board	November 22, 2010
Lubomír Klosík	1951	Vice Chairman of the Supervisory Board	January 22, 2009
Milan Bajgar	1958	Member of the Supervisory Board	June 26, 2012
Petr Gross	1953	Member of the Supervisory Board	January 22, 2009
Vladimír Hronek	1964	Member of the Supervisory Board	September 30, 2010
Jiří Kadrnka	1970	Member of the Supervisory Board	November 22, 2010
Jan Kohout	1961	Member of the Supervisory Board	November 22, 2010
Drahošlav Šimek	1953	Member of the Supervisory Board	September 30, 2010
Robert Vacek	1971	Member of the Supervisory Board	June 26, 2012
Jiří Volf	1941	Member of the Supervisory Board	June 26, 2012

Martin Roman. Dr. Roman has been the Chairman of our Supervisory Board since September 15, 2011, and a member of the Strategy Committee of our Supervisory Board since September 21, 2011. Dr. Roman was our Chief Executive Officer from 2004 until 2011, a member of our Board of Directors and Chairman of our Board of Directors from 2004 until 2011. Dr. Roman has been a member of the board of directors of MOL Hungarian Oil and Gas Plc since April 2010, vice chairman of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the board of trustees of the Academy of Fine Arts since October 2008, a chairman of the board of trustees of PORG - gymnázium a základní škola, o.p.s. since October 2007, a member of the Science Council of the National Economy Faculty of the University of Economics, Prague since July 2006, a member of the supervisory board of the Prague Stock Exchange since June 2005 and a member of the supervisory board of VIENNA INSURANCE GROUP Wiener Stadtische Versicherung AG since June 2010.

From April 2007 until December 2009, Dr. Roman was a member of the supervisory board of České dráhy a.s. Between 2000 and 2004, Dr. Roman was chairman and chief executive officer of ŠKODA HOLDING, the Czech mechanical engineering company. From 2007 to 2011, Dr. Roman was vice president of the Confederation of Industry of the Czech Republic. In 1994 he became chief executive officer of Janka Radotín Company, where he became chairman of the board of directors after the entry of a strategic partner, the U.S. company LENNOX, in 1998. Dr. Roman began his professional career in 1992 as a sales director of the Czech branch of Wolf Bergstrasse ČR, s.r.o. Dr. Roman is a founder of Nadace Martina a Lenky Romanových (Foundation of Martin and Lenka Roman) and Nadace Martina Romana (Foundation of Martin Roman). Dr. Roman graduated from Charles University Law Faculty in Prague in 1993. His international studies included one year at Karl-Ruprechtsuniversität Heidelberg, Germany, and a one-year scholarship at the University of St. Gallen, Switzerland.

Ivo Foltýn. Mr. Foltýn has been Vice Chairman of our Supervisory Board since July 28, 2011, a member of our Supervisory Board since November 22, 2010, a member of our Audit Committee since June 26, 2012, a member of the Strategy Committee of our Supervisory Board since December 2, 2010 and chairman of the Strategy Committee of our Supervisory Board since March 20, 2012. Mr. Foltýn has been a member of the supervisory board of ČEZ OZ uzavřený investiční fond a.s. since September 7, 2011, the sole member of the board of directors and sole shareholder of Fox hole a.s. since July 29, 2009 and chairman of the supervisory board of nexum Trilog a.s. since December 15, 2010 and a member of the board of directors of Ambeat Health Care a.s. since September 23 2011. Mr. Foltýn was chairman of the board of directors of Penzijní fond České pojišťovny, a.s. from 1997 to 2009. Mr. Foltýn was chairman of the executive committee of Oborová zdravotní pojišťovna from 2007 to 2010. Mr. Foltýn was a member of the supervisory board of VUB Generali dochodkova spravcovska spolecnost, a.s. from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of Inphorce, Russia from 2008 to 2009. Mr. Foltýn was chairman of the board of directors of Penzijní fond "Generalli PPF," Russia from 2007 to 2010. Mr. Foltýn was a member of the board of directors of Generalli PPF Life Insurance, Russia from 2005 to 2009. Mr. Foltýn was a member of the supervisory board of CJSC "IC"Generalli Life Insurance, Ukraine from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of Generalli Garant Life Insurance, Ukraine from 2008 to 2010. Mr. Foltýn was a member of the supervisory board of OJSC "UIC" Generalli Garant, Ukraine from 2008 to 2009. Mr. Foltýn was a member of the supervisory board of CJSC "CZI Ukraine" Pension fund from 2007 to 2009. Mr. Foltýn was a member of the supervisory board of Česká pojišťovna, Kazakhstan from 2007 to 2009. Mr. Foltýn was a member the supervisory board of Ceská pojišťovna, Belarus from 2007 to 2009. He was a member of the executive committee, Head of CIS Countries, Holding. Pensions & Health insurance of Generali PPF Holding, B. V. from 2008 to 2009. Mr. Foltýn obtained a MBA from the University of Chicago, United States in 2003 and graduated from the Mechanical Engineering Faculty, the Technical University of Brno in 1993 and the University of Economics in Prague in 1995.

Lubomír Klosík. Mr. Klosík has been Vice Chairman of our Supervisory Board elected by our employees since January 27, 2011 and has been a member of our Supervisory Board since January 22, 2009. Mr. Klosík has also been a member of our Audit Committee since May 13, 2009. Mr. Klosík has been a member of our European Work Council since 2007. Mr. Klosík was a member of the steering committee of the North Moravia Region Pact of Employment from 2007 until 2011. Mr. Klosík was a member of the managing committee of Eurest-T Beskydy (an international cooperation project) from 2007 until 2011. Mr. Klosík was a member of the council of the Association for Development of North Moravia Region from 2007 until 2011. Mr. Klosík was chairman of the Regional Confederation of Labor Unions of ČMKOS (Czech Confederation of Labor Unions) in the North Moravian region from 2007 until 2011. Mr. Klosík was vice chairman of our European Work Council from 2007 until 2011. Since 2004, he has been a member of the Presidium of the Labor Union ECHO. Mr. Klosík started his career as a shift foreman in the Detmarovice power plant where he worked from 1974 to 2004, becoming full time chairman of the labor organization of the Detmarovice power plant in 2004. Mr. Klosík graduated from the Secondary Industrial Chemical School of Chemical Technology in Ostrava in 1971 and completed a three-year course in Social-Economic Management at Mendel University in Brno in 2002.

Milan Bajgar. Mr. Bajgar has been a member of our Supervisory Board since June 26, 2012. Mr. Bajgar worked as director in Čeladná hospital from 1996 until 2000. Since 2000 he is a director of Beskydské rehabilitační centrum in Čeladná. Mr. Bajgar is an executive officer and shareholder of Beskydské rehabilitační centrum, s r.o. He is chairman of PATRIOT 2004, o.p.s., and member of supervisory board of TALEGA, a.s. He is an executive officer of Apartmánový dům KRISTIÁN s.r.o. and Apartmánový dům u lázeňského parku s.r.o. He graduated at Faculty of Medicine and Dentistry at Palacký University Olomouc.

Petr Gross. Mr. Gross has been a member of our Supervisory Board elected by our employees since January 22, 2009, a member of the Personal Committee of our Supervisory Board since May 21, 2009 and chairman of the Personal Committee of our Supervisory Board since November 29, 2011. He has been a full time chairman of the labor organization of Chvaletice power plant. He worked in the Chvaletice power plant as a technician and as a mechanic. Mr. Gross started his career as an operative electrician. Mr. Gross graduated from the Secondary Industrial School in Kutná Hora specializing in measurement and regulation in computer technology.

Vladimír Hronek. Mr. Hronek has been a member of our Supervisory Board elected by our employees since September 30, 2010, a member of the Personal Committee of our Supervisory Board Since December 2, 2010 and a member of the Strategy Committee of our Supervisory Board since February 24, 2012. He has been a member of our European Works Council since 2007 and vice chairman of our European Works Council since 2011. He has worked as an inspection electrician at the Temelín nuclear power plant and since 2006 he has been the full time chairman of labor organization of the Temelín nuclear power plant. Mr. Hronek graduated from the Secondary School of Electrical Engineering in Prague.

Jiří Kadrnka. Mr. Kadrnka has been a member of our Supervisory Board since November 22, 2010, a member of the Personal Committee of our Supervisory Board since December 2, 2010 and vice chairman of the Personal Committee of our Supervisory Board since December 12, 2010. Mr. Kadrnka has been an executive director since 1997, a shareholder of MOSS logistics s.r.o. since 1998 and the head of its Slovak branch since 2007. Mr. Kadrnka has been a member of the executive committee of Janáčkova akademie muzických umění in Brno (Music academy in Brno) since 2011. Mr. Kadrnka was a member of the board of directors of Energo Hustopeče, a.s. from 2000 to 2010. Mr. Kadrnka graduated from the Mechanical Engineering Faculty of the Czech Technical University in Prague in 1993 where he studied design of industrial robots and manipulators and machine tools.

Jan Kohout. Dr. Kohout has been a member of our Supervisory Board since November 22, 2010, a member of the Strategy Committee of our Supervisory Board since December 2, 2010 and vice-chairman of the Strategy Committee of our Supervisory Board since March 20, 2012. Dr. Kohout was a vice chairman of the government of the Czech Republic and a Minister of Foreign Affairs of the Czech Republic from 2009 to 2010 and a Permanent Representative of the Czech Republic to the European Union from 2004 to 2008. Dr. Kohout was from 2010 until 2011 a shareholder of Permit spol. s r.o. and has been an executive officer of Permit spol. s r.o. since 2011. Dr. Kohout has been a president of Czech China Chamber of Collaboration since 2011. Dr. Kohout graduated from the Faculty of Philosophy of the Charles University in Prague in 1984.

Drahošlav Šimek. Mr. Šimek has been a member of our Supervisory Board since elected by our employees since June 29, 2006 (re-elected on September 30, 2010). He has also been a member of our Audit Committee since May 13, 2009. He joined us in 1974 and he currently works at the Dukovany nuclear power plant as a mechanical technician on the main generating unit. He has been a member of the Confederation of Labor Unions of Energy Sector Workers and the Labor Union of Shift Workers at Dukovany nuclear power plant since 1995. Mr. Šimek graduated from the Secondary Vocational School in Domažlice in electromechanics and from the Secondary Vocational School in Chomutov in operational metalwork.

Robert Vacek. Mr. Vacek has been a member of our Supervisory Board since June 26, 2012. Mr. Vacek worked for the National Security Authority as the head of the Department of Personal Security (personal audit) from 2002 until 2010. He was as a Director of Security at the Transportation Ministry from 2010 until 2011. He is the Executive Secretary of the Government Anti-Corruption Committee and director of the Anti-Corruption

Department of the Office of the Government of the Czech Republic since 2011. He graduated at the Faculty of Economics at the University of Economics in Prague in 1996.

Jiří Volf. Mr. Volf has been a member of our Supervisory Board since June 26, 2012. Mr. Volf worked since 1993 as director at Ministry of Finance, Deputy Minister and State Secretary. Since 2009 Mr. Volf has been advisor of the Minister. Mr Volf is a member of administrative Boards of five Universities, member of assembly of Academy of Sciences, chairman of board of directors of National Training Fund (Národní vzdělávací fond o.p.s.), vice-chairman of supervisory board of MERO a.s., member of board of directors of Thermal-F, a.s. He graduated at the University of Economics in Prague. Pursuant to a decision of the Czech National Bank dated May 15, 2008, a fine of CZK 50,000 was imposed on Mr. Roman for a breach of his obligation to notify the Czech National Bank of certain trades in the shares of the Issuer carried out by him. The trade was properly notified to the Czech National Bank one day after the expiration of the statutory deadline. The delay in notifying the Czech National Bank was caused by technical reasons.

Committees of our Supervisory Board

Our Supervisory Board has the power to establish committees and to elect and remove their members. Our Supervisory Board has established the Strategy Committee and the Personnel Committee. Only members of our Supervisory Board are eligible to be members of the Strategy and Personnel Committee. The term of office of committee members is identical to their term of office on our Supervisory Board. Committees of our Supervisory Board meet as needed, but no less than once every three months. Committees of our Supervisory Board make a decision by a simple majority of the votes of all members of the committee.

In accordance with Czech statutory requirements, we have also established an Audit Committee. The Audit Committee is comprised of members of our Supervisory Board and third parties. Please see “—*Audit Committee*” below.

Strategy Committee

The Strategy Committee of our Supervisory Board was established to improve our Supervisory Board’s decision-making in matters concerning our strategic development. The committee’s activities include evaluating proposals for major business activities such as capital expenditure, acquisition, and divestiture projects (in particular, purchases and sales of material assets or ownership participations in the Czech Republic and abroad), proposals for establishing or winding up our subsidiaries, construction of new generating plants and the phasing out, sale, or renewal of production plant and equipment.

In 2011, the Strategy Committee held nine meetings. As of the date of this Base Prospectus, the members of the Strategy Committee were Mr. Ivo Foltýn (chairman), Mr. Jan Kohout (vice chairman), Mr. Martin Roman, Mr. Vladimír Hronek and Mr. Jiří Volf.

Personnel Committee

The Personnel Committee of our Supervisory Board, was established to make proposals for our Supervisory Board regarding its personnel policies for members of our Board of Directors, to present its opinion on proposals to elect and remove members of our Board of Directors, to present nominations of candidates for membership of our Board of Directors to our Supervisory Board for approval, to make recommendations to our Supervisory Board regarding issuance of opinions in matters relating to the appointment and manner of remuneration of our Chief Executive Officer and executive members of our Board of Directors, and to give to our Supervisory Board its recommendations concerning candidates proposed by our Board of Directors for nomination to the supervisory boards of companies in which we hold a stake in the registered capital exceeding CZK 500 million. More specifically, the contracts and remuneration of members of our Board of Directors who are also Division Heads are subject to the prior approval of the Supervisory Board. In addition, remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of the shareholders and remuneration of members of our Board of Directors, including all benefits, is approved by our Supervisory Board. Please see “—*Compensation*.”

In 2011, the Personnel Committee held nine meetings. As of the date of this Base Prospectus, the members of the Personnel Committee were Mr. Petr Gross (Chairman), Mr. Jiri Kadrnka (vice chairman), Mr. Milan Bajgar and Mr. Vladimír Hronek.

Audit Committee

The powers and responsibilities and decision making process of our Audit Committee are stipulated by our Articles of Association and Czech Act No. 93/2009 Coll., on auditors and include:

- monitoring the process of compiling our financial statements and consolidated financial statements;
- evaluating the effectiveness of our internal controls, internal audit, and risk management systems;
- monitoring the process of the mandatory audit of our financial statements and consolidated financial statements;
- evaluating the independence of our statutory auditor and audit firm, and, in particular, provision of supplementary services by that company; and
- recommending an auditor to audit our financial statements and consolidated financial statements.

The Audit Committee has five members, which are elected and removed by the General Meeting from among members of our Supervisory Board or third parties. Members of our Board of Directors and our procura holders are not eligible to be members of our Audit Committee. Members of our Audit Committee serve a four-year term. Members of our Audit Committee attend our General Meeting and are required to report to our General Meeting on the results of their activities. As a rule, our Audit Committee meets once every two months. Our Audit Committee held seven meetings in 2011. Our Audit Committee makes decisions by a simple majority of the votes of all its members.

The business address of each member of our Audit Committee is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Audit Committee to us and to their private interests or other duties.

Set out below are the members of our Audit Committee as of the date of this Base Prospectus.

Name	Born	Position	Date of appointment
Ján Dzvoník	1961	Chairman of the Audit Committee	June 1, 2011
Lubomír Klosík	1951	Vice Chairman of the Audit Committee	May 13, 2009
Drahošlav Šimek	1953	Member of the Audit Committee	May 13, 2009
Ivo Foltýn	1970	Member of the Audit Committee	June 26, 2012

Ján Dzvoník. Mr. Dzvoník has been a member of our Audit Committee since June 1, 2011. From June 1, 2011 to June 26, 2012 he was a member of our Supervisory Board. Mr. Dzvoník has been chairman of the supervisory board of MERO ČR, a.s. since June 2008, vice-chairman of the supervisory board of MERO GERMANY, a.g. since September 2009 and a member of the audit committee of MERO ČR, a.s. since December 2009. Mr. Dzvoník was from 2008 until 2010 an executive officer and a shareholder of ALIATROS spol. s r.o. Mr. Dzvoník graduated from the Management Faculty, the University Economics in Bratislava in 1983.

Lubomír Klosík. Mr. Klosík has been a member of our Audit Committee since May 13, 2009. For more information on Mr. Klosík, please see “—*Supervisory Board*” above.

Drahošlav Šimek. Mr. Šimek has been a member of our Audit Committee since May 13, 2009. For more information on Mr. Šimek, please see “—*Supervisory Board*” above.

Ivo Foltýn. Mr. Foltýn has been a member of our Audit Committee since June 26, 2012. For more information on Mr. Foltýn, please see “—*Supervisory Board*” above. **Board of Directors**

Our Supervisory Board elects members of our Board of Directors. Members of our Board of Directors serve four-year terms and may be re-elected. The business address of each member of our Board of Directors is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

Responsibilities of our Board of Directors include:

- managing our operations, including keeping of proper accounts;
- convening and organizing the General Meeting and submitting to the General Meeting certain information, including: draft amendments to our Articles of Association; proposals to increase/decrease our share capital; annual, extraordinary, consolidated, and interim financial statements; income distribution proposals including stipulation of dividend amount, manner of payout, and due date, participation in our profit sharing by members of our Board of Directors, and amounts to be allocated to reserves or the manner of settling any losses; yearly report on our business operations and the state of our assets;
- carrying out General Meeting resolutions;
- removing our Division Heads; and
- deciding on entering into agreements relating to the formation of business companies or acquisition of our ownership stakes in other legal entities, as well as winding up of business companies or disposing of our ownership stakes in other legal entities.

Our Board of Directors makes decisions by a simple majority of the votes of all its members. A quorum is present when a simple majority of members of our Board of Directors is present at a meeting. Each member of our Board of Directors has one vote. When necessary in matters of urgency, a decision may be made by our Board of Directors without holding a meeting. Our Board of Directors has discretion to invite to its meetings members of our other governing bodies, our employees, or other persons.

In accordance with our Articles of Association, certain decisions of our Board of Directors require the prior consent of our Supervisory Board before they can be implemented, and our Board of Directors is required to submit such decisions to our Supervisory Board for discussion and request its opinion.

Our Articles of Association provide that our Board of Directors shall comprise seven members. Our Board of Directors is obliged to meet at least once a month. In practice, however, meetings are held almost weekly and a total of 45 meetings took place in 2011.

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

Set out below are members of our Board of Directors as of the date of this Base Prospectus.

Name	Born	Position	Date of appointment
Daniel Beneš	1970	Chairman of the Board of Directors	December 15, 2005
Martin Novák	1971	Vice Chairman of the Board of Directors	May 21, 2008
Peter Bodnár	1960	Member of the Board of Directors	August 21, 2009
Michaela Chaloupková	1975	Member of the Board of Directors	October 20, 2011
Pavel Cyrani	1976	Member of the Board of Directors	October 20, 2011
Vladimír Hlavinka	1966	Member of the Board of Directors	January 1, 2008
Tomáš Pleskač	1966	Member of the Board of Directors	January 26, 2006

Daniel Beneš. Mr. Beneš has been a member of our Board of Directors since December 15, 2005 has been Chairman of our Board of Directors and our Chief Executive Officer since September 15, 2011. He was previously our Chief Operating Officer until September, 2011 and Vice Chairman of our Board of Directors from May 2006 until September 2011. He has been a member of the executive committees of the Technical University of Ostrava since 2009 and the South Bohemian University of České Budějovice since 2011, vice chairman of the supervisory board of Jadrová energetická společnost Slovenska, a. s. a since December 2009, chairman of the supervisory board of ČEZ Bohunice a.s. since March 2009, a member of the supervisory board

of ČEZ Obnovitelné zdroje, s.r.o. since January 2009 (and vice chairman since September 2009), chairman of the board of trustees of ČEZ Foundation since 2007, member of the supervisory board of Severočeské doly a.s. since February 2010 (and chairman since February 2012). Mr. Beneš was a member of the supervisory board of Coal Energy, a.s., v likvidaci, from April 2006 until December 2009. Between 2004 and 2006, he was a member of the board of directors of Severočeské doly a.s. Mr. Beneš graduated from the Mechanical Engineering Faculty, the Technical University of Ostrava and obtained a MBA from Brno International Business School - Nottingham Trent University.

Martin Novák. Mr. Novák has been our Chief Finance Officer since January 1, 2008 and has been the Vice Chairman of our Board of Directors since October 20, 2011 (re-elected on May 22, 2012) and a member of our Board of Directors since May 21, 2008. He has been a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since October 2009, a member of the supervisory board of ČEZ ICT Services, a.s. since May 2007, and a member of the supervisory board of ČEZ Bohunice, a.s. since February 2012 and a member of the supervisory board of ČEZ OZ uzavřený investiční fond, a.s. since September 2011. Mr. Novák joined us as our Accounting Section Director in 2006. From 2001 to 2006, Mr. Novák worked for ConocoPhillips in Houston, Texas and in its regional headquarters in London, acting as Financial Director for Central and Eastern Europe between 2005 and 2006. From 1996 to 2001, Mr. Novák worked for Česká rafinérská, where he became Controller-Deputy Finance Director. Mr. Novák began his career as a tax advisor at PriceWaterhouseCoopers. Mr. Novák undertook the Executive MBA program at the University of Pittsburgh in 2007 and graduated from the University of Economics in Prague.

Peter Bodnár. Mr. Bodnár has been our Chief Investment Officer since January 1, 2008 and has been a member of our Board of Directors since August 21, 2009. Since 2009, Mr. Bodnár has been a member of the supervisory board of Jádruva energetická spoločnosť Slovenska, a. s., a member of the supervisory board of Ústav jaderného výzkumu Řež a.s. since February 2009, a member of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the supervisory board of ČEZ Bohunice, a.s. since March 2009, a member of the supervisory board of ŠKODA PRAHA, a.s. since July 2007 and a member of the supervisory board of ŠKODA PRAHA Invest, s.r.o. from July 2007 to April 2010. Between 2006 and 2007, he was a director of the quality division in Enel Produzione - member of Slovenské Elektrárne and between 2002 and 2005 he was chief executive officer of Alstom Power service for the Czech and Slovak Republic. Mr. Bodnár graduated from the Faculty of Mechanical Engineering of the Slovak University of Technology in Bratislava specializing in heat and nuclear energetic machineries.

Michaela Chaloupková. Ms. Chaloupková has been a member of our Board of Directors since October 20, 2011. Ms. Chaloupková has been our Chief Purchasing Officer since January 1, 2012. Ms. Chaloupková joined us in 2003 and holds the position of Purchasing Department Manager. She was the Executive Purchasing Manager between January 1, 2007 and January 1, 2012. Ms. Chaloupková has been chairman of the supervisory board of ČEZ Logistika, s.r.o. since July 2007 and a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since November 2011. Ms. Chaloupková was a member of the supervisory board of ŠKODA PRAHA Invest, s.r.o. from December 2008 until April 2010, a member of the supervisory board of ČEZ Distribuce, a.s. from November 2010 until September 2011 and a member of the supervisory board of ČEZ ICT Services, a.s. from March 2006 until March 2011. Ms. Chaloupková graduated from the West Bohemian University Law Faculty in Plzeň in 1999 and obtained a MBA from KATZ School of Business, University of Pittsburgh in 2007.

Pavel Cyrani. Mr. Cyrani has been our Chief Strategy Officer and a member of our Board of Directors since October 1, 2011. Mr. Cyrani has been a member of the supervisory board of ČEZ Distribuce, a.s. since October 2011, a member of the supervisory board of Severočeské doly, a.s. since October 2011 and an executive officer and shareholder of Loyalty Consulting, s.r.o. since September 2003. Mr. Cyrani has been vice chairman of the board of directors of Loyalty Management CZ, a.s. since November 2003. Mr. Cyrani was a member of the supervisory board of Dalkia Česká republika, a.s. from May 2010 until February 12, 2012. Mr. Cyrani was a member of the supervisory board of ČEZ OZ uzavřený investiční fond, a.s. from September 2011 until November 2011. Mr. Cyrani joined us in 2005 and has managed our Asset Management Department as well as the Finance Division of our Controlling Department. Before joining us, he worked as a management consultant for McKinsey & Company, where he specialized in the energy industry. Mr. Cyrani obtained a MBA in finance

from the Kellogg School of Management, United States and graduated from the Faculty of International Trade, University of Economics, Prague.

Vladimír Hlavinka. Mr. Hlavinka has been our Chief Production Officer since January 1, 2008 and has been a member of our Board of Directors since January 1, 2008. He has been a member of the supervisory board of ČEZ Energetické produkty, s.r.o. since December 2007 and the chairman since November 2009. He has been a member of the supervisory board of Ústav jaderného výzkumu Řež a.s. since December 2007 and the chairman since April 2008. Mr. Hlavinka has been a member of the supervisory board of ČEZ Energo, s.r.o. since January 2011 and the chairman since February 2011. He has been a member of the committee of the Czech Radioactive Waste Repository Authority since December 2011. Mr. Hlavinka worked for us from 1991 to 2000. From 1989 to 1991 he worked for VUJE Trnava. Mr. Hlavinka graduated from the Mechanical Engineering Faculty, Brno University of Technology, and from the Faculty of Law of the Masaryk University in Brno.

Tomáš Pleskač. Mr. Pleskač has been our Chief International Affairs Officer since January 1, 2008 and has been a member of our Board of Directors since January 26, 2006. Mr. Pleskač was Vice Chairman of our Board of Directors from February 11, 2008 to June 29, 2010. Mr. Pleskač has been the chairman of the supervisory board of ČEZ Distribuce a.s. since January 2012, a member of the supervisory board of ČEZ OZ uzavřený investiční fond a.s. since November 2011, a member of the supervisory board of Mitteldeutsche Braunkohlengesellschaft mbH since June 2009, a member of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a member of the board of directors of CM European Power International B.V. since July 2008 and vice chairman since August 2011, a member of the supervisory board of CEZ Bulgaria EAD since June 2006 and a member of the supervisory board of CEZ Razpredelenie Bulgaria AD since June 2006 and chairman since September 2006. Mr. Pleskač was chairman of the supervisory board of NERS d.o.o. from May 2007 until October 2009. Mr. Pleskač obtained a MBA from the Prague International Business School and graduated from the Faculty of Business and Economics, University of Agriculture, Brno.

Chief Executive Officer and Division Heads

At the executive employees level, we are managed by the Chief Executive Officer and the Division Heads. The business address of our Chief Executive Officer and Division Heads is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of our Chief Executive Officer and the members of our Division Heads to us and to their private interests or other duties.

Set out below are our Division Heads as of the date of this Base Prospectus.

Name	Born	Position	Date of appointment
Daniel Beneš	1970	Chief Executive Officer	September 15, 2011
Peter Bodnár	1960	Chief Investment Officer	January 1, 2008
Michaela Chaloupková	1975	Chief Purchasing Officer	January 1, 2012
Pavel Cyrani	1976	Chief Strategy Officer	October 1, 2011
Vladimír Hlavinka	1966	Chief Production Officer	January 1, 2008
Martin Novák	1971	Chief Finance Office	January 1, 2008
Tomáš Pleskač	1966	Division Distribution and Foreign Countries Chief Officer	April 1, 2012
Alan Svoboda	1972	Chief Sales Officer	January 1, 2005

Daniel Beneš. Mr. Beneš has been our Chief Executive Officer since September 15, 2011. For information on Mr. Beneš, please see “—Board of Directors” above.

Peter Bodnár. Mr. Bodnár has been our Chief Investment Officer since January 1, 2008. For information on Mr. Bodnár, please see “—Board of Directors” above.

Michaela Chaloupková. Ms. Chaloupková has been our Chief Purchasing Officer since January 1, 2012. For more information on Ms. Chaloupková, please see “—Board of Directors” above.

Pavel Cyrani, Mr. Cyrani has been our Chief Strategy Officer since January 1, 2011. For information on Mr. Cyrani, please see “—Board of Directors” above.

Vladimír Hlavinka. Mr. Hlavinka has been our Chief Production Officer since January 1, 2008. For more information on Mr. Hlavinka, please see “—Board of Directors” above.

Martin Novák. Mr. Novák has been our Chief Finance Officer since January 1, 2008. For more information on Mr. Novák, please see “—Board of Directors” above.

Tomáš Pleskač. Mr. Pleskač has been our Chief International Affairs Officer since January 1, 2008. For more information on Mr. Pleskač, please see “—Board of Directors” above.

Alan Svoboda. Mr. Svoboda has been our Chief Sales Officer since January 1, 2005. Mr. Svoboda has been vice chairman of the supervisory board of ČEZ Slovensko, a. s. since April 2011, a member of the Science Council of the Faculty of Business Administration, University of Economics, Prague since July 2010, a member of the board of directors of EFET since November 2009, a member of the Science and Pedagogic Council of the Institute of Economic Studies of the Faculty of Social Sciences, Charles University, Prague since December 2009, a deputy member of the board of directors of the Union of the Electricity Industry-EURELECTRIC since December 2005 and vice chairman of the supervisory board of ČEZ Prodej, s.r.o. and ČEZ Zákaznické Služby, s.r.o. since March 2005. Mr. Svoboda was a member of the general assembly and executive committee of the Foratom from December 2005 to December 2009 and a member of our Board of Directors from April 2004 until April 2006. Mr. Svoboda gained managerial and other professional experience in other positions, including as a Partner at McKinsey & Company, focusing on the power industry. Mr. Svoboda obtained a MBA in Finance and a MA in Economics from the University of Missouri, Kansas City, Missouri, United States in 1996, and graduated with a major in information and financial management from the University of West Bohemia, Pilsen in 1998.

Pursuant to a decision of the Czech National Bank dated August 13, 2009, a fine of CZK 1,700,000 was imposed on Mr. Svoboda for a breach of insider trading rules. Mr. Svoboda disclosed the trades as required under Czech law. An administrative complaint seeking to reverse the decision was filed with the administrative court. Pursuant to a decision dated April 3, 2012 the administrative court cancelled the above mentioned decision of the Czech National Bank.

Compensation

The remuneration of the members of the Board of Directors, the Supervisory Board, Chief Executive Officer and our Division Heads and selected managers of departments with group field activity increased to CZK 479 million in 2011 compared with CZK 458 million in 2010.

Remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of our shareholders. In accordance with resolutions passed by our General Meeting, we enter into a membership contract with each member of these bodies. Remuneration of members of our Board of Directors, including all benefits, is approved by the Supervisory Board. In accordance with resolutions passed by our Supervisory Board, we enter into a membership contract with members of our Board of Directors. The contracts and remuneration of the Chief Executive Officer and our Division Heads are subject to the prior approval of the Supervisory Board.

Remuneration and benefits received by members of our governing bodies include:

- fixed remuneration;
- target remuneration based on fulfillment of specific tasks assigned by our General Meeting. Members of our Board of Directors may receive target remuneration up to six times the amount of his or her monthly remuneration;
- participation in our profit sharing by members of our Board of Directors and Supervisory Board by a decision of our General Meeting;

- stock options for members of our Board of Directors, but not for Members of our Supervisory Board or our Audit Committee;
- insurance against liability for damage caused to us or to third parties while discharging duties of office and endowment life insurance; and
- severance pay for members of our Board of Directors should their contract be terminated before it is due to expire. The severance pay amount is the aggregate total remuneration that would otherwise have been paid for the months remaining until the end of the term of their contract.

Remuneration of our Chief Executive Officer and our Division Heads is subject to the prior consent of our Supervisory Board. Remuneration and benefits of our Chief Executive Officer and our Division Heads include:

- base monthly wage paid for the amount of time worked;
- annual bonus in addition to the base monthly wage. The bonus amount depends on fulfillment of criteria stipulated in advance and may be as much as 77.8% for our Chief Executive Officer and 60.0% for our other Division Heads;
- strategic bonuses tied to fulfillment of specific, long-term tasks in the areas of plant construction and renewal, and acquisition activities;
- stock options subject to a decision of our Board of Directors and the consent of our Supervisory Board;
- endowment life insurance; and
- severance pay and cash settlement on termination of employment.

Shares and Share Options of Senior Management

As of December 31, 2011, members of our Board of Directors, members of our Supervisory Board and our Division Heads held a total of 153,071 shares of ČEZ, a. s. (including 220 shares held by Mr. Lapin, one of our Division Heads as of December 31, 2011, whose office terminated in January 2012).

As of December 31, 2011, our Board of Directors, members of our Supervisory Board, our Division Heads and certain departmental managers held a total of 2,663,000 options to acquire shares of ČEZ, a. s. For information on the number of share options granted to and exercised and forfeited by our senior management in the year ended December 31, 2011, please see Note 24 of our audited consolidated financial statements for the year ended December 31, 2011.

Corporate Governance

Our corporate governance is based on the recommendations of the Czech 2004 Corporate Governance Codex compiled by the former Czech Securities Commission. For information on our governing bodies, a description of how they are established, their current composition, a description of how their members are remunerated, and a summary of Supervisory Board committees, please see “—*Supervisory Board*” “—*Board of Directors*” “—*Chief Executive Officer and Division Heads*” “—*Audit Committee*” and “—*Compensation*” above.

In addition, we comply with all Czech Commercial Code provisions regarding shareholder rights, convening our General Meetings and ensuring equal treatment of our shareholders.

Further, as an issuer of securities accepted for trading on the Warsaw Stock Exchange, we also comply with the corporate governance requirements of the Warsaw Stock Exchange.

PRINCIPAL SHAREHOLDERS

As of December 31, 2011, the registered capital of ČEZ, a. s. as recorded in the Commercial Register was CZK 53,798,975,900, comprising 537,989,759 shares, each with a nominal value of CZK 100. The issue price of all shares had been fully paid up and all of the shares were booked to owner and listed.

The registered capital of ČEZ, a. s. is comprised exclusively of common shares, with no special rights attached. All of the shares of ČEZ, a. s. are accepted for trading on the Prague Stock Exchange and the Warsaw Stock Exchange and are freely transferable without any restrictions. No other securities issued by ČEZ, a. s. are limited in their transferability, nor are any special rights attached thereto.

In terms of restrictions on voting rights associated with certain shares, the following applies: in accordance with Section 161d of the Commercial Code, the voting rights associated with treasury shares acquired by ČEZ on the basis of a General Meeting resolution are not exercised by the Company. As at December 31, 2011, ČEZ, a. s. held 3,875,021 such treasury shares.

The following table sets forth the shareholdings of the Czech Republic as of December 31, 2011.

Shareholder	As of December 31, 2011		
	Number of shares	% of share capital	% of voting rights
Ministry of Finance of the Czech Republic.....	373,197,672	69.4	69.9
Ministry of Labor and Social Affairs of the Czech Republic.....	2,213,224	0.4	0.4
Czech Governmental Authority for Representation in Property Affairs.....	355	0.0	0.0
Total.....	375,411,251	69.8	70.3

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ a. s., the parent company of the CEZ Group. As our controlling shareholder, the Ministry of Finance of the Czech Republic exercises shareholder rights provided for in our Articles of Association and applicable laws (including the Czech Commercial Code and the Capital Market Act), which include the power to nominate and elect two-thirds of the members of our Supervisory Board, who in turn appoint all members of our Board of Directors. We have not entered into any agreements with the Ministry of Finance of the Czech Republic and there are no mechanisms in place to prevent abuse of control over the CEZ Group by the Ministry of Finance of the Czech Republic except for provisions contained in our Articles of Association and applicable laws (including the Czech Commercial Code and the Capital Market Act). For information on certain Czech statutory mechanisms preventing abuse of control by the Ministry of Finance of the Czech Republic, please see “*Related Party Transactions—Regulation by Czech Commercial Code*”

As of December 31, 2011, no other shareholder held more than 5% of the share capital or of the voting rights of the shares of ČEZ, a. s.

To the best of our knowledge, as of the date of this Base Prospectus, no agreements exist that could change the control structure of the Issuer at any date.

RELATED PARTY TRANSACTIONS

The relationships between us and our related parties, identified according to the principles of International Accounting Standard 24 (“IAS 24”), primarily consist of business transactions relating to the sale and purchase of products, goods and services. They fall within the activities carried out by us in the ordinary course of our business. Please see Note 29 of our audited consolidated financial statements as of and for the

year ended December 31, 2011, incorporated by reference into this Base Prospectus, for information on our related party transactions.

Regulation by Czech Commercial Code

Our transactions with related parties are regulated by the Czech Commercial Code. Under the Czech Commercial Code, if the value of assets to be acquired from or disposed to:

- the Czech Republic;
- any shareholder;
- any person close to a shareholder;
- our subsidiary;
- a member of the same concern; or
- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

exceeds one tenth of our registered capital, the value of the transferred assets shall be determined by an independent expert appointed by a Czech court, unless such transaction is entered into in the ordinary course of our business or on a regulated market or supervised by a state authority.

Under the Czech Commercial Code, we may provide a loan to or transfer assets for free to:

- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals); or
- any entity (unless such entity is our subsidiary) whose authorized representative is a member of our Board of Directors, a member of our Supervisory Board, our procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

only with the approval of our General Meeting of Shareholders and provided that such transaction is entered into in the ordinary course of our business.

Under the Czech Commercial Code, we may secure obligations of:

- a member of our Board of Directors, a member of our Supervisory Board, a procurist or any other person entitled to act on our behalf (or to persons close to such individuals); or
- any entity (unless such entity is our subsidiary) whose authorized representative is a member of our Board of Directors, a member of our Supervisory Board, our procurist or any other person entitled to act on our behalf (or to persons close to such individuals),

only with the approval of our General Meeting.

Our Related Party Transactions

We conduct transactions with the following related parties:

- the Czech Republic or other State-owned companies;
- our associates (or associated companies);
- our affiliates;
- our joint ventures; and
- certain members of our senior management or with certain companies over which we or our senior management may have a significant influence.

We believe that we conduct our business with these companies and individuals in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in us, if we did not have equity holdings in them, if they were not members of our senior management, or if we or our senior management did not have significant influence over them, as the case may be. With the exception of transactions with our

subsidiaries, associates (or associated companies) and joint ventures, none of these transactions is or was material to us or, to our knowledge, to the other party.

In our opinion, all agreements with related parties are conducted on an arm's length basis and we believe that all of the transactions between us and related parties take place at market prices, except prices for the transmission of electricity, which comprise a regulated price component (set by the ERO) in addition to a market price component.

Transactions with the Czech Republic and State-owned Companies

The Czech Republic, through the Ministry of Finance and the Ministry of Labor and Social Affairs, owns approximately 69.8% of the share capital of ČEZ, a. s. For detailed information on the interest held by the Czech Republic in our share capital, please see "Principal Shareholders."

In the ordinary course of business, we enter into transactions with the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises. Due to the large number of such entities and of transactions carried out by them, the limitations of the reporting system adopted by the CEZ Group and the immateriality of such transactions to our results, we believe that the presentation of such transactions is not necessary for an accurate view of the financial situation of the CEZ Group. However, we believe that all of the transactions between us and the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises take place on an arm's length basis.

For example, in 2010 and 2011, in connection with our dividend policy, we paid dividends to the Czech Republic in the amount of CZK 19,897 million and CZK 18,771 million, respectively. ČEZ, a. s. and its fully consolidated subsidiaries in the Czech Republic are taxpayers and pay taxes to the Czech Republic. The terms and regulations applicable to the CEZ Group in this respect are identical to those applicable to entities which are not the Czech Republic's related parties. On November 6, 2010, an agreement was entered into between ČEZ, a. s. and ČEPRO, a.s. (the Ministry of Finance of the Czech Republic is the sole shareholder of ČEPRO, a.s.) for the storage, purchase and sale of fuel. The intention of this agreement was to secure the storage, stocking, filing and release of diesel fuel owned by ČEPRO, a.s. in buildings of the Dukovany Nuclear Power Plant and Temelín Nuclear Power Plant. The agreement was entered into at arm's length and the consideration and counter-consideration provided was in line with customary business terms. In addition, we also entered into transactions on an arm's length basis with ČEPS, a.s., the state-owned transmission system operator in the Czech Republic.

Transactions with Associates, Joint Ventures and Other Affiliates

We enter into transactions with associates (or associated companies), joint ventures and affiliates. The profits from such transactions are eliminated in proportion to the share that we have in such associated companies, joint ventures and affiliated companies. We believe that all of these transactions take place at arm's length. For a complete list of our associates (or associated companies), joint ventures and affiliates, please see Note 7 of our audited consolidated financial statements for the year ended December 31, 2011.

The following table summarizes the sales to and purchases from associates (or associated companies), joint ventures and affiliated companies for the years 2009, 2010 (both as restated and as originally reported) and 2011.

	Sales to Related Parties for the year ended				Purchases from Related Parties for the year			
	December 31,				ended December 31,			
	2009	2010	2010	2011	2009	2010	2010	2011
	(audited)	(audited)	(restated)	(audited)	(audited)	(audited)	(restated)	(audited)
Associates, joint-ventures and other affiliates:	(CZK in millions)							
Akecz Enerji A.S.....	118	49	49	112	-	-	-	-
Akernerji Elektrik Üterim A.S....	-	-	-	98	-	-	-	24
CM European Power International	41	13	13	28	-	-	-	-

s.r.o.....								
Coal Energy, a.s.....	-	-	-	-	57	-	-	-
LACOMED, spol. s.r.o.....	-	-	43	40	-	-	4	4
JTSD - Braukohlebergbau GmbH	42	2	-	-	-	-	-	-
LOMY MOŘINA spol. s r.o.....	-	24	24	16	139	151	151	175
MOL – CEZ European Power								
Hungary Ltd.....	-	-	20	34	-	-	-	-
OSC, a.s.....	-	-	-	-	95	113	113	106
SINIT, a.s.....	4	3	3	2	117	96	96	71
Others.....	75	87	26	76	185	85	81	101
Total.....	280	178	178	406	593	445	445	481

The following table summarizes the receivables from, and payables to, associates (or associated companies), joint ventures and affiliated companies for the years ended December 31, 2009, 2010 (both as restated and as originally reported) and 2011.

	Receivables as of December 31,				Payables as of December 31,			
	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)	2009 (audited)	2010 (audited)	2010 (restated)	2011 (audited)
Associates, joint-ventures and other affiliates:.....	(CZK in millions)							
Akecz Enerji A.S.....	118	161	161	55	85	84	84	73
Akernerji Elektrik Üterim A.S.....	652	761	761	1,414	-	-	-	-
CM European Power International B.V.....	-	-	-	292	-	-	-	-
CM European Power International s.r.o.....	49	-	-	18	-	-	-	-
CM European Power Slovakia s.r.o.....	-	-	-	542	-	-	-	-
JTSD - Braukohlebergbau GmbH.....	6,502	-	-	-	-	-	-	-
LACOMED, spol. s r.o...	12	11	11	14	-	-	-	-
LOMY MOŘINA spol. s.r.o.....	-	3	3	5	10	10	10	21
MOL – CEZ European Power Hungary Ltd.....	-	20	20	33	-	-	-	-
OSC, a.s.....	-	-	-	-	42	18	18	24
SINIT, a.s.....	1	1	1	1	11	33	33	33
Ústav aplikované mechaniky Brno s.r.o.....	-	-	-	3	5	10	10	18
Výzkumný a zkušební ústav Plzeň s.r.o.....	-	-	-	-	-	-	2	20
Others.....	9	4	4	19	35	21	19	29
Total.....	7,343	961	961	2,396	188	176	176	218

As of December 31, 2009, 2010 and 2011, guarantees provided to joint-ventures amounted to CZK 5,489 million, CZK 2,813 million and CZK 6,022 million, respectively (see Note 17.2 of our audited consolidated financial statements for the year ended December 31, 2010 and 2011).

Transactions with Senior Management

From January 1, 2009 to the date of this Base Prospectus, we did not advance any loans nor provide any similar benefits to the members of the Board of Directors, the Supervisory Board, members of the Audit Committee, Division Heads or other senior management or their relatives. However, during the period under review, the members of the Board of Directors, the Supervisory Board, the Audit Committee, Division Heads and senior management received remuneration from the CEZ Group under, respectively, managerial contracts and appointments to the Supervisory Board and the Board of Directors. For further information on the Compensation of such individuals please see “*Management—Supervisory Board—Committees of our Supervisory Board—Personnel Committee*” and “*Management—Compensation*.”

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of our material other indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. Please also see Notes 15, 16, 17 and 20 of our audited consolidated financial statements for the year ended December 31, 2011.

Our Indebtedness

Our indebtedness mainly consists of borrowings from financial institutions (including the European Investment Bank) and funding from capital markets. We maintain a flexible funding strategy and monitor domestic and foreign financial market conditions as part of our financing activities.

	As of December 31, 2011	
	(CZK in millions)	(% of total)
Funding from capital markets.....	151,107	79.8
Borrowings from financial institutions.....	38,342	20.2
Total.....	189,449	100.0

In January 2012, ČEZ, a. s. offered to purchase €500,000,000 5.125% notes due 2012 issued under EMTN Programme and €500,000,000 4.125% notes due 2013. As a result of this offer, ČEZ, a. s. repurchased the 2012 notes in the nominal amount of €221,711,000 and the 2013 notes in the nominal amount of €127,800,000. In April 2012, ČEZ issued twenty-year registered 4.7% bonds (Namenschuldverschreibung) under German law in the aggregate nominal amount of €40 million. In April 2012 ČEZ issued 4.25% Notes due 2022 in the aggregate principal amount of USD 700,000,000 and 5.625% Notes due 2042 in the aggregate principal amount of USD 300,000,000 within a private placement offering to qualified institutional buyers, pursuant to Rule 144A under the U.S. Securities Act and outside the United States to certain non-U.S. persons pursuant to Regulation S under the U.S. Securities Act. ČEZ entered into USD/EUR currency swaps with respect to the aggregate principal amount of the notes plus interest payable to maturity. In August 2012 ČEZ issued two private placement bonds within its EMTN programme - thirty year private placement bond issue of a nominal amount EUR 50 million with coupon 4.375% p.a. was issued on 8th August 2012 and thirty-five year private placement bond issue of a nominal amount EUR 50 million with coupon 4.500% p.a. was issued on 20th August 2012.

Borrowings from Financial Institutions

We have signed a variety of loan facilities, including with the European Investment Bank. These facilities have been used for general corporate purposes, but have also been used as funding for particular projects such as investments in reinforcing and developing the distribution grid in the Czech Republic; financing for the Fântânele Wind Park; financing for the Group’s Turkish distribution company Sakarya Elektrik Dagitim A.S.

and financing of the acquisition of 7% of the shares in MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság. As of December 31, 2010 and 2011, borrowings from financial institutions amounted to CZK 27,278 million and CZK 38,342 million, respectively.

In January 2012, the Group concluded a bilateral loan facility agreement in the amount of €40 million with Goldman Sachs Bank USA. The maturity of the loan facility is three years. The proceeds from the loan will be used for general corporate purposes. In February 2012, ČEZ, a. s. signed the first tranche of a loan facility agreement amounting up to €100 million with the European Investment Bank to support financing of investments into reinforcement and development of the distribution grid in the Czech Republic. In May 2012, ČEZ, a. s. signed the second tranche of a loan facility agreement amounting up to €100 million with the European Investment Bank to support financing of investments into reinforcement and development of the distribution grid in the Czech Republic.

These loan facilities contain restrictive financial covenants relating to indebtedness and liquidity.

Short-Term Indebtedness

We have issued short-term debt as set forth in the table below.

	As of December 31, 2011
	(CZK in millions)
Short-term bank loans.....	4,333
Bank overdrafts.....	1,167
Total short-term loans.....	5,500
Current portion of long-term debt.....	19,264
Short-term debt, total.....	<u>24,764</u>

Total short-term debt (without current portion of long-term debt) as of December 31, 2011 was CZK 5,500 million, representing 3% of our total debt as of December 31, 2011, while the ratio was 6% of our total debt as of December 31, 2010.

Long-Term Indebtedness

We have issued long-term debt as set forth in the table below.

	As of December 31, 2011
	(CZK in millions)
Long-term bank loans ⁽	32,842
of which current portion.....	1,382
Bonds ⁽	151,107
of which current portion.....	17,882
Long-term debt, total.....	<u><u>183,949</u></u>

Total long-term debt as of December 31, 2011 was CZK 183,949 million, representing 97% of the total amount of our total debt as of December 31, 2011, while the ratio was 94% of our total debt as of December 31, 2010. Long-term borrowings from financial institutions comprised 18% of the long-term debt as of December 31, 2011.

Our long-term debt has both floating and fixed rates of interest which can expose us to interest rate risk and risks of changes in fair value of these financial instruments. 79% of the interest paid on long-term debt in the year ended December 31, 2011 was fixed rate interest, with the remainder being floating rate interest based mainly on EURIBOR, LIBOR, PRIBOR or Czech CPI (Consumer Price Index). For information regarding the

repayment schedule of our long-term debt and interest rates for short and long-term debt, please see Notes 15, 16, 17 and 20 of our audited consolidated financial statements for the year ended December 31, 2011.

We have entered into interest rate swaps and other derivative contracts to manage risk associated with fluctuations in interest rates. For information with respect to derivative financial instruments and hedging, please see Note 17 of our audited consolidated financial statements for the year ended December 31, 2011.

REGULATION

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

European Union Legislation

History of Energy Regulation

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

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

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

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

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

The Czech Republic implemented these directives in 2003 and 2004.

Current E.U. Energy Regulation

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

- further liberalization of electricity markets;
- a reduction of at least 20% in greenhouse gas emissions by 2020;
- a 20% share of renewable energies in E.U. energy consumption by 2020; and
- for the sectors subject to emissions trading, a 20% reduction in CO₂ levels by 2020.

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

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

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

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

Cross-Border Trading of Electricity

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

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

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

- the adoption of a ten-year network development plan;
- recommendations relating to the coordination of technical cooperation between E.U. transmission system operators;
- an annual work program;
- the management of the electricity transmission system;
- allowing the trading and supply of electricity across borders in the European Union; and
- ensuring that there is continuous cooperation in congestion management.

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

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

Energy Infrastructure

Gas Infrastructure Legislation

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

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

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

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

Security of Electricity and Gas Supply Electricity supply

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

Gas supply

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

The E.U. Gas Supply Directive imposed a number of new rules designed to prevent and mitigate potential disruptions to gas supplies, such as risk assessment mechanisms, preventive action plans and emergency plans, duty to ensure gas supplies to households for at least 30 days under severe conditions or enhancing flexibility of the gas infrastructure, including enabling bi-directional physical capacity on cross-border interconnections.

Proposed Changes for Energy Infrastructure

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

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

Renewable Energy Sources

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

Czech Republic

General Overview

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

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

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

Regulatory Authorities

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

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

The ERO is the Czech Republic’s primary energy regulatory body. The ERO has the right to issue licenses, fix prices and adopt rules implementing energy legislation. The ERO is also entitled to proceed independently from other governmental authorities and has been designated as the main supervisory authority in the energy sectors. The ERO has the right to review and certify the implementation of unbundling rules, review contractual relationships between vertically integrated companies, perform local inspections of business premises and request the provision of documents and information, as well as to perform market functioning analyses or cooperate with the Czech Office for Protection of Competition. In the event that applicable regulations under the Czech Energy Act are breached, the ERO may, in the case of holders of licenses for electricity production, trading and distribution, impose fines of up to CZK 50 million or 1% of the relevant company’s turnover, and in the case of transmission network operators, fines of up to CZK 100 million or 10% of the relevant company’s turnover. In respect of vertically integrated companies, a fine of up to CZK 50

million or 1% of company's turnover may be imposed on the controlling company for giving instructions to its subsidiaries in breach of the applicable distribution unbundling legislation. In addition, the ERO may also require entities that breach applicable regulations to perform specific remedial measures. As of 2012, the ERO is financed by a fee of CZK 2.0 per MWh for electricity and CZK 1.0 per MWh for gas charged to market participants as a part of the regulated price of electricity and gas.

Electric Energy Sector

Licensing Regime

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

Electricity Generation

Authorization to construct power plants

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

- compliance with the state energy conception (which is a resolution of the Czech Government defining its strategic goals in the energy sector, including, among other things, its 30 year outlook);
- compliance with the national action plan for renewable sources of energy;
- compliance with the grid development plans;
- the geographic placement of the plant;
- use of primary sources of energy;
- energy efficiency; and
- financial soundness of the investor.

Coal-fired power plants

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

Czech Air Protection Act

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

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

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

Lower emission limits

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

Proposed new Czech Air Protection Act

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

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

The Industrial Emissions Directive allows for two exemptions from the new emissions limits described above. First, E.U. members states are not required to impose the new emission limits (except for certain emissions limits regarding NO_x) in respect of combustion plants put into operation prior to November 27, 2003 if they implement a transitional national plan under which the relevant combustion plants will be permitted to retain their original emission limits but will be subject to an aggregate emissions ceiling which will be decreased on a linear basis until 2020. Second, E.U. member states may allow combustion plant operators to apply for an exemption from the new emission limits, provided such plants will end their operations by December 31, 2023. According to publicly available information, the Czech government plans to implement both of these exemptions in the new amended Czech Air Protection Act.

Carbon compliance - phase II

Legislation adopted by the European Union as a result of the Kyoto Protocol has been fully transposed into Czech law. The legislation aims to combat climate change and establish a carbon emission allowances market within the European Union. Currently, the European Trading System for CO₂ emission allowances (“*E.U. ETS*”) is in Phase II. Phase II allows for offsets from Joint Implementation and Clean Development Mechanism projects to be used in place of emission allowances.

In addition, under Phase II, each European Union member state was obliged to submit a national allocation plan of carbon allowances to the European Commission for confirmation. This plan determined both the total amount of carbon allowances allocated to the respective European Union member state for the entire five year period of Phase II and the annual amount of carbon allowances allocated to certain identified facilities producing CO₂. Phase II is scheduled to complete on December 31, 2012 and Phase III begins in 2013.

Taxation of allocated emission allowances during phase II

The Czech Republic assigned the emission allowances that it had been allocated under the Czech Emission Allowances Act without cost to certain CO₂ producing facilities. In the event that such facilities reduce their CO₂ emissions, they may sell the assigned emission allowances on the market for a profit. Conversely, in the event that such facilities require more emission allowances, they must buy the emission allowances on the market and, as a result, incur additional expenses.

Due to certain economic and political events, including the increase in the number of solar power plants in 2010, electricity prices increased and the Czech Parliament amended the Czech tax law. A tax was imposed on CO₂ emissions producers who sell electricity to third parties, which amounts to 32% of the average market value of all emission allowances allocated without cost to CO₂ emissions producers in a given year (where market value is determined by the Czech Ministry of Environmental Matters). Certain emission allowances obtained for the purpose of combined production of heat and electricity are exempt from the tax.

Contestation by Czech senators

Members of the Czech Parliament have filed a complaint with the Constitutional Court of the Czech Republic requesting that the Constitutional Court repeal certain changes adopted in connection with the Czech Renewable Energy Act tax and the abolition of the 5-year tax break, as described in “—*Renewable Energy Sources—Amendment of the Czech Renewable Energy Act.*” The case is still pending and a decision is expected to be reached in the course of 2012. In May 2012 the Czech Constitutional Court has ruled that the government was fully within its rights to act in what it regarded as the public interest in an attempt to limit public costs and to react to the changed circumstances of the solar sector.

Other obligations regarding carbon compliance

The Czech Emission Allowances Act also requires that specified facilities producing CO₂ emissions, including coal-fired power plants, obtain a special license issued by the Czech Ministry of Environmental Matters permitting their operation and certifying they are capable of complying with various requirements, including monitoring and periodic reporting obligations to competent authorities.

Carbon compliance - phase III

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

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

Allocation of emission allowances during phase III

Phase III rules prohibit the allocation of emission allowances without cost to electricity generators from 2013 onwards. Instead the electricity generators trade the emission allowances they require on the E.U. ETS market. There is an exemption for the 10 newest European Union member states, including the Czech Republic, which may continue to allocate limited volumes of emission allowances without cost to installations that began to generate electricity before December 31, 2008 or for which the investment process was “physically initiated” by that date (the “*E.U. Emissions Exemption*”). The transitional period for the E.U. Emissions Exemption expires on December 31, 2019, so by 2020, all emission allowances must be paid for. European Union legislation requires installations benefiting from this exemption to invest in projects designed

to modernize electricity generation in the European Union member state concerned. The value of the investments should mirror the value of the allocation.

Application by the Czech government

On September 21, 2011, the government of the Czech Republic, under the E.U. Emissions Exemption, approved a national plan for investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector, which forms part of the application submitted on September 30, 2011 to the European Commission. On July 6, 2012 the Directorate-General for Climate Action approved the Czech Republic's national plan for investments allowing direct allocation of some allowances from 2013 - derogation. This investments plan is subject to notification to the European Commission's Directorate-General Competition. The result is expected in October 2012. The final allocation of allowances among the individual installations in the Czech Republic is the responsibility of the Ministry of Environmental Matters. (please see "*Risk Factors—The Czech national plan for investments in retrofitting and upgrading infrastructure and clean technologies in the energy sector approved by the Czech government, under which emission allowances are allocated to us at no cost, may not be approved by the European Commission.*" and "*Description of the Issuer-Emission Rights*").

Nuclear Energy Power Plants

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

Nuclear incident liability

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

Nuclear safety

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

Nuclear fuel and nuclear waste

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

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

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

Maintenance contributions to SONS

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

Decommissioning of nuclear power plants

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

Other international regulation related to nuclear energy

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

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

Renewable Energy Sources History

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

Amendment of the Czech Renewable Energy Act

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

- significant limits on eligibility (e.g. support is only provided for small solar power plants on rooftops of buildings);
- in relation to facilities put into operation on or after January 1, 2011, the authority of the ERO to

decrease fixed feed-in tariffs by more than 5%, provided that the investment repayment period is shorter than 11 years;

- withholding tax imposed on operators of solar facilities put into operation between January 1, 2009 and December 31, 2010, in the amount of (i) 26% of the income corresponding to the feed-in tariff or (ii) 28% of the income corresponding to the “green bonus,” as applicable. This tax is applicable until December 31, 2013;
- abolition of the exemption from income tax;
- increased fee for solar facilities being built on agricultural land; and
- state subsidies introduced as financial support for renewable energy.

Contestation by Czech senators

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

The Czech New Renewable Resources Act

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

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

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

Transmission and Distribution of Electric Energy

History

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

Current Structure

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

- the transmission system is owned by ČEPS, a.s.;

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

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

Participants

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

Price of Electricity

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

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

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

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

Trading

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

Heating Energy Sector

Heat Generation and Prices

Under the Czech Energy Act, heat generators and distributors must have a license from the ERO. The price of heating supply is calculated pursuant to applicable legislation and the ERO pricing regulations for the

relevant calendar year. The ERO bases regulated prices on economically justifiable expenses, a profit margin and value added tax.

Support of Co-Generation of Heat and Electricity

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

Exemption from Emission Allowances Gift Tax

As stated above, certain emission allowances which are allocated without cost for the purpose of combined production of heat and electricity are exempt from the special 32% gift tax (see “*Electricity Generation—Taxation of allocated emission allowances during phase II*” above). The specific amount of exempt emission allowances for a given electricity generator is determined based on the ratio of the average volume of electricity produced from co-generation of heat and electricity in 2005 and 2006 to the average total volume of electricity produced in 2005 and 2006.

Gas Sector

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

Licensing Regime

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

Transmission and Distribution of Gas History and current structure

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

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

- the transmission system is owned by NET4GAS, s.r.o.;
- Independent Transmission Operator unbundling regarding the transmission network has been implemented in relation to vertically integrated undertakings. Full ownership unbundling has been implemented in relation to transmission network operators which are not part of vertically integrated companies;
- Under such rules, NET4GAS, s.r.o., being part of a vertically integrated undertaking in the Czech Republic, must abide by strict rules relating to the independence of transmission activities and non-discrimination in the gas market;
- any applicant must be provided full access to the transmission and distribution networks and must be able to transmit or distribute gas through the respective networks to the extent technically practicable;
- the distribution system is predominantly owned by: (i) the RWE AG Group through its four subsidiaries RWE GasNet, s.r.o., JMP Net, s.r.o., SMP Net, s.r.o., and VČP Net, s.r.o.; (ii) the EO.N Group through its subsidiary EO.N Distribuce, a.s.; and (iii) Pražská plynárenská Distribuce, a.s.;

- management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- since January 1, 2007 the gas market has been fully liberalized and all end-consumers are considered as eligible customers who may freely choose their supplier of gas based on current market conditions (instead of being considered as protected customers with the price of gas being determined by the ERO); and
- legal unbundling has been implemented in relation to gas storage facilities.

Price of gas

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

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

Coal Mining

Regulation of Mining

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

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

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

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

Coal Prices

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

Coal Mining Limits

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

Reclamation of Mines and Redevelopment of Waste Dumps

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

Final Disposal of Coal Waste

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

Material Environmental and Other Related Regulation

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

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

Water Act 2001

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

Waste Act 2001

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

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

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

General Liability

Potential liability can arise under criminal, administrative, civil law and environmental law. The Czech Republic has the ability to enforce environmental rules and regulations pursuant to administrative and criminal law whereas individuals may enforce environmental rules and regulations under civil law. There has been little

development in environmental case law to date in the Czech Republic; it is not binding and can only be used as a guide.

The “Polluter Pays “ Principle

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

Criminal Liability Towards the State

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

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

Administrative Liability Towards the State

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

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

Remedial Measures Imposed by Administrative Authorities

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

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

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

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

Civil Liability Towards a Third Party

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

TAXATION AND FOREIGN EXCHANGE REGULATION IN CZECH REPUBLIC

This chapter summarizes certain tax aspects of Czech laws regarding the acquisition, ownership and handling of Bonds and does not purport to be a comprehensive description of all tax-relevant aspects that may be of importance when deciding on investing in the Bonds. This summary does not describe any tax aspects resulting from the laws of any state other than the Czech Republic. It is recommended that parties interested in acquiring the Bonds consult their legal and tax advisors with regard to the tax, foreign exchange and legal consequences of purchasing, selling or holding the Bonds and receiving payments under the tax and foreign exchange legislation in effect in the Czech Republic and the countries where such parties reside, as well as countries in which proceeds from holding or selling the Bonds could be taxed.

Taxation in the Czech Republic

The Issuer is, under certain conditions, obliged to withhold and pay withholding tax on income from the Bonds.

Interest Income

Interest (including also the difference between the nominal value of the Bond and the value at which it is issued, payable upon the Bond’s maturity) paid to holders of the Bonds who are (a) individuals, or (b) corporate entities not resident in the Czech Republic for taxation purposes and not holding the Bonds through a permanent establishment in the Czech Republic, is generally subject to withholding tax to be withheld and paid to the tax authorities by the Issuer. The tax rate is 15% (2012), unless decreased, in the case of non-resident recipients, by an applicable double taxation treaty (see below).

If interest on the Bonds is payable to a permanent establishment in the Czech Republic through which the Bonds are held by a corporate entity not resident in the Czech Republic for taxation purposes, such interest is generally subject to withholding of tax securing to be withheld and paid to the tax authorities by the Issuer, unless the recipient of the interest is resident for tax purposes in an EEA-member state. The rate applicable to tax securing is 10% (2012), unless decreased by an applicable double taxation treaty. The recipient is, in this case, obliged to file a tax return and declare tax against which the tax securing, if applicable, is set off.

If interest on the Bonds is payable to a corporate entity resident in the Czech Republic for taxation purposes, such interest is not subject to withholding tax and the holder of the Bonds would include, on an accrual basis, such income in its general corporate income tax base, which is subject to corporate income tax at a rate of 19% (2012).

A double taxation treaty between the Czech Republic and the state of which the recipient of interest income is resident for tax purposes may decrease or rule out the tax imposed on such income in the Czech Republic. The entitlement to such benefit under a double taxation treaty may be conditional upon meeting conditions set forth in the respective double taxation treaty, e.g., evidence of the recipient's tax residence in the other state or of beneficial ownership of the income by the recipient may have to be produced.

Selected categories of taxpayers (e.g., foundations or the Guarantee Fund of securities traders) are exempt from tax on interest income, subject to certain conditions.

Capital Gains / Losses

Capital gains of the holders of the Bonds are taxable in the Czech Republic, when (a) the Bonds are sold by an individual or a corporate entity resident in the Czech Republic for taxation purposes or by a permanent establishment in the Czech Republic of an individual or a corporate entity not resident in the Czech Republic for taxation purposes, or when (b) the purchase price for the Bonds is paid by an individual or a corporate entity resident in the Czech Republic for taxation purposes or by a permanent establishment in the Czech Republic through which the Bonds are being acquired of an individual or a corporate entity not resident for taxation purposes in the Czech Republic to an individual or a corporate entity not resident in the Czech Republic for taxation purposes. This applies unless an exemption from income tax applies (see below) or unless an applicable double taxation treaty stipulates otherwise. Individuals and corporate entities include taxable capital gains in their general income tax base, which is subject to income tax at a rate of 15% or 19%, respectively (2012).

Upon sale of the Bonds by an individual or a corporate entity not resident in the Czech Republic for taxation purposes to (a) a buyer who is resident in the Czech Republic for taxation purposes or (b) a permanent establishment in the Czech Republic through which the Bonds are held of a buyer not resident in the Czech Republic for taxation purposes, the seller's income (gross) is generally subject to withholding of tax securing to be withheld and paid to the tax authorities by the Issuer, unless the seller is resident for tax purposes in an EEA-member state. The rate applicable to tax securing is 1% (2012). The seller would be obliged to file a tax return and declare tax against which the tax securing, if applicable, is set off.

A double taxation treaty between the Czech Republic and the state in which the seller is resident for taxation purposes can decrease or rule out the tax imposed on such income in the Czech Republic. The entitlement to such benefit under a double taxation treaty may be conditional upon meeting conditions set forth in the respective double taxation treaty, e.g., evidence of the recipient's tax residence in the other state or of beneficial ownership of the income by the recipient may have to be produced.

Capital gains of individuals realized on the sale of the Bonds are exempt from income tax provided that the Bonds were not included in business property and the holding period of the Bonds exceeded six months.

For corporate entities, capital losses incurred on sales of the Bonds would be tax-deductible. For individuals not selling Bonds held as business assets, such capital losses can only be made tax-deductible where (a) no exemption from income tax applies and (b) a similar type of income in the same tax period is incurred up to which amount the capital loss could be set off.

Individuals and corporate entities that are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions may be required to revalue the Bonds to fair value for accounting purposes, whereby the revaluation may, under certain circumstances, be accounted for as revenue or cost. Such revenue (cost) is generally taxable (deductible) for tax purposes in the Czech Republic.

EU Savings Directive

Under Directive 2003/48/EC, which has been implemented in Czech tax law, the person who pays out interest income (the Issuer) is obliged to notify its local tax authority on interest income of each individual resident in another EU-member state or in Switzerland, Andorra, Liechtenstein, San Marino or Monaco. For the purposes of this notification, the payer of the income (the Issuer) would require the recipient to present a passport or another identification certificate and possibly further documents to verify the recipient's name, surname, place of residence and tax identification number, or date and place of birth in respect of those recipients who have not been assigned a tax identification number.

Foreign Exchange Regulation in the Czech Republic

The Bonds are not foreign securities for the purposes of the Foreign Exchange Act. Therefore, their issue and acquisition is not subject to foreign exchange regulation in the Czech Republic.

The Bonds are deemed to be inland securities within the meaning of the Foreign Exchange Act. Their acquisition is to a limited extent subject to foreign exchange regulations in the Czech Republic.

Under the Czech Foreign Exchange Act, no foreign exchange license/permit is required for individual purchases or sales of inland securities by Czech nationals or foreigners nor for inland securities trading as a business activity. However, transactions with inland securities can be subject to a reporting obligation or limited as stated below.

At a time of emergency in the foreign exchange economy, when the internal monetary stability of the Czech Republic is immediately and seriously jeopardized, it is forbidden, inter alia, to sell inland securities to foreigners, unless a foreign exchange authority has granted a special permit. The Czech government may declare a state of emergency in the foreign exchange economy when the balance of payments develops unfavorably, and directly and seriously jeopardizes the ability to make payments to other countries or the internal monetary balance of the Czech Republic. The state of emergency in the foreign exchange economy shall terminate no later than three months following the date of its announcement in the media.

ENFORCEMENT OF PRIVATE LAW OBLIGATIONS AGAINST ISSUER

The information set forth in this section is solely presented as general information characterizing the legal situation, and was obtained from public documents. Neither the Issuer nor its advisers are making any representation with regard to the accuracy or completeness of the information set forth herein. Potential purchasers of the Bonds should not rely on the information presented herein, and are advised to consult with their legal advisors on any issues relating to the enforcement of private law obligations against the Issuer in each applicable country.

To the extent that the Bond acquirers were to initiate any proceedings and obtain foreign court judgments against the Issuer, the rules on the recognition and enforcement of foreign judgments applicable in the Czech Republic would have to be applied.

Based on EC Regulation No. 44/2001 of December 22, 2000 on the jurisdiction, recognition and enforcement of court judgments in civil and commercial matters ("EC Regulation No. 44/2001"), which is directly applicable in the Czech Republic, foreign judgments issued by court bodies in EU member states with regard to civil and commercial matters are generally enforceable in the Czech Republic, and *vice versa*, court rulings issued by court bodies in the Czech Republic with regard to civil and commercial matters are now enforceable in EU member states.

In the event that court judgments against the Issuer are issued by court bodies of non-EU member states, the following rules shall apply:

In cases where the Czech Republic concluded a bilateral treaty with a specific country on the recognition and enforcement of court rulings, the enforcement of court rulings issued in such country is ensured in accordance with the provisions of the applicable international treaty. If no such treaty exists, then the rulings of foreign courts may only be recognized and enforced in the Czech Republic if, among other things, actual reciprocity has been established regarding the recognition and enforcement of judgments rendered by Czech courts in the relevant country. The Czech Ministry of Justice may, upon agreement with the Czech Ministry of Foreign Affairs and other ministries, declare that reciprocity has been established with respect to a particular foreign country. Such declaration is binding on Czech courts and other state authorities. If such declaration of reciprocity has not been issued with regard to a particular country, however, this does not automatically mean that reciprocity cannot be established in a given case. In such cases, the recognition of reciprocity would depend on the actual situation in a given country with regard to the recognition of judgments of Czech authorities.

On the other hand, even if reciprocity has been established and declared by the Ministry of Justice with respect to judgments issued by judicial bodies of a particular foreign country, such judgments may not be recognized and enforced under applicable provisions of Czech law if, for example: (i) the matter falls within the exclusive jurisdiction of the courts of the Czech Republic, or in the event that the proceedings on recognition and enforcement could not have been conducted by any authority of a foreign state, should the provisions on the jurisdiction of Czech courts be applied for considering the jurisdiction of the foreign authority; (ii) a Czech court has issued or recognized a final judgment in the same matter, or proceedings regarding the same matter are pending before a Czech court; or (iii) the foreign authority deprived the party to the proceedings against whom the judgment was made of the opportunity to properly participate in the proceedings (i.e., in particular, if such party had not been duly served for the purposes of the initiation of the proceedings); or (iv) the recognition of a foreign judgment would be contrary to the public order in the Czech Republic.

GENERAL INFORMATION

Internal Approval

The Bond Program was approved by way of a resolution by the Issuer's Board of Directors dated 12 October 2009. For this purpose, the Issuer's Supervisory Board granted its prior consent to the Bond Program on 23 October 2009.

Approval of Base Prospectus

The Base Prospectus was approved by CNB Decision Ref. No. [●], dated [●] 2012, which became effective on [●] 2012.

Governing Law

The Bonds are governed by Czech law, in particular, by Czech Act No. 190/2004 Coll., on Bonds, as amended. The offering and listing of the Bonds is governed, in particular, by Czech Act No. 256/2004 Coll., on Doing Business on Capital Markets, as amended, Commission Regulation (EC) No. 809/2004, implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses, as well as the format, incorporation by reference, and publication of such prospectuses and the dissemination of advertisements, and the regulations applicable to the individual regulated markets on which the respective Bonds are to be listed.

Trading on the Regulated Market

On [●], the Listing Committee of the Prague Stock Exchange admitted the Bond Program to the regulated or non-regulated market. If Bonds of a particular Issue are to qualify as listed securities, the Issuer will apply for their admission to trading in the regulated or non-regulated market of the Prague Stock Exchange.

No 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 December 31, 2011 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since December 31, 2011.

Litigation

Except as described in this Base Prospectus 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, having its registered seat at Karlovo náměstí 10, 120 00 Prague 2, Czech Republic, Identification No. 267 04 153, entered in the Commercial Register administered by the Prague Municipal Court, Section C, File No. 88504, who have audited the Issuer's consolidated as well as non-consolidated financial statements, without qualification, in accordance with International Standards on Auditing for each of the three financial years ended on December 31, 2009, December 31, 2010 and December 31, 2011, respectively. The auditors of the Issuer have no material interest in the Issuer.

Interest of Persons Involved in Issuance and Offering of Bonds

Certain of the Arrangers, Lead Managers 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.

Documents on Display

For as long as any of the Issues under the Bond Program remain outstanding, the Base Prospectus, its supplements (if any), the Issue Supplements, the Issuer's most recent complete financial statements, the historical financial information of the Issuer and its subsidiary undertakings for each of the two financial years preceding the publication of the Base Prospectus, and the Issuer's Articles of Association will be available on the Issuer's website www.cez.cz.

Third Party Information

Where information included in the Base Prospectus has been sourced from a third party, such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Rating of the Issuer

As of the date of this Base Prospectus, ČEZ, a. s. has a credit rating of A- with a stable outlook by Standard & Poor's Credit Market Services Europe Limited and A2 with a stable outlook by Moody's Investors Service Ltd. Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd are both established in the European Union, domiciled in the United Kingdom and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the European Securities and Markets Authority (ESMA) website (www.esma.europa.eu/page/list-registered-and-certified-CRAs) (last updated July 30, 2012).

Date of Base Prospectus

This Base Prospectus was prepared as of October 24, 2012.

LIST OF DEFINITIONS, TERMS AND ABBREVIATIONS USED

“**Arrangers**” means KB, ČS and ČSOB;

“**Base Prospectus**”, or “**base prospectus**” (according to its context in this document) means this document;

“**Bonds Act**” means Czech Act No. 190/2004 Coll., on Bonds, as amended;

“**Capital Markets Act**” means Czech Act No. 256/2004 Coll., on Conducting Business on Capital Market, as amended;

“**CDCP**” Centrální depozitář cenných papírů, a.s., se sídlem Praha 1, Rybná 14, PSČ 110 00, IČ: 25 08 14 89, zapsanou v obchodním rejstříku vedeném Městským soudem v Praze, oddíl B, vložka 4308;

“**Civil Code**” means Czech Act No. 40/1964 Coll., Civil Code, as amended;

“**CNB**” or “**Czech National Bank**” means a legal entity established by Act No. 6/1993 Coll., on the Czech National Bank, as amended, or as the case may be, any legal successor thereof in accordance with the laws of the Czech Republic;

“**Commercial Code**” means Czech Act No. 513/1991 Coll., Commercial Code, as amended;

“**CZK**” means Czech crowns, the lawful currency of the Czech Republic;

“**ČEZ Group**” or “**Group**” means ČEZ, a. s. and its inland or foreign subsidiaries directly or indirectly controlled by ČEZ a. s.;

“**ČS**” means Česká spořitelna, a.s. with its registered seat at Olbrachtova 1929/62, Prague 4, Postal Code 140 00, Czech Republic, Identification Number 45244782, registered in the Commercial Register maintained by the Prague Municipal Court, Section B, File No. 1171;

“**ČSOB**” means Československá obchodní banka, a.s. with its registered seat at Radlická 333/150, Prague 5, Postal Code 150 57, Czech Republic, Identification Number 000 01 350, registered in the Commercial Register maintained by the Prague Municipal Court, Section B, File No. 46;

“**EUR**” or “**euro**” means the single currency of the European Union;

“**Foreign Exchange Act**” means Czech Act No. 219/1995 Coll., the Foreign Exchange Act, as amended;

“**IFRS**” means the International Financial Reporting Standards set up in accordance with the standards and interpellations adopted by the International Accounting Standards Board, in the past referred to as the International Accounting Standards (IAS);

“**Issuer**”, or “**issuer**” (according to its context in this document) means ČEZ, a. s., with its registered seat at Duhová 2/1444, Prague 4, Postal Code 140 53, Czech Republic, Identification Number 452 74 649, registered in the Commercial Register maintained by the Prague Municipal Court, Section B, File No. 1581;

“**ITA**” means Czech Act No. 586/1992 Coll., on Income Taxes, as amended;

“**KB**” means Komerční banka, a.s. with its registered seat at Na Příkopě 33/969, Prague 1, Postal Code 114 07, Czech Republic, Identification Number 453 17 054, registered in the Commercial Register maintained by the Prague Municipal Court, Section B, File No. 1360;

“**MiFID**” means Directive 2004/39/EC, on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, as amended.

“**Prague Stock Exchange**” or “**PSE**” means Burza cenných papírů Praha, a.s., with its registered seat at Rybná 14/682, Prague 1, Postal Code 110 00, Czech Republic, Identification No. 47115629, registered in the Commercial Register maintained by the Prague Municipal Court, Section B, File No. 1773;

“**PD Regulation**” means Commission Regulation (EC) No. 809/2004, implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements;

“**Prospectus Directive**” means Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements and amending Directive 2001/34/EC, as amended by Directive 2010/73/EU;

“**VAT**” means value-added tax pursuant to Act No. 588/1992 Coll. or Act No. 235/2004 Coll. (depending on which legal enactment is relevant in the given context), on value-added tax, as amended.

TECHNICAL TERMS AND PRESENTATION OF OTHER DATA

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

CCGT	Combined Cycle Gas Turbine.
CCS	Carbon Capture and Storage.
CDM	Clean Development Mechanism.
CHP	Combined Heat and Power
CISFSF	Central Interim Spent Nuclear Fuel Storage Facility.
CER/ERU	Kyoto credits (Certified Emission Reductions/Emission Reduction Units).
CH₄	Methane.
CO₂	Carbon dioxide.
Demand	Consumption of the final consumer not including transmission and distribution losses and self consumption by ČEZ (including electricity used in pump storage facilities) and other electricity generators and distributors.
EBITDA	Income before other expenses, income taxes and depreciation and amortisation.
ECJ	European Court of Justice in Luxembourg.
EEX	European Energy Exchange in Germany.
EIA	Environmental impact assessment.
EPC	Engineering, Procurement and Construction.
ERO	Energy Regulatory Office.
ESA	European Supply Agency.
ETS	European Trading System for CO ₂ emission credits.
EUAs, EU Allowances	European Union Allowances.
EU ETS	European Union Emission Trading Scheme.
EXC	European Climate Exchange.
HFCs	Hydrofluorocarbons.
HTSO	Hellenic Transmission System.
HUPX	<i>Hungarian</i> Power <i>Exchange</i>.
FBB	Fluidised-bed boiler, a kind of boiler which reduces the content of sulphur dioxide emissions in the flue gases during the combustion process.
FGD	Flue-Gas Desulphurisation, a flue stack technology for reducing sulphur dioxide content in power plant emissions.
GW; GWh	One gigawatt equals 1,000 MW; one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1 GW.
I&C	Instrumentation and control system for a nuclear power plant.
IAEA	International Atomic Energy Agency.
INES	International Nuclear Events Scale
Installed capacity	The highest constant level of generation of electricity which a power plant is designed to be capable of maintaining.

ISFSF	Interim Spent Nuclear Fuel Storage Facility.
JI	Joint Implementation.
kW; kWh	A kilowatt is a unit of power, representing the rate at which energy is produced; one kilowatt-hour represents one hour of electricity consumption at a constant rate of 1kW.
LCP	Large Combustion Plants
LTO EDU	Long Term Operation of Dukovany nuclear power plant.
m³	Cubic metre.
MIT	Ministry of Industry and Trade of the Czech Republic.
MoF	Ministry of Finance of the Czech Republic.
MoLSA	Ministry of Labour and Social Affairs.
MW; MWh	One megawatt equals 1,000 kW; one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW.
NAP	National Allocation Plan.
Nordpool	Exchange for electrical energy.
NOx	Nitrogen oxides.
NPF	National Property Fund.
NPP	Nuclear power plant.
NSA	Namensschuldverschreibung.
OPCOM	Power Market Operator in Romania.
OSART	Operational Safety Review Team
OTE	Electricity Market Operator.
PFCs	Perfluorocarbons.
POLPX	Polish Power Exchange.
PWR	A type of pressurised water nuclear reactor designed in the United States. This type of reactor uses water as both a moderator (the medium in the reactor core which facilitates the chain reaction) and coolant (the medium which conveys the heat generated in the reactor to a steam generator).
PXE	Prague Energy Exchange.
R&D	Research and Development.
RAB	Regulatory assets base.
REAS	The original, State-owned, regional distribution companies in the Czech Republic.
Repository Authority	Radioactive Waste Repository Authority.
RMC	Risk Management Committee.
SACP	Stand-alone credit profile.
SEWRC	The Bulgarian State Energy and Water Regulatory Commission.
SF₆	Sulphur hexafluoride.
sq. km	Square kilometre.
SO₂	Sulphur dioxide.
SONS	State Office for Nuclear Safety.

SZDC	Railway Infrastructure Administration, state organization.
Ton	Metric ton.
TSO	Transmission System Operator.
TW; TWh	One terawatt equals 1,000 GW; one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW.
VAT	Value Added Tax.
VVER	A type of PWR designed in the former Soviet Union which uses water as both a moderator and coolant.
WACC	Weighted Average Cost of Capital.
WANO	World Association of Nuclear Operators.
WANO Peer Review	A peer review of nuclear power plant carried out regularly by international teams of experts from various professional organizations.

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 (unless explicitly stated otherwise). 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.

ISSUER

ČEZ, a. s.
Duhová 2/1444
140 53 Prague 4
Czech Republic

ARRANGERS

Komerční banka, a.s.
Na Příkopě 33/969
114 07 Prague 1
Czech Republic

Česká spořitelna, a.s.
Olbrachtova 1929/62
140 00 Prague 4
Czech Republic

Československá obchodní banka, a.s.
Radlická 333/150
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Czech Republic

LEGAL ADVISOR TO THE ISSUER

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PROGRAM LISTING AGENT, CALCULATION AGENT, PAYING AND FISCAL AGENT

Komerční banka, a.s.
Na Příkopě 33/969
114 07 Prague 1
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