

Report on the Application of WSE Corporate Governance Principles by ČEZ, a.s. (the Company) for the Financial Year Ended on 31 December 2008

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

	RULE	YES/NO	COMPANY'S STATEMENT
II. Best Practice for Management Boards of Listed Companies			
1	A company should operate a corporate website and publish:		
	1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;	YES	
	2) professional CVs of the members of its governing bodies;	YES	
	3) current and periodic reports;	YES	
	4) the date and place of a General Meeting, its agenda and draft resolutions together with their legal basis as well as other available materials related to the company's General Meetings, at least 14 days before the set date of the General Meeting;	Partially YES	<i>Company publishes date, place and agenda of General Meeting. Company does not publish draft resolutions.</i>
	5) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;	NO	<i>General Meeting elects only members of supervisory board. Candidates are proposed by shareholders and therefore company and its representatives have no tools to force shareholders to provide such information.</i>
	6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk	NO	<i>Annual report on Supervisory Board is being discussed at the general meetings but at the moment is not published on the website.</i>

	management system submitted by the Supervisory Board;		
	7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;	YES	
	8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;	YES	
	9) information about breaks in a General Meetings and the grounds of those breaks;	YES	
	10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;	YES	
	11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;	YES	<i>This information is included in the annual report, which is available online as well.</i>
	12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from to its introduction;	YES	
	13) a report on compliance with the corporate governance rules contained in this document.	YES	
2	A company should publish its website in English, at least to the extent described in section II.1. <i>This rule should be applied not later than 1 January 2009.</i>	YES	
3	Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the	YES	

	operating business by the company with a subsidiary where the company holds a majority stake. For the purpose of this document, the linked entity shall be understood within the meaning of the Regulation of the Minister of Finance dated 19 October 2005 concerning current and periodic reports submitted by issuers of securities.		
4	A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	
5	Draft resolutions of a General Meeting should have grounds attached, with the exception of resolutions on points of order and typical resolutions adopted in the course of an Ordinary General Meeting. In view of the foregoing, the Management Board should present grounds or request the person motioning for the inclusion of an issue on the agenda of a General Meeting to provide grounds.	YES	
6	A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.	YES	
7	A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.	YES	
III. Best Practice for Supervisory Board Members			
1	In addition to its responsibilities laid down in legal provisions the Supervisory Board should:		
	1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system;	YES	
	2) once a year prepare and present to the Ordinary	YES	

	General Meeting an evaluation of its work; 3) review and present opinions on issues subject to resolutions of the General Meeting.	Partially YES	<i>Significant projects are being approved by supervisory board ahead of the general meeting.</i>
2	A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.	NO	<i>Company is not specifically requiring this disclosure from supervisory board members. However we require supervisory board members to disclose conflicts of interests.</i>
3	A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.	YES	
4	A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	
5	A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.	NO	<i>Supervisory board can appoint substitute members to take office until the subsequent general meeting Unless the number of members of the supervisory board elected by the general meeting drops under one half. Thus resignation of a supervisory board member cannot cause its inability to act.</i>
6	At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the <i>Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board</i> . Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria	NO	<i>According to the company statutes 2/3 of Supervisory Board Members are elected by shareholders and 1/3 of members is elected by employees. Thus company cannot ensure that at least 2 members would be independent.</i> <i>At the moment company fulfills this criteria.</i>

	described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.		
7	The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board.	YES	
8	Annex I to the <i>Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors...</i> should apply to the tasks and the operation of the committees of the Supervisory Board.	YES	<i>Functions of nomination and remuneration committees are performed by the Personnel Committee.</i>
9	Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	YES	
IV. Best Practices of Shareholders			
1	Presence of representatives of the media should be allowed at General Meetings.	NO	<i>There is no internal company regulation specifically dealing with the issue. It is however worth mentioning that in the past General Meetings media representatives were present.</i>
2	The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.	YES	
3	Any shareholder who motions for the inclusion of an issue on the agenda of the General Meeting, including a motion to take an issue off the agenda, should provide grounds enabling an informed decision on the resolution.	NO	<i>Company cannot ensure that shareholders will follow this rule.</i>
4	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the	YES	

	competent body to set it before the date of subscription rights within a timeframe enabling an investment decision.		
5	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	YES	
6	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	NO	<i>Currently, the Company cannot adopt this rule because it is not reflected in any of the Company's internal regulations</i>
7	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfillment must take place before the date of setting the right to dividend.	YES	
8	The General Meeting or the Supervisory Board should ensure that the company authorised to audit financial statements changes at least once every seven financial years.	Partially YES	<i>Change of statutory auditor is required by local legislation and CEZ fulfills these requirements. The local legislation does not require change of the company doing the audit.</i>

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

General Meeting

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

- deciding on amendments to the Articles of Association;
- deciding on increases and decreases of the share capital and issues of convertible and priority bonds;
- electing and removing members of the Supervisory Board, except for members elected and removed by the employees, approving the Supervisory Board membership contracts and rules for providing consideration to members of the Supervisory Board
- electing and removing members for the Audit Committee, approving contracts of Audit Committee members and approving rules for providing consideration to members of the Audit Committee

- approving the annual or extraordinary financial statements, consolidated financial statements and (in cases stipulated by law) interim financial statements, decisions on distribution of net income or settlement of loss, determination of Board member bonuses and dividends, and allocations of income to Company reserves;
- deciding on remuneration of members of the Board of Directors and Supervisory Board, deciding on payments of and rules for distribution of Board member bonuses among individual members of the Supervisory Board and the Board of Directors;
- deciding on the Company's sponsorship budget for the period in question;
- deciding on changes in the class or form of shares and changes in rights associated with a particular class of shares;
- deciding on the Company's business policy and revisions thereof.

Rights of shareholders

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

- A shareholder is entitled to a proportion of the company's profit which the general meeting approved for distribution to shareholders (i.e. a dividend).
- Every shareholder is entitled to attend the general meeting, to vote, to ask for explanations and to receive answers to questions about matters concerning the company, if such matters are on its agenda, and to make proposals and counterproposals.
- A shareholder or shareholders of a company may ask the board of directors to convene an extraordinary general meeting to discuss proposed matters if they hold the shares with a total nominal value exceeding 3% of the registered capital for companies whose registered capital is greater than CZK 100 million.

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

Board of Directors

The Board of Directors has six members, all of whom are elected and removed by the Supervisory Board. Members of the Board of Directors serve for four-year terms; re-election is possible. The Board of Directors elects and removes its Chairman and First and Second Vice Chairmen. The Board of Directors meets at least once per month.

Board of Directors had the following composition as of November-15, 2009:

Martin Roman - Chairman
 Daniel Beneš - First Vice Chairman
 Tomáš Pleskač - Second Vice Chairman
 Vladimír Hlavinka - Member
 Martin Novák - Member
 Peter Bednár - Member

In order to implement certain decisions, the Board of Directors is required to request the prior consent of the Supervisory Board, as well as to request the Supervisory Board's opinion in selected Company matters. At its meetings, the Board of Directors takes decisions by a simple majority of members present, provided at least three members are present. Each member of the Board of Directors has one vote. In the event of a tie, the vote of the member chairing the meeting decides. In necessary cases, decisions may be taken outside of a regular meeting (per rollam). Decisions taken in this matter must be entered into the minutes of the next Board of Directors meeting. Details of how the Board of Directors takes decisions are stipulated in the Board of Directors' Rules of Order.

Supervisory Board

The Supervisory Board is the Company's oversight body, which oversees the Board of Directors' exercise of authority and the Company's business activities. The Supervisory Board's powers include, in particular:

- inspecting for compliance with laws and regulations, the Articles of Association, and General Meeting instructions; inspecting how the Board of Directors exercises the Company's rights of ownership in other legal entities;
- reviewing year-end, extraordinary, consolidated and interim financial statements, including income distribution proposals and stipulations of dividends and Board member bonuses and pay-out procedures;
- discussing the Company's quarterly financial performance figures, the half-year report pursuant to the Act on Doing Business in the Capital Market, and the annual report pursuant to the Accounting Act;
- electing and removing members of the Board of Directors;
- approving Board of Directors membership contracts and rules for providing consideration to members of the Board of Directors beyond that required by law, in accordance with Section 194(1) of the Commercial Code.

The Supervisory Board has twelve members. Two thirds of the members are elected and removed by the General Meeting, one third are elected and removed by the Company's employees. Members of the Supervisory Board serve for four-year terms, and re-election is possible. The Supervisory Board elects and removes its Chairman and two Vice Chairmen. It meets at least once per month. In 2008 there were 18 meetings (11 regular meetings and seven extraordinary meetings).

Supervisory board had the following composition as of November-15, 2009:

Martin Kocourek – chairman
Zdeněk Židlický – Vice chairman
Ivan Fuksa – Vice chairman
Lubomír Klosík
Petr Gross
Zdeněk Trojan
Jan Demjanovič
Petr Kalaš
Drahošlav Šimek
Zdeněk Hrubý

Vlastimil Jiřík
Miloš Kebrdle

Committees of the Supervisory Board

Within the scope of its powers, the Supervisory Board sets up committees to which it elects and from which it removes committee members. Committee membership is open to Supervisory Board members only and the term of committee membership is concurrent with the term of Supervisory Board membership. The following three committees operated in 2008:

- **ČEZ, a. s. Strategic Planning Committee**, which evaluates proposals for major business activities in the areas of investment and acquisition projects, proposals for establishing or winding up subsidiaries of ČEZ, a. s., building new generating plants and phasing out, selling or renewing production capacities;

Tomáš Hüner - member

Jan Demjanovič - member

Petr Kalaš - member

Zdeněk Židlický - member

- **ČEZ, a. s. Personnel Committee**, which makes proposals for the Supervisory Board regarding its personnel policies vis-à-vis the Board of Directors, proposes committee methods and procedures, nominates candidates for election to and removal from the Board of Directors, is responsible for submitting nominations of candidates for membership of the Board of Directors to the Supervisory Board for approval, and makes recommendations to the Supervisory Board regarding issuance of opinions in matters relating to the appointment and manner of remuneration of the Chief Executive Officer and members of the Board of Directors who are employees of the Company.

Tomáš Hüner - chairman

Zdeněk Trojan - vice chairman

Josef Janeček - member

Zdeněk Židlický – member

Audit Committee

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

Martin Kocourek - chairman:

Ivan Fuksa - member

Zdeněk Hrubý - member

Lubomír Klosík - member

Drahošlav Šimek - member

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

The Management of the Company is responsible for the establishment and maintenance of internal control system in the Company and its efficiency in the process of preparing financial statements. Internal control system covers the entire activities of the Company. The Company has established a continuous

process for identifying and managing various potential risks faced by the Company, and confirms that any appropriate actions have been taken, or are being taken, to address any issue.

Financial statements, both for internal and external reporting purposes, are prepared by highly skilled professionals and reviewed by other independent personnel. The annual financial statements are subject to the independent examination by the external auditor.