



# INFORMATION ON REASONS FOR CONTEMPLATING CEZ GROUP TRANSFORMATION

Dear Shareholders, Ladies and Gentlemen:

Please allow me to now present to you information on reasons for contemplating a transformation of CEZ Group.

**The idea of CEZ transformation is based on current changes in the energy sector and has the potential to bring considerable benefits to shareholders** (see page 1 in Annex). CEZ is considering a transformation for two reasons.

First, Europe's energy sector has shown a clear tendency to principally split into two different and increasingly diverging directions in recent years. One direction is traditional energy, characterized by large generating facilities with a focus on operation and maintenance of existing power plants. At the same time, it is greatly affected by ever stricter legislation, increasing requirements for the safety of power plants, and increasing regulation in general. The other direction is the dynamically growing segment of new and decentralized energy, prevalently oriented toward comprehensive customer energy services and decentralized renewable energy sources.

Second, the already completed transformation of energy companies that reflected before mentioned changes in the energy sector brought to their shareholders a number of benefits. Among other things, establishing of different types of entities with a clear strategic focus usually led to a rise in stock prices. "New energy" has currently a profile attractive to investors and there is a favorable environment for IPOs to finance new development projects at the moment. Traditional energy sector can focus more on the operation and eventually construction of large generation facilities and to help fulfill the goals of the energy policy and energy security. Both in response to regulatory rules as well as emerging market support mechanisms.

As already said, **Europe's energy sector is undergoing a fundamental evolution** (see page 2 in Annex). There are three main factors changing the current energy sector in Europe. These are commodity prices, the EU's political decisions, and technology advancement. The combination of these three factors sets the trends followed by the energy industry.

One trend is stagnation in traditional power sources, which, however, remain an indispensable part of the energy sector. On the one hand, environmental legislation is becoming stricter and there are increasingly stringent requirements for the operation of nuclear power plants. On the other hand, various more or less market-based support mechanisms are emerging to keep traditional facilities running in countries that emphasize energy security.

A second trend is growth in the share of renewable and decentralized energy. Ongoing pressure from EU legislation and political decisions create opportunities for growth in these energy market segments. There is a rapid technological advancement, resulting in investment in these sectors being profitable even on market basis. However these sectors are being entered by new competitors, often large oil and gas players.

The third trend is customers increasingly requiring more comprehensive services related to the use of energy. Ongoing pressure for energy efficiency from European legislation and corporations' social responsibility results in a growing need for customer energy services. Customers are not only households but especially businesses, public administration, and government authorities. The development of these services is related to the fact that new technologies provide for substantial energy savings on the one hand, but result in increased use of electricity on the other hand. And specialized competitors are establishing themselves as providers of these services in the market.

**After a period of utilities consolidations and integrations, we are again witnessing disintegration in the power sector value chain** (see page 3 in Annex)

As a result of the diverging directions in traditional and new energy, several major utilities in Europe underwent a fundamental transformation and others are undergoing or planning to undergo it. Noteworthy completed transformations include the spin-off of E.On's conventional assets into Uniper in 2015 and the spin-off of RWE's decentralized energy assets into Innogy in 2016. In addition, these two companies announced an agreement to swap portions of their assets this past March, as RWE will focus on energy generation, including renewable energy generation, and E.On will focus on energy networks and its customer portfolio. This step further strengthens their focus on a particular segment of energy sector. Announced transformations that should take place this and next year include those of Swiss utilities Alpiq and Axpo, and the Estonian utility Eesti Energia. French EDF also announced an internal revision to its corporate management structure with a potential transformation. The context and specific reasons vary for each of the transformations; however, a significant element they have in common is the creation of additional value for shareholders and the new companies' closer focus on certain portions of the energy value chain.

Additionally, in the context of Czechia, **Standing Committee on Nuclear Energy (SVNE) led by the Ministry of Industry and Trade have chosen three alternatives of new nuclear power plant (NNPP) investment models for further consideration** as a conclusion made by the Standing Committee on Nuclear Energy in June 2017 (see page 4 in Annex)

The first contemplated alternative enabling the construction of an NNPP in Czechia is a construction project undertaken by a wholly owned subsidiary of CEZ, a. s., with the possibility of capital entry of the technology provider, where the necessary condition for financing is provision of a regulatory framework ensuring economic profitability of the project.

The second alternative is construction by special-purpose vehicles, wholly owned by the state, i.e. transfer of the project companies responsible for the NNPP development to the state, with the possibility of capital entry of the technology provider.

The third alternative is the purchase of parts of CEZ. This alternative assumes construction by a 100% state-owned company arising from the purchase of the parts of CEZ containing both new and existing nuclear power plants.

Finally, let me summarize: **Board of Director of CEZ, a. s., is considering transformation because** (see page 5 in Annex) potential transformation of the CEZ Group would allow for establishing of different types of entities with a clear strategic focus in accordance to changes in the energy sector. The traditional energy part would focus more on goals related to energy security, including the construction of a new nuclear power plant that means a small number of highly capital-intensive projects. The new energy part would be able to focus more attention on growth and innovation in the light of rapidly growing competition.

The board is considering transformation also because an appropriate transformation could create significant value for all shareholders as evident from already executed transformations of, not only, German utilities. The attractive new energy profile and high value multipliers associated with it currently create a suitable environment for investors and for letting new investors in. Last but not least, a transformation provides an alternative for the financing of a new nuclear power plant, thus allowing a greater level of fulfillment of the State Energy Policy and Czechia's other goals concerning energy policy and energy security.

Dear shareholders, let me also emphasize that Board of Directors of CEZ, a. s., has not yet arrived to any conclusions on this matter.

Thank you for your attention.

Annex: Information on reasons for contemplating CEZ Group transformation – presentation