

**IN
PERSON**
ČEZ, a. s.
Duhová 2/1444
14053 Praha 4
Czechia



ČEZ, Korporátní služby Prague
Registry

Oct 11, 2018

**Attention: Daniel Beneš, Chairman of the Board of
Directors**

Received on

Prague, October 11, 2018

Re: Request to Convene a General Meeting of ČEZ, a. s.

**PARTIALLY
SCANNED**

Dear Sirs,

We are contacting you as a group of shareholders consisting of **Ing. Michal Šnobl**, born [REDACTED], [REDACTED], domiciled at [REDACTED], and companies **J&T SECURITIES MANAGEMENT LIMITED**, having its registered office at Klimentos, 41-43 Klimentos Tower, 2nd floor, Fiat/Office 22, 1061 Nicosia, Republic of Cyprus, **Tinsel Enterprises Limited**, having its registered office at Larnakos 60, Fiat/Office 301, Aglantzia 2101, Nicosia, Republic of Cyprus, and **HAMAFIN RESOURCES LIMITED**, having its registered office at Akropoleos, 59-61 Savvides Center, 1 st floor, Fiat/Office 102, 2012 Nicosia, Republic of Cyprus (collectively the "**Qualified Shareholder**"), holding shares whose number exceeds 1% of the registered capital of ČEZ, a. s., having its registered office at Praha 4, Duhová 2/1444, postcode 14053, Czech Republic, Reg. No.: 45274649, registered in the Commercial Register kept by the Municipal Court in Prague, section B, file 1581 ("**ČEZ**"), and thus being a qualified shareholder of ČEZ as defined in Section 365(3) of Act No. 90/2012 Coll., on commercial companies and cooperatives (Business Corporations Act, "**BCA**").

The Qualified Shareholder hereby asks you to convene a General Meeting of ČEZ pursuant to Section 366 of the BCA.

The Qualified Shareholder is compelled to submit this request because the Board of Directors of ČEZ unlawfully refused to put the matters mentioned below on the agenda of the General Meeting of ČEZ held on June 22, 2016, although it had received requests for putting the matters on the General Meeting agenda in a due and timely manner in compliance with the BCA.

We hereby ask that the following matters concerning ČEZ be put on the agenda of the General Meeting:

1. CANCELLATION OF THE STOCK OPTION PLAN FOR THE MANAGEMENT OF ČEZ, A.S.

1.1 Rationale for General Meeting Agenda Item

Remuneration of top managers at ČEZ includes an incentive program that allows them to purchase company shares, as shown, among other things, by notes to ČEZ's financial statements for the year ended December 31, 2017 (cf. p. 340 of ČEZ's Annual Report for 2017). Members of the Board of Directors and selected managers were/are entitled to options on the company's common stock under the conditions set forth in a stock option agreement. Under the Stock Option Plan for members of the company's governance and control bodies and top management, approved in 2001 and later repeatedly modified (e.g., through the Stock Option Rules approved by the General Meeting in May 2008), members of the Board of Directors and select managers receive options on a certain number of company shares every year as long as they remain in office.

The purchase price per share is determined as the weighted average of prices at which company shares were traded on the regulated market in the Czech Republic during one month before the annual option date. Stock option beneficiaries may call on the company to transfer shares up to the number corresponding to a given option grant, no earlier than two years and no later than in the middle of the fourth year after every option grant.

The Qualified Shareholder proposes that the stock option plan for ČEZ management be canceled, primarily for the following reasons.

The stock option plan is non-transparent because, among other things, ČEZ does not inform its shareholders or the market about who is granted what option and when, the terms of such granting, or the net amount that the relevant member of the Board of Directors or manager can receive on the basis of options granted (or about the conditional nature of any such options or amounts).

No such information is currently available to shareholders or the market, raising doubts about whether this is really an incentive program, which should aim to motivate members of the Board of Directors and managers for performance for the benefit of ČEZ and its shareholders, or just another gravy train fueled by the company's and shareholders' assets for the Board of Directors and managers regardless of their performance and irrespective of ČEZ management's many managerial errors (e.g., in relation to the relicensing of the Dukovany nuclear power plants or acquisitions in Southeast Europe, as mentioned below).

Although ČEZ management advocates the stock option plan as an incentive program, it is no such thing.

The philosophy and function of stock option plans for the management of publicly traded companies is aligning the company management's and shareholders' interest in a favorable course of the company's share prices.

However, ČEZ's current stock option plan—despite its name—fails to fulfill this function and is just a tool for adding more money to ČEZ management's already high remuneration. This is regardless of whether its stock price goes up or down. This is because managers are not required to invest their own money under the plan, so they do not bear any risk of loss in case of unfavorable changes in the market price of the shares related to mistakes in their management of the company.

Any stock option plan that does not incorporate a risk of financial loss for management when shareholders incur a loss (i.e., in case of unfavorable changes in the market price of the shares) is not an incentive program; rather, it is just another gravy train fueled by the company for the Board of Directors and top managers regardless of their performance for the company and its shareholders.

In this case, the results of unfavorable changes in share prices are thus only affecting the shareholders. In contrast, the management only uses the plan when it takes advantage, risk-free, "mathematically," of a situation in which the difference between the market price of ČEZ's shares and the right to exercise the stock option at an advantageous (average) price of the past months is optimal for the manager, without any relation to successful managerial governance of the company.

The Qualified Shareholder objects to such "stipends" for ČEZ management and requests that a new stock option plan be prepared and presented to the General Meeting that will follow the above-mentioned incentive principles.

Additionally, the existing stock option plan is not an incentive program because the

purchaser of shares may subsequently alienate the shares without any restrictions, which impairs the stock option plan function of aligning the interest of such remunerated individuals with the long-term interest of the company—similarly to what is specified by the OECD Principles of Corporate Governance (2015)—cf. Article VI.D.4 (available at: https://read.oecd-ilibrary.org/governance/zeme-g20-oecd-principy-spravy-a-rizeni-spolecnosti_9789264274075-cs#page5).

Moreover, the stock option plan, as applied in practice, distorts the market since relevant managers and members of the Board of Directors know in advance when they are going to sell their shares purchased under the stock option plan in the market, with the volume of shares sold in this way usually being so significant in relation to the normal daily trading volume that it makes the current market price of the share fluctuate. Consequently, the members of the Board of Directors and managers are trading in the market while having material non-public information.

Another significant reason for canceling the stock option plan is the management's serious errors, e.g., in the "relicensing" of the Dukovany Nuclear Power Plant's units. As a result of improperly performed maintenance of the Dukovany Nuclear Power Plant and a related outage, significantly less electricity was generated in 2015 through 2017 than what ČEZ's Board of Directors had originally estimated. The error was the more serious as nuclear electricity generation is the cheapest / most profitable at the level of variable costs and irreplaceable in the amount in question, so the decreased generation significantly affected ČEZ's financial performance in all three of the above-mentioned years. This and numerous other errors made by the management manifest themselves in a continual and long-lasting decrease in return on invested capital (ROIC), which has decreased to less than half of its 2012 value during the past 5 years alone (between 2009 and 2017, ROIC decreased from 16% to 4.3%).

Notwithstanding the above, the Qualified Shareholder emphasizes that it is not a priori against an incentive program under which members of the Board of Directors and select managers will be granted options on ČEZ shares. However, it is necessary that such a program include highly incentive elements and meets the standard requirements for similar incentive programs.

Draft Resolution

For the reasons given above, the Qualified Shareholder proposes that the General Meeting adopt the following resolutions (these are several separate resolutions):

- 1.2.1 The General Meeting of ČEZ revokes the Stock Option Rules approved by the General Meeting of ČEZ in May 2008.
- 1.2.2 The General Meeting of ČEZ revokes the Stock Option Plan for members of ČEZ's governance and control bodies and top management approved in 2001, under which members of the Board of Directors and select managers were or are entitled to options on ČEZ's common stock.
- 1.2.3 The General Meeting of ČEZ requires that the Supervisory Board prepare and submit to the next annual General Meeting of ČEZ for approval a stock option plan for ČEZ management that will meet the following criteria, thus providing an incentive for the management, and will not just be an additional non-incentive grant of remuneration for management (in particular, the new stock option plan must include a risk of financial loss for the management in cases when shareholders make a loss, i.e., in case of unfavorable changes in the price of ČEZ shares.

The criteria that the new stock option plan should meet are as follows:

- It will be a purely incentive program based on ČEZ management's purchasing shares with their own money, with a bonus based on the principle that a manager will gain the right to obtain one or two shares for free for each share purchased, and including time restrictions for the holding/sale of such shares. Furthermore, the right to gain such advantage will be conditional, for example, on the duration of the discharge of office/employment, etc.; or
- The terms of the existing stock option plan will be modified to include time and/or performance restrictions, such as a time test for selling the purchased shares or permission to exercise options only if predetermined performance objectives have been achieved; or
- The exercise of a stock option will be tied to share performance in markets, or the company's dividend policy; or
- Phantom shares will be introduced for a phantom stock plan under which a company employee / member of the governance bodies will receive "just" imaginary shares and subsequently be entitled to a financial compensation corresponding to the difference of prices over an applicable period, depending on how the stock price increases. But always over a longer period of time to smooth out short-term fluctuations. Phantom stock may be aligned with the corporate management strategy or tied to, for example, the performance of a single corporate division. The value of phantom shares may also change according to the company's performance as compared to the average in its area of business, reflect growth in profits, market share, and a number of other criteria. Since such shares are just imaginary and the bonus is eventually paid in cash, it is taxable like any other cash bonus. On the other hand, it would be crucial for phantom stock to put this form of incentive into the context of all other kinds of income that management or employees receive from the company.

1.2.4 The General Meeting revokes any previously granted consent on the basis of which it would be possible to provide the Board of Directors or select managers of ČEZ with other consideration under the Stock Option Plan for members of ČEZ's governance and control bodies and top management, under the Stock Option Rules, or equivalent consideration, all that pursuant to Section 61(1) of the BCA.

2. CHANGE TO THE ARTICLES OF ASSOCIATION IN RELATION TO CANCELLATION OF THE STOCK OPTION PLAN FOR THE MANAGEMENT OF ČEZ, A.S.

2.1 Rationale for General Meeting Agenda Item

Remuneration of top managers at ČEZ includes an incentive program that allows them to purchase company shares, as shown, among other things, by notes to ČEZ's financial statements for the year ended December 31, 2017 (cf. p. 340 of ČEZ's Annual Report for 2017).

Members of the Board of Directors and selected managers were/are entitled to options on the company's common stock under the conditions set forth in a stock option agreement. Under the Stock Option Plan for members of the company's governance and control bodies and top management, approved in 2001 and later repeatedly modified (e.g., through the Stock Option Rules approved by the General Meeting in May 2008), members of the Board of Directors and select managers receive options on a certain number of company shares every year as long as they remain in office. The purchase price per share is determined as the weighted average of prices at which company shares were traded on the regulated market in the Czech Republic during one month before the annual option date. Stock option beneficiaries may call on the company to transfer shares up to the number corresponding to a given option grant, no earlier than two years and no later than in the middle of the fourth year after every option grant.

For the reasons given in the rationale for agenda item no. 1, the Qualified Shareholder proposes canceling the stock option plan for ČEZ management. Principal reasons can be summed up as follows:

- (a) The stock option plan is non-transparent because ČEZ does not sufficiently inform its shareholders or the market about who is granted what option and when, the terms of such granting, or the net amount that the relevant member of the Board of Directors or manager can receive on the basis of options granted (or about the conditional nature of any such options or amounts).
- (b) The stock option plan is not an incentive program because it fails to fulfill the main function of stock option plans for managements, namely aligning the company management's and shareholders' interest in a favorable course of the company's stock prices. ČEZ's current stock option plan is just a tool for adding more money to ČEZ management's already high remuneration, regardless of whether its stock price goes up or down. This is because managers are not required to invest their own money under the plan, so they do not bear any risk of loss in case of unfavorable changes in the market price of the shares. Any stock option plan that does not incorporate a risk of financial loss for management when shareholders incur a loss (i.e., in case of unfavorable changes in the market price of the shares) is not an incentive program; rather, it is just another gravy train fueled by the company for the Board of Directors and top managers regardless of their performance for the company and its shareholders. In this case, the results of unfavorable changes in share prices are thus only affecting the shareholders. In contrast, the management only uses the plan when it takes advantage, risk-free, "mathematically," of a situation in which the difference between the market price of ČEZ's shares and the right to exercise the stock option at an advantageous (average) price of the past months is optimal for the manager.
- (c) The Qualified Shareholder objects to such "stipends" for ČEZ management and requests that a new stock option plan be prepared and presented to the General Meeting that will follow the above-mentioned incentive principles.
- (d) Additionally, the existing stock option plan is not an incentive program because the purchaser of shares may subsequently alienate the shares without any restrictions, which impairs the stock option plan function of aligning the interest of such remunerated individuals with the long-term interest of the company—similarly to what is specified by the OECD Principles of Corporate Governance (2015)—cf. Article VI.D.4 (available at: https://read.oecd-ilibrary.org/governance/zeme-g20-oecd-principy-spravy-a-rizeni-spolecnosti_9789264274075-cs#page5).

- (e) Moreover, the stock option plan, as applied in practice, distorts the market since relevant managers and members of the Board of Directors know in advance when they are going to sell their shares purchased under the stock option plan in the market, with the volume of shares sold in this way being usually so significant in relation to the normal daily trading volume that it makes the current market price of the share fluctuate. Consequently, the members of the Board of Directors and managers are trading in the market while having material non-public information.
- (f) Another significant reason for canceling the stock option plan is the management's serious errors, e.g., in the "relicensing" of the Dukovany Nuclear Power Plant's units. As a result of improperly performed maintenance of the Dukovany Nuclear Power Plant and a related outage, significantly less electricity was generated in 2015 through 2017 than what ČEZ's Board of Directors had originally estimated. The error was the more serious as nuclear electricity generation is the cheapest / most profitable at the level of variable costs and irreplaceable in the amount in question, so the decreased generation significantly affected ČEZ's financial performance in all three of the above-mentioned years. This as well as numerous other errors made by the management (acquisitions in southeastern Europe or in Poland) manifest themselves in a continual and long-lasting decrease in return on invested capital (ROIC), which has decreased to less than half of its 2012 value during the past 5 years alone (between 2009 and 2017, ROIC decreased from 16% to 4.3%).

In addition to the reasons given, the Qualified Shareholder emphasizes that the existing stock option plan can serve as a means to circumvent ČEZ shareholders' will, which is, with regard to the disapproving position of the Qualified Shareholder and the Ministry of Finance (representing ČEZ's majority shareholder) on the payment of directors' fees, not to pay ČEZ management any extra consideration.

Therefore, in addition to the cancellation of the Stock Option Plan (while the Qualified Shareholder is not against adopting new rules for the granting of options on common stock), the Qualified Shareholder proposes that the Articles of Association of ČEZ be changed so that any future consideration provided to ČEZ management is controlled by the General Meeting of ČEZ, leading to transparency in such future consideration provided.

2.2 Draft Resolution

For the reasons given above, the Qualified Shareholder proposes that the General Meeting adopt the following changes to the Articles of Association of ČEZ (these are several separate resolutions):

2.2.1 Article 8(1)(f) of the Articles of Association shall read as follows:

(f) a decision on the provision of consideration pursuant to Section 61 of the Business Corporations Act to members of the Board of Directors, members of the Supervisory Board, and members of the Audit Committee, which consideration shall not be provided if the discharge of the Board of Directors member's office evidently contributed to the company's unfavorable financial results,

2.2.2 Article 14(9)(k) of the Articles of Association shall be deleted.

2.2.3 After paragraph 12 of Article 14 of the Articles of Association, the following paragraph 13 shall be inserted:

The Board of Directors must seek prior consent by the company's General Meeting on any decision to grant options on the company's shares where the law

permits the Board of Directors to make such a decision.

2.2.4 Article 18(5)(g) of the Articles of Association shall read as follows:

(g) approve service contracts with members of the Board of Directors and make its statements on the provision of consideration to members of the Board of Directors pursuant to Section 61 of the Business Corporations Act,

3. APPROVAL OF THE TRANSFER OF SHARES OF ELEKTRÁRNA POČERADY, A.S.

3.1 Rationale for General Meeting Agenda Item

ČEZ is the sole shareholder of Elektrárna Počerady, a.s. ("EP"). ČEZ made an agreement in 2013 under which ČEZ has a put-option until December 31, 2019. In other words, ČEZ can sell EP shares under terms and conditions agreed in advance in the 2013 agreement. This assignment is closely related to Vršanská uhelná, a.s., a company supplying coal to the EP-owned power plant.

The Počerady brown coal-fired power plant (and the land it is sited on) is EP's crucial property and its total installed capacity of 1,000 MW (5 units of 200 MW each) make it the largest brown coal-fired power plant owned by the company and its group (CEZ Group). In this respect, its installed capacity accounts for over 25% of the capacity of the company's operated brown coal-fired power plants. At the same time, brown coal-fired power plants account for almost 50% of the company's electricity generation. Consequently, any decision regarding the future of the company's largest brown coal-fired power plant in its portfolio is a crucial strategic decision that will affect the company's strategy in the future. Such a decision is especially sensitive when Vršanská uhelná, a.s., counts on continued future operation of the Počerady power plant as part of its total capacity as well as Czechia's energy policy.

Based on an offer of Vršanská uhelná, a.s., concerning the possible sale of a 100% share in EP, the company's Board of Directors approved the sale in 2017—it should be noted that this was completely outside the agreed option schedule. It should also be noted in this respect that the same Board of Directors of the company did not exercise the put-option concerning the same matter in 2016. In spite of the Board of Directors' consent to the sale, the Supervisory Board did not subsequently approve the sale. The discrepancy between the Board of Directors' and Supervisory Board's decisions on the sale of EP in 2017 as well as the Board of Directors' very different approaches to the matter over a very short time span have substantiated and accentuated the Qualified Shareholder's and other minority shareholders' fear that the potential sale of such a significant portion of the company's assets is completely non-transparent to shareholders, lacking any detailed knowledge of contractual arrangements in the above-mentioned agreement from 2013, and can even harm the company significantly.

The Qualified Shareholder learned that the agreed price is CZK 2 billion from publicly available sources. The Qualified Shareholder believes that if the option is exercised by ČEZ, this falls far short of the fair value of such an infrastructural equipped property (site) and is very disadvantageous to ČEZ.

The Qualified Shareholder also believes that it is necessary to review the current technical condition of the power plant's critical parts, especially boilers, and necessary investments in environmental upgrades to the facility with regard to stricter environmental limits to be applied after 2021, and to have this analysis presented to the General Meeting in order to assess the advantageousness or disadvantageousness of the possible divestment with regard to the future outlook of developments in the electricity market.

Assessing the prolongation of power plant operation until the latest date possible for the operation of such a facility (technical rather than forced retirement), including an analysis of using the Počerady power plant as a standby generating facility in case of unexpected conditions in the electricity market (cold reserve).

A General Meeting of the company was held at the Prague Congress Center, 5. května 65, Praha 4, on June 22, 2018, at which the Board of Directors refused to disclose the terms and conditions of the agreement on the transfer of EP shares (with reference to trade secret) at the Qualified Shareholder's request. The Qualified Shareholder was not content with the reasoning and brought an action seeking disclosure of the information, which is, however, still pending. Consequently, ČEZ has not yet disclosed the requested information.

Pursuant to Article 8(1)(j) of ČEZ's Articles of Association, it is within the exclusive powers of the General Meeting to approve the assignment of the enterprise or such a part thereof that would result in a substantial change to the existing enterprise structure or a substantial change to the company's scope of business or activities. As evidenced by the above, the assignment of EP would result in such a substantial change to the enterprise, especially due to the amount of the Počerady power plant's installed capacity and its share in ČEZ's electricity generation. Yet, shareholders (at least minority shareholders) have zero knowledge of either the terms and conditions for the assignment of EP or the current condition of the Počerady power plant, and thus EP. Under such circumstances, it is appropriate to deny consent to the exercise of the put-option and the sale of EP.

3.2 Draft Resolution

Pursuant to Article 8(1)(j) of the Articles of Association of ČEZ, the General Meeting denies consent to the transfer of shares of Elektrárna Počerady, a.s., under the sale agreement from 2013.

4. ČEZ, A.S., BUSINESS POLICY (STRATEGY) AND RELATED CHANGE TO THE ARTICLES OF ASSOCIATION OF ČEZ

4.1 General Remarks on the General Meeting's Powers

Pursuant to Article 8(1)(p) of the ČEZ' Articles of Association, the General Meeting's powers include decisions on the company's business policy and changes thereto.

The Qualified Shareholder would like to add that the conceptual and strategic matters described below fall outside business management, as business management does not include making decisions on the company's long-term strategic goals, which are within the purview of the General Meeting, as is also suggested by literature.¹ Apart from this, ČEZ's current Articles of Association, in Article 8(1)(p), expressly place decisions on the company's business policy and changes thereto within the purview of the General Meeting.

It is also within the General Meeting's purview to change the Articles of Association.

4.2 Rationale for General Meeting Agenda Item

4.2.1 Strategy for Foreign and Domestic Investments/Divestments

¹ ŠTENGLOVÁ, Ivana, HAVEL, Bohumil. Section 435 [Position of a Board of Directors], In: ŠTENGLOVÁ, Ivana, HAVEL, Bohumil, CILEČEK, Filip, KUHN, Petr, ŠUK, Petr. Zákon o obchodních korporacích [Business Corporations Act]. 2nd edition. Prague: Nakladatelství C. H. Beck, 2017, p. 774.

The Qualified Shareholder came to know from the media in the past, among other things, that transactions concerning the sale of ČEZ's subsidiary in Bulgaria, or its individual terms, show a high amount of irregularities and non-standard practices. For details, refer to:

https://byznys.lidovsky.cz/kvuli-prodeji-cez-uz-zuri-i-bulharsky-premier-chce-vysvetleni-od-babise-1nb-energetika.aspx?c=A180227_183835_energetika_gib

https://byznys.lidovsky.cz/babis-z-deni-v-bulharsku-isem-sokovany-dhd-firmy-trhy.aspx?c=A180227_132434_firmy-trhy_ele

https://www.lidovsky.cz/noviny/bankovni-stiny-nad-obchodem-cez-prodej-v-bulharsku-nadzvedl-dva-premiery.A180226_213603_In_noviny_ele

https://www.lidovsky.cz/cez-vvplati-firma-miliardare-z-paradise-papers-fqh-noviny.aspx?c=A180225_214734_energetika_ele

<https://www.seznamzpravy.cz/clanek/nejvyssi-cenu-za-bulharske-firmy-nabizel-cezu-indicky-india-power-presto-cesi-prodavaji-inercomu-43780>

Thus, facts known to date have suggested that the transaction itself was not transparent, or that it was not and is not guaranteed as to how it is funded and going to be completed.

The media also reported that the Bulgarian competition authority, whose approval the transaction required, did not approve the transaction. Details can be found in:

<https://www.e15.cz/byznys/prumysl-a-energetika/prodej-bulharskych-aktiv-cez-narazil-na-odpor-mistniho-regulatora-1349077>

<https://byznys.ihned.cz/c1-66196960-prodej-bulharskych-aktiv-cez-narazil-proti-se-postavil-tamni-antimonopolni-urad-firma-si-od-transakce-slibovala-9-miliard>

The process of ČEZ selling its Bulgarian assets has all the signs of a non-standard sale and substantiates the fear of ČEZ's minority shareholders that this is a systemic problem concerning most acquisitions made by ČEZ not only as part of large transactions in Southeast Europe, but subsequently also, for example, in Poland. The whole process of selling the Bulgarian assets now seems to be more of a "hurried flight" from an environment where ČEZ has long failed to succeed than a regular and professionally prepared sale that would maximize value for ČEZ shareholders. In the wake of similar problems in Albania, Bulgaria, Romania, Turkey, but also investments in wind turbines in Poland, which eventually required or require additions to impairments for the assets acquired or outright brought considerable losses in the order of upper billions of CZK, it is obvious that this is a chronic failure in this area by the ČEZ management, who are not able to guarantee long-term profitability for the foreign investments they make.

Developments in electricity markets and ČEZ's actual advance sales of electricity for the next years currently show that ČEZ's operating income + depreciation and amortization (EBITDA) may grow considerably after a long time in the forthcoming period of several years.

Following an already completed wave of extensive investments in the renovation of coal-fired power plants, construction of new coal-fired and gas-fired power plants, and capacity increases at existing nuclear power plants, it is now probable, in the absence of big investments, that ČEZ will find itself again, after a rather long time, in a situation when it will generate significant free cash flows, having adequate and effective debt and covering current investments. Due to negative experience with the last period when ČEZ was in a similar situation and subsequently made a number of acquisitions that it then failed to manage appropriately or make profitable on a long-term basis, we fear the same course of action in the forthcoming period. In this respect, certain fears have already been caused by investments in wind energy in Germany made in recent years, which resemble financial products with a very low yield rather than reasonable investments for a period when growing interest rates are generally expected. On this basis, the Qualified Shareholder proposes that the General Meeting consider a change in the strategy for the coming years and exactly define criteria for potential acquisitions as well as divestment plants.

4.2.2 Transformation of ČEZ, a.s.

The Qualified Shareholder is afraid that the ČEZ Board of Directors' sole motivation for transforming the company in the way presented by company management at the last General Meeting is not the interest of all ČEZ shareholders but the interest of the major shareholder, i.e., the Czech Republic, in preparing conditions at ČEZ so that new nuclear power plants can be built in the future. Such fears are confirmed by some published conclusions from government materials, on which ČEZ representatives collaborate under the "Standing Committee on Nuclear Energy." However, not all ČEZ shareholders can agree with such an approach to the internal transformation of ČEZ and it may pose unreasonable risks to them.

4.2.3 Construction of new nuclear power plants

The qualified and minority shareholder refuses the possibility that the Czech Republic as the major shareholder might want to use ČEZ to fulfill its goals—development of nuclear energy—based on the state's energy policy at the expense of other shareholders, regardless of a reasonable return on the project, i.e., due care by the company's Board of Directors, and the risks associated with the project. Such decisions would jeopardize the value of the assets of all shareholders, including minority shareholders. The Qualified Shareholder considers such risks sufficiently evidenced by ongoing projects for nuclear power plant construction in the EU as well as in the U.S., which are typically characterized by both running several times over budget and taking several times longer to complete than originally planned (Olkiluoto NPP, Finland; Flamanville NPP, France; Mochovce NPP, Slovakia; Summer NPP, South Carolina, U.S.; Vogtle NPP, Georgia, U.S.), making the completion of those projects uneconomic and ultimately putting their economic return at significant risk. Unfavorable developments in this area are also confirmed by the United Kingdom's crucial, completely credible, and current Hinkley Point project. Its support model underwent an EU approval process and it will benefit from guarantees that are hard to imagine in Czechia, on the part of project loan guarantees as well as long-term subsidies for the prices of electricity generated at the power plant in the future.

Although there has not yet been any decision by the company's Board of Directors in this respect, continuous amalgamation of the state's plans for nuclear energy with ČEZ's everyday activities in this area are already resulting in

unreasonably increased risks, which are subsequently associated with ČEZ shares—publicly traded at the Prague Stock Exchange.

These risks are increased even more at the moment by non-transparent, unregulated, and unspecified ties between the interests of the state, i.e., the major shareholder, and ČEZ's activities in this field. Consequently, the possibility cannot be excluded that this approach adopted by ČEZ's Board of Directors (insufficient and unclear specification of activities performed solely for the state at the expense of ČEZ) is currently harming the market price of ČEZ's shares and they are traded in the public market at a significant discount. ČEZ's Board of Directors should immediately adopt a specific solution (decision) in this respect, especially when it is obvious that the state, or Czech government, has enough means and other options to implement its nuclear strategic plans in another way.

The foregoing clearly shows that the Qualified Shareholder has crucial reservations about the existing practice of making investment and divestment decisions as well as about their management, and seeing that the majority shareholder of ČEZ is unwilling to support personnel changes in ČEZ management, it proposes changing the company's Articles of Association so that decisions on its policy and strategic investments and divestments are really made by the company's supreme governance body again.

4.3 Draft Resolution

For the reasons given above, the Qualified Shareholder proposes that the General Meeting adopt the following resolutions regarding ČEZ's strategy (these are several separate resolutions):

- 4.3.1 ČEZ's strategy includes discontinuing acquisitions abroad and concentrating on the consolidation of its existing extensive foreign portfolio, which has been facing significant problems without tangible solutions for years.
- 4.3.2 ČEZ's strategy includes focusing any potential acquisitions and development plans mainly on the domestic market and Slovakia, in electricity and heat generation and distribution, distribution development, as well as in renewable electricity sources, savings, accumulation, and other modern trends.
- 4.3.3 ČEZ's strategy includes immediate and detailed analysis of the terms and conditions of agreements made in 2013 in respect of the Počerady coal-fired power plant and coal purchases for this power plant under existing market conditions, including consideration of investments in upgrades to this power plant or reassessment of the terms of coal purchases for this power plant.
- 4.3.4 In the light of possible economic developments and in relation to the Czech National Bank's already tightening monetary policy and anticipated growth in interest rates in general, ČEZ's strategy includes immediate initiation of an extensive austerity program. This should result in ČEZ's accumulation of maximum cash flows, which could, in the form of dividends or other tools such as share repurchase, help resolve the fundamental dilemma of the Czech energy sector—the relation between the state as ČEZ's majority but not 100% shareholder with specific strategic and security plans for the national energy sector and ČEZ as a public limited company, a business entity whose shares are tradable in a public market.
- 4.3.5 Article 14(7)(c)(c.1) of the Articles of Association shall read as follows:

c.1 draft company business policy and draft amendments thereto, at least once every 2 years,

4.3.6 Article 8(1)(p) of the Articles of Association shall read as follows

(p) decisions on the company's business policy and changes thereto and approval of a draft business policy and draft amendments thereto presented by the Board of Directors,

5. REMOVAL AND ELECTION OF SUPERVISORY BOARD MEMBERS

5.1 Rationale for General Meeting Agenda Item

With regard to the strategy changes and amendments to ČEZ's Articles of Association proposed above, the Qualified Shareholder proposes that the composition of the company's Supervisory Board be changed so that the company's minority shareholders are represented in the Supervisory Board.

Further to the above and in compliance with Section 367 of the BCA, we request that a General Meeting with the agenda described above be held no later than 50 days after this request is received.

Signature: _____

Name:

Ing. Michal Šnobl,
under power of
attorney

Enclosures:

1. Powers of attorney
2. Certificates of Registered Office for J&T SECURITIES MANAGEMENT LIMITED, Tinsel Enterprises Limited, and HAMAFIN RESOURCES LIMITED
3. Certificates of Incorporation for J&T SECURITIES MANAGEMENT LIMITED, Tinsel Enterprises Limited, and HAMAFIN RESOURCES LIMITED
4. Certificates of Directors and Secretary for J&T SECURITIES MANAGEMENT LIMITED, Tinsel Enterprises Limited, and HAMAFIN RESOURCES LIMITED