



# CEZ GROUP: THE LEADER IN POWER MARKETS OF CENTRAL AND SOUTHEASTERN EUROPE

Investment story, November 2016

# AGENDA



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# CEZ GROUP IS AN INTERNATIONAL UTILITY WITH A STRONG POSITION IN CEE



CEZ Group in Poland (100% stake in Skawina, 100% in Chorzow)	
Installed capacity (MW)	681
Electricity generation, gross (TWh)	2.9
<b>Generation market share</b>	<b>1.9%</b>
Number of employees	412
Sales (EUR million)	251

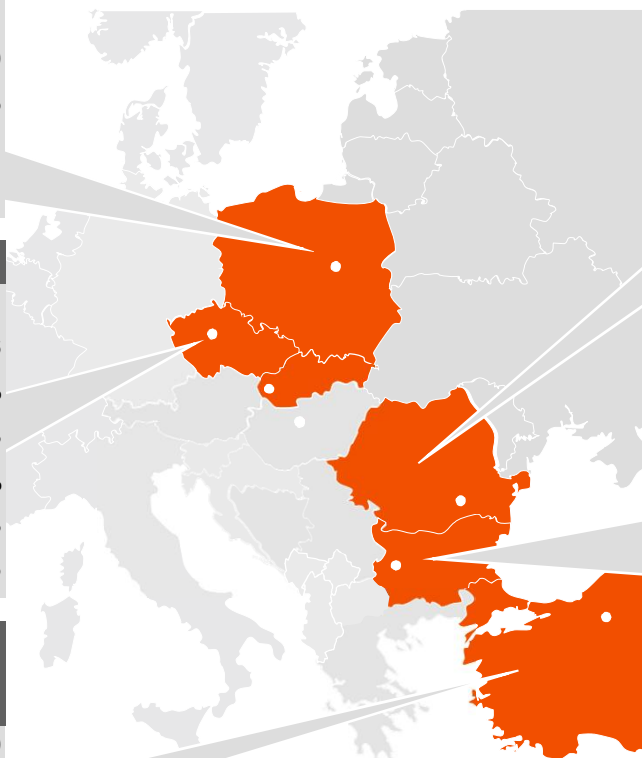
  

CEZ Group in the Czech Republic	
Installed capacity (MW)	13,351
Electricity generation, gross (TWh)	56.6
<b>Generation market share</b>	<b>67.5%</b>
Distributed electricity (TWh)	33.3
<b>Distribution market share</b>	<b>63%</b>
Number of employees	20,383
Sales (EUR million)	5,715

CEZ Group in Turkey (50% stake in SEDAS through AkCez, 37.36% stake in Akenerji)	
Installed capacity (MW)	1,289
Electricity generation, gross (TWh)	4.6
<b>Generation market share</b>	<b>1.8%</b>
Distributed electricity (TWh)	8.5
<b>Distribution market share</b>	<b>3%</b>

Energy Assets



CEZ Group in Romania (100% stakes in CEZ Distributie, CEZ Vanzare, Tomis Team, Ovidiu Development, TMK Hydroenergy Power)	
Installed capacity (MW)	622
Electricity generation, gross (TWh)	1.3
<b>Generation market share</b>	<b>2.2%</b>
Distributed electricity (TWh)	6.4
<b>Distribution market share</b>	<b>12%</b>
Number of employees	1,787
Sales (EUR million)	480

CEZ Group in Bulgaria (67% stake in CEZ Razpredelenie Bulgaria, CEZ Electro Bulgaria, 100% in TPP Varna, 100% in Free Energy Project Oreshets, 100% in Bara Group )	
Installed capacity (MW)	1,267*
Electricity generation, gross (TWh)	0.006*
<b>Generation market share</b>	<b>0.0%</b>
Distributed electricity (TWh)	9.3
<b>Distribution market share</b>	<b>28%</b>
Number of employees	3,249
Sales (EUR million)	894

# CZECH REPUBLIC IS THE MOST IMPORTANT MARKET FOR CEZ GROUP, IT IS VERTICALLY INTEGRATED THERE



	Lignite mining	Generation	Transmission	Distribution	Supply
<b>CEZ</b>	<b>57%</b> 21.6 million tons 2014	<b>68%</b> 56.6 TWh	<b>100%</b> 66.6 TWh	<b>63%</b> 33.3 TWh	<b>34%</b> 19.8 TWh
<b>Others</b>	<b>43%</b> 16.6 million tons	<b>32%</b> 27.2 TWh		<b>37%</b> 19.5 TWh	<b>66%</b> 39.3 TWh

- CEZ fully owns the largest Czech mining company (SD) covering 71% of CEZ's lignite needs
- Remaining 3 coal mining companies are privately owned

- Other competitors – individual IPPs

- The Czech transmission grid is owned and operated by CEPS, 100% owned by the Czech state



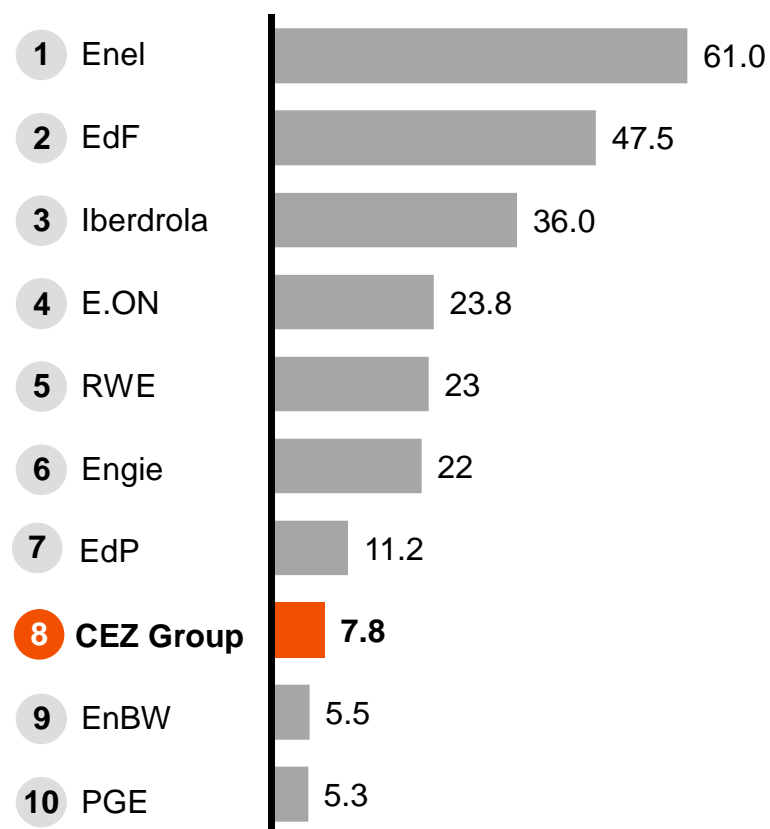
- Other competitors – E.ON, PRE (70% held by EnBW), Bohemia Energy, RWE, Centropol Energy

# CEZ GROUP RANKS AMONG THE TOP 10 LARGEST UTILITY COMPANIES IN EUROPE



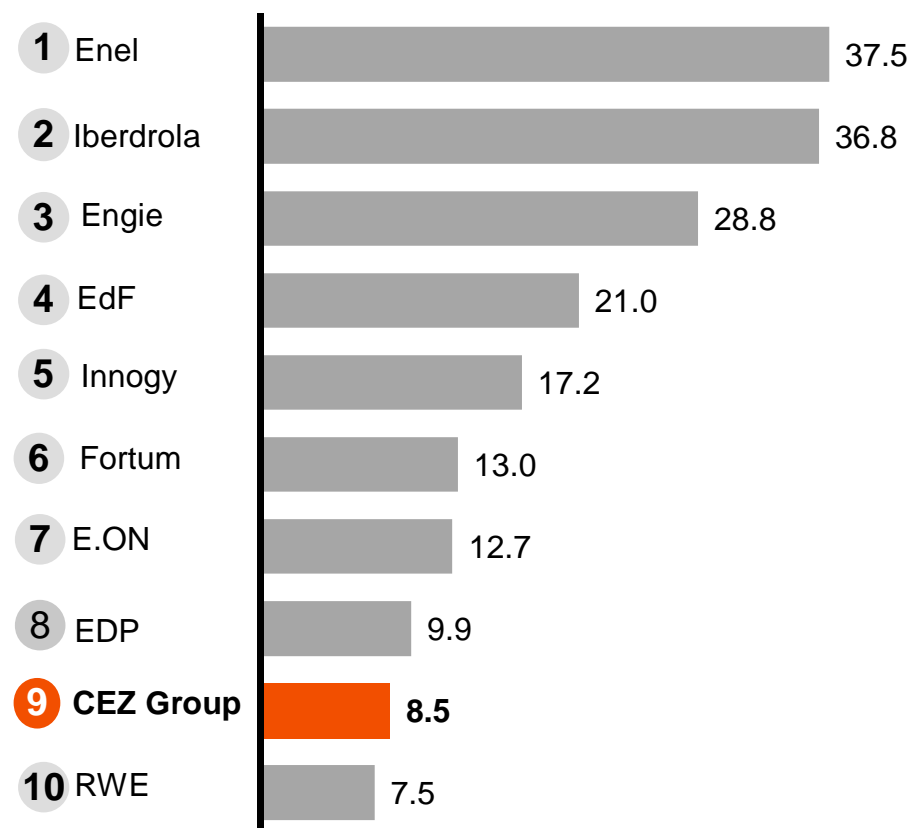
## Top 10 European power utilities

Number of customers in 2015, in millions



## Top 10 European power utilities

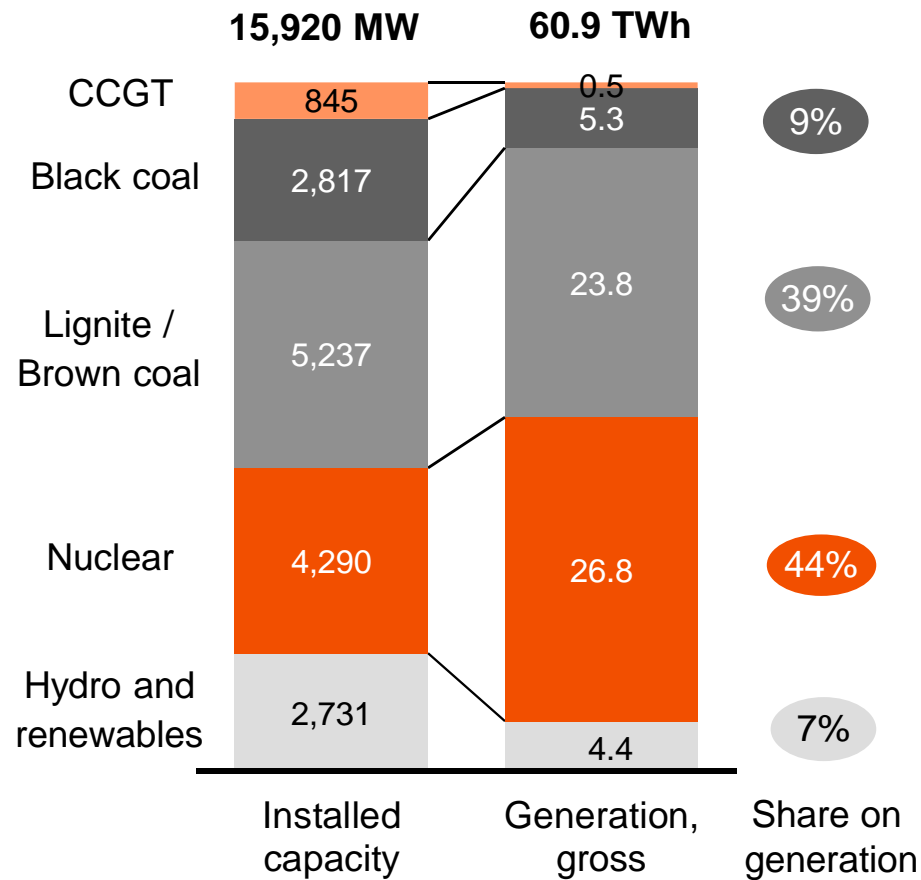
Market capitalization in EUR bn, as of Nov 24, 2016



# CEZ GROUP OPERATES LOW COST GENERATION FLEET, ...



## Installed capacity and generation (2015)

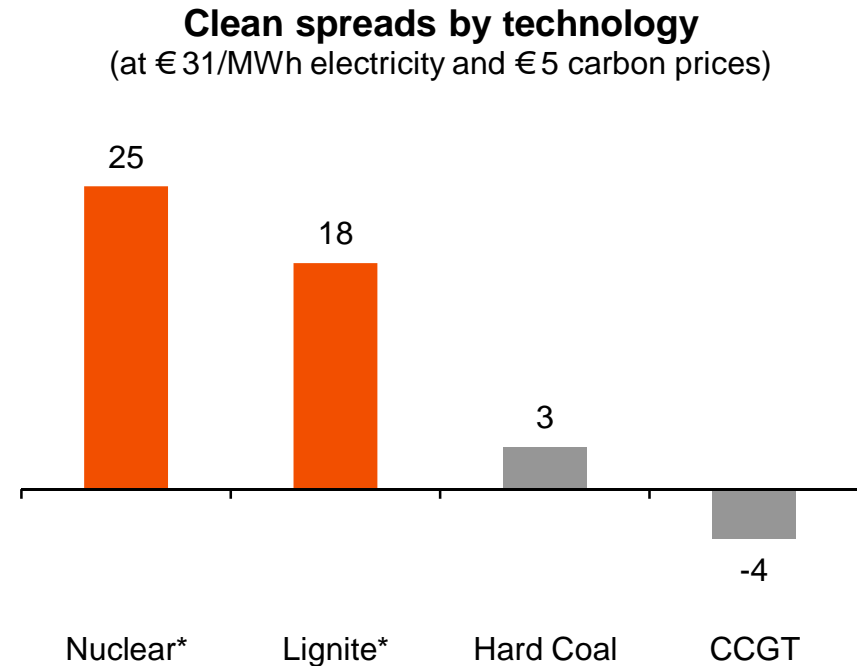
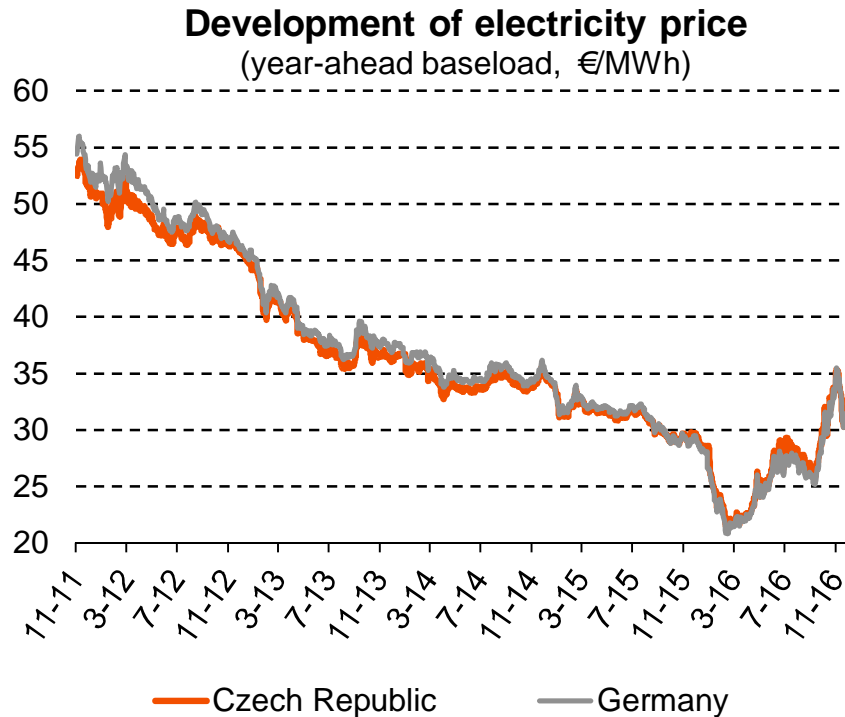


- **Coal power plants are using mostly lignite from CEZ's own mine** (67% of lignite needs sourced internally, remaining volume through long-term supply contracts)
- **Nuclear plants have very low operational costs**



**CEZ has a long-term competitive advantage of low and relatively stable generation costs**

# ,... WHICH IS A GREAT ADVANTAGE IN THE CURRENT LOW PRICE ENVIRONMENT



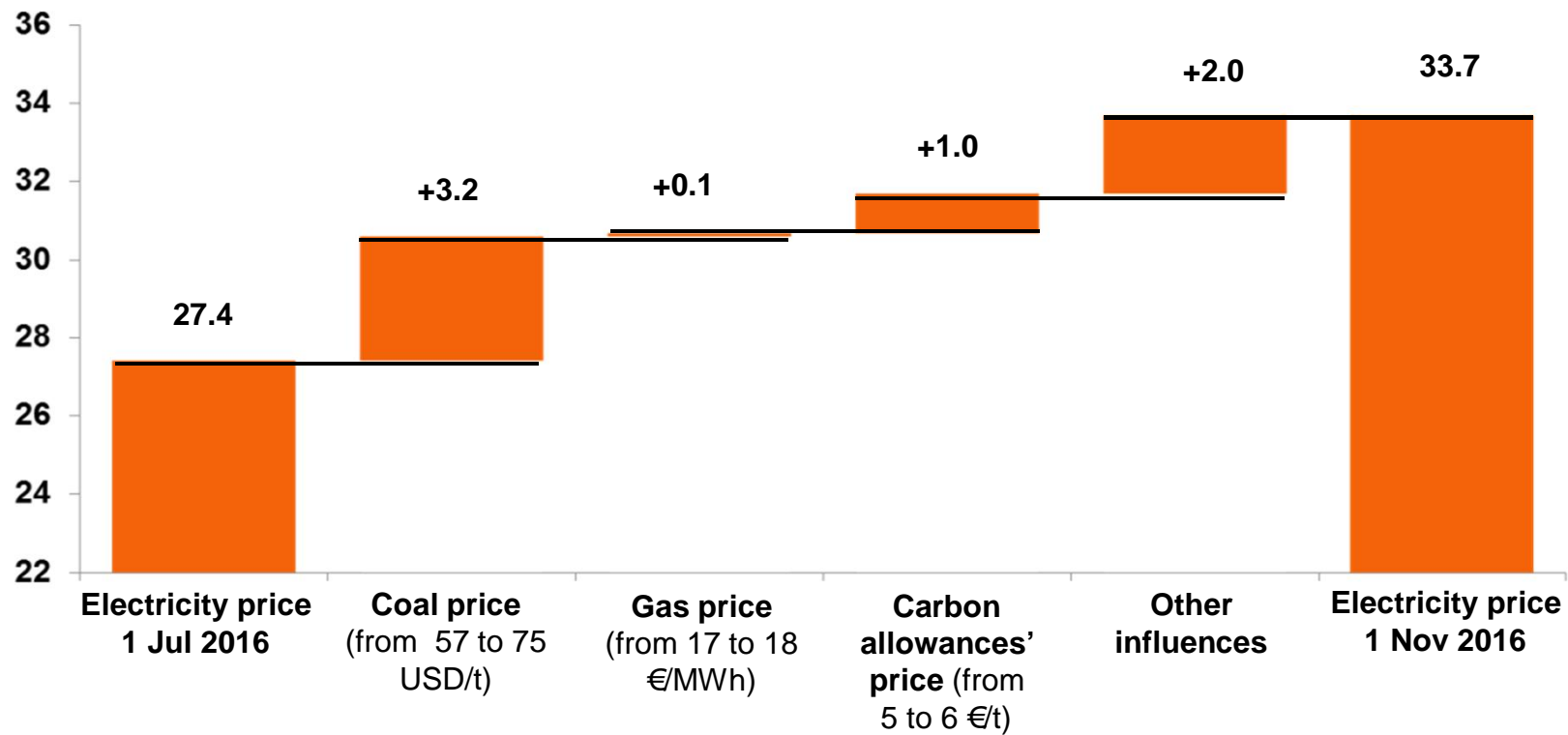
## Drivers of electricity price

- Decline of **hard coal prices** due to shale gas discoveries in the US and declining Chinese imports
- Decline in **carbon prices** due to oversupply driven by economic slowdown
- **Growing** capacity of subsidized **renewables** at the time of stagnating/declining electricity demand

# RECENTLY THE ELECTRICITY PRICES HAVE GROWN DUE TO RISING COAL PRICES AND OUTAGES OF FRENCH NUCLEAR PLANTS



**Breakdown of factors influencing change in price of electricity**  
EUR/MWh (EEX, baseload Cal 2017)



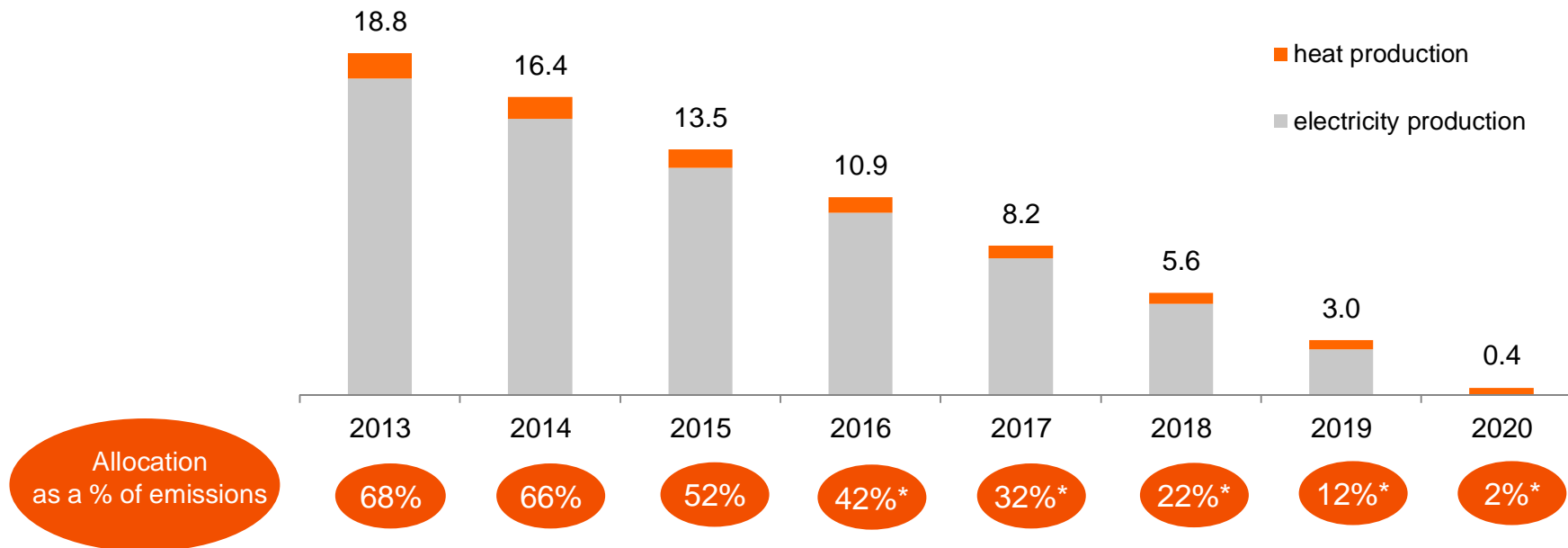


# CEZ GROUP CONTINUES TO RECEIVE PART OF EMISSION ALLOWANCES FOR FREE

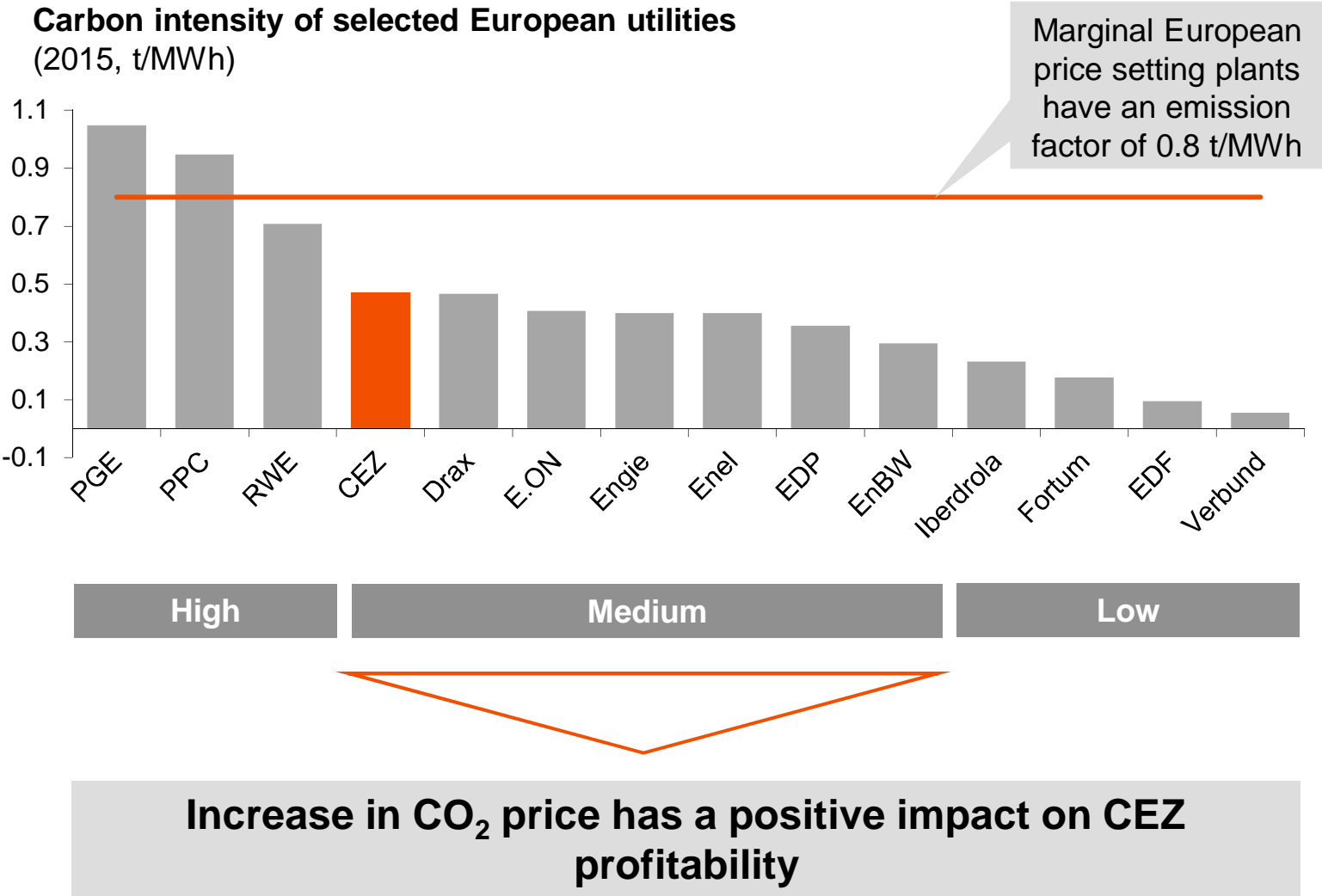


- CEZ Group can get up to **70.2 million** emission allowances for electricity production in the Czech Republic in 2013–2019 in exchange for investments reducing greenhouse gas emissions.
- EC Commission has proposed that free allocation of up to 40% of emission allowances will continue post 2020.

Expected allocation of allowances for CEZ Group in the Czech Republic (millions)



# CEZ GROUP'S CO<sub>2</sub> INTENSITY IS BELOW INTENSITY OF A EUROPEAN PRICE SETTING PLANT



# AGENDA

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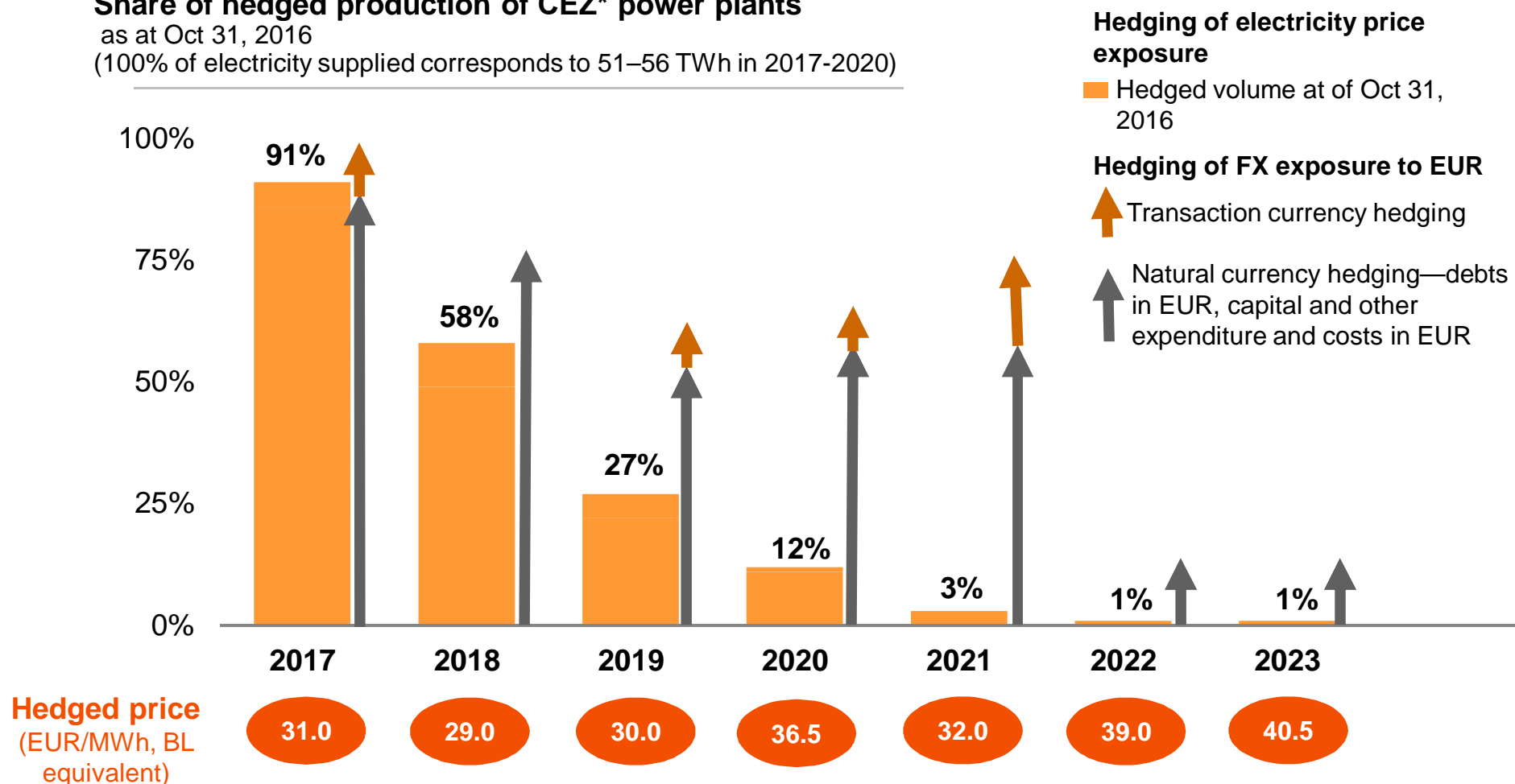


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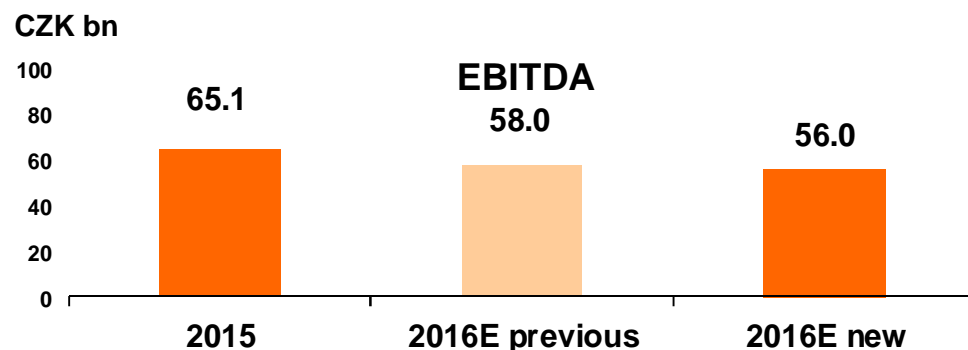
# LARGE PART OF PRODUCTION FOR THE NEXT 3 YEARS IS ALREADY HEDGED



**Share of hedged production of ČEZ\* power plants**  
 as at Oct 31, 2016  
 (100% of electricity supplied corresponds to 51–56 TWh in 2017-2020)

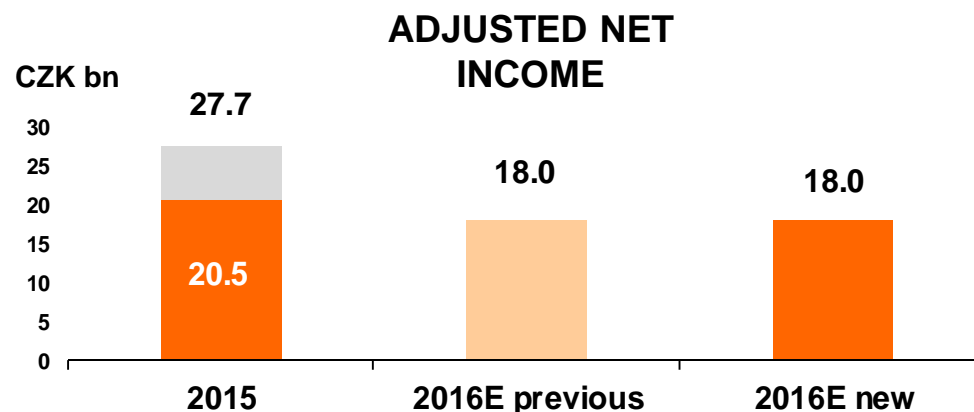


# WE EXPECT 2016 EBITDA OF **CZK 56 BN**, ADJUSTED NET INCOME AT THE LEVEL OF **CZK 18 BN**



## Selected negative effects on EBITDA outlook (as compared to Aug 9):

- Longer outage of Temelín NPP Unit 2 due to a turbine fault
- Longer outages at Temelín NPP due to comprehensive weld inspections
- Impairment\* of Ecowind projects in relation to RES legislation changes in Poland



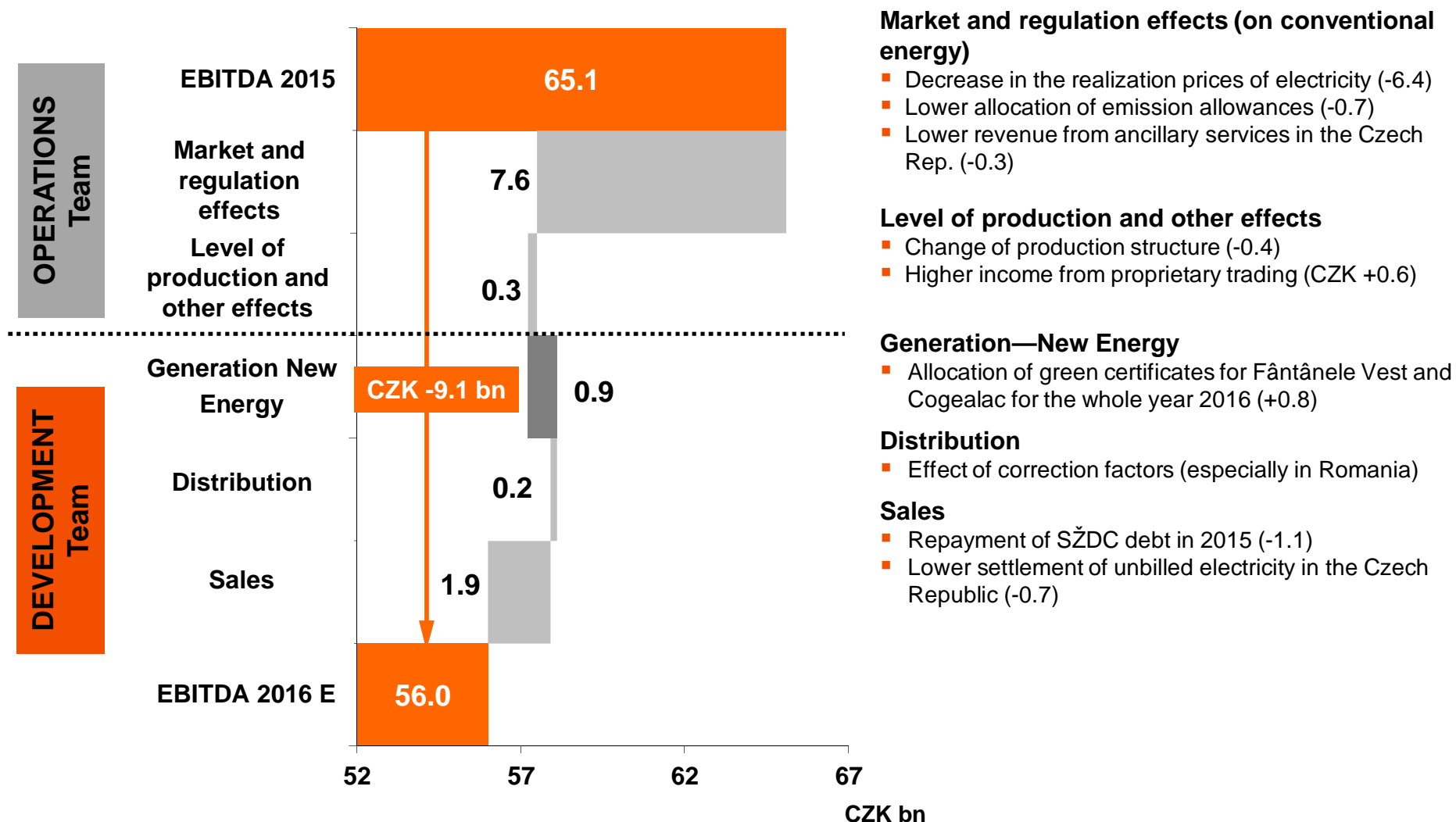
## Selected positive effects on EBITDA outlook (as compared to Aug 9):

- Lower fixed operating cost
- Higher gross margin on electricity and natural gas sales in the Czech Rep. and abroad

Adjustment of 2015 net income  
 2015 net income

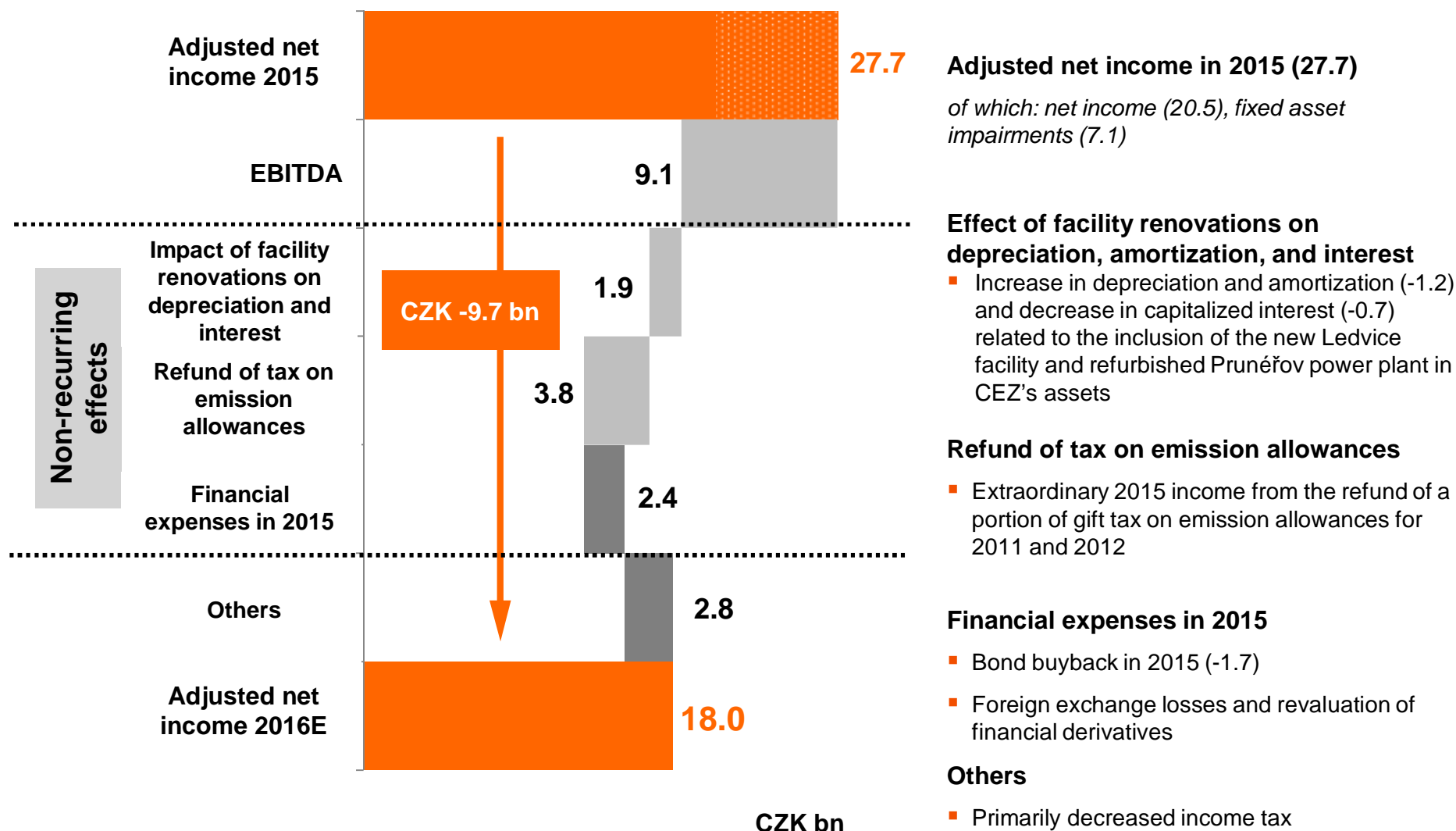
# EXPECTED YEAR-ON-YEAR CHANGE IN EBITDA

## MAIN REASONS

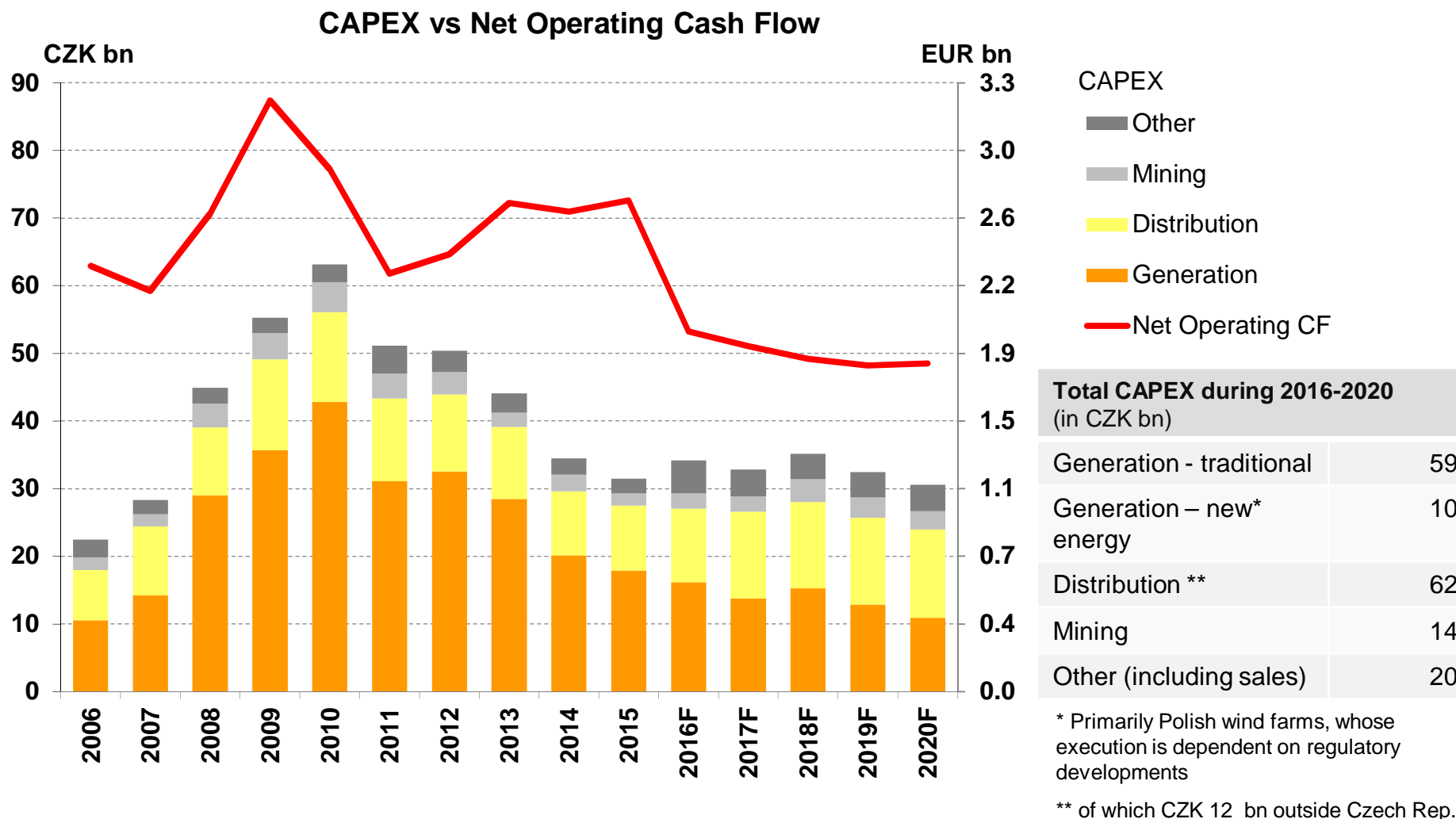


# EXPECTED YEAR-ON-YEAR CHANGE IN NET INCOME

## MAIN REASONS



# CEZ GROUP WILL BE ABLE TO FINANCE CAPEX FROM ITS OPERATING CASH FLOWS

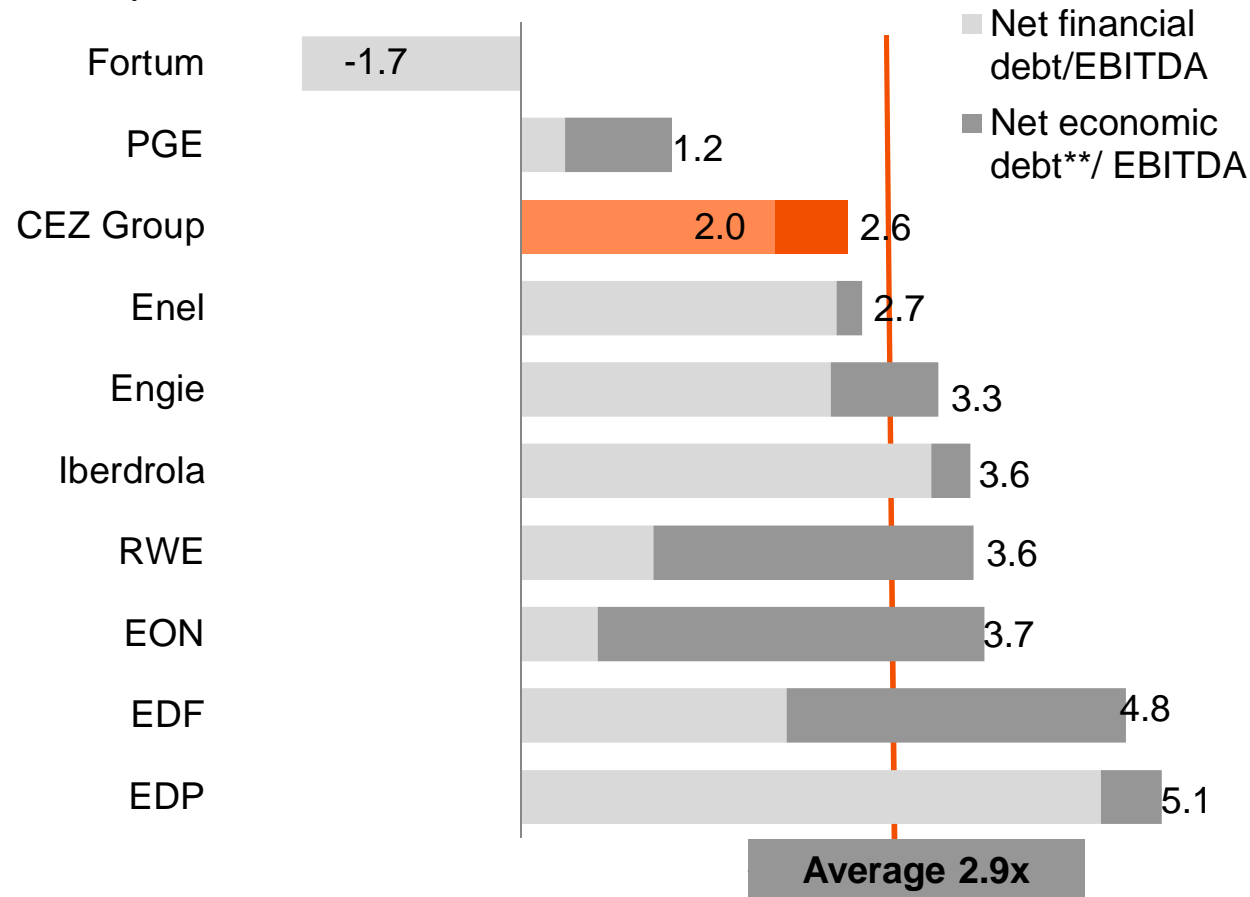




# OUR CURRENT LEVERAGE IS LOW COMPARED TO INDUSTRY STANDARDS



## Net economic debt/ EBITDA\* Multiples, 2015



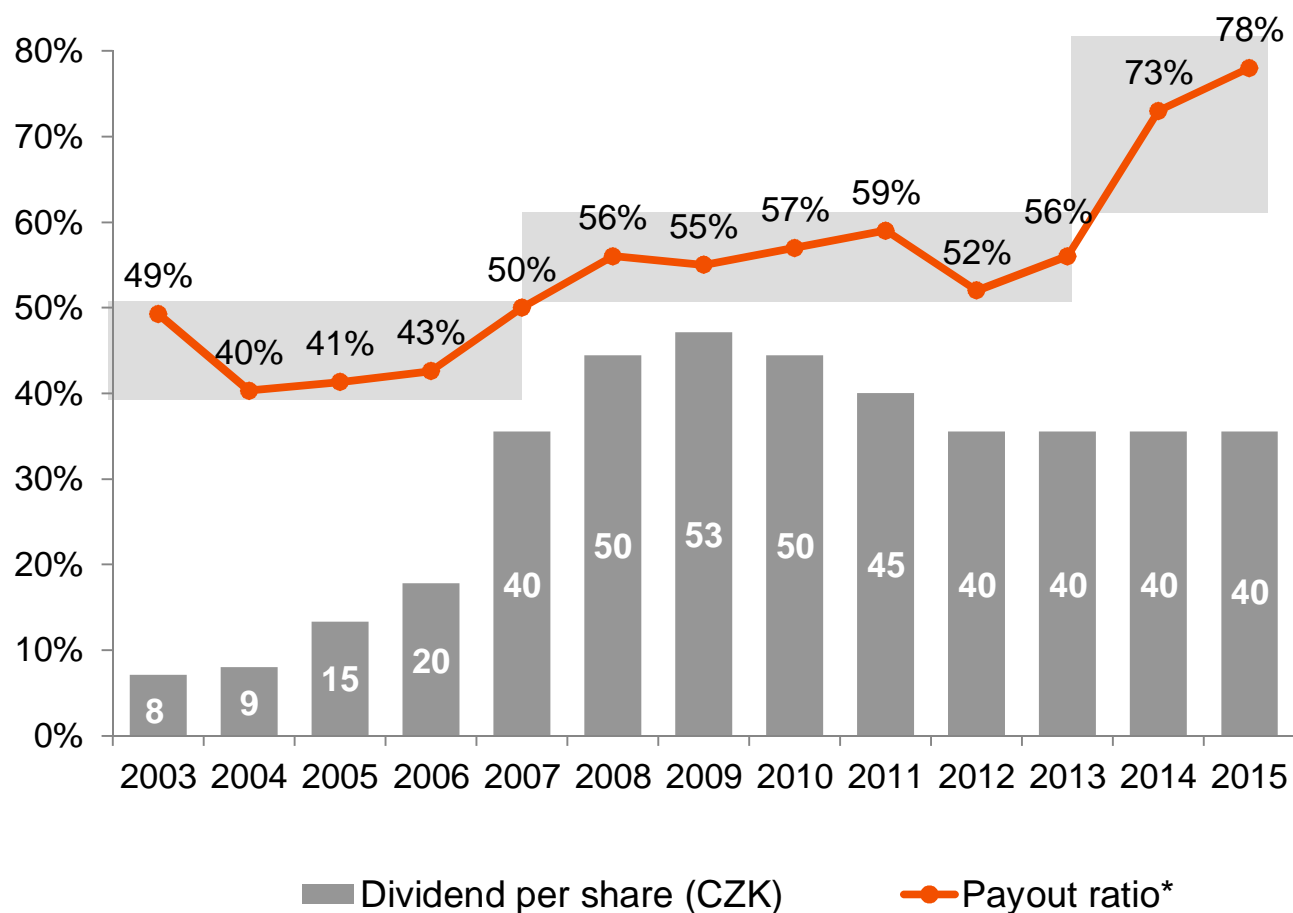
- Current credit rating**
- A-, stable outlook from S&P
  - Baa1, stable outlook from Moody's
- Tolerated leverage**
- net financial debt/EBITDA ratio at 2.5-3.0x
  - Assumes funding of new development activities (primarily acquisition of renewable projects, distribution, sales and heat assets)

\*EBITDA as reported by companies, \*\* Net economic debt= net financial debt + nuclear provisions + provisions for employee pensions + reclamation provision

# DIVIDEND POLICY IS TO DISTRIBUTE 60 – 80 % OF ADJUSTED NET INCOME



## Payout ratio\* (%)



- In June 2016, general meeting approved management proposal for 2015 dividend at CZK 40 per share
- Payment started on Aug 1, 2016

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# CEZ GROUP'S STRATEGY IS BUILT ON THREE PILLARS



**Vision: deliver innovative solutions to energy needs and contribute to a better quality of life.**

**Mission: guarantee safe, reliable and positive energy to our clients and the society as a whole.**

<b>I</b> <b>Be among the best in the operation of conventional electricity generation</b> and proactively respond to the challenges of the 21st century	<b>II</b> <b>Offer a wide range of products and services to customers, which address their energy needs</b>	<b>III</b> <b>Strengthen and consolidate our position in the region of Central Europe</b>
<ul style="list-style-type: none"><li>▪ Focus on operational efficiency as a prerequisite for further existence in both conventional and new energy</li><li>▪ Ensure long-term operation of the Dukovany Nuclear Power Plant</li><li>▪ Gradually phase out older condensing units</li><li>▪ Develop projects of new nuclear units at Temelín and Dukovany</li><li>▪ Continually improve distribution grid efficiency to allow a real decrease in distribution tariffs and simultaneously ensure stable cash flow</li></ul>	<ul style="list-style-type: none"><li>▪ Achieve the top level in electricity and gas sales and in customer care</li><li>▪ Develop additional products and make use of synergies with energy commodities</li><li>▪ Launch new business models—from equipment deliveries to electricity generation and to supply at the customer's point of consumption</li><li>▪ Invest in opportunities and technologies at an early stage in order to establish promising positions of CEZ in future energy market</li><li>▪ Prepare distribution grids for operation under the conditions of growing decentralized generation</li></ul>	<ul style="list-style-type: none"><li>▪ Strive to acquire assets/companies in the Czech Rep and in countries with stable national regulatory environments:<ul style="list-style-type: none"><li>- RES</li><li>- Distribution companies</li><li>- Sales companies supplying energy and related products to end customers</li><li>- Developing new products and services that are auspicious from the point of view of future energy market</li><li>- Conventional energy</li></ul></li><li>▪ Reduce risk profile—optimize capital and ownership structure, including divestment of selected assets</li></ul>

# WE ARE GRADUALLY IMPLEMENTING ČEZ STRATEGY



<p><b>I</b> Be among the best in the operation of conventional power facilities and proactively respond to the challenges of the 21st century</p>	<ul style="list-style-type: none"><li>▪ We received an operating license for Unit 1 of the Dukovany Nuclear Power Plant for an indefinite period of time</li><li>▪ We stabilized the situation caused by the need to inspect welds at nuclear facilities</li><li>▪ We completed the renovation of the Pruněřov Power Plant and environmental upgrade to the Počerady Power Plant</li><li>▪ We introduced a more flexible, more profitable process of hydropower dispatch</li><li>▪ We upgraded high-capacity disposal sites at the Nástup Tušimice Mines</li><li>▪ We spun off the projects for new nuclear power plants at Dukovany and Temelín into new companies</li><li>▪ We started the EIA process for a new nuclear unit at Dukovany</li></ul>
<p><b>II</b> Offer customers a wide range of products and services addressing their energy needs</p>	<ul style="list-style-type: none"><li>▪ We are stabilizing our sales portfolio and market position in the Czech Rep. (we are No. 2 in the gas market)</li><li>▪ We are developing sales of non-commodity products and services for retail customers</li><li>▪ We are growing successfully also through acquisitions (ENESA, juwi—now ČEZ Solární, AZ Klima)</li><li>▪ We are completing Czech distribution redesign and preparing for decentralized and digitized energy future</li></ul>
<p><b>III</b> Strengthen and consolidate our position in Central Europe</p>	<ul style="list-style-type: none"><li>▪ We are achieving exceptional profit in commodity trading and expanding our trading activities to additional European countries, including the Nordic countries</li><li>▪ We are entering the RES market in Germany: our first acquisition—an onshore wind park with 12.8MW installed capacity—is awaiting the fulfillment of conditions precedent</li><li>▪ We are expanding the INVEN CAPITAL portfolio with attractive new energy companies (sonnen—formerly Sonnenbatterie, SunFire, tado GmbH, fund ETF)</li><li>▪ We continue to reduce our financial exposure abroad (an agreement made with EBRD allows ČEZ Razpredelenie Bulgaria AD to take out a loan of up to EUR 116m without any guarantee by ČEZ, a. s.)</li></ul>

# SINCE 2015 STRATEGIC ACTIVITIES ARE ORGANIZED UNDER THE OPERATIONS AND DEVELOPMENT TEAMS



# OPERATIONS TEAM

## STRATEGIC AMBITIONS FOR 2020

**Additional \***  
**EBITDA 2020:**  
**+ CZK 3bn**



### Mining

- Ensure reliability and flexibility of supplies to all customers
- Make the interface between mining and power plants more efficient
- Achieve maximum cost effectiveness in operations
- Optimize investments through “Design-to-Cost”
- Use economically exploitable coal reserves as efficiently as possible



### Generation—Traditional

#### Nuclear Facilities

- Continually improve nuclear safety and the level of maintenance of nuclear facilities
- Maintain high facility availability and maximum utilization of our nuclear assets’ potential
- Obtain a renewed operating license for Dukovany units and ensure long-term operation for the Dukovany NPP

#### Other Generating Facilities

- Continually improve the operational efficiency and flexibility of new and refurbished facilities
- Optimize the operations of all coal-fired facilities

#### Heat Sector

- Strengthen our position in the heat market in the Czech Rep. and maximize the operational efficiency and utilization of existing assets to achieve growth and new revenue
- Optimize investments through “Design-to-Cost”

**Grow in the heat sector through acquisitions, primarily in Poland**



### Finance and Administrative

#### Finance

- Ensure proactive funding of development activities and maintain the Group’s financial stability (Net Debt/EBITDA ratio at 2.5–3.0)
- Optimize the capital and ownership structure of existing foreign assets

#### Support and Centralized Activities

- Continually improve efficiency and outperform the market in all services provided
- Continually and systematically promote segment initiative and motivation in order to increase the entire Company’s value
- Continually improve the efficiency of purchasing processes and optimize other centralized and support processes to promote growth and increased cost effectiveness

# DEVELOPMENT TEAM STRATEGIC AMBITIONS FOR 2020

**Additional \***  
**EBITDA 2020:**  
**+ CZK 6bn**



## Sales & Trading



### Sales—Retail

- Expand the portfolio of innovative products and services according to customers' needs (in the generation, use, and savings of electricity and other kinds of energy) in all markets that we operate in

### Sales—ESCO

- Become #1 and a natural choice for businesses, municipalities and the public sector in comprehensive energy services in the Czech Rep. and **new markets in Poland and Germany**

### Trading

- Develop trading, active dispatching, and wholesale of commodities



## New Energy



- Become a major European player in renewables in terms of installed capacity and profitability
- Invest in wind and solar capacities in the development stage as well as in existing capacities while maintaining the required rate of return
- Efficiently use an optimum mix of internal and external funding for acquisitions

**Ambition to grow through acquisitions, primarily in Germany and in countries with a stable regulatory environment**



## Distribution

### Czech Republic

- Build a leading position in Smart technologies
- Integrate decentralized energy in a cost-effective manner
- Optimize grid renovation and development investments and costs in order to improve the quality of our distribution service without any impact on end-use tariffs
- Increase customer satisfaction

### Abroad

- Maximize CF and optimize capital and ownership structure, including divestment of selected assets

**Ambition to acquire distribution/transmission assets in countries with a stable regulatory environment**

**Additional investments  
of CZK 50–60bn assumed  
in 2016–2020:**



# EXTENDED OUTAGES IN NUCLEAR PLANTS RELATE TO WELD CHECKS AND LICENCE RENEWAL

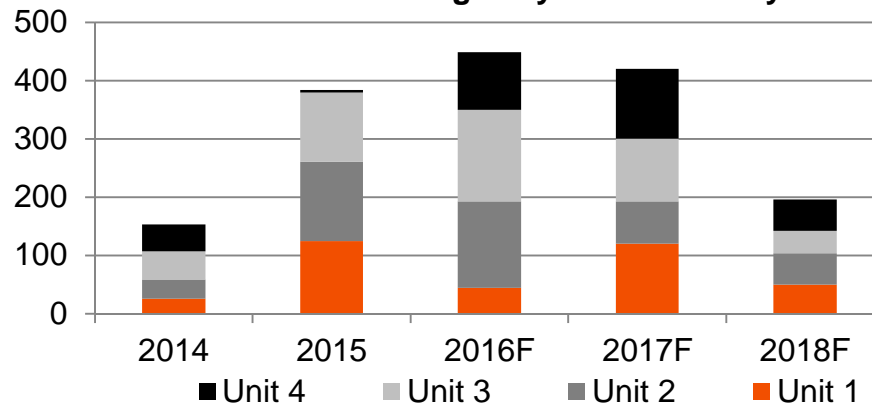


Some documentation of X-Ray images of welds was found to be of low quality in both Dukovany and Temelin power plants in 2015. Low-quality images were subject to new imaging. Subsequently CEZ adopted several measures including strengthening of internal controls, boosting internal capacities and increasing role of ČEZ subsidiaries for selected tests.

## Dukovany

- Deficiencies found at Unit 1 were remedied and the unit received a new license in March 2016. The license validity is not limited in time, but includes a set of conditions.
- Urgent deficiencies on Units 2, 3, 4 were remedied during H1 2016. Follow-up work will continue during H2 2016 and in 2017.
- In July 2016, ČEZ applied for extension of the existing Unit 2 license until July 10, 2017 to State Office for Nuclear Safety. The extension was granted.

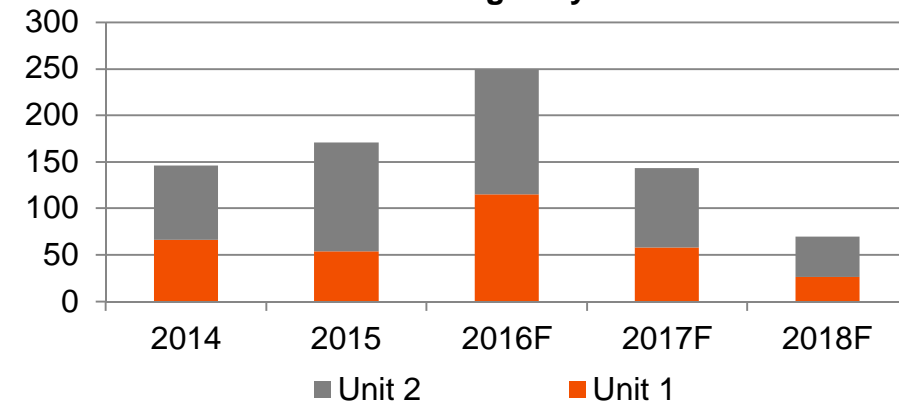
**Total number of outage days for Dukovany**



## Temelín

- Inspection of welds will be done during outages in 2016 and 2017. Unlike in Dukovany, some inspections can be carried out during unit's operation.
- Planned outage of Unit 1 extended by 44 days over initial ambition mainly due to weld inspections
- Outages on Unit 2 extended by 45 days due to a turbine oil glands fault and replacement.

**Total number of outage days for Temelin**



# REFURBISHMENT OF LIGNITE PLANT PRUNEROV HAS BEEN COMPLETED



## Comprehensive refurbishment of Prunéřov

- Three generating units were accepted for service on June 10, June 30, and July 15, 2016
- Capacity **3x250 MWe** (previously 3x210 MW)
- **Over 40 %** efficiency in combination with heat generation
- Fuel consumption reduced by **18 %** compared to existing units
- Improving all emission parameters by average of 60%
- Expected operating life 25 years



## New supercritical unit Ledvice

- Unit commissioning and adjustment continues
- Completion expected in 2017 after complications with boiler slag extraction are resolved
- Capacity **660 MWe**
- **42.5 %** efficiency
- Fuel consumption reduced by **27 %** compared to existing Ledvice units
- Expected operating life 40 years



# CEZ SIGNED A COMPREHENSIVE AGREEMENT WITH SOKOLOVSKÁ UHELNÁ



## The agreement with Sokolovská uhelná, a.s. concerns:

- New contract for supplies of Sokolov brown coal until the year 2025
- Selling the Tisová Power Plant to Sokolovská uhelná, a.s.
- Both parties' pledge to take steps to end all pending lawsuits and proceedings before regulatory and other authorities

The agreement will allow CEZ Group to focus on the operation of the upgraded Tušimice, Prunéřov, and Ledvice facilities and mitigate long-term risks posed by changes in coal balance and market prices in the Czech Rep.



### Tisová Power Plant

Commissioned	1959–1961
Total installed capacity	288.8 MW
Efficiency	32%
Electricity generated in 2015	1.4 TWh
Share of ČEZ electricity production in Czech Rep.	2%

# CEZ GROUP ACQUIRED A STAKE IN GERMAN COMPANY TADO, THE EUROPEAN LEADER IN SMART THERMOSTAT SALES



## Smart thermostats tado° can save up to 31% of heating and air-conditioning costs

- A smart thermostat controls temperature in a building as economically as possible, based on users' behavior and weather forecasts
- The thermostat monitors boiler operation and sends a notification if an inspection is needed including appropriate service engineers' contact and information on their availability
- Easy to control using a mobile app

**CEZ Group acquired a minority stake, including a representation on the company's board of directors.**



# ČEZ STARTED TO OFFER TURN-KEY ROOFTOP PHOTOVOLTAICS INSTALLATION



- Customers are highly interested in installing photovoltaic systems on the roofs of their houses
- ČEZ Solární of **ČEZ ESCO** has prepared an offer for **1,200 customers**, both **residential and corporate**
- **as much as 50** rooftop photovoltaic systems by ČEZ **have been generating electricity**
- An additional **100** systems will be installed **by the end of 2016**
- ČEZ has also connected the first **sonnen battery system** in the Czech Rep.
- Photovoltaic installations, including battery systems, are delivered as **turnkey solutions** from design documents to monitoring and regular inspections
- Execution starts within **21 days** of the date of contract and usually takes **2–3 days**
- Help with obtaining financing or subsidies



## SELECTED EVENTS OUTSIDE CZECH REPUBLIC



### Bulgaria

- On Nov 2, a **loan facility agreement was signed between EBRD and CEZ Razpredelenie Bulgaria AD**, allowing the company to take out a loan of up to EUR 116m (approx. CZK 3.1bn) from EBRD and commercial banks without any guarantee by ČEZ, a. s., further reducing financial exposure abroad
- **At the end of July, ČEZ's Request for Arbitration against the Republic of Bulgaria was duly registered with the International Centre for Settlement of Investment Disputes (ICSID) and delivered to Bulgaria.** The Request for Arbitration was filed by ČEZ, a. s. on July 12, 2016, officially commencing international investment arbitration for the non-protection of its investment under the Energy Charter Treaty. ČEZ, a. s. has already appointed its arbitrator and the appointment of Bulgaria's arbitrator is now awaited.

### Poland

- July 16, 2016 was the date of effect of a **renewable energy investment act, which specifies additional requirements for the construction of wind parks**, including a greater distance from inhabited areas, and generally indicates the Polish government's intention to restrict or change support for wind turbines and renewable energy sources. This effectively postponed the first expected auctions; the law also poses a threat to the implementation of wind park projects throughout Poland, incl. CEZ Group's projects developed by Eco-Wind.

### Romania

- The formal notification process for the Fântânele Vest and Cogeaalac wind farms was completed in early June 2016. The European Commission (DG Competition Council) approved the individual notifications for the wind parks in its decision. ČEZ wind parks continue to be entitled to participate in the RES support system in Romania.

### MONTENEGRO

- On Sep 29, **ŠKODA PRAHA, a.s. signed contracts for the construction of a 254MW brown coal-fired power plant at Pljevlja, Montenegro.** The power plant is designed to have an efficiency of 39.5%, high operational availability, and comply with environmental laws by a great margin, especially in desulfurization and denitrification. Elektroprivreda, the Montenegrin investor, is now working with ŠKODA PRAHA on ways to fund the project.



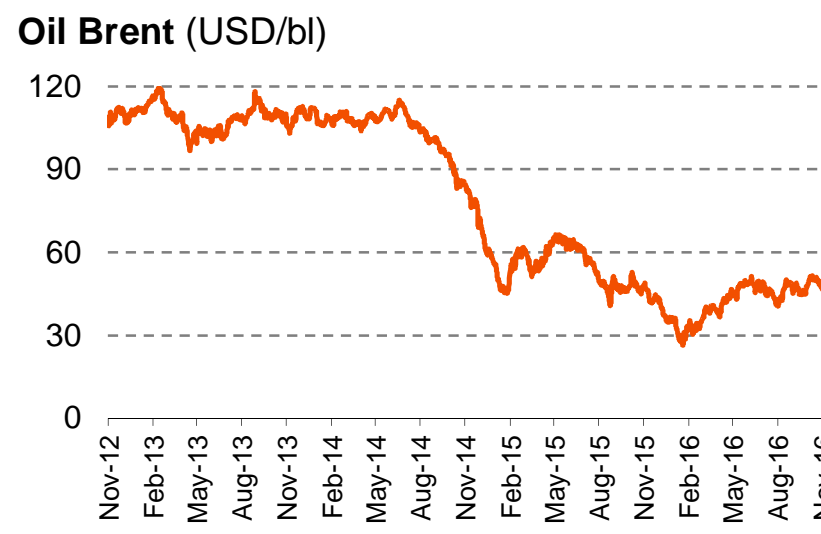
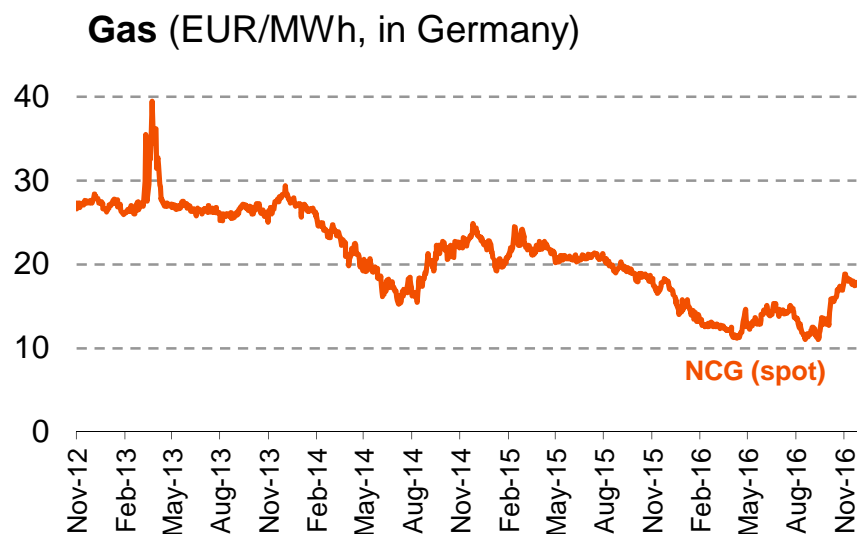
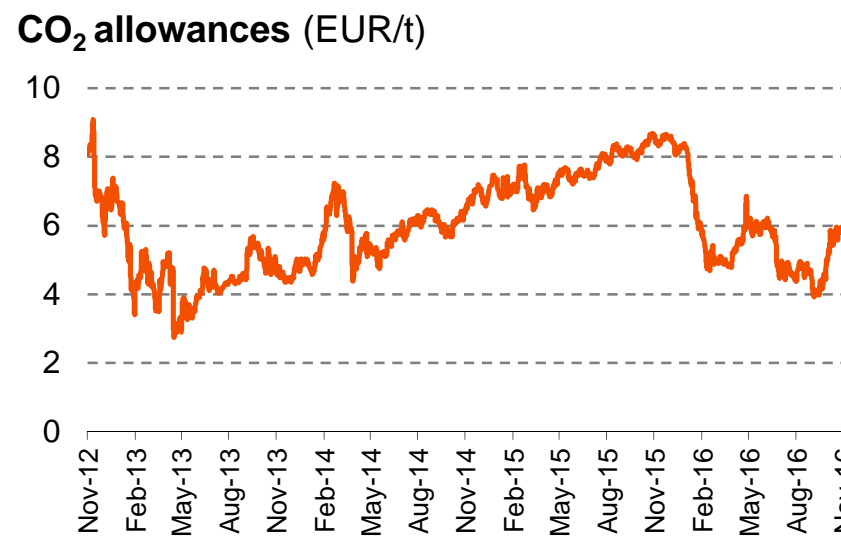
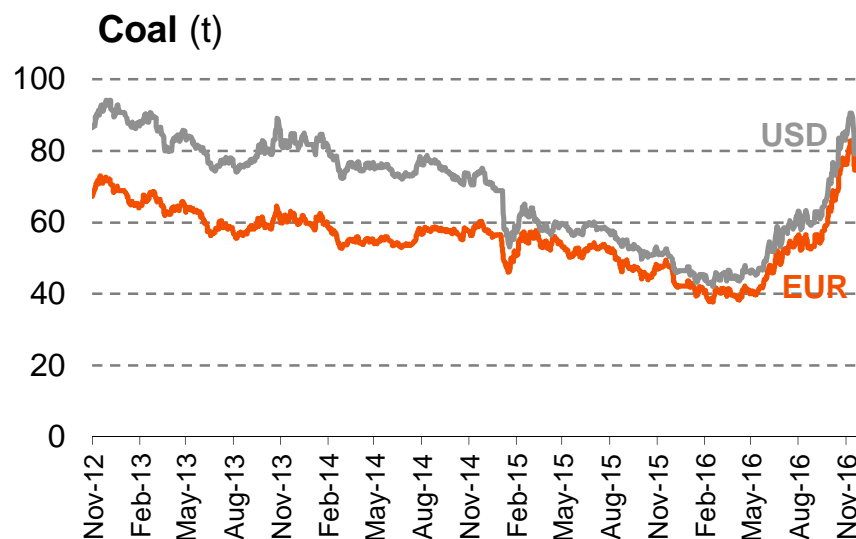
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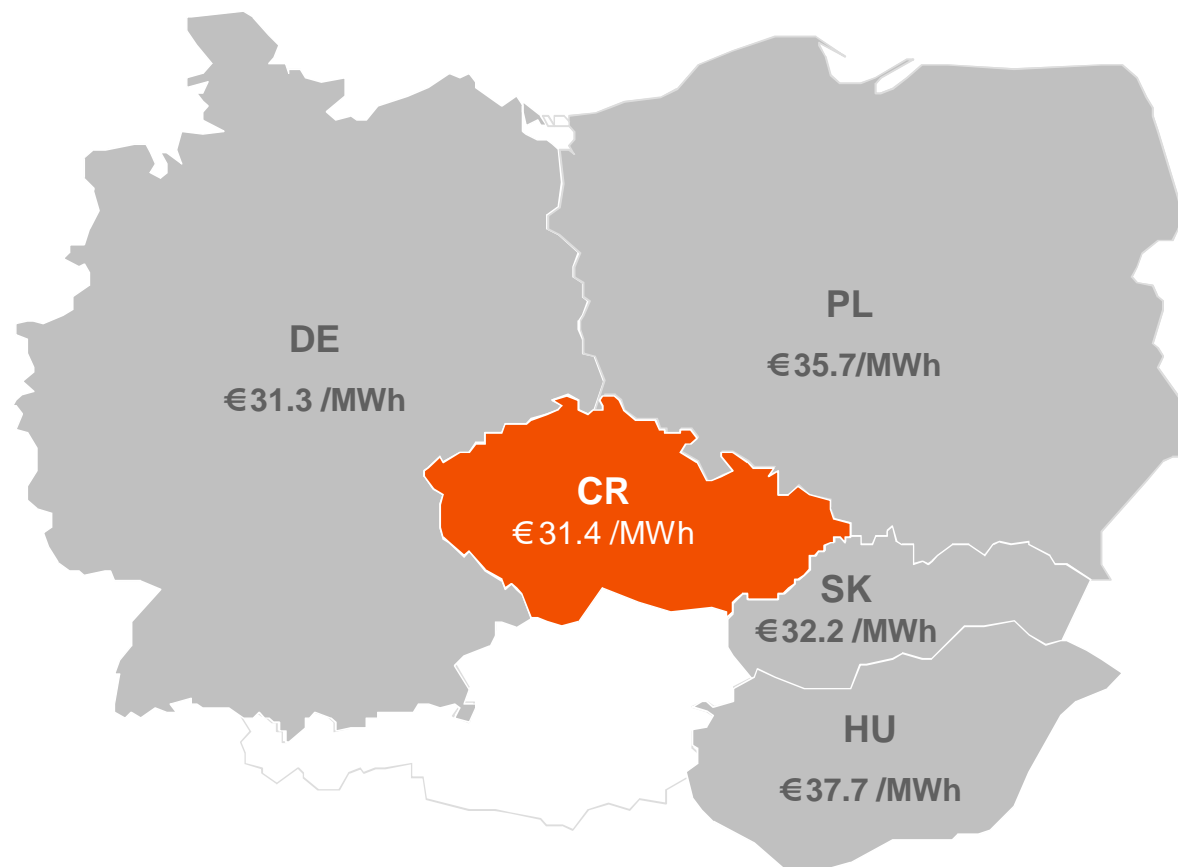
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# HISTORICAL DEVELOPMENT OF PRICES OF INPUT COMMODITIES





# ELECTRICITY MARKETS IN THE REGION ARE INTEGRATED, CEZ CAN SELL ITS POWER ABROAD



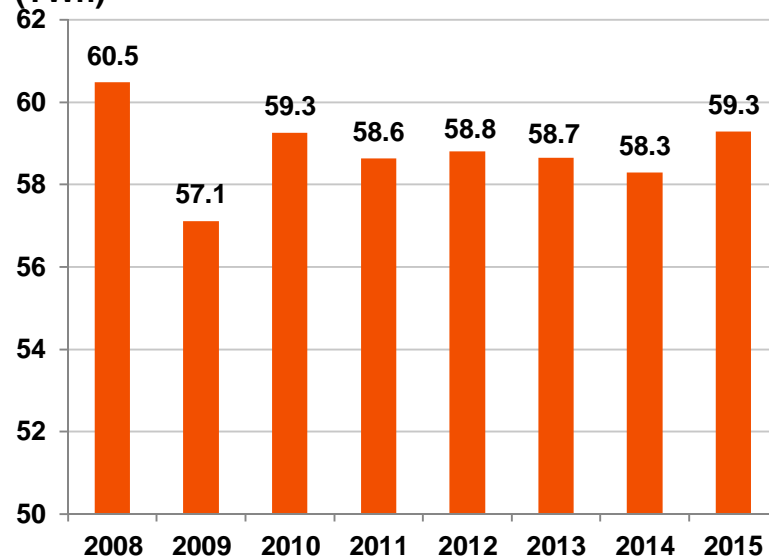
Note: Prices for baseload 2017 as of Nov 24, 2016

Source: EEX, PXE, TGE

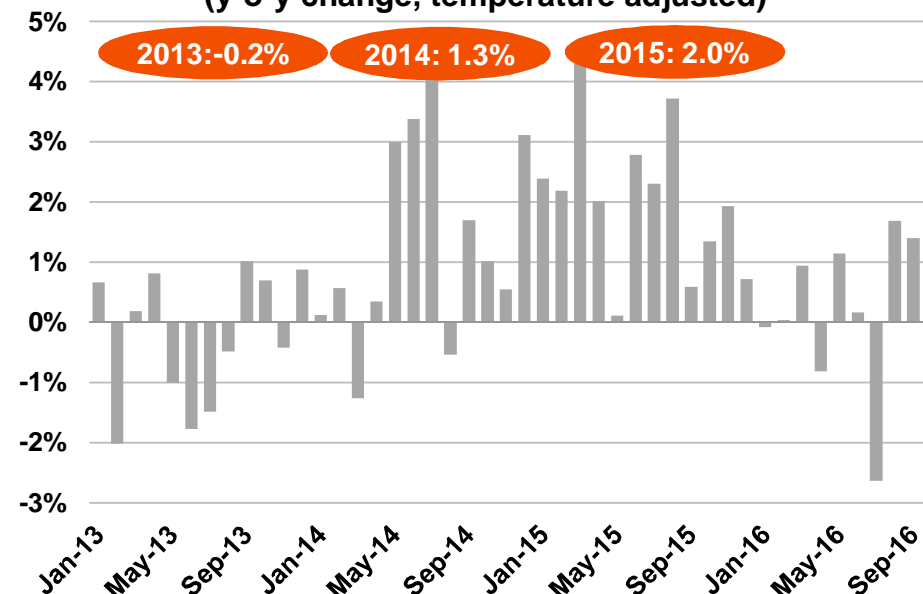
# TEMPERATURE AND CALENDAR ADJUSTED ELECTRICITY DEMAND GREW BY 2% IN 2015



Net electricity consumption in the Czech Republic (TWh)



Monthly development in Czech electricity consumption (y-o-y change, temperature adjusted)\*



- **Temperature adjusted electricity consumption** in the Czech republic grew by **0.2% in Q1-Q3 2016**
- **Unadjusted consumption** in the Czech Republic grew by **1.4% in Q1-Q3 2016**, of which:
  - +1.5 % large industrial companies
  - +0.9% households
  - +1.5 % small businesses

# CZECH GOVERNMENT APPROVED ENERGY POLICY AND NUCLEAR ACTION PLAN IN 2015



## Goals of State Energy Policy

- **Preservation of the existing full independence** in heat and electricity supply but without any major exports of generated energy
- Achieving **diversification through the development of nuclear energy**, need for new nuclear units now anticipated only in 2035 (2025 previously)
- **In October 2015 MIT cancelled a territorial mining limits for Severočeské Doly**: lifetime of Bílina mine therefore extended from 2035 to 2050-55, reserves beyond the limits are estimated at 100 – 150 m tons of coal

## The National Action Plan for Nuclear Energy

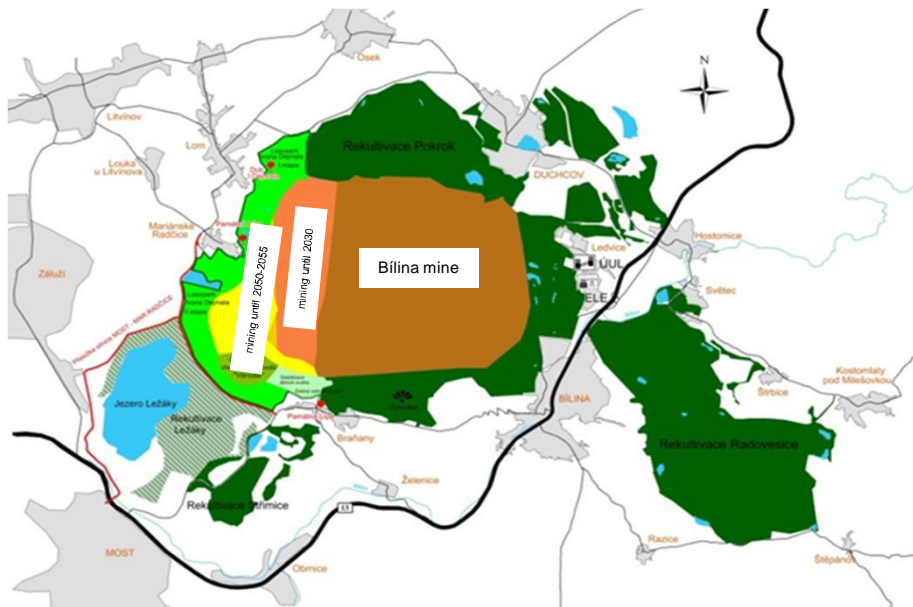
- **Creation of a special company (SPV)** that will acquire all relevant assets for the construction of nuclear units at both existing sites
- **Initiation of preparations for EPC contractor selection** in accordance with the selected business model
- **Negotiations with the European Commission** on the contractor selection method, method of financing and ensuring economic return
- **Continued preparation of the 2-unit project variants at both Temelín and Dukovany sites** with anticipated construction of 1 unit and possible expansion to 2 units at either location. The number of units and the order of the sites is to be decided on later.
- Re-evaluating, at the latest before the building permit is issued, whether there is still a need for the construction of a new nuclear facility and whether or not the market situation has stabilized to allow commercial construction, i.e. with no need for government guarantees

# CZECH GOVERNMENT APPROVED ADJUSTMENT OF BROWN COAL MINING LIMITS AT THE BÍLINA MINE (SEVEROČESKÉ DOLY)



**Lifting the limits means that Severočeské doly will be able to extract another 100–150 million tons of coal**

- The Czech government's resolution sets mining limits to 500m away from municipal built-up areas. This condition will reduce the theoretical volume of coal workable by open-pit mining by no more than 20 million tons.
- Coal from the Bílina mine will be used preferably in heat generation (already over 70% of the coal is used in heating and CHP plants today), with the remaining part of coal supplied to the new 660MW Ledvice Power Plant due to its quality (low calorific value).



## What will follow now:

- by 2016: Preparing a mining study, opinions, and other technical documents in order to assess mining feasibility under the condition of 500m distance from villages and verify the amount of recoverable reserves
- by 2018: EIA process—notice of intent to prepare documentation, assessment, and MoE opinion on Phase 1
- by 2019: application for a Mining License for Phase 1

# EUROPEAN UNION IS PROGRESSING WITH REFORM OF ITS EMISSION TRADING SCHEME



## Market Stability Reserve has been approved

- Basic parameters were agreed by “Triologue” in May 2015, European Parliament approved the reserve in July 2015, European Council adopted the decision on the creation of a MSR in September 2015
- MSR will be launched on January 1, 2019
- 900 million backloaded emission allowances will be transferred directly to the reserve
- Unutilized emission allowances for new sources (approx. 500–700 million EUA\*) will be transferred directly to the reserve
- In the context of solidarity among member states, the mechanism for transferring allowances to the reserve will be adjusted to provide more proceeds from auctions to states with GDP per capita under 60% of the EU average
- Up to 50 million allowances will be set aside and transferred into the fund for the support and promotion of industrial innovation

## In July 2015 European Commission presented draft of EU ETS directive

- Annual reduction factor for the amount of emission allowances issued increased from 1.7% to 2.2%
- Allocation period will last 10 years, with all emission allowances having unlimited validity
- Broader range of tools for power sector and industry modernization in less developed countries (derogation, modernization fund, innovation fund)
- Czech Republic is eligible for derogation, it can allocate up to 40% of allowances to electricity producers for free
- Committees of European Parliament and Environmental Council expected to discuss the proposal in autumn 2016, trilogue could start in 2017

# OVERVIEW OF REGULATION OF DISTRIBUTION NETWORKS



	<b>Czech Republic 2016</b>	<b>Bulgaria Jul 1, 2016</b>	<b>Romania 2016</b>
RAB (local currency m)	88,655	543	2,384
RAB (€ m)	3,280	277	532.2
WACC pre-tax	7.951% (nominal)	7.04% (nominal)	7.7% (real)
Regulatory period	2016 - 2018	2015 - 2018	2014 - 2018

CZK/EUR = 27.025    BGN/EUR = 1.96,    RON/EUR = 4.48

# CZECH REPUBLIC: ELECTRICITY DISTRIBUTION - OVERVIEW OF REGULATORY FRAMEWORK



## Regulatory Framework

- Regulated by ERU (Energy Regulatory Office, [www.eru.cz](http://www.eru.cz))
- The main components of regulatory formula for distribution
  - Revenue cap = Operating expenses + Depreciation + Regulatory return on RAB - Other revenues corrections +/- Quality factor + Market factor
  - RAB adjusted annually to reflect net investments
  - Regulatory rate of return (WACC nominal, pre-tax) – 7.951% for 2016-2018
  - Operating costs are indexed to CPI + 1% (30% weight) and market services price index (70% weight). They are also adjusted by efficiency factor of 1.01%/year starting in 2016

## Regulatory period

- 4<sup>th</sup> regulatory period started as of January 1, 2016, 3 years period (2016 – 2018)  
The main principles are very similar to the rules of the third regulatory period with the exception of WACC. Main impacts: - lowering allowed costs;
  - pressure on quality and security of electricity distribution;
  - increased motivation to renew and develop the networks.

## Unbundling & Liberalization

- Since January 1, 2006 all customers can choose their electricity supplier, market is 100% liberalized
- There is no regulation of end-user prices of electricity

**The 4<sup>th</sup> regulatory period is transitional period because ERU intends to process revaluation of assets and use the new values for 5<sup>th</sup> regulatory period.**

# BULGARIA: REGULATORY FRAMEWORK OF ELECTRICITY DISTRIBUTION



## Regulatory Framework

- Regulated by EWRC (Energy and Water Regulatory Commission)
- The regulatory formula for distribution
  - Revenue cap = Costs + Regulatory return on RAB + Depreciation
  - Regulatory rate of return (WACC nominal, pre-tax) at 7.04 % for 4th regulatory period
  - Average values set for the NBV, depreciation and investments for the whole period
  - RAB set at EUR 277.4m for the 4th regulatory period
  - Technological losses in 4th regulatory period set by regulator at 8%
  - Efficiency factor introduced in the 2<sup>nd</sup> regulatory period, not applied in the 4th regulatory period, yet. EWRC may apply it later.

## Regulatory periods

- 3<sup>rd</sup> regulatory period August 1, 2013 – July 31, 2015
- 4<sup>th</sup> regulatory period August 1, 2015 – June 30, 2018

## Unbundling & Liberalization

- Unbundling successfully completed by December 31, 2006
- Since July 2007, all consumers have the right to become eligible but the effective market degree of liberalized market was approximately 45% at the end of 2014.
- Currently the last phase of liberalization focused on the low voltage customers is in process.



# ROMANIA: REGULATORY FRAMEWORK OF ELECTRICITY DISTRIBUTION



## Regulatory Framework

- Regulated by ANRE (Autoritatea Nationala de Reglementare in domeniul Energiei)
- Price cap (tariff basket) methodology
- Revenue = Controllable OPEX + non-controllable OPEX + Depreciation + Purchase of losses + Regulatory return on RAB + Working capital - Revenues from reactive energy - 50% gross profit from other activities
- Efficiency factor of 1.5% applied only to controllable OPEX
- Losses ( technical + commercial ) reduction program agreed with ANRE on voltage levels
- S (minimum quality) from 2014 in formula, but not yet applied
- Possibility for annual corrections
- Investment plan – approved by ANRE before regulatory period starts
- Regulatory return (WACC pre-tax real terms) equals to 7.7% starting 2015, it can be revised by ANRE during regulatory period
- Working capital is equal to regulated remuneration of 1/12 from total OPEX
- Distribution tariff growth capped in real terms at 10% yearly on voltage levels and at 7% yearly for average weighted distribution tariff in the third regulatory period

## Regulatory periods

- 3rd regulatory period Jan 1, 2014 – Dec 31, 2018

## Liberalization

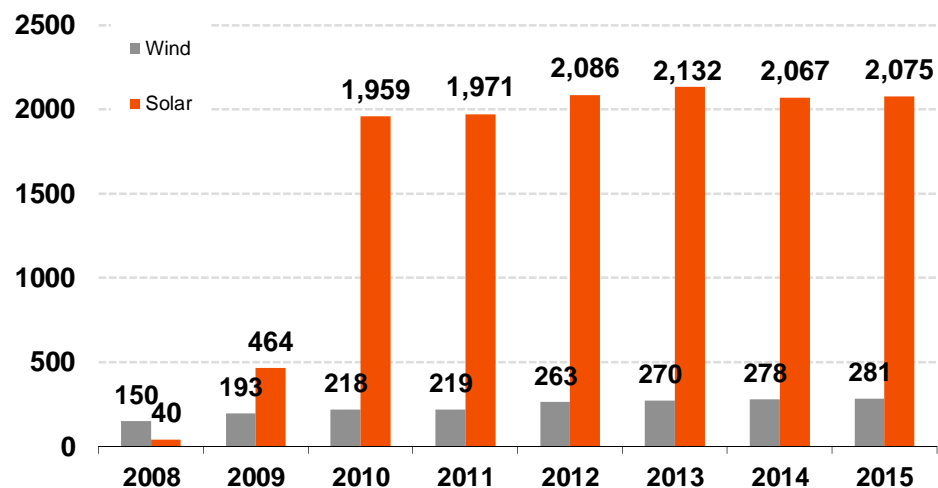
- Complete removal of regulated prices for industrial consumers by end 2013, for residential consumers by end 2017
- Starting January 2014, non-residential customers that benefit of Universal Service (US) are priced with 100% CPC tariff (free market component, endorsed by ANRE). The non-residential customers supplied on LRS regime are priced with CPC tariff +x%, depending on voltage level.
- Starting July 2013, the final price for the captive householders is formed of regulated tariff and a competitive market component (CPC). The percentage of regulated tariff decreases , and the CPC tariff percentage increases according to the Market Opening Calendar

# CZECH REPUBLIC: RENEWABLES SUPPORT



2016 feed-in – tariffs (€per MWh)	Plants commissioned in 2010	Plants commissioned in 2015
Solar <5 kW	482	0
5 kW < Solar <30 kW	482	0
Solar >30 kW	478	0
Wind	92.5	74.0

Installed capacity of wind and solar power plants in the Czech Republic (MWe)



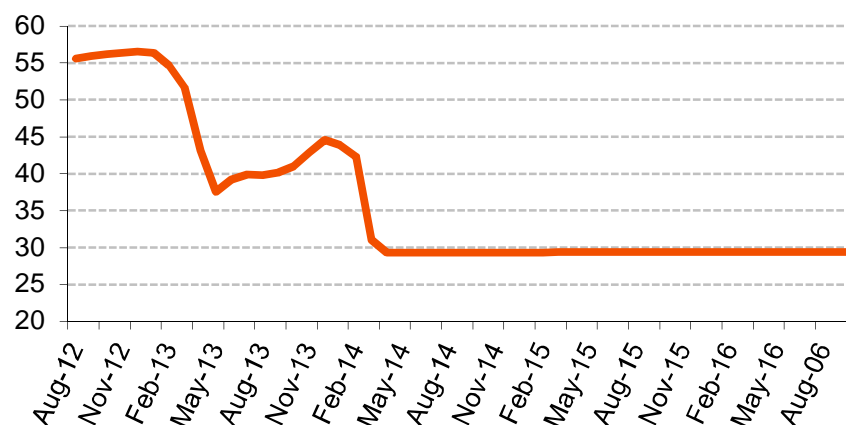
- Operators of renewable energy sources can choose from 2 options of support:
  - Feed-in tariffs (electricity purchased by distributor)
  - Green bonuses (electricity sold on the market, bonuses paid by distributor, level of green bonuses is derived from feed-in tariffs)
- Feed-in tariffs are set by a regulator to ensure 15-year payback period. During operation of a power plant they are increased each year by PPI index or by 2% at minimum and 4% at maximum.
- Support is provided for 20 years to solar, wind, pure biomass and biogas plants and for 30 years to hydro.
- Solar plants commissioned in 2014 or later do not receive support
- Solar plants put into operations in 2010 with capacity over 30kWp are obliged to pay 10% tax of revenues.

# ROMANIA: RENEWABLES SUPPORT



- Two green certificates (GC) obtained by the producer for each MWh supplied from wind to the network until 2017, one GC from 2018 onwards, duration of support – 15 years. In July 2013 Romanian government has approved an emergency decree which defers trading of second green certificate for wind farm producers until 1 Jan 2018.
- Legally set up price for green certificate is 27 to 55 EUR in 2008 – 2025
- New Law 134/2012 on renewables stipulates that existing producers over 125 MW receive GC according to normal supporting scheme for 2 years, with the obligation to individually notify to Brussels for state aid support within following 3 months after accreditation.
- Fântânele Vest (263 MW) stopped receiving GCs in November 2013 and Cogealac (253MW) since October 2014 due to delays in EC notification. **The awarding of GCs was resumed in September 2015.**

**Green certificates market clearing price (EUR/certificate)**



# CEZ GROUP FINANCIAL RESULTS IN Q1-Q3 2016



<b>(CZK bn)</b>		<b>Q1 - Q3 2015</b>	<b>Q1 - Q3 2016</b>	<b>Change</b>	<b>%</b>
Revenues		152.5	145.1	-7.4	-5%
EBITDA		48.4	43.8	-4.6	-10%
EBIT		24.6	21.6	-3.0	-12%
Net income		16.6	14.7	-1.9	-11%
Net income - adjusted *		18.6	16.7	-1.9	-10%
Operating CF		49.8	40.5	-9.3	-19%
CAPEX		20.2	21.5	+1.3	+6%
Net debt **		140.3	140.0	-0.3	0%

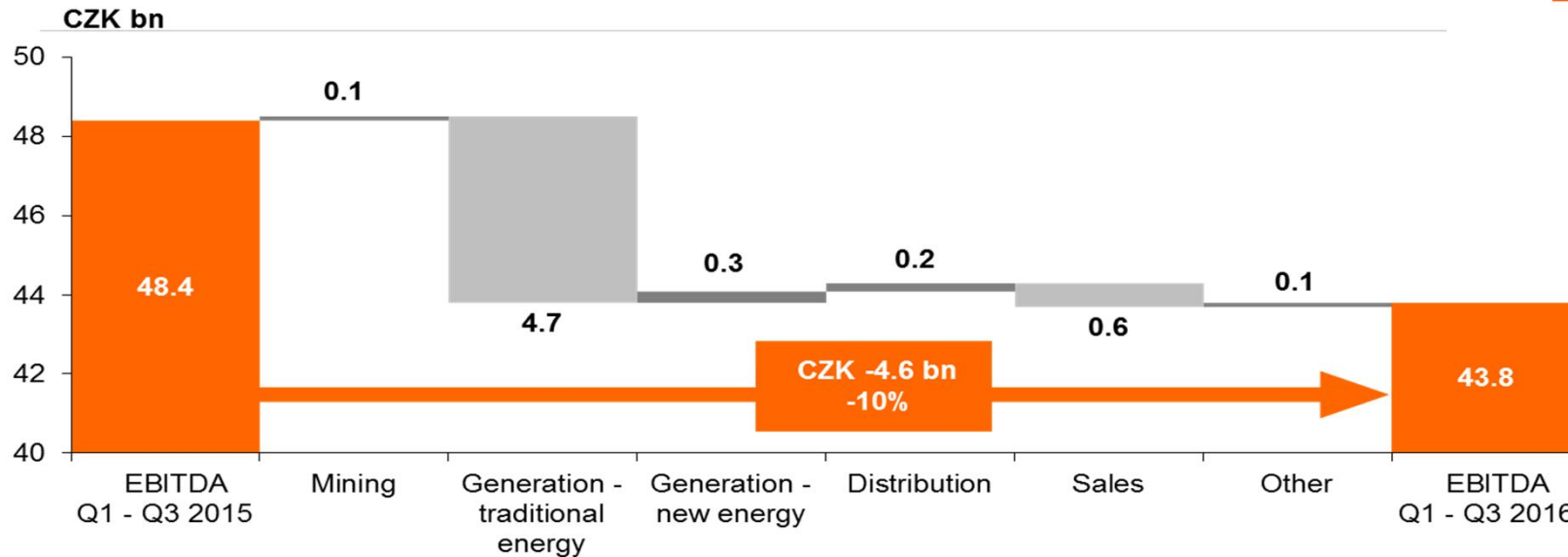
		<b>Q1 - Q3 2015</b>	<b>Q1 - Q3 2016</b>	<b>Change</b>	<b>%</b>
Installed capacity **	GW	15.9	16.1	+0.1	+1%
Generation of electricity	TWh	45.6	45.1	-0.5	-1%
Electricity distribution to end customers	TWh	36.1	36.8	+0.6	+2%
Electricity sales to end customers	TWh	28.0	26.8	-1.1	-4%
Sales of natural gas to end customers	TWh	4.6	5.1	+0.5	+11%
Sales of heat	000 TJ	14.8	15.3	+0.5	+3%
Number of employees **	000's	25.7	26.6	+0.9	+3%

\* Adjusted net income = Net income adjusted for selected effects that are generally unrelated to ordinary financial performance in a given year, especially fixed asset impairments. The definition of Adjusted Net Income was refined in Q3 2016 (see Annex).

\*\* As at the last day of the period;

The definition and method of calculation of the Net Debt indicator is included in the Annex

# CHANGE IN EBITDA BY SEGMENT IN Q1-Q3 2015



## Generation – traditional energy (CZK -4.7bn)

- Lower realization prices of generated electricity, incl. effects of hedges in Czech R. (CZK -4.5bn)
- Effect of change in generation volume and structure (CZK -0.6bn)
- Higher expenses on emission allowances (CZK -0.4bn)
- Lower revenue from ancillary services (CZK -0.2bn)
- Higher profit on commodity trading (CZK +0.9bn)
- Effect of USD/EUR exchange rate on oil-linked contract hedging (CZK +0.5bn)
- Other effects (CZK -0.2bn)
- Poland (CZK -0.3bn)

## Sales Republic (CZK -1.0bn)

- Payment of SŽDC debts from 2010 to ČEZ Prodej based on a court decision in 2015 (CZK -1.1bn)
- Increase in fixed operating costs due to development activities (CZK -0.3bn)
- Higher gross margin of ČEZ Prodej due to decreased costs of purchased gas and electricity and an increased amount of delivered gas in connection with continued acquisition of new customers (CZK +0.4bn)

## Sales abroad (+0.4bn)

- Higher margin on electricity sold and overhead costs reduction in Romania (CZK 0.2bn)
- Higher margin on electricity and effect of receivables write-off in 2015 in Bulgaria (CZK 0.2bn)

## OTHER INCOME (EXPENSES)



(CZK bn)	Q1 - Q3 2015	Q1 - Q3 2016	Change	%
EBITDA	48.4	43.8	-4.6	-10%
<b>Depreciation, amortization and impairments*</b>	<b>-23.8</b>	<b>-22.2</b>	<b>+1.6</b>	<b>+7%</b>
<b>Other income (expenses)</b>	<b>-3.7</b>	<b>-3.3</b>	<b>+0.4</b>	<b>+11%</b>
Interest income (expenses)	-1.9	-1.6	+0.3	+16%
Interest on nuclear and other provisions	-1.3	-1.1	+0.1	+11%
Income (expenses) from investments and securities	-0.9	-0.2	+0.7	+76%
Other	0.3	-0.4	-0.7	-
<b>Income taxes</b>	<b>-4.3</b>	<b>-3.6</b>	<b>+0.7</b>	<b>+17%</b>
Net income	16.6	14.7	-1.9	-11%
<b>Net income - adjusted</b>	<b>18.6</b>	<b>16.7</b>	<b>-1.9</b>	<b>-10%</b>

### Depreciation, amortization, and impairments\* (CZK +1.6bn)

- Lower additions to fixed asset impairments (CZK +1.4bn)

### Other income (expenses) (CZK +0.4bn)

- Positive effect of USD/TRY exchange rate (CZK +1.9bn), partial write-off of Turkish companies' goodwill (CZK -0.7bn)\*\*
- Positive effect of decreased debt on interest expenses (CZK +0.4bn)
- Significant increase in value of bonds on restricted accounts of ČEZ, a. s. in 2015 (CZK -0.3bn)
- Negative effect of revaluation of financial derivatives and foreign exchange rate gains and losses (CZK -0.8bn)

### Net income adjustment \*\*\*

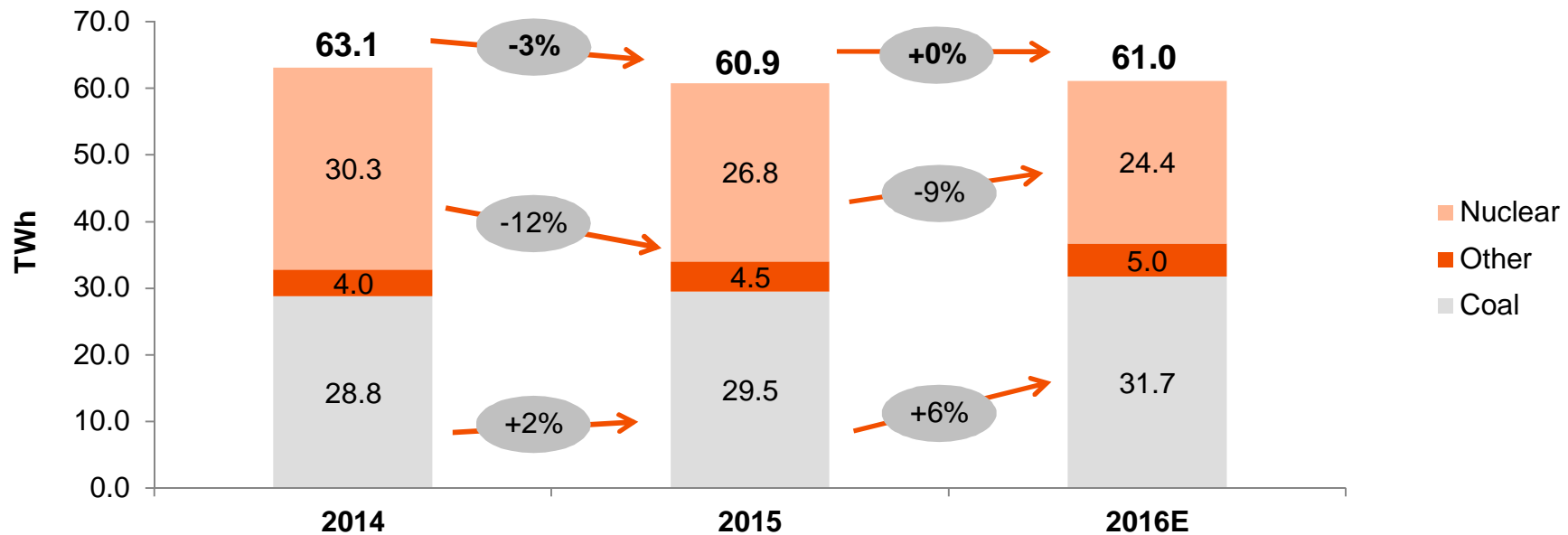
- Q1–Q3 2015 net income adjusted for the negative effect of fixed asset impairments (CZK +2.0bn)
- Q1–Q3 2016 net income adjusted for the negative effect of fixed asset impairments, goodwill write-offs\*\* and impairments of development projects (CZK +2.0bn in total)

\* Including profit/loss from sales of tangible and intangible fixed assets

\*\* The partial write-off of Turkish companies' goodwill is included in Income (expenses) from investments and securities

\*\*\* The definition of Adjusted Net Income was refined in Q3 2016 (see Annex)

# 2015 GENERATION VOLUMES AFFECTED BY SHUTDOWNS IN NUCLEAR PLANTS, IN 2016 IMPROVEMENT IN COAL GENERATION EXPECTED



### 2015 volume trends

- Extended planned outages and unscheduled outages at Temelín NPP
- Unscheduled outages for weld inspections at Dukovany NPP

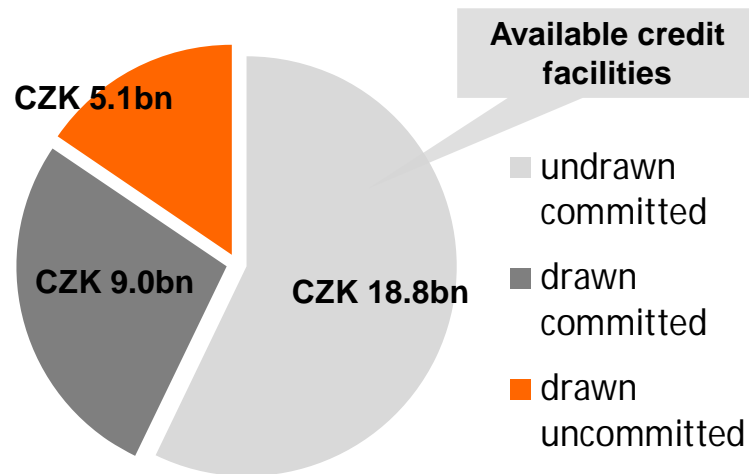
### 2016 volume trends

- Expanded scope of weld inspections in Dukovany nuclear power plant
- Expanded scope of weld inspections in Temelin and fault of turbine oil glands
- + Contribution from upgraded Prunerov and new Ledvice lignite plants

# CEZ GROUP MAINTAINS A STRONG LIQUIDITY POSITION

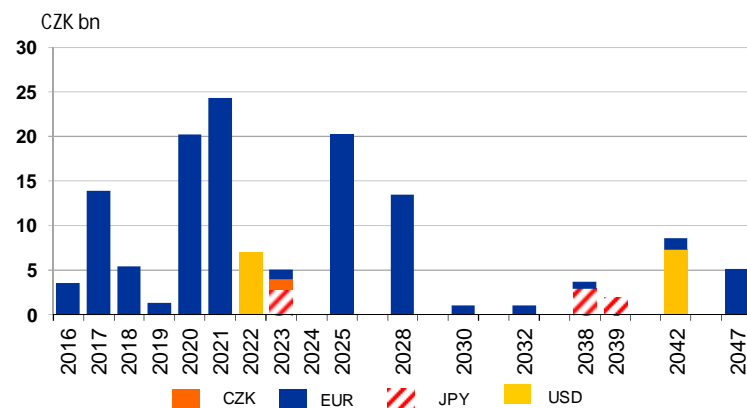


## Utilization of Short-Term Lines (as at Sep 30, 2016)



- CEZ Group has access to CZK 27.8bn in committed credit facilities, using CZK 9.0bn as at Sep 30, 2016.
- Committed facilities are kept as a reserve for covering unexpected expenses and to fund short-term financial needs.

## Bond Maturity Profile (as at Sep 30, 2016)



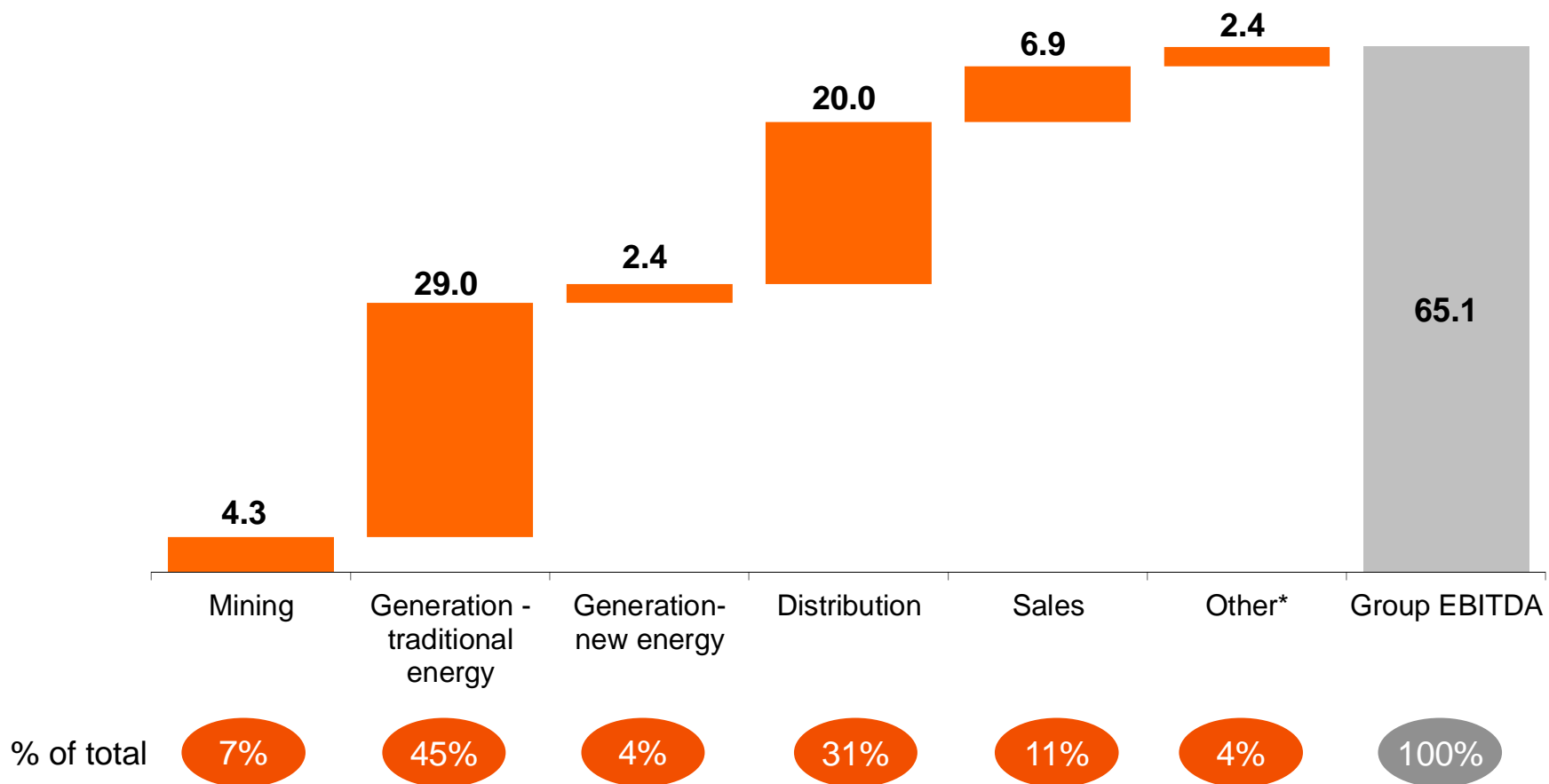
- The payment of dividends for 2015 (CZK 21.4bn) began on August 1, 2016. 99% of the amount was paid as at September 30.



# SEGMENTAL CONTRIBUTIONS TO EBITDA IN 2015

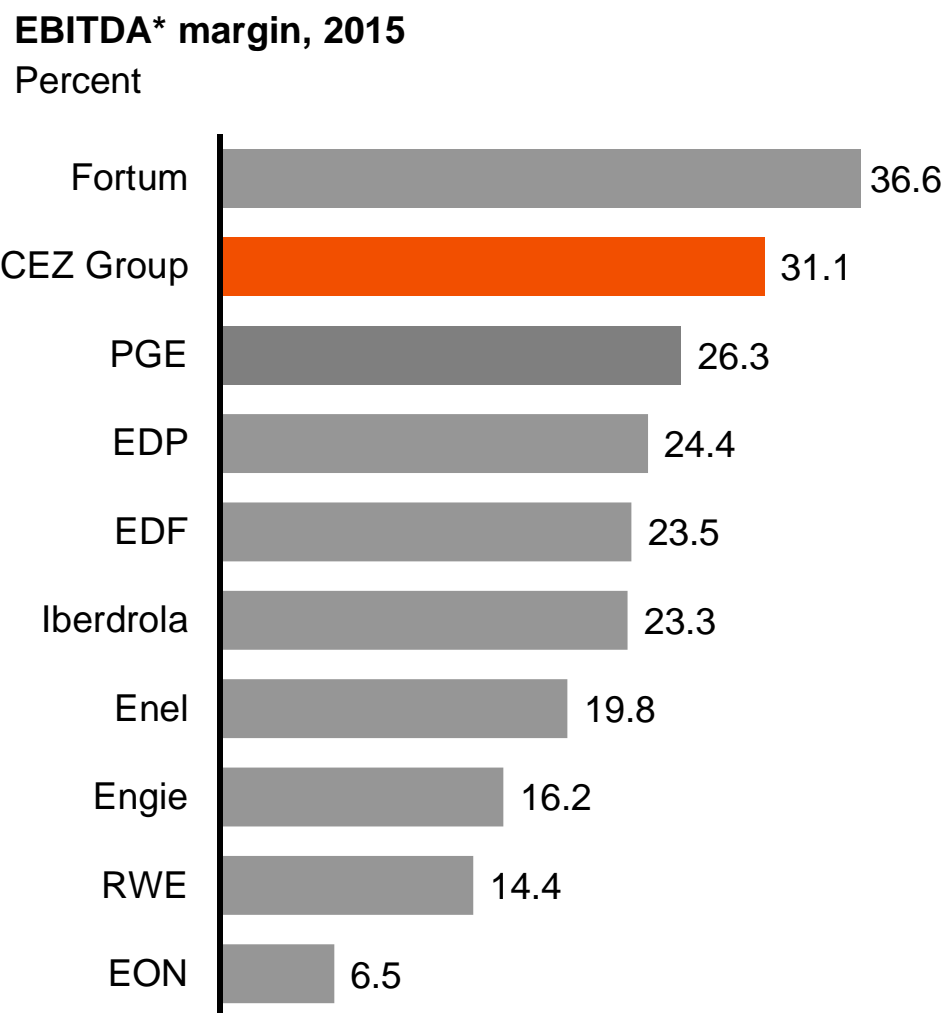


In CZK bn



\*including eliminations

# CEZ GROUP IS ONE OF THE MOST PROFITABLE EUROPEAN UTILITIES



Source: company data, \* EBITDA as reported by companies

# SELECTED HISTORICAL FINANCIALS OF CEZ GROUP



## CZK

### Profit and loss

	CZK bn	2010	2011	2012	2013	2014	2015
<b>Revenues</b>		<b>198.8</b>	<b>209.8</b>	<b>215.1</b>	<b>217.0</b>	<b>201.8</b>	<b>210.2</b>
Sales of electricity		175.3	181.8	186.8	189.4	173.8	182.1
Heat sales and other revenues		23.6	28.0	28.3	27.6	27.9	28.1
<b>Operating Expenses</b>		<b>110.0</b>	<b>122.4</b>	<b>129.3</b>	<b>135.0</b>	<b>129.3</b>	<b>145.1</b>
Purchased power and related services		54.4	65.9	71.7	79.0	75.8	90.9
Fuel		16.9	17.1	15.8	13.8	12.7	13.1
Salaries and wages		18.7	18.1	18.7	18.7	18.9	17.8
Other		20.0	21.3	23.1	23.5	21.9	23.4
<b>EBITDA</b>		<b>88.8</b>	<b>87.4</b>	<b>85.8</b>	<b>82.0</b>	<b>72.5</b>	<b>65.1</b>
<i>EBITDA margin</i>		<i>45%</i>	<i>42%</i>	<i>40%</i>	<i>38%</i>	<i>36%</i>	<i>31%</i>
Depreciation, amortization, impairments		26.9	26.2	28.9	36.4	35.7	36.3
<b>EBIT</b>		<b>62.0</b>	<b>61.3</b>	<b>57.1</b>	<b>45.7</b>	<b>36.9</b>	<b>29.0</b>
<i>EBIT margin</i>		<i>31%</i>	<i>29%</i>	<i>27%</i>	<i>21%</i>	<i>18%</i>	<i>14%</i>
<b>Net Income</b>		<b>46.9</b>	<b>40.8</b>	<b>40.2</b>	<b>35.2</b>	<b>22.4</b>	<b>20.5</b>
<i>Net income margin</i>		<i>24%</i>	<i>19%</i>	<i>19%</i>	<i>16%</i>	<i>11%</i>	<i>10%</i>
<b>Adjusted net income</b>		<b>49.8</b>	<b>41.2</b>	<b>41.3</b>	<b>38.2</b>	<b>29.5</b>	<b>27.7</b>
<i>Adjusted net income margin</i>		<i>25%</i>	<i>20%</i>	<i>19%</i>	<i>18%</i>	<i>15%</i>	<i>13%</i>

### Balance sheet

	CZK bn	2010	2011	2012	2013	2014	2015
Non current assets		448.3	467.3	494.9	485.9	497.5	493.1
Current assets		96.1	131.0	141.2	154.5	130.4	109.6
- out of that cash and cash equivalents		22.2	22.1	18.0	25.0	20.1	13.5
<b>Total Assets</b>		<b>544.4</b>	<b>598.3</b>	<b>636.1</b>	<b>640.4</b>	<b>627.9</b>	<b>602.7</b>
Shareholders equity (excl. minority. int.)		221.4	226.8	250.2	258.1	261.3	267.9
<i>Return on equity</i>		<i>22%</i>	<i>18%</i>	<i>17%</i>	<i>14%</i>	<i>9%</i>	<i>8%</i>
Interest bearing debt		158.5	182.0	192.9	199.0	184.1	157.5
Other liabilities		164.4	189.4	192.9	183.3	182.4	177.3
<b>Total liabilities</b>		<b>544.4</b>	<b>598.3</b>	<b>636.1</b>	<b>640.4</b>	<b>627.9</b>	<b>602.7</b>

# SELECTED HISTORICAL FINANCIALS OF CEZ GROUP

EUR



## Profit and loss

	EUR m	2010	2011	2012	2013	2014	2015
<b>Revenues</b>		<b>7 297</b>	<b>7 698</b>	<b>7 893</b>	<b>7 963</b>	<b>7 404</b>	<b>7 713</b>
Sales of electricity		6 432	6 671	6 855	6 949	6 379	6 683
Heat sales and other revenues		865	1 026	1 038	1 014	1 025	1 030
<b>Operating Expenses</b>		<b>4 038</b>	<b>4 492</b>	<b>4 744</b>	<b>4 954</b>	<b>4 743</b>	<b>5 325</b>
Purchased power and related services		1 995	2 417	2 630	2 900	2 781	3 336
Fuel		622	629	581	507	466	479
Salaries and wages		687	664	686	686	692	652
Other		735	782	847	861	805	858
<b>EBITDA</b>		<b>3 259</b>	<b>3 206</b>	<b>3 149</b>	<b>3 009</b>	<b>2 660</b>	<b>2 388</b>
<i>EBITDA margin</i>		<i>45%</i>	<i>42%</i>	<i>40%</i>	<i>38%</i>	<i>36%</i>	<i>31%</i>
Depreciation		988	963	1 060	1 335	1 311	1 332
<b>EBIT</b>		<b>2 274</b>	<b>2 248</b>	<b>2 095</b>	<b>1 677</b>	<b>1 356</b>	<b>1 063</b>
<i>EBIT margin</i>		<i>31%</i>	<i>29%</i>	<i>27%</i>	<i>21%</i>	<i>18%</i>	<i>14%</i>
<b>Net Income</b>		<b>1 723</b>	<b>1 496</b>	<b>1 474</b>	<b>1 292</b>	<b>823</b>	<b>754</b>
<i>Net income margin</i>		<i>24%</i>	<i>19%</i>	<i>19%</i>	<i>16%</i>	<i>11%</i>	<i>10%</i>
<b>Adjusted net income</b>		<b>1 828</b>	<b>1 512</b>	<b>1 516</b>	<b>1 401</b>	<b>1 081</b>	<b>1 015</b>
<i>Adjusted net income margin</i>		<i>25%</i>	<i>20%</i>	<i>19%</i>	<i>18%</i>	<i>15%</i>	<i>13%</i>

## Balance sheet

	EUR m	2010	2011	2012	2013	2014	2015
Non current assets		16 450	17 149	18 161	17 832	18 257	18 094
Current assets		3 527	4 807	5 181	5 668	4 784	4 023
- out of that cash and cash equivalents		813	810	659	918	737	495
<b>Total Assets</b>		<b>19 977</b>	<b>21 956</b>	<b>23 342</b>	<b>23 501</b>	<b>23 041</b>	<b>22 117</b>
Shareholders equity (excl. minority. int.)		8 126	8 324	9 183	9 471	9 589	9 831
<i>Return on equity</i>		<i>22%</i>	<i>18%</i>	<i>17%</i>	<i>14%</i>	<i>9%</i>	<i>8%</i>
Interest bearing debt		5 817	6 680	7 080	7 303	6 757	5 780
Other liabilities		6 035	6 952	7 079	6 727	6 695	6 506
<b>Total liabilities</b>		<b>19 977</b>	<b>21 956</b>	<b>23 342</b>	<b>23 501</b>	<b>23 041</b>	<b>22 117</b>

Exchange rate used:  
27.25 CZK/EUR

# INVESTOR RELATIONS CONTACTS

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