

## BASE PROSPECTUS

**ČEZ, a. s.**

*(incorporated with limited liability in the Czech Republic)*

**€8,000,000,000**

### **Euro Medium Term Note Programme**

Under this €8,000,000,000 Euro Medium Term Note Programme (the “*Programme*”), ČEZ, a. s. (the “*Issuer*” or “*ČEZ*”) may from time to time issue notes (the “*Notes*”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme is specified under “*Overview of the Programme – Programme Size*” and will not exceed €8,000,000,000 (or its equivalent in other currencies calculated as described in the Amended and Restated Programme Agreement described herein), subject to any increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “*Dealer*” and together the “*Dealers*”), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the “*relevant Dealer*” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “*Risk Factors*”.**

Application has been made to the *Commission de Surveillance du Secteur Financier* (the “*CSSF*”) in its capacity as competent authority under the Luxembourg Act dated July 10, 2005 on prospectuses for securities (the “*Prospectus Act 2005*”) to approve this document as a base prospectus. By approving this Base Prospectus, the CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuer in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

References in this Base Prospectus to Notes being “*listed*” (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange’s regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC), as amended.

The requirement to publish a prospectus under the Prospectus Directive only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area, other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)). References in this Base Prospectus to “*Exempt Notes*” are to Notes which are neither to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC), as amended, in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive. **The CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes.**

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will (other than in the case of Exempt Notes, as defined above) be set out in a final terms document (the “*Final Terms*”) which will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of such Exempt Notes, the issue price of such Exempt Notes and certain other information which is applicable to each Tranche of such Exempt Notes will be set out in a pricing supplement document (the “*Pricing Supplement*”).

The Issuer has been rated A- (stable outlook) by Standard & Poor’s Credit Market Services Europe Limited (“*Standard & Poor’s*”) and Baa1 (stable outlook) by Moody’s Investors Service Ltd. (“*Moody’s*”). The Programme has been rated A- by Standard & Poor’s and Baa1 by Moody’s. Each of Standard & Poor’s and Moody’s is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the “*CRA Regulation*”). As such each of Standard & Poor’s and Moody’s is included in the list of credit rating agencies published by the European Securities and Markets Authority (“*ESMA*”) on its website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated by either of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms (or Pricing Supplement, in the case of Exempt Notes) and will not necessarily be the same as the rating assigned to the Programme by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

### **Arrangers**

**BNP PARIBAS**

**CITIGROUP**

The date of this Base Prospectus is April 21, 2017.

## IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Notes, other than Exempt Notes, issued under the Programme for the purposes of Article 5.4 of the Prospectus Directive. “*Prospectus Directive*” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area. Application has been made to the *Commission de Surveillance du Secteur Financier* for this document to be approved as such a base prospectus. The Issuer, having made all reasonable enquiries confirms that this Base Prospectus contains all information regarding the Issuer, the Issuer and its subsidiaries taken as a whole (the “*CEZ Group*”), the electricity industry in the Czech Republic and the Notes which is (in the context of the issue of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, estimates, or intentions expressed in this Base Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, estimates or intentions (in such context) not misleading in any material respect; that this Base Prospectus does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements in this Base Prospectus, in the light of the circumstances under which they were made, not misleading; and that all proper enquiries have been made to ascertain and to verify the foregoing.

Without prejudice to the foregoing, the Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. The information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The obligations of the Issuer are not in any way guaranteed by, or otherwise backed by the credit of, the Czech Republic or any agency, ministry or political subdivision thereof.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*”). This Base Prospectus shall be read and construed on the basis that such documents are incorporated by reference and form part of this Base Prospectus.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

Nothing contained in this Base Prospectus is or should be relied upon as a promise or representation of future results or events. No person is or has been authorized by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is

correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

**IMPORTANT – EEA RETAIL INVESTORS** – If the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) includes a legend entitled "Prohibition of Sales to EEA Retail Investors" the Notes, from January 1, 2018 are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("*MiFID II*"); (ii) a customer within the meaning of Directive 2002/92/EC ("*IMD*"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "*PRIIPs Regulation*") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "*U.S. Securities Act*") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and the Czech Republic) and Japan, see "*Subscription and Sale*".

This Base Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency), only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus in connection with such an offer. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "*Relevant Member State*") must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

This Programme is not a bond programme under the Act of the Czech Republic No. 190/2004 Coll., on Bonds, as amended (the "*Bonds Act*") (Section 11). The issue of Notes will be notified to the Czech National Bank under Section 8a of the Act of the Czech Republic No. 15/1998 Coll., on Capital Markets Supervision, as amended.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

All references in this document to “U.S. dollars” and “U.S.\$” refer to United States dollars and to “Czech crowns”, “CZK” and “Kč” refer to the lawful currency for the time being of the Czech Republic. In addition, all references to “euro”, “EUR” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, all references to “BGN” and “Bulgarian Lev” are to the lawful currency of Bulgaria, all references to “PLN” and “Polish zloty” are to the lawful currency of Poland and all references to “RON” and “Romanian lei” refer to the lawful currency of Romania.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetical aggregate of the figures preceding such totals.

ČEZ, a. s. was incorporated as a joint stock company under the laws of the Czech Republic on May 6, 1992 with unlimited duration and was registered in the Commercial Register administered by the Municipal Court in Prague, File B, Section 1581, with identification number 45274649. Its registered office is at Duhová 2/1444, 140 53 Prague 4, Czech Republic and its telephone number at that address is +420 211 041 111. In this Base Prospectus, references to “CEZ”, “ČEZ” and the “Issuer” are to ČEZ, a. s. and references to the “CEZ Group”, the “Group”, “we”, “us” and “our” are to ČEZ, a. s. and its consolidated subsidiaries. The obligations of the Issuer are not in any way guaranteed by, or otherwise backed by the credit of, the Czech Republic or any agency, ministry or political subdivision thereof.

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## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but its inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which the Issuer may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

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

### **Risks Related to Our Business and Operations**

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

In the ordinary course of our business, we are exposed to the risk of decreases in the prices obtained for our electricity and heat. We sell the majority of our electricity at prices derived from European market prices, which are mainly driven by the prices of E.U. emission allowances and the cost of raw materials, as well as by the European aggregate supply and demand balance; available cross-border capacities; global oil, coal and gas prices and E.U. and national regulation of the wholesale energy market. Furthermore, there is a strong correlation between the price of electricity in the Czech Republic and the price of electricity in Germany, which is one of our export markets and the primary price-setting market in the region. Changes in global commodity prices, available cross-border capacities (caused, for example, by renewable energy sources or flow-based allocation) or a decline in electricity demand in Europe, as a result of an economic slowdown, economic downturn or increased energy efficiency, could decrease the price of electricity and could have a material adverse effect on our business, results of operations and financial condition.

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

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

***The impairment losses in connection with our existing or acquired operations and our investments may have a significant impact on our results and financial condition.***

We may incur impairment losses in connection with our assets or investments mainly due to adverse regulatory actions and adverse market conditions. In 2016 and 2015, we performed impairment tests of goodwill and tests of other non-current assets where there was an indication that the carrying amounts could be impaired. Recognized impairments mainly resulted from the drop in market prices of electricity and reclassification of assets during the sale of Tisová power plant. In 2016, we recognized total impairment losses of CZK 3,223 million, of which CZK 2,466 million were incurred with respect to our Romanian wind power farms. For information on impairment of property, plant and equipment and intangible assets including goodwill in 2015 and 2016, please refer to Note 7 of our audited consolidated financial statements for years ended December 31, 2015 and December 31, 2016 respectively. Any future adverse changes in the economic and regulatory environment or market conditions of our reporting segments could result in further impairment charges, which could have a material adverse effect on our business, results of operations and financial condition.

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

As of the date of this Base Prospectus, ČEZ has a credit rating of A- with a stable outlook by Standard & Poor's and Baa1 with a stable outlook by Moody's. Standard & Poor's (domiciled in the United Kingdom) and Moody's (domiciled in the United Kingdom) are both established in the European Union and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>). These ratings reflect each agency's opinion of our financial strength, operating performance and ability to meet our debt obligations as they become due. These ratings are near the low-end of the respective rating agency's scale of investment-grade ratings. Credit rating agencies now monitor companies more closely and have made liquidity, and the key ratios associated with it, such as gross leverage ratio, a particular priority. Our ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on our credit ratings. We currently expect to operate with sufficient liquidity to maintain our current ratings. However, this is dependent on a number of factors, some of which may be beyond our control. If we fail to maintain adequate levels of liquidity, our ratings may be downgraded. On June 23, 2015, our credit rating granted by Moody's was downgraded from A2 to A3 and on April 6, 2016, our credit rating granted by Moody's was further downgraded from A3 to Baa1 due to ČEZ's exposure to a decreasing power price environment. On December 15, 2016 Standard & Poor's confirmed ČEZ's A- rating with stable outlook. In the event our credit or debt ratings are further lowered by the rating agencies, we may not be able to raise additional indebtedness on terms similar to our existing indebtedness or at all, and our ability to access credit and bond markets and other forms of financing (or refinancing) could be limited, which could have a material adverse effect on our business, results of operations and financial condition. Further lowering of our credit rating may also trigger our obligation to redeem certain debt securities prior to their scheduled redemption date which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

Our profitability is exposed to developments in the capital markets and economy in Europe and globally. The latest global crisis and sovereign debt crisis in Europe has had a significant impact on the world's banking system and

financial markets. If the globaleconomic situation worsens again, we may face liquidity problems and may experience increased costs of funding which could have a material adverse effect on our business, results of operations and financial condition.

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

The electricity generation industry in Europe is strongly influenced by the European Union's policy, implemented in 2008 by the E.U. Climate and Energy Package, to increase the share of electricity generated by renewable energy sources. We are effectively obliged, due to economic incentives, to reflect the E.U. Climate and Energy Package within our own strategy. By 2020, the E.U. Climate and Energy Package requires a 20% decrease in carbon dioxide ("CO<sub>2</sub>") emissions, a 20% increase in energy efficiency and requires renewable energy sources to comprise 20% of total energy consumption. In October 2014, the E.U. Council adopted new targets and the architecture for the E.U. framework on climate and energy in the period from 2020 to 2030 and the newly adopted targets require at least 40% decrease in CO<sub>2</sub> emissions by 2030 (compared to 1990 levels), renewable energy sources to comprise 27% of total E.U. energy consumption (resulting in up to 47% share of renewable energy sources in electricity production), increase in E.U. wide energy efficiency by 27% and achieving 10% electricity interconnection by 2020. The implementation of the E.U. Climate and Energy Package and targets of the E.U. council for period from 2020 to 2030, or any amendments to such targets, could have a material adverse effect on our business, results of operations and financial condition. Support for renewable sources may decrease energy prices, limit the production time, the stability of transmission and distribution grid, the profitability of distribution services provided by us and production quantity of conventional power plants that we operate and may decrease our market share. Continued or increased support for renewable energy sources in the European Union, particularly in the Czech Republic (please see "*Regulation – Czech Republic – Renewable Energy Sources – Current Legislation - The Czech Promoted Energy Sources Act*") and Germany, may adversely affect our profit from nuclear, coal-fired and gas power plants, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

***The outcome of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets, and, thus, on our results of operations and financial condition.***

In June 2016, a majority of voters in the United Kingdom voted to withdraw from the European Union in a national referendum. The terms and conditions of the withdrawal are subject to a negotiation period that could last for up to two years (unless extended) after the withdrawal process is officially initiated in accordance with Article 50 of the Treaty on European Union. The withdrawal process was officially initiated in accordance with Article 50 of the Treaty on European Union on March 29, 2017.

Although we do not expect the decision of the United Kingdom to withdraw from the E.U. to have in itself a significant direct impact on our business activities (all of which are, as of the date hereof, located outside the United Kingdom), the referendum has created significant political uncertainty and has also prompted governments and electorates in other E.U. member states to consider withdrawal from the E.U. Such developments or perception that such developments could occur may have a material adverse effect on global economic conditions, stability of the



regulatory environment and global financial markets, and our business partners. As a result, economic activity (including markets' liquidity) could be depressed which could have a material adverse effect on our business, results of operations and financial condition.

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

As part of our strategy to meet future electricity demand, and in accordance with the Updated State Energy Policy of the Czech Republic (“USEP”) and its follow-up document National Action Plan for Nuclear Energy (“NAP NE”), we are taking necessary steps to be able to build new nuclear units at both Dukovany and Temelín sites by the deadline stipulated by the NAP NE, should the decision to build the new units be taken while minimizing the necessary cost. As of October 1, 2016, the projects of new units have been spun off into two separate companies owned by ČEZ – Elektrárna Dukovany II and Elektrárna Temelín II. The decision to increase the nuclear generation capacity of the Temelín and Dukovany nuclear power plants may result in a significant capital expenditure investment, as well as imposing significant risks associated with building a nuclear power plant, particularly the overall debt capacity risks and the risks and uncertainties involved in such a long and complex project, which could have a material adverse effect on our business, results of operations and financial condition. In addition, any failure to complete such a project within budget and on schedule may result in additional cost and loss of revenues, which could have a material adverse effect on our business, results of operations and financial condition. Moreover, the profitability of the projects would be subject to many of the risk factors that we already face, including any political and regulatory developments, decrease in prices obtained for our electricity or default or delay by our counterparties, and would therefore be highly uncertain. Any significant decrease in expected revenues from the project or any significant increase in operating costs could have a material adverse effect on our business, results of operations and financial condition.

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

Our revenues are sensitive to the performance of the Czech economy. As of December 31, 2016, approximately 88% of our property, plant and equipment were located in the Czech Republic and approximately 74% of our revenues and other operating income for the year ended December 31, 2016 derived from the Czech Republic. Changes in economic, regulatory, administrative or other policies of the Czech government, as well as political or economic developments in the Czech Republic (including potential changes in the Czech Republic's credit ratings) over which we have no control, could have a significant effect on the Czech economy, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

In the Czech Republic, certain authorizations are required to operate nuclear power plants. Operation of nuclear power plants is subject to overall E.U. and national regulatory requirements and political policies, which are in turn sensitive to public opinion and E.U. development risks. We cannot give any assurance that we will successfully obtain the necessary authorizations at the appropriate time, or at all, that the duration of such authorizations will not change, or that we will not be subject to conditions that require us to make significant capital expenditures. Moreover, we cannot give any assurance, particularly in the event of an incident affecting the safety or operation of our facilities, that our nuclear power plants will actually be operated for such period of time, or at all. In 2015, we extended the scheduled maintenance outage of Unit 2 of the Temelín nuclear power plant and undertook three other minor operation outages, two in respect of Unit 2 and one in respect of Unit 1 of the Temelín nuclear power plant. In addition, we undertook unplanned outages of Units 1, 2 and 3 of the Dukovany nuclear power plant because of the license extension process (in case of Unit 1) and welds control (in case of Units 1, 2 and 3) which was necessary to undertake since the X-ray images of the welds were found to be of low-quality. In 2016, the welds control at the Dukovany nuclear power plant continued and thus extended the length of the scheduled outages of Units 2, 3 and 4. In addition, in 2016, the generation of the Temelín nuclear power plant was influenced by outages of both units that were longer than expected due to unforeseen works. In case of Unit 1, the outage was influenced by the weld controls, in case of Unit 2 the outage was extended due to a turbine oil glands fault and replacement. If any of our nuclear power plants are closed before the end of their currently expected operating lives, we may be required to make additional investments to replace the loss of generation capacity or purchase electricity on the wholesale market and the payment of decommissioning costs would be accelerated. Inability to operate our nuclear power plants as expected would have a significant material adverse effect on our profit margin and cash flow from operations. Furthermore, should we be unable to operate our nuclear power plants over a period at least equal to the currently expected period (please see “Description of the Issuer

*– Our Business – Electricity Generation – Nuclear power generation - Czech Republic – Dukovany nuclear power plant and Temelín nuclear power plant”), we might not accumulate appropriate cash surpluses for decommissioning of such power plants. As a result, our failure to obtain all of the necessary authorizations and to operate our nuclear power plants for the duration of such authorizations, could have a material adverse effect on our business, results of operations and financial condition.*

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

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

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

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

***We may not successfully implement our key strategies.***

We face many risks that could adversely affect our ability to implement our key strategies (please see “Description of the Issuer—Our Strategy”), such as changes in electricity demand in the Czech Republic and in Europe generally, changes in electricity and emission allowance prices and the regulatory framework, increases in generation and distribution costs, future developments affecting the electricity infrastructure within Europe, competition in the markets in which we operate, political and economic developments affecting Europe, E.U. legal and regulatory requirements and the reliability of our future partners for expanding our business. Any failure to implement our key strategies successfully could have a material adverse effect on our business, results of operations and financial condition.

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

Since our foundation, we have expanded our operations through mergers and acquisitions, especially in Central and South East Europe and Turkey (please see “Description of the Issuer—History and Development of the CEZ Group”). We continue to evaluate investment opportunities in the future and we may expand our operations in other countries or in new markets (please see “Description of the Issuer—Our Strategy”). We face many risks inherent in expanding our operations and doing business on an international level, such as unexpected changes in regulatory requirements; default by our joint venture partners; trade barriers, including import and export controls, tariffs, customs and duties; difficulties in staffing and managing foreign operations; longer payment cycles and problems in collecting accounts receivable; political instability, expropriation, nationalization, war and other political risks; fluctuations in currency exchange rates; foreign exchange controls which restrict or prohibit repatriation of funds; technology export

and import restrictions or prohibitions; and potentially adverse tax consequences. Any failure to manage the risks associated with expanding our operations could have a material adverse effect on our business, results of operations and financial condition.

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

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

In addition, any future acquisition of highly leveraged companies might result in worsening of our financial condition and therefore, lead to rating downgrades in the future.

***We are exposed to changes in the way emission allowances are allocated, including the conditions related to free allocations, as well as volatility in the market prices of emission allowances that we need to acquire.***

In 2005, the European Union introduced the European Union Emission Trading Scheme (the “E.U. ETS”). Within the E.U. ETS, each greenhouse gas emitter was allocated a certain cap by the national government, which was in turn allocated a national cap by the E.U. Commission, within which it was allowed to emit greenhouse gases (such as CO<sub>2</sub>, methane and nitrogen monoxide). Any emissions in excess of this cap had to be counterbalanced by emission allowances acquired in the open market at a market price, otherwise the emitter was penalized. Allocations were fixed for a specific trading period.

Commencing in 2013 and ending in 2020, the majority of emission allowances are being sold in auctions rather than allocated for free (as was the case prior to 2013). In the period between 2013 and 2020, only some emission allowances will be allocated for free to us in accordance with the Czech national plan for investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector approved by the E.U. Commission on July 6, 2012. A free allocation is, therefore, not within our control and will only be made to us subject to investment by us in technologies reducing greenhouse gas emissions of an amount equal to at least the market price of the freely allocated emission allowances. We cannot give any assurance that the national plan for investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector will not be changed in the future. In addition, the E.U. Commission has a power to amend the timetable of emission allowances auctions. In 2014, the E.U. Commission approved back-loading of emission allowances, which led to an increase of the price of allowances in the year 2014 – for more information, please see “Regulation—Czech Republic—Carbon Compliance (Emission Allowances)—Allocation of emission allowances during phase III”. Since January 1, 2013, we have to buy a certain part of the emission allowances on the market, because our emission allowances allocation that will be gradually decreasing to zero by 2020, does not, and will not, cover 100% of our annual emissions. Therefore, our costs may increase significantly, which could have a material adverse effect on our business, results of operations and financial conditions. In addition, we will be more vulnerable to risks relating to volatility in the price of CO<sub>2</sub> emission allowances. To mitigate this volatility risk, we have in place a hedging strategy of acquiring a certain volume of emission allowances along with electricity sale. Nevertheless, in the event of potential decreases in the price of emission allowances, this hedging strategy itself could have a material adverse effect on our business, results of operations and financial condition.

A continual decrease in the allocation of emission allowances across the European Union and a greater decrease in the allocation of emission allowances within the Phase III of the E.U. ETS as approved by the E.U. council in October 2014 for the period from 2020 until 2030 (please see “Regulation—Czech Republic—Carbon Compliance (Emission Allowances)—Current Carbon compliance—Phase III”) as well as any increase in the price of CO<sub>2</sub> emission allowances, may result in a substantial increase in our variable generation costs making the price of electricity offered by us uncompetitive, which could have a material adverse effect on our business, results of operations and financial

condition.

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

We are subject to the laws of various countries and jurisdictions, including the laws of the Czech Republic, Bulgaria, Poland, Romania, Turkey, Germany and the European Union, as well as the regulations of the regulatory agencies of the countries in which we operate, including the Energy Regulatory Office and the State Office for Nuclear Safety in the Czech Republic (please see “*Regulation*”), the Energy Regulatory Office in Romania, the Energy and Water Regulatory Commission in Bulgaria, Federal Network Agency for Electricity, Gas, Telecommunications, Posts and Railway (Bundesnetzagentur) in Germany, and The Energy Regulatory Office of Poland. These laws and regulations affect many aspects of our business and, in many respects, determine the manner in which we conduct our business and the fees we charge or obtain for our products and services, including in respect of electricity generation (both traditional and from renewable sources). In particular, as an owner and operator of nuclear, coal-fired and gas power plants (including combined heat and electricity power plants), renewable energy facilities and electricity distribution, heat distribution and mining businesses, we are subject to extensive governmental and other regulations in the markets in which we operate, including in relation to nuclear safety. Any new regulation or any changes in the existing regulations or requirements of the governments or regulatory authorities of the countries in which we operate, may require significant changes in our business in ways that we cannot predict, in particular the way in which we operate our nuclear assets. Any new regulations or requirements that cause us to restructure or otherwise change our business in any way, or that affect electricity generation, transmission, distribution or supply prices or related financial conditions, could have a material adverse effect on our business, results of operations and financial condition. In addition, we may fail to respond swiftly and appropriately to changes in applicable laws and regulations or to changes in the energy industry generally, which could have a material adverse effect on our business, results of operations and financial condition.

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

In the Czech Republic, a significant part of our revenue depends on regulated tariffs (including electricity distribution prices and heat prices). Such tariffs are set by the Czech Energy Regulatory Office. As of the date of this Base Prospectus, we are in the 4th regulatory period (2016 – 2018) (please see “*Regulation - Transmission and Distribution of Electric Energy - Price of Electricity*”). The regulation tariffs may change and, as a result, any changes in regulated tariffs could have a material adverse effect on our business, results of operations and financial condition.

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

For more information on our disputes in Bulgaria relating to the regulated tariffs, please see “*Description of the Issuer — Legal Proceedings — Bulgaria*”.

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

Our business as well as our capital investment program and financial investment strategy are subject to decisions of numerous national and international institutions, regulatory and administrative authorities. We face the risk that decision makers in these institutions may not act within the scope of existing laws and regulations, which could

have uncertain and unexpected consequences on our business and operations in the Czech Republic, Germany, Poland, South East Europe and Turkey, which in turn could have a material adverse effect on our business, results of operations and financial condition. Although we are not aware of any misconduct, we cannot exclude a politically motivated revocation of the license(s) which would have a material adverse effect on our business, results of operations and financial condition.

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

We sell the electricity we generate in the Czech Republic on markets such as the PXE and the EEX, which trade electricity contracts denominated in Euro. As a result, the revenues we receive from these sales are either denominated in Euro or denominated in Czech crowns, but derived from Euro-denominated electricity prices and the EUR/CZK exchange rate at the time the contract is concluded. However, a significant portion of our operating expenses and capital expenditure needs related to power generation in the Czech Republic are denominated in Czech crowns, leading to substantial foreign exchange risk. We also generate revenues and incur costs in currencies other than Euro and Czech crown, including Bulgarian lev, Polish zloty, Romanian lei and Turkish lira. We believe that our Euro denominated indebtedness acts as a natural foreign exchange hedge for our exposure to Euro denominated revenues and we also engage in transaction currency hedging, however, any increase in our exposure to foreign exchange risks or our failure to manage or make use of financial or natural hedging in order to manage our exposure to foreign exchange risk could have a material adverse effect on our business, results of operations and financial condition.

The Czech Republic has experienced growing public finance deficits which could potentially destabilize the Czech crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic through lower debt ratings. The Czech crown volatility is affected by the overall development of the global economy and the relative perception of risks associated with new E.U. member states and other central and eastern European countries as well as withdrawal of E.U. member states from the E.U. or the Eurozone. The volatility of the Czech crown is also affected by the anticipated date that the Czech Republic will join the Eurozone, which has been delayed due to political developments and the growing public and budget deficit of the Czech Republic. As of the date of this Base Prospectus, there is no official target date for the Czech Republic to join the Eurozone. Since November 2013, the Czech National Bank has been intervening in the markets to weaken the Czech crown against the euro and there is a significant uncertainty as to when the interventions will be terminated by the Czech National Bank.

In January 2015, European Central Bank announced a EUR 60 billion-a-month bond-buying programme, which was later increased to EUR 80 billion and recently, with effect from April 2017, decreased back to EUR 60 billion, to revitalize the Eurozone economy and counter deflation. We cannot give any assurance that any government and monetary authorities will not impose (as some have done in the past) exchange controls or interventions that could adversely affect an applicable exchange rate.

Any significant change or fluctuation in the Czech crown's exchange rate or inflation in the Czech Republic could have a material adverse effect on our business, results of operations and financial condition.

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

In accordance with the Vienna Convention, the Czech Nuclear Act 1997 provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to CZK 8 billion per accident and is obliged to maintain insurance coverage for potential liabilities for nuclear damage in an amount not less than CZK 2 billion. We have insurance policies in place for both the Dukovany and Temelín nuclear power plants, which provide coverage at these amounts. However, notwithstanding any limitation of liability under the Czech Nuclear Act 1997 and any additional coverage under our insurance policies, any nuclear accident or failure at our nuclear power plants could result in us incurring significant losses in excess of such amounts due to, among other things, a potential shut-down of the nuclear facility and the resulting loss of generation capacity, remedial and replacement expenses and negative publicity from such an accident. As a result, any nuclear accident suffered by our nuclear power plants could have a material adverse effect on our business, results of operations and financial condition.

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

Our power plants (including our coal-fired heat and power plants, nuclear reactors and hydropower facilities),

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

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

In addition, we may need to temporarily shut down some of our power plants and incur expenses in connection with inspections, maintenance or repair activities in addition to those that we currently conduct, including such additional activities that the governmental authorities in the countries in which we operate may require us to conduct. For example, operation of the Dukovany nuclear power plant was suspended in 2015 because of the license extension process and the welds control, and we also undertook unplanned operation outages of the Temelín nuclear power plant which caused the electricity generation to decline beyond our expectations. In 2016, the generation of both nuclear power plants was impacted by their extended outages as well. Units 2, 3 and 4 of the Dukovany nuclear power plant as well as Unit 1 of the Temelín nuclear power plant have undergone extended outages mainly due to the welds control and Unit 2 of the Temelín nuclear power plant due to a turbine oil glands fault and replacement. Any physical damage to our facilities may be costly to repair and we may not have insurance coverage for all potential losses or our insurance claims may be subject to challenge or delay. In particular, due to our contractual obligations to deliver electricity at pre-established prices and quantities, if we suffer a reduction in electricity generation, we may be required to purchase electricity in the open market which may be at unfavourable prices. As a result, any failure, breakdown or unplanned outages at our power plants or any failure or interruption of our distribution infrastructure could have a material adverse effect on our reputation, business, results of operations and financial condition.

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

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

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

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

With effect from January 1, 2014, operators of certain solar electricity producing facilities in the Czech Republic which were put into operation between January 1, 2010 and December 31, 2010 are subject to a withholding tax in the amount of (i) 10% of the income corresponding to the feed-in tariff, or (ii) 11% of the income corresponding to a “green bonus”. As of December 31, 2016, we owned and operated 12 solar power plants in the Czech Republic, with installed capacity of 125.2 MW. The majority of these solar power plants were put into operation between January 1, 2010 and December 31, 2010 and are subject to the withholding tax. Extension or amendment to such tax legislation or introduction of any similar tax in the future could have a material adverse effect on our business, results of operations and financial condition.

In 2013, the Ministry of Finance of the Czech Republic prepared a proposal for an amendment to the Act. No. 353/2003 Coll., as amended, and Act. No 261/2007 Coll., as amended, which aimed, among other things, to change the scope and increase the tax rate of taxes on fuels containing carbon (the “carbon tax”). The impact of carbon tax on ČEZ could be mitigated by participation in the E.U. ETS. Following the change of the Czech government in 2013, the proposal remained pending in the legislative procedure and so far has not been submitted to the Czech Parliament. However, there is no assurance that such tax or other new taxes will not apply to us in the future.

In 2014, the Czech Government in the *Policy Statement of the Government of the Czech Republic* expressed its intention to consider the introduction of a new “sector tax” to be imposed upon participants in Czech regulated industry sectors (including the energy sector). Neither proposal of any law introducing the sector tax nor any information on proposed parameters of this tax has been published. Introduction of the sector tax could have a material adverse effect on our business, results of operations and financial condition.

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

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

We face risks from our energy trading operations. In general, we seek to hedge risks associated with volatile energy-related prices (including the price of CO<sub>2</sub> emission certificates) by entering into fixed price bilateral contracts and futures contracts on commodity exchanges and swaps and options traded in over the counter financial markets. To the extent we are unable to hedge these risks, enter into hedging contracts that fail to address our exposure or incorrectly anticipate market movements, we may suffer significant losses which could have a material adverse effect on our business, results of operations and financial condition.

We are also exposed to other financial risks. Financial markets have experienced volatility in recent years and markets may decline again or become even more volatile in the future. The value of certain of our assets and financial investments, including joint ventures, is sensitive to the performance of the European and global economies. For example, we hold substantial amounts in certain government bonds, particularly Czech government bonds. Any future fluctuations in the capital markets could negatively influence the value of those assets which could have a material adverse effect on our business, results of operations and financial condition. We are dependent on debt capital markets to fund the majority of our working capital and capital expenditures. Any volatility in the debt capital markets could negatively affect this source of funding, which could have a material adverse effect on our business, results of operations and financial condition.

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

***We are exposed to risks on the wholesale energy, CO<sub>2</sub> emission allowances and green and other certificates markets.***

We operate in the deregulated energy markets in Europe through our trading activities. As a result, we are exposed to price fluctuations in the wholesale energy markets (electricity, gas, coal, crude oil) as well as in the CO<sub>2</sub> emission allowances market and green certificates markets (mainly in Romania). These fluctuations are particularly significant in the current context of major tensions and volatility on the energy markets. Any shortage of products or lack of liquidity could limit our ability to close our exposure to risk quickly in the energy market. In addition, these markets remain in part partitioned by country, largely as a result of the lack of interconnections and may experience significant increases or decreases in price movements and liquidity crises that are difficult to predict. Any such

fluctuations in the wholesale energy markets could have a material adverse effect on our business, results of operations and financial condition.

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

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

***We may not be able to recover the value of our investment in Bulgaria.***

In 2014 and in previous years, the Bulgarian Energy and Water Regulatory Commission (the “KEVR”) and other Bulgarian authorities and agencies have taken various adverse regulatory and related actions against CEZ Elektro Bulgaria AD and CEZ Razpredelenie Bulgaria AD, our Bulgarian electricity distributor and sellers. On March 19, 2014, the KEVR initiated license revocation proceedings in respect of the electricity sale license held by CEZ Elektro Bulgaria AD. On July 12, 2016, we commenced international investment arbitration proceedings against the Republic of Bulgaria at the International Centre for Settlement of Investment Disputes on the grounds of the Republic of Bulgaria’s failure to adhere to the investment protection provisions of the Energy Charter Treaty.

Although we are defending against all adverse regulatory actions in Bulgaria and filed the investment arbitration claim, we cannot give any assurance that we would be able to recover our investment in our business in Bulgaria. Consequently, the developments could have a material adverse effect on our business, results of operations and financial condition. For more information on the situation concerning our investment in Bulgaria, please see “Description of the Issuer — Legal Proceedings — Bulgaria”.

***We may not be able to fully recover the value of our investment in Romanian wind power plants.***

We own and operate wind power plants in Romania with total installed capacity of 600 MW that are subject to Romanian support scheme for renewable energy sources. Until 2013, our Romanian wind farms were authorized to receive two green certificates for each MWh of electricity generated. The support scheme also laid down (i) the mandatory price range for the green certificates between EUR 27 and EUR 55 to guarantee to the electricity producers a certain minimum level of revenue, and (ii) the obligation of electricity suppliers to acquire annually a certain number of green certificates determined for each year by ANRE.

Under E.U. and Romanian law, allocation of green certificates to each project with generation capacity exceeding 125 MW was required to be approved individually by the E.U. Commission from a state aid perspective. We filed the notifications in respect of our Cogeaalac wind farm (with generation capacity of 252.5 MW) and Fantanele Vest wind farm (with generation capacity of 262.5 MW) in the form required by Romanian law and within the statutory deadline in January 2012. Until obtaining an approval by the E.U. Commission, we received a temporary two-year allocation of two green certificates, which expired in 2013 in case of the Fantanele Vest wind farm and in 2014 in case of the Cogeaalac wind farm.

In 2013, the Romanian government approved a decree on promotion of renewable energy sources by which the support scheme for renewable energy sources was significantly reduced in detriment to operators of Romanian wind farms, thus having a negative impact on their business. As a result, producers of electricity from wind, although still entitled to receive two green certificates for each MWh of electricity generated, were now only allowed to sell on the market one of the two green certificates received for each MWh of the electricity generated. The restriction on trading with the second green certificate was expected to expire at the end of 2017, however the new rules for allocation of green certificates were amended in 2015 (as discussed further below). The governmental decree also provided for an



earlier expiration of the green certificate's validity. The Romanian government also decreased the number of green certificates to be mandatorily acquired by Romanian electricity suppliers. All these governmental actions decreased green certificates' market price to the statutory minimum. In addition, new taxes were imposed on wind power plants.

In March 2014, the Romanian Government filed a request for an approval of the amendments described in the preceding paragraph to the renewables support scheme with the E.U. Commission. As a result of such filing, the assessment of our notifications in respect of Cogecalac and Fantanele Vest wind farms by E.U. Commission was suspended. Consequently, our temporary accreditations expired in 2013 in case of the Fantanele Vest wind farm and in 2014 in case of the Cogecalac wind farm. Therefore, allocation of green certificates for electricity generation in Cogecalac and Fantanele Vest wind farms was suspended until 2015. The 2013 modification of the Romanian renewables support was approved by the E.U. Commission in 2015.

In September 2015, following further changes in Romanian law regulating renewables support scheme, ANRE approved a new temporary accreditation for allocation of green certificates to the Cogecalac and Fantanele Vest wind farms. The temporary accreditation entitled each wind farm to receive one green certificate per MWh of electricity produced. The second green certificate remained deferred until 2018. Under the 2015 changes in the legislation on the renewables support scheme, we are entitled also to the green certificates that were not granted during the suspension period from 2013 to 2015, although the recovery mechanism is still subject to political debate.

In 2016, the E.U. Commission approved our individual notification for Cogecalac and Fantanele Vest wind farms and, subsequently, we received permanent accreditation for allocation of one green certificate from ANRE. The second green certificate is deferred until 2018. Accordingly, the deferred green certificates will be issued in the period between January 1, 2018 and December 31, 2025. The certificates that our wind farms were supposed to receive during the period when their temporary accreditation expired are to be issued after the end of the support scheme (in case of Cogecalac, after 2027, and in case of Fantanele Vest, after 2025).

In March 2017, the Romanian government enacted Emergency Ordinance no. 24/2017, having a positive impact on the Romanian regulatory scheme and introducing measures expected to eliminate the excess amount of the issued green certificates currently on the market. The ordinance has imposed a duty on electricity sellers to purchase annually a constant amount of green certificates for the period of 15 years, commencing on April 1, 2017. In addition, green certificates issued after April 1, 2017 are to be tradeable until March 31, 2032. Further, the mandatory price range for green certificates has been increased to between 29.4 EUR/MWh and 35 EUR/MWh.

We recognized impairment losses of CZK 2,295 million with respect to our Romanian wind power farms in 2015 and CZK 2,466 million in 2016.

Any further suspensions or delays in accreditation and allocation of the green certificates or other adverse decision with respect to Romanian support of renewable energy sources could have an adverse effect on our ability to fully recover our investment in our Romanian wind power plants and have an adverse effect on results of our operations. For more information on the situation concerning our investment in Romanian wind power plants, please see *"Description of the Issuer—Electricity Generation — Wind power generation – Romania."*

***We may not be able to fully recover the value of our investment in Polish wind power plants.***

Since 2011, we have been developing a number of wind farm projects in various locations in Poland through our 100% shareholding interest in Eco-Wind Construction S.A., a Polish wind farm developer.

In July 2016, the new Polish wind farm investment law entered into force. Such law has adverse consequences for development of our wind farms in Poland. Pursuant to the new law, inter alia, (i) wind turbines must be situated away from residential and non-residential areas including natural reserves at a distance of equal to, or exceeding, ten times their total height, (ii) wind turbines are subject to higher real estate taxes to be paid by the wind farm operators, and (iii) technical and safety conditions of wind turbines are subject to review by Polish governmental authorities every two years and operators will be required to pay a substantial fee for this regulatory review in the amount of 1% of the wind turbines construction costs.

In addition, a new Polish law on renewable energy sources was adopted which introduced a new auction mechanism for granting the subsidies. The mechanism is set so that the highest subsidy would be granted to the stable and predictable sources, and thus wind power electricity generation will be the least subsidized renewable energy source, which may have an adverse effect on development of our wind farms in Poland.

Because of these adverse regulatory changes, development of four projects has been suspended and development of three other projects continues with the intention of their sale, rather than implementation. Currently, we are proceeding with the development of two projects with intention of their implementation. First, the construction of Project Krasin, our most advanced project, is dependent on the date and result of the auction in respect of the technological basket for wind energy. The auction is currently expected to take place in the fourth quarter of 2017. Secondly, we also anticipate construction of the second project, Biskupiec stage 1.

We recognized valuation allowance of CZK 9 million with respect to our Polish wind power farms in 2015 and CZK 671 million in 2016.

Although we are taking all necessary steps to limit the impact of all adverse regulatory actions in Poland, we cannot give any assurance that we would be able to recover our investment in our business in Poland. Consequently, the developments could have adverse effect on our business, results of operations and financial condition.

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

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

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

Our core activities of generation, distribution and supply of electricity require various administrative authorizations, at local and national levels, in the Czech Republic (see “*Regulation—Czech Republic—Electric Energy Sector—Licensing Regime*”) and in the other countries in which we operate. The procedures for obtaining and renewing these authorizations can be protracted and complex. Obtaining these authorizations is not routine and the conditions attached to obtaining them are subject to change and may not be predictable. As a result, we may incur significant expenses in order to comply with the requirements associated with obtaining or renewing these authorizations (for example, the cost of preparing applications for authorizations or investments associated with installing equipment that are required before the authorization can be issued). Delays, extremely high costs or the suspension of our industrial activities due to our inability to obtain, maintain, or renew authorizations, may also have a negative impact on our business activities and profitability. For example, operation of the Dukovany nuclear power plant was suspended in 2015 because of the license extension process and the welds control, and we also undertook unplanned operation outages of the Temelín nuclear power plant which caused the electricity generation to decline beyond our expectations. In 2016, the welds control at the Dukovany nuclear power plant continued and thus extended the length of the scheduled outages of Units 2, 3 and 4. In addition, in 2016, both Units of the Temelín nuclear power plant have undergone outages that were longer than expected due to unforeseen works. In case of Unit 1 the outage was influenced by the weld controls, in case of Unit 2 the outage was extended due to a turbine oil glands fault and replacement. For further detailed information, please see “*Description of the Issuer—Our Business—Electricity Generation*”.

In addition, we often invest resources prior to obtaining the necessary permits and authorizations, particularly in connection with feasibility studies and environmental studies, but may have to cancel or withdraw from a project if we are unable to obtain the necessary permits or authorizations. Certain other material licenses for the operation of our power plants are due to expire within the next five years. Any failure to obtain, maintain, renew or extend all the necessary administrative authorizations and licenses necessary for the operation of our business and execution of our strategy, could have a material adverse effect on our business, results of operations and financial condition.

***External financing may increase our interest expense.***

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

According to the new E.U. rules on capital requirements for banks (i.e., in particular, Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“CRD IV”) and Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (“CRR”), capital requirements for banks in the E.U. were strengthened. Amongst others, strengthening of capital requirements for banks in the E.U. may potentially lead to an increase in interest rates of external bank financing and a decrease of bank’s lending capacity.

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

The Czech Republic, through the Ministry of Finance, holds approximately 69.8% of all shares in ČEZ as of the date of this Base Prospectus. Although we do not currently expect the Czech Government to privatize ČEZ, we cannot give any assurance that the Czech Government or any future government of the Czech Republic will not ultimately seek to undertake a partial or full privatization of ČEZ resulting in the sale of its entire shareholding in ČEZ. The credit rating currently assigned to ČEZ by the rating agencies is based in part on the opinion of the rating agencies that the Czech Republic may potentially provide support to ČEZ in the event of financial distress. This rating could come under pressure, potentially leading to a downgrade, if ČEZ is fully or partially privatized and the Czech Republic is no longer a controlling shareholder, which could affect our ability to make repayments on our debt or otherwise have a material adverse effect on our business, results of operations and financial condition.

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

Our current generation capacity predominantly consists of coal and nuclear generation. We aim to expand our existing non-nuclear power generation as well as diversify our generation capacity in order to reduce CO<sub>2</sub> emissions, increase the flexibility of our generation facilities and increase our generation potential to meet future demand. We hope to achieve this by investing in the upgrade and replacement of coal-fired power plants, building new wind power plants and increasing our renewable power generation capacity. All of these investments require capital expenditure and substantial managerial attention. Furthermore, we may incur additional costs and loss of revenues if we fail to complete such expansion and diversification projects within budget and on schedule. Our failure to properly control these capital expenditures may result in higher utilization of our debt capacity and our inability to contract the relevant supplies on terms substantially comparable to those of our competitors, which could lower the competitiveness of our generation fleet. Any failure to expand and diversify our non-nuclear generation capacity could have a material adverse effect on our business, results of operations and financial condition.

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

The Czech Renewable Energy Act required and the Czech Promoted Energy Sources Act requires distribution companies to purchase certain amounts of electricity from environmentally friendly “co-generation,” “small hydro,” “decentralized” or “renewable” facilities. This results in significantly higher state support for small generation sources or for those that are connected directly to the distribution grid. This support may be in the form of regulated subsidized prices or preferential access of these generation sources to the distribution grid (please see “Regulation – Czech Republic - Renewable Energy Sources”).

However, in the Czech Republic we operate large plants and transmit a major portion of our electricity to the transmission grid. Consequently, we cannot take full advantage of state support for otherwise comparable power generation sources in the Czech Republic under the Czech Energy Act. Similar state support schemes for selected alternative power generation sources also exist in other countries in which we operate, including Bulgaria and Romania. While we believe that these purchases of electricity by the distribution companies and the preferential treatment of renewable sources will not substantially adversely affect the generation volumes of our conventional generation facilities, we cannot provide any assurance that this will in fact be the case or that our electricity sales to supply companies will not decrease, which could in turn have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

The energy markets in the countries in which we operate are undergoing a process of gradual liberalization, which is being implemented through different approaches and on different timetables from country to country. As a result of this liberalization, new competitors may enter many of our markets in the future. In relation to electricity, we compete in the retail electricity market and the wholesale electricity market. All suppliers have the right to offer their electricity and all customers have the right to choose their electricity supplier at their own discretion and we cannot give any assurance that our customers will not change their suppliers. Since January 1, 2006, the Czech electricity market has been fully liberalized and all end-consumers are considered to be eligible customers who may freely choose their supplier of electricity based on current market conditions. If our existing customers or potential new customers purchase electricity from other suppliers, our revenues and our market share will decrease. Our ability to develop our business and improve our financial results may be constrained by new competition and we may be unable to offset the financial effects of decreases in production and sales of electricity through efficiency improvements, or expansion into new business areas or markets. As a result, any increase in competition in the markets in which we operate could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

In the ordinary course of our business, we are exposed to the risk of disruptions in the supply of coal, nuclear fuel, gas or other raw materials, and to increases in their cost. Our generation operations depend upon obtaining deliveries of adequate supplies of raw materials on a timely basis and are therefore vulnerable to changes in the supply of the raw materials, including brown coal, nuclear fuel and gas. Our main supplier of black-coal used in our black-coal fired power plants, OKD, a.s., was declared insolvent by an insolvency court in 2016, which may have a negative impact on supply of black-coal to our power plants (Please see “*Description of Issuer – Fuel - Coal*”). Any significant shortages or interruption in the supply of raw materials or increases in their costs could disrupt our generation operations and increase our cost of raw materials, which could have a material adverse effect on our business, results of operations and financial condition.

Nuclear fuel for our nuclear power plants in the Czech Republic is supplied by Russian company TVEL (for more information, please see “*Description of Issuer – Fuel Nuclear Fuel*”). The current political situation in Ukraine and Russia may lead to shortages or interruption in the supply of the nuclear fuel to our nuclear power plants and even though we decided to construct a strategic inventory of fabricated fuel at our Temelín Nuclear Power Plant, we cannot give any assurance that any shortages or interruptions in the supply of nuclear fuel will not have a material adverse effect on our business, results of operations and financial condition.

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

In the ordinary course of our business, we are subject to numerous civil, administrative and arbitration proceedings. Our audited consolidated financial statements show accrued provisions for contingent liabilities relating to particular proceedings, calculated based on the advice of our internal and external legal counsel. As of December 31, 2016, we also recorded provisions relating to various other risks and charges, primarily in connection with regulatory disputes and disputes with local authorities. However, we have not recorded provisions in respect of all legal, regulatory and administrative proceedings to which we are a party or in which we may become a party. In particular, we have not recorded provisions in cases in which the outcome is unquantifiable or which we currently expect to be ruled in our favour. As a result, we cannot give any assurance that our provisions will be adequate to cover all amounts payable by us in connection with such proceedings. Our failure to quantify sufficient provisions or to assess the likely outcome of any proceedings against us could have a material adverse effect on our business, results of operations and financial condition.

***Due to our position in the Czech market, we are subject to the risk of having our future expansion limited more than our competitor***

According to the ERO, in the Czech Republic for the year ended December 31, 2016, we accounted for approximately 68% of electricity generated, 61% of installed electricity generation capacity, we distributed approximately 65% of the total electricity consumed in the regional distribution areas in the Czech Republic and sold 32% of the total net electricity consumed. In addition, we are the largest producer of brown coal in the Czech Republic, accounting for approximately 55.4% of the total volume of brown coal produced in the Czech Republic for the year ended December 31, 2016. In 2016, the remaining 31.6% share of electricity generated in the Czech Republic came from independent power producers and self-generators.

Although we comply and will continue to comply with all the applicable competition, anti-trust and non-discrimination rules, we may be subject to lawsuits or proceedings on the grounds of alleged non-compliance with these rules, and such lawsuits and proceedings could be decided against our interest, which could have a material adverse effect on our business, results of operations and financial condition. In order to enhance competition, the competent authorities or certain governments could also take decisions contrary to our interests. Such decisions could limit our expansion and growth and, thus, have a material adverse effect on our business, results of operations and financial condition.

***The investigations by police in the Czech Republic***

ČEZ has been contacted by the police of the Czech Republic in several cases that are subject to investigation. All cases are still at their preliminary stage which typically lasts for several months and sometimes a year or longer. At

that stage the police collect and verify information in order to decide whether there are justified reasons for starting criminal prosecution.

In April 2016, ČEZ Obnovitelné zdroje, s.r.o., an operator of the solar power plant Vranovská Ves with installed capacity of 16.033 MW received a resolution of the police of the Czech Republic on seizure of a part of funds which ČEZ Obnovitelné zdroje, s.r.o. is in the future entitled to receive under the settlement agreement between ČEZ Obnovitelné zdroje, s.r.o. and OTE, a.s. The funds seized by the Czech police are equal to the difference between the amount of subsidies paid to the solar power plant Vranovská Ves and the amount of subsidies that would have been paid to the solar power plant Vranovská Ves if it had been put into operation in 2011 when the subsidies were decreased, compared to the period prior to 2011 when the solar power plant Vranovská Ves was put into operation.

In November 2016, the High Court in Olomouc cancelled the former resolution of the police of the Czech Republic and issued a new resolution to seize the claim of ČEZ Obnovitelné zdroje, s.r.o. against OTE, a.s. in the total amount of CZK 383 million (according to the original resolution, the police of the Czech Republic seized the claim of ČEZ Obnovitelné zdroje, s.r.o. against OTE, a.s. in the total amount of CZK 606 million). The funds of ČEZ Obnovitelné zdroje, s.r.o. are deposited with the Czech National Bank and cannot be disposed of by ČEZ Obnovitelné zdroje, s.r.o.

In February 2017, the police of the Czech Republic issued a resolution to seize the funds of CEZ in the total amount of CZK 223 million which, as a result, cannot be disposed of by CEZ.

We believe that the solar power plant Vranovská Ves received the subsidies in compliance with applicable law which was confirmed by several inspections conducted by the ERO. Therefore, ČEZ Obnovitelné zdroje, s.r.o. and CEZ, respectively, filed a complaint against the resolutions of the police of the Czech Republic. In this proceeding the accused persons are not employees of CEZ Group. ČEZ Obnovitelné zdroje, s.r.o. and CEZ are the injured parties. Both resolutions are only preliminary rulings.

CEZ and ČEZ Obnovitelné zdroje, s.r.o. fully cooperate with the investigators and provide them with all requested documentation and information. Even though we believe that all cases in question are in compliance with relevant laws and therefore will be closed at their preliminary stage, we cannot fully exclude that any of those investigations would result in criminal prosecution, which if adversely determined, could have an adverse effect on our business, results of operations and financial conditions.

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

The agreements that govern our long-term debt contain certain restrictive covenants, including among others “negative-pledge” clauses, “no disposal of assets” clauses and “material change” clauses, which may restrict our ability to acquire or dispose of assets or incur new debt. Our failure to comply with any of these covenants could constitute an event of default, which could result in the immediate or accelerated repayment of our debt, lead to cross-default under our other credit agreements or limit or reduce our ability to implement and execute our key strategies, which could in turn have a material adverse effect on our business, results of operations and financial condition.

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

Under Czech law, we are required to reserve restricted funds to meet the expected future costs of decommissioning our nuclear power plants. We pay these funds into nuclear escrow accounts that can be used only to meet decommissioning costs with the permission of the Czech Repository Authority. In 2016 and 2015, the payments to the nuclear escrow account amounted to CZK 408.5 million and CZK 408.5 million, respectively. We cannot give any assurance that amounts held by us as restricted funds will not increase as a result of increased projected costs of decommissioning or as a result of other factors determining the amount of our annual contributions. In addition, if such amounts are not sufficient to meet future decommissioning costs, we may be required to pay additional amounts, which could have a material adverse effect on our business, results of operations and financial condition.

We are involved in open pit mining in the Czech Republic and are required to keep funds to decommission mines at the end of their operating lives. In addition, Czech law relating to open pit mining also requires us to remediate land affected by our mining operations. The cost of remediation depends on the type of remediation and is subject to periodical review. In addition to the creation of remediation reserves, the Czech authorities may also require other

payments relating to mining licenses. The methodology for determining remediation costs and such other payments may change as might the requirements relating to the collateralization of obligations, which could have a material adverse effect on our business, results of operations and financial condition. As an owner and operator of electricity and heat facilities, we may incur in the future significant costs and expenses in connection with decommissioning of such facilities.

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

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

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

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

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

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

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

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

Under Czech law, we are required to contribute funds to a nuclear account administered by the Ministry of Finance (the “*Czech Nuclear Account*”) based on the amount of electricity produced by our nuclear power plants. The Czech Nuclear Account is used by the Czech Radioactive Waste Repository Authority (the “*Czech Repository Authority*”) to organize centrally, supervise and take responsibility for the disposal of nuclear waste, as well as all final disposal facilities. We cannot give any assurance that the Czech government will not increase the contributions that we are required to pay into the Czech Nuclear Account under the Czech Nuclear Act 2016 or that cash amounts accrued in the Czech Nuclear Account will be sufficient to fund the disposal of radioactive waste. Any requirement to pay additional amounts into the Czech Nuclear Account could have a material adverse effect on our business, results of operations and financial condition.

***A strike or other labour disruption at our facilities could adversely affect our business, results of operations and financial condition.***

A substantial number of our employees are represented by labour unions and all CEZ employees were covered by our collective bargaining agreement as of December 31, 2016 (please see “*Description of the Issuer—Employees*”). This agreement includes provisions that limit our ability to realize cost savings from restructuring initiatives such as plant closures and reductions in workforce. Since our foundation we have not experienced any strikes or work stoppages, however, any strikes, threats of strikes, or other resistance or work stoppages in the future, particularly those affecting our facilities in the Czech Republic, could impair our ability to implement further measures to reduce costs and improve production efficiencies in furtherance of our strategy, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

***Our insurance coverage may not be adequate.***

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

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

A restitution process is underway in the Czech Republic, which involves the return of nationalized real



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

***Electromagnetic fields may have an adverse impact on public health.***

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

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

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

***Prohibited and unethical conduct carried out by our employees or third parties could have a material adverse effect on our business, results of operations and financial condition.***

Although we take all necessary precautions and implement all necessary preventive measures, any prohibited and unethical conduct carried by our employees or third parties on our behalf could expose us to criminal and civil sanctions which could have a material adverse effect on our reputation and shareholder value and, thus, on our business, results of operations and financial condition.

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

Experienced and capable personnel in the energy industry are in high demand and we face significant competition in our principal markets to recruit such personnel. Consequently, when our experienced employees leave our business or retire, we may have difficulty, and incur additional costs, replacing them. In addition, the loss of any member of our senior management team may result in a loss of organizational focus, poor execution of our operations and corporate strategy and our inability to identify and execute potential strategic initiatives in the future, including strategies relating to the growth of our business. Further, with effect from January 1, 2017, the Czech Nuclear Act 2016 significantly extended the number of our employees that must be subject to security clearance from the Czech National Security Authority. We estimate that an additional 3,000 of our staff members located in Dukovany and Temelín nuclear power plant will be required to receive the security clearance by January 1, 2020. The extended security

clearance requirement could significantly restrict our hiring policy and further limit an already limited number of candidates qualified for the respective positions.

Our failure to hire, train or retain a sufficient number of experienced, capable and reliable personnel, especially senior and middle management with appropriate professional qualifications, or to recruit skilled professional and technical staff in pace with our growth, could have a material adverse effect on our business, results of operations and financial condition.

### **Risks related to the Notes**

#### ***The Notes may not be a suitable investment for all investors.***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behavior of any relevant indices and financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

### **Risks related to the structure of a particular issue of Notes**

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features, distinguishing between factors which may occur in relation to any Notes and those which might occur in relation to certain types of Exempt Notes:

#### ***Risks applicable to all Notes***

*If the Issuer has a right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.*

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective

interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*If the Issuer has the right to convert the interest rate on any Notes from a fixed to a floating rate or vice versa, this may affect the secondary market and the market value of the Notes concerned.*

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

*There are particular risks associated with an investment in certain types of Floating Rate Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes.*

The Issuer may issue Floating Rate Notes with interest determined by reference to a reference rate (such as EURIBOR, LIBOR or PRIBOR).

Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) a reference rate (such as EURIBOR, LIBOR or PRIBOR) may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (iv) the timing of changes in a reference rate may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the reference rate, the greater the effect on yield.

The historical experience of a reference rate should not be viewed as an indication of the future performance of such reference rate during the term of any of the relevant Floating Rate Notes. Accordingly, each potential investor should consult its own financial and legal advisors about the risk entailed by an investment in any Floating Rate Note linked to a reference rate and the suitability of such Notes in light of its particular circumstances.

*Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.*

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

### ***Risks applicable to certain types of Exempt Notes***

*There are particular risks associated with an investment in certain types of Exempt Notes, such as Index Linked Notes and Dual Currency Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it.*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “Relevant Factor”). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated.

Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index or a Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of the relevant Notes. Accordingly, each potential investor should consult its own financial and legal advisors about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

*Where Notes are issued on a partly paid basis, an investor who fails to pay any subsequent instalment of the issue price could lose all of his investment.*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Any failure by an investor to pay any subsequent instalment of the issue price in respect of the Notes could result in such investor losing all of his investment.

*Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

*Notes which are issued with an inverse floating interest rate will have more volatile market values than conventional floating rate notes*

Notes with an inverse floating rate have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR, EURIBOR or PRIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Notes with an inverse floating rate are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

***Reform of PRIBOR and regulation and reform of other "benchmarks" could adversely affect any Notes linked to such "benchmarks"***

PRIBOR and other rates and indices which are deemed to be "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to such a "benchmark".

Regulation (EU) 2016/1011 (the "Benchmark Regulation") was published in the official journal on June 29, 2016, will apply from January 1, 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that apply from June 30, 2016).

The Benchmark Regulation could have a material impact on any Notes linked to PRIBOR or another "benchmark" rate or index, in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the terms of the Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level of the benchmark. In addition, the Benchmark Regulation stipulates that each administrator of a "benchmark" regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. It cannot be ruled out that administrators of certain "benchmarks" will fail to obtain a necessary licence, preventing them from continuing to provide such "benchmarks". Other administrators may cease the provision of certain "benchmarks" because of the additional costs of compliance with the Benchmark Regulation and other applicable regulations, and the risks associated therewith.

More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". Any of the above changes or any other consequential changes as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to a "benchmark".

### **Risks related to the Notes generally**

Set out below is a description of material risks relating to the Notes generally:

***The conditions of the Notes contain provisions which may permit their modification without the consent of all investors.***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

***The value of the Notes could be adversely affected by a change in English law or administrative practice.***

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

***Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and be adversely affected if definitive Notes are subsequently required to be issued.***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

### **Risks related to the market generally**

Set out below is a description of the material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

***An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.***

Notes may have no established trading market when issued, and one may never develop. If a market for the Notes does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

***If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.***

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.***

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

***Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes.***

The Issuer's credit ratings are A- (stable outlook) by Standard & Poor's and Baa1 (stable outlook) by Moody's. Standard & Poor's (domiciled in the United Kingdom) and Moody's (domiciled in the United Kingdom) are both established in the European Union and are included in the list of credit rating agencies registered in accordance with the CRA Regulation, which is available on the ESMA website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>). The list of registered and certified rating agencies published by ESMA on its website is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. In addition, Standard & Poor's, Moody's and/or other independent credit rating agencies may assign credit ratings to the Notes. Any rating is not a recommendation to purchase, sell or hold any particular security, including the Notes. These ratings are limited in scope and do not comment as to market price or suitability for a particular investor. In addition, ratings at any time may be lowered or withdrawn in their entirety. Actual or anticipated changes or downgrades in the Issuer's credit ratings, including any announcement that the Issuer's ratings are under further review for a downgrade, could affect the market value of the Notes and increase the Issuer's borrowing costs.

European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances. Such general restriction will also apply in the case of credit ratings issued by non-E.U. credit rating agencies, unless the relevant credit ratings are endorsed by an E.U.-registered credit

rating agency or the relevant non-E.U. rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Certain information with respect to the credit rating agencies and ratings is set out in this Base Prospectus.

## **STABILIZATION**

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilization Manager(s) (or persons acting on behalf of any Stabilization Manager(s)) in the applicable Final Terms or (in the case of Exempt Notes) the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However stabilization may not necessarily occur. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilization action or over-allotment must be conducted by the relevant Stabilization Manager(s) (or persons acting on behalf of any Stabilization Manager(s)) in accordance with all applicable laws and rules.**



## PRESENTATION OF FINANCIAL INFORMATION

With the exception of certain alternative performance measures (please see "*Alternative Performance Measures*"), the financial information as of and for the years ended December 31, 2015 and 2016 included in this Base Prospectus has been derived from the audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2015 and 2016, which are incorporated by reference into this Base Prospectus (please see "*Documents Incorporated by Reference*"). The audited financial statements of ČEZ for the year ended December 31, 2016 are also incorporated by reference in this Base Prospectus (see "*Documents Incorporated by Reference*").

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

### Alternative Performance Measures

In this Base Prospectus, we present the following metrics calculated on the basis of the audited consolidated financial statements of the CEZ Group which are not calculated in accordance with IFRS and which are therefore non-IFRS measures. These metrics constitute the Alternative Performance Measures ("APMs") as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. Please see "Selected Financial Information – Other Financial Information" for reconciliation of the APMs to our audited consolidated financial statements.

APM	Definition of APM	Purpose of APM
EBIT	Income before other income (expenses) and income taxes.	Measure of operating performance.
EBITDA	Income before other income (expenses) plus depreciation and amortization and income tax plus/minus impairment of plant, property and equipment and intangible assets including goodwill and gain/loss from sale of property, plant and equipment and intangibles (including write-off of permanently stopped investment projects).	Measure of operating performance.
EBITDA Margin	Percentage corresponding to the ratio of EBITDA to total revenues and other operating income.	Measure of operating profitability.
Net Debt	Long-term debt, net of current portion plus current portion of long-term debt plus short-term loans minus the sum of cash and cash equivalents and highly liquid financial assets.	Measure of indebtedness.
Net Debt/EBITDA Ratio	Ratio of Net Debt to EBITDA.	Measure of indebtedness and borrowing capacity.
Total Capital	Total equity attributable to equity holders of the parent plus Total Debt.	Measure of invested capital.
Total Debt	Long-term debt, net of current portion plus current portion of long-term debt plus Short-term loans.	Measure of indebtedness.
Total Debt/Total Capital Ratio	Ratio of Total Debt to Total Capital.	Indicator of financial structure and solvency.

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

The APMs are included in this Base Prospectus to extend the financial disclosure to metrics which are used, along with IFRS measures, by our management in monitoring and valuating the CEZ Group's economic and financial performance, and provide investors with further basis, along with IFRS measures, for measuring the CEZ Group's performance.

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

The APMs have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analysis of our results as reported under IFRS as set out in our audited consolidated financial statements and you should not place any undue reliance on our APMs. Some of these limitations related to the APMs are:

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

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

## FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

## **HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA**

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

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

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

In addition, the Issuer has provided the data contained in this Base Prospectus as to installed capacity, generation and other market share information with respect to the electricity and heating industries in the Czech Republic (unless explicitly stated otherwise). The Group compiles and publishes certain of this data on a regular basis, and also supplies certain of this data to the Czech Statistical Office and the Czech Energy Regulatory Office for use in compiling national data on the energy sector.

## SELECTED FINANCIAL INFORMATION

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

With the exception of certain APMs discussed in “*Presentation of Financial Information*” the financial information as of and for the years ended December 31, 2015 and 2016 included in this Base Prospectus has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016 prepared in accordance with IFRS, which are incorporated by reference into this Base Prospectus.

The summary financial data in the tables below should be read together with our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016, including the notes thereto, which are incorporated by reference into this Base Prospectus. Please also see “*Presentation of Financial Information*” and “*Risk Factors*” herein.

### Income Statement Data

The following table sets forth summary consolidated income statement data of the CEZ Group for the years ended December 31, 2015 and 2016.

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(CZK in millions)</b>	
<b>Revenues and other operating income:</b>		
Sales of electricity .....	182,105	174,944
Sales of gas, coal, heat and other revenues .....	24,569	27,065
Other operating income .....	3,493	1,735
<b>Operating expenses:</b>		
Gains and losses from commodity derivative trading, net.....	(540)	(368)
Fuel .....	(13,053)	(13,150)
Purchased power and related services .....	(90,905)	(88,294)
Repairs and maintenance .....	(4,619)	(4,563)
Depreciation and amortization .....	(28,619)	(28,978)
Impairment of property, plant and equipment and intangible assets including goodwill .....	(7,685)	(3,114)
Salaries and wages .....	(17,758)	(19,158)
Materials and supplies .....	(4,062)	(4,362)
Emission rights, net .....	(1,711)	(520)
Other operating expenses .....	(12,254)	(15,123)
<b>Income before other income (expenses) and income taxes.</b>	<b>28,961</b>	<b>26,114</b>
Other income (expenses) .....	(2,066)	(6,786)
<b>Income before income taxes .....</b>	<b>26,895</b>	<b>19,328</b>
Income taxes .....	(6,348)	(4,753)
<b>Net income .....</b>	<b>20,547</b>	<b>14,575</b>

### Balance Sheet Data

The following table sets forth summary consolidated balance sheet data of the CEZ Group as of December 31, 2015 and 2016.

**As of December 31,**

	<b>2015</b>	<b>2016</b>
	<b>(CZK in millions)</b>	
<b>Assets:</b>		
Total property, plant and equipment .....	421,364	426,895
Total other non-current assets .....	71,691	62,359
Total non-current assets .....	493,055	489,254
Total current assets .....	109,631	141,587
<b>Total assets .....</b>	<b>602,686</b>	<b>630,841</b>
<b>Equity and Liabilities:</b>		
Total equity attributable to equity holders of the parent .....	267,893	256,812
Total equity .....	272,155	261,360
Total long-term liabilities .....	236,832	240,041
Total current liabilities .....	93,699	129,440
<b>Total equity and liabilities .....</b>	<b>602,686</b>	<b>630,841</b>

### Statement of Cash flow Data

The following table sets forth summary consolidated cash flow statement data of the CEZ Group for the years ended December 31, 2015 and 2016.

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(CZK in millions)</b>	
Net cash provided by operating activities .....	72,579	48,953
Total cash used in investing activities .....	(31,570)	(34,571)
Total cash provided by (used in) financing activities .....	(47,374)	(16,540)
Net effect of currency translation in cash .....	(248)	6
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>(6,613)</b>	<b>(2,152)</b>
Cash and cash equivalents at the beginning of the period ....	20,095	13,482
Cash and cash equivalents at the end of the period .....	13,482	11,330

### Other Financial Information

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

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(CZK in millions, except percentages)</b>	
EBIT .....	28,961	26,114
EBITDA .....	65,104	58,082
EBITDA Margin .....	31.0%	28.5%
Net Debt .....	131,223	146,452

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

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

The following table is a reconciliation of CEZ Group's Net Debt as of December 31, 2015 and 2016 to our audited consolidated financial statements as of December 31, 2015 and 2016. Net Debt is an APM. Please see "Presentation of Financial Information—Alternative Performance Measures."

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(CZK in millions)</b>	
<b>Long-term debt, net of current portion</b> .....	145,575	142,265
(line item of our audited consolidated balance sheet)		
<b>Current portion of long-term debt</b> .....	11,696	17,208
(line item of our audited consolidated balance sheet)		
	223	8,343
<b>Short-term loans</b> .....		
(line item of our audited consolidated balance sheet)		
<b>Cash and cash equivalents</b> .....	(13,482)	(11,226)
(line item of our audited consolidated balance sheet)		
<b>Highly liquid financial assets</b> .....	(12,789)	(10,138)
Short-term equity securities available-for-sale .....	(946)	-
(Note 13 of our audited financial statements)		
Short-term debt securities available-for-sale .....	-	(7)
(Note 13 of our audited financial statements)		
Short-term debt securities held-to-maturity .....	(3,852)	(2,945)
(Note 13 of our audited financial statements)		
Short-term deposits .....	(7,315)	(2,040)
(Note 13 of our audited financial statements)		
Long-term deposits .....	-	(500)
(Note 5 of our audited financial statements)		
Long-term debt securities available-for-sale .....	(676)	(4,646)
(Note 5 of our audited financial statements)		
<b>NET DEBT</b> .....	<b>131,223</b>	<b>146,452</b>

The following table is a reconciliation of EBIT, EBITDA and Net Debt/EBITDA Ratio for the years ended December 31, 2015 and 2016 to our audited consolidated financial statements as of December 31, 2015 and 2016. EBIT, EBITDA and Net Debt/EBITDA Ratio are APMs. Please see "Presentation of Financial Information—Alternative Performance Measures."

	<b>For the year ended December 31,</b>	
	<b>2015</b>	<b>2016</b>
	<b>(CZK in millions, except percentages)</b>	
<b>Income before other income (expenses) and income taxes</b> ....	28,961	26,114
(line item of our audited consolidated statement of income)		
<b>EBIT</b> .....	<b>28,961</b>	<b>26,114</b>
<b>Depreciation and amortization</b> .....	28,619	28,978
(line item of our audited consolidated statement of income)		
<b>Impairment of property, plant and equipment and intangible assets including goodwill</b> .....	7,685	3,114
(line item of our audited consolidated statement of income)		
<b>Gain/loss from sale of property, plant and equipment and intangibles</b> .....	(161)	(124)
(Note 25 and 28 of our audited financial statements)		
<b>EBITDA</b> .....	<b>65,104</b>	<b>58,082</b>
<b>Total revenues and other operating income</b> .....	210,167	203,744



For the year ended December 31,

	2015	2016
	(CZK in millions, except percentages)	
EBITDA Margin.....	31.0%	28.5%
Net Debt/EBITDA Ratio.....	2.02	2.52

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement). The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of Notes, other than Exempt Notes, and if appropriate, a supplement to the Base Prospectus or a new Base Prospectus will be published.*

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this Overview.

**Issuer:** ČEZ, a. s.

**Risk Factors:** There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “*Risk Factors*” above. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “*Risk Factors*” and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.

**Description:** Euro Medium Term Note Programme

**Arrangers:** BNP Paribas and Citigroup Global Markets Limited

**Dealers:** BNP Paribas

Citigroup Global Markets Limited

and any other Dealers appointed in accordance with the Amended and Restated Programme Agreement and excluding any entity whose appointment has been terminated.

**Certain Restrictions:** Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “*Subscription and Sale*”) including the following restrictions applicable at the date of this Base Prospectus.

### **Notes having a maturity of less than one year**

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*.”

**Issuing and Principal Paying Agent:** Deutsche Bank AG, London Branch

**Programme Size:** Up to €8,000,000,000 (or its equivalent in other currencies calculated as

described in the Amended and Restated Programme Agreement) outstanding at any time provided that the sum of (i) the aggregate nominal amount of the outstanding Notes issued under the Programme from time to time and (ii) the aggregate nominal amount of outstanding *Namensschuldverschreibung* securities (the “NSV”) issued by the Issuer under German law from time to time, shall not exceed the limit of €8,000,000,000. As of the date of this Base Prospectus, the Issuer has issued NSV in the aggregate nominal amount of €211,000,000. Pursuant to the resolution of the Board of Directors dated February 14, 2011 and the Supervisory Board dated February 24, 2011, as at the date of this Base Prospectus the Issuer’s internal limit of the aggregate nominal amount of outstanding NSV, which may be issued from time to time, is €1,000,000,000. The Issuer may increase the amount of the Programme in accordance with the terms of the Amended and Restated Programme Agreement.

<b>Distribution:</b>	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Notes may be denominated in euro, Sterling, U.S. dollars, yen and, subject to any applicable legal or regulatory restrictions, any other currency agreed between the Issuer and the relevant Dealer.
<b>Maturities:</b>	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
<b>Issue Price:</b>	Notes may be issued on a fully-paid or, in the case of Exempt Notes, a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
<b>Form of Notes:</b>	The Notes will be issued in bearer form as described in “ <i>Form of the Notes.</i> ”
<b>Fixed Rate Notes:</b>	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
<b>Floating Rate Notes:</b>	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or</li> <li>(b) on the basis of the reference rate set out in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).</li> </ul> <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p> <p>Floating Rate Notes may also have a maximum interest rate, a minimum</p>

interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

**Zero Coupon Notes:**

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

**Exempt Notes:**

The Issuer may issue Exempt Notes which are Index Linked Notes, Dual Currency Notes, Partly Paid Notes or Notes redeemable in one or more instalments.

**Index Linked Notes:** Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

**Dual Currency Notes:** Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

**Partly Paid Notes:** The Issuer may issue Notes in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

**Notes redeemable in instalments:** The Issuer may issue Notes which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

The Issuer may agree with any Dealer that Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.

**Redemption:**

Subject as described in “*Certain Restrictions—Notes having a maturity of less than one year*” above, Notes may either be redeemed at 100 per cent. of their nominal amount or at such other amount, expressed as a percentage of their nominal amount, as may be agreed between the Issuer and the relevant Dealer. Such amounts will be specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).

The applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default or, in the case of Exempt Notes in specified instalments, if applicable), or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

In addition, the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) may provide that Notes may be redeemable at the option of the Noteholders upon the occurrence of a Change of Control and a consequential rating downgrade or withdrawal (or refusal to provide a rating) in the circumstances described in Condition 6.4(b).

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “*Certain Restrictions—Notes having a maturity of less than one year*” above.

**Denomination of Notes:**

The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “*Certain Restrictions – Notes having a maturity of less than one year*” above, and save that the minimum denomination of each Note, other than an Exempt Note, will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

**Taxation:**

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 7. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted.

**Negative Pledge:**

The terms of the Notes will contain a negative pledge provision as further described in Condition 3.

**Cross Default:**

The terms of the Notes will contain a cross default provision as further described in Condition 9.

**Status of the Notes:**

The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

**Listing, Approval and admission to trading:**

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Notes issued under the Programme to be listed on the Luxembourg Stock Exchange.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms (or applicable Pricing Supplement, in the case of Exempt Notes) will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

**Governing Law:**

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and the Czech Republic), Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see “*Subscription and Sale.*”

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the CSSF shall be incorporated by reference in, and form part of, this Base Prospectus:

The following documents comprising the auditor's report and audited consolidated annual financial statements of the CEZ Group for the two financial years ended December 31, 2015 and December 31, 2016 as well as the audited non-consolidated financial statements of ČEZ for the year ended December 31, 2016:

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The information incorporated by reference that is not included in the above cross-reference list is considered as additional information to be disclosed to investors rather than information required by the relevant schedules of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive. The section “*Terms and Conditions of the Notes*” from the following base prospectuses relating to the Programme shall be deemed to be incorporated by reference in, and to form part of, this Base Prospectus:

- (a) Base Prospectus dated September 24, 2007 (pages 40-64 inclusive);
- (b) Base Prospectus dated March 19, 2009 (pages 40-64 inclusive);
- (c) Base Prospectus dated March 31, 2010 (pages 41-66 inclusive);
- (d) Base Prospectus dated March 31, 2011 (pages 46-71 inclusive);
- (e) Base Prospectus dated April 23, 2012 (pages 62-87 inclusive);
- (f) Base Prospectus dated April 19, 2013 (pages 71-95 inclusive);

- (g) Base Prospectus dated April 22, 2014 (pages 71-95 inclusive); and
  - (h) Base Prospectus dated April 13, 2015 (pages 74-98 inclusive),
- (together, the “*Previous Terms and Conditions*”).

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

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Luxembourg. The documents incorporated by reference will also be available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.



## GLOSSARY OF TERMS AND DEFINITIONS

Terms and definitions used in this Base Prospectus have the meanings set forth below.

“ <i>Albanian ERE</i> ”	the Albanian Electricity Regulation Authority
“ <i>ANRE</i> ”	the Romanian Energy Regulatory Authority
“ <i>Articles of Association</i> ”	the articles of association of ČEZ
“ <i>Audit Committee</i> ”	the audit committee of ČEZ
“ <i>BAT</i> ”	the best available techniques
“ <i>Board of Directors</i> ”	the board of directors of ČEZ
“ <i>Bonds Act</i> ”	Czech Act No. 190/2004 Coll., on Bonds, as amended
“ <i>BGN</i> ” or “ <i>Bulgarian Lev</i> ”	the lawful currency of Bulgaria
“ <i>Capital Market Act</i> ”	Czech Act No. 256/2004 Coll., on Conducting Business in the Capital Market, as amended
“ <i>CCGT</i> ”	a combined cycle gas turbine
“ <i>CER</i> ”	Certified Emission Reduction credits
“ <i>ČEZ</i> ” or “ <i>CEZ</i> ”	ČEZ, a. s.
“ <i>CEZ Group</i> ,” the “ <i>Group</i> ”, “ <i>we</i> ”, “ <i>us</i> ” or “ <i>our</i> ”	ČEZ, a. s. and its consolidated subsidiaries
“ <i>CEZ SH</i> ”	Operatori i Shpërndarjes së Energjisë Elektrike Sh.A. (formerly known as CEZ Shpërndarje Sh.A.)
“ <i>CO<sub>2</sub></i> ”	carbon dioxide
“ <i>Corporate Governance Codex</i> ”	the Czech 2004 Corporate Governance Codex compiled by the former Czech Securities Commission
“ <i>CRA Regulation</i> ”	Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011
“ <i>CSSF</i> ”	the <i>Commission de Surveillance du Secteur Financier</i> , the competent authority under the Prospectus Act 2005
“ <i>Czech Air Protection Act</i> ”	Czech Act No. 201/2012 Coll., on protection of the air, as amended
“ <i>Czech Companies Act</i> ”	Czech Act No. 90/2012 Coll., on Companies and Cooperatives, as amended
“ <i>Czech crowns</i> ” and “ <i>CZK</i> ”	the lawful currency of the Czech Republic
“ <i>Czech Ecological Losses Prevention Act</i> ”	Czech Act No. 167/2008 Coll., prevention of ecological losses, as amended
“ <i>Czech Emission Allowances Act</i> ”	Czech Act No. 383/2012 Coll., on conditions for trading with emission

	allowances, as amended
<i>“Czech Energy Act”</i>	Czech Act No. 458/2000 Coll., on conducting business and governmental oversight in the energy sectors, as amended
<i>“Czech Environment Act”</i>	Czech Act No. 17/1992 Coll., the environment act, as amended
<i>“Czech IPPC Act”</i>	Czech Act No. 76/2002 Coll., on integrated pollution and control, as amended
<i>“Czech Legal Entity Criminal Act”</i>	Czech Act No. 418/2011 Coll., on criminal liability of legal entities and proceedings against them, as amended
<i>“Czech Mining Act”</i>	Czech Act No. 44/1998 Coll., on Protection and Exploitation of Minerals, as amended
<i>“Czech Ministry of Environment”</i>	the Ministry of Environment of the Czech Republic
<i>“Czech Ministry of Industry”</i>	the Ministry of Industry and Trade of the Czech Republic
<i>“Czech Nuclear Account”</i>	the nuclear account administered by the Czech Ministry of Finance
<i>“Czech Nuclear Act 1997”</i>	Czech Act No. 18/1997 Coll., on peaceful exploitation of nuclear energy and ionizing radiation, as amended
<i>“Czech Nuclear Act 2016”</i>	Czech Act No. 263/2016 Coll., the nuclear act
<i>“Czech Promoted Energy Sources Act”</i>	Czech Act No. 165/2012 Coll., on promoted energy sources, as amended
<i>“Czech Renewable Energy Act”</i>	Czech Act No. 180/2005 Coll., on the promotion of production of electricity from renewable energy sources, as amended
<i>“Czech Repository Authority”</i>	the regulatory authority Czech Radioactive Waste Repository Authority
<i>“Czech Waste Act”</i>	Czech Act No. 185/2001 Coll., on waste, as amended
<i>“Czech Water Act”</i>	Czech Act No. 254/2001 Coll., as amended
<i>“Division Heads”</i>	the chief officers of ČEZ
<i>“EBIT”</i>	income before income taxes and other income (expenses)
<i>“EBITDA”</i>	income before income taxes and other income (expenses) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets including goodwill less gain (or loss) on sale of property, plant and equipment
<i>“EBITDA Margin”</i>	EBITDA divided by total revenues, expressed as a percentage
<i>“EDF”</i>	Electricite de France S.A.
<i>“EDP”</i>	Energias de Portugal
<i>“EEX”</i>	the European Energy Exchange
<i>“EIA”</i>	an environmental impact assessment
<i>“ELINT”</i>	the European Liability Insurance for the Nuclear Industry
<i>“EMANI”</i>	the European Mutual Association for Nuclear Insurance

“ <i>EMFs</i> ”	electromagnetic fields
“ <i>EMU</i> ”	the European Monetary Union
“ <i>EnBW</i> ”	EnBW Energie Baden-Württemberg AG
“ <i>ENEL</i> ”	ENEL S.p.A.
“ <i>Energy Charter Treaty</i> ”	the Energy Charter Treaty of December 17, 1994, as amended
“ <i>ENTSO for Electricity</i> ”	the European Network of Transmission System Operators
“ <i>ENTSO for Gas</i> ”	the European Network of Transmission System Operators for Gas
“ <i>E.ON</i> ”	E.ON AG
“ <i>EPEX SPOT</i> ”	the European Power Exchange (Spot Markets) in Paris
“ <i>ERO</i> ”	the Czech Energy Regulatory Office
“ <i>ERU</i> ”	Emission Reduction Units
“ <i>ESA</i> ”	the European Supply Agency
“ <i>ESO</i> ”	the electricity system operator
“ <i>EUA</i> ”	E.U. Emission Allowances
“ <i>E.U. Climate and Energy Package</i> ”	the climate and energy package adopted by the European Union in 2009
“ <i>E.U. Directive on Administrative Cooperation</i> ”	Directive 2011/16/EU on administrative cooperation in the field of taxation (as amended by Council Directive 2014/107/EU)
“ <i>E.U. Electricity Security of Supply Directive</i> ”	Directive 2005/89/EC Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment
“ <i>E.U. ETS</i> ”	the E.U. Emission Trading Scheme for CO <sub>2</sub> emission allowances
“ <i>E.U. First Electricity Directive</i> ”	Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity
“ <i>E.U. First Gas Directive</i> ”	Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas
“ <i>E.U. Gas Supply Directive</i> ”	Regulation (E.U.) 994/2010 Concerning Measures to Safeguard Security of Gas Supply
“ <i>E.U. Natural Gas Transmission Regulation</i> ”	Regulation 715/2009 on conditions for Access to Natural Gas Transmission Networks
“ <i>E.U. Renewable Energy Directive</i> ”	Directive 2009/28/EC on the promotion of the use of energy from renewable sources
“ <i>Euratom Treaty</i> ”	the Treaty Establishing the European Atomic Energy Community
“ <i>EURIBOR</i> ”	the Euro Interbank Offered Rate
“ <i>Euro</i> ” “ <i>EUR</i> ” and “ <i>€</i> ”	the currency introduced at the start of the third stage of European economic

	and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended
<i>“E.U. Regulation on Cross-Border Exchanges”</i>	Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity
<i>“E.U. Savings Directive”</i>	the E.U. Council Directive 2003/48/EC on the taxation of savings income
<i>“E.U. Second Electricity Directive”</i>	Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity
<i>“E.U. Second Gas Directive”</i>	Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas
<i>“E.U. Third Electricity Directive”</i>	Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity
<i>“E.U. Third Gas Directive”</i>	Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas
<i>“Fortum”</i>	Fortum Corporation
<i>“FSMA”</i>	the Financial Services and Markets Act 2000
<i>“General Meeting”</i>	the general meeting of ČEZ
<i>“GreenX”</i>	the Green Exchange (Environmental Markets) in New York
<i>“GW”</i>	gigawatt, which is equal to 1,000 MW
<i>“GWh”</i>	gigawatt-hour, representing one hour of electricity consumption at a constant rate of 1 GW
<i>“HTSO”</i>	the Hellenic Transmission System Operator in Greece
<i>“HUPX”</i>	the Hungarian Power Exchange
<i>“IAEA”</i>	the International Atomic Energy Agency
<i>“IARC”</i>	the International Agency for Research on Cancer
<i>“Iberdrola”</i>	Iberdrola S.A.
<i>“ICE”</i>	the London Intercontinental Exchange
<i>“IFRS”</i>	the International Financial Reporting Standards issued by the International Accounting Standards Board, including interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously referred to as the “Standing Interpretations Committee” (SIC), and, also including, International Accounting Standards, where the context requires, as endorsed by the E.U. Commission for use in the European Union
<i>“Industrial Emissions Directive”</i>	Directive 2010/75/EC on industrial emissions (on integrated pollution prevention and control)
<i>“installed capacity”</i>	the highest constant level of generation of electricity which a power plant is designed to be capable of maintaining

<i>“ISFSF”</i>	an interim spent nuclear fuel storage facility
<i>“ISIN”</i>	International Security Identification Number
<i>“ISO”</i>	Independent System Operator
<i>“Issuer”</i>	ČEZ, a. s.
<i>“ITO”</i>	Independent Transmission Operator
<i>“KESH”</i>	the Albanian Power Corporation
<i>“KEVR”</i>	the Bulgarian Energy and Water Regulatory Commission
<i>“kW”</i>	kilowatt, representing the rate at which energy is produced
<i>“KYOTO Protocol”</i>	the Kyoto protocol for reducing greenhouse gas emissions
<i>“LIBOR”</i>	the London Interbank Offered Rate
<i>“LTO”</i>	long-term-operation
<i>“Madrid Agreement”</i>	the Madrid Agreement Concerning the International Registration of Marks and its Protocol
<i>“MAR”</i>	Regulation (EC) No. 596/2014 on Market Abuse
<i>“MIBRAG”</i>	Mitteldeutsche Braunkohlengesellschaft GmbH
<i>“MW”</i>	megawatt, which is equal to 1,000 kW
<i>“MWh”</i>	megawatt-hour, representing one hour of electricity consumption at a constant rate of 1 MW
<i>“National Plan of Investment”</i>	the National Plan of Investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector approved by the E.U. Commission on July 6, 2012
<i>“Net Debt”</i>	long-term debt, net of current portion plus short-term loans plus current portion of long-term debt minus cash and cash equivalents plus highly liquid financial assets
<i>“NO<sub>x</sub>”</i>	mono-nitrogen oxides
<i>“NSV”</i>	Namensschuldverschreibung securities
<i>“OPCOM”</i>	the Romanian Electricity Market Operator Opcom SA
<i>“OSART”</i>	the Operational Safety Review Team of the IAEA
<i>“OTC”</i>	over-the-counter
<i>“OTE”</i>	the Czech Electricity and Gas Market in Prague
<i>“PCBs”</i>	polychlorobiphenyls
<i>“PGE”</i>	Polska Grupa Energetyczna S.A.

“POLPX”	the Polish Power Exchange
“PRIBOR”	the Prague Interbank Offer Rate
“Prospectus Act 2005”	the Luxembourg Act dated 10 July 2005 on prospectuses for securities
“PXE”	the Power Exchange Central Europe
“REAS”	the original, state-owned, regional distribution companies in the Czech Republic
“Regulation S”	Regulation S under the U.S. Securities Act
“REMIT”	Regulation (EC) No. 1227/2011 on Wholesale Energy Market Integrity and Transparency
“RWE”	Rheinisch-Westfälisches Elektrizitätswerk
“R&D”	research and development
“SEI”	the Czech State Energy Inspectorate
“SONS”	the Czech State Office for Nuclear Safety
“SO <sub>x</sub> ”	sulphur oxides
“Supervisory Board”	the supervisory board of ČEZ
“SZDC”	the Czech state organization Railway Infrastructure Administration
“TGE”	the Towarowa Gielda Energii in Poland
“Ton”	metric ton
“TVEL”	the Russian company JSC TVEL
“TW”	terawatt, which is equal to 1,000 GW
“TWh”	terawatt-hour, representing one hour of electricity consumption at a constant rate of 1 TW
“U.S. dollars,” “USD” and “U.S.\$”	the lawful currency of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended
“Verbund”	Verbund AG
“Vienna Convention”	the Vienna Convention on Civil Liability for Nuclear Damage
“VOC”	volatile organic compounds
“WANO”	the World Association of Nuclear Operators
“WHO”	the World Health Organization
“Yen”	Japanese Yen, the lawful currency of Japan

## FORM OF THE NOTES

*Any reference in this section to “applicable Final Terms” shall be deemed to include a reference to “applicable Pricing Supplement” where relevant.*

Each Tranche of Notes will be in bearer form and will initially be issued in the form of a temporary global note (a “*Temporary Global Note*”) or, if so specified in the applicable Final Terms, a permanent global note (a “*Permanent Global Note*”) which, in either case, will:

- (i) if the Global Notes are intended to be issued in new global note (“*NGN*”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the “*Common Safekeeper*”) for Euroclear Bank S.A./N.V. (“*Euroclear*”) and Clearstream Banking S.A. (“*Clearstream, Luxembourg*”); and
- (ii) if the Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the “*Common Depositary*”) for, Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate whether such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognized as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the “*Exchange Date*”) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, *Exchange Event* means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so

and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes (other than Temporary Global Notes), receipts and interest coupons relating to such Notes where TEFRA D is specified in the applicable Final Terms or Pricing Supplement, as the case may be:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Amended and Restated Agency Agreement (as defined under “Terms and Conditions of the Notes”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the U.S. Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 9. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then from 8.00 p.m. (London time) on such day holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the “*Deed of Covenant*”) dated April 13, 2015 and executed by the Issuer.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event, other than where such Notes are Exempt Notes, a new Base Prospectus or a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.



**NOTES WITH A DENOMINATION OF €100,000 (OR ITS EQUIVALENT IN ANY OTHER CURRENCY) OR MORE, OTHER THAN EXEMPT NOTES**

**APPLICABLE FINAL TERMS**

*Set out below is the form of Final Terms which will be completed for each Tranche of Notes which are not Exempt Notes and which have a denomination of €100,000 (or its equivalent in any other currency) or more issued under the Programme.*

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS]** – The Notes[, from January 1, 2018,]<sup>1</sup> are not intended to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("*MiFID II*"); (ii) a customer within the meaning of Directive 2002/92/EC ("*IMD*"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "*Prospectus Directive*"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "*PRIIPs Regulation*") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]<sup>2</sup>

[Date]

ČEZ, a. s.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the €8,000,000,000  
Euro Medium Term Note Programme**

**PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated April 21, 2017 [as supplemented by the supplement dated [date]] (the "*Base Prospectus*") which constitute[s] a base prospectus for the purposes of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "*Prospectus Directive*"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "*Conditions*") set forth in the Base Prospectus dated [September 24, 2007 / March 19, 2009 / March 31, 2010 / March 31, 2011 / April 23, 2012 / April 19, 2013 / April 22, 2014 / April 13, 2015], which Conditions are incorporated by reference in the Base Prospectus dated April 21, 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "*Prospectus Directive*") and must be read in conjunction with the Base Prospectus dated April 21, 2017 [as supplemented by the supplement dated [date]] (the "*Base Prospectus*") which constitute[s] a base prospectus for the purposes of the Prospectus Directive, including the Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

<sup>1</sup> This date reference should not be included in the Final Terms for offers concluded on or after 1 January 2018.

<sup>2</sup> Legend to be included on front of the Final Terms (i) for offers concluded on or after 1 January 2018 if the Notes potentially constitute "packaged" products or the Issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable" (ii) for offers concluded before 1 January 2018 at the option of the parties.

*[Include whichever of the following apply or specify as “Not Applicable”. Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs (in which case the subparagraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Final Terms.]*

*[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

1. (a) Series Number: ☐ ☐
- (b) Tranche Number: ☐ ☐
- (c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with *[identify earlier Tranches]* on *[the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below, which is expected to occur on or about *[date]*]* *[Not Applicable]*
2. Specified Currency or Currencies: ☐ ☐
3. Aggregate Nominal Amount:
  - (a) Series: ☐ ☐
  - (b) Tranche: ☐ ☐
4. Issue Price: ☐ percent. of the Aggregate Nominal Amount *[plus accrued interest from *[insert date]* (if applicable)]*
5. Specified Denominations: ☐ ☐

*(N.B. Notes must have a minimum denomination of €100,000 (or equivalent))*

*(Note – where multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed:*

*“*[€100,000]* and integral multiples of *[€1,000]* in excess thereof up to and including *[€199,000]*. No Notes in definitive form will be issued with a denomination above *[€199,000]*.”)*

- (a) Calculation Amount (in relation to calculation of interest for Notes in global form see Conditions): ☐ ☐

*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*

6. (a) Issue Date: ☐ ☐

(b) Interest Commencement Date: [specify/Issue Date/Not Applicable]

*(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*

7. Maturity Date: [Specify date or for Floating rate notes - Interest Payment Date falling in or nearest to [specify month and year]

*(NB: The Maturity Date may need to be not less than one year after the Issue Date)*

8. Interest Basis: [[ ] per cent. Fixed Rate]  
[[[ ] month LIBOR/EURIBOR/PRIBOR] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
(further particulars specified below)

9. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100]/[ ] per cent. of their nominal amount.

*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

10. Change of Interest Basis: [Specify any Interest Basis change and the date when such Interest Basis change will occur or cross refer to paragraphs 13, and/or 14 and/or 15 below and identify there] [Not Applicable]

11. Put/Call Options: [Investor Put]  
[Change of Control Put]  
[Issuer Call]  
[(further particulars specified below)]  
[Not Applicable]

12. [Date [Board] approval for issuance of Notes obtained [ ] [and [ ], respectively]]

*(N.B. Only relevant where Board (or similar) authorization is required for the particular tranche of Notes)*

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

13. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date

(b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date

*(N.B. Amend appropriately in the case of irregular coupons)*

- (c) Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [ ] per Calculation Amount
- (d) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ] [Not Applicable]
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (f) [Determination Date(s): [[ ] in each year] [Not Applicable]  
*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*

14. Floating Rate Note Provisions

[Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) Specified Period(s)/Specified Interest Payment Dates: [ ], subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to any adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
- (c) Additional Business Centre(s): [ ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [ ]
- (f) Screen Rate Determination:
- Reference Rate: [ ] month [LIBOR][EURIBOR][PRIBOR]
  - Interest Determination Date(s): [ ]  
*(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or Euro LIBOR), second Prague business day prior to the start of each Interest Period if PRIBOR, first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or Euro LIBOR)*
  - Relevant Screen Page: [ ]

*(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*

- (g) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]

*(In the case of a LIBOR, EURIBOR or PRIBOR based option, the first day of the Interest Period)*

- (h) Linear Interpolation: [Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (i) Margin(s): [ +/- ] [ ] per cent. per annum
- (j) Minimum Rate of Interest: [ ] per cent. per annum
- (k) Maximum Rate of Interest: [ ] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360][360/360][Bond Basis]  
[30E/360][Eurobond Basis]  
[30E/360 (ISDA)]

15. Zero Coupon Note Provisions [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Day Count Fraction in relation to Early Redemption Amounts and late payment: [30/360][Actual/360]  
[Actual/365]

## PROVISIONS RELATING TO REDEMPTION

16. Notice periods for Condition 6.2
- Minimum Period: [ ] days
- Maximum Period: [ ] days

17. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [ ] per Calculation Amount
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]
- (ii) Maximum Redemption Amount: [ ]
- (d) Notice periods: Minimum Period: [ ] days  
Maximum Period: [ ] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
18. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [ ] per Calculation Amount
- (c) Notice periods: Minimum Period: [ ] days  
Maximum Period: [ ] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require 15 business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
19. Change of Control Put: [Applicable/Not Applicable]
20. Final Redemption Amount: [ ] per Calculation Amount  
*(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
21. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [ ] per Calculation Amount  
*(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption*

Amount should be.)

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

### 22. Form of Notes:

#### (a) Form:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

*(N.B. The exchange upon notice option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*

*N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*

*[Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilization in accordance with article 4 of the Belgian Law of December 14, 2005.]*

#### (b) New Global Note:

[Yes][No]

### 23. Additional Financial Centre(s):

[Not Applicable/give details]

*(Note that this paragraph relates to the place of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 14(c))*

### 24. Talons for future Coupons to be attached to Definitive Notes:

[Yes, as the Notes have more than 27 coupon payments, Talons may be required if on exchange into definitive form, more than 27 coupon payments are still to be made/No]

## THIRD PARTY INFORMATION

*[[Relevant third party information] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.]*

Signed on behalf of ČEZ, a. s.:

By:.....

Duly authorized



## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, and admission to the Official List of the Luxembourg Stock Exchange with effect from [ ].
- (ii) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings: [Not applicable][The Notes to be issued [[have been]/[are expected to be]] rated:]

[Standard & Poor's Credit Market Services Europe Limited:  
[ ]]

[Moody's Investors Service Ltd.: [ ]]

[[Other]: [ ]]

[[Insert credit rating agency]]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. – Amend as appropriate if there are other interests]

[(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer: [ ]]
- [(ii)] Estimated net proceeds: [ ]
- [(iii)] Estimated total expenses: [ ]]

### 5. YIELD (Fixed Rate Notes only)

Indication of yield: [ ]

### 6. OPERATIONAL INFORMATION

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]

- |       |   |  |
|-------|---|--|
| (iii) | Name and address of any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, S.A. and the relevant identification number(s): | [Not Applicable/ <i>give name(s) and number(s)</i> ]   |
| (iv)  | Delivery:   | Delivery [against/free of] payment   |
| (v)   | Names and addresses of additional Paying Agent(s) (if any):   | [ ]  |
| (vi)  | Deemed delivery of Clearing System notices for the purpose of Condition 13:   | Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second][business] day after the day on which it was given to Euroclear, and Clearstream, Luxembourg.  |
| (vii) | Intended to be held in a manner which would allow Eurosystem eligibility:   | <p>[Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]</p> <p>[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]</p> |

## 7. DISTRIBUTION

- |       |   |   |
|-------|---|---|
| (i)   | Method of distribution:                       | [Syndicated/Non-syndicated]   |
| (ii)  | If syndicated, names of Managers:             | [Not Applicable/ <i>give names and addresses</i> ]  |
| (iii) | Date of Subscription Agreement:               | [ ]   |
| (iv)  | Stabilization Manager(s) (if any):            | [Not Applicable/ <i>give name</i> ]   |
| (v)   | If non-syndicated, name of relevant Dealer:   | [Not Applicable/ <i>give name</i> ]   |
| (vi)  | U.S. Selling Restrictions:                    | [Reg. S Compliance Category 2] [TEFRA D] [TEFRA C]<br>[TEFRA not applicable]  |
| (vii) | Prohibition of Sales to EEA Retail Investors: | <p>[Applicable/Not Applicable]</p> <p><i>(If the offer of the Notes is concluded prior to January 1, 2018, or on and after that date if the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If</i></p> |

*the offer of the Notes will be concluded on or after January 1, 2018 and the Notes may constitute “packaged” products, “Applicable” should be specified.)*

## EXEMPT NOTES OF ANY DENOMINATION

### APPLICABLE PRICING SUPPLEMENT

*Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes, whatever the denomination of those Notes, issued under the Programme.*

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS]** – The Notes[, from January 1, 2018,]<sup>3</sup> are not intended to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("*MiFID II*"); (ii) a customer within the meaning of Directive 2002/92/EC ("*IMD*"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "*Prospectus Directive*"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "*PRIIPs Regulation*") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.<sup>4</sup>

**NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW.**

[Date]

ČEZ, a. s.

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the €8,000,000,000  
Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated April 21, 2017 [as supplemented by the supplement[s] dated [date[s]]] (the "*Base Prospectus*"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. Copies of the Base Prospectus may be obtained during normal business hours at the registered office of the Issuer and at the offices of the Paying Agents for the time being in London and Luxembourg.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "*Conditions*") set forth in the Base Prospectus [dated [original date] which are incorporated by reference in the Base Prospectus]<sup>5</sup>. Any reference in the Conditions to "applicable Final Terms" shall be deemed to include a reference to "applicable Pricing Supplement", where relevant.

*[Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs (in which case the subparagraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Pricing Supplement.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. (a) Series Number: [ ]

<sup>3</sup> This date reference should not be included in Pricing Supplement for offers concluded on or after 1 January 2018.

<sup>4</sup> Legend to be included on front of the Pricing Supplement (i) for offers concluded on or after 1 January 2018 if the Notes potentially constitute "packaged" products or the Issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable" (ii) for offers concluded before 1 January 2018 at the option of the parties.

<sup>5</sup> Only include this language where it is a fungible issue and the original Tranche was issued under a Base Prospectus with a different date.

- (b) Tranche Number: [ ]
- (c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with *[identify earlier Tranches]* on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below, which is expected to occur on or about *[date]*][Not Applicable]
2. Specified Currency or Currencies: [ ]
3. Aggregate Nominal Amount:
- (a) Series: [ ]
- (b) Tranche: [ ]
4. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
5. (a) Specified Denominations: [ ]
- (b) Calculation Amount (in relation to calculation of interest for Notes in global form see Conditions): [ ]  
(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
6. (a) Issue Date: [ ]
- (b) Interest Commencement Date: *[specify/Issue Date/Not Applicable]*  
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
7. Maturity Date: *[Specify date or for Floating rate - Interest Payment Date falling in or nearest to [specify month and year]]*
8. Interest Basis: [[ ] per cent. Fixed Rate]  
[[specify Reference Rate] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Dual Currency Interest]  
*[specify other]*  
(further particulars specified below)
9. Redemption/Payment Basis: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]  
[Instalment]  
*[specify other]*
10. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*[Not Applicable]
11. Put/Call Options: [Investor Put]  
[Change of Control Put]

[Issuer Call]  
[(further particulars specified below)]  
[Not Applicable]

12. (a) Status of the Notes: [Senior/[Dated/Perpetual] Subordinated]

(b) [Date [Board] approval for issuance of Notes obtained: [ ]]

*(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a) Rate(s) of Interest: [ ] per cent. per annum payable in arrears on each Interest Payment Date

(b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date

*(Amend appropriately in the case of irregular coupons)*

(c) Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [ ] per Calculation Amount

(d) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]

(e) Day Count Fraction: [30/360/Actual/Actual (ICMA)/specify other]

(f) [Determination Date(s): [[ ] in each year][Not Applicable]

*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*

(g) Other terms relating to the method of calculating interest for Fixed Rate Notes which are Exempt Notes: [None/Give details]

14. Floating Rate Note Provisions [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a) Specified Period(s)/Specified Interest Payment Dates: [ ], subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]

- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]][Not Applicable]
- (c) Additional Business Centre(s): [     ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/*specify other*]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): [     ]
- (f) Screen Rate Determination:
- Reference Rate: Reference Rate: [     ] month [LIBOR/EURIBOR/*specify other Reference Rate*].
  - Interest Determination Date(s): [     ]  
(*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
  - Relevant Screen Page: [     ]  
(*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
- (g) ISDA Determination:
- Floating Rate Option: [     ]
  - Designated Maturity: [     ]
  - Reset Date: [     ]  
(*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*)
- (h) Linear Interpolation: [Not Applicable/Applicable - the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (i) Margin(s): [+/-] [     ] per cent. per annum
- (j) Minimum Rate of Interest: [     ] per cent. per annum
- (k) Maximum Rate of Interest: [     ] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]

		[Actual/360] [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] [Other]
	(m) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes which are Exempt Notes, if different from those set out in the Conditions:	[ ]
15.	Zero Coupon Note Provisions	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(a) Accrual Yield:	[ ] per cent. per annum
	(b) Reference Price:	[ ]
	(c) Any other formula/basis of determining amount payable for Zero Coupon Notes which are Exempt Notes:	[ ]
	(d) Day Count Fraction in relation to Early Redemption Amounts:	[30/360]  [Actual/360]  [Actual/365]
16.	Index Linked Interest Note	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
	(a) Index/Formula:	[give or annex details]
	(b) Calculation Agent	[give name]
	(c) Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent):	[ ]
	(d) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[need to include a description of market disruption or settlement disruption events and adjustment provisions]
	(e) Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(f) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]



- (g) Additional Business Centre(s): [ ]
- (h) Minimum Rate of Interest: [ ] per cent. per annum
- (i) Maximum Rate of Interest: [ ] per cent. per annum
- (j) Day Count Fraction: [ ]
17. Dual Currency Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
- (b) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [ ]
- (c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (d) Person at whose option Specified Currency(ies) is/are payable: [ ]

#### **PROVISIONS RELATING TO REDEMPTION**

18. Notice periods for Condition 6.2: Minimum period: [ ] days  
Maximum period: [ ] days
19. Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]
- (ii) Maximum Redemption Amount: [ ]
- (d) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which*

*require a minimum of 5 business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

20. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount and method, if any, of calculation of such amount(s): [[ ] per Calculation Amount/specify other/see Appendix]
- (c) Notice periods: Minimum period: [ ] days  
Maximum period: [ ] days  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*
21. Change of Control Put: [Applicable/Not Applicable]
22. Final Redemption Amount: [[ ] per Calculation Amount/specify other/see Appendix]
23. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required): [[ ] per Calculation Amount/specify other/see Appendix]  
*(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)*

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:
- (a) Form: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]
- [Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of

the Belgian Law of 14 December 2005.<sup>6]</sup>

*(Ensure that this is consistent with the wording in the “Form of the Notes” section in the Base Prospectus and the Notes themselves.)*

(b) New Global Note: [Yes][No]

25. Additional Financial Centre(s): [Not Applicable/give details]

*(Note that this paragraph relates to the place of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 14(c) and 16(g) relate)*

26. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment. [Not Applicable/give details. N.B. A new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]

28. Details relating to Instalment Notes: [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(a) Instalment Amount(s): [give details]

(b) Instalment Date(s): [give details]

29. Other final terms: [Not Applicable/give details]  
*[Consider including a term providing for tax certification if required to enable interest to be paid gross by issuers]*

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. *[[Relevant third party information] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.*

Signed on behalf of ČEZ, a. s.:

By: .....

*Duly authorised*

<sup>6</sup> Include for Notes that are to be offered in Belgium.

## PART B – OTHER INFORMATION

### 1. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated *[insert details]* by *[insert the legal name of the relevant credit rating agency entity(ies)]*.

*(The above disclosure is only required if the ratings of the Notes are different to those stated in the Base Prospectus)*

### 2. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business - *Amend as appropriate if there are other interests*]

### 3. [USE OF PROCEEDS

Use of Proceeds: [ ]

*(Only required if the use of proceeds is different to that stated in the Base Prospectus)*

### 4. OPERATIONAL INFORMATION

(i) ISIN Code: [ ]

(ii) Common Code: [ ]

(iii) Name and address of any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): [ ]

(vi) Deemed delivery of clearing system notices for the purposes of Condition 13: Any notice delivered to Noteholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear and Clearstream, Luxembourg.

(vii) [Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been

met.]/

[No. Whilst the designation is specified as “no” at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

## 5. **DISTRIBUTION**

- |       |   |  |
|-------|---|--|
| (i)   | Method of distribution:                       | [Syndicated/Non-syndicated]  |
| (ii)  | If syndicated, names of Managers:             | [Not Applicable/ <i>give names</i> ]   |
| (iii) | Stabilization Manager(s) (if any):            | [Not Applicable/ <i>give name</i> ]  |
| (iv)  | If non-syndicated, name of relevant Dealer:   | [Not Applicable/ <i>give name</i> ]  |
| (v)   | U.S. Selling Restrictions:                    | Reg. S Compliance Category [1/2/3]; [TEFRA D/TEFRA C/TEFRA not applicable]   |
| (vi)  | Additional selling restrictions:              | [Not Applicable/ <i>give details</i> ]<br><i>(Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes)</i>   |
| (vii) | Prohibition of Sales to EEA Retail Investors: | [Applicable/Not Applicable]<br><br><i>(If the offer of the Notes is concluded prior to January 1, 2018, or on and after that date if the Notes clearly do not constitute “packaged” products, “Not Applicable” should be specified. If the offer of the Notes will be concluded on or after January 1, 2018 and the Notes may constitute “packaged” products, “Applicable” should be specified.)</i> |

## TERMS AND CONDITIONS OF THE NOTES

*Any reference in the Terms and Conditions to “applicable Final Terms” shall be deemed to include a reference to “applicable Pricing Supplement” where relevant.*

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Exempt Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Applicable Final Terms” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by ČEZ, a. s. (the **Issuer**) pursuant to the Amended and Restated Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (such Amended and Restated Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Amended and Restated Agency Agreement**) dated May 3, 2016 and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms (or Pricing Supplement, in the case of Exempt Notes (as defined below)) attached to or endorsed on this Note which complete these Terms and Conditions (the **Conditions**) and, in the case of a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an **Exempt Note**), may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. The expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

Interest bearing definitive Notes have interest coupons (**Coupons**) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Exempt Notes in definitive form which are repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the **Deed of Covenant**) dated April 13, 2015 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Amended and Restated Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. If Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). If this Note is an Exempt Note, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Amended and Restated Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Amended and Restated Agency Agreement.

Words and expressions defined in the Amended and Restated Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Amended and Restated Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

## **1. FORM, DENOMINATION AND TITLE**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Unless this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

If this Note is an Exempt Note, this Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

If this Note is an Exempt Note, this Note may also be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons and, if appropriate, Talons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, S.A. (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by

Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

## **2. STATUS OF THE NOTES**

The Notes and any relative Receipts and Coupons constitute direct, general, unsecured and unconditional obligations of the Issuer which (i) rank *pari passu* among themselves and (ii) will rank at least *pari passu* with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law and subject always to Condition 3.

## **3. NEGATIVE PLEDGE AND OTHER COVENANTS**

### **3.1 Negative pledge**

So long as any Note or Coupon remains outstanding (as defined in the Amended and Restated Agency Agreement) the Issuer will not, nor will it permit any Material Subsidiary to, issue, assume or guarantee any Indebtedness, if such Indebtedness is secured by a Lien upon any Principal Property now owned or hereafter acquired, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Coupons shall (x) be secured equally and rateably with (or prior to) such Indebtedness or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Amended and Restated Agency Agreement) of Noteholders; provided, however, that the foregoing restriction shall not apply to:

- (a) any Lien on any asset acquired, constructed or improved by the Issuer or any Subsidiary after the date of issue of the Notes, which Lien is created, incurred or assumed contemporaneously with, or within 180 days after, such acquisition (or, in the case of any such asset constructed or improved, after the completion or commencement of commercial operation of such asset, whichever is later) to secure or provide for the payment of any part of the purchase price of such asset or the costs of such construction or improvement (including costs such as escalation, interest during construction and finance costs); provided that, in the case of any such construction or improvement, the Lien shall not apply to any such asset previously owned by the Issuer or any Subsidiary, other than previously unimproved real property on which the asset so constructed, or the improvement, is located;
- (b) any Lien existing over any asset at the time of the acquisition of such asset and which is not created as a result of or in connection with or in anticipation of such acquisition;
- (c) any Lien on any asset acquired from a corporation which is merged with or into the Issuer or any Lien existing on any asset of a corporation which existed at the time such corporation becomes a Subsidiary and, in either such case, which is not created as a result of or in connection with or in anticipation of any such transaction;
- (d) any Lien which secures only Indebtedness owing by a Subsidiary to the Issuer, to one or more Subsidiaries or to the Issuer and one or more Subsidiaries;
- (e) any extension, renewal or replacement (or successive extensions, renewals or replacements; in whole or in part, of any Lien referred to in the foregoing clauses; provided, however, that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement and that such extension, renewal or



replacement shall be limited to all or part of the asset which secured the Lien so extended, renewed or replaced (plus improvements on such asset); or

- (f) any Lien securing obligations of the Issuer or any Subsidiary to the Czech Republic in connection with a guarantee or similar assurance provided by the Czech Republic to third parties for the benefit of the Issuer.

The Issuer or any Material Subsidiary, however, may issue, assume or guarantee Indebtedness secured by a Lien which would otherwise be prohibited under this Condition 3.1 or enter into a Sale and Lease-Back Transaction that would otherwise be prohibited by the provisions of Condition 3.2; provided that the aggregate amount of such Indebtedness of the Issuer and its Material Subsidiaries together with the aggregate Attributable Value of all such Sale and Lease-Back Transactions of the Issuer and its Subsidiaries at any time outstanding shall not exceed the sum of (x) 10% of the Consolidated Net Tangible Assets at the time any such Indebtedness denominated in a currency other than that of the Czech Republic is issued, assumed or guaranteed by the Issuer or any Subsidiary or at the time any such Sale and Lease-Back Transaction is entered into, plus (y) the aggregate amount of any such Indebtedness that is denominated in the currency of the Czech Republic, up to an additional 20% of Consolidated Net Tangible Assets at such time.

### **3.2 Limitations on sale and lease-back transactions**

For so long as any Note or Coupon is outstanding, neither the Issuer nor any Material Subsidiary may enter into any Sale and Lease-Back Transaction with respect to any Principal Property, unless either (x) the Issuer or such Material Subsidiary would be entitled pursuant to the provisions of Condition 3.1 to issue, assume or guarantee Indebtedness secured by a Lien on such Principal Property without equally and rateably securing the Issuer's obligations under the Notes and the Coupons or (y) the Issuer or such Material Subsidiary shall apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value of the Principal Property so leased to the retirement, within one year after the effective date of such Sale and Lease-Back Transaction, of Indebtedness of the Issuer ranking on a parity with the obligations of the Issuer under the Notes and owing to a Person other than the Issuer or any Affiliate of the Issuer or to the construction or improvement of real property or personal property used by the Issuer or any Material Subsidiary in the ordinary course of business. The restrictions set forth in the preceding sentence will not apply to transactions providing for a lease for a term, including any renewal thereof, of not more than three years.

### **3.3 No consolidation or merger**

For so long as any Note or Coupon is outstanding, the Issuer may not consolidate with or merge into any other corporation or convey or transfer its properties and assets substantially as an entirety to any Person, unless (i) the successor corporation shall be a corporation organized and existing under the laws of the Czech Republic, and shall expressly assume by a deed the due and punctual payment of all amounts payable in respect of all the then outstanding Notes and the performance of every obligation contained in the Notes on the part of the Issuer to be performed or observed; (ii) immediately after giving effect to such transaction, no Event of Default or Potential Event of Default (as defined in the Amended and Restated Agency Agreement) shall have happened and be continuing; and (iii) the Issuer shall have delivered to the Fiscal Agent a certificate signed by two directors of the Issuer and an opinion of independent legal advisers of recognized standing each stating that such consolidation, merger, conveyance or transfer and any such deed comply with the foregoing provisions relating to such a transaction. In case of any such consolidation, merger, conveyance or transfer, such successor corporation will succeed to and be substituted for the Issuer as obligor under the Notes and Coupons, with the same effect as if it had been named in the Notes as such obligor.

### **3.4 Certain definitions**

In these Conditions:

**Affiliate** means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such specified Person. For the purposes of this definition, **control**, when used with respect to any specified Person, means the power to direct the

management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise;

**Attributable Value** means, as to any particular Sale and Lease-Back Transaction under which the Issuer or any Subsidiary is at any time liable as lessee and any date as of which the amount thereof is to be determined, the total net obligations of the lessee for rental payments during the remaining term of the lease (including any period for which such lease has been extended) discounted from the respective due dates thereof to such date at a rate per annum equivalent to the interest rate inherent in such Sale and Lease-Back Transaction (as determined in good faith by the Issuer in accordance with generally accepted financial practice);

**Audited Statements** means the Issuer's audited annual financial statements (consolidated, if available) prepared in accordance with International Accounting Standards current as at the date of preparation;

**Consolidated Net Tangible Assets** means the total of all assets (including revaluations thereof as a result of commercial appraisals, price-level re-statements or otherwise) appearing on a consolidated balance sheet of the Issuer and its Subsidiaries, net of all applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets (which term shall not be construed to include such revaluations), less the aggregate of the current liabilities of the Issuer and its Subsidiaries appearing on such balance sheet;

**Consolidated Total Assets** means the total assets (consolidated, if the relevant Audited Statements are consolidated) of the Issuer and its Subsidiaries determined by reference to the most recent Audited Statements;

**EBITDA** means income before income taxes and other income (expenses) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets including goodwill less gain (or loss) on sale of property, plant and equipment;

**Indebtedness** means, with respect to any Person (without duplication), (a) any liability of such Person (1) for borrowed money or under any reimbursement obligation relating to a letter of credit, financial bond or similar instrument or agreement, (2) evidenced by a bond, note, debenture or similar instrument or agreement (including a purchase money obligation) given in connection with the acquisition of any business, properties or assets of any kind (other than a trade payable or a current liability arising in the ordinary course of business or a performance bond or similar obligation), (3) for the payment of money relating to any obligations under any capital lease of real or personal property or (4) for the purposes of Condition 3.1(a) and (b) only, under any agreement or instrument in respect of an interest rate or currency swap, exchange or hedging transaction or other financial derivatives transaction; (b) any liability of others described in the preceding clause (a) that the Person has guaranteed or that is otherwise its legal liability; and (c) any amendment, supplement, modification, deferral, renewal, extension or refunding of any liability of the types referred to in (a) and (b) above. For the purpose of determining any particular amount of Indebtedness under this definition, guarantees of (or obligations with respect to letters of credit or financial bonds supporting) Indebtedness otherwise included in the determination of such amount shall also not be included;

**Lien** means any mortgage, pledge, lien, security interest, charge or other encumbrance (including any conditional sale or other title retention agreement or lease in the nature thereof other than a title retention agreement in connection with the purchase of goods in the ordinary course of business);

**Material Subsidiary** means, at any time, any Subsidiary of the Issuer:

- (a) whose total assets or EBITDA (or, where the Subsidiary in question prepares consolidated financial statements, whose consolidated total assets or consolidated EBITDA), attributable to the Issuer represent not less than 10% of the Consolidated Total Assets or (as the case may be) the consolidated EBITDA of the Issuer and its Subsidiaries taken as a whole, all as determined, respectively, by reference to the most recent audited annual financial statements (or, as the case may be, audited consolidated annual financial statements) of such Subsidiary and the most recent Audited Statements; or
- (b) to which is transferred all or substantially all of the assets and undertaking of a Subsidiary of the Issuer which was a Material Subsidiary immediately prior to such transfer (which Subsidiary shall cease to

be a Material Subsidiary upon such transfer becoming unconditional) and so that a Subsidiary of the Issuer which becomes a Material Subsidiary pursuant to this paragraph (b) shall remain a Material Subsidiary only until the publication of the next Audited Statements, unless on such publication it remains a Material Subsidiary pursuant to paragraph (a) above,

provided that a certificate by the Auditors (as defined in the Amended and Restated Agency Agreement) of the Issuer that, in their opinion, any Subsidiary of the Issuer is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

**Person** means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof;

**Principal Property** means any generation, transformation, transmission or distribution facility located in the Czech Republic, whether at the date of issue of the Notes owned or thereafter acquired, including any land, buildings, structures or machinery and other fixtures that constitute any such facility, or portion thereof, other than any such facility, or portion thereof, determined by the Issuer's Board of Directors and certified by two directors of the Issuer not to be of material importance to the total business conducted by the Issuer and its Subsidiaries as or whole;

**Sale and Lease-Back Transaction** means any transaction or series of related transactions pursuant to which the Issuer or any Material Subsidiary sells or transfers any property to any Person with the intention of taking back a lease of such property pursuant to which the rental payments are calculated to amortize the purchase price of such property substantially over the useful life thereof and such property is in fact so leased; and

**Subsidiary** means any corporation or other business entity of which the Issuer owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interests, in each case having ordinary voting power to elect or appoint directors, managers or trustees of such corporation or other business entity (whether or not capital stock or other ownership interests or any other class or classes shall or might have voting power upon the occurrence of any contingency).

## **4. INTEREST**

### **4.1 Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1:

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**sub unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

## 4.2 Interest on Floating Rate Notes and Index Linked Interest Notes

### (a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**)

which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means a day which is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms;
- (b) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and
- (c) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(b) **Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

- (i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR or PRIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time, in the case of LIBOR, Brussels time, in the case of EURIBOR, or Prague time, in the case of PRIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Agent cannot determine the Reference Rate as aforementioned, because the Relevant Screen Page is not available or if, in the case of (A) above, no offered quotation appears or, in the case of (B) above, fewer than three offered quotations appear, in each case as at the Specified Time, the Agent shall request each of the Reference Banks (as defined in the Amended and Restated Agency Agreement) to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR), the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Prague inter-bank market (if the Reference Rate is PRIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR), the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Prague inter-bank market (if the Reference Rate is PRIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(c) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) **Determination of Rate of Interest and calculation of Interest Amounts**

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 4.2:

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vi) “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:



$$\text{DayCountFraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCountFraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Interest Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

(e) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is

no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

**Designated Maturity** means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(f) **Notification of Rate of Interest and Interest Amounts**

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 by the Agent shall (in the absence of wilful default, bad faith, manifest error or proven error) be binding on the Issuer, the Agent, the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### 4.3 **Interest on Exempt Notes**

The rate or amount of interest payable in respect of Exempt Notes which are not also Fixed Rate Notes or Floating Rate Notes shall be determined in the manner specified in the applicable Pricing Supplement, provided that where such Notes are Index Linked Interest Notes the provisions of Condition 4.2 shall, save to the extent amended in the applicable Pricing Supplement, apply as if the references therein to Floating Rate Notes and to the Agent were references to Index Linked Interest Notes and the Calculation Agent, respectively, and provided further that the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

### 4.4 **Accrual of interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 13.

## 5. **PAYMENTS**

## 5.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an intergovernmental approach thereto.

## 5.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below)) and save as provided in Condition 5.5 should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

### **5.3 Payments in respect of Global Notes**

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

### **5.4 Specific provisions in relation to payments in respect of certain types of Exempt Notes**

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Upon the date on which any Dual Currency Note or Index Linked Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

### **5.5 General provisions applicable to payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

### **5.6 Payment Day**

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 8) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;
  - (ii) each Additional Financial Centre (other than TARGET2 System) specified in the applicable Final Terms;
  - (iii) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## **5.7 Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Exempt Notes redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Notes, the Amortized Face Amount (as defined in Condition 6.5); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

## **6. REDEMPTION AND PURCHASE**

### **6.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

### **6.2 Redemption for tax reasons**

Subject to Condition 6.5 the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or

amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognized standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **6.3 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Noteholders in accordance with Condition 13 (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 6.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

### **6.4 Redemption at the option of the Noteholders**

- (a) ***Redemption at the option of the Noteholders (other than a Change of Control Put)***

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time

being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6.4(a) accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note under this Condition 6.4(a) the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 6.4(a) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6.4(a) and instead to declare such Note forthwith due and payable pursuant to Condition 9.

(b) ***Change of Control Put***

If Change of Control Put is specified as being applicable in the applicable Final Terms, upon the occurrence of a Put Event while this Note remains outstanding, the holder of this Note will have the option (the **Put Option**) (unless, prior to the giving of the Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 6.2) to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of this Note on the Optional Redemption Date (as defined below) at its principal amount together with (or, where purchased, together with an amount equal to) accrued interest (if applicable) to but excluding the Optional Redemption Date.

A **Put Event** shall be deemed to occur if:

- (i) any Person or Persons acting in concert come(s) to own or acquire(s) more than 50 per cent. of the issued share capital of the Issuer, or more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer (each a **Change of Control**); and
- (ii) during the Change of Control Period (as defined below), this Note carries from any of Standard & Poor's Credit Market Services Europe Limited, or Moody's Investors Service Ltd., or any of their respective successors (each a **Rating Agency**) either:
  - (A) an investment grade credit rating (*BBB-/Baa3, or equivalent, or better*), and such rating from any Rating Agency is within the Change of Control Period either downgraded to a non-investment grade credit rating (*BB+/Ba1, or equivalent, or worse*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency or (in the case of a withdrawal) replaced by, or reinstated to, an investment grade credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or
  - (B) a non-investment grade credit rating (*BB+/Ba1, or equivalent, or worse*), and such rating from any Rating Agency is within the Change of Control Period downgraded by one or more notches (*for illustration, Ba1 to Ba2 being one notch*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better by such Rating Agency, or (in the case of a withdrawal) replaced by, or reinstated to, a credit rating equal to or better than such earlier credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or

- (C) no credit rating, and no Rating Agency assigns within the Change of Control Period an investment grade credit rating to the Notes; and
- (iii) in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decisions(s) resulted, in whole or in part, from the occurrence of the Change of Control or the public notice of an arrangement that could result in a Change of Control.

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

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 13 specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the option contained in this Condition 6.4(b).

To exercise the option to require redemption or, as the case may be, purchase of this Note under this Condition 6.4(b) the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the **Put Period**) of 45 days after a Put Event Notice is given, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Option Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6.4(b), accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Option Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption or, as the case may be, purchase of this Note under this Condition 6.4(b) the holder of this Note must, within the Put Period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Option Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 6.4(b) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6.4(b) and instead to declare such Note forthwith due and payable pursuant to Condition 9.

The Paying Agent to which this Note and Put Option Notice are delivered will issue to the holder concerned a non-transferable receipt (a **Put Option Receipt**) in respect of this Note so delivered or, in the case of a Global Note or Note in definitive form held through Euroclear or Clearstream, Luxembourg, notice so received. The Issuer shall redeem or at the option of the Issuer purchase (or procure the purchase of) this Note in respect of which Put Option Receipts have been issued on the date (the **Optional Redemption Date**) which is the seventh day after the last day of the Put Period, unless previously redeemed or purchased. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account to which payment is to be made in the Put Option Notice, on the Optional Redemption Date by transfer to that bank account and in every other case on or after the Optional Redemption Date, in each case against presentation and surrender or (as the case may be) endorsement of such Put Option Receipt at the specified office of any Paying Agent in accordance with the provisions of this Condition 6.4(b).



## 6.5 Early Redemption Amounts

For the purpose of Condition 6.2 above and Condition 9, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Note (other than a Zero Coupon Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or
- (c) in the case of a Zero Coupon Note, at an amount (the **Amortized Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

<sup>y</sup> is the Day Count Fraction, specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

## 6.6 Specific redemption provisions applicable to certain types of Exempt Notes

The Final Redemption Amount, any Optional Redemption Amount and the Early Redemption Amount in respect of Index Linked Redemption Notes and Dual Currency Redemption Notes may be specified in, or determined in the manner specified in, the applicable Pricing Supplement. For the purposes of Condition 6.2, Index Linked Interest Notes and Dual Currency Interest Notes may be redeemed only on an Interest Payment Date.

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Pricing Supplement. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined in the manner specified in the applicable Pricing Supplement.

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

## 6.7 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmaturing Receipts, Coupons and Talons appertaining thereto are purchased therewith) at

any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

## **6.8 Cancellation**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 6.7 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

## **6.9 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6.1, 6.2, 6.3 or 6.4 above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 13.

## **7. TAXATION**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment in the Czech Republic; or
- (b) the holder of which is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5.6); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income (including transitory provisions of the E.U. Directive on Administrative Cooperation) or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (A) **Tax Jurisdiction** means the Czech Republic or any political subdivision or any authority thereof or therein having power to tax; and
- (B) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13.

## 8. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5.2 or any Talon which would be void pursuant to Condition 5.2.

## 9. EVENTS OF DEFAULT

The holder of any Note may give notice to the Issuer that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (**Events of Default**) shall have occurred and be continuing:

- (a) **Non-payment of Interest:** any amount of interest in respect of the Notes is not paid within 30 days of the due date for payment thereof; or
- (b) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and (except where such default is not capable of remedy) such default remains unremedied for 60 days after written notice specifying such default or breach and requiring it to be remedied has been delivered to the Issuer; or
- (c) **Cross-acceleration:** any present or future indebtedness of the Issuer or any Material Subsidiary of the Issuer (excluding any such indebtedness owed to trade creditors not evidenced by a note, bond, debenture or similar instrument) having an aggregate principal amount exceeding U.S.\$30,000,000 (or its equivalent in any other currency or currencies) other than the Notes becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) such Material Subsidiary; or
- (d) **Insolvency etc:** (i) the Issuer or any Material Subsidiary becomes insolvent, stops payment on its obligations generally or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any Material Subsidiary or of the whole or any part of the undertaking, assets and revenues of the Issuer or (as the case may be) any Material Subsidiary is appointed, (iii) the Issuer or any Material Subsidiary takes any action for a readjustment or deferment of its obligations generally or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness, (iv) the Issuer or any Material Subsidiary is declared to be bankrupt by any court or (v) an application for a declaration of bankruptcy in relation to the Issuer or any Material Subsidiary is refused by any court and the court specifies that the sole ground on which such declaration has been refused is that the Issuer or (as the case may be) such Material Subsidiary has insufficient assets out of which to meet the costs and expenses of any bankruptcy proceedings; or
- (e) **Winding up, etc:** a legally effective and non-appealable order is made or a legally effective and non-appealable resolution is passed for the winding up, liquidation or dissolution of the Issuer or any Material Subsidiary; or
- (f) **Cessation of Business:** the Issuer ceases to conduct or to be authorized to conduct the business of the generation or sale of electricity; or

- (g) **Analogous Event:** any event occurs which under the laws of the Czech Republic or the jurisdiction of the relevant Material Subsidiary has an analogous effect to any of the events referred to in paragraphs (d) or (e) above.

## **10. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **11. PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC (including transitory provisions of the E.U. Directive on Administrative Cooperation) or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.5. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

In acting under the Amended and Restated Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Amended and Restated Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## **12. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

## **13. NOTICES**

All notices regarding the Notes will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London and (b) if and for so long as the Notes are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website, [www.bourse.lu](http://www.bourse.lu). It is expected that any such

publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on such day as is specified in the applicable Final Terms after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

#### **14. MEETINGS OF NOTEHOLDERS AND MODIFICATION**

The Amended and Restated Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Amended and Restated Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than three quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one quarter in nominal amount of the Notes for the time being outstanding. The Amended and Restated Agency Agreement provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Amended and Restated Agency Agreement by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of all the holders or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Agent) by or on behalf of all the holders, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Receipt holders and Coupon holders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons or the Amended and Restated Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Amended and Restated Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

## **15. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **17. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **17.1 Governing law**

The Amended and Restated Agency Agreement, the Deed of Covenant, the Notes, the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with the Amended and Restated Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and construed in accordance with, English law.

### **17.2 Submission to jurisdiction**

- (a) Subject to Condition 17.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons (a **Dispute**) and all Disputes will be submitted to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 17.2, each of the Issuer and any Noteholders, Receiptholders or Couponholders taking proceedings in relation to any Dispute waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) This Condition 17.2(c) is for the benefit of the Noteholders, the Receiptholders and the Couponholders only. To the extent allowed by law, the Noteholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

### **17.3 Appointment of Process Agent**

The Issuer appoints Law Debenture Corporate Services Limited at its registered office for the time being in England as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Law Debenture Corporate Services Limited being unable or unwilling for any reason so to act, it will appoint another person, as the Agent may approve, as its agent for service of process in England in respect of any Dispute. Nothing herein shall affect the right to serve process in any other manner permitted by law.

### **17.4 Waiver of immunity**

The Issuer irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the

recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, including without limitation, the making, enforcement or execution against any property whatsoever in any jurisdiction, whether before or after final judgment (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes. If, in respect of an issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No. 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.



## DESCRIPTION OF THE ISSUER

### Overview

According to ERO and our internal data, we are the largest electricity generation and distribution company in the Czech Republic. According to Sdružení CZECH TOP 100 and our internal data, we are one of the largest companies in the Czech Republic on the basis of our revenues and our total assets. In the years ended December 31, 2015 and 2016, we had revenues of CZK 210.2 billion and CZK 203.7 billion, respectively, and net income of CZK 20.5 billion and CZK 14.6 billion respectively. As of December 31, 2016, we had total assets of CZK 630.8 billion. In the year ended December 31, 2016, we had an average of 26,300 employees.

Our core business is the generation, distribution, trading and sale of power and heat, trading and sale of natural gas and coal mining. According to data published by the ERO in the Czech Republic for the year ended December 31, 2016, we accounted for approximately 68% of electricity generated, 61% of installed electricity generation capacity, we distributed approximately 65% of the total electricity consumed in the regional distribution areas in the Czech Republic and sold 32% of the total net electricity consumed. In addition, we are the largest producer of brown coal in the Czech Republic, accounting for approximately 55.4% of the total volume of brown coal produced in the Czech Republic for the year ended December 31, 2016. Our activities in the Czech Republic accounted for approximately 88.0% of our EBITDA for the same period.

Our generation business owns and operates power plants primarily located in and connected to the transmission system in the Czech Republic, which generate electricity predominantly from brown coal and nuclear energy. We also own hard coal-fired power plants in Poland and Bulgaria and wind and hydro power plants in Germany, Poland and Romania. Our distribution business delivers electricity from the transmission system to end-consumers in the Czech Republic and, to a lesser extent, in Bulgaria and Romania. Our sales business sells electricity generated by us and procured by our trading business to end-consumers in the Czech Republic, as well as in Bulgaria and Romania. Our trading business purchases and sells electricity and energy commodities on wholesale markets, including electricity sold by us to our end-consumers, and also executes trades for our own account. Our other businesses include the mining, processing and sale of brown coal; the generation, distribution and sale of heat; the sale of natural gas to end-consumers; the provision of ancillary services to transmission system operators; the provision of telecommunication services to customers; services, consultancy and audits concerning energy savings and management; the construction and subsequent operation of local small gas-fired heat and power facilities; and the operation of public lighting.

The table below sets forth certain information relating to our generation, distribution and sales businesses for the year ended December 31, 2016.

As of and for the year ended December 31, 2016								
	Installed capacity*		Electricity generated*		Electricity distributed to end-consumers		Electricity sold to end-consumers	
	(MW)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Czech Republic .....	13,051	83.5	56,944	93.1	34,950	69.0	19,600	52.3
Poland .....	681	4.4	2,931	4.8	-	-	1,929	5.2
Bulgaria .....	1,267	8.1	6	0.0	9,306	18.4	9,713	25.9
Romania .....	622	4.0	1,251	2.1	6,381	12.6	3,369	9.0
Other .....	-	-	-	-	-	-	2,864	7.6
<b>Total .....</b>	<b>15,621</b>	<b>100</b>	<b>61,132</b>	<b>100</b>	<b>50,637</b>	<b>100</b>	<b>37,475</b>	<b>100</b>

\* The installed capacity and electricity generated does not include our German wind power plants acquired as of December 2, 2016 and December 22, 2016.

The total installed capacity of our generation facilities is 15,621 MW, of which 83.5% is in the Czech Republic, 8.1% is in Bulgaria, 4.4% is in Poland and 4.0% is in Romania. In the year ended December 31, 2016, we generated 61,132 GWh of electricity, of which 93.1% was generated in the Czech Republic. In the same year, 50.2% of our total electricity generated was generated by our coal-fired power plants, 39.4% was generated by our nuclear power plants and the remaining 10.4% was generated by our hydroelectric, solar, wind, gas, biogas, biomass power plants or

through biomass co-firing.

We distributed electricity to more than 3.6 million connection points in the Czech Republic covering an area of approximately 52 thousand square kilometres as of December 31, 2016, making us the largest of the three regional distributors of electricity in the country. In the year ended December 31, 2016, we distributed a total of 50,637 GWh of electricity to end-consumers, 69.0% of which was distributed to end-consumers in the Czech Republic. In addition, we are one of the largest of eight regional distribution companies in Romania and we have majority interest in the principal distribution company in Bulgaria.

ČEZ was incorporated as a joint stock company under the laws of the Czech Republic on May 6, 1992 with unlimited duration and was registered in the Commercial Register administered by the Municipal Court in Prague, File B, Section 1581, with identification number 45274649. As of December 31, 2016, ČEZ had a registered share capital of CZK 53,798,975,900 and was 69.8% owned by the Czech Republic represented by the Ministry of Finance. The shares of ČEZ are listed on the Prague Stock Exchange and the Warsaw Stock Exchange. The registered office of ČEZ, a. s., is Duhová 2/1444, 140 53 Prague 4, Czech Republic, with telephone number +420 211 041 111.

## History and Development of the CEZ Group

Principal events during our history and development include:

- |             |   |
|-------------|---|
| <b>1992</b> | ČEZ was established on May 6, 1992 through the aggregation of formerly State-owned power generation and distribution assets in the Czech Republic into one enterprise.  |
| <b>2002</b> | <p>The Czech Republic's electricity market began a process of market liberalization in accordance with the Czech Energy Act.</p> <p>We acquired the Czech Government's shares in the eight regional distribution utilities (the "REAS"), which were previously held by the Czech National Property Fund and the Czech Consolidation Agency. We subsequently held a majority interest in five of the REAS and a minority interest in three of the REAS.</p>  |
| <b>2004</b> | An amendment to the Czech Energy Act required the distribution of electricity to be separate and independent from the sale of electricity to end-consumers (so-called "unbundling") from January 1, 2007.   |
| <b>2005</b> | <p>We established ČEZ Distribuce, a.s., for electricity distribution and ČEZ Prodej, s.r.o., for electricity sales.</p> <p>We acquired three Bulgarian distribution companies, Elektrorazpredelenie Pleven AD, Elektrorazpredelenie Sofia Oblast AD and Elektrorazpredelenie Stolichno AD, which together had approximately 1.9 million customers in Bulgaria.</p> <p>We acquired a 51% stake in the Romanian distributor Electrica Oltenia S.A., which had approximately 1.4 million customers in Romania.</p> |
| <b>2006</b> | <p>We acquired Severočeské doly a.s., a brown coal mining company located in North Bohemia, which supplies a significant portion of brown coal to our power plants in the Czech Republic.</p> <p>We acquired a 75.2% share in the voting rights of Elektrociepłownia Chorzów "ELCHO" S.A. and a 74.82% stake in Elektrownia Skawnia S. A. These Polish electricity generation companies had a combined installed capacity of 830 MW in 2006.</p>  |
| <b>2007</b> | We acquired 100% control over the five previously majority-owned REAS: Severočeská energetika, a.s., Severomoravská energetika a.s., Východočeská energetika, a.s., Západočeská energetika, a.s., and Středočeská energetická, a.s. Following the acquisition of the REAS, our distribution network became the largest in the Czech Republic.   |
| <b>2008</b> | We acquired the Fantanele and Cogea Lac wind farm project in Romania which became one of the largest onshore wind farms in Europe, with a total installed capacity of 600 MW, on completion at the end of 2012.   |
| <b>2009</b> | Pursuant to a joint venture arrangement with the Akkok Group, we acquired 100% of   |

Sakarya Elektrik Dagitim A.S., the Turkish electricity distribution company which has the right to operate the distribution grid in the Sakarya region of Turkey for 30 years.

We acquired the remaining minority share in Elektrownia Skawina S. A., becoming the 100% owner of this Polish power plant.

We signed a shareholders' agreement with JA VYS a.s. to establish a joint venture to develop a new nuclear power station at Jaslovské Bohunice, Slovakia. Our share in the joint venture is 49% and we exercise managerial control together with JA VYS a.s.

We commenced the procurement procedures for the supply of two reactor units for the Temelín nuclear power plant and the potential supply of up to three further reactor units in Europe.

We became the 100% owner of CEZ Distributie S. A. and CEZ Vanzare S.A. when we purchased a 30% stake in CEZ Distributie S.A. and a 19% stake in CEZ Vanzare S.A.

We acquired 37.36% of our Turkish joint venture partner, Akenerji Elektrik Üretim A.S., and became the joint holders of a majority interest amounting to approximately 75%, with the remaining shares being traded on the Istanbul Stock Exchange.

**2010** We acquired a further 24.8% interest in Elektrociepłownia Chorzów "ELCHO" S.A. and became the 100% owner of this Polish electricity company.

**2011** We acquired a 100% holding in Energotrans, a.s., a company supplying heat from Mělník to Prague.

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

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

We sold a 50% stake in JTSD Braunkohlebergbau, GmbH, the sole shareholder of the mining company MIBRAG, to EP Energy, a.s.

On July 7, 2012, three qualified bidders (The Westinghouse Electric Corporation, AREVA NP and a consortium of ŠKODA JS, JSC Atomexport and JSC OKB Gidropress) submitted their binding offers for the construction of two new units at the Temelín nuclear power plant.

On May 21, 2012 and December 20, 2012, in a two-stage process, we acquired an additional 8% shareholding in Eco-Wind Construction S.A. and increased our total shareholding in Eco-Wind Construction S.A. to 75%.

**2013** In January 2013, we signed a memorandum with Jadrová a vyrad'ovacia spoločnosť, a. s., (JA VYS) and Rosatom allowing Rosatom to receive requisite information about the current status of preparations for a new nuclear project in the area of Jaslovské Bohunice. Based on the memorandum, Rosatom may obtain relevant information which would allow it to start negotiations on its possible involvement in the project and its potential acquisition of an equity stake in JESS (Jadrová energetická spoločnosť Slovenska, a. s.), the joint-venture between ČEZ (49%) and the Slovak government-owned company of JA VYS (51%).

On March 18, 2013, we concluded a coal supply contract with Vršanská uhelná (Czech Coal group) under which the supply of coal will be secured to the Počerady power plant for a term of up to nearly 50 years. The long-term contract significantly stabilizes the situation in the

entire coal market and also in the electricity market. As a part of the transaction, the parties concluded a settlement agreement in respect of their mutual claims. We also concluded two put option agreements with Vršanská uhelná a.s. Under these contracts ČEZ has a right to transfer 100% of the shares in its subsidiary Elektrárna Počerady, a.s. (owner of the Počerady coal power plant) to Vršanská uhelná a.s. The first option could have been exercised in 2016 for cash consideration of CZK 8.5 billion, less CZK 0.4 billion per each block of the Počerady power plant that is not modernized, however, our Board of Directors decided not to exercise this first option. The second option can be exercised in 2024 for cash consideration of CZK 2 billion.

On April 26, 2013, we completed the acquisition of 22.5% shares in Akcez Enerji Yatirimlari Sanayi ve Ticaret A.Ş. from Akenerji Elektrik Üretim Anonim Şirketi.

On September 2, 2013, we completed the sale of the Chvaletice power plant to Severní energetická a.s. (formerly Litvínovská uhelná a.s.). The divestment was realized with the aim to bring to an end the E.U. Commission's investigation launched in 2009 by means of a settlement agreement, in which we agreed to sell one of our coal-fired power plants. For more detailed information on the dispute with the E.U. Commission.

In September 2013, a 10-year cooperation agreement was signed between the ELCHO power plant and TAURON Ciepło, guaranteeing an increase in heat supply from 320 to 490 MW. For the CEZ Group, the agreement means not only expanding the heat market and increasing its market share in Upper Silesia to 25% but also utilizing the power plant's full capacity.

## 2014

On February 4, 2014, we issued €470.2 million guaranteed exchangeable bonds due 2017 and, subject to our cash election right, exchangeable for our 7% holding of shares in MOL (MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság).

On March 19, 2014 the KEVR initiated the license revocation proceedings in respect of the electricity sale license held by CEZ Elektro Bulgaria AD, based on the alleged delayed payments of CEZ Elektro Bulgaria AD to NEK, a Bulgarian producer of electricity, amounting to BGN 63.7 million (approximately CZK 880 million). There are no grounds for the license revocation proceedings and CEZ Elektro Bulgaria AD is taking action to prevent such revocation.

On April 10, 2014, we cancelled the tender process for selection of contractors (involving The Westinghouse Electric Corporation, AREVA NP and a consortium of ŠKODA JS, JSC Atomexport and JSC OKB Hidropress) to build two new nuclear reactors at the Temelín nuclear power plant which process was commenced in 2009

On August 27, 2014, the final arbitral award was issued in arbitration proceedings relating to the Gacko Project and the arbitration tribunal upheld our claims. In accordance with the arbitral award, we were granted compensation in the aggregate amount of approximately EUR 6.7 million and transferred our 51% share in the joint venture to our former joint venture partner, Elektroprivreda Republike Srpske

## 2015

In April 2015, we acquired the remaining 25% share in Eco-Wind Construction S.A. resulting in the CEZ Group being the sole owner of the company.

On April 9, 2015, the International Court of Arbitration of the International Chamber of Commerce in Paris rejected the vast majority of claims of Electrica S.A. against ČEZ.

On May 22, 2015, ČEZ announced its decision not to exercise its first option to sell the Počerady power plant to Vršanská uhelná (Czech Coal group).

In May 2015, ČEZ updated its dividend policy, increasing the dividend payout ratio to 60–80% of consolidated net income adjusted for extraordinary effects.

In June 2015, the CEZ Group announced its plan to reduce its greenhouse gas emissions to zero by 2050.

In July 2015, the CEZ Group acquired a shareholding in Sonnenbatterie GmbH, a company which manufactures battery energy storage systems.

In the second half of 2015, electricity generation by our nuclear power plants were below expectations due to the extension of scheduled and undertaking of unscheduled outages. In the year ended December 31, 2015, our nuclear power plants generated 26,840 GWh of electricity, representing a decrease of 3,484 GWh, or 11.5%, from 30,324 GWh in the year ended December 31, 2014.

In October 2015, the Czech Government approved the extension of brown coal mining limits at the Bílina coal mine owned by the CEZ Group. The newly available brown coal reserves are estimated to be 100 – 150 million tons.

On November 19, 2015, ČEZ officially informed the Government of Bulgaria of its intention to initiate international investment arbitration proceedings on the grounds of Bulgaria's failure to protect its investment unless the current situation is quickly remedied and the damage caused duly compensated. Please see "*Description of the Issuer—Legal Proceedings—Bulgaria*".

In November 2015, the CEZ Group acquired a minority shareholding in SunFire GmbH, a company developing and bringing into industrial production highly advanced energy technologies designed to reduce CO<sub>2</sub> emissions. SunFire GmbH also develops decentralized energy generation.

## 2016

In April 2016, the CEZ Group acquired a minority stake in tado° GmbH, a company providing solutions for intelligent home climate control.

On May 11, 2016, CEZ announced that inspections of weld of Units 2 and 3 of Dukovany nuclear plant would continue for an extended amount of time in order to avoid any doubts as to the reliability and safety of the facilities.

On July 12, 2016, CEZ commenced international investment arbitration proceedings before the International Centre for Settlement of Investment Disputes against the Republic of Bulgaria on the grounds of the Republic of Bulgaria's failure to adhere to investment protection provisions of the Energy Charter Treaty. Please see "*Description of the Issuer—Legal Proceedings—Bulgaria*".

On October 20, 2016, CEZ announced it had reached an agreement with Sokolovská uhelná, právní nástupce, a.s., to terminate all existing lawsuits between the parties and not to raise any additional claims. The agreement also anticipated conclusion of a new purchase contract for supply to CEZ of brown coal from Sokolovská uhelná, právní nástupce, a.s. Please see "*Description of the Issuer—Legal Proceedings—Litigation with Sokolovská uhelná, právní nástupce, a.s.*".

On November 23, 2016, CEZ filed an action for damages against ŠKODA JS, a.s. with District Court in Pilsen–City, seeking compensation for loss in the amount of CZK 611 million in relation to welds inspections of CEZ nuclear plants.

On November 30, 2016, agreements were signed pursuant to which SLOVNAFT, a.s., purchased CEZ's stake in its joint-venture with MOL, as a result of which, CEZ divested its participation in a thermal power plant with a total installed capacity of 174 MW located in the Slovnaft refinery in Bratislava, Slovakia.

On December 5, 2016, CEZ announced it had acquired from AREAM, a German investment

and asset manager, a wind farm with total installed capacity of 12.8 MW located in the southwest German state of Rhineland-Palatinate, including a 20-year feed-in tariff subsidy contract. The acquisition was CEZ's first project in the German renewables market.

On December 22, 2016, CEZ announced it had acquired from wpd AG, Germany's leading wind farm developer and operator, 35 wind turbines with a total installed capacity of 85.25 MW, all of which were already commissioned. The wind farms are located in the northern German states of Mecklenburg-West Pomerania, Brandenburg, Saxony-Anhalt, Saxony, and Hesse and benefit from a 20-year feed-in tariff. Operating support was obtained under the contract with wpd wind manager.

## 2017

On January 2, 2017, CEZ transferred its shares in Elektrárna Tisová, a. s., an operating company for CEZ's Tisová power plant, to Sokolovská uhelná, právní nástupce, a.s., as anticipated by the settlement agreement concluded between the parties in October 2016 and referred to above.

On January 27, 2017, CEZ announced that, based on the interest of several investors, it had decided to examine the market in relation to its investments in Bulgaria, where CEZ operates a distribution company, CEZ Razpredelenie Bulgaria AD, a retail electricity supplier, CEZ Electro Bulgaria AD, a wholesale trader, CEZ Trade Bulgaria EAD, the Varna coal-fired power plant and two renewable sources plants.

On March 31, 2017, CEZ announced that CEZ's wholly owned Dutch subsidiary, CEZ MH B.V., had concluded its invitation to holders of its outstanding EUR 470.2 million guaranteed exchangeable bonds due 2017, exchangeable into ordinary shares of MOL Hungarian Oil and Gas Plc, to tender their bonds. Following expiration of the invitation, CEZ MH B.V. received valid tenders of exchangeable bonds for purchase in aggregate principal amount of EUR 463.1 million. CEZ MH B.V. accepted for purchase all validly tendered exchangeable bonds. Of the principal amount of EUR 468.6 million of the exchangeable bonds outstanding prior to the invitation, approximately 98.8 percent were accepted for purchase by CEZ MH B.V. in the invitation. Following settlement of the invitation, exchangeable bonds in the aggregate principal amount of approximately EUR 5.5 million remain outstanding. The final size of the equity placing of MOL Hungarian Oil and Gas Plc shares by CEZ MH B.V. will be 7,561,372 million shares in MOL Hungarian Oil and Gas Plc raising proceeds of HUF 141.4 billion. Settlement of the invitation and the equity placing occurred on April 4, 2017. After settlement of the equity placing, CEZ MH B.V. continues to hold 89,796 or 0.1% of shares in MOL Hungarian Oil and Gas Plc. On April 11, 2017, pursuant to applicable terms and conditions, CEZ MH B.V. notified the holders of the outstanding exchangeable bonds in the aggregate principal amount of approximately EUR 5.5 million that CEZ MH B.V. would redeem all the outstanding exchangeable bonds on May 16, 2017 for the principal amount. As a result, the holders of the outstanding exchangeable bonds may exercise their exchange rights on May 2, 2017, at the latest.

## Organizational Structure

As of December 31, 2016, the CEZ Group consisted of ČEZ and 109 fully consolidated entities. As of December 31, 2016, we also had interests in 13 joint ventures consolidated by the equity method of accounting. For a complete list of our subsidiaries and joint ventures as of December 31, 2016, please see Note 9 of our audited consolidated financial statements for the year ended December 31, 2016.

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

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

### ***Principal Subsidiaries***

ČEZ Distribuce, a.s., a wholly owned subsidiary of the CEZ Group, was established on October 1, 2010, following the merger of ČEZ Distribuce, a. s. (a company of the same name which was incorporated on March 31, 2005 to comply with the requirement of the Czech Energy Act to separate our distribution business from our sales business, which ceased to exist with effect from the date of the merger) and ČEZ Distribuční zařízení, a.s. (a company incorporated in July 2009 to consolidate unclassified equipment for electricity distribution within the CEZ Group, which ceased to exist with effect from the date of the merger). The accounting record date for this transaction occurred on January 1, 2010. ČEZ Distribuce, a. s. is the only entity in the CEZ Group, other than ČEZ a. s., that holds an electricity distribution license in the Czech Republic. In the year ended December 31, 2016, ČEZ Distribuce, a.s., contributed approximately 28.2% of our EBITDA. For more information on our distribution business, please see “*Our Business—Distribution of Electricity*”.

ČEZ Prodej, s.r.o., a wholly-owned subsidiary of the CEZ Group, was established on March 31, 2005 to comply with the requirement of the Czech Energy Act to separate our sales business from our distribution business. Parts of our original regional power companies, including their customers, contracts and liabilities were transferred to ČEZ Prodej, s.r.o., by the end of 2005. ČEZ Prodej, s.r.o. has been fully operational since January 1, 2006, selling electricity to end-consumers in the Czech Republic. In recent years, ČEZ Prodej, s.r.o. has also started to supply gas and other services to end-consumers. In the year ended December 31, 2016, ČEZ Prodej, s.r.o., contributed approximately 8.3% of our EBITDA. For more information on our sales business, please see “*Our Business—Sale*.”

Severočeské doly a.s., a wholly-owned subsidiary of the CEZ Group, was established in 1994. The core activities of Severočeské doly a.s. are prospecting for, extracting, processing, and selling brown coal and related raw materials. Severočeské doly a.s. is the largest brown coal mining company in the Czech Republic. We acquired a 93.1% stake in Severočeské doly a.s. from the Government of the Czech Republic during 2005. Upon our request, as the majority shareholder, the general meeting of Severočeské doly a.s. held on March 27, 2006, approved the squeeze-out of minority shareholders and the transfer of their shares to us. In the year ended December 31, 2016, Severočeské doly a.s. contributed approximately 7.6% of our EBITDA. For more information on our mining operations, please see “*Our Business—Coal Mining*.”

### **Our Strengths**

We benefit from the following key strengths:

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

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

#### ***Robust Credit Profile***

ČEZ’s credit ratings of A- (stable outlook) by Standard & Poor’s and Baa1 (stable outlook) by Moody’s are among the highest awarded to a European utility, reflecting our efforts to work proactively to maintain prudent leverage and liquidity positions (Standard & Poor’s (domiciled in the United Kingdom) and Moody’s (domiciled in the United Kingdom) are both established in the European Union and are included in the list of credit rating agencies registered in

accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>). We had a relatively low Net Debt/EBITDA ratio of 2.52 as of December 31, 2016. In addition, we also monitor our total debt to total capital ratio. Our long term policy is to keep the Total Debt/Total Capital Ratio below 50%. We are a well-established credit among European utilities having issued €6.31 billion in 28 public and private transactions under this Programme since 2007 (including outstanding and issued and redeemed Notes). We aim to maintain an adequate liquidity position with access to sufficient back-stop credit facilities should cash flows become negative.

### ***Highly Integrated, Large-Scale Domestic Operations***

We benefit from highly integrated operations in the Czech Republic providing approximately 88% of our total consolidated EBITDA in the year ended December 31, 2016.

In the Czech Republic, we operate a low cost generation fleet which produced a total of 56.9 TWh of electricity, or 68.4% of the country's total electricity generated during the year ended December 31, 2016, of which 49.4% was produced by our coal-fired power plants. Approximately 67.8% of our brown coal consumption is provided by our mines, which is provided at the cost of extraction only on a consolidated basis. In addition, brown coal is not a traded commodity as its transportation is not economical and we are therefore not exposed to large fluctuations in the global commodities market. Approximately 42.3% of our total electricity generation output in the Czech Republic was generated by our nuclear power plants where variable costs are relatively low and stable (as opposed to initial construction costs). Furthermore, unlike in neighbouring Austria and Germany, public opinion as well as political representation in the Czech Republic are relatively favourable towards nuclear power generation. The composition of our generation fleet results in relatively stable and low variable costs which is a chief reason for our EBITDA margin of approximately 28.5% for the year ended December 31, 2016, being one of the highest among our European peers (EdF, EdP, EnBW, Enel, E.ON, Fortum, Iberdrola, RWE and Verbund) over the last five years.

In the Czech Republic, we distributed 35.0 TWh of electricity to end-consumers and according to our data had a market share of approximately 65% of the total electricity consumed in the regional distribution areas in the Czech Republic, in the year ended December 31, 2016. EBITDA generated by our Distribution segment in the Czech Republic accounted for approximately 29.8% of our total consolidated EBITDA for the year ended December 31, 2016.

We sold approximately 19.6 TWh of electricity to end-consumers in the Czech Republic, or 32% of the total net electricity consumed in the Czech Republic, in the year ended December 31, 2016. While our market share as an incumbent electricity provider has declined over the last several years (from approximately 44% in the year ended December 31, 2009) we have established ourselves as a gas supplier over previous years which has compensated for a significant part of the foregone decrease. EBITDA generated by our Sales segment in the Czech Republic accounted for approximately 8.5% of our consolidated EBITDA for the year ended December 31, 2016.

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

The Czech Republic's power market is a fairly standardized market by E.U. standards. Power production and power supply are fully liberalized while distribution is regulated, in line with E.U. Directives and regulations. In addition, public opinion and practically all of the political parties in the Czech Republic (except the Greens, who are currently not represented in the Czech Parliament) support nuclear operations and new nuclear build up. Furthermore, the Czech Government has not to date introduced substantial windfall taxes as in many other countries. The only exception to this has been a set of measures aimed at mitigating the impact of solar power plants boost on regulated distribution charges in the election year of 2010. At that time, a temporary tax on CO<sub>2</sub> emission allowances allocated without charge in 2011 and 2012 and another tax on revenues of solar power plants were introduced (please see "*Regulation—Czech Republic—Electric Energy Sector—Renewable Energy Sources—Current Legislation - The Czech Promoted Energy Sources Act*"). However, the Czech Republic participated in the so-called "derogation scheme" allowing certain countries to opt-out from the mandatory auctioning of CO<sub>2</sub> emission allowances in the period from 2013 to 2020. In December 2012, the Czech Republic's application was finally approved and announced by the E.U. Commission, as a result of which we are eligible to obtain approximately 69.6 million tons of CO<sub>2</sub> emission allowances between 2013 and 2019, the total market value of which, in current prices (€5.51/ton), is EUR 383.3 million. In addition, the production of heat shall also partially be supported with CO<sub>2</sub> emission allowances granted for free during the period from 2013 to 2020, totally amounting to some 6.5 million, the total market value of which, in current prices (€5.51/ton), is EUR 36 million.



### ***Strong Market Position in the Czech Republic***

We operate in the liberalized E.U. power markets which are well integrated with most of their neighbours. Such integration allowed approximately 29.8% of the Czech Republic's power production to be exported in 2016 (net export reaching 13.2% of the Czech Republic's power production). As a result of both of these factors, Czech power prices are driven by the same fundamentals as those of neighbouring countries, specifically Germany, the most liquid market. This allows us to benefit from the structure of our generation fleet which is positioned towards the cheaper end of the merit order of the German market.

### ***Strong Presence in Several International Markets***

In addition to cultivating our leading position in the Czech market, we have also applied our expertise in managing a power business to developing leading market positions across power markets in Central and South East Europe, including in Bulgaria, Germany, Poland and Romania. We also have operations in Turkey and trading activities in other European countries. In Bulgaria, for example, we distributed 9.3 TWh of electricity to approximately 2.1 million connection points, representing approximately 31% share of the Bulgarian electricity distribution market and sold 9.7 TWh of electricity to end-consumers during the year ended December 31, 2016. In addition, we also distribute electricity to approximately 14% of the Romanian market for the year ended December 31, 2016 (according to our data) and, through our joint venture company Akcez Enerji A.S. (we have a 50% stake) to 3.3% of the market in Turkey for the year ended December 31, 2016. In Romania, we have constructed and now operate one of the largest on-shore wind farms in Europe with total installed capacity of 600 MW. Further, in Turkey, we have a 37.4% stake in one of the largest privately owned power producers, Akenerji Elektrik Üretim A.S. In Germany, we have acquired wind farms with total installed capacity of 98 MW in December 2016, which have generated 24.8 GWh of electricity since their acquisition. We believe our international portfolio provides us with opportunities to leverage the significant expertise and knowledge gained in our domestic market which as a result allows us to further grow outside our domestic market, where our growth potential is limited.

### **Our Strategy**

In 2016, the following market trends continued to strengthen. In the field of electricity generation, the trend of moving away from the traditional power sources towards renewable and emission-free power sources has been confirmed. Decentralised solutions and comprehensive customer products tailored to suit customers' needs play an ever more significant role. Simultaneously, both these trends place an ever growing demand on the flexibility of generation units and distribution and transmission networks.

CEZ Group's strategy, announced in autumn 2014, reflects these trends and actively reacts to newly arising ones. CEZ Group's mission is to provide safe, reliable, and positive energy to its customers and society as a whole; its vision is to bring innovations for resolving energy needs and to help improve quality of life. To fulfil the mission and vision, CEZ Group based its strategy on three strategic priorities:

- I. Be among the best in the operation of traditional power facilities and proactively respond to the challenges of the 21st century
- II. Offer to customers a wide range of products and services addressing their energy needs
- III. Strengthen and consolidate our position in Europe

In relation to these priorities we primarily focus on the following:

- I. Be among the best in the operation of traditional power facilities and proactively respond to the challenges of the 21st century**
  - Focus on the operational efficiency as the essential condition for further participation in the conventional and new energy sector, while treating the operational security as an absolute priority
  - Ensure long-term operation of the Dukovany nuclear power plant and diligently prepare for ensuring long-term operation of the Temelín nuclear power plant
  - Gradually shut down our older conventional thermal power plants

- Prepare new unit projects in Temelín and Dukovany in accordance with the Czech Government's priorities in nuclear energy field
- Continually increase distribution network efficiency

## **II. Offer to customers a wide range of products and services addressing their energy needs**

- Reach the top level of electricity and gas sale, as well as of customer care
- Develop new products and services and utilize synergy potential with our commodities business
- Launch new business models - ranging from equipment supplies to electricity production in, and supply to, the place of customers' consumption, including financing and related services
- Undertake early stage investments in opportunities and technology so that the CEZ Group occupies a favourable future position in the energy sector
- Prepare our distribution networks for operation in the environment of increasing decentralization

## **III. Strengthen and consolidate our position in Europe**

- Strive to acquire assets in the segments of distribution, renewable and conventional energy sources as well as sales companies supplying energy and energy-related products to end-customers and companies developing new products and services, which are important for the future development of the decentralized energy field
- Optimize our capital and ownership structure or, as the case may be, divest selected assets to decrease our risk exposure in specific regions
- Focus on regions with stable regulatory environment

CEZ Group anticipates investing in renewables, decentralised solutions, regulated and other distribution network assets in Western Europe, and, should an opportunity arise, CEZ Group will analyse potential investments in to traditional power and heat generation assets.

In 2016, CEZ Group actively entered the German renewable energy market through acquisitions of several wind power plant portfolios. Our target countries in the field of renewable energy sources are located mainly in Western Europe.

The creation of new management system implemented as of January 1, 2016, which introduced two teams – Operations and Development – and emphasized segmental management across the countries where CEZ Group operates proved useful in 2016. The Operations Team focuses on efficient operation of CEZ Group's conventional power generating assets, mining and supporting services (including finance and administration). The Development Team is concerned with renewable energy sources, decentralised energy generation and with activities relating to distribution networks and sales and represents a foundation for future growth of the CEZ Group and for achieving its ambitious strategic goals.

## **Our Principal Markets**

### ***Overview***

Our core business is the generation, distribution and sale of electricity in the Czech Republic. In the year ended December 31, 2016, 83.5% of our total installed electricity generation capacity, 93.1% of our total electricity generation, 69.0% of our total electricity distributed to end-consumers and 52.3% of our total sales of electricity to end-consumers was in the Czech Republic. In the year ended December 31, 2016, our operations in the Czech Republic contributed approximately 88.0% of our EBITDA.

According to the ERO in the Czech Republic for the year ended December 31, 2016, we accounted for approximately 68% of electricity generated, 61% of installed electricity generation capacity, we distributed approximately 65% of the total electricity consumed in the regional distribution areas in the Czech Republic and sold 32% of the total net electricity consumed. In addition, we are the largest producer of brown coal in the Czech Republic accounting for approximately 55.4% of the total volume of brown coal produced in the Czech Republic for the year ended December 31, 2016. In the year ended December 31, 2016, the remaining 31.6% share of electricity generated in the Czech Republic came from independent power producers and self-generators.

To a lesser extent, we also generate electricity in Bulgaria, Germany, Poland, and Romania distribute electricity in Bulgaria and Romania and sell electricity to end-consumers in Bulgaria, Poland and Romania. In the year ended December 31, 2016, our operations in Bulgaria, Poland and Romania contributed approximately 2.5%, 1.4% and 8.2%, respectively, of our EBITDA. Our operations in Germany, acquired in December 2016, are not included in our results for the year ended December 31, 2016 since the time period between the acquisitions and accounting closing date was insignificant.

### *Czech Republic*

Macroeconomic conditions in the Czech Republic are relatively stable and have benefited from lower levels of unemployment and the Czech Republic's relative recovery in growth since 2009. On November 8, 2013, the Czech National Bank announced the launch of direct currency interventions to weaken the Czech crown, targeting a lower exchange rate to prevent possible deflation. We cannot predict the duration of the currency intervention of the Czech National Bank. The Czech Republic has been a member of the European Union since 2004, however, in light of fiscal uncertainty in the European Monetary Union (the "EMU"), the Czech Government has indeterminately postponed the EMU accession process.

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

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

The Czech power market and sales to end-consumers are fully liberalized. The gas market is also fully liberalized and the basic rules governing its operation are similar to those governing the electricity market. For an overview of such rules, please see "*Regulation—Czech Republic*." Access to the transmission and distribution grids is regulated. The wholesale market in the Czech Republic is a part of the larger Central European market, primarily due to extensive cross-border transmission capacities between the Czech Republic and the transmission grids of neighbouring countries. The Czech transmission system is operated by ČEPS, a.s., the sole holder of an electricity transmission license for the Czech Republic under the Czech Energy Act. Based on transmission services agreements, ČEPS, a.s. provides electricity transfer in the Czech Republic, controls power flows across the Czech transmission system, taking into account electricity exchange schedules agreed with neighbouring transmission system operators as well as cooperating with distribution system operators.

According to the ERO, in the year ended December 31, 2016, the net electricity consumption by end-consumers in the Czech Republic increased by 1.6 TWh or 2.7% to 60.9 TWh from 59.3 TWh in the year ended December 31, 2015.

### *Poland*

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

According to the preliminary data of Polish Energy Electricity Networks Regulatory Office (Polskie Sieci

Elektroenergetyczne), in the year ended December 31, 2016, total electricity consumption in Poland increased by 3.2 TWh, or 2%, to 164.6 TWh from 161.4 TWh in the year ended December 31, 2015.

### *Germany*

The German electricity generation market has undergone fundamental overhaul in recent years when the Energiewende, the process of transitioning the German energy industry from the traditional sources to emission-free and renewable energy, was implemented. Key pillars of the transition are renewable energy sources and energy savings. The share of renewable energy sources in the generation of electricity in Germany is steadily growing and reached approximately 32% in 2016. The aim is to reach a renewable energy share of 40-45% in 2025 and 55-60% in 2035 and, at the same time, to decrease greenhouse gas emissions by 80-95% by 2050 compared to 1990. In order to fulfil these goals renewable power sources are being subsidised by the German government. In the past, the subsidy system was based on feed-in tariffs (the mechanism whereby the government evens up the exercise price of generated electricity to preagreed level). With effect from January 1, 2017 a new subsidy system is being used. The level of subsidy granted will be based on a more competitive auction system and, thus, will not be determined by the state.

In December 2016, we acquired a wind farm with total installed capacity of 12.8 MW in southwest Germany and eight wind farms with total installed capacity of 85.25 MW in northern Germany. All the wind farms benefit from a 20-year feed-in tariff.

Since the time period between the acquisitions of the wind farms and the accounting closing date was insignificant, the impact of these wind farms is not reflected in our results as of December 31, 2016.

### *Bulgaria*

The majority of electricity generation in Bulgaria is controlled by the Bulgaria Government through BEH - Bulgarian Energy Holding (i.e., through (i) generation of electricity in large hydro power plants of National Electricity Company, thermal power plant Maritsa East 2 and nuclear power plant Kozloduy and (ii) purchasing electricity pursuant to long term power-purchase agreements with private thermal power plant AES Galabovo and thermal power plant Contur Global Maritsa East 1). The transmission grid is also owned and controlled by a subsidiary of Bulgarian Energy Holding. On the contrary, in Bulgaria, the distribution companies are controlled by foreign companies ENERGO-PRO, EVN and us.

28% of Bulgarian end consumption is sold on, effectively, a liberalized local market, whilst 24% of the net generation is exported. Households and businesses connected to the low voltage grid are supplied energy for regulated prices using a system of quotas regulated by Bulgarian law and decisions of the KEVR. As of April 1, 2016 standardized load profiles were developed and implemented for all customers with no hourly measurement, thus allowing all customers to migrate to the liberalized market. Electricity producers started to offer electricity using electronic tenders, which facilitated the establishment of an electricity spot market. The Independent Bulgarian Power Exchange ("IBEX") was opened in December 2015.

The tariff decision of the KEVR valid from July 1, 2016 reduced the end-customer price for CEZ by 3.60%. As a result of this tariff decision, the distribution margin per MWh increased by 2.14% and the sales company's margin per MWh decreased by 7.70% compared to the previous price decision C-35 valid from November 1, 2015. Other recent changes in the Bulgarian energy sector include the creation of an "Energy Safety Fund", which should help fund the deficit of the state owned energy company, NEK. All electricity producers and importers, including transmission operators, contribute to "Energy Safety Fund" with 5% of their monthly income in instalments.

In 2013, the KEVR imposed various actions against our local Bulgarian subsidiaries CEZ Elektro Bulgaria and CEZ Razpredelenie Bulgaria AD, with the threat of revoking our license for the distribution of electricity in Bulgaria. On March 19, 2014, the KEVR initiated the license revocation proceedings in respect of the electricity sale license held by CEZ Elektro Bulgaria AD. As a consequence of the aforementioned, and other various actions taken by other Bulgarian state bodies, on November 19, 2015, the CEZ Group officially informed the Government of Bulgaria of its intention to initiate international investment arbitration on the grounds of Bulgaria's failure to protect its investment, unless the current situation was quickly remedied and the damage caused duly compensated. Since the Government of Bulgaria did not take the opportunity for amicable settlement of the dispute, CEZ commenced, on July 12, 2016, international investment arbitration proceedings before the International Centre for Settlement of Investment Disputes against the Republic of Bulgaria on the grounds of Bulgaria's failure to adhere to investment protection provisions of the Energy Charter Treaty. For more information on our disputes in Bulgaria, please see "*Description of the Issuer* –

## *Romania*

Transmission, generation as well as distribution of electricity are partly state-owned in Romania. The electricity market is unbundled but is not fully privatized. Liberalization of the Romanian electricity industry is almost complete, but electricity supplies to households are still regulated. State-owned generation is split by fuel into separate companies (hydroelectric, coal-firing, gas-firing and nuclear). Medium and small-sized generation sources, mostly CHPs, are also owned by counties and municipalities. Distribution is partially privatized with three foreign investors (ENEL, E.ON and CEZ) servicing 5 out of 8 distribution regions. In the generation sector, the older generation power plants (coal, gas, hydroelectric and nuclear) are partly state-owned, and only minor hydros and certain selected inefficient gas, oil and brown coal capacities are being privatized and foreign investment in new nuclear capacity is subject to ongoing negotiations. In addition, renewable power plants (wind power plants of 3 GW, solar power plants of 1.4 GW, some biofuel power plants and small hydro power plants) are owned by independent power producers. OMV PETROM has built 860 MW CCGT in the Brazi area and there are small and medium size gas turbines being built in industrial park areas. Transmission in Romania is handled by an independent majority state-owned company Transelectrica.

## **Our Business**

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

## **Electricity Generation**

### *Overview*

In the year ended December 31, 2016, we generated 61,132 GWh of electricity, of which 93.1% was generated in the Czech Republic. In the year ended December 31, 2016, 50.2% of our total electricity generated was generated by our coal-fired power plants, 39.4% was generated by our nuclear power plants and the remaining 10.4% was generated by our hydroelectric, solar, wind, gas, biogas and biomass power plants or through biomass co-firing. The total installed capacity of our generation facilities is 15,621 MW, of which 83.5% is in the Czech Republic, 8.1% is in Bulgaria, 4.4% is in Poland and 4.0% is in Romania.

In the Czech Republic, as of December 31, 2016, we owned and operated 10 coal-fired power plants with total installed capacity of 4,945 MW, two nuclear power plants with total installed capacity of 4,290 MW, 35 hydroelectric power plants with total installed capacity of 1,960.2 MW, 12 solar (photovoltaic) power plants with total installed capacity of 125.2 MW, two wind power plants with total installed capacity of 8.2 MW, one gas-fired power plant with total installed capacity of 844.9 MW and one bio-gas station with a total installed capacity of 0.5 MW. In addition, we own and operate a number of heat plants in the Czech Republic with total installed capacity of 876.7 MW as of December 31, 2016. On January 2, 2017, we sold our shares in Elektarna Tisová, a.s., an operating company for the Tisová power plant, to Sokolovská uhelná, právní nástupce, a.s.

The following table sets forth a breakdown of the total installed capacity of our power plants for the years ended December 31, 2015 and 2016.

	<b>As of December 31</b>			
	<b>2015</b>		<b>2016</b>	
	<b>(MW)</b>	<b>(%)</b>	<b>(MW)</b>	<b>(%)</b>
<b>Coal-fired and gas-fired power plants<sup>(1)</sup>:</b>				
Czech Republic .....	6,967	43.8	6,667	42.7
Poland .....	678	4.3	678	4.3
Bulgaria .....	1,260	7.9	1,260	8.1
Total .....	8,905	56.0	8,605	55.1

**Nuclear power plants:**

Czech Republic .....	4,290	26.9	4,290	27.5
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**Hydro, solar, wind, biogas and biomass power plants:<sup>(3)</sup>**

Czech Republic .....	2,094	13.2	2,094	13.4
Poland .....	3	0.0	3	0.0
Bulgaria .....	7	0.0	7	0.0
Romania .....	622	3.9	622	4.0
Total .....	2,726	17.1	2,726	17.5
<b>Total installed capacity<sup>(2)</sup> .....</b>	<b>15,921</b>	<b>100.0</b>	<b>15,621</b>	<b>100.0</b>

(1) Includes 876.7 MW and 876.7 MW of installed capacity of our coal-, gas- and biomass-fired heat plants in the Czech Republic for the years ended December 31, 2015 and 2016, respectively.

(2) Some of our power plants are operated under joint venture agreements which are not fully consolidated. The installed capacity of these power plants was therefore not included in our total installed capacity. For the year ended December 31, 2016, these amounts included:

- 904 MW of installed capacity of our gas-fired power plant in Turkey;
- 28.2 MW of installed capacity of our wind power plant in Turkey; and
- 288.9 MW of installed capacity of our hydroelectric power plants in Turkey.

(3) Does not include our German wind power plants acquired as of December 2, 2016 and December 22, 2016.

As of December 31, 2016, the total installed capacity of our generation facilities was 15,621 MW, representing a decrease of 300 MW, or 1.9%, from 15,921 MW as of December 31, 2015. The decrease was caused by the expiration of licenses for two units of Prunéřov power plant (2 x 215 MW, originally 210 MW temporarily increased to 215 MW during 2016) as of December 31, 2016 which was partially compensated by the completion of the renewal of the remaining three units of the same power plant, which have an installed capacity of 250 MW each. As of December 31, 2016, 13,051 MW, or 83.5% of our total installed capacity, was in the Czech Republic, of which 44.6% was coal-fired, 6.5% was gas-fired, 32.9% was nuclear and 16.0% was hydroelectric, solar, wind and biogas power combined.

The following table sets forth a breakdown of the total electricity generated by our power plants by type of energy for the years ended December 31, 2015 and 2016.

	For the year ended December 31,			
	2015		2016	
	(GWh)	(%)	(GWh)	(%)
<b>Coal and gas<sup>(1)</sup>:</b>				
Czech Republic .....			29,962	49.0
	27,121	44.5		
Poland .....	2,511	4.1	2,540	4.2
Total .....	29,632	48.6	32,502	53.2
<b>Nuclear:</b>				
Czech Republic .....	26,840	44.1	24,104	39.4
<b>Hydro, solar, wind, biogas and biomass<sup>(3)</sup>:</b>				
Czech Republic .....	2,669	4.4	2,877	4.7
Poland .....	433	0.7	391	0.6
Romania .....	1,337	2.2	1,252	2.1
Bulgaria .....	6	0.0	6	0.0
Total .....	4,444	7.3	4,524	7.4
<b>Total electricity generated<sup>(2)</sup> .....</b>	<b>60,917</b>	<b>100</b>	<b>61,132</b>	<b>100</b>

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

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

2016, these amounts included:

- 3,698 GWh of electricity generated by our gas-fired, wind and hydroelectric power plants in Turkey.
- (3) Does not include generation of our German wind power plants acquired as of December 2, 2016 and December 22, 2016.

In the year ended December 31, 2016, 56,944 GWh of electricity, or 93.1% of our total electricity generated, was generated in the Czech Republic, of which 52.6% was generated by our coal- and gas-fired power plants and 42.3% was generated by our nuclear power plants.

In the year ended December 31, 2016, we generated 61,132 GWh of electricity, representing an increase of 215 GWh, or 0.4%, from 60,917 GWh in the year ended December 31, 2015. The increase was caused by the completion of the Pruněřov power plant's renewal, generation of Ledvice power plant during the period of its trial operation, and the increase in generation of the gas-fired Počerady power plant. These were partially off-set by the decrease in generation of our nuclear fleet due to outages.

#### *Coal-fired power generation*

*Czech Republic.* We owned and operated 10 coal-fired power plants in the Czech Republic with installed capacity of 4,945 MW as of December 31, 2016. Our coal-fired power plants are situated in various locations throughout the Czech Republic, the largest concentration being in the brown coal mining region in the north-west. In the year ended December 31, 2016, our coal-fired power plants in the Czech Republic generated 28,149 GWh of electricity, representing 46.0% of our total electricity generated. Our coal-fired power plants in the Czech Republic accounted for 31.7% of our total installed capacity as of December 31, 2016.

The following table sets forth certain information regarding our coal-fired power plants in the Czech Republic as of December 31, 2016.

Plant	Type of Coal	Installed capacity (MW)	Start of operation	Desulphurization	Generation licenses valid until
Dětmarovice	Black/brown	4 x 200	1975 - 1976	1998	February 2, 2038
Ledvice II	Brown	2 x 110	1966	1996	September 6, 2026
Ledvice III	Brown	1 x 110	1968	1998	September 6, 2026
Mělník II	Brown	2 x 110	1971	1998	September 6, 2026
Mělník III	Brown	1 x 500	1981	1998	September 6, 2026
Počerady	Brown	5 x 200	1970 – 1971, 1977	1994, 1996	October 1, 2037
Pruněřov I	Brown	4 x 110	1967 – 1968	1995	September 6, 2026
Pruněřov II <sup>(1)</sup>	Brown	3 x 250	1981 – 1982	1996	September 6, 2026
			comprehensive retrofit 2012-2016		
Tisová II <sup>(2)</sup>	Brown	1 x 105	1961	1997	October 1, 2040
Tušimice II	Brown	4 x 200	1974 – 1975,	1997	September 6, 2026
			comprehensive retrofit 2007-2012		
<b>Total installed capacity</b>		<b>4,945</b>			

<sup>(1)</sup> License expiration of two units with capacity of 2 x 215MW (originally 210 MW temporarily increased to 215 MW during 2016) as of December 31, 2016 and retrofit of three remaining units.

<sup>(2)</sup> On January 2, 2017, we sold our shares in Elektarna Tisová, a.s., an operating company for the Tisová power plant, to Sokolovská uhelná, právní nástupce, a.s.

As of December 31, 2016, we also owned and operated a number of heat plants in the Czech Republic with total installed capacity of 876.7 MW. Heat is also a by-product of the generation of electricity by our coal-fired power plants and gas-fired power plants operated under a joint venture agreement in Turkey. Heat supplied by our power plants in the Czech Republic is sold to municipalities, district heating companies and industrial consumers. Heat is supplied to customers through steam/hot water pipelines that are owned and operated by us and third parties. In the year ended December 31, 2016, our coal-fired power plants and heat plants in the Czech Republic supplied 18,196 TJ of heat representing an increase of 936 TJ, or 5.4%, from 17,260 TJ in the year ended December 31, 2015. The increase was predominantly caused by colder weather during the heating season (i.e., in the period from January to May 2016, and September to December 2016).

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

In the year ended December 31, 2016, our coal-fired power plants in the Czech Republic consumed 23.3 million tons of brown coal and 1.3 million tons of black coal. For information on our coal mining activities and purchases of coal from third parties, please see “*Our Business—Coal Mining*” and “*Fuel—Coal*.” Our coal-fired power plants in the Czech Republic were assigned approximately 10.9 million tons of CO<sub>2</sub> emission allowances for the year ended December 31, 2016. For additional information on CO<sub>2</sub> emission allowances and the allocation of CO<sub>2</sub> emission allowances, please see “*Regulation—Czech Republic—Carbon Compliance (Emission Allowances) — Allocation of emission allowances during phase III*” and “*—Czech —Emission Allowances Act*”.

Biomass in the form of wood chip, straw and pellets is combusted in our coal-fired power plants and heat plants in the Czech Republic. In the Czech Republic, we also own and operate one small heat plant that only burns biomass. Within our portfolio of renewable sources in the Czech Republic, biomass is the second most significant element after water from the perspective of electricity generated. In the year ended December 31, 2016, we burned 626,638 tons of biomass in our power and heat plants in the Czech Republic.

As part of our investment program to replace older power plants in the Czech Republic with new, more efficient and cleaner power plants, we are about to finish the construction of a new 660 MW unit at our Ledvice coal-fired power plant (with an expected service life of 40 years) which is currently in testing operation. In 2007, we also started work in connection with the renewal of four 200 MW units at our Tušimice II coal-fired power plant. Two units were completed in 2010, one unit was completed in 2011 and the remaining unit, was completed in June 2012. The renewal program extended the service life of the Tušimice II coal-fired power plant until 2035. In addition, in 2016 we completed the renewal of three 250 MW units at the Prunéřov coal-fired power plant (with an expected service life of 25 years).

#### *Poland.*

We own and operate two black coal-fired power plants located in the southern region of Poland, the Chorzów (formerly called Elcho) power plant with installed capacity of 238.4 MW and the Skawina power plant with installed capacity of 440 MW as of December 31, 2016. The Elcho power plant started operating in 2003. The Skawina power plant started operating in 1957 and was desulfurized in 2008. A license is necessary in order to generate electricity in Poland, which is issued by the Polish Energy Regulatory Office. The licenses of the Chorzów power plant and the Skawina power plant for the generation of electricity and heat expire on December 31, 2023 and December 31, 2025, respectively.

In the year ended December 31, 2016, our coal-fired power plants in Poland generated 2,540 GWh of electricity, representing 4.2% of our total electricity generated. In the same year, our power plants in Poland generated 5,825 TJ of heat.

In the year ended December 31, 2016, our coal-fired power plants in Poland consumed 1,417 thousand tons of black coal and 250 thousand tons of biomass and emitted approximately 2.7 million tons of CO<sub>2</sub> emissions.

#### *Bulgaria.*

We own the Varna coal-fired power plant in Bulgaria. The Varna coal-fired power plant commenced operations in 1968-1969 and has not been desulfurized (the process of removing sulphur dioxide (SO<sub>2</sub>) from exhaust flue gases of fossil-fuel power plants). A license is necessary in order to generate electricity in Bulgaria, which is issued by the Energy and Water Regulatory Commission. According to the Integrated Pollution Prevention and Control (“IPPC”) permit the Varna coal-fired power plant must have been desulfurized by the end of 2014 to be able to continue its operation.



On January 1, 2015, operation of the Varna power plant was suspended due to economic reasons. The situation in Bulgaria's energy sector and the current Bulgarian energy regulations do not allow the CEZ Group to generate a positive return on investment while carrying out the necessary refurbishments of the Varna power plant. We are currently negotiating with third parties interested in leasing or buying the Varna power plant.

#### *Nuclear power generation*

*Czech Republic.* We own and operate two nuclear power plants in the Czech Republic, the Dukovany nuclear power plant and the Temelín nuclear power plant. In the year ended December 31, 2016, nuclear power generation accounted for approximately 39.4% of our total electricity generated, as compared to 44.1% in the year ended December 31, 2015. In the year ended December 31, 2016, our nuclear power plants accounted for 27.5% of our total installed capacity.

The following table sets forth certain information regarding our nuclear-powered plants as of December 31, 2016.

<b>Plant</b>	<b>Installed capacity (MW)</b>	<b>Start of operation</b>
Dukovany	4 x 510;	1985-1987, reconstruction in 2009, 2010, 2011, and 2012
Temelín	2 x 1,125	2002-2003
<b>Total installed capacity</b>	<b>4,290</b>	

*Dukovany nuclear power plant.* The construction of the Dukovany nuclear power plant commenced in 1979 and its four units became operational between May 1985 and July 1987. The power plant uses four Soviet designed VVER 440-V213 reactors with a total installed capacity of 2,040 MW. Outside Russia, such reactors are in operation in the Czech Republic, Finland, Hungary, Ukraine, Bulgaria and the Slovak Republic. The VVER 440-V213 reactors have proven to be robust and easy to operate with substantial safety margins, as demonstrated by the strong operational and safety performance of the reactors in such countries. The design of a VVER plant is generally considered to be identical to the design of PWR plants which are based on U.S. technology (in which water also acts as the moderator and the coolant) and which are the most common reactor type used commercially around the world.

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

Another key project at the Dukovany nuclear power plant is the Long-Term-Operation (“LTO”) project. The goal of the LTO project is to prepare the Dukovany nuclear power plant to operate beyond its original designed lifespan. The aim is to secure the license for operation of the Dukovany nuclear power plant after 2015 in case of Unit 1, after 2016 in case of Unit 2 and after 2017 in case of Units 3 and 4. The projected lifetime of the Dukovany nuclear power plant was 30 years, although it may be possible to extend the projected lifetime by up to an additional 20-30 years based on the level of usage. SONS grants operating licenses that are renewable upon application. On March 30, 2016 the license of Unit 1 has been extended for an indefinite period subject to fulfilment of certain operational conditions. In August 2016 the license of Unit 2 has been extended until July 10, 2017 and in January 2017 we have applied for its further extension. Units 3 and 4 are being prepared for extension of their licenses beyond 2017 as well.

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

<b>Unit</b>	<b>License valid from</b>	<b>License valid until / Extended until</b>
1	January 1, 2006	indefinite
2	January 1, 2007	July 10, 2017
3	January 1, 2008	December 31, 2017
4	January 1, 2008	December 31, 2017

In 2014, the Dukovany nuclear power plant was visited by several international experts including WANO (World Association of Nuclear Operators) Technical Support mission in May 2014 and six experts from leading Japanese nuclear companies and organizations to share good practices in the storage of highly radioactive waste. In

September 2016, the Dukovany nuclear power plant successfully completed SAFEGUARD Dukovany 2016 training which focused on collaboration between the Czech Army, Czech Police, and ČEZ when ensuring the power plant's external safety. In April 2017, the Dukovany nuclear power plant was reviewed by the WANO and, for the first time, evaluated against a new version of WANO's standard, Performance Objectives and Criteria. In course of the WANO mission a team of international experts identified nine areas for improvement. The Dukovany nuclear power plant has already been working to improve most of the identified areas, including supervision over contractors, human performance quality, human performance tool, inspection activities or exclusion of foreign materials. The WANO mission also pointed out two good practices transferable from the Dukovany nuclear power plant to other nuclear power plants.

In the second half of 2015, operation of Units 1, 2 and 3 of the Dukovany nuclear power plant was unexpectedly suspended because of the license extension process (in the case of Unit 1) and because of the welds control (in the case of Unit 1, Unit 2 and Unit 3) which was necessary to undertake since the X-ray images of the welds were found to be of low-quality. In 2016, the welds control continued and thus extended the length of the scheduled outages of Units 2, 3 and 4 of the Dukovany nuclear power plant. Therefore, electricity generation of the Dukovany nuclear power plant was below expectations and generated 11.95 TWh of electricity in the year ended December 31, 2016, representing a decrease of 0.65 TWh, or 5.2% from 12.61 TWh in the year ended December 31, 2015. The welds control will continue for an extended period during the scheduled outages in 2017.

*Temelín nuclear power plant.* The construction of the Temelín nuclear power plant commenced in 1987. Following the fall of the Communist regime in 1989, completion of the Temelín nuclear power plant became a political issue and the government stopped construction of Unit 3 and Unit 4. In March 1993, the government approved the completion of two units, out of four units originally planned, and at the same time ordered a fundamental change in the design of the power plant, primarily to enhance operational safety. This change consisted of adapting the Soviet plant technology to function with Western instrumentation and control systems. The adaptation of U.S. technology to the original Soviet plant construction was supplied by The Westinghouse Electricity Company LLC. It was the first such adaptation of its kind and as a result of extensive design and construction changes, the estimated completion date for the Temelín nuclear power plant was delayed several times. In July 2000, the Unit 1 reactor was loaded with nuclear fuel and started up on October 11, 2000 and it generated its first kilowatt-hour of electricity on December 21, 2000. On December 29, 2002, electricity was generated for the first time from Unit 2.

In September 2010, a new spent fuel storage facility became operational on a trial basis and the first spent fuel container was loaded to the prepared temporary storage. Fuel from Unit 1 was replaced with Russian TVEL fuel. A year later, the same change was also made at Unit 2. In 2012, our "Safely 15 Tera" project, which focused on improving available capacity and reducing equipment failure rates, was successfully completed and the Temelín nuclear power plant generated an annual total of 15 TWh of electricity for the first time in its history. Project results continued to positively influence the generation also in 2013 and 2014, when the Temelín nuclear power plant generated 15.065 TWh and 14.95 TWh of electricity, respectively, being the second and the third highest annual electricity production in the lifetime of the Temelín nuclear power plant. In 2015, operation of the Temelín nuclear power plant was partially suspended due to the extended scheduled maintenance outage of Unit 2 and three minor operation outages, two in respect of Unit 2 and one in respect of Unit 1. In 2016, generation was influenced by outages of both units that were longer than expected due to unforeseen works. In case of Unit 1, the outage was influenced by the weld controls, and in case of Unit 2, the outage was extended due to a turbine oil glands fault and replacement. As a consequence, electricity generation of the Temelín nuclear power plant was 12.1 TWh of electricity in the year ended December 31, 2016, representing a decrease of 2.1 TWh, or 17.4%, from 14.2 TWh in the year ended December 31, 2015.

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

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

Unit	License valid from	License valid until
1	October 11, 2010	October 12, 2020
2	June 1, 2012	May 31, 2022

*New Nuclear Sources.* In compliance with the USEP and its follow-up document the NAP NE, we are taking necessary steps to be able to build new nuclear units at both Dukovany and Temelín sites by the deadline stipulated by the NAP NE, should the decision to build the new units be taken while minimizing the necessary cost. As of October 1, 2016, the projects of new units have been spun off into two separate companies owned by ČEZ – Elektrárna Dukovany II and Elektrárna Temelín II.

*Decommissioning of the nuclear power plants.* Pursuant to the Czech Nuclear Act 2016, we will be responsible for decommissioning each of our nuclear power plants. We are providing funds for the future costs of decommissioning our nuclear power plants on a straight-line basis over the operating life of the relevant nuclear power plant. Total decommissioning costs are currently estimated to be CZK 22.4 billion for the Dukovany nuclear power plant and CZK 18.4 billion for the Temelín nuclear power plant. These decommissioning cost estimations are submitted for verification to the Czech Repository Authority and it is assumed that the end of the nuclear power plants' operating life will be 2035 in case of Dukovany nuclear plant and 2042 in case of Temelín nuclear power plant. In order to accumulate an adequate amount of funds to cover the ultimate costs of decommissioning of the plants after their useful life, we periodically review the decommissioning cost estimates and update our decommissioning provisions. The last updates of decommissioning costs for the Dukovany and Temelín nuclear power plants were in 2013 and 2014, respectively.

To cover the costs of decommissioning, we are required by the Czech Nuclear Act 2016 to contribute to special nuclear escrow accounts. In 2016 and 2015, the payments to the nuclear escrow accounts amounted to CZK 408.5 million and CZK 408.5 million, respectively. As of December 31, 2016, restricted funds representing accumulated provision for the decommissioning of all nuclear facilities owned by ČEZ totalled CZK 12,988 million, representing an increase of CZK 632 million or 5%, from CZK 12,356 million as of December 31, 2015. These restricted funds are shown in the balance sheet of our audited consolidated financial statements, included elsewhere in this Base Prospectus, under "non-current financial assets." We have established provisions to recognize our estimated liabilities for nuclear decommissioning of all facilities owned by ČEZ in the form of an accounting reserve, which as of December 31, 2016 amounted to CZK 18,602 million, representing a decrease of CZK 656 million, or 3.4%, from CZK 19,258 million as of December 31, 2015.

#### *Gas-fired power generation*

*Czech Republic.* In October 2014, we completed the construction of the Počerady gas-fired power plant with the installed capacity of 844.9 MW and an expected life of 30 years. With effect from December 1, 2014, Počerady gas-fired power plant is licensed to produce electricity. On December 19, 2014, the Czech Ministry of Industry granted its final approval to the construction. In the year ended December 31, 2016, Počerady gas-fired power plant generated 1,813 GWh of electricity, representing an increase of 1,271 GWh, or 234.5%, from 542 GWh in the year ended December 31, 2015.

*Turkey.* In 2014, we successfully commissioned all (two gas and one steam) turbines of the new Turkish gas-fired power plant in Egemen with a total installed capacity of 904 MW and a service life of 30 years, in which we have an interest pursuant to a joint venture arrangements with the Akkoc Group. Our interests in these joint venture arrangements are not fully consolidated and therefore are not included in the calculations of our total electricity generation and our total installed capacity.

#### *Hydroelectric power generation*

*Czech Republic.* We own and operate 35 hydroelectric power plants in the Czech Republic, comprising seven accumulation power plants, three pumped storage hydro power plants and 25 small-scale hydro power plants. In the year ended December 31, 2016, our hydroelectric power plants in the Czech Republic generated 2,243 GWh of electricity, representing approximately 3.7% of our total electricity generated, compared to 3.5% for the year ended December 31, 2015. Our hydroelectric power plants in the Czech Republic accounted for 14.4% of our total installed capacity as of December 31, 2016.

The following table sets forth certain information regarding our hydroelectric power plants in the Czech Republic as of December 31, 2016.

<b>Plant</b>	<b>Installed capacity (MW)</b>	<b>Type of plant</b>	<b>Start of operation</b>
Kamýk	4 x 10	Accumulation	1961
Lipno I	2 x 60	Accumulation	1959
Orlík	4 x 91	Accumulation	1961 – 1962
Slapy	3 x 48	Accumulation	1954 – 1955
Střekov	3 x 6.5	Accumulation	1936
Štěchovice I	2 x 11.25	Accumulation	1943 – 1944
Vrané	2 x 6.94	Accumulation	1936
Brno — Kníničky	1 x 3.1	Small Hydro	1941
Brno — Komín	1 x 0.106; 1 x 0.140	Small Hydro	1923, reconstruction 2008
Čeňkova pila	1 x 0.096	Small Hydro	1912
Černé jezero	1x1.5; 1x0.04; 1x0.37	Small Hydro	1930, 2004, 2005
Dlouhé Stráně II	1 x 0.163	Small Hydro	2000
Hněvkovice	2 x 4.8	Small Hydro	1992
Hradec Králové	3 x 0.25	Small Hydro	1926
Hracholusky	1 x 2.55	Small Hydro	1964
Kořensko I	2 x 1.9	Small Hydro	1992
Kořensko II	1 x 0.94	Small Hydro	2000
Les Kralovství	2 x 1.105	Small Hydro	1923, reconstruction 2005
Lipno II	1 x 1.5	Small Hydro	1957
Mělník	1 x 0.59	Small Hydro	2010
Mohelno	1 x 1.2; 1 x 0.56	Small Hydro	1977, 1999
Obříství	2 x 1.679	Small Hydro	1995
Pardubice	1 x 1.998	Small Hydro	1978, reconstruction during 2012
Pastviny	1 x 3	Small Hydro	1938, reconstruction 2003
Plzeň — Bukovec	2 x 0.315	Small Hydro	2007
Práčov	1 x 9.75	Small Hydro	1953, reconstruction 2001
Předmeřice nad Labem	1 x 2.6	Small Hydro	1953, reconstruction 2009
Přelouč	2 x 0.68; 2 x 0.49	Small Hydro	1927, reconstruction 2005
Spálov	2 x 1.2	Small Hydro	1926, reconstruction 1999
Spytihněv	2 x 2	Small Hydro	1951, reconstruction 2009
Vydra	2 x 3.2	Small Hydro	1939
Želina	2 x 0.315	Small Hydro	1994
Dalešice	3 x 120; 1 x 115	Pump Storage	1978
Dlouhé Stráně I	2 x 325	Pump Storage	1996
Štěchovice II	1 x 45	Pump Storage	1947 – 1949, reconstruction 1996
<b>Total installed capacity</b>	<b>1,960.2</b>		

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

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

Our hydroelectric power plants may sustain damage in floods. In 1997, one of our hydroelectric power plants

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

*Poland.* We own and operate two small hydroelectric power plants in Poland with total installed capacity of 2.5 MW. The Skawinka hydroelectric power plant was built in 1961 and is located in the territory of our Skawina coal-fired power plant. In 2013, we completed construction of the Borek Szlachecki small hydroelectric power plant which is also located in the territory of the Skawina coal-fired power plant. In the year ended December 31, 2016, these two hydro power plants generated 11 GWh of electricity.

*Romania.* We own and operate four small hydroelectric power plants in Romania operated by our wholly owned subsidiary TMK Hydroenergy Power S.R.L. All four power plants are located in the south-west part of Romania in Karaş-Severin county, near the city of Resita. Refurbishment of the power plant was initiated in July 2012 and completed in December 2013, as a result of which the total installed capacity of the plants was increased to 21.984 MW. In the year ended December 31, 2016, the four hydroelectric power plants generated 92 GWh of electricity.

*Turkey.* We have a joint venture interest in 7 hydroelectric power plants located in Turkey with total installed capacity of 288.9 MW as of December 31, 2016. Our interest is not fully consolidated and therefore is not included in the calculations of our total installed capacity and our total electricity generation.

#### *Solar power generation*

*Czech Republic.* As of December 31, 2016, we owned and operated 12 solar power plants in the Czech Republic, with total installed capacity of 125.2 MW. In the year ended December 31, 2016, our solar power plants in the Czech Republic generated 126 GWh of electricity.

All of our solar power plants in the Czech Republic are located in regions where the conditions are suitable for solar generation. The Vranovská Ves, Žabčice, Hrušovany nad Jevišovkou and Panov solar power plants are situated in the southernmost part of the region of South Moravia which is generally the sunniest region in the Czech Republic, with the highest average number of days of sun. The majority of our solar power plants started operating in 2009 and 2010 (please see also “*Description of the Issuer—Legal Proceedings—The investigations by police in the Czech Republic*”).

There was a significant increase in the number of newly connected renewable sources of electricity in the Czech Republic in 2009, primarily due to state support (mandatory purchasing and bonuses) for generation of electricity from renewable sources of energy. In particular, solar power generation increased, primarily due to a significant decrease in the cost of solar (photovoltaic) technology. However, due to legislative amendments in the area of support for generation of electricity from renewable sources in 2010, the conditions for supporting solar power plants ceased to be as favourable compared to previous years and the trend towards rapid growth in the number of new solar generation installations, seen in 2009 and especially in 2010, did not continue. In 2012, the market recorded a moderate rebound in the segment of small roof-top solar installation (up to 5kWp) still benefiting from state support and further decrease in the cost of solar (photovoltaic) technology.

*Bulgaria.* In Bulgaria we own a photovoltaic power plant Oreshets, operated by our wholly owned subsidiary Free Energy Project Oreshets EAD. The plant was commissioned upon its completion in 2012 and in the year ended December 31, 2016, it generated 6 GWh of electricity.

#### *Wind power generation*

*Czech Republic.* We own and operate two wind power plants in the Czech Republic with total installed capacity of 8.2 MW. In the year ended December 31, 2016, these wind power plants generated 6 GWh of electricity.

*Poland.* Since 2011, we have been developing a number of wind farm projects in the various locations in Poland through our 100% shareholding interest in Eco-Wind Construction S.A., a Polish wind farm developer.

In July 2016, the new Polish wind farm investment law entered into force. Such law has adverse consequences for development of our wind farms in Poland. Pursuant to the new law, *inter alia*, (i) wind turbines must be situated away from residential and non-residential areas including natural reserves at a distance of equal to, or exceeding, ten times their total height, (ii) wind turbines are subject to higher real estate taxes to be paid by the wind farm operators, and (iii) technical and safety conditions of wind turbines are subject to review by Polish governmental authorities every

two years and operators will be required to pay a substantial fee for this regulatory review in the amount of 1% of the wind turbines construction costs.

In addition, a new Polish law on renewable energy sources was adopted which introduced a new auction mechanism for granting the subsidies. The mechanism is set so that the highest subsidy would be granted to the stable and predictable sources, and thus wind power electricity generation will be the least subsidized renewable energy sources which may have an adverse effect on development of our wind farms in Poland.

Because of these adverse regulatory changes, development of four projects has been suspended and development of three other projects continues with the intention of their sale, rather than implementation. Currently, we are proceeding with the development of two projects with the intention of their implementation. First, the construction of Project Krasin, our most advanced project, is dependent on the date and result of the auction in respect of the technological basket for wind energy. The auction is currently expected to take place in the fourth quarter of 2017. Secondly, we also anticipate construction of the second project, Biskupiec stage 1.

We recognized valuation allowance of CZK 9 million with respect to our Polish wind power farms in 2015 and CZK 671 million in 2016.

*Germany.* In December 2016, we acquired a wind farm with total installed capacity of 12.8 MW located in southwest Germany, benefiting from a 20-year feed-in tariff. In December 2016, we also acquired a portfolio of 8 wind farms with total installed capacity of 85.25 MW located in northern Germany, benefiting from a 20-year feed-in tariff. Our German wind farms have generated 24.8 GWh of electricity since their acquisition. Our operations in Germany are not included in our results as of December 31, 2016 since the time period between the acquisitions of the farms and accounting closing date was insignificant.

*Romania.* We own and operate two wind power plants in Fantanele and one wind power plant in Cogeaalac, Romania. The Fantanele and Cogeaalac power plants generated 1,159 GWh of electricity in the year ended December 31, 2016, representing approximately 1.9% of our total electricity generated in the year ended December 31, 2016. As of December 31, 2016, the 139 wind turbines of the Fantanele power plants had a total installed capacity of 347.5 MW and accounted for 2.2% of our total installed capacity. As of December 31, 2016, the 101 wind turbines of the Cogeaalac power plant had a total installed capacity of 252.5 MW and accounted for 1.6% of our total installed capacity.

Until 2013, our Romanian wind farms were authorized to receive two green certificates for each MWh of electricity generated. The support scheme also laid down (i) the mandatory price range for the green certificates between EUR 27 and EUR 55 to guarantee to the electricity producers a certain minimum level of revenue, and (ii) obligation of electricity suppliers to acquire annually a certain number of green certificates determined for each year by ANRE.

Under E.U. and Romanian law, allocation of green certificates to each project with generation capacity exceeding 125 MW was required to be approved by the E.U. Commission from a state aid perspective. We filed the notifications in respect of our Cogeaalac wind farm (with a generation capacity of 252.5 MW) and Fantanele Vest wind farm (with a generation capacity of 262.5 MW) in the form required by Romanian law and within the statutory deadline in January 2012. Until obtaining of an approval by E.U. Commission, we received a temporary two-year allocation of two green certificates, which expired in 2013 in case of the Fantanele Vest wind farm and in 2014 in case of the Cogeaalac wind farm.

In 2013, the Romanian government approved a decree on promotion of renewable energy sources by which the support scheme for renewable energy sources was significantly reduced in detriment to operators of Romanian wind farms, thus having a negative impact on their business. As a result, producers of electricity from wind, although still entitled to receive two green certificates for each MWh of electricity generated, were now only allowed to sell on the market one of the two green certificates received for each MWh of the electricity generated. The restriction on trading with the second green certificate was expected to expire at the end of 2017, however, the new rules for allocation of green certificates were amended in 2015 (as further described below). The governmental decree also provided for an earlier expiration of the green certificate's validity. The Romanian government also decreased the number of green certificates to be mandatorily acquired by Romanian electricity suppliers. All these governmental actions decreased green certificates' market price to the statutory minimum. In addition, new taxes were imposed on wind power plants.

In March 2014, the Romanian Government filed the request for approval of the amendments described in the preceding paragraph to the renewables support scheme with the E.U. Commission in March 2014. As a result of such

filing, the assessment of our notifications in respect of Cogealac and Fantanele Vest wind farms by E.U. Commission was suspended. Consequently, our temporary accreditations expired in 2013 in case of the Fantanele Vest wind farm and 2014 in case of the Cogealac wind farm, therefore allocation of green certificates for electricity generation in Cogealac and Fantanele Vest wind farms was suspended until 2015. The 2013 modification of the Romanian renewables support was approved by the E.U. Commission in 2015.

In September 2015, following further changes in Romanian law regulating renewables support scheme, ANRE approved a new temporary accreditation for allocation of green certificates to the Cogealac and Fantanele Vest wind farms. The temporary accreditation entitled each wind farm to receive one green certificate per MWh of electricity produced. The second green certificate remained deferred until 2018. Under the 2015 changes in the legislation on the renewables support scheme, we are entitled also to the green certificates that were not granted during the suspension period from 2013 to 2015, although the recovery mechanism is still subject to political debate.

In 2016, the E.U. Commission approved our individual notification for Cogealac and Fantanele Vest wind farms and, subsequently, on September 27, 2016 we received permanent accreditation for allocation of one green certificate from ANRE. The second green certificate is deferred until 2018. Accordingly, the deferred green certificates will be issued in the period between January 1, 2018 and December 31, 2025. The certificates that our wind farms were supposed to receive during the period when their temporary accreditation expired are to be issued after the end of the support scheme (in case of Cogealac, after 2027, and in case of Fantanele Vest, after 2025).

In March 2017, the Romanian government enacted Emergency Ordinance no. 24/2017, having a positive impact on the Romanian regulatory scheme and introducing measures expected to eliminate the excess amount of the issued green certificates currently on the market. The ordinance has imposed a duty on electricity sellers to purchase annually a constant amount of green certificates for the period of 15 years, commencing on April 1, 2017. In addition, green certificates issued after April 1, 2017 are to be tradeable until March 31, 2032. Further, the mandatory price range for green certificates has been increased to between 29.4 EUR/MWh and 35 EUR/MWh.

Fantanele Est, the second part of the Fantanele wind farm comprising of 34 wind turbines with total installed capacity of 85 MW, is not required to file a notification with the E.U. Commission and was granted an accreditation for allocation of green certificates for 15 years.

We recognized impairment losses of CZK 2,295 million with respect to our Romanian wind power farms in 2015 and CZK 2,466 million in 2016.

*Turkey.* Pursuant to a joint venture arrangement with the Akkok Group (through which we have 37.36% stake in one of Turkey's largest privately owned power producers, Akenerji Elektrik Üretim A.S.) we have interest in one wind power plant located in Turkey with total installed capacity of 28.2 MW as of December 31, 2016. Our interest under this joint venture arrangement is not fully consolidated and therefore is not included in the calculations of our total electricity generation and our total installed capacity.

#### *Biomass combined heat and power generation*

##### *Bulgaria.*

In 2015 we finalised the construction of BARA biomass combined heat and power plant (BCHP) in Bulgaria with a total installed capacity of 1.7 MW, which is owned by our subsidiary Bara Group EOOD. The power plant has not started operation yet due to the changes in Bulgaria's system of promotion of renewable energy sources (the amendment of the respective act abolished feed-in tariffs for electricity generation in biomass-firing power plants). We do not expect the BARA BCHP to be put into operation in 2017.

### ***Distribution of Electricity***

#### *Overview*

In the Czech Republic, we distributed electricity to more than 3.6 million connection points covering an area of approximately 52 thousand square kilometres as of December 31, 2016, making us the largest of the three regional distributors of electricity in the country. In addition, we are one of the largest of eight regional distribution companies in Romania and we have majority interests in the principal distribution company in Bulgaria. In the year ended December 31, 2016, we distributed a total of 50,637 GWh of electricity to end-consumers, of which 69.0% was

distributed to end consumers in the Czech Republic, 18.4% was distributed to end-consumers in Bulgaria and 12.6% was distributed to end-consumers in Romania.

The table below sets forth certain information regarding the volume of electricity distributed by us (including grid losses) in each of our principal markets in the year ended December 31, 2016.

For the year ended December 31, 2016						
	Distributed to end-consumers		Distributed to others <sup>(1)</sup>		Grid losses	
	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
Czech Republic.....	34,950	69.0	6,324	72.3	2,110	48.8
Bulgaria.....	9,306	18.4	-	-	1,212	28.1
Romania.....	6,381	12.6	2,419	27.7	998	23.1
<b>Total.....</b>	<b>50,637</b>	<b>100</b>	<b>8,743</b>	<b>100</b>	<b>4,320</b>	<b>100</b>

<sup>(1)</sup> Electricity distributed to others mainly includes electricity distributed to our distribution centres, specifically our power plants for consumption by us.

As of December 31, 2016, we owned and operated 309,922 kilometres of high-, medium- and low-voltage electricity distribution lines, 53% of which were in the Czech Republic. Our distribution grid losses were 4,320 GWh of electricity in the year ended December 31, 2016, representing a decrease of 490 GWh, or 10.2%, from 4,810 GWh in the year ended December 31, 2015.

#### *Czech Republic*

We distribute electricity in 9 of the 14 regions of the Czech Republic, namely Plzeň, Karlovy Vary, Ústí nad Labem, Central Bohemia, Liberec, Hradec Králové, Pardubice, Olomouc, and Moravia-Silesia. In the year ended December 31, 2016, we distributed 34,950 GWh of electricity to end-consumers making us the largest of the three distribution companies in the Czech Republic, with a market share of approximately 65% of the total electricity consumed in the regional distribution areas in the Czech Republic.

As of December 31, 2016, we owned and operated 163,680 kilometres of distribution lines in the Czech Republic, of which 6% were high-voltage, 31% were medium-voltage and 63% were low-voltage. Our distribution grid losses were 2,110 GWh of electricity in the year ended December 31, 2016, representing an increase of 56 GWh, or 2.7%, from 2,054 GWh in the year ended December 31, 2015.

Our distribution business in the Czech Republic is regulated by the ERO. A license is necessary in order to distribute electricity, which is issued by the ERO for an indefinite period of time since January 1, 2016. Under the Czech Energy Act, the distribution licenses issued before January 1, 2016 for a definite period of time are to be considered as issued for an indefinite period of time. Prices for distribution services are also regulated by the ERO.

#### *Romania.*

In the year ended December 31, 2016, we distributed 6,381 GWh of electricity to end-consumers making us one of the largest of eight regional distribution companies in Romania. As of December 31, 2016, we distributed electricity to approximately 1.44 million connection points in Romania. As of December 31, 2016 we had a market share of approximately 14% according to our data. Our distribution grid losses in Romania were approximately 998 GWh of electricity in the year ended December 31, 2016, representing a decrease of 24 GWh, or 2.3% from 1,022 GWh in the year ended December 31, 2015.

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

In accordance with the regulatory requirement, our distribution company in Romania, CEZ Distribuție, has been renamed to Distribuție Energie Oltenia S.A.



### *Bulgaria.*

We own a majority interest in the principal distribution company in Bulgaria. In the year ended December 31, 2016 we distributed 9,306 GWh of electricity to end-consumers. As of December 31, 2016, we distributed electricity to approximately 2.1 million connection points in Bulgaria and had a market share of approximately 31% according to our data. Our distribution grid losses in Bulgaria were 1,212 GWh of electricity in the year ended December 31, 2016, representing a decrease of 15 GWh, or 1.2%, from 1,227 GWh in the year ended December 31, 2015.

Our distribution business in Bulgaria is regulated by the Energy and Water Regulatory Commission. A license is necessary in order to distribute electricity, which is issued by the Energy and Water Regulatory Commission for a maximum term of 35 years. Our license for the distribution of electricity in Bulgaria was issued on August 13, 2004 and expires on August 13, 2039. Prices for distribution services are also regulated by the Energy and Water Regulatory Commission.

For information on our local disputes in Bulgaria, please see “*Description of the Issuer—Legal Proceedings—Bulgaria*”.

### *Turkey.*

In the year ended December 31, 2016, we distributed 8,705 GWh of electricity to end-consumers in Turkey through Sakarya Elektrik Dagitim A.S., an unconsolidated entity owned under a joint venture arrangement, representing an increase of 251 GWh, or 3.0%, from 8,454 GWh in the year ended December 31, 2015. Our Turkish distribution business is operated under a joint venture arrangement which is not fully consolidated and therefore is not included in the calculations of our total electricity distributed or our total electricity distributed to end-consumers.

## **Sale**

### *Sale of Electricity*

Our sales business sells electricity (procured by our trading business from our generation business and the wholesale market) to end-consumers in the Czech Republic, and, to a lesser extent, to end-consumers in Poland, Bulgaria, Romania, Hungary and Slovakia. We are the largest supplier of electricity in the Czech Republic in terms of volume of electricity sold to end-consumers. In the year ended December 31, 2016, we sold 37,475 GWh of electricity to end-consumers, of which 19,600 GWh, or 52.3%, was sold to end-consumers in the Czech Republic.

The table below sets forth the volume of electricity sold broken-down by types of end-consumers in each of our principal markets in the year ended December 31, 2016.

<b>For the year ended December 31, 2016</b>								
	<b>Household</b>		<b>Commercial</b>		<b>Industrial</b>		<b>Total</b>	
	<b>(GWh)</b>	<b>(%)</b>	<b>(GWh)</b>	<b>(%)</b>	<b>(GWh)</b>	<b>(%)</b>	<b>(GWh)</b>	<b>(%)</b>
Czech Republic.....	7,211	54.1	2,248	43.5	10,141	53.5	19,600	52.3
Poland.....	-	-	203	3.9	1,726	9.1	1,929	5.2
Bulgaria.....	4,277	32.1	1,761	34.0	3,675	19.4	9,713	25.9
Romania.....	1,704	12.8	850	16.4	815	4.3	3,369	9.0
Other.....	136	1.0	114	2.2	2,614	13.7	2,864	7.6
<b>Total.....</b>	<b>13,328</b>	<b>100</b>	<b>5,176</b>	<b>100</b>	<b>18,971</b>	<b>100</b>	<b>37,475</b>	<b>100</b>

### *Czech Republic*

In the year ended December 31, 2016, we sold 19,600 GWh of electricity to end-consumers in the Czech Republic, or 32% of the total net electricity consumed in the Czech Republic, representing a slight decrease compared to approximately 19,833 GWh of electricity in the year ended December 31, 2015. Sale of electricity is achieved mainly through our subsidiary ČEZ Prodej, s.r.o.

Developments in the Czech market correspond to the developments in European markets in the period following the energy market liberalization. In the years preceding 2010, the liberalization of the electricity market did not have a significant effect on the commercial and household segment. However, starting in 2010, market participants

followed in the footsteps of companies participating in other European markets and began to intensely compete for these customers as well. A key role was played by smaller suppliers who increasingly used door-to-door sales. In 2016, almost 360,000 customers changed their electricity suppliers. A key role was played by the termination of the first wave of fixed contracts which were widely used by energy suppliers in order to stabilize their market portfolio. As the market competition remains at a high level, we expect the trend of customers changing their electricity suppliers to continue in a stabilized manner.

The sale of electricity in the Czech Republic is regulated by the Czech Energy Act and the ERO. A license is necessary in order to sell electricity, which is issued by the ERO for a maximum of five years. Our license for the sale (and trading) of electricity in the Czech Republic was issued on September 2, 2010 and extended by the ERO by five years until September 1, 2020. The price of electricity comprises two amounts: the regulated amount, to cover transmission, distribution and system services, and the unregulated amount, which is for the sale of the electricity itself.

#### *Romania.*

In the year ended December 31, 2016, we sold 3,369 GWh of electricity to end-consumers in Romania, representing a decrease of 2.9% compared to the year ended December 31, 2015. In the year ended December 31, 2016, we sold 815 GWh of electricity to industrial customers, 850 GWh of electricity to commercial customers and we sold the remaining 1,704 GWh of electricity to household customers, representing 2.2%, 2.3% and 4.5%, respectively, of our total sales of electricity to end-consumers. Our market share of sales to end-consumers in Romania as of November 30, 2016 was approximately 7% according to our data.

The sale of electricity in Romania is regulated by ANRE. A license is necessary in order to sell electricity in Romania, which is issued by the Romanian Energy Regulatory Authority for a maximum term of ten years. Our previous license for the sale of electricity in Romania was issued on March 15, 2007 and expired on March 14, 2017. Currently we are operating under a new license issued on March 15, 2017 for a period of 10 years. The price of electricity on the unregulated market in Romania is unregulated and freely negotiable between market participants, except for the price of electricity supplied by default suppliers and last resort suppliers.

#### *Bulgaria.*

In the year ended December 31, 2016, we sold 9,713 GWh of electricity to end-consumers in Bulgaria, representing an increase of 0.3% compared to the year ended December 31, 2015. In the year ended December 31, 2016, we sold 3,675 GWh of electricity to industrial customers, 1,761 GWh of electricity to commercial customers and we sold the remaining 4,277 GWh of electricity to household customers, representing 9.8%, 4.7% and 11.4%, respectively, of our total sales to end-consumers. Our market share of sales to end-consumers in Bulgaria in the year ended December 31, 2016, was approximately 34% according to our data.

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

On March 19, 2014, the KEVR initiated license revocation proceedings in respect of the electricity sale license held by CEZ Elektro Bulgaria AD, based on the alleged delayed payments of CEZ Elektro Bulgaria AD to NEK, a Bulgarian producer of electricity, amounting to BGN 63.7 million (approximately CZK 880 million). There are no grounds for the license revocation proceedings and CEZ Elektro Bulgaria AD is taking action to prevent such revocation. On July 12, 2016, CEZ commenced international investment arbitration proceedings before the International Centre for Settlement of Investment Disputes against the Republic of Bulgaria on the grounds of Bulgaria's failure to adhere to investment protection provisions of the Energy Charter Treaty. For information on our disputes in Bulgaria, please see "*Description of the Issuer— Legal Proceedings — Bulgaria*".

*Turkey.* In Turkey, we sold 8,918 GWh of electricity to end-consumers in the year ended December 31, 2016 through Sakarya Elektrik Perakende Satış A.Ş. ("*SEPAS*"), the retail company, established in 2012 for the purpose of selling electricity to tariff and non-tariff eligible customers. The distribution of electricity is done by Sakarya Elektrik Dağıtım A.Ş. ("*SEDAS*"). Our Turkish sales business is operated under a joint venture arrangement which is not fully consolidated and therefore our sales of electricity to end-consumers in Turkey are not included in the calculations of our total electricity sold to end-consumers or our total electricity sold by type of end-consumer.

### *Gas and Heat Supply to End-Consumers*

We started to supply gas to industrial and commercial customers in the Czech Republic in August 2009 and gas to our household customers in the Czech Republic in June 2010. We started to supply gas to end-consumers in Slovakia in 2011. In the year ended December 31, 2016, we supplied 8,139 GWh of gas to the customers outside of the CEZ Group, which represents an increase of 19% compared to 6,824 GWh in the year ended December 31, 2015.

In the year ended December 31, 2016, we supplied 24,022 TJ of heat to the customers outside of the CEZ Group, which represents an increase of 8% compared to 22,256 TJ in the year ended December 31, 2015.

### *Decentralised Energy Solutions*

In 2014, we established a new company ČEZ ESCO, a.s. as a wholly owned subsidiary of ČEZ, a. s., which consolidated our capacities within the area of energy savings, decentralised energy sources, lighting and other energy services. ČEZ ESCO, a.s. focuses on providing products and services to large undertakings, SMEs and the public sector and offers comprehensive energy solutions on a decentralised basis with emphasis on new technologies, energy efficiency and integrated solutions. Individual products and services are supplied through several companies that are continually being integrated into the ČEZ ESCO Group – ČEZ Energo, s.r.o., ČEZ Energetické služby, s.r.o., EVČ s.r.o., ENESA a.s. and others, as subsidiaries of ČEZ ESCO, a.s. (“ČEZ ESCO Group”).

In the first half of 2016, ČEZ Solární has been acquired by ČEZ ESCO from the German group of companies Juwi and integrated into the ČEZ ESCO Group. ČEZ Solární is endowed with high competence in the field of photovoltaic rooftop solutions as well as in the field of their optimal maintenance and operation.

In the second half of 2016, two other companies have been integrated into the ČEZ ESCO Group – Energocentrum Vítkovice, a supplier of energy to the large companies in the industrial Vítkovice area, and AZ Klima, a company providing heating, ventilation and air conditioning solutions.

At the end of 2016, a new joint-venture, ČEZ LDS, has been established by ČEZ ESCO, a.s., focusing on operation of local distribution systems (“LDS”) and related services.

### *Other Services*

Since October 15, 2013, we also provide telecommunication services under the brand “Mobile from ČEZ” through our subsidiary ČEZ Prodej, s.r.o. as a mobile virtual network operator in the network of O2 Czech Republic. The services are available for all customers, not only our existing energy customers. We hold a valid license for the provision of the above mentioned services.

In 2016, ČEZ Prodej started to provide financing services in cooperation with the ESSOX financing company. These services provide our customers with financing of new energy solutions for their households, general purpose loans and credit cards.

### *Trading*

#### *Overview*

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

The following table sets forth a breakdown of the volume of electricity purchased and sold by us on wholesale markets (including our net electricity generated and total sales to end-consumers) for the years ended December 31, 2015 and 2016.

For the year ended December 31,		
2015	2016	Change in 2016 compared to 2015
(GWh)	(GWh)	(%)
<b>Wholesale trading in electricity:</b>		

Electricity purchased on wholesale markets.....	194,857	185,848	(4.6)
Electricity sold on wholesale markets.....	(206,414)	(198,709)	(3.7)
Balance of wholesale trading in electricity.....	(11,557)	(12,861)	11.3
<b>Electricity generated and sold to end-consumers:</b>			
Total electricity generated by us (gross).....	60,917	61,132	0.4
Own consumption of electricity generated.....	(6,617)	(6,476)	(2.1)
Total electricity generated by us (net).....	54,300	54,656	0.7
Distribution losses.....	(4,810)	(4,320)	(10.2)
Electricity sold by us to end-consumers.....	(37,933)	(37,475)	(1.2)
Balance between electricity generated by us and sold to our end-consumers.....	(11,557)	(12,861)	11.3

In the year ended December 31, 2015, we purchased a total of 232,790 GWh of electricity (194,857 GWh of electricity on wholesale markets and 37,933 GWh of our electricity generated (net of own consumption and distribution losses)) and we sold a total of 244,347 GWh of electricity (206,414 GWh of electricity on wholesale markets and 37,933 GWh of electricity sold to end-consumers). In the year ended December 31, 2016, we purchased a total of 223,323 GWh of electricity (185,848 GWh of electricity on wholesale markets and 37,475 GWh of our electricity generated (net of own consumption and distribution losses)) and we sold a total of 236,184 GWh of electricity (198,709 GWh of electricity on wholesale markets and 37,475 GWh of electricity sold to end-consumers).

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

The risk limit set by the Risk Management Committee for our proprietary trading activities is CZK 1.55 billion. The potential open positions over a longer time period are limited by a daily value at risk limit of CZK 164 million. These relatively low limits and the strict rules set by our Risk Management Committee lead to a high number of transactions with a high aggregated volume on an annual basis but generally with a relatively low margin. The annual volume of electricity traded for own account can vary substantially depending on market conditions in the respective year, namely liquidity, price volatility and market trends.

We also trade smaller volumes of natural gas in the form of futures products on the London Intercontinental Exchange (“ICE”). Our trading also takes place on the European Energy Exchange (“EEX”) in Leipzig, Germany, on the New York Mercantile Exchange (“NYMEX”) in New York, the Hungarian Power Exchange (“HUPX”), European Power Exchange (Spot Markets) (“EPEX SPOT”) in Paris, the Towarowa Gielda Energii (“TGE”) in Poland, the PXE in Prague, OPCOM in Romania, the Hellenic Transmission System Operator (“HTSO”) in Greece, OTE in Prague and OKTE in Bratislava.

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

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

We continued to sell the electricity that we generated almost exclusively in the Czech electricity market, either wholesale through the PXE, or through electronic broker market platforms, or to end-consumers. We continued to sell electricity on a forward basis, specifically, up to six years in advance, with the aim of leveraging market demand for these products to partially hedge sales against possible price volatility. This strategy helped us to maintain our results of operations even at a time of substantial declines in wholesale electricity prices.

As of December 31, 2016, we had our exposure to electricity prices hedged through a number of long-term contracts for physical power supply with various durations (the longest duration until 2023) at a price structure which reflects the generation costs of our brown coal-fired and nuclear power plants. As of December 31, 2016, we had 495 MW of base load power supply hedged by means of such long-term contracts. Due to the current electricity price levels, we have not entered into any new long-term contracts and unless the market conditions change, we do not intend to sell further production of our brown coal-fired and nuclear power plants under long-term contracts.

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

*Bulgaria.* We procure electricity in the regulated and unregulated market to be sold by our sales business to household and eligible industrial end-consumers.

*Romania.* We sell electricity generated by the Fantanele and Cogealac wind farms on the unregulated wholesale market in Romania. We also procure electricity in the wholesale market to be sold by our sales business to household customers for regulated prices and to eligible end-consumers for unregulated prices. In Romania, we also trade green certificates, which are awarded to the Fantanele and Cogealac wind farms as part of the Romanian support scheme for renewables. For more information, please see “*Description of the Issuer—Our Business—Electricity generation—Wind power generation—Romania*”.

## **Coal Mining**

We mine, process and sell brown coal and its by-products in the Czech Republic. In the year ended December 31, 2016, we produced 21.4 million tons of brown coal, making us the largest producer of brown coal in the Czech Republic accounting for approximately 55.4% of the total volume of brown coal produced in the Czech Republic in 2016.

The Břilina Mines, operating in the Teplice-Břilina area in the North Bohemian Basin, are characterized by coal with a high heat content and a low proportion of hazardous substances. In the year ended December 31, 2016, the Břilina Mines produced 9.4 million tons of brown coal which was supplied mainly to our power plants, Ledvice and Mělník. The mining activity permit for the Břilina Mine was issued on the basis of the Opening, Preparation, and Extraction Plan for the Years 2010-2030 by the District Mining Office in Most on November 8, 2010 and entered into legal force on January 26, 2011. Our mining operations in the Břilina Mines are permitted until 2030. In October 2015, the Czech Government approved the extension of brown coal mining limits at the Břilina coal mine owned by the CEZ Group. The new available brown coal reserves are estimated to be 100 – 150 million tons.

The Nástup Tušimice Mines operates in the westernmost portion of the Ústí Region of the Czech Republic in the Tušimice mining area in the North Bohemian Basin. In the year ended December 31, 2016, the Nástup Tušimice Mines produced 12.0 million tons of brown coal. In the year ended December 31, 2016, the majority of coal extracted from the Nástup Tušimice Mines went to our power plants, Tušimice II and Pruněřov, and to other customers (mainly Opatovice power plant). A new Mining License for Doly Nástup Tušimice came into force in May 2013 and is valid until 2029.

The table below sets forth the amount of coal produced by our mines and the amount of which was delivered to our coal-fired power plants in the years ended December 31, 2015, and 2016.

For the year ended December 31,			
	2015		2016
Produced	Delivered for own consumption	Produced	Delivered for own consumption

	(in million tons)			
Bílina Mines .....	9.4	4.6	9.4	4.3
Nástup Tušimice Mines ....	11.6	10.7	12.0	11.3
<b>Total .....</b>	<b>21.0</b>	<b>15.3</b>	<b>21.4</b>	<b>15.6</b>

In the year ended December 31, 2016, our plants consumed 15.6 million tons of our brown coal output, or 72.9% of our total brown coal output, compared to 15.3 million tons of our brown coal output in the year ended December 31, 2015. In the year ended December 31, 2016, we sold a total of 5.8 million tons of brown coal to third parties, which generated total revenues of CZK 4.5 billion. In the year ended December 31, 2015, we sold a total of 5.7 million tons of brown coal to third parties, which generated total revenues of CZK 4.3 billion.

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

We operate open pit coal mines and are responsible for decommissioning and reclamation of the mines (the process of restoring land that has been mined to a natural or economically useable purpose) as well as for damage caused by the operations of the mines. To cover such costs we are required by Czech law to contribute to a special escrow account. These restricted funds are shown in our balance sheet under restricted financial assets and as of December 31, 2016, the restricted funds related to mining reclamation and damages totalled CZK 5,427 million (compared to CZK 5,095 million in the year ended December 31, 2015). We have also established provisions to recognize our estimated liabilities for decommissioning and reclamation of mines and damage caused by the operations of our mines. As of December 31, 2016, such provisions amounted to CZK 7,633 million compared to CZK 7,563 million as of December 31, 2015. In the year ended December 31, 2016, the reclamation expenses totalled CZK 262 million.

### ***Other Businesses***

#### *Provision of Ancillary Services*

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

Ancillary services are purchased by transmission grid operators for stabilizing the grid in auctions for a wide range of products to be provided over various lengths of time. The Czech market is one of the most competitive in Europe for the provision of ancillary services, with independent producers offering approximately half of the necessary capacity of ancillary services.

Our revenues from the provision of ancillary services to transmission grid operators reached CZK 3,811 million in the year ended December 31, 2016, compared to CZK 3,865 million in the year ended December 31, 2015. In 2016 we provided ancillary services to transmission grid operators in the Czech Republic and Bulgaria.

#### *Tolling agreements*

In August 2014, we and Vršanská uhelná a.s. (a Czech brown coal mining company) entered into a tolling agreement pursuant to which we will process the brown coal supplied by Vršanská uhelná a.s. into electricity and the electricity will remain the property of Vršanská uhelná a.s. Installed capacity, which has been made available to Vršanská uhelná a.s. by us, equals 200 MW. The tolling agreement was entered into for the period of 2015 – 2020. The agreement was suspended for 2016 and 2017 and negotiations are expected in 2017 to revive the agreement from 2018 on.

### **Fuel**

#### ***Coal***

Approximately 89.6% of the coal consumed by our coal-fired power and heat plants for the year ended December 31, 2016, was brown coal. Brown coal is mainly supplied by three companies in the Czech Republic, the main supplier being Severočeské doly a.s., our wholly owned subsidiary. Black coal is used in the Dětmarovice power plant and the Ostrava-Vítkovice heat plant and in part of the Poříčí power plant in the Czech Republic; in the Chorzów power plant and the Skawina power plant in Poland and was used in the Varna power plant in Bulgaria.

The table below sets forth information relating to the total amount of coal consumed by our coal-fired power plants and the amount of which was purchased from third parties for the years ended December 31, 2015 and 2016.

	For the year ended December 31,			
	2015		2016	
	Total consumed	Purchased from others	Total consumed	Purchased from others
	(in million tons)			
<b>Brown coal</b>				
Czech Republic .....	22.7	7.4	23.3	7.7
<b>Black coal</b>				
Czech Republic .....	1.4	1.4	1.3	1.3
Poland .....	1.4	1.4	1.4	1.4
Total black coal.....	2.8	2.8	2.7	2.7
<b>Total</b> .....	25.5	10.2	26.0	10.4

In the year ended December 31, 2016, we consumed 23.3 million tons of brown coal in our brown coal power plants in the Czech Republic, of which 15.6 million tons, or 67.8%, were produced by our own mines (see “*Our Business—Coal Mining*”), with the remainder purchased from Vršanská uhelná a.s. (approximately 21.5%) and Sokolovská uhelná, právní nástupce, a.s. (approximately 10.7%). We currently purchase brown coal from Vršanská uhelná a.s. under a long term coal supply contract that expires in 2062 and from Sokolovská uhelná, právní nástupce, a.s., under a long-term agreement that expires in 2025. Please see “—*Legal Proceedings—Litigation with Sokolovská uhelná, právní nástupce, a.s.*”. The black coal used in our black coal-fired power plants in the Czech Republic is purchased primarily from OKD, a.s. (77%), the rest being secured by import from Poland. OKD, a.s., was declared insolvent by an insolvency court in 2016, which may have a negative impact on supply of black-coal to our power plants (please see “*Risk Factors—Risks Related to Our Business and Operations—Disruptions in the supply of coal, nuclear fuel, gas or other raw materials, or an unexpected increase in their cost, could materially and adversely affect our business, results of operations and financial condition.*”).

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

The Elcho power plant and Skawina power plant in Poland are located in Upper Silesia and Lesser Poland, respectively, and are supplied with black coal from mines in the region. The principal supplier of coal to the Elcho power plant in 2016 was Kompania Weglowa SA pursuant to a long-term contract. The Skawina power plant sources coal from multiple suppliers under one-year contracts and purchase orders, including from, among others, Kompania Weglowa SA, Katowicky Holding Weglowy SA, PG Silesia Sp. z o.o. and Jastrzebska Spółka Weglowa S.A.

### **Nuclear Fuel**

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

Historically, the majority of our uranium needs have been met by domestic sources in the Czech Republic. However, uranium production in the Czech Republic has been continuously decreasing over the past decades.

Improved pricing in the uranium market after 2004 enabled DIAMO s.p., a Czech uranium producer, to extend Czech uranium production. In 2014, an amendment to the existing uranium supply contract with DIAMO was concluded and supplies covering about one third of our annual uranium needs continued to be supplied in 2016. Even though 2016 was the last delivery year pursuant to this contract, physical supplies of Czech uranium for further processing will continue to be realized in the next few years using accumulated stockpiles. The remainder of our uranium needs is satisfied by market purchases of uranium mainly on the basis of long-term contracts. To the extent authorized under the ESA supply policy, we also purchase uranium as a package (or “bundle”) together with conversion and enrichment services under existing long-term fuel fabrication contracts with the Russian company JSC TVEL (“TVEL”).

In respect of the needs of the Dukovany nuclear power plant, the earlier ESA limitation on the amount of enrichment services that could be purchased together with fabrication as a package from TVEL did not apply as the existing long-term fuel contract was grandfathered upon the accession of the Czech Republic to the European Union. Therefore, conversion and enrichment services needed for fabrication of fuel for Dukovany nuclear power plant are fully supplied by TVEL. For the Temelín nuclear power plant, conversion and enrichment services are supplied under a portfolio of contracts with primary suppliers. Our needs are basically covered for period of validity of the existing fabrication contract for the Temelín nuclear power plant with TVEL. We also maintain strategic and working inventories of nuclear material in different stages of processing (uranium concentrate, natural and enriched uranium hexafluoride).

Our long-term nuclear fuel supplier, TVEL, produces nuclear fuel for both our nuclear power plants at its facilities in Elektrostal, Russia. The long-term fuel supply contract for the Temelín nuclear power plant, which expires in 2022, was awarded to TVEL in May 2006 as a result of a tender opened in April 2004, in order to replace a previous fuel contract with Westinghouse Electric Company LLC which expired in 2010. Nuclear fuel fabrication and shipments of nuclear fuel for the Temelín nuclear power plant from TVEL are performed upon our request according to conditions in the fuel supply contract. In 2013 transition of both units to the operation at increased power (104%) output was completed. We decided to gradually build-up in the period 2015 – 2016 a strategic inventory of fabricated fuel at the Temelín nuclear power plant in order to reduce risk of operation disruption in case of delayed delivery of fuel. We initiated a development program for implementation of fuel design changes as a result of which fuel cycle efficiency will be further improved. In 2016 we also concluded an agreement with Westinghouse Electric Sweden AB for the supply of services related to development and licensing of the fuel design and the manufacturing and delivery of six lead test assemblies (“LTA”). With respect to future fuel supplies, we intend to select a fuel supplier for the period after 2022 in a competitive tender.

Nuclear fuel for the four reactors at the Dukovany nuclear power plant is supplied pursuant to a long-term supply contract, which was due to expire in 2018. Nevertheless, in 2013, ESA approved its extension until 2024 with an option until 2028. Nuclear fuel design has also been modified in order to accommodate the operation of reactors at an increased power level and in the “five year fuel cycle”. New improved design of fuel has been licensed and first delivery and loading occurred in 2014. We maintain a strategic inventory of fabricated fuel at the Dukovany nuclear power plant.

### *Spent Nuclear Fuel Storage*

#### *Interim spent nuclear fuel storage facility*

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

As of December 31, 2016, spent fuel is stored in advanced Castor 440/84M casks and 34 casks are exploited, representing approximately 26% of the entire storage capacity of the second storage hall.

*Temelín nuclear power plant.* The plan to build the Temelín ISFSF on the premises of the Temelín nuclear power plant went through a legislative procedure which also involved the neighbouring countries of Austria and



Germany. During the legislative process, the Ministry of Environment issued a positive EIA. SONS permitted the construction in terms of nuclear safety. A special expert committee of the European Union also assessed the Temelín ISFSF. We were awarded positive opinions in all administrative actions. We received the final building permit in February 2009.

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

As of December 31, 2016, there were 31 CASTOR 1000/19 casks with 589 fuel assemblies in total at the Temelín ISFSF, of which approximately 20% of the entire storage capacity is exploited.

#### *Central interim spent nuclear fuel storage facility*

As an alternative, an underground central ISFSF at the Skalka site in Southern Moravia, Czech Republic is currently being considered for the long-term storage of spent fuel from both of our nuclear power plants. We obtained a construction permit for the first stage of ISFSF construction in May 2011. The first stage was finished in October 2012. The locality is permanently considered as a stand-by alternative to the on-site Dukovany ISFSF and Temelín ISFSF.

### **Biomass**

Biomass in the form of wood chip, straw and pellets is mainly combusted in our coal-fired power plants and heat plants in the Czech Republic and Poland. Within our portfolio of renewable sources, biomass is the second most significant element after water power stations. Our main suppliers of biomass in the Czech Republic are Jiří Prágr, Ondřej Šimeček, Na hranici, s.r.o. and Fischer TPD, s.r.o., with whom medium-term contracts are signed. These suppliers are farmers and owners of agricultural land. In Poland, we sign annual contracts with or make monthly orders from a number of local suppliers of biomass. We make monthly orders from 2 biomass suppliers.

In the Czech Republic, we burned 626,638 tons of biomass in the year ended December 31, 2016, compared to more than 453,148 tons in the year ended December 31, 2015, generating 500 GWh and 369 GWh of electricity, respectively.

In Poland, we burned more than 250,000 tons of biomass in the year ended December 31, 2016, compared to more than 288,000 tons in the year ended December 31, 2015, mostly in the form of co-burning with hard coal, generating 379 GWh and 422 GWh of electricity, respectively.

### **Property, Plant and Equipment**

We own all of our significant generation facilities and other properties and we hold the title to, or have the right to use by virtue of leases, all of the land underlying our facilities, including our coal mines. Our plant, property and equipment mainly comprise power plants and distribution networks as well as coal mining facilities, administrative buildings and other assets. As of December 31, 2016, we owned buildings with a total net book value of CZK 158.5 billion, plant and equipment with a net book value of CZK 190.7 billion and land with a net book value of CZK 7.1 billion.

As of December 31, 2016, we owned net plant in service pledged as a security for liabilities in the amount of CZK 5,636 million, representing approximately 1.6% of total net book value of plant in service as of December 31, 2016.

In January 2017, we selected the winners of tenders for the sale of our housing assets in Prague. The highest purchase price for 739 residential units in Prague Písnice, in the amount of CZK 1.305 billion, was offered by Kennial, a. s., with four other companies having participated in the tender. The highest purchase price for the commercial centre in Prague Písnice, in the amount of CZK 68.2 million, was offered by STN Invest, s. r. o., with eight other companies having participated in the tender. The highest purchase price for the residential building in Prague Vršovice, in the amount of CZK 72.2 million, was offered by AIDA Praha, a. s., with six other companies having participated in the

tender. The sale of the housing assets referred to in this paragraph can be expected to be completed during the first half of 2017.

## **Capital Expenditures**

Capital expenditures are necessary to maintain and improve the operations of our facilities and meet regulatory and prudent operating standards. Construction and maintenance costs have increased throughout the power industry over the past several years, and future costs will be highly dependent on the cost of components and availability of contractors that can perform the work necessary to maintain and improve respective facilities. Since January 1, 2011, we have invested approximately CZK 78.7 billion towards improving the efficiency of our current coal-fired and gas-fired power plants in the Czech Republic, CZK 14.6 billion towards increasing our renewable generation capacity (particularly a wind farm in Romania, photovoltaic power plants in the Czech Republic), CZK 63.7 billion to improve our distribution networks and CZK 25.0 billion to improve our nuclear energy generation facilities.

## **Inven Capital**

In 2013, we announced the New Energy Sector strategic program responding to the changing energy market. We are looking for interesting opportunities in “new” energy both in the Czech Republic and abroad. Since 2013 we have invested in three “new energy” companies in Germany, Sonnenbatterie GmbH, Sunfire GmbH and tado° GmbH. These investments were made through Inven Capital, investiční fond, a.s., used by the CEZ Group for investments in the field of innovative energy solutions. We intend to invest in companies focusing on new decentralized energy generation and renewables, with growth potential both in the Czech Republic and abroad.

In July 2015, we acquired shares in the German company Sonnenbatterie GmbH, a company which produces battery energy storage systems. The investment was made in the form of an increase in the company’s registered capital. The CEZ Group acquired a minority stake accompanied with the right to participate in the company’s strategic decision-making. The company develops, manufactures, and sells smart battery systems for storing energy generated by solar panels and other renewable energy sources for households and commercial customers. The company operates in seven countries, including the U.S.

In November 2015, we acquired a minority stake in Sunfire GmbH. Sunfire’s key product is reversible fuel cell technology, which is able to convert a fuel (such as natural gas) into electricity and heat as well as electricity back into hydrogen and other gases (Power-to-Gas) or synthetic fuels (Power-to-Liquids). This technology represents a major step toward greater energy self-supply and improved efficiency in the utilization of energy sources.

In April 2016, we acquired a minority stake in tado° GmbH, a company providing solutions for intelligent home climate control. tado° GmbH key products are Smart Thermostat and Smart AC Control which connect any heating and air conditioning system to the internet and allow for their control through geo-aware tado° smartphone app which adapts home temperature to the local weather conditions and adjusts home temperature according to the location of its owners. The technology allows for reduction of energy bills while improving home comfort and helps protect the environment.

In May 2016, we acquired a minority stake in the Environmental Technologies Fund 2 L.P, a London based fund focused on investments into global, fast-growing companies active in the area of clean energy. We expect this investment to grant us access to unique investment opportunities and know-how.

## **Employees**

We had an average of 25,822 and 26,300 employees in the years ended December 31, 2015, and 2016, respectively, out of which approximately 78.7% and 79.3%, respectively, were employed in the Czech Republic. Since our foundation in 1992, we have reduced the number of our employees to a level which brings the ratio of employees to installed MW capacity closer to the ratios of other advanced European power companies.

As of December 31, 2016, all employees of ČEZ were covered by collective bargaining agreement in accordance with Czech law. Our collective bargaining agreement is valid until the end of 2022. Our collective bargaining agreement was amended in 2010, 2011, 2012, 2013, 2014, 2015 and 2016. In 2007, we also established our European Work Council in accordance with applicable national and European laws. We have not experienced any strikes or work stoppages in the Czech Republic.

## Research and Development

Research and development (“*R&D*”) activities of the CEZ Group significantly contribute to the improvement of the safe, economical and reliable operation of our assets and to strengthening of our knowledge of innovative technologies in the energy sector. Our R&D projects are mainly performed by external, specialized engineering, consultancy organizations, or by the academic sector. R&D activities cover numerous topics in nuclear energy and conventional power generation, life management of key power plants components, innovative renewables, utilization of biomass and development of waste-to-energy concepts, smart grids pilot and demonstration projects (including participation in projects supported from the Horizon 2020, the biggest E.U. Research and Innovation programme) and energy storage.

Long-term human resources and development as well as R&D relevant knowledge base support in the Czech Republic constitute important co-benefits of our R&D projects. Cooperation with technical universities accounts for an important part of these activities. We are a founding member of the Czech Sustainable Energy Technology Platform, which represents a forum of utilities, vendors, research, engineering, and academic entities acting for the improvement of energy R&D in the Czech Republic and for the promotion of international cooperation.

We are also a member of VGB PowerTech and hold full membership in the nuclear sector of the Electric Power Research Institute (“*EPRI*”) and in other EPRI’s programs, focused on the fossil power plants life management. In addition, we are involved in international energy R&D projects, particularly in the E.U.’s Framework Programs, mainly in the areas of nuclear technologies development, nuclear safety and radiation protection, but also in non-nuclear areas, for instance, in the smart grids. We are also a member of European technology platforms, for instance the Sustainable Nuclear Energy Technology Platform and the NUGENIA association, focused on generation II and III nuclear power plants R&D.

The CEZ Group research and development costs, net of grants and subsidies received, that are not eligible for capitalization, have been expensed in the period when incurred and amounted to CZK 369 million in the year ended December 31, 2016, compared to CZK 351 million in the year ended December 31, 2015.

## Licenses

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

## Emission Rights

CO<sub>2</sub> emissions became an integral part of our management and decision-making, not only at our coal-fired power plants which are directly affected by the trading, but also at non-fossil fuel-fired power plants, which play a major role in optimizing generation in terms of CO<sub>2</sub> emissions. Our decision making process regarding the trade of CO<sub>2</sub> is based on a comparison of the wholesale electricity price with generation costs, which include the price of CO<sub>2</sub> emission allowances.

The following table summarizes the movements in the quantity and book value of emission rights and credits held by us during 2015 and 2016.

	For the year ended December 31,			
	2015		2016	
	(in thousand tons)	(CZK in millions)	(in thousand tons)	(CZK in millions)
Emission rights and credits (CERs, ERUs) granted and purchased for own use:				
Granted and purchased emission rights and credits at January 1 .....	31,567	3,704	30,677	2,212
Emission rights granted.....	13,970	-	11,775	-
Settlement of prior year actual emissions...	(26,328)	(3,707)	(28,667)	(1,954)
Emission rights purchased.....	11,398	2,225	15,057	2,079
Emission credits purchased.....	70	-	30	-
Reclassified to assets classified as held for	-	-		

sale.....			(1,463)	(91)
Currency translation differences.....	-	(10)	-	(17)
Granted and purchased emission rights and credits December 31 .....	30,677	2,212	27,409	2,229
<hr/>				
Emission rights and credits held for trading:				
Emission rights and credits for trading at January 1.....	5,042	1,017	2,800	624
Settlement of prior year actual emissions...	(1,813)	(344)	(8)	(2)
Emission rights purchased.....	9,232	1,969	15,921	2,438
Emission rights sold.....	(9,672)	(2,086)	(14,053)	(2,121)
Emission credits purchased.....	389	3	-	-
Emission credits sold.....	(378)	(3)	-	-
Fair value adjustment.....	-	68	-	(112)
Emission rights and credits held for trading at December 31.....	2,800	624	4,660	827

Our total emissions of greenhouse gases amounted to an equivalent of 28,675 thousand tons and 30,401 thousand tons of CO<sub>2</sub> for the years ended December 31, 2015, and 2016, respectively. As of December 31, 2016, we recognized a total provision for CO<sub>2</sub> emissions in the amount of CZK 2,699 million.

Since January 1, 2013 no emission allowances shall be allocated without charge in respect of any electricity production, except for emission allowances allocated without charge in accordance with the National Plan of Investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector approved by the E.U. Commission on July 6, 2012 (the “National Plan of Investment”) (please see “*Regulation—Czech Republic—Carbon Compliance (Emission Allowances)—Allocation of emission allowances during phase III*” and “*Czech Emission Allowances Act*”).

Under the approved National Plan of Investment we can gain up to 69.6 million of emission allowances between 2013 and 2019 for our installations in the Czech Republic. As a result of benefiting from the allowances allocated without charge we are required to invest in retrofitting and upgrading of the infrastructure and clean technologies, which investments should mirror at least the value of the free allocation for electricity production.

The following table shows the allocation of emission allowances without charge to our coal-fired power plants and heat plants in the Czech Republic.

	2013	2014	2015	2016	2017	2018	2019	2020
For electricity production (in tons)	17,358,828	15,246,935	12,540,678	10,032,544	7,194,655	4,796,438	2,398,219	0
For heat production (starting 2017 expected values only)	1,424,999	1,195,538	1,002,928	843,775	670,360	559,961	465,061	374,366

## Intellectual Property

We own the rights to numerous trademarks in relation to the name “ČEZ” and its “E” symbol as well as to the name “SKUPINA ČEZ” (“CEZ GROUP”) and its “E” symbol. The trademark of the word “ČEZ” is protected in 32 states under the Madrid Agreement Concerning the International Registration of Marks and its Protocol (the “*Madrid Agreement*”). The trademark of the word “ČEZ” combined with the symbol “E” is protected in 38 states under the Madrid Agreement, and the trademark of the word “CEZ GROUP” combined with the symbol “E” is protected in 20 states under the Madrid Agreement and the colour symbol “E” is protected in 20 states under the Madrid Agreement. The registration of all essential trademarks is regularly extended.

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

## Insurance

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

Our insurance coverage complies with the Czech Nuclear Act 1997 and the Vienna Convention requirements in

respect of responsibility for damage caused by a nuclear incident. However, our insurance does not fully cover all risks and we cannot guarantee that costs connected with nuclear disasters or other unforeseen events in our nuclear power plants would not have any negative effects on our business, results of operations and financial condition (please see “*Risk Factors—Risks Related to Our Business and Operations—We could incur significant losses in the event of a nuclear accident*”). The Czech Nuclear Act 1997 sets limits on the liability of operators of nuclear facilities for nuclear damage. The Czech Nuclear Act 1997 provides that operators of nuclear facilities are liable for up to CZK 8 billion per incident and limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Czech Nuclear Act 1997 also requires an operator/licensee to insure its liability for the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). We have obtained all necessary insurance policies with the minimum limits required by law for the operation of our nuclear power plants. We have concluded such insurance policies with Česká pojišťovna a.s., which represents the Czech Nuclear Insurance Pool (a group of insurance companies) and with the European Liability Insurance for the Nuclear Industry, which is a mutual insurance company insuring nuclear liability risks.

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

## **Safety and Quality Management**

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

Our quality management policy was approved by our Supervisory Board in October 2010. In 2015 the quality management policy was integrated into the Safety and Environmental Protection Policy containing the main principles of quality for our employees. Each Group-entity is responsible for implementing management system tools and for implementing the principles of quality management in all day-to-day activities.

We were the first energy company in the Czech Republic to sign the Czech Quality Charter in 2010. As a result, we actively engaged in Czech National Quality Policy and we founded the technical section Quality in Energetics alongside the Quality Council of the Czech Republic. Members of the section are represented by energy companies, their suppliers, engineering companies and concerned national institutions.

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

## **Nuclear Safety**

Under Czech law, SONS is responsible for supervising the safe operation of nuclear power plants. SONS supervises regulatory compliance and the operation of nuclear facilities, the quality of selected activities, maintenance and personnel training. SONS representatives (local inspectors) are permanently on site at both Dukovany and Temelín nuclear power plants to monitor their performance and compliance with safety standards and operating procedures, and to make sure that any modifications are being performed in an appropriate manner. The safe operation of Dukovany and Temelín nuclear power plants is governed by documented requirements, approved by SONS. It is the responsibility of each plant to comply with regulations and requirements set out in the approved documentation.

Since their commissioning Dukovany and Temelín nuclear power plants have been continuously monitoring the levels of radiation in the immediate vicinity of the plants under the supervision of SONS. To date, the results of the monitoring in the ventilation outlets and in the drains of the plants have indicated that radiation levels remain considerably below regulatory limits.

## **WANO**

ČEZ, is a member of the World Association of Nuclear Operators (“WANO”) and, like other members of these organizations, nuclear power plants are reviewed. These peer reviews are carried out regularly by international teams of experts from various professional organizations.

In January 2009, a follow-up mission on the 2007 WANO Peer Review took place at the Dukovany nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. The next WANO Peer Review at the Dukovany nuclear power plant took place in September 2012. International requirements and standards (performance targets and WANO criteria) and world’s best practice in several areas were compared to the actual everyday operations of the power plant. High safety standards were valued in all areas. The mission identified several areas for improvement (e.g. operations and technical support) and highlighted several areas where the power plant can serve as a good practice for others. The plant’s senior management has prepared a set of corrective measures covering all areas for improvement, which is being implemented now. In October 2014, a follow-up mission on the 2012 WANO Peer Review took place at the Dukovany nuclear power plant with five areas evaluated as “satisfactorily solved” and 14 areas with “satisfactory progress” achieved.

In April 2017, another WANO Peer Review took place at the Dukovany nuclear power plant and, for the first time, evaluated the Dukovany nuclear power plant against a new version of WANO’s standard, Performance Objectives and Criteria. In course of the WANO mission a team of international experts identified nine areas for improvement. The Dukovany nuclear power plant has already been working to improve most of the identified areas, including supervision over contractors, human performance quality, human performance tool, inspection activities or exclusion of foreign materials. The WANO mission also pointed out two good practices transferable from the Dukovany nuclear power plant to other nuclear power plants. In 2006, a follow-up mission of the 2004 WANO Peer Review took place at the Temelín nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. Some additional proposals were suggested. The next WANO Peer Review was held at the end of November 2011. The review team identified several areas for improvement as well as several good practices for sharing among nuclear power plants engaged in WANO. A set of corrective measures focused mainly on improving the control process has been prepared and implemented. A Follow-Up WANO Peer Review was conducted at the Temelín Nuclear Power Plant in February 2013, examining the implementation of recommendations in the areas for improvement identified during the 2011 WANO Peer Review. The review stated positive development in the implementation of defined areas and the need to keep implementing related measures. In November 2015, the first WANO Peer Review under new Performance and Objective Criteria took place in the Temelín nuclear power plant. The mission concluded that the power plant is properly operated and is in a good condition. The mission identified fifteen areas to be improved and mentioned three areas in which the power plant can serve as a good practice example for others.

## **IAEA**

The Czech Republic is a member of the IAEA and, as a result, the IAEA has carried out a number of on-site IAEA assessment missions.

The first OSART review took place at the Dukovany nuclear power plant in 1989 with a follow-up Re-OSART mission in 1991. In November 2001, the Dukovany nuclear power plant underwent its next OSART review. Based on the recommendations from this review, an action plan was prepared and fulfilled. In October 2003, a follow-up OSART mission was carried out to review our implementation of its earlier recommendations and subsequently declared its full satisfaction with our fulfilment of its recommendations. The next OSART review at the Dukovany nuclear power plant was held in June 2011. The review team identified a wide range of good practices as well as several areas for improvement to achieve even better results of operational safety. The plant’s senior management has prepared and implemented a set of corrective measures to address these recommendations before the follow-up OSART mission in June 2013. The follow-up mission concluded that 64% of the original findings were implemented completely and the progress in the implementation of the remaining 36% was satisfactory.

The first Pre-OSART review at the Temelín nuclear power plant was held in 1990 with a follow-up mission in 1992. A regular OSART mission at the Temelín nuclear power plant took place in 2001 and the follow-up OSART mission held in 2003 was aimed at assessing the power plant’s response to the recommendations of the OSART mission in 2001. Most of the recommendations and proposals were included in the category “completed,” and the team

generally noted the progress in operational safety enhancement, recommendation implementation and power plant appearance. The next OSART mission at the Temelín nuclear power plant focusing mainly on organization, management, operation, maintenance, technical support, radiation protection and emergency management systems took place in November 2012. The final report highlights consistency in operations of the power plant with the criteria of the IAEA and confirms that there are no major safety shortcomings. A set of recommendations for improvement in the operations, operating experience, technical support and severe accident management areas were also provided.

In May 2014, an IAEA OSART follow-up mission reviewed the effectiveness of measures taken in the Temelín nuclear power plant (in organization and management, operations, maintenance, technical support, feedback, chemistry, radiation protection, and emergency management) based on 2012 recommendations and confirmed successful implementation of recommended measures in the Temelín nuclear power plant. Furthermore, foreign experts praised the fact that measures following the recommendations were adopted on the basis of in-depth analysis, and that measures in many cases went beyond the recommendations of the OSART team. Eleven recommendations were assessed as “fully resolved”; four recommendations were assessed in stage of “satisfactory progress”.

In April 2013, there was an IAEA mission focusing on a seismic review of the site of the Temelín Nuclear Power Plant with the aim of evaluating the situation in five previously unfinished areas from the previous 2003 IAEA expert mission and reviewing compliance with the requirements of IAEA safety standards. Two areas were evaluated as completely solved and three as partially solved. An action plan of measures was prepared for the implementation of the remaining areas.

In September and October 2013, the historically first OSART Corporate assessment took place in ČEZ, focusing not only on technology, but also on management, human resources, communication, purchasing, corporate independent supervision and maintenance. The review team concluded that ČEZ fully complies with all legislative requirements for nuclear plant operation and identified 10 good practices which will serve as an example for other nuclear plants operators in the world, 6 suggestions for improvement and 3 recommendations.

In May 2015, an IAEA OSART Corporate follow-up mission was conducted to review whether three IAEA expert recommendations and six suggestions of October 2013 relating to improvement of nuclear power plant safety management were implemented. This follow-up mission found six of the nine findings “resolved” and three evincing “satisfactory progress”.

In 1989, IAEA and the Nuclear Energy Agency of the OECD introduced the International Nuclear Events Scale (“INES”), an internationally recognized tool used to inform the public in consistent terms of the safety significance of reported nuclear and radiological incidents and accidents, excluding naturally occurring phenomena such as radon. Events are classified at seven levels: Levels 4 to 7 are termed “accidents” with a significant radiation exposure off-site, while Levels 1 to 3 are termed “incidents” with effects on the nuclear facilities only. Events without safety significance are called “deviations” and are classified Below Scale/Level 0. No incident higher than Level 1 was observed at the Dukovany and Temelín NPP as of December 31, 2016.

### ***Post Fukushima Stress Tests***

Stress tests of nuclear power plants required by the European Council are defined as a focused assessment of safety margins and resistance of nuclear plants, in light of the events that occurred at the Fukushima-Daiichi nuclear power plant in Japan following the tsunami on March 11, 2011.

The assessment of both of our nuclear power plants was performed by experts in nuclear safety, design of nuclear facilities, accident management, emergency preparedness and phenomenology research of severe accidents, fully qualified for the assessment. The evaluators complied with a deterministic approach to evaluate the expected successive failure of all preventive actions during extreme scenarios.

During the assessment, no conditions were identified that required immediate remedial action. Both of our nuclear power plants were assessed to be able to safely manage even highly improbable extreme emergency conditions without posing any threat to their vicinity. Despite identifying the robustness of barriers, the evaluators concluded that opportunities still existed for further safety enhancement with respect to highly improbable situations. The proposed measures which are subject to further review are broken down into short- and medium-term measures, categorized according to their importance. Short-term measures include:

- proposing and implementing alternative means of communication and support during interventions at the

nuclear power plant and for communicating with public authorities in the event of significant damage to infrastructure and the isolation of the site area;

- finalizing the remaining procedures and guidelines for severe accidents; and
- reviewing the existing qualifications and capacity of personnel to fulfil the vital functions of the nuclear power plant if all units on the site are affected, or in case of loss of the control centres.

Medium-term measures include:

- proposing and implementing alternative independent technical means (for example power sources and pumps) as another barrier to fulfilling the vital functions of the nuclear power plant including guideline implementation; and
- implementing the actions in process to reinforce the design against the effects of severe accidents.

The short and medium term measures proposed were implemented with the exception of measures for maintaining long-term containment integrity according to selected severe accident management strategies at Temelín nuclear power plant. The deadline for this strategy to be implemented is 2022. The safety enhancement program is understood to be open and new activities are supposed to be added based on the use of state-of-the-art methods and new technical solutions.

### ***EMANI, Czech Nuclear Insurance Pool, ELINI***

The inspections of the European Mutual Association for Nuclear Insurance (“*EMANF*”), European Liability Insurance for the Nuclear Industry (“*ELINI*”) and the Czech Nuclear Insurance Pool were carried out in 2012, 2013, 2015 and 2016 at our nuclear power plants. The next inspections are planned to take place in 2017. These inspections were focused on fire protection, operation, maintenance, nuclear safety and overall condition of the plants.

Both plants were evaluated as well controlled, operated and maintained in all assessed areas.

### **Risk Management**

We continue to develop our integrated risk management system in order to increase our fundamental value while taking into account the level of risk acceptable for shareholders. Our supreme risk authority is our Chief Financial and Operations Officer, who decides, based on the recommendation of the Risk Management Committee, on the development of an integrated system of risk management, on an overall allocation of annual risk limit to the individual risks and organizational units, and he approves obligatory rules, responsibilities and limit structure for the management of partial risks.

The Risk Management Committee (advisory committee of the Chief Financial and Operations Officer), which comprises of:

- six permanent members: Chief Financial and Operations Officer, Chief Risk Officer, Chief Generation Officer, Chief Sales Officer, Trading Director, Executive Finance Director;
- three non-permanent members (being the other members of the Board of Directors): Chief Executive Officer, Chief Renewables and Distribution Officer, Chief Administrative Officer; and
- one permanent guest: Internal Audit Director.

The Risk Management Committee continuously monitors an overall impact of risk on the CEZ Group, including utilization of risk limits of the CEZ Group, status of risks linked to our business plan targets, status of our hedging strategies, assessment of impact of investments and other activities on potential CEZ Group debt capacity and cash flow in order to maintain corporate rating.

Since 2005, we have applied a risk capital concept that allows the setting of particular risk limits as well as an aggregate annual risk limit. The value of our aggregate annual risk limit is approved by our Board of Directors each year (together with the annual budget) based on the proposal of our Risk Management Committee. The proposed limit



value, in CZK, is set on the basis of a 95% confidence level and expresses a maximum profit decrease at the given confidence level that we are willing to take in order to achieve our planned profit for the year.

Since 2009, the main Business Plan market risks (electricity price, emission allowances price and currency exchange rate between the Euro and Czech crowns) have been quantified on a monthly basis by the EBITDA @ Risk model based on the Monte Carlo simulation in Y+1 to Y+5 horizon. Through the integration of the EBITDA @ Risk outputs with mandatory and planned investments and financials (within the five year horizon), the total debt capacity (which is defined as net debt/EBITDA) ratio is calculated each month and evaluated in light of our rating targets. We base all decisions about available capital for future investments on these calculations, as well as on key CEZ Group risks, and we continuously adjust our hedging and investment strategy accordingly.

Since 2011, the central unified @Risk concept has been used in the CAPEX investment process, where potential CAPEX increase and potential completion delay is calculated on the basis of a 95% confidence level for each individual investment project. This concept enables a relevant comparison of the risk profile of actual net present value of each project and contributes to the effective internal competition for capital resources.

We divide risks into four categories:

- market risks, comprising financial risks, commodity risks, volumetric risks and market liquidity;
- credit risks, comprising counterparty default, supplier default and settlement;
- operational risks, comprising operating risk, internal change, liquidity management and security; and
- business risks, comprising strategic, political, regulatory and reputational risks.

All essential quantifiable risks are quantified on a unified basis at least once each month. Our methodology and data provide for a unified quantification of the following risks:

- market risks, comprising financial risks (such as currency, interest and stock price), commodity price risks (relating to prices of electricity, emission allowances, coal, gas, crude oil), volumetric risks (such as volume of electricity production in wind farms);
- credit risks, comprising financial and business counterparty risk and electricity, gas and heat end-customer risk; and
- operational risks, comprising risks related to the operation of nuclear and coal power plants in the Czech Republic and investment risks.

We aim to manage business risks by using clear responsibility assessment, key risk identification, systematic sensitivity and scenario analysis. Property, casualty and other operational risks are managed through using insurance, emergency and crisis planning and preventive actions. Our ten most important cash flow risks are centrally monitored and coordinated and are updated and reported to the Risk Management Committee on a quarterly basis.

In addition, our annual budget risks, business plan risks and debt capacity risks are reported on a monthly basis to the Risk Management Committee. For more information relating to material risks that we face, please see “*Risk Factors*” and Note 19 of our audited consolidated financial statements for the year ended December 31, 2016.

## **Environmental Matters**

As of the date of this Base Prospectus, we are in compliance with all material requirements of the Czech Waste Act, the Czech Air Protection Act, the Czech IPPC Act, the Czech Water Act, the Czech Nuclear Act 1997, and the Czech Nuclear Act 2016.

### ***Czech Waste Act***

Pursuant to the Czech Waste Act, and pursuant to related regulations, we use coal ash as a certification material for reclamation and improving the sanitary conditions of landscape and disused shafts of our existing mines. We also sell residue to certain producers of construction materials. In addition, since 1994, we have also sold a portion

of the FGD gypsum (a coal combustion product of coal-fuelled power plants) remaining after the desulphurization process to certain producers of construction materials. This approach has the environmental advantage of saving natural materials, particularly in the building industry.

We are required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps. We are required by law to keep such amounts as restricted funds. Restricted funds representing our accumulated provision for waste storage and reclamation of our operations in the Czech Republic amounted to CZK 171.2 million as of December 31, 2016.

### ***Czech Air Protection Act***

We fully comply with all applicable regulations and requirements under the Czech Air Protection Act.

Since we own numerous coal-fired power plants, we have the advantage that under applicable legislation we may exchange and allocate the assigned aggregate emission limits between our coal-fired power plants in such a way as to ensure compliance with the Czech Air Protection Act and we are therefore able to optimize generation.

The new Czech Air Protection Act sets more stringent emission limit values on combustion plants with a total thermal input of more than 50 MW from 2015. This change in law requires a certain amount of capital expenditure into emission reduction measures necessary to comply with these limits. Nearly all of our combustion plants that fall into this category took advantage of a legal possibility within the transitional national plan to comply with these limits in a transitional period, i.e. by July 2020 (please see “*Regulation – Czech Republic – Czech Air Protection Act – Emission limits*” and “*Exceptions to the emission limits*”).

For the year ended December 31, 2016, our total emission charges in the Czech Republic amounted to CZK 75 million, representing a decrease of 10% from CZK 84 million for the year ended December 31, 2015. Furthermore, starting in 2016, there is a potential to further reduce the emission charges by an additional amount up to CZK 15 million. The ultimate amount of such additional reduction is subject to consultation with the relevant authorities while the outcome can be expected by mid-2017.

### ***Czech Nuclear Act 1997 and Czech Nuclear Act 2016***

On June 24, 1994, the Czech Republic became a party to the Vienna Convention. In accordance with the Vienna Convention, the Czech Nuclear Act 1997 provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident please see “*Regulation - Nuclear Energy Power Plants - Nuclear incident*”.

The Dukovany and Temelín nuclear power plants are currently fully insured in accordance with the Czech Nuclear Act 1997 and the Vienna Convention. For more information about our insurance coverage, please see “*Insurance*.”

The Czech Nuclear Act 2016, which with effect from January 1, 2017, regulates utilisation of nuclear energy in the Czech Republic in addition to the Czech Nuclear Act 1997, contains a provision to the effect that the Czech Republic shall guarantee the safe final disposal of nuclear waste. The Czech Nuclear Act 2016 further provides that a generator of nuclear waste will remain responsible for storage of nuclear waste and related costs until the handover of the waste to the Czech Repository Authority – please see “*Regulation - Nuclear Energy Power Plants - Nuclear fuel and nuclear waste*”.

In 1999, we sold our repository for disposal of nuclear waste from the operation of both the Dukovany and Temelín nuclear power plants to the Czech Repository Authority. The Czech Repository Authority has engaged us to continue operating the repository located at the Dukovany nuclear power plant.

The activities of the Czech Repository Authority are financed through the Czech Nuclear Account funded by the generators of nuclear waste. The Czech Nuclear Account is managed by the Czech Ministry of Finance. We are required to contribute to the Czech Nuclear Account in the amount of CZK 55 per MWh of electricity generated by our nuclear power plants. Since October 1, 1997, we have made regular payments to the Czech Nuclear Account. In the year ended December 31, 2016, our total payments to the Czech Nuclear Account amounted to CZK 22,472 million.

The operator of a nuclear power plant, being an originator of radioactive waste, is required by the Czech Nuclear Act 2016 to cover directly all costs associated with interim storage of spent fuel and the disposal of radioactive

waste. The operator is also obligated under the Czech Nuclear Act 2016 to finance the decommissioning of its nuclear power plants. For this particular purpose, each operator of a nuclear plant must accumulate funds in a special blocked banking account which may be drawn from only to finance the decommissioning of such nuclear power plant and subject to receiving the Czech Repository Authority's approval.

We have recognized provisions for our obligations to decommission our nuclear power plants and other nuclear facilities at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis as well as provisions for our obligation to provide financing for subsequent long term storage of spent fuel and irradiated parts of reactors. Actual costs incurred are charged against such accumulated provisions. As of December 31, 2016 the provision for interim spent fuel storage amounted to CZK 7.367 billion, the provision for long term spent fuel storage amounted to CZK 29.244 billion and the provision for decommissioning amounted to CZK 18.602 billion.

## **Legal Proceedings**

We are currently involved in a number of legal proceedings; however, we believe that liabilities relating to such proceedings would not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. Certain significant legal proceedings in which we have been involved in the 12 months preceding the date of this Base Prospectus are described below.

### ***CZECH REPUBLIC***

#### ***Settlement with Sokolovská uhelná, právní nástupce, a.s.***

We were involved in a dispute with Sokolovská uhelná, právní nástupce, a.s. in relation to the amount of, and price for, brown coal supplies being supplied to us until 2027 under a long-term supply agreement. Sokolovská uhelná, právní nástupce, a.s. challenged the validity of the supply agreement in connection with this dispute.

In July 2011, we filed a civil lawsuit on the grounds of unjust enrichment in the amount of approximately CZK 56 million against Sokolovská uhelná, právní nástupce, a.s. We requested the return of the payments made by us in the period between January and May 2011 above the price agreed in the long-term supply agreement. The proceedings were pending before the Regional Court in Pilsen.

In June 2014, we filed a civil lawsuit on the grounds of unjust enrichment in the amount of approximately CZK 76.8 million against Sokolovská uhelná, právní nástupce, a.s. We requested the return of the payments made by us in the period between June and December 2011 above the price agreed in the long-term supply agreement. The proceeding was pending before the District Court in Sokolov.

In December 2014, we lodged a claim with the District Court in Sokolov against Sokolovská uhelná, právní nástupce, a.s. We claimed that Sokolovská uhelná, právní nástupce, a.s. delivered in 2011 less quantity of brown coal than it was stipulated in the long-term supply contract and, therefore, it was obliged to pay us a so-called “ship-or-pay” contractual penalty. The claimed amount was approximately CZK 342 million plus approximately CZK 160 million further claimed as a contractual penalty for a default with the payment of the said ship-or-pay contractual penalty together with default interest on both amounts.

In March 2015, we lodged a claim with the District Court in Sokolov against Sokolovská uhelná, právní nástupce, a.s. We claimed damages amounting to approximately CZK 206 million plus related amounts resulting from the forced reimbursement of the brown coal delivery to Tisová power plant during the period January 2012 till December 2014, which Sokolovská uhelná, právní nástupce, a.s. was obliged to pay under the related long term purchase contract.

In December 2015, we filed an action with the District Court in Sokolov against Sokolovská uhelná, právní nástupce, a.s. requesting the payment of a contractual penalty in the amount of approximately CZK 430 million for failure to comply with the “ship-or-pay” obligation relating to the supplies of brown coal in 2012.

In February 2016, Sokolovská uhelná, právní nástupce, a.s. filed a lawsuit against CEZ claiming approximately CZK 1,054 million plus accrued appurtenances as unjust enrichment of CEZ based on the fact that CEZ had allegedly purchased coal in the period from 2010 to 2013 for a lower price than would have been arm's length prices. Sokolovská uhelná, právní nástupce, a.s. claimed reimbursement of the balance and contractual

penalties.

In October 2016, CEZ and Sokolovská uhelná, právní nástupce, a.s. entered into a settlement agreement to terminate all their existing lawsuits. Under the settlement agreement, which took effect on January 2, 2017, the parties undertook, *inter alia*, to terminate the proceedings stated above. In February 2017, the above proceedings were terminated by final rulings.

In connection with the proceedings above, we were also investigated by the Specialized Tax Office. We filed an administrative action to the Municipal Court in Prague against the decision of the Specialized Tax Office (as confirmed by the decision of the Appellate Financial Directorate) by which the Specialized Tax Office imposed on ČEZ a fine in the amount of CZK 150 million for an alleged abuse of ČEZ's dominant position by purchasing brown coal from Sokolovská uhelná, právní nástupce, a.s. for a price allegedly lower than was the usual market price. The court proceeding is still pending.

#### ***Litigation between ČEZ Distribuce, a. s. and UNIPETROL RPA, s.r.o. over Unjust Enrichment***

In August 2015, UNIPETROL RPA, s.r.o. filed an action with the District Court in Děčín against ČEZ Distribuce, a. s. alleging unjust enrichment in the amount of approximately CZK 303 million arising from alleged illegal invoicing of the price for distribution of electricity. UNIPETROL RPA, s.r.o. alleged that in the period from January 1, 2013, to October 1, 2013, the charge for electricity distribution should not have been requested and invoiced by ČEZ Distribuce, a. s. to UNIPETROL RPA, s.r.o. The proceeding is still pending.

#### ***Litigation between ČEZ Distribuce, a. s. and ArcelorMittal Ostrava a.s. over Unjust Enrichment***

In August 2015, ArcelorMittal Ostrava a.s. filed an action with the District Court in Děčín against ČEZ Distribuce, a. s. alleging unjust enrichment in the amount of approximately CZK 394 million arising from alleged illegal invoicing of the price for distribution of electricity. ArcelorMittal Ostrava a.s. alleged that in the period from January 1, 2013, to October 1, 2013, the charge for electricity distribution should not have been requested and invoiced by ČEZ Distribuce, a. s. to ArcelorMittal Ostrava a.s. In April 2017, the District Court in Děčín dismissed the claim in its entirety.

#### ***Insolvency Proceedings of Lignit Hodonín***

In the insolvency proceedings against Lignit Hodonín, s.r.o., a producer and supplier of brown coal, we have registered claims in an amount exceeding CZK 115 million. This amount includes CZK 23 million corresponding to supplied and unpaid electricity under contracts, while the rest relates to penalties resulting from the contracts. The insolvency proceedings were terminated in September 2013 due to the insolvency estate being insufficient to settle the creditors' claims. Thus the claim registered in the insolvency proceedings by CEZ was not settled at all. In addition, the insolvency administrator filed a suit against us for damages amounting to CZK 196.2 million, allegedly resulting from our abuse of a dominant position in determining the purchase price of brown coal deliveries under a sales contract entered into with Lignit Hodonín, a.s. as the supplier. We deny the claim in its entirety. The disputed receivables have been transferred several times by the claimant. Currently, Ultra Plus Holding Limited acts as the claimant in the proceedings. The outcome of the proceedings cannot be predicted at this stage.

#### ***Litigation between CEZ and ŠKODA JS, a.s. over Compensation of Loss.***

In November 2016, CEZ filed an action for damages with the District Court in Pilsen – City against ŠKODA JS, a.s., seeking compensation for loss in the amount of CZK 611 million in relation to weld inspections of CEZ nuclear plants.

#### ***Insolvency Proceedings of Chladicí věže Praha, a. s.***

In the insolvency proceedings against Chladicí věže Praha, a. s., ŠKODA PRAHA Invest s.r.o., a subsidiary of ČEZ, a.s., has registered claims relating to the gas-steam power unit of Počerady power plant, consisting of (i) contingent claims from possible future defects in the total amount up to approximately CZK 438 million (of which CZK 21.3 became non-contingent in course of the proceedings), and (ii) non-contingent claims in the total amount of approximately CZK 13 million. In June 2016, the registered claims were denied by the insolvency trustee. In July 2016, ŠKODA PRAHA Invest s.r.o. filed an action with the insolvency court seeking court declaration of the validity and amount of all the denied registered claims.

In March 2016, ŠKODA PRAHA Invest s.r.o. filed with the District Court of Prague 6 an action for performance of a bank guarantee of PPF banka a.s. in the total amount of approximately CZK 43 million.

The insolvency proceedings and court proceedings concerning these actions are still pending.

#### ***Insolvency Proceedings of VÍTKOVICE POWER ENGINEERING a.s.***

In the insolvency proceedings against VÍTKOVICE POWER ENGINEERING a.s. ŠKODA PRAHA Invest s.r.o., a subsidiary of ČEZ, a. s., has registered claims relating to construction of a new power unit at Ledvice power unit and complex retrofitting of Pruněřov II power plant, consisting of (i) a contingent claim from potential future defects in Pruněřov II power plant in the total amount of approximately CZK 8.8 billion, (ii) approximately CZK 20.43 million non-contingent claim in relation to Pruněřov II power plant and (iii) approximately CZK 105.27 million non-contingent claim in relation to Ledvice power plant. Majority of the above claims (except for the claims in the amount of approximately CZK 338 thousand which were undisputed in the insolvency proceedings) were denied by either the insolvency trustee, VÍTKOVICE POWER ENGINEERING a.s. or both. In December 2016, ŠKODA PRAHA Invest s.r.o. filed four actions with the insolvency court seeking court declaration of the validity and amount of the denied registered claims in the total amount of approximately CZK 8.8 billion. Both the insolvency proceedings and the court proceedings concerning the four actions are still pending.

#### ***Insolvency Proceedings of MODŘANY Power, a.s.***

In the insolvency proceedings against MODŘANY Power, a.s. ŠKODA PRAHA Invest s.r.o., a subsidiary of ČEZ, a. s., has registered claims relating to the construction of new power unit at Ledvice power plant, the complex retrofitting of Pruněřov II power plant, the construction of new gas-steam power unit at Počerady power plant and several projects at the Dukovany nuclear power plant. The registered claims consisted of (i) contingent claims for possible future defects in the total amount up to approximately CZK 4.4 billion, (ii) non-contingent claims from contractual penalties for the late delivery of works in the total amount of approximately CZK 348 million, and (iii) contingent claims in the total amount of approximately CZK 314 million from contractual liabilities and return of the amounts paid for extra works conducted at Počerady power plant in case the arbitral award of Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic is revoked by court. In March 2016, the insolvency trustee denied the registered non-contingent claims in the amount of approximately CZK 348 million and the contingent claims in the total amount of approximately CZK 314 million. In April 2016, ŠKODA PRAHA Invest s.r.o. filed with the insolvency court actions seeking court declaration of the validity and amount of all the denied registered claims. In December 2016, ŠKODA PRAHA Invest s.r.o. withdrew part of the registered non-contingent claims (including the respective part of the court action) from the contractual penalties so that non-contingent claims from the contractual penalties in the total amount of approximately CZK 286 million remain registered in the insolvency proceedings and subject to the proceedings for court declaration of their validity and amount. Both the insolvency proceedings and the court proceedings concerning the actions are still pending.

#### ***Litigation Proceedings between ČEZ Prodej, s.r.o. and SZDC***

In June 2010, we filed with the Municipal Court in Prague a claim against Railway Infrastructure Administration, state organization ("SZDC"), for damages in the total amount of CZK 805 million. Our claim arose out of a breach of the agreement on electricity supply by SZDC, which did not off-take the contracted amount of electricity in 2010. The Municipal Court in Prague dismissed our claim due to circumstances that exclude liability of SZDC. We appealed against the judgment of the Municipal Court in Prague. The appellate court (The High Court in Prague) cancelled the judgment of the Municipal Court in March 2015 and upheld the claim in the full amount including the accessories. This claim in the total amount, with accessories, of CZK 1.1 billion was settled by SZDC in 2015. At the same time, SZDC filed an extraordinary appeal with the Supreme Court of the Czech Republic. The proceeding is still pending.

In January 2013, we filed with the Municipal Court in Prague another claim against SZDC for damages in the total amount of CZK 857 million. Our claim arose out of the breach by SZDC of the agreement on electricity supply, where SZDC did not off-take its contracted amount of electricity in 2011. In November 2016, the Municipal Court in Prague upheld our claim in the full amount including the accessories. SZDC appealed against the judgment of the Municipal Court in Prague. The proceeding is still pending.

## ***Squeeze-Out Proceedings***

In the Czech Republic, we are a party to the following pending proceedings in connection with the squeeze-out of former minority shareholders in our subsidiaries:

- Action against Severočeské doly a.s. for review of consideration and stipulation of further consideration in connection with the squeeze-out in Severočeské doly a.s. the proceedings are currently pending in the first instance. If the claimants prevail in the proceedings, the aggregate further consideration might amount to up to CZK 1,800 million.
- Action against ČEZ Teplárenská, a.s. for review of consideration and stipulation of further consideration in connection with squeeze-out in United Energy, a.s. the proceedings are currently pending in the first instance. The possible impact of the action on ČEZ Teplárenská, a.s. or ČEZ cannot be estimated at this stage.

As of the date of this Base Prospectus, it is not possible to predict the outcome of the above mentioned proceedings concerning the squeeze-out of former minority shareholders in our subsidiaries.

## ***Litigation with Lesy České republiky, s. p. over Compensation of Damage***

We face 37 lawsuits initiated by the same plaintiff, Lesy České republiky, s.p., a state-owned company. All of the suits have the same grounds, namely a claim for compensation of damage caused by our operations to forest crops in 1997 and between 1999 and 2014. The oldest suit is from 1999; the latest one is from 2016. The total amount claimed is CZK 500 million plus interest and other related amounts.

## ***Litigation between ČEZ Prodej, s.r.o. and VÍTKOVICE, a.s.***

In March 2012, ČEZ Prodej, s.r.o. filed an action with the Regional Court in Ostrava against VÍTKOVICE, a.s. seeking damages in the amount of CZK 386 million on the grounds of a breach of an electricity supply contract by VÍTKOVICE, a.s. ČEZ Prodej, s.r.o. also claimed an additional CZK 10 million for unpaid supply of electricity. In June 2016, the Regional Court in Ostrava dismissed the claim of ČEZ Prodej, s.r.o. for damages in the amount of CZK 386 million and, in the same judgement, upheld a part of the claim of ČEZ Prodej, s.r.o. for unpaid supply of electricity in the amount of CZK 4 million. The remaining part of the claim of ČEZ Prodej, s.r.o. for unpaid supply of electricity in the amount of CZK 6 million was dismissed. ČEZ Prodej, s.r.o. appealed against the part of the judgement which dismissed part of their claims. On April 5, 2017, the High Court in Olomouc affirmed the first instance ruling of the Regional Court in Ostrava, thus, having dismissed both the claim of ČEZ Prodej, s.r.o. for damages in the amount of CZK 386 million and claim for unpaid supply of electricity in the amount of CZK 6 million. The claim of ČEZ Prodej, s.r.o. for unpaid supply of electricity in the amount of CZK 4 million was settled by VÍTKOVICE, a.s. in October 2016.

## ***Litigation between ČEZ Distribuce, a. s. and OTE, a.s.***

In March 2016, ČEZ Distribuce, a. s. filed a lawsuit on the grounds of unjust enrichment in the amount of approximately CZK 1.9 billion (including appurtenances) against OTE, a. s. due to the incorrectly invoiced costs related to promotion of electricity in connection with the local (own) electricity consumption from January to October 2013. The District Court in Prague 8 stayed the proceedings due to lack of jurisdiction and referred the case to the Energy Regulatory Office. Upon appeal of ČEZ Distribuce, a. s., the appellate court reversed the decision of the District Court in Prague 8 and referred the case back to District Court in Prague 8 which, again, stayed the proceedings due to lack of jurisdiction. ČEZ Distribuce, a. s. appealed against the decision of District Court in Prague 8 again.

In November 2016, ČEZ Distribuce, a. s. filed another lawsuit on the grounds of unjust enrichment in the amount of approximately CZK 871 million against OTE, a. s. due to the incorrectly invoiced costs related to promotion of electricity in connection with the local (own) electricity consumption from October to December 2013. Subsequently, ČEZ Distribuce, a. s. modified the lawsuit so that the current amount claimed against OTE, a. s. is CZK 2.6 billion.

The lawsuits are a consequence of vague legislation in this area, because the respective legislation did not provide clearly for whether ČEZ Distribuce, a. s. should collect this fee from its customers and transfer them further to OTE, a.s. The lawsuits prevent the claims from being time-barred. The proceedings are pending before the District Court of Prague 8.

## ***The investigations by police in the Czech Republic***

CEZ has been contacted by the police of the Czech Republic in several cases. All cases are still at their preliminary stage which typically lasts for several months and sometimes a year or longer. At that stage police collect and verify information in order to decide whether there are justifiable reasons for starting criminal prosecutions.

In April 2016, ČEZ Obnovitelné zdroje, s.r.o., an operator of the solar power plant Vranovská Ves with installed capacity of 16.033 MW, received a resolution of the police of the Czech Republic on seizure of a part of funds which ČEZ Obnovitelné zdroje, s.r.o. is in the future entitled to receive under the settlement agreement between ČEZ Obnovitelné zdroje, s.r.o. and OTE, a.s. The funds seized by the Czech police are equal to the difference between the amount of subsidies paid to the solar power plant Vranovská Ves and the amount of subsidies that would have been paid to the solar power plant Vranovská Ves if it had been put into operation in 2011 when the subsidies were decreased, compared to the period prior to 2011 when the solar power plant Vranovská Ves was put into operation.

In November 2016, the High Court in Olomouc cancelled the original resolution of the police of the Czech Republic and issued a new resolution to seize the claim of ČEZ Obnovitelné zdroje, s.r.o. against OTE, a.s. in the total amount of CZK 383 million (according to the original resolution, the police of the Czech Republic seized the claim of ČEZ Obnovitelné zdroje, s.r.o. against OTE, a.s. in the total amount of CZK 606 million). The funds of ČEZ Obnovitelné zdroje, s.r.o. are deposited with the Czech National Bank and cannot be disposed of by ČEZ Obnovitelné zdroje, s.r.o.

In February 2017, the police of the Czech Republic issued a resolution to seize the funds of ČEZ in the total amount of CZK 223 million which, as a result, cannot be disposed of by ČEZ.

We believe that the solar power plant Vranovská Ves received the subsidies in compliance with applicable law which was confirmed by several inspections conducted by the ERO. Therefore, ČEZ Obnovitelné zdroje, s.r.o. and ČEZ, respectively filed a complaint against the both resolutions of the police of the Czech Republic.

In this proceeding the accused persons are not employees of CEZ Group. ČEZ Obnovitelné zdroje, s.r.o. and CEZ are the injured parties. Both resolutions are only preliminary rulings.

CEZ and ČEZ Obnovitelné zdroje, s.r.o. fully cooperate with the investigators and provide them with all requested documentation and information.

## ***POLAND***

### ***Proceedings Relating to Our Polish Wind Farms Developer***

Agrowind Kończewo sp. z o.o. (“Agrowind”) filed a lawsuit against Eco-Wind Construction S.A., our Polish wind farms developer (“EWC”) and six other defendants (including Eco-Wind sp. z o.o. (“EW”)) claiming damages amounting to PLN 22,653,583 and appurtenances (on a joint and several basis). The damage was allegedly caused by a lease of certain lands by EWC and EW which had been allegedly leased by the owners thereof also to Agrowind. On December 4, 2012, the plaintiff expanded its claim to a total of PLN 112,712,952 and appurtenances (approximately CZK 707 million). The case is currently pending. The court proceeding is expected to last several years.

## ***BULGARIA***

### ***Proceedings with the Bulgarian Energy and Water Regulatory Commission (KEVR) and related disputes***

In 2015 and 2016, CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD filed an appeal against numerous decisions of the KEVR relating to electricity prices. The court proceedings are pending.

CEZ Razpredelenie Bulgaria AD filed an appeal against decisions of the KEVR relating to the prices for access to the distribution grid by producers generating electricity from renewables and to compensation of costs incurred by electricity suppliers in connection with the obligation to purchase electricity from renewables and highly effective combined heat and power generation for a preferential price. The KEVR decision concerning the prices for access to the distribution grid by producers generating electricity from renewables has been cancelled by the court and the case has returned to the KEVR to issue a new pricing decision. The other court proceedings are still pending.

CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD appealed the Ordinance No. 1 of KEVR of April 5, 2013, providing for regulated electricity prices, as amended by the decree providing for electricity prices applicable from February 28, 2014. The decree, as amended, changed the method for invoicing the reactive power surcharge on active power paid by electricity distributors and prescribed that costs arising from energy trade balancing (deviation balancing) shall not be recognized for the purposes of price regulation. In accordance with the claims of the companies, the court abolished a part of Article 10 of the Ordinance No. 1. The court decision was appealed by the regulator. By decision dated February 23, 2016, the Supreme Administrative court finally abolished Article 10, par. 2, points 2 and 6 of the Ordinance No. 1 which regulated the electricity prices related to the lack of recognition of the expenses for balancing and for reactive energy in the electricity prices. The decision of the court has been promulgated in the Official Gazette on March 15, 2016, and is in force. Based on an appeal of EVN, another electricity distribution company operating in Bulgaria relating to the same matter, the Supreme Administrative court issued an ambiguous decision which nevertheless was promulgated in the Official Gazette on December 16, 2016, and is in force. Based upon analysis of the Supreme Administrative court's decision, CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD concluded that the invoicing of the expenses for balancing and reactive energy is possible.

A hearing in the proceedings for the alleged breach of competition law and article 101 and 102 of the Treaty on Functioning of the European Union which was initiated by the Commission for the Protection of Competition (CPC) in 2013 against all three electricity distribution companies operating in Bulgaria (CEZ Group, ENERGO - PRO and EVN) in connection with alleged joint actions of the above companies on the electricity market was held on October 22, 2014. CPC requested additional documents and information from CEZ Razpredelenie Bulgaria and CEZ Trade Bulgaria EAD in July 2015. No other action has been undertaken so far. A few other minor competition proceedings have been initiated against CEZ Razpredelenie Bulgaria AD in 2015 and 2016 with a maximal penalty of up to 10% of the turnover. The proceedings are still pending.

On March 19, 2014 the KEVR initiated license revocation proceedings in respect of the electricity sale license held by CEZ Elektro Bulgaria AD based on the alleged delayed payments of CEZ Elektro Bulgaria AD to NEK, a Bulgarian producer of electricity, amounting to BGN 63.7 million (approximately CZK 880 million). We believe that there are no grounds for the license revocation proceedings and CEZ Elektro Bulgaria AD are taking action to prevent the revocation of its license.

An audit by KEVR was conducted in respect of CEZ Razpredelenie Bulgaria AD to examine the compliance by CEZ Razpredelenie Bulgaria AD with terms and conditions of its electricity distribution license in the period from July 1, 2008 to November 30, 2013. CEZ Razpredelenie Bulgaria AD received 981 administrative decisions on alleged individual breaches. Appeals and objections were filed against all these administrative decisions. Following the appeals, CEZ Razpredelenie Bulgaria AD received 206 administrative acts on imposition of penalty decrees in the amount of BGN 20,000 (approx. CZK 283,000) for each breach of the terms and conditions of the distribution license. CEZ Razpredelenie Bulgaria AD has appealed all 206 administrative acts. As of the date of this Base Prospectus, 179 judicial decisions were issued – 92 of the judicial decisions have affirmed the penalty decrees with CEZ Razpredelenie Bulgaria AD having paid the penalties, whilst 87 of the judicial decisions have definitively repealed the penalty decrees. The remaining proceedings are pending.

### ***Litigation in Bulgaria with NEK***

In March 2014, NEK, a Bulgarian producer of electricity, notified CEZ Elektro Bulgaria AD of the commencement of arbitration proceedings before the Bulgarian Chamber of Commerce and Industry (BCCI). NEK claimed payment for electricity supplies in 2011 and 2012 in the amount of BGN 10 million (approximately CZK 138 million). CEZ Elektro Bulgaria AD refused this claim. By its decision of October 4, 2016 the court has dismissed the claim of NEK. The decision is final.

In March 2014, NEK filed a petition with the Sofia City Court against CEZ Razpredelenie Bulgaria AD. NEK claims payment for electricity supplies in 2011 and 2012 in the amount of BGN 5.9 million (approximately CZK 81 million). On April 2, 2014, CEZ Razpredelenie Bulgaria AD filed written objections. In a closed hearing held on June 1, 2015, the court summoned ESO EAD (electricity transmission system operator) as the plaintiff instead of NEK. The next hearing is set to take place in June, 2017.

On September 17, 2015, NEK filed an action against CEZ Elektro Bulgaria AD and claimed payment of BGN 6.4 million for allegedly unpaid electricity supplies. CEZ Elektro Bulgaria AD refused all claims and argued that these receivables were offset against the receivable of CEZ Elektro Bulgaria towards NEK. On October 11, 2016 the first



instance court issued an ambiguous decision and CEZ Electro Bulgaria AD filed an appeal against the decision. The proceeding is still pending.

### ***Commission for Protection against Discrimination***

The Bulgarian Commission for Protection against Discrimination has opened a case against CEZ Razpredelenie Bulgaria AD accusing the company of discrimination based on ethnicity. The discrimination was allegedly effected by installing distribution cases in the height of 6-8m in certain areas and 1-2m in different areas. On July 16, 2015, the Court of the European Union in Luxembourg held that Anelya Nikolova was discriminated against by CEZ Razpredelenie Bulgaria AD. The case has been taken over by the Administrative Court in Sofia. The next hearing is set for May 22, 2017.

### ***International Investment Arbitration Proceedings against the Republic of Bulgaria***

On November 19, 2015, CEZ officially informed the Republic of Bulgaria of its intention to initiate international investment arbitration proceedings on the grounds of the Republic of Bulgaria's failure to protect its investment in the energy sector, unless the current situation is quickly remedied and the damage caused duly compensated. In addition to CEZ, EVN and Energo-Pro, other large international companies owning distribution and sales facilities in Bulgaria, have also initiated such international investment arbitration proceedings. CEZ decided to send a Notice of Dispute to the Republic of Bulgaria after a series of submissions to Bulgarian state bodies that negatively influenced the business operations of CEZ companies in Bulgaria. The Notice of Dispute followed only after the preceding negotiations with the Ministry of Finance of the Republic of Bulgaria failed to reach a remedy, and after CEZ companies in Bulgaria exhausted available national (Bulgarian) remedies. The Notice of Dispute was the first formal step in initiating international investment arbitration under the Agreement for the Promotion and Reciprocal Protection of Investments, entered into between the Czech Republic and the Republic of Bulgaria, and under the Energy Charter Treaty.

On July 12, 2016, CEZ filed with the International Centre for Settlement of Investment Disputes ("ISCID") a Request for Arbitration against the Republic of Bulgaria, by which it commenced international investment arbitration proceedings on the grounds of the Republic of Bulgaria's failure to adhere to the investment protection provisions of the Energy Charter Treaty and protect CEZ's investment in the Bulgarian energy sector. The procedure for establishing an arbitration tribunal is in process in accordance with ISCID rules.

## ***ROMANIA***

### ***Complaint of the CEZ Group to E.U. Commission concerning reduction of support of renewable energy by Romanian government***

In 2013, the Romanian government reduced support of renewable energy sources (including our Romanian wind power plants) in a manner that interferes with investors' legitimate expectations and violates the Treaty on the Functioning of the E.U. (concerning the freedom of establishment and free movement of capital) and other principles of E.U. law. Please see also "*Risk Factors — We may not be able to fully recover the value of our investment in Romanian wind power plants.*" and "*Description of the Issuer — Electricity Generation — Wind power generation — Romania.*"

CEZ submitted a complaint and initiative to the E.U. Commission and requested the E.U. Commission to investigate whether the new renewable energy support scheme is in compliance with E.U. law. The E.U. is currently reviewing our complaint and initiative. Due to the current developments regarding the renewable support scheme in Romania, the complaint is no longer relevant.

## ***TURKEY***

### ***Turkish Administrative Court Proceedings with Respect to Regulatory Tariffs***

Both Sakarya Elektrik Dağıtım A.Ş. (SEDAŞ – Turkish distributor of electricity operated by our joint venture with Akkoc Group) from 2011 and Sakarya Elektrik Perakende Satış A.Ş. (SEPAŞ - Turkish seller of electricity operated by our joint venture with Akkoc Group) from 2013 appealed against a number of administrative decisions of the Turkish energy market regulatory authority ("EPDK") that reduced a portion of operating costs that are to be automatically recognized in regulated electricity tariffs. On December 18, 2012, one of the disputes was resolved by the administrative court in Ankara in favour of SEDAŞ. EPDK appealed against the first instance decision to the Supreme

Administrative Court of Turkey and no decision on the appeal has been taken yet. During 2016, four of the disputes were decided by the administrative court in favour of EPDK. Both SEDAŞ and SEPAŞ appealed against the first instance decision to the Supreme Administrative Court of Turkey and no decision on the appeals has been issued yet. The remaining case is in the stage of filing replies.

In March and May 2016, SEDAŞ filed three administrative actions and SEPAŞ filed two administrative actions against the decisions of EPDK regulating the limits of SEDAŞ's revenue from electricity distribution in the regulatory period of 2016 to 2020, including the method for calculation and application, regulating the limits of SEPAŞ's revenue from electricity sales in the regulatory period of 2016 to 2020, and limits on SEPAŞ's costs and expenses in the regulatory period of 2016 to 2020. On March 6, 2017 the first instance court partially decided in favour of SEPAŞ in one of the cases and, subsequently, EPDK appealed against this court decision. No court decision has been issued yet in the other proceedings.

#### ***Court Proceedings in Turkey relating to the Grid Losses***

Electricity distribution and sales companies in Turkey are facing lawsuits from customers concerning refunding the costs to customers of technical and non-technical losses paid for by the companies' customers. For SEDAŞ and SEPAŞ, the total amount concerned in the pending proceedings is immaterial and, due to the legislation enacted in 2016, it is expected that the cases will be dismissed.

## DESCRIPTION OF OTHER INDEBTEDNESS

*The following summary of certain provisions of our material other indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. Please also see Notes 17, 18, 19 and 22 of our audited consolidated financial statements for the year ended December 31, 2016, which are incorporated by reference into this Base Prospectus.*

### ***Our Indebtedness***

Our indebtedness mainly consists of borrowings from financial institutions (including the European Investment Bank) and funding from capital markets. We maintain a flexible funding strategy and monitor domestic and foreign financial market conditions as part of our financing activities.

	<b>As of December 31, 2016</b>	
	<b>(CZK in millions)</b>	<b>(% of total)</b>
Funding from capital markets .....	132,044	78.7
Borrowings from financial institutions .....	35,772	21.3
Total .....	167,816	100.0

### ***Borrowings from Financial Institutions***

We have signed a variety of loan facilities, including with the European Investment Bank and European Bank for Reconstruction and Development. These facilities have been used for general corporate purposes, but have also been used as funding for particular projects such as investments in reinforcing and developing the distribution grid in the Czech Republic as well as in Bulgaria and Romania, and financing of our Polish combined heat and power plant Chorzów. As of December 31, 2015 and 2016, borrowings from financial institutions amounted to CZK 22,793 million and CZK 35,773 million, respectively.

### ***Funding from Capital Markets***

We regularly issue bonds domestically and internationally as part of our strategy to diversify our funding sources and maintain longer liability maturities. As of December 31, 2015 and 2016, the balance of bonds issued by CEZ was CZK 134,701 million and CZK 132,044 million, respectively. We issue bonds in a variety of currencies including Euro, Czech crowns, Japanese Yen and U.S. dollars. However, we generally enter into cross-currency swaps with respect to principal and interest payable in order to keep our exposure in Euro. The majority of our bonds are issued on a fixed interest rate basis. As of December 31, 2016, the aggregate nominal amount of outstanding Notes issued under this Programme was equal to EUR 3.7 billion.

We proactively manage our bond maturities via cash tender offers or combined cash tender and exchange offers. Recently, in November 2015, we offered to purchase for cash USD 700 million 4.250% Notes due 2022 and EUR 750 million 4.500% Notes due 2020 issued under this Programme. As a result of this offer, we repurchased 2022 notes in the nominal amount of USD 411,406,000. In December 2015 we purchased for cash the nominal amount of EUR 6 million zero-coupon Notes due 2038 issued as private placement under this Programme. We plan to continue to issue bonds in a balanced manner to institutional and individual investors both inside and outside of the Czech Republic in line with our strategy of maintaining longer maturities and diversified funding sources.

In June 2013, CEZ invited holders of its outstanding EUR 600 million 6% notes due 2014, EUR 600 million 5.75% notes due 2015, EUR 50 million floating rate notes due 2019, EUR 750 million 5.00% notes due 2021, EUR 6 million zero coupon notes due 2038, JPY 12 billion 3.005% notes due 2038 and JPY 8 billion 2.845% notes due 2039, previously issued under this Programme, to consent to certain amendments to the events of default contained within the historical terms and conditions of those notes. The purpose of this proposal was to amend the historical terms and conditions in order to conform them to the current form of terms and conditions for issues of notes under this Programme. Amendments to the terms and conditions proposed by CEZ were approved by a noteholders meeting held on July 8, 2013.

On February 4, 2014, we issued, through our Dutch subsidiary CEZ MH B.V., EUR 470.2 million guaranteed exchangeable bonds due 2017 and, subject to our cash election right, exchangeable for 7% of existing ordinary shares in MOL (MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság) between January 25, 2017 and July 21, 2017. The bonds are guaranteed by ČEZ. On March 31, 2017, CEZ MH B.V. concluded its invitation to holders of its outstanding EUR 470.2 million exchangeable bonds to tender their bonds. Following expiration of the invitation, CEZ MH B.V. received valid tenders of exchangeable bonds for purchase in aggregate principal amount of EUR 463.1 million. CEZ MH B.V. accepted for purchase all validly tendered exchangeable bonds. Of the principal amount of EUR 468.6 million of the exchangeable bonds outstanding prior to the invitation, approximately 98.8 per cent were accepted for purchase by CEZ MH B.V. in the invitation. Following settlement of the invitation, exchangeable bonds in the aggregate principal amount of approximately EUR 5.5 million remain outstanding. The final size of the equity placing of MOL Hungarian Oil and Gas Plc shares by CEZ MH B.V. will be 7,561,372 million shares in MOL Hungarian Oil and Gas Plc raising proceeds of HUF 141.4 billion. Settlement of the invitation and the equity placing occurred on April 4, 2017. After settlement of the equity placing, CEZ MH B.V. continues to hold 89,796 or 0.1% of shares in MOL Hungarian Oil and Gas Plc. On April 11, 2017, pursuant to applicable terms and conditions, CEZ MH B.V. notified the holders of the outstanding exchangeable bonds in the aggregate principal amount of approximately EUR 5.5 million that CEZ MH B.V. would redeem all the outstanding exchangeable bonds on May 16, 2017 for the principal amount. As a result, the holders of the outstanding exchangeable bonds may exercise their exchange rights on May 2, 2017, at the latest.

### **Short-Term Indebtedness**

We have issued short-term debt as set forth in the table below.

<b>As of December 31, 2016</b>	
<b>(CZK in millions)</b>	
Short-term bank loans .....	7,962
Bank overdrafts .....	381
Total short-term loans .....	8,343
Current portion of long-term debt.....	17,208
Short-term debt, total.....	25,551

Total short-term debt (without current portion of long-term debt) as of December 31, 2016, was CZK 8,343 million, representing 5.0% of our total debt as of December 31, 2016.

### **Long-Term Indebtedness**

We have issued long-term debt as set forth in the table below.

<b>As of December 31, 2016</b>	
<b>(CZK in millions)</b>	
Long-term bank loans .....	27,429
of which current portion.....	3,403
Bonds .....	132,044
of which current portion.....	13,805
Long-term debt, total .....	159,473

Total long-term debt as of December 31, 2016, was CZK 159,473 million, representing 95.0% of the total amount of our total debt as of December 31, 2016. Long-term borrowings from financial institutions comprised 17.2% of the long-term debt as of December 31, 2016.

Our long-term debt has both floating and fixed rates of interest which can expose us to interest rate risk and risks of changes in fair value of these financial instruments. As of December 31, 2016, our long-term debt comprised 80.2% of fixed rate debt, with the remainder being floating rate debt based mainly on EURIBOR, LIBOR, PRIBOR or CPI. For information regarding the repayment schedule of our long-term debt and interest rates for short and long-term debt, please see Notes 17, 18, 19 and 22 of our audited consolidated financial statements for the year ended December 31, 2016.

We have entered into interest rate swaps and other derivative contracts to manage risk associated with fluctuations in interest rates. For information with respect to derivative financial instruments and hedging, please see Note 19 of our audited consolidated financial statements for the year ended December 31, 2016.

## REGULATION

*Below is a brief summary of the rules and regulations applicable to the CEZ Group in the Czech Republic as our principal market. With the accession of the Czech Republic to the European Union on May 1, 2004, the Czech Republic adopted the customs, rules and regulations of the European Union, and therefore we have also included a description of the European Union Legislation as applicable to the CEZ Group. The following summary does not purport to be complete and is subject to the regulations of jurisdictions referred to below.*

### European Union Legislation

#### *History of Energy Regulation*

By virtue of its membership in the European Union, the Czech Republic is required to adhere to E.U. energy legislation which has continuously developed in order to establish a competitive, secure and environmentally sustainable electricity market.

The E.U. Commission began regulating the E.U. energy market by enacting the “*First Energy Package*” in 1996 and 1998 which comprised of Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. First Electricity Directive*”) and Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. First Gas Directive*”). The E.U. First Electricity Directive and the E.U. First Gas Directive were designed to open access to the internal electricity and gas markets of E.U. member states and to allow for better competition in these markets. In June 2003, the E.U. Energy Council repealed the E.U. First Electricity Directive and the E.U. First Gas Directive by adopting the “*Second Energy Package*” comprising of Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. Second Electricity Directive*”) and Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. Second Gas Directive*”).

The E.U. Second Electricity Directive required each E.U. member state to allow for full competition within its internal commercial and residential electricity markets by July 1, 2004 and July 1, 2007, respectively. The E.U. Second Electricity Directive also set forth general rules for the organization of the E.U. electricity market, such as the option of the member states to impose certain public service obligations, customer protection measures and provisions for monitoring the security of electricity supply in the European Union; the establishment of a regulatory body, independent from any interests of the electricity and gas industries, which would be in charge of ensuring non-discriminatory network access, monitoring effective competition and ensuring the efficient functioning of the electricity generation, distribution, and trade market; and the implementation of so-called “legal unbundling” meaning that each transmission and distribution system operator had to be separated, at least in terms of legal form, organization and decision-making, from other activities in the energy sector not relating to transmission or distribution.

The E.U. Second Electricity Directive further focused on enhancing customer rights by granting household customers the right to be supplied with electricity of a specified quality at reasonable, easily and clearly comparable and transparent prices. Moreover, it required electricity suppliers to provide their end-users with information on the energy sources and kinds of fuel used in the production of supplied electricity and on the environmental impact of the supplier’s activities, including the amount of carbon dioxides and radioactive waste produced.

Similar to the E.U. Second Electricity Directive, the E.U. Second Gas Directive, adopted on June 26, 2003, required each member state to allow for full competition within its internal commercial and residential gas market by July 1, 2004 and July 1, 2007, respectively. With regard to the independent regulatory authority and legal unbundling, the E.U. Second Gas Directive sets forth similar rules as the E.U. Second Electricity Directive.

The Czech Republic implemented these directives in 2003 and 2004.

#### *Current E.U. Energy Regulation*

##### *E.U. Energy and Climate Change Legislation*

The E.U. Commission published the first paper on “An Energy Policy for the European Union” in December 1995 with the main focus on the market integration. In 2006, it was followed by a green paper on “A European Strategy for Sustainable, Competitive and Secure Energy”. This was revised in two communication “packages” in 2007 and

2008. The European Council adopted in March 2007 an Action Plan and the E.U. Commission started to propose concrete legislation from September 2007.

In 2007, the E.U. Commission published a proposal for the establishment of a new energy policy and strategy for a more integrated and competitive energy market within the European Union. Designed to ensure a stable energy supply and combat climate change, such “E.U. Energy and Climate Change Legislation” set certain targets (known as “20-20-20” goal), including:

- further liberalization of electricity markets;
- a reduction of at least 20% in greenhouse gas emissions by 2020;
- 20% share of renewable energies in E.U. energy consumption by 2020; and
- 20% energy savings by 2020 compared to 2020 projections (1853 Mtoe) made in 2007.

Subsequently, in 2009 the European Union adopted the E.U. Energy and Climate Change Legislation “*Third Energy Package*” which includes (besides climate change related legislation described below), but is not limited to, the Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. Third Electricity Directive*”), Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. Third Gas Directive*”) and Regulation (EC) No. 713/2009 Establishing an Agency for the Cooperation of Energy Regulators, Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-border Exchanges in Electricity (the “*E.U. Regulation on Cross-Border Exchanges*”) and Regulation (EC) No. 715/2009 on Conditions for Access to the Natural Gas Transmission Networks (the “*E.U. Natural Gas Transmission Regulation*”). These directives and regulations were designed to complete the liberalization of the electricity and gas markets within the European Union. In particular, such energy legislation contemplates the further separation of supply and production activities from transmission network operations. To achieve this goal, member states are able to choose, subject to the respective conditions set forth in the E.U. Third Electricity Directive and the E.U. Third Gas Directive, between the following three options:

- Full ownership unbundling. This option entails vertically integrated undertakings selling their gas and electricity grids to an independent operator, which will carry out all network operations. This option applies to new undertakings.
- Independent System Operator (“ISO”). Under this option, vertically integrated undertakings maintain the ownership of the gas and electricity grids, but they are obliged to designate an independent operator for the management of all network operations. This option may apply to existing undertakings.
- Independent Transmission Operator (“ITO”). This option is a modification of the ISO option whereby vertically integrated undertakings do not have to designate an ISO, but need to abide by strict rules ensuring separation between supply and transmission. This option may apply to existing undertakings.

As further described below, the Czech Republic has opted for the full ownership unbundling with regard to electricity, and for ITO-unbundling option with regard to gas, although the Czech gas sector is currently, in fact, fully unbundled.

The E.U. energy legislation, as aforesaid, also enhanced consumers’ rights by establishing the right to (i) change electricity or gas supplier (the process of switching must be completed within three weeks), and receive the final closure statement at the latest six weeks after the switch; (ii) obtain compensation if quality targets are not met; (iii) receive information on supply terms through bills and company websites; and (iv) see complaints dealt with in an efficient and independent manner.

Finally, the E.U. Energy and Climate Change Legislation provides for the creation of an agency within the European Union for the coordination of national energy regulators, which will issue non-binding framework guidelines for national agencies. It is expected that this will result in a more harmonized energy regulation across the European Union. The Czech Republic implemented the respective E.U. energy legislation.

#### *2030 E.U. Framework for Climate and Energy Policy*

In October 2014, the E.U. Energy Council set new targets and the architecture for the E.U. framework for climate and energy in the period from 2020 to 2030. The new targets require a reduction of at least 40% in greenhouse gas emissions by 2030 compared to the 1990 levels. Further, renewable energies shall account for at least a 27% share of E.U. energy consumption by 2030 (resulting in up to 47% share of renewable energy sources in electricity

generation). In addition, E.U. wide energy efficiency shall be increased to 27%, 10% electricity interconnection shall be reached by 2020 and 15 % by 2030.

In July 2015, the E.U. Commission proposed to revise the E.U. Emission Trading Scheme (“*E.U. ETS*”) for the period following 2020. An Innovation Fund and Modernization Fund will be established to help the power sector meet the innovation and investment challenges of the transition to a low-carbon economy. Free allowances will continue to be available to modernize the power sector in lower-income member states (including the Czech Republic) and also free allocation for heat production will continue to the end of 2030. In addition, the legislative proposal on a market stability reserve was approved in October 2015. The placing of allowances in the reserve shall operate from 1 January 2019. For more information, please see “*Regulation—Czech Republic—Current Carbon Compliance—2030 E.U. Framework for Climate and Energy Policy—Reform of E.U. ETS.*”

In April 2016, the Paris Agreement was signed on behalf of the E.U, and purported to limit the future increase in average global temperature to, at most, 2°C. The agreement requires its signatories to introduce measures limiting their greenhouse gas emissions and preventing deforestation. The agreement will apply from 2020. The E.U. has made a commitment to contribute to the goal by reducing its greenhouse gas emissions by 40% by 2030 compared to 1990 levels. The Paris Agreement was approved by the E.U. in October 2016 by Council Decision (EU) 2016/1841.

In November 2016, as a follow-up to the targets set by the E.U. Energy Council in October 2014, a proposal for a new E.U. Renewable Energy Directive was presented as part of the “Clean Energy for All Europeans” package. The proposal purports to reach a significant increase in share of renewables in the E.U. energy production by setting an E.U. wide minimum target of 27% of share of renewable energy in total gross consumption by 2030, and continually increasing the renewables share in the heating and cooling sector by 1% each year. The use of renewables is to be promoted by streamlining the approval process for new facilities and reaffirming the rights of self-consumers to reimbursement for excess energy supplied by them into the grid. Although the priority grid access for renewables is anticipated to be applied only for small installations under certain thresholds and the use of biofuels is to be limited, investment in renewables is supposed to be encouraged by rules securing the stability of financial support to renewables projects and improving predictability of their economic performance to allow investors greater certainty as to their renewables investments. If the proposal is enacted, member states would be required to transpose the Directive by June 30, 2021.

Also in November 2016, as a follow-up to the targets set by the E.U. Energy Council in October 2014, a proposal for a Directive amending Directive 2012/27/EU on Energy Efficiency was introduced as part of the “Clean Energy for All Europeans” package. The proposal aims to improve the efficiency of energy supply and boost energy savings. The proposal contemplates setting an EU-wide 30% binding energy efficiency target for 2030, and extending the period during which energy suppliers and distributors are obliged to increase their energy savings annually by at least 1.5% beyond 2020 and, at the same time, it preserves the possibility for member states to introduce alternative policy measures. It also aims to promote use of smart metering devices by consumers and to allow for obligations to be imposed on electricity distributors and retail services providers to ensure energy savings. The proposed transposition deadline for the Directive is one year after its enactment. In addition, a proposal for a revised Directive on the Energy Performance of Buildings was introduced as part of the package.

Also in November 2016, multiple legislative proposals to implement the new market design were presented as part of the E.U. “Clean Energy for All Europeans” package. The proposal for a new Directive on Common Rules for the Internal Market in Electricity, besides other things, purports to reinforce and expand the rights of consumers, compel distribution systems operators to provide services better tailored to the needs of consumers, support installation of new kinds of infrastructure (such as energy storage facilities), and to make a clearer distinction between the scope of activities of distribution and transmission systems operators. The proposal also strives to promote new energy services, such as demand side response, aggregators or local energy communities, and sets out the rules for smart metering deployment and data management. The Directive’s transposition deadline is yet to be proposed.

Further, a proposal for a recasted Regulation on the Internal Market for Electricity, introduced as part of the E.U. “Clean Energy for All Europeans” package in November 2016, aims to further liberalize the electricity market, for example, by removing price caps and floors in wholesale trade with prices to be determined by immediate consumption rate, limiting priority dispatch, or introducing rules on balancing markets. It sets out the rules for capacity mechanisms deployment, introducing a more European approach by linking it to the result of the E.U. resources adequacy assessment. The proposal also seeks to enhance regional cooperation of transmission system operators by setting up Regional Operational Centres, which, inter alia, ought to be responsible for short-term system adequacy forecast and



coordination of balancing markets. As at the date of this Base Prospectus, it is proposed that the recasted Regulation on the Internal Market for Electricity, if adopted, will apply from January 1, 2020.

### ***Cross-Border Trading of Electricity***

Besides focusing on liberalizing internal energy markets in every member state, European energy regulation is also designed to improve cross-border trade in electricity. Accordingly, the European Union has also implemented Regulation (EC) No. 1228/2003 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity. This regulation required the establishment of a committee of national experts chaired by the E.U. Commission, which adopted guidelines on (i) inter-transmission system operator compensation for electricity transit flows; (ii) the harmonization of national transmission charges; and (iii) network congestion management. This Regulation established a fund mechanism to cover costs resulting from cross-border trades, whereby transmission system operators contribute into a fund according to their net physical import and export flows. The distribution of the accumulated funds then depends on transit volume.

Although Regulation (EC) No. 1228/2003 was partially successful, the E.U. Commission adopted the E.U. Regulation on Cross-Border Exchanges. The E.U. Regulation on Cross-Border Exchanges repealed Regulation (EC) No. 1228/2003 and established rules designed to alleviate cross-border exchange difficulties, with a view to improving competition and harmonization in the internal electricity market.

The E.U. Regulation on Cross-Border Exchanges created the European Network of Transmission System Operators (the “*ENTSO for Electricity*”), composed of designated transmission network operators from all member states which have a duty to put in place information exchange mechanisms in order to ensure the security of networks in the context of congestion management.

The costs related to the activities of the ENTSO for Electricity are borne by the transmission system operators which receive compensation for costs incurred as a result of hosting cross-border flows of electricity on their networks. Compensation is paid by the operators of national transmission systems from which cross-border flows originate. Charges for access to networks are also applied by operators.

In 2016, the E.U. adopted new legislation to secure the better interconnection between wholesale and retail electricity markets, strengthening regional cooperation, and increasing cross-border trade. To this end, Commission Regulation (EU) 2016/1447 on Establishing a Network Code on Requirements for Grid Connection of High Voltage Direct Current Systems and Direct Current-Connected Power Park Modules and Commission Regulation (EU) 2016/631 on Establishing a Network Code on Requirements for Grid Connection of Generators, were enacted in April and August 2016, respectively. The regulations provide for unification of technical requirements for junction points of multiple national grids and connection points between energy grids and power generating facilities.

### ***Energy Infrastructure***

#### ***Gas Infrastructure Legislation***

In November 2005, the E.U. Commission adopted Regulation (EC) No. 1775/2005 on Conditions for Access to Natural Gas Transmission Networks, which covered access to all transmission networks in the European Union and addressed a number of issues such as access charges (which had to reflect the actual costs incurred), third party access services, capacity allocation mechanisms, congestion management, balancing and imbalance charges, secondary markets and information and confidentiality provisions. Regulation (EC) No. 1775/2005 established a committee of national energy experts, which has the authority to revise the rules annexed to the Regulation. In July 2009, it was replaced by the E.U. Natural Gas Transmission Regulation which was adopted as a part of the E.U. Energy and Climate Change Legislation.

The E.U. Natural Gas Transmission Regulation complements the E.U. Third Gas Directive and stipulates rules for natural gas transmission networks, gas storage and liquefied natural gas facilities. It concerns access to infrastructures, particularly by determining the establishment of tariffs (solely for access to networks), services to be offered, allocation of capacity, transparency and balancing of the network. It provides for access to maximum network capacity as well as storage and liquefied natural gas facilities for all market participants. Infrastructure operators have a duty to implement and publish non-discriminatory and transparent congestion-management procedures.

Like the E.U. Regulation on Electricity Cross-Border Exchanges, it creates the European Network of

Transmission System Operators for Gas (“*ENTSO for Gas*”), composed of gas transmission network operators from all member states.

On April 30, 2015, in order to further encourage and facilitate efficient gas trading and transmission across gas transmission systems within the European Union, and thereby to move towards greater internal market integration, the E.U. Commission issued Commission Regulation (E.U.) 2015/703 Establishing a Network Code on Interoperability and Data Exchange Rules.

### *Security of Electricity Supply*

In 2006, the European Union adopted Directive 2005/89/EC Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment (the “*E.U. Electricity Security of Supply Directive*”), which requires E.U. member states to ensure a high level of security of electricity supply by taking necessary measures to facilitate a stable investment climate. The E.U. Electricity Security of Supply Directive stipulates that transmission system operators set minimum operational rules and obligations for network security, which may then require approval by the relevant authority. Member states must also prepare, in close cooperation with the transmission system operators, a system adequacy report according to E.U. reporting requirements. Member states were required to transpose the E.U. Electricity Security of Supply Directive into national law by February 24, 2008. The Czech Republic transposed the E.U. Electricity Security of Supply Directive into national law in 2009.

In November 2016, a proposal for a Regulation on Risk-Preparedness in the Electricity Sector was introduced as part of the E.U. “Clean Energy for All Europeans” package, aiming to unify the member states’ approach towards assessing risks and managing energy crises. Among the key objectives is securing electricity supply to customers, especially those providing essential services (e.g. hospitals) and operation of the market mechanisms as long as possible in a time of a crisis. Member state’s authorities will be required to establish a risk-preparedness plan and national electricity crisis scenario. The proposal also purports to introduce new rules for regional cooperation in crisis situations.

### *Security of Gas Supply*

Following the Russian-Ukrainian gas crisis of January 2009, Regulation (E.U.) No. 994/2010 Concerning Measures to Safeguard Security of Gas Supply (the “*E.U. Gas Supply Directive*”) was adopted in order to strengthen the prevention and crisis response mechanisms.

The E.U. Gas Supply Directive imposed a number of new rules designed to prevent and mitigate potential disruptions to gas supplies, such as risk assessment mechanisms, preventive action plans and emergency plans, duty to ensure gas supplies to households for at least 30 days under severe conditions or enhancing flexibility of the gas infrastructure, including enabling bi-directional physical capacity on cross-border interconnections.

On February 16, 2016, the E.U. Commission submitted to the European Parliament a proposal for a Regulation of the European Parliament and of the Council concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010. This draft regulation proposes stronger regional coordination, with certain principles and standards being set at the E.U. level. The approach proposed is that member states should cooperate closely within their regions when conducting regional risk assessments. To ensure E.U.-wide consistency, regional risk assessments shall be conducted on the basis of an E.U. wide simulation, with common standards and a specific scenario. Risks identified through regional risk assessments will be addressed in regional preventative action plans and emergency plans, to be peer-reviewed and approved by the E.U. Commission. To ensure that risk assessments and plans are comprehensive and consistent with one another, the draft regulation sets out mandatory templates listing aspects that must be taken into account when conducting a risk assessment and drawing up the plans. The draft regulation also improves the application of the supply standard to protected customers (mainly households) and the infrastructure standard (the possibility of supplying gas even if the largest infrastructure is not available). Finally, it enables permanent bi-directional capacity and proposes the introduction of additional transparency measures concerning gas supply contracts.

### *Proposed Changes for Energy Infrastructure*

In 2011, the E.U. Commission launched a proposal for a Regulation on Guidelines for trans-European energy infrastructure which would ensure completion of strategic energy networks and storage facilities by 2020. The general objective of this initiative is to ensure sufficient and timely development of energy infrastructures across the European

Union and neighbouring countries in order to facilitate continuous and unrestricted cross-border energy flow.

To this end, the Commission has identified 12 priority corridors and areas covering electricity, gas, oil and CO<sub>2</sub> transport networks. The territory of the Czech Republic is included in the project of Central/South Eastern Electricity Connections and in the project of North-South Gas Interconnections and Oil Supply which indicates the possibility of significant future investments with E.U. support into the Czech energy infrastructure in the next decade. In October 2013, on the basis of the Regulation (EU) No. 347/2013, effective from June 2013, the Commission approved the list of approximately 250 key projects in the field of energy infrastructure – the “projects of common interest”. These key projects will benefit from a more expedient permit-granting process, better regulatory conditions and access to financial assistance from the Connecting Europe Facility, with the aim of speeding-up the realization of such projects and increasing their attractiveness to investors.

In November 2016, multiple legislative proposals to implement a new market design were presented as part of the E.U. “Clean Energy for All Europeans” package, including the proposal for a new Directive on Common Rules for the Internal Market in Electricity and the proposal for a recasted Regulation on the Internal Market for Electricity (see please “*Regulation—European Union Legislation—Current E.U. Energy Regulation—2030 E.U. Framework for Climate and Energy Policy*”).

### **Renewable Energy Sources**

The European Union made commitments to reduce greenhouse gas emissions under the Kyoto protocol for reducing greenhouse gas emissions (the “*Kyoto Protocol*”). Under the Kyoto Protocol, promotion of electricity from renewable energy sources, meaning electricity produced from non-fossil renewable energy sources such as wind, solar, geothermal, wave, tidal, hydroelectric, biomass and biogas energies, became a priority of the European Union. To this end, E.U. institutions adopted Directive 2009/28/EC on the promotion of the use of energy from renewable sources (and amending and subsequently repealing earlier Directives 2001/77/EC and 2003/30/EC) (the “*E.U. Renewable Energy Directive*”) in 2009 as a part of the E.U. Energy and Climate Change Legislation.

The E.U. Renewable Energy Directive establishes a target for each member state reflecting their different starting points and potential for increasing renewables production based on the contribution of renewable energy to gross final consumption for 2020. This target is in line with the overall “20-20-20” goal for the E.U. The Czech Republic must increase the share of renewable sources (composed of renewable energy for heat, renewable energy for electricity and the use of biofuels in transport) in the total gross energy consumption from 6.1% (the share in 2005) to 13% by 2020.

In October 2014, the E.U. Energy Council set new targets and the architecture for the E.U. framework for climate and energy in the period from 2020 to 2030 (see please “*Regulation—European Union Legislation—Current E.U. Energy Regulation—2030 E.U. Framework for Climate and Energy Policy*”).

In April 2016, the Paris Agreement was signed on behalf of the E.U. and purported to limit the future increase in average global temperature to, at most, 2°C (see please “*Regulation—European Union Legislation—Current E.U. Energy Regulation—2030 E.U. Framework for Climate and Energy Policy*”).

In November 2016, as a follow-up to the enactment of new targets by E.U. Energy Council in October 2014, a proposal for a new E.U. Renewable Energy Directive was presented as part of the “Clean Energy for All Europeans” package (see please “*Regulation—European Union Legislation—Current E.U. Energy Regulation—2030 E.U. Framework for Climate and Energy Policy*”).

### **E.U. Emissions Trading Scheme (E.U. ETS)**

The E.U. ETS is the key tool for cutting industrial greenhouse gas emissions most cost-effectively. For more information, please see “*Regulation—Czech Republic—Current Carbon compliance—Phase III*” and “*Allocation of emission allowances during phase III*”.

### **Energy efficiency Directive**

On October 25, 2012, the E.U. adopted the Directive 2012/27/EU on Energy Efficiency building on the previous Energy Efficiency Plan 2011. This Directive establishes a common framework of measures for the promotion of energy efficiency within the E.U. in order to ensure the achievement of the E.U. 2020 20% target on energy

efficiency and to pave the way for further energy efficiency improvements beyond that date. It lays down rules designed to remove barriers in the energy market and overcome market failures that impede efficiency in the supply and use of energy, and provides for the establishment of indicative national energy efficiency targets for 2020.

In November 2016, as a follow-up to the enactment of new targets by E.U. Energy Council in October 2014, a proposal for a Directive amending Directive 2012/27/EU on Energy Efficiency and a proposal for a revised Directive on the Energy Performance of Buildings were introduced as part of the “Clean Energy for All Europeans” package (see please “*Regulation—European Union Legislation—Current E.U. Energy Regulation—2030 E.U. Framework for Climate and Energy Policy*”).

### ***Transparency of wholesale electricity, gas and emission allowances trading***

Wholesale gas and electricity prices are highly sensitive to available production and transmission capabilities. Prices may be influenced by (i) disseminating false information on the availability of these capabilities or (ii) reducing production. To prevent and detect these electricity and gas wholesale market manipulations, the European Union enacted Regulation (EC) No. 1227/2011 on Wholesale Energy Market Integrity and Transparency (the “*REMIT*”), which, *inter alia*:

- Prohibit the use of inside information when buying or selling on wholesale energy markets.
- Prohibit manipulative transactions and dissemination of incorrect information that give false or misleading signals about supply, demand, or prices.
- Oblige energy traders to report their transaction data to the ACER. These data include the price, volumes, date and time of the transaction, the name of the seller, the name of the buyer, and any other beneficiaries.
- Make ACER responsible for the independent monitoring of all wholesale energy trades. If market abuse is suspected, ACER will request national regulators investigate. It will also coordinate cross-border investigations.

The European Union enacted Regulation (EC) No. 596/2014 on Market Abuse (the “*MAR*”) to prevent and detect the market manipulations and insider dealings also on markets with emission allowances (including, public markets and auctions of emission allowances; for more information please see “*Czech Republic—Electricity Energy Sector—Carbon Compliance (Emission Allowances)*”). The MAR introduced the following tools to prevent the aforesaid practices with respect to the emission allowances:

- Obligation of market participants to publish inside information relating to emission allowances.
- Obligation of market participants to prepare insiders lists.
- Obligation of market participants to disclose managers’ transactions.
- Obligation of market operators and investment firms (banks, brokers) to report suspicious transactions with emission allowances.
- Prohibition of the use of inside information when buying or selling emission allowances in auction or on public markets.
- Prohibition of manipulative transactions and dissemination of incorrect information that give false or misleading signals about supply, demand, or prices.

The obligation to publish inside information, prepare insiders lists and disclose managers’ transactions applies solely to emission allowances market participants who exceed the thresholds of (i) aggregate year CO<sub>2</sub> emissions or (ii) rated thermal input. These thresholds are set by the E.U. Commission.

On November 18, 2015, the E.U. Commission presented a proposal for a Regulation of the European Parliament and of the Council on European Statistics on Natural Gas and Electricity Prices and Repealing Directive 2008/92/EC of the European Parliament and of the Council Concerning a Community Procedure to Improve the Transparency of Gas and Electricity Prices Charged to Industrial End-users.

To ensure that member states have relevant information on energy price levels at their disposal, on November 30, 2016, the E.U. Commission presented, as a part of the “Clean Energy for All Europeans” package, the second report on energy prices and costs. The report elaborates on different components of energy prices in respective member states and on the influence of prices on the competitiveness of European industry and investment in Europe.

## **Czech Republic**

### ***General Overview***

The Czech energy sector is governed by a wide range of laws and regulations which also implement the European legislation described above. The key law focusing solely on the energy sector is Act No. 458/2000 Coll., on conducting business and governmental oversight in the energy sectors, as amended (the “*Czech Energy Act*”) which provides the legal basis for conducting business in the energy sector and obtaining the necessary licenses for the production, distribution, transmission, storage and sale of electricity, gas and heat.

The Czech Energy Act was enacted in 2000 and broadly amended in August 2011 (as a result of the implementation of the E.U. Third Electricity Directive and the E.U. Third Gas Directive) and in January 2016 (as a means of implementing the Directive 2012/27/EU on Energy Efficiency, the REMIT and Regulation (EU) No. 347/2013 on guidelines for trans-European energy infrastructure), and contains provisions in compliance with applicable E.U. legislation. Main principles of the Czech Energy Act are: (i) to conduct business in the electric energy sector only with licenses or certificates issued by the Energy Regulatory Office (“*ERO*”); (ii) the unbundling of transmission and distribution system operators; (iii) the liberalization of the market by allowing competition in the energy sector; (iv) the establishment of a strong and independent regulatory authority (i.e. the *ERO*); and (v) the protection of end-consumers.

Other laws related to the energy sector include, but are not limited to:

- Act No. 406/2000 Coll., on energy management, as amended (the “*Czech Energy Management Act*”);
- Act No. 201/2012 Coll., on protection of the air, as amended (the “*Czech Air Protection Act*”);
- Act No. 383/2012 Coll., on conditions for trading with emission allowances, as amended (the “*Czech Emission Allowances Act*”);
- Act No. 18/1997 Coll., on peaceful utilization of nuclear energy and ionizing radiation, as amended (the “*Czech Nuclear Act 1997*”);
- Act No. 263/2016 Coll., the nuclear act, as amended (the “*Czech Nuclear Act 2016*”)
- Act No. 165/2012 Coll., on promoted energy sources, as amended (“*Czech Promoted Energy Sources Act*”);
- Act No. 44/1988 Coll., on protection and exploitation of minerals, as amended (the “*Czech Mining Act*”); and
- Act No. 76/2002 Coll., on integrated pollution prevention and control, as amended, (the “*Czech IPPC Act*”).

### ***Regulatory Authorities***

The main state authorities supervising the energy sector are:

- The Energy Regulatory Office (the “*ERO*”) designated as the main supervisory independent authority in the energy sector is currently headed by the Chairwoman appointed by the government (with effect from August 1, 2017 the *ERO* will be headed by a board of directors having five members) and is entitled, among other things, to:
  - issue licenses;
  - provide the method of the energy sector regulation and procedures for price regulation;
  - fix selected regulated prices;

- adopt rules implementing energy legislation;
  - issue or revoke the certificate of transmission system operator (“TSO”);
  - approve the grid development plans;
  - decide disputes defined by the Czech Energy Act;
  - execute the supervision over the compliance with the Czech Energy Act, the Czech Promoted Energy Sources Act, Act No. 634/1992 Coll., on consumer protection, as amended, Act. No. 526/1990 Coll., on Prices, as amended, and the E.U. regulation including the E.U. Regulation on Cross-Border Exchanges, the E.U. Natural Gas Transmission Regulation, the REMIT, the E.U. Gas Supply Directive and directly applicable regulation issued by virtue of these regulations or its implementation and obligations arising out of the E.U. Commission or the Agency for the Cooperation of Energy Regulators (“ACER”) decisions;
  - communication and cooperation with ACER;
  - impose fines if applicable regulations under the Czech Energy Act are breached (e.g. if unbundling rules are breached, the ERO is entitled to impose fines up to CZK 50 million or 1% of the relevant company’s turnover, and in the case of transmission network operators, fines of up to CZK 100 million or 10% of the relevant company’s turnover. In respect of vertically integrated companies, a fine of up to CZK 50 million or 1% of company’s turnover may be imposed on the controlling company for giving instructions to its subsidiaries in breach of the applicable distribution unbundling legislation. In addition, the ERO may also require entities that breach applicable regulations to perform specific remedial measures).
- The Ministry of Industry and Trade of the Czech Republic (the “*Czech Ministry of Industry*”), responsible for, among other things, preparation of the state energy conception, preparation of the national action plan for renewable sources of energy and the national action plan for smart grids, granting authorization to construct power plants and communication with the E.U. Commission;
  - The Ministry of Environment of the Czech Republic (the “*Czech Ministry of Environment*”), which primarily administers matters in connection with emission allowances and air pollution.

## ***Electric Energy Sector***

### ***Licensing Regime***

Under the Czech Energy Act, participants in the electricity market must obtain a license issued by the ERO for their activities. Licenses for electricity or gas trading granted in other E.U. member states are also recognized. An applicant is entitled to request a decision from the ERO on license recognition if such applicant already possesses a similar license issued by the competent authority in another E.U. member state; however, such license holder must establish a business entity or a branch office in the Czech Republic. In order to avoid the possibility of the ERO making discriminatory decisions, the ERO is obliged to issue the license if the applicant meets certain statutory requirements.

The ERO may renew or extend a license if the same requirements for the issuance of a new license are met. However, there is no assurance that a license will be issued, renewed or extended. The licenses for electricity generation, gas production and heat generation are issued up to a maximum of 25 years. The licenses for electricity transmission, gas transportation, electricity or gas distribution, gas storage, heat distribution and for the market operator are issued for indefinite period of time (subject to the right of the ERO to revoke a license in case of a material breach of a license by a license holder). The licenses for electricity or gas trading are issued for a set period of 5 years. License is not required for generation of electricity in power plants installed in customer connection points (for small generators with total capacity less than 10kW). The list of license owners is published in a bulletin issued by the ERO and the information about the license holders is published on the ERO website.

### ***Electricity Generation***

#### ***Authorization to construct power plants***

If a company wishes to construct a power plant with an installed electrical output of more than 1 MW, it must obtain an authorization from the Czech Ministry of Industry. The issuance of such authorization is discretionary; however, certain factors must be taken into account, including, but not limited to, compliance with the state energy conception (which is a resolution of the Czech Government defining its strategic goals in the energy sector, including, among other things, its 30 year outlook), the national action plan for renewable sources of energy, the state raw materials conception and the zoning documentation.

### *Coal-fired power plants*

The operation of a coal-fired power plant requires possession of a power generation license, as well as various other licenses and authorizations, including construction-law and environmental-law permits. The statutes enumerated below regarding air pollution and carbon compliance materially impact the operation of coal-fired power plants.

### *Sector tax*

In 2014, the Czech Government in the *Policy Statement of the Government of the Czech Republic* expressed its intention to consider the introduction of new *sector tax* to be imposed upon participants in Czech regulated industry sectors (including the energy sector). Neither proposal of any law introducing the sector tax nor any information on proposed parameters of this tax has been published.

### *Czech Air Protection Act*

#### *Emission Charges*

Coal-fired power plants must comply with several regulations under the Czech Air Protection Act. For example, the company operating a coal-fired power plant is subject to the “polluter pays” principle under which it must pay emission charges to the State Environmental Fund for emissions of air pollutants such as solid particle pollutants (dust), sulphur dioxide (“SO<sub>2</sub>”), mono-nitrogen oxides (“NO<sub>x</sub>”) and volatile organic compounds (“VOC”). From 2017, the emission charges proceeds are distributed as follows: 65 % to the State Environmental Fund, 25% to the regional budget, 10% to the state budget.

- If a polluter produces emissions below the limits stipulated by law or permit, its emission charges are reduced. Where emissions reach the threshold:
  - below the 50% of the maximum limits set for the best available techniques (“BAT”), no emission charges are paid,
  - within 50 to 60% of the maximum BAT annual emission limit, the emission charge is reduced by 80%,
  - within 60 to 70% of the maximum BAT annual emission limit, the emission charge is reduced by 60%,
  - within 70 to 80% of the maximum set up BAT annual emission limit, the emission charge is reduced by 40%,
  - within 80 to 90% of the maximum set up BAT annual emission limit, the emission charge is reduced by 20%, and
  - above 90%, the emission charge is not reduced.
- If a polluter undertakes to reconstruct or modernize its installations resulting in a lower annual emissions of pollutants by at least 30%, sulphur oxides expressed as sulphur dioxide by at least 55%, nitrogen oxides expressed as mono-nitrogen oxides by at least 55% or VOC by at least 30% compared with 2010 levels within the entire emission charges period, no emission charges are paid.

#### *Emission limits*

The Czech Air Protection Act implements the E.U. Directive 2010/75/EC on Industrial Emissions (on Integrated Pollution Prevention and Control), which entered into force on January 6, 2011 (the “*Industrial Emissions*”).

*Directive*”), which requires the E.U. member states to impose more stringent NO<sub>x</sub>, sulphur dioxide and dust emission limits on combustion plants. The specific value of such emission limits depends on various factors, including total rated thermal input, type of fuel used by the combustion plant or the date on which such plant was put into operation (or has been granted a permit). Combustion plants put into operation after January 7, 2014, are required to comply with more stringent emission limits.

The Industrial Emissions Directive also provides for ongoing tightening of the emission limits on the basis of the BAT development, as well as, for application of these stringent limits to both new and existing combustion plants. In order to determine what are the BAT, the E.U. Commission periodically (at least every 6 to 8 years) organizes a review process. The review process is to be concluded by adoption of E.U. Commission’s implementing decision. The requirements stipulated in this decision must be incorporated into the integrated permits within four years after adoption thereof.

Binding emission limits on the concentration of emitted air pollutants in the Czech Republic are stipulated in (i) the Decree No. 415/2012 Coll., as amended, and (ii) the permit issued to a power plant (specific emission limits). The permit issued to a power plant may also set up specific restrictions for the power plant if overall air pollution limits in the respective area of the Czech Republic (where the power plant is located) are exceeded, even if the given power plant does not exceed the applicable limits.

The Czech Air Protection Act empowers the Czech Environmental Inspection Agency to order that any pollution source repeatedly exceeding emission limits is shut down.

The aggregate emission ceilings for the Czech Republic are set in the “National Emission Reduction Program” approved by the Czech Government. The Czech Ministry of Environment may set up emission limits for a territory of the Czech Republic (“zones” and “agglomerations”) if certain limits are exceeded (the “Better Quality Air Programs”).

The Czech Air Protection Act empowers the regional authorities (i) not to allow any new source of pollution in the region if the level of air pollution would be exceeded, or (ii) to allow a new pollution source and stipulate conditions for its operation to ensure that the relevant level of air pollution is not exceeded (the “Compensatory Measures”).

In December 2013, the E.U. Commission introduced the “*Clean Air Policy Package*” to reduce emissions and air pollution within the E.U. The package resulted, *inter alia*, in the adoption of two directives, Directive (EU) 2016/2284 on the Reduction of National Emissions of Certain Atmospheric Pollutants, stipulating stricter national emission ceilings in the period from 2020 to 2030 (for more information, please see “Regulation—European Union Legislation—Current E.U. Energy Regulation—2030 E.U. Framework for Climate and Energy Policy”), and Directive (EU) 2015/2193 on the Limitation of Emissions of Certain Pollutants into the Air from Medium Combustion Plants, which acts as a supplement to the Directive 2010/75/EU on Industrial Emissions and is to be implemented by Member States by December 19, 2017.

#### *Exceptions to the emission limits*

The Czech Air Protection Act allows for three exemptions from the stringent emissions limits described above:

- Operators of combustion plants with an installed capacity equal to or higher than 50 MW, which obtained the operation permit prior to November 27, 2002 and were put into operation prior to November 27, 2003, may have applied for participation in transitional national plan, valid for the period from January 1, 2016 to June 30, 2020, under which the relevant combustion plants will be permitted to emit pollutants (i) up to their emission limits (ceilings) according to their permit valid to December 31, 2015 (except for certain emission limits regarding NO<sub>x</sub>) and (ii) up to additional aggregate emissions ceilings provided for by the transitional national plan, which will be decreased on a linear basis until 2020 (operators of combustion plants are allowed to exchange their emission limits between each other);
- Operators of combustion plants with an installed capacity equal to or higher than 50 MW may have applied for participation in transitional regime, valid for the period from January 1, 2016 to December 31, 2023, provided that such plants will end their operations no later than by December 31, 2023. The relevant combustion plants (i) were permitted to retain their original emission limits according to their permit valid until December 31, 2015 (except for certain emission limits regarding NO<sub>x</sub>) and (ii) shall



operate, the maximum of 17,500 operating hours;

- Operators of combustion plants with an installed capacity of 50 MW to 200 MW which (i) received the operation permit prior to November 27, 2002 and were put into operation prior to November 27, 2003, and (ii) deliver at least 50% of the useful heat production of the plant (calculated as a rolling average over a period of 5 years) in the form of steam or hot water to a public network for district heating, may have applied for a transitional regime valid during the period from January 1, 2016 to December 31, 2022. Such combustion plants are permitted to retain their original emission limits according to their permit valid until December 31, 2015.

Combustion plants of the CEZ Group, which are not modernized, are included in the transitional national plan. This provides for greater flexibility and efficiency in emission reduction in the operation of the CEZ Group's portfolio, thus enabling us to adapt more easily to the future situation on the energy market. The Czech national transitional plan was adopted by the E.U. Commission in April 2015.

#### *Carbon Compliance (Emission Allowances)*

Legislation adopted by the European Union as a result of the E.U. commitments made under Kyoto Protocol has been fully transposed into Czech law. The legislation aims to combat climate change and establish a carbon emission allowances market within the European Union. Currently, the E.U. ETS for greenhouse gases emission allowances including emission allowances for CO<sub>2</sub>, is in Phase III, running from 2013 to 2020.

#### *Emission Allowances Taxation*

Due to certain economic and political events in 2010, in particular, the increase in the number of solar power plants which caused increase in electricity prices and in order to finance this increase from the state budget, the Czech Government imposed a tax on emission allowances allocated to electricity producers for free in 2011 and 2012. The tax amounted to 32% of the average market value of the emission allowances allocated for free in a given year (where the market value was determined by the Czech Ministry of Environment). Certain emission allowances obtained for the purpose of combined production of heat and electricity were exempt from the tax. In February 2015, the European Court of Justice ruled that imposition of the tax on allocation of emission allowances is incompatible with the E.U. law. In July 2015 the Czech Supreme Administrative Court followed the decision of the European Court of Justice and ruled that imposition of the tax on allocation of emission allowances is incompatible with E.U. law, if such tax is imposed on more than 10% of emission allowances distributed for free within five years since 2008. According to decision of the Appellate Tax Directorate, the Czech Government was obliged to return a portion of the gift tax paid by the CEZ Group on emission allowances in 2011 and 2012 in the amount of CZK 3.8 billion. The amount has already been paid to CEZ in 2015.

Since 2013 the emission allowances allocated for free are not subject to the taxation in the Czech Republic, as described above. In 2013, the Ministry of Finance of the Czech Republic proposed an amendment to the Act. No. 353/2003 Coll., as amended and Act. No. 261/2007 Coll., as amended, which aimed, among other things, to change the scope and increase the tax rate of taxes on the carbon content fuels ("carbon tax"). Impact of the carbon tax on CEZ could be mitigated by participation in the E.U. ETS. Following the change of the Czech government in 2013, the proposed law has remained pending in the legislative procedure and has not yet been submitted to the Czech Parliament.

#### *Current Carbon compliance - Phase III*

Directive 2009/29/EC dated April 23, 2009, set out a basis for Phase III of the E.U. ETS, which began on January 1, 2013. Phase III introduced significant changes of the E.U. ETS, including (i) auctioning as a default method for allocation of emission allowances, (ii) a longer trading period (8 years, compared to 5 years under Phase II) and (iii) a greater harmonization of rules relating to emission allowances allocation. The E.U. Commission set a single E.U. wide cap for available emission allowances. The cap for the year 2013 was 2.08 billion per annum; from 2013 until 2020, the cap is decreased each year by 1.74% of the average annual total quantity of emission allowances issued by the member states between 2008 and 2012, which, in absolute numbers, is an annual reduction of approximately 38.3 million emission allowances.

#### *Allocation of emission allowances during Phase III*

With effect from January 1, 2013, Phase III rules prohibit the allocation of emission allowances for free to electricity producers. In general, the electricity producers have to buy emission allowances in auctions or on the E.U. ETS market. From 2013, more than 40% of the emission allowances are sold through auctions and this proportion will progressively increase in the following years.

There is an option for 10 E.U. member states, including the Czech Republic, to provide electricity producers with transitional allocation of emission allowances for free, if conditions under Article 10c of the E.U. Directive 2003/87/EC, Establishing a Scheme for Greenhouse Gas Emission Allowance Trading within the Community (the “E.U. Directive 2003/87/EC”) are satisfied (the “*Derogation*”). The E.U. legislation requires electricity producers, which benefit from this exemption, to invest in modernization of their power plants. The value of these investments must mirror at least the value of the allocation of emission allowances allocated for free. The transitional period expires on December 31, 2019.

To strengthen the functioning of the emission allowances market in the period from 2013 to 2020, the E.U. Commission has a power to amend the timetable of emission allowances auctions (the “*back-loading of emission allowances*”).

#### *Czech Emission Allowances Act*

The Czech Emission Allowances Act, implementing E.U. Directive 2003/87/EC, requires that specified installations producing CO<sub>2</sub> emissions, including coal-fired power plants, obtain a special environmental permit issued by the Czech Ministry of Environment permitting their operation and certifying that they are capable of complying with various requirements.

The emission allowances shall be auctioned, except for:

- Emission allowances allocated without charge to incumbent installations (of CO<sub>2</sub> emission producers other than electricity producers) for the period from January 1, 2013 to December 31, 2020 and approved by the Czech Ministry of Environment (on the basis of ex-ante benchmarks determined by the E.U. Commission Decision 2011/278/EU);
- Emission allowances allocated without charge to new market participants (of CO<sub>2</sub> emission producers other than electricity producers) and approved by the Czech Ministry of Environment; and
- Emission allowances allocated without charge to CO<sub>2</sub> emission producers other than electricity producers as a consequence of a significant change of installation which may require an update in the emissions allowances allocated to such installation, such as any extension or significant reduction of its capacity, and approved by the Czech Ministry of Environment.

The above exemptions do not apply to electricity producers and from January 1, 2013 no emission allowances shall be allocated without charge in respect of any electricity production, except for emission allowances allocated without charge in accordance with the “National plan for investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector”, approved by the E.U. Commission on July 6, 2012, providing that emission allowances will be allocated without charge to the electricity producers who will invest in upgrading of the electricity infrastructure and clean technologies between June 25, 2009 and December 31, 2019 (the above mentioned *Derogation*).

Given the foregoing, the CEZ Group is eligible to obtain approximately 69.6 million CO<sub>2</sub> emission allowances in the period from 2013 to 2019, the total market value of which, in current prices (€5.51/ton), is EUR 383.3 million. In addition, the production of heat shall be partially supported by allocation of emission allowances for free in the period from 2013 to 2020, amounting in total to 6.5 million, the total market value of which, in current prices (€5.51/ton), is EUR 36 million.

#### *Nuclear Energy Utilisation*

The Czech nuclear law is made of two main legal acts and several decrees. The Czech Nuclear Act 1997 contains rules for civil liability and mandatory insurance of a nuclear plant operator. The Czech Nuclear Act 2016 deals with all other rules governing nuclear energy utilisation, such as the rules on nuclear power plant licensing regime,

disposal of nuclear waste, competence of SONS and the Czech Repository Authority, decommissioning costs escrow account, fees payable by nuclear power plants operators, security and protection against radiation.

#### *Nuclear Power Plants*

Under Czech legislation, nuclear power plant operators are required to obtain special nuclear permits, including permission from the Ministry of Environment and the Ministry of Industry and a license issued by the Czech State Office for Nuclear Safety (“SONS”). Nuclear permits are renewed or extended if the requirements for the issuance of such a permit are satisfied. However, there is no assurance that nuclear permits will be issued, renewed or extended.

#### *Civil liability for nuclear damage*

On June 24, 1994, the Czech Republic became a party to the Vienna Convention on Civil Liability for Nuclear Damage (the “*Vienna Convention*”). On the basis of the principles of the Vienna Convention, the Czech Parliament enacted the Czech Nuclear Act 1997 in July 1997 which continues to provide for civil liability for nuclear damage after enactment of the Czech Nuclear Act 2016. Only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and the operator’s liability for such damage is limited to CZK 8 billion per incident. Operators of nuclear facilities are obliged to acquire insurance covering potential liabilities for damages resulting from the operation of nuclear facilities for a minimum of CZK 2 billion and for a minimum of CZK 300 million in connection with other activities (such as transportation of nuclear materials).

#### *Nuclear fuel and nuclear waste*

Nuclear fuel materials and services (i.e. uranium, conversion and enrichment) are procured pursuant to medium- and long-term contractual arrangements. These procurement activities are under the supervision of the European Supply Agency (the “ESA”), which endorses and co-signs all new supply contracts, in full compliance with the ESA supply policy and related limitations.

The Czech Republic guarantees the safe disposal of nuclear waste. Pursuant to requirements of the Czech Nuclear Act 2016, the Czech Repository Authority carries out particular activities associated with disposal of nuclear waste, including responsibility for all final disposal facilities and deposition of nuclear waste transferred to the Czech Repository Authority.

The Czech Repository Authority is funded by the Czech Nuclear Account which is held at the Czech National Bank and is administered by the Ministry of Finance. All nuclear waste generators have a duty to contribute on a monthly basis to this account. With effect from January 1, 2017, the contribution amounts to CZK 55 per MWh of electricity generated from nuclear energy, which represents 10% increase when compared to the previous legislation.

#### *Maintenance contributions to SONS*

Since January 1, 2012, all operators of nuclear facilities and applicants for permits to operate nuclear facilities must pay contributions to fund the operation and maintenance of SONS. The contribution consists of: (i) a lump sum of between CZK 30 million and CZK 150 million, payable with an application for permission to commence operation of a nuclear facility; and (ii) a maintenance contribution which must not exceed CZK 4 million per month, payable by current holders of a permit to operate a nuclear facility. The amounts of maintenance contributions are determined by the Czech Nuclear Act 2016 and governmental decree and depend on the extent of operational risk of the relevant nuclear facility. The maintenance contribution is determined on a monthly basis and due annually.

#### *Decommissioning of nuclear power plants*

The Czech Nuclear Act 2016 requires a contribution from every nuclear plant operator to special escrow accounts for future decommissioning of its facilities. In November 2016, a decree on the requirements for the safe management of radioactive waste and on the decommissioning of nuclear installations was adopted.

#### *Other international regulation related to nuclear energy*

The Czech Republic is a member of the International Atomic Energy Agency (the “IAEA”) and, as a result, our nuclear power plants have been subject to a number of on-site IAEA assessments. For more information, please see “*Description of the Issuer—Safety and Quality Management—IAEA*”.

### *Revision of EURATOM framework for nuclear safety*

Pursuant to the Directive 2014/87/EUOATOM which revised the EURATOM framework governing nuclear safety, member states are required to give the highest priority to nuclear safety at all stages of the life of a nuclear power plant. This includes carrying out safety assessments before the construction of new nuclear power plants and ensuring significant safety enhancements for old reactors. The Directive was partly transposed into Czech law with effect from January 1, 2017, by the Nuclear Act 2016. As a result, the Czech Republic will be required, in particular, to:

- create a system of peer reviews;
- choose a common nuclear safety topic every six years and organize a national safety assessment on it (the assessment will have to be made public and provided to other member states for review);
- require a safety re-evaluation for all nuclear power plants to be conducted at least once every 10 years;
- increase transparency by requiring operators of nuclear power plants to release information to the public, both in times of normal operation and in case of incidents;
- organize periodic self-assessments of the national framework at least every ten years; and
- request an international peer review of the relevant segments of the national framework;

### *Renewable Energy Sources*

#### *History of Renewable Energy Sources*

On January 10, 2007, the E.U. Commission launched its climate and energy package for the European Union to achieve a 20% reduction in greenhouse gas emissions by 2020. Under this plan, the Czech Republic must increase the share of renewable sources (composed of renewable energy for heat, renewable energy for electricity and the use of biofuels in transport) in the total gross energy consumption from 6.1% (the share in 2005) to 13% by 2020.

In 2005, the Czech Parliament enacted Act No. 180/2005 Coll., on the promotion of production of electricity from renewable energy resources (“*Czech Renewable Energy Act*”), as a means of implementing the first renewable energy directive, 2001/77/EC. Under the provisions of this statute, total energy consumption must comprise of at least 8% renewable energy by 2010. This statute also allowed support for power plant operators, consisting of

- priority access to the distribution grid; and
- financial support by means of either (x) fixed feed-in tariffs (meaning a guaranteed minimum purchase price for generated electricity), or (y) “green bonuses” representing a certain amount in excess of the market price of electricity.

A high number of new solar power plants have been built on agricultural land in the Czech Republic. The legal obligation to support the owners of these solar power plants caused an increase in total electricity prices for end-consumers. As a result, in 2010 the Czech Parliament approved significant changes to the rules on support of solar power plants, including:

- significant limits on eligibility of new solar power plants (e.g. support was only provided for small solar power plants on rooftops of buildings);
- in relation to facilities put into operation on or after January 1, 2011, the authority of the ERO to decrease fixed feed-in tariffs by more than 5%, provided that the investment repayment period is shorter than 11 years;
- withholding tax imposed on operators of solar facilities put into operation between January 1, 2009 and December 31, 2010, in the amount of (i) 26% of the income corresponding to the feed-in tariff or (ii) 28% of the income corresponding to the “green bonus,” as applicable. This tax has been amended and prolonged with effect from January 1, 2014 (see below “—*Current Legislation—The Czech Promoted Energy Sources Act*”);

- abolition of the exemption from income tax;
- increased fee for solar facilities being built on agricultural land; and
- state subsidies introduced as financial support for renewable energy (as other means of financial support).

#### *Current Legislation - The Czech Promoted Energy Sources Act*

The Czech Promoted Energy Sources Act, implementing the E.U. Directive 2009/28/EC, repealed the Czech Renewable Energy Act. The Czech Promoted Energy Sources Act only applies to new power plant constructions and power plants, which commenced operation prior to January 1, 2013, are subject to the former regime described above.

The Czech Promoted Energy Sources Act regulates:

- support for electricity, heat and bio methane from renewable energy sources, secondary energy sources, high-efficiency co-generation of electricity and heat and decentralized generation (an amendment to the Czech Promoted Energy Sources Act adopted in October 2013 stopped the support for (a) bio methane and electricity from bio liquids with effect from January 1, 2014 and (b) electricity from renewable energy sources set into operation on or after January 1, 2014, with the exception of (i) plants up to 10 MW of installed capacity producing energy from water and (ii) plants using the energy of wind, water, biomass or geothermal energy set into operation until December 31, 2015, for which the operator obtained the relevant permits before said amendment);
- financing of the above mentioned support;
- the “National Action Plan” (which mirrors the targets set by the E.U. Commission relating to the share of renewable resources in total energy consumption and the reduction of greenhouse gas emissions. The National Action Plan will require different types of renewable energy sources to contribute different shares of total consumption);
- guarantee of origin of electricity generated from renewable energy sources;
- certificates of origin of electricity generated from high-efficiency co-generation of electricity and heat or secondary energy sources; and
- withholding tax imposed on operators of solar facilities.

The Czech Promoted Energy Sources Act differs from previous legislation in that only some renewable energy sources are eligible for support and the support of new power plants depends on compliance with the National Action Plan. The Czech Promoted Energy Sources Act provides, among other things, that:

- The subsidies paid to the power plant operators (including subsidies to the co-generation of electricity and heat) are predominantly in the form of green bonuses. The option to sell the electricity under feed-in tariffs is granted only to an extremely limited group of very small producers of renewable energy sources.
- The investment repayment period is 15 years.

Act No. 131/2015 Coll., amending, *inter alia*, the Czech Promoted Energy Sources Act, became effective on January 1, 2016. Under the amended Czech Promoted Energy Sources Act, *inter alia*:

- Bio Methane and electricity decentralized generation is not further promoted.
- The ERO is empowered to decrease fixed feed-in tariffs for the following year by more than 5%.

Producers of electricity from renewable sources are obliged to install new output meters as a result of which the ERO's controlling mechanism will be strengthened.

For the sake of completeness, promotion of new solar power plants was terminated in 2014. As for other

renewables, only some of them are now promoted (e.g. small water, wind or geothermal power plants) and only under specific conditions.

## ***Transmission and Distribution of Electric Energy***

### ***History***

Until 1990, one single state owned conglomerate operated the whole electricity system. In 1990, regional distribution companies were separated from the state enterprise and in 1994, they were transformed into joint stock companies (the “REAS”), and offered to the public as part of the privatization process in 1995. The Czech Republic, through the National Property Fund, retained a controlling stake of approximately 48% of shares in each of the REAS. The CEZ Group was initially 100% state owned but as part of the privatization process, a 33.2% stake in the Group was offered to the public (with the Czech Republic retaining a 67.8% majority stake). In addition to the privatization of the REAS, local electricity producers have been partially privatized. ČEPS, a.s., a company controlled by the Czech Ministry of Industry, was established in October 1998. By 2003, the CEZ Group had transferred the entire transmission grid to ČEPS, a.s.

### ***Current Structure***

Currently, following implementation of applicable E.U. legislation, the Czech electricity transmission and distribution system is structured as follows:

- The transmission system is owned by ČEPS, a.s.;
- The distribution system is predominantly owned by three companies being successors of the REAS: ČEZ Distribuce, a.s., E.ON Distribuce, a.s. and PREdistribuce, a.s.;
- Ownership unbundling has been implemented in relation to the transmission system;
- Management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- As a result of unbundling legislation, any applicant must be provided with full access to the transmission and distribution networks and to transmit or distribute electricity through these networks, to the extent technically practicable; and
- Since January 1, 2006 the electricity market has been fully liberalized and all end-consumers are considered eligible customers who may freely choose their supplier of electricity based on current market conditions (instead of being considered as protected customers with the price of electricity being determined by the ERO).

The market operator (“OTE”) is a joint stock company owned by the Czech Republic, which administers and reports upon the regular electricity and gas market and (in cooperation with ČEPS, a.s. and NET4GAS, s. r. o.) administers accounting in respect of the energy balancing market.

### ***Participants***

Based on the above, the following categories of electricity market participants exist in the Czech Republic: (i) generators (producers); (ii) the transmission grid operator (ČEPS, a.s.); (iii) distribution grids operators; (iv) OTE; (v) electricity traders; and (vi) end-consumers.

### ***Price of Electricity***

The final price of electricity on the Czech market for end-consumers consists of two components:

- Non-regulated – the market price of electricity as a commodity that is freely negotiable between contracting parties; and
- Regulated – calculated pursuant to applicable legislation and the ERO pricing regulations and consists of

the following items, the prices of which are set by the ERO:

- transmission and distribution of electricity,
- system services,
- additional costs of energy generation from renewable sources and co-generation of heat and electricity, and
- the costs of operation of OTE and partly the ERO.

The ERO bases regulated prices of electricity transmission and distribution on allowed revenues fixed tariff related to the reserve capacity/fusion and allowed losses (variable distribution tariff related to the distributed volume). The allowed revenues are calculated as the sum of the following main components:

- Allowed operating expenses based on historical data, which are yearly escalated (taking into account the inflation and the price index of market services and sector efficiency factor);
- Depreciation;
- Allowed profit which is a product of weighted average costs of capital (WACC) and regulatory assets base. WACC is set for the entire fourth Regulatory period (2016 – 2018) and is based on weighted average costs of own and loan capital which are based on the risk free rate, costs of debt, market risk premium related to the Czech Republic and tax rate; and
- Market factor, which represents expenses unforeseen or unavoidable that would otherwise not be recognised as allowed expenses.

Act No. 131/2015 Coll., amending, *inter alia*, the Czech Energy Act, became effective on January 1, 2016. Under the amended Czech Energy Act, *inter alia*:

- The contribution for decentralized electricity generation is not included in the regulated part of the electricity price since the decentralized electricity generation is not promoted.
- For purposes of the calculation of the allowed revenues to be included in the electricity transmission and distribution price, the expenses for development of more efficient distribution and transmission grids are taken into account.

### *Trading*

As well as trading on the electricity spot market which is organized by OTE, trading on the electricity futures market is offered by the Power Exchange Central Europe (“PXE”). The spot market is also accessible through the PXE. Currently, the PXE offers power trading with standardized products for Czech, Slovak, Polish, Romanian and Hungarian power on an anonymous basis and with secure settlement. The PXE is a subsidiary of the Prague Stock Exchange.

## **Heating Energy Sector**

### *Heat Generation and Prices*

Under the Czech Energy Act, heat generators and distributors must have a license from the ERO. The price of heating supply is calculated pursuant to applicable legislation and the ERO pricing regulations for the relevant calendar year. The ERO bases regulated prices on economically justifiable expenses, a profit margin and value added tax.

Act No. 131/2015 Coll., amending, *inter alia*, the Czech Energy Act, that became effective on January 1, 2016, established a “limited price of heat” whereas the price regulation undertaken by the ERO shall not be applied to drive the heat price under the limited price. The limited price of heat is set by the ERO.

### *Co-Generation of Heat and Electricity*

Co-generation of heat and electricity is regulated by the Czech Promoted Energy Sources Act (please see “*Renewable Energy Sources—The Czech Promoted Energy Sources Act*”).

### **Gas Sector**

The E.U. First Gas Directive, the E.U. Second Gas Directive and the E.U. Third Gas Directive apply to the gas markets within the European Union, which are designed to liberalize such markets. The development of legislation in the Czech gas sector on the background of E.U. legislation is described above in “—*European Union Legislation—History of Energy Regulation*.”

#### *Licensing Regime*

Participants in the gas sector must obtain licenses from the ERO for generation, transportation, distribution, trading and storage, as the case may be (please see “*Electric Energy Sector – Licensing Regime*”).

#### *Transmission and Distribution of Gas History*

The gas infrastructure in the Czech Republic was privatized between 2001 and 2003 by the sale of the company Transgas, a.s. and the regional gas distribution companies to the German based RWE Gas AG. In the gas sector, the CEZ Group focuses predominantly on trading of gas. Trading is performed by CEZ and its two subsidiaries ČEZ Prodej, s.r.o. and ČEZ Energetické služby, s.r.o.

#### *Current structure*

Currently, following implementation of applicable E.U. legislation, including the E.U. Third Gas Directive, the Czech gas transmission and distribution system is structured as follows:

- The transmission system is owned predominantly by NET4GAS, s.r.o.;
- Independent Transmission Operator unbundling regarding the transmission network has been implemented in relation to vertically integrated undertakings. Full ownership unbundling has been implemented in relation to transmission network operators which are not part of vertically integrated companies;
- NET4GAS, s.r.o., previously being part of a vertically integrated undertaking in the Czech Republic, has been recently sold by RWE to Allianz and Borealis Infrastructure and is therefore fully unbundled;
- Any applicant must be provided full access to the transmission and distribution networks and must be able to transmit or distribute gas through the respective networks to the extent technically practicable;
- The distribution system is predominantly owned by: (i) the RWE AG Group through its subsidiary RWE GasNet, s.r.o.; (ii) the E.ON Group through its subsidiary E.ON Distribuce, a.s.; and (iii) Pražská plynárenská Distribuce, a.s.;
- Management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- Since January 1, 2007 the gas market has been fully liberalized and all end-consumers are considered as eligible customers who may freely choose their supplier of gas based on current market conditions (instead of being considered as protected customers with the price of gas being determined by the ERO); and
- Legal ownership unbundling has been implemented in relation to gas storage facilities.

#### *Price of gas*

On the Czech liberalized market, the final price of gas for end-consumers consists of two components and its structure is the same as the structure on the electricity market (please see “*Transmission and Distribution of Electric Energy—Price of Electricity*”):



- Non-regulated – the market price of (x) gas as a commodity and (y) storage of gas that is freely negotiable between contracting parties; and
- Regulated – calculated pursuant to applicable legislation and the ERO pricing regulations and consists of the following items, the prices of which are set by the ERO:
  - transportation of gas through the transmission network;
  - transportation of gas through the distribution systems; and
  - the costs of operation of OTE and partly the costs of operation of ERO.

The prices of the services outlined above are regulated by the ERO through revenue limits and, as with electricity, the revenues are calculated as the sum of operating expenses, depreciation, losses, allowed profit and market factor. As of the date of this Base Prospectus, we are in the 4th Regulatory period (2016-2018).

Act No. 131/2015 Coll., amending, inter alia, the Czech Energy Act, became effective on January 1, 2016. Under the amended Czech Energy Act, inter alia, the expenses for development of more efficient distribution and transmission grids are taken into account for purposes of the calculation of the allowed revenues to be included in the gas transmission and distribution price.

## ***Coal Mining***

### ***Regulation of Mining***

Mining is regulated by various statutes, but predominantly by (i) the Czech Mining Act, (ii) Act No. 61/1988 Coll., on Mining Activities, Explosives, as amended; and (iii) Act No. 157/2009 Coll., on Disposing of Mining Waste. The authority overseeing mining activities in the Czech Republic and issuing decisions and permits necessary for commencing mining activities is the Czech Mining Office and local mining authorities.

Generally, opening a mine and conducting mining activities requires a number of approvals, decisions and permits, including, but not limited to a decision from the Czech Ministry of Environment on designation of the potential mining area and a permit for exploration and assessment, an environmental impact assessment (the “EIA”) and a mining permit and mining authorization from the competent mining authority.

### ***Coal Prices***

Coal prices are liberalized and are determined on a contractual basis depending on market conditions. Coal “catalogue” price lists are regularly published by all coal-mining companies but the final purchase prices are subject to negotiation between suppliers and purchasers with regard to the individual business relationship, quantities and duration of the contract.

### ***Coal Mining Royalties***

Coal mine operators are required to pay to the Czech Republic an (i) annual royalty calculated as a multiple of the size of the coal mine’s area and rate in the amount of CZK 300, or CZK 1,000 in respect of an exclusive mineral deposit, and, (ii) annual royalty calculated as a multiple of the amount of heat contained in the brown coal extracted (or of an amount of the black coal extracted) and a rate prescribed by a governmental decree (as at the date of this Base Prospectus set at, in respect of black coal, CZK 9.9 per ton and, in respect of brown coal, CZK 1.18 per GJ or CZK 3.88 per ton).

### ***Coal Mining Limits***

Even though there are substantial coal reserves in the Czech Republic, coal mining has been restricted in order to protect health and property interests of people living in the brown coal regions, primarily in Northern Bohemia. In 1991, the Czech Government set down mining limits that represent an obstacle to the extension of mining in certain areas. Political discussions are currently being held with respect to the extension of the mining limits. In October 2015, the Czech Government approved the lifting of coal mining limits at the Bílina coal mine owned by the CEZ Group. The new available reserves are estimated to be 100 – 150 million tons of coal.

## *Reclamation of Mines and Redevelopment of Waste Dumps*

Coal mine operators are responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. To cover the costs of reclamation of mines and mining damages, coal mine operators are required by law to contribute to a special escrow account. Coal mine operators are also required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps by keeping certain amounts as restricted funds.

## *Final Disposal of Coal Waste*

Act No. 185/2001 Coll. on waste, as amended, effective from January 1, 2002 (the “*Czech Waste Act*”) emphasizes waste prevention, defines the hierarchy of waste handling, and promotes the fundamental principles of environmental and health protection in waste handling. Coal mine operators have a duty to dispose of coal ash which is considered waste under the Czech Waste Act, unless used for other purposes (e.g. construction or recultivation).

## ***Material Environmental and Other Related Regulation***

### *Integrated Pollution Prevention and Control (including the Integrated Pollutant Register)*

The Czech IPPC Act has fully implemented IPPC Directive 2008/1/ES into the Czech legal system. The Czech IPPC Act is designed to limit industrial and other pollution according to the best available techniques. The users of certain installations must obtain an integrated permit prior to operation and comply with the conditions set out in applicable specific legislation. Unless specific reasons require otherwise, the conditions set in the integrated permit must reflect the best available techniques. In addition, the users of substances registered under the Czech IPPC Act must notify the appropriate administrative authority if the emissions of certain substances exceed regulatory limits, which are then registered in the publicly accessible Integrated Pollutant Register.

In November 2010, the European Union adopted Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control) (the “*Industrial Emissions Directive*”). The Industrial Emissions Directive, among other things, provides that the member states shall set up a system of environmental inspections of the installations concerned and emphasizes the role of the best available techniques. An amendment to the Czech IPPC Act which, among other things, implemented certain parts of the Industrial Emissions Directive was adopted by the Czech Parliament and took effect as of March 19, 2013.

### *Water Act 2001*

Under Act No. 254/2001 Coll., as amended, (the “*Czech Water Act*”), disposal of surface and underground water is subject to a permit with the exception of certain listed activities in the public interest. Off-take of more than 6,000 cubic meters of underground water per year is subject to a fee determined pursuant to the relevant provisions of the Czech Water Act. The release of effluent into water is governed by the best available techniques principle and must comply with the water treatment adequate agricultural practice. The Czech Water Act is based on the “user pays” and “polluter pays” principles.

### *Waste Act 2001*

The Czech Waste Act regulates all aspects of waste generation, storage, transfer handling and disposal and requires permits for certain waste usage, disposal, collection or sale activities. An entity dealing with more than 100 tons of hazardous waste per year for two consecutive years has a duty to designate a waste manager. Certain types of waste and equipment are subject to a notification and record duty. A new waste act is currently in preparation and is expected to come into effect in 2018.

### *Environmental Impact Assessment Act 2001 (Act No. 100/2001 Coll., as amended)*

The Czech Environmental Impact Assessment Act requires certain parties to conduct an EIA prior to the approval of a new investment project by the relevant authorities. The Czech Environmental Impact Assessment Act distinguishes projects which always fall within the scope of the EIA, projects which are always excluded and, finally, projects in which the state authorities decide, on an ad hoc basis, whether the EIA is to be performed or not. Members of the public are allowed to participate in the EIA process subject to conditions stipulated in the Czech Environmental Impact Assessment Act. A new act amending the Czech Environmental Impact Assessment Act is currently in the

legislative process and purports to, *inter alia*, transpose Directive 2014/52/EU and simplify the EIA process. The new act is expected to come into effect in 2017.

### *General Liability*

Potential liability can arise under criminal, administrative, civil law and environmental law. The Czech Republic has the ability to enforce environmental rules and regulations pursuant to administrative and criminal law whereas individuals may enforce environmental rules and regulations under civil law. There has been little development in environmental case law to date in the Czech Republic; it is not binding and can only be used as a guide.

### *The “Polluter Pays” Principle*

The “polluter pays” principle applies under administrative, criminal and civil law in the Czech Republic. The person responsible for environmental damage (the “Polluter”) must pay administrative fines, is subject to criminal sanctions and must compensate any affected third party, irrespective of whether the Polluter operates their own property or whether a third party operates the property. Polluters are liable for their own damages. A current lessee cannot be held liable for damages caused by former lessees or the owner.

### *Criminal Liability towards the State*

The Act No. 418/2011 Coll. on criminal liability of legal entities and proceedings against them (the “*Czech Legal Entity Criminal Act*”), has introduced a concept of corporate criminal liability. Claims for damages under the Civil Code may be made separately.

The Czech Legal Entity Criminal Act does not apply to natural persons. Under Czech criminal law, criminal acts of natural persons can be committed both intentionally and negligently and can result in fines or imprisonment.

### *Administrative Liability towards the State*

Administrative liability for environmental and other administrative offences is primarily governed by the Czech Water Act, the Czech Waste Act, Act No. 289/1995 Coll., as amended, the Czech IPPC Act, the Czech Nuclear Act 2016, the Czech Air Protection Act and the Czech Emission Allowances Act.

These statutes contain environmental and other offences, which carry strict liability. The Czech Nuclear Act 2016 provides that the relevant administrative body is entitled to penalize the individual or entity with a fine of up to CZK 100 million in the event of utilization of nuclear energy for purposes that are not peaceful. Breach of the various statutes can result in fines ranging from CZK 5 thousand up to CZK 100 million. Generally, the relevant administrative body has the power to impose these penalties within one year of gaining knowledge of the offence and not later than three years from the occurrence of the offence. These penalties do not affect the liability to pay damages under the Civil Code, which may be claimed separately.

### *Remedial Measures Imposed by Administrative Authorities*

Act No. 17/1992 Coll., the Environment Act, as amended (the “*Czech Environment Act*”) has introduced into the Czech legal system a concept of “Environmental Damage (Loss)” in order to ensure that damage caused to the environment is repaired regardless of whether a private claim for damages has been brought against the Polluter. The competent administrative body is authorized to order the polluter to restore the natural functions of the impaired ecosystem.

Special statutes, e.g. the Czech Water Act and the Czech Waste Act, include provisions for remedial measures to be taken by administrative authorities in order to ensure the repair of environmental damage. In certain cases, the respective administrative authority is also entitled to shut down the business operations which are the source of environmental damage and to require the execution of specific remedial measures.

In addition, the Act No. 167/2008 Coll., on Prevention of Ecological Losses, as amended (the “*Czech Ecological Losses Prevention Act*”) authorizes the competent authorities to impose on Polluters preventive measures for impending ecological loss as well as all remedial measures necessary to restore an ecosystem. A polluter can be fined up to CZK 5 million for failure to perform preventive or remedial measures. The Czech Ecological Losses

Prevention Act further broadens the scope of environmental laws as it focuses on the occurrence of an ecological loss, irrespective of which segment of the environment was damaged.

Holders of licenses relating to the electricity, gas or heating energy markets pursuant to the Czech Energy Act are also liable for administrative offences committed thereunder.

#### *Civil Liability towards a Third Party*

As well as general liability for damages, the New Czech Civil Code imposes, in certain circumstances, a “quasi strict liability” for most environmental damage cases. Such quasi strict liability is applied if the individual or legal entity causes damage to a third party in the course of the operation of its business. The individual or legal entity is only exempt from such liability if it can prove that it has exercised all reasonable care to avoid the damage. Compensation under civil law includes compensation for current and future damage, including lost profit.

The court is empowered to reduce damages due to a special cause, provided that the damage was not caused deliberately, e.g. by acting without due professional diligence. The statute of limitations generally applicable under Czech law applies to quasi-strict liability.

## MANAGEMENT

### General Overview

We have a two-tier board system consisting of a Board of Directors and a Supervisory Board. Our Board of Directors represents us in all matters and is responsible for our management, while our Supervisory Board is an independent body that oversees our Board of Directors and our business activities. The Board of Directors and Division Heads manage our day-to-day operations. Under the Czech Companies Act and our Articles of Association, the Supervisory Board may not make management decisions and such decisions are reserved for the Board of Directors. However, the Supervisory Board's approval is needed for certain key management decisions, such as those relating to our entry into specific transactions with a value greater than CZK 500 million, or for the disposal of real estate, or our entry into long-term loans. In addition to the statutorily required Audit Committee, our Supervisory Board has formed a Strategy Committee and a Personnel Committee.

Our Board of Directors is a statutory body, which manages our operations and acts on our behalf. The powers and responsibilities of our Board of Directors are set forth in detail in our Articles of Association. For information on the availability of our Articles of Association, please see "*General Information—Documents Available*."

### Supervisory Board

As of the date of this Base Prospectus and in accordance with our Articles of Association, our Supervisory Board comprises 12 members, with eight being nominated by the Czech Ministry of Finance, as our majority shareholder, and four being nominated by our employees. Pursuant to the Czech Companies Act and our Articles of Association, all members of the Supervisory Board are elected by the General Meeting of the shareholders; however, our employees may nominate four members of the Supervisory Board. The Supervisory Board may in a meeting appoint substitute members.

Our Supervisory Board's powers include, among other powers, the power to:

- elect and remove members of our Board of Directors;
- approve the management contracts and remuneration of the members of our Board of Directors, and, in case they are not members of our Board of Directors, also those of the Chief Executive Officer and the Division Heads;
- inspect all documents and records relating to our business and to inquire into our financial matters;
- supervise our Board of Directors' exercise of its powers and responsibilities;
- review our annual, extraordinary, consolidated, interim financial statements and income distribution proposals, including power to stipulate the amount and manner of payment of bonuses to members of our Board of Directors, dividends and loss settlement proposals; and
- discuss our quarterly financial results, half-year and yearly reports.

Generally, our Supervisory Board makes decisions by a simple majority of all its members. Under our Articles of Association, our Supervisory Board makes decisions by a majority of two thirds of its members in certain circumstances, such as decisions to adopt procedural rules of the Supervisory of Directors. The quorum for a meeting of our Supervisory Board is a simple majority of its members. Each Supervisory Board member has one vote. When necessary in matters of urgency, a decision may be made by our Supervisory Board without holding a meeting (such decisions are referred to as *per rollam*). At its discretion, our Supervisory Board may invite members of our other governing bodies, our employees, or other persons to its meetings.

In accordance with our Articles of Association, our Supervisory Board meets once a month. In 2016, there were 11 regular and 3 extraordinary meetings. The Chairman of our Board of Directors regularly attends the meetings. The business address of each member of our Supervisory Board is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Supervisory Board to us and to

their private interests or other duties.

Set out below are the members of our Supervisory Board as of the date of this Base Prospectus

<b>Name</b>	<b>Born</b>	<b>Position</b>
Václav Pačes	1942	Chairman of the Supervisory Board
Ondřej Landa	1980	Vice Chairman of the Supervisory Board
Vladimír Hronek	1964	Member of the Supervisory Board
Jitka Čermáková	1973	Member of the Supervisory Board
Lubomír Klosík	1951	Member of the Supervisory Board
Josef Suchánek	1954	Member of the Supervisory Board
Šárka Vinklerová	1968	Member of the Supervisory Board
František Vágner	1954	Member of the Supervisory Board
Zdeněk Čemý	1953	Member of the Supervisory Board
Vladimír Kohout	1954	Member of the Supervisory Board
Petr Polák	1973	Member of the Supervisory Board
Robert Šťastný	1974	Member of the Supervisory Board

*Václav Pačes*  
*Chairman of the Supervisory Board since June 27, 2014*  
*Vice-Chairman of the Supervisory Board from May 29, 2013 to June 26, 2014*  
*Member of the Supervisory Board since March 20, 2013*  
*Appointed a substitute member for the period until the next shareholders' meeting by the Supervisory Board with effect from March 21, 2017 and reelected Chairman of the Supervisory Board with effect from March 21, 2017*

A professor of biochemistry and a graduate of the Faculty of Natural Sciences, Charles University, Prague, Professor Pačes wrote his dissertation at the Institute of Organic Chemistry and Biochemistry of the Czechoslovak Academy of Sciences. He gained managerial and professional experience in such positions as President of the Academy of Sciences of the Czech Republic, Director of the Institute of Molecular Genetics of the Academy of Sciences of the Czech Republic, and Chairman of the government-appointed Independent Energy Commission.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- HANUŠ GOLDSCHIEDER FOUNDATION FOR CZECH GOLF—member of the Board of Trustees since June 1, 2011, reelected as at June 1, 2015 (four-year term);
- University of Economics, Prague—member of the Board of Trustees since March 1, 2012 (six-year term);
- STAR Research & Innovation Cluster, z. ú.—member of the Board of Trustees since June 1, 2015 (four-year term);
- Česká společnost pro biochemii a molekulární biologii, z.s.—member and Chairman since 1990; and
- Federation of European Biochemical Societies—Secretary General since January 1, 2017.

Václav Pačes has not been a member of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years.

*Vladimír Hronek.*  
*Vice Chairman of the Supervisory Board since March 20, 2013*  
*Reelected on February 27, 2015*  
*Member of the Supervisory Board elected by employees since September 30, 2010*  
*Last reelected by the shareholders' meeting on employees' proposal on June 3, 2016 with effect from April 12, 2017 (term expires on June 30, 2021)*

A graduate of the Industrial School of Electrical Engineering, Prague. He gained professional experience in such positions as member and Vice-Chairman of the CEZ Group European Works Council.

Vladimír Hronek is not a member of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures.

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- CEZ Group European Works Council—Vice-Chairman from 2011–2015, member from 2007–2015.

*Ondřej Landa*

*Vice-Chairman of the Supervisory Board since June 23, 2016  
Member of the Supervisory Board since June 3, 2016*

A graduate of the Faculty of Law, Masaryk University, Brno. He gained professional experience in such positions as lawyer and Director of Litigation and Difficult Cases at Československá obchodní banka, a. s. and Deputy Minister managing the Legal Section of the Ministry of Finance of the Czech Republic.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- IP Exit, a.s., in bankruptcy—Vice-Chairman and member of the Supervisory Board since June 9, 2010; and
- Český Aeroholding, a.s.—Vice-Chairman of the Supervisory Board since September 5, 2016; member of the Supervisory Board since June 29, 2016 (five-year term).

Ondřej Landa has not been a member of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years.

*Šárka Vinklerová*

*Member of the Supervisory Board since June 3, 2016*

A graduate of the Faculty of Metallurgy and Materials Engineering, Technical University of Ostrava. She gained managerial and professional experience in such positions as Sales Director and Vice-Chairwoman of the Board of Directors of První energetická a.s.; head of the Czech branch and Electricity Sales Director of KORLEA INVEST, a.s., organizační složka; and head of the Czech branch of Slovenské elektrárne, a.s., a member of ENEL Group.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- KSV, s.r.o.—Managing Director and company member since October 27, 2016.

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- Slovenské elektrárne, a.s. - organizační složka—branch head from 2009–2016; and
- Slovenské elektrárne Česká republika, s.r.o.—Managing Director from 2015–2016.

*František Vágner*

*Member of the Supervisory Board since June 3, 2016*

A graduate of the nuclear chemistry program at the Faculty of Nuclear Sciences and Physical Engineering, Czech Technical University, Prague. He gained managerial and professional experience in such positions as Director, Managing Director, Chief Executive Officer, and Vice-Chairman and Chairman of the Board of Directors of ENVINET a.s. and Senior Adviser at NUVIA a.s. In the CEZ Group he has worked as Head of Technical Support at ČEZ, a. s.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- BD ŘÍČANY s.r.o.—Managing Director since March 25, 2013;
- Perálec 77, s.r.o.—Managing Director since June 5, 2013;
- IFRE a.s.—Chairman of the Board of Trustees and Statutory Director since May 15, 2014 (five-year term), sole shareholder since April 1, 2010;
- Denní centrum Barevný svět, o.p.s.—member of the Board of Trustees since September 12, 2014 (three-year term);

- IFRE INDUSTRY a.s.—member of the Board of Trustees since February 3, 2016 (five-year term); and
- P77 s.r.o.—50% owner and Managing Director since January 6, 2017.

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- Třebíč District Chamber of Commerce—Vice-Chairman of the Board of Directors from 2011–2014;
- NUVIA a.s.—Chairman of the Board of Directors from 2002–2014 and Vice-Chairman of the Board of Directors in 2015;
- AEF ACIMEX ELECTRONICS FULNEK s.r.o.—Managing Director from 2013–2016;
- IFRE FJ s.r.o.—Managing Director in 2016; and
- Celostátní služba osobní dozimetrie, s.r.o. /CSOD, s.r.o./—Managing Director from 2009–2014.

*Zdeněk Černý*

*Member of the Supervisory Board since June 27, 2014*

A graduate of the Faculty of Law, Charles University, Prague, and a Commercial Law MBA program, Ústav práva a právní vědy, o.p.s., Prague. He gained managerial and professional experience in such positions as member of the Supervisory Board of UNIPETROL, a.s.; member and Chairman of the Supervisory Board of ČESKÁ RAFINÉRSKÁ, a.s.; Chairman of the ECHO Labor Union; and member of the Supervisory Board of CEZ Group's ČEZ Energetické služby, s.r.o.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- UNIPETROL, a.s.—member of the Supervisory Board since January 29, 1999, last reelected on July 1, 2016 (three-year term).

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- ČESKÁ RAFINÉRSKÁ, a.s.—Chairman and member of the Supervisory Board from 2011–2016.

*Vladimír Kohout*

*Member of the Supervisory Board since June 3, 2016*

A graduate of the Brno University of Technology, Faculty of Electrical Engineering. He gained managerial and professional experience in such positions as Technology and Investment Director at Teplárny Brno, a.s.; Economic Director and Vice-Chairman of the Board of Directors of Energetické strojířny Brno, a.s.; and Chairman of the Board of Trustees and Statutory Director of Moravská energetická a.s. In the CEZ Group he has worked as a heating plant technology operations manager; electrical operations manager; and director of the Brno branch of ČEZ – Jihomoravské elektrárny Brno, k.p., Brno.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- ESB Elektro, a.s.—Chairman of the Board of Directors since June 15, 2011; reelected on May 26, 2016 (five-year term);
- ESB Rozvadčče, a.s.—member of the Board of Directors since October 8, 2007; reelected on May 22, 2014 (five-year term); and
- Moravská energetická a.s.—Chairman of the Board of Trustees since July 22, 2014 (five-year term) and Statutory Director since July 22, 2014.



Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- Energetické strojířny Brno, a.s.—Vice-Chairman and member of the Board of Directors from 2002–2015;
- ESB Montáže, a.s.—Vice-Chairman of the Board of Directors from 2008–2014; and
- Moravská energetická a.s.—Chairman of the Board of Directors from 2009–2014.

*Petr Polák*

*Member of the Supervisory Board since February 25, 2016*

A graduate of Nottingham Trent University (B.I.B.S.), United Kingdom—Senior Executive MBA. He gained managerial and professional experience in such positions as Chief Information Officer at EKO-KOM, a.s.; as member of the Supervisory Board at ČESKÝ TELECOM, a.s. and Česká pošta, s.p.; and in CEZ Group as member and later Vice-Chairman of the Supervisory Board of Severočeské doly, a.s.

Petr Polák is not a member, and has not been a member, of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures currently, or in the past five (5) years.

*Robert Šťastný*

*Member of the Supervisory Board since September 29, 2014.*

A graduate of the Faculty of Law, Masaryk University, Brno. He gained managerial and professional experience in such positions as senior officer at the Road Safety Department of the Ministry of Transport of the Czech Republic and in the engineering industry.

Robert Šťastný is not a member, and has not been a member, of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures currently, or in the past five (5) years.

*Jitka Čermáková*

*Member of the Supervisory Board since April 12, 2016*

A graduate of secondary school in Trutnov. She gained managerial and professional experience in such positions as administration-technical specialist in Pořičí power plant; vice-chairwoman of Pořičí power plant labour union and vice-chairwoman of the Czech labour union for energy sector and vice-chairwoman of the CEZ Group European Labour Committee.

Jitka Čermáková is not a member, and has not been a member, of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures currently, or in the past five (5) years.

*Lubomír Klosík*

*Member of the Supervisory Board since April 12, 2016*

A graduate of Secondary Industrial Chemical School of Chemical Technology in Ostrava and a graduate of three-year program in Social-Economic Management at Mendel University in Brno. He gained managerial and professional experience in such positions as vice-chairman of the CEZ Group European Labour Committee and Chairman of the Board in Regional Association of the ČMKOS Trade Unions in Morava region.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- ECHO labour union – member of the management board (until 2018, five-year term)

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- CEZ Group European Labour Committee – Vice-chairman of the Board of Directors from 2007 – 2011;
- Regional Association of Labour Unions in North Morava region – Chairman of the Association from 2007 - 2011; and

- Association for North Morava region development – member of the Association from 2007 – 2011.

*Josef Suchánek*

*Member of the Supervisory Board since April 12, 2016*

A graduate of the Secondary Industrial School in Třebíč in the field of mechanical engineering, and also graduate of the Institute of Energy of the Czech State Energy Inspectorate in the field of water management. He gained managerial and professional experience in various positions in CEZ Group's Dalešice hydro power plant. He is a chairman of the Dalešice Water Power Plant Trade Union, a member of the Czech Association of Trade Unions of Power Engineers.

Josef Suchánek is not a member, and has not been a member, of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures currently, or in the past five (5) years.

### ***Committees of our Supervisory Board***

Our Supervisory Board has the power to establish committees and to elect and remove their members. Our Supervisory Board has established the Strategy Committee and the Personnel Committee. Only members of our Supervisory Board are eligible to be members of the Strategy and Personnel Committee. The term of office of committee members is identical to their term of office on our Supervisory Board. Committees of our Supervisory Board meet as needed, but no less than once every three months. Committees of our Supervisory Board make a decision by a simple majority of the votes of all members of the committee.

In accordance with Czech statutory requirements, we have also established an Audit Committee. The Audit Committee is comprised of members of our Supervisory Board and third parties. Please see "*Audit Committee*" below.

#### *Strategy Committee*

The Strategy Committee of our Supervisory Board was established to improve our Supervisory Board's decision-making in matters concerning our strategic development. The committee's activities include evaluating proposals for major business activities such as capital expenditure, acquisition, and divestiture projects (in particular, purchases and sales of material assets or ownership participations in the Czech Republic and abroad), proposals for establishing or winding up our subsidiaries, construction of new generating plants and the phasing out, sale, or renewal of production plant and equipment.

In 2016, the Strategy Committee held 6 meetings. As of the date of this Base Prospectus, the members of the Strategy Committee are Mr. Petr Polák (chairman), Mrs. Šárka Vinklerová (vice-chairman), Mr. Václav Pačes and Mr. František Vágner.

#### *Personnel Committee*

The Personnel Committee of our Supervisory Board, was established to make proposals for our Supervisory Board regarding its personnel policies for members of our Board of Directors, to present its opinion on proposals to elect and remove members of our Board of Directors, to present nominations of candidates for membership of our Board of Directors to our Supervisory Board for approval, to make recommendations to our Supervisory Board regarding issuance of opinions in matters relating to the appointment and manner of remuneration of our Chief Executive Officer and members of our Board of Directors, and to give to our Supervisory Board its recommendations concerning candidates proposed by our Board of Directors for nomination to the supervisory boards of companies in which we hold a stake in the registered capital exceeding CZK 500 million. More specifically, the contracts and remuneration of members of our Board of Directors is approved by the Supervisory Board and the contracts and remuneration of Chief Executive Officer and our Division Heads are subject to the prior approval of the Supervisory Board. In addition, remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of the shareholders. Please see "*Compensation*."

In 2016, the Personnel Committee held 11 meetings. As of the date of this Base Prospectus, the members of the Personnel Committee are Mr. Vladimír Hronek (chairman), Mr. Zdeněk Černý (vice-chairman), Mr. Vladimír Kohout and Mr. Robert Šťastný.

## *Audit Committee*

The powers and responsibilities and decision making process of our Audit Committee are stipulated by our Articles of Association and Czech Act No. 93/2009 Coll., on auditors, as amended and include:

- Monitoring the process of compiling financial statements and consolidated financial statements and presenting recommendations to the Board of Directors and/or the Supervisory Board in order to ensure integrity of accounting and financial reporting systems (if necessary);
- Monitoring the efficiency of internal controls and risk management systems;
- Monitoring the efficiency of internal audit and its functional independence;
- Recommending an auditor to conduct a statutory audit to the Supervisory Board, duly justifying such a proposal;
- Monitoring the statutory audit process;
- Reviewing the independence of the statutory auditor and audit firm and the provision of non-audit services to a public-interest entity by the statutory auditor and audit firm;
- Discussing with the auditor risks to the auditor's independence and safeguards applied by the auditor in order to mitigate such risks;
- Giving its opinion on release from an obligation under a statutory audit contract or termination of a statutory audit contract pursuant to the Auditors Act;
- Informing the Supervisory Board of the result of a statutory audit and its findings obtained monitoring the statutory audit process;
- Informing the Supervisory Board how a statutory audit contributed to ensuring the integrity of accounting and financial reporting systems;
- Approving the provision of other non-audit services; and
- Exercising other powers pursuant to the Auditors Act or directly applicable EU legislation setting down specific requirements for the statutory audit of public-interest entities.

Pursuant to our Articles of Association, the Audit Committee has five members (one position being vacant as of the date of this Base Prospectus), which are elected and removed by the General Meeting from among members of our Supervisory Board or third parties. Members of our Board of Directors and our procura holders are not eligible to be members of our Audit Committee. The majority of the Audit Committee members (including the Chairman) must be independent and professionally qualified, and at least one of the professionally qualified members must be an independent individual qualified in the area of audit and/or accounting. Members of our Audit Committee serve a four-year term. Members of our Audit Committee attend our General Meeting and are required to report to our General Meeting on the results of their activities. Our Audit Committee held 4 meetings in 2016. Our Audit Committee makes decisions by a simple majority of the votes of all its members.

The business address of each member of our Audit Committee is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Audit Committee to us and to their private interests or other duties.

Set out below are the members of our Audit Committee as of the date of this Base Prospectus.

<b>Name</b>	<b>Born</b>	<b>Position</b>
Jan Vaněček	1967	Chairman of the Audit Committee
Otakar Hora	1960	Vice Chairman of the Audit Committee
Andrea Lukášiková	1980	Member of the Audit Committee

Radek Nežil	1970	Member of the Audit Committee
Ivan Pilip	1963	Member of the Audit Committee

*Jan Vaněček*

*Chairman of the Audit Committee since September 25, 2015*  
*Member of the Audit Committee since June 12, 2015*

A graduate of the Faculty of Electrical Engineering, Czech Technical University, Prague; a graduate of the University of Economics, Prague, with focus on accounting, corporate finance, and banking; and an ACCA/FCCA—Chartered Certified Accountant obtained on the international professional training program at Charles University, Prague. He gained managerial and professional experience in such positions as Audit Senior at Arthur Andersen and Chief Financial Officer for the Czech Republic at Cinergy, a U.S. energy company.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- Pinn partners s.r.o.—Managing Director and company member since September 11, 2008.

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- i4wifi a.s.—member of the Supervisory Board from 2014 to 2015; and
- CP Praha s.r.o., in liquidation—Vice-Chairman and member of the Supervisory Board in 2011–2016.

*Otakar Hora*

*Vice-Chairman of the Audit Committee since September 27, 2016*  
*Member of the Audit Committee since June 3, 2016*

A graduate of an Economic Reporting and Audit program, University of Economics, Prague. He completed his research assistantship at the Department of Accounting of the University of Economics. He gained managerial and professional experience in such positions as lecturer and later deputy head of the Department of Accounting and the Department of Management Accounting and member of the Scientific Board of the Faculty of Finance and Accounting, University of Economics, Prague; Vice-President of the Czech Chamber of Auditors; partner in KPMG Česká republika Audit, s.r.o.; and partner in charge of the management of operations of KPMG group companies in Czechia.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- DZD, v.o.s.—company member and statutory representative since February 25, 1999; and
- ABarent s. r. o.—Managing Director and company member since March 2, 2016.

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- KPMG Česká republika, s.r.o.—proxy with an individual power of procuration from 1998–2016; and
- KPMG Česká republika Audit, s.r.o.—Managing Director from 2001–2016.

*Andrea Lukášková*

*Member of the Audit Committee since June 27, 2014*

A graduate of the Faculty of International Relations, University of Economics, Prague. She gained managerial and professional experience in such positions as Head of Risk Management at Deloitte Audit s.r.o. and in the independent European Affairs department of the Chancellery of the Senate of the Parliament of the Czech Republic; now she is in charge of financial management and accounting at Olife Corporation, a.s.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- Český Aeroholding, a.s.—member of the Audit Committee since July 2014 (five-year term).

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- Český institut interních auditorů, z.s.—member of the Board from 2013–2014; and
- Česká exportní banka, a.s.—member of the Audit Committee from 2014–2016.

*Radek Neužil*

*Member of the Audit Committee since June 19, 2013*

A graduate of the Faculty of Mechanical Engineering, Brno University of Technology (majoring in economics and machinery production management) and Faculty of Law, Masaryk University in Brno (LL.M.—Master of Laws). He gained managerial and professional experience in such positions as Secretary of the Czech Chamber of Tax Advisers; Chairman of the Supervisory Board and later Managing Director of Daňová akademie s.r.o.; member of the Executive Board and Chairman of the Committee for Cooperation and Coordination in Audit of the Public Audit Oversight Board; member of the Departmental Coordination Subgroup for Accounting and Statutory Audit, Ministry of Finance of the Czech Republic; and member of the Accounting and Audit Policies and Development Commission, Audit and Tax Advisory Section, Ministry of Finance of the Czech Republic. He has been a tax adviser since 2002.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- Charles University—member of the Board of Trustees since October 14, 2011 (six-year term);
- O2 Czech Republic a.s.—Vice-Chairman of the Audit Committee since March 12, 2014 (five-year term);
- PASKI CLUB, v.o.s.—company member since October 4, 1995;
- Paski club (association)—Vice-Chairman since March 3, 1994 (undefined term duration);
- Eláán (association)—Chairman since July 4, 2002 (undefined term duration); and
- Public Audit Oversight Board—Disciplinary Committee member since 2015, Chairman since 2016.

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- Daňová akademie s.r.o.—Managing Director from 2011–2012; and
- Public Audit Oversight Board—member of the Executive Board and Chairman of the Committee for Cooperation and Coordination in Audit from 2009–2015.

## **Board of Directors**

Our Supervisory Board elects members of our Board of Directors. Members of our Board of Directors serve four-year terms and may be re-elected. The business address of each member of our Board of Directors is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

Responsibilities of our Board of Directors primarily include:

- managing our operations, including keeping of proper accounts;
- convening and organizing the General Meeting and submitting to the General Meeting certain information, including: draft amendments to our Articles of Association; proposals to increase/decrease our share capital; annual, extraordinary, consolidated, and interim financial statements; income distribution proposals including stipulation of dividend amount, manner of payout, and due date, participation in our profit sharing by members of our Board of Directors, and amounts to be allocated to reserves or the manner of settling any losses; yearly report on our business operations and the state of our assets;

- carrying out General Meeting resolutions; and
- deciding on entering into agreements relating to the formation of business companies or acquisition of our ownership stakes in other legal entities, as well as winding up of business companies or disposing of our ownership stakes in other legal entities.

Our Board of Directors makes decisions by a simple majority of the votes of all its members. A quorum is present when a simple majority of members of our Board of Directors is present at a meeting. Each member of our Board of Directors has one vote. When necessary in matters of urgency, a decision may be made by our Board of Directors without holding a meeting. Our Board of Directors has discretion to invite to its meetings members of our other governing bodies, our employees, or other persons.

In accordance with our Articles of Association, certain decisions of our Board of Directors require the prior consent or opinion of our Supervisory Board before they can be implemented, and our Board of Directors is required to submit such decisions to our Supervisory Board for discussion and request its opinion.

Our Articles of Association provide that our Board of Directors shall comprise seven members. As of the date of this Base Prospectus one position in our Board of Directors is being vacant. Our Board of Directors is obliged to meet at least once a month. In practice, however, meetings are held almost weekly and a total of 40 meetings took place in 2016.

There are no conflicts of interest between the duties of the members of our Board of Directors to us and to their private interests or other duties.

Set out below are members of our Board of Directors as of the date of this Base Prospectus.

<b>Name</b>	<b>Born</b>	<b>Position</b>
Daniel Beneš	1970	Chairman of the Board of Directors
Martin Novák	1971	Vice Chairman of the Board of Directors
Michaela Chaloupková	1975	Member of the Board of Directors
Pavel Cyrani	1976	Member of the Board of Directors
Tomáš Pleskač	1966	Member of the Board of Directors
Ladislav Štěpánek	1957	Member of the Board of Directors

*Daniel Beneš*

*Chairman of the Board of Directors since September 15, 2011*  
*Vice-Chairman of the Board of Directors from May 21, 2008 to June 29, 2010*  
*Vice-Chairman of the Board of Directors from May 10, 2006 to May 20, 2008 and from June 29, 2010 to September 15, 2011*  
*Member of the Board of Directors continuously since December 15, 2005*  
*Last reelected with effect from December 18, 2017*

A graduate of the Technical University of Ostrava, Faculty of Mechanical Engineering, and the Brno International Business School Nottingham Trent University (MBA). He gained managerial and professional experience in such positions as Procurement Director, Chief Administrative Officer, and Chief Operating Officer of ČEZ, a. s.

Current membership in governing bodies outside CEZ Group in CEZ Group affiliates and/or joint ventures:

- Technical University of Ostrava—member of the Board of Trustees since August 14, 2009, reelected on October 1, 2015 (six-year term);
- Confederation of Industry of the Czech Republic—member of the Board of Directors and Vice-President since April 28, 2015 (four-year term); and
- ČEZ Foundation—Chairman of the Board of Trustees since May 31, 2007, member of the Board of Trustees since March 26, 2007, last reelected for the term starting on July 16, 2015 (two-year term).

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- University of South Bohemia, České Budějovice—member of the Board Of Trustees from 2011–2014; and
- Jadrová energetická spoločnosť Slovenska, a. s.—Vice-Chairman and member of the Supervisory Board from 2009–2013; and
- Czech Association of Energy Sector Employers—member of the Board of Directors from 2012–2016.

*Martin Novák*

*Vice-Chairman of the Board of Directors since October 20, 2011*

*Last reelected with effect from May 23, 2016*

*Member of the Board of Directors since May 21, 2008*

*Last reelected with effect from May 23, 2016*

A graduate of the Faculty of International Relations, University of Economics, Prague, majoring in international trade and commercial law. In 2007, he completed an Executive Master of Business Administration (MBA) program at the KATZ School of Business, University of Pittsburgh, specializing in the energy sector. He has been a member of the Czech Chamber of Tax Advisers since 1996. He gained managerial and professional experience particularly during his almost ten-year career in the oil refining industry and fuel production and distribution. In recent years he served as manager in ConocoPhillips' global headquarters in Houston, Texas as well as its London regional office. He also worked at ConocoPhillips Czech Republic s.r.o. where he served as Chief Financial Officer with responsibility for Central & Eastern Europe (in this position he also served as statutory representative for several regional branches of ConocoPhillips), and at ČEZ, a. s. as Head of Accounting.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- Burza cenných papírů Praha, a.s.—member of the Supervisory Board since June 3, 2014 (five-year term).

Martin Novák has not been a member of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years.

*Tomáš Pleskač*

*Member of the Board of Directors since January 26, 2006*

*Reelected with effect from January 28, 2014*

*1st Vice-Chairman of the Board of Directors from May 21, 2008 to June 29, 2010*

*Vice-Chairman of the Board of Directors from February 11, 2008 to May 20, 2008*

A graduate of the Faculty of Business and Economics, University of Agriculture, Brno; MBA from Prague International Business School. He gained managerial and professional experience in such positions as Chief Financial Officer for Severomoravská energetika, a. s. and Deputy Director for Finance for the Dukovany Nuclear Power Plant.

Current membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures:

- Akenerji Elektrik Üretim A.S. (Turkey)—Vice-Chairman of the Board of Directors since June 20, 2012; member of the Board of Directors since May 13, 2009; last reelected on April 26, 2016 (term expires on April 26, 2019); and
- Akcez Enerji A.S. (Turkey)—Vice-Chairman of the Board of Directors since January 1, 2015; member of the Board of Directors since July 1, 2013; reelected on March 22, 2016 (three-year term).

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- Mitteldeutsche Braunkohlengesellschaft mbH—member of the Supervisory Board from 2009–2012 (company sold); and
- CM European Power International B.V. (Netherlands)—Chairman of the Board of Directors from 2011–2015, member of the Board of Directors from 2008–2015.

*Pavel Cyrani*

*Member of the Board of Directors since October 20, 2011*

*Reelected with effect from October 21, 2015*

A graduate of the University of Economics, Prague, majoring in international trade, and the Kellogg School of Management in Evanston, Illinois (USA), where he was awarded an MBA in Finance. He gained managerial and professional experience primarily at ČEZ, a. s., where he has served since 2006, first as Head of Planning &

Controlling and Head of Asset Management and since 2011 as a member of the Board of Directors, Chief Strategy Officer, and then Chief Sales Officer. Prior to joining ČEZ, a. s., he worked at McKinsey & Company.

Pavel Cyrani is not a member of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures.

Membership in governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures ended in the past five (5) years:

- Loyalty Consulting s.r.o. (Expatriate Support s.r.o. since April 7, 2015)—Managing Director and company member from 2003–2012;
- Dalkia Česká republika, a.s. (Veolia Energie ČR, a.s. since January 1, 2015)—member of the Supervisory Board from 2010–2012;
- CM European Power International B.V.—member of the Board of Directors from 2011–2015; and
- ČEZ Energo, s.r.o.—member and Chairman of the Supervisory Board from 2014–2016.

*Michaela Chaloupková*                      *Member of the Board of Directors since October 20, 2011*  
*Reelected with effect from October 21, 2015*

A graduate of the Faculty of Law, University of West Bohemia, Pilsen, and an Executive Master of Business Administration (MBA) program at the KATZ School of Business, University of Pittsburgh, specializing in the energy sector. She gained managerial and professional experience, in particular, at Stratego Invest a.s. (later i-Tech Capital, a.s.), where she served as Head of Controlling and Vice-Chairwoman of the Board of Directors, as well as in managerial positions in Procurement and Human Resources at ČEZ, a. s.

Michaela Chaloupková is not a member, and has not been a member, of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures currently, or in the past five (5) years.

*Ladislav Štěpánek*                      *Member of the Board of Directors since June 27, 2013*

A graduate of the Faculty of Mechanical Engineering, Czech Technical University, Prague. He gained managerial and professional experience in such positions as Head of the Office of the Chief Executive Officer and the Board of Directors, and Head of Fuel Cycle at ČEZ, a. s.

Ladislav Štěpánek is not a member, and has not been a member, of any governing bodies outside CEZ Group or in CEZ Group affiliates and/or joint ventures currently, or in the past five (5) years.

### ***Chief Executive Officer and Division Heads***

At the executive employees' level, we are managed by the Chief Executive Officer and the Division Heads. The business address of our Chief Executive Officer and Division Heads is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of our Chief Executive Officer and our Division Heads to us and to their private interests or other duties.

Set out below are our Division Heads as of the date of this Base Prospectus.

<b>Name</b>	<b>Born</b>	<b>Position</b>	<b>Date of appointment</b>
Daniel Beneš	1970	Chief Executive Officer	September 15, 2011
Martin Novák	1971	Chief Financial and Operations Officer	January 1, 2016
Tomáš Pleskač	1966	Chief Renewables, Development and Distribution Officer	March 1, 2017
Ladislav Štěpánek	1957	Chief Generation Officer	July 1, 2013
Michaela Chaloupková	1975	Chief Administrative Officer	January 1, 2012
Pavel Cyrani	1976	Chief Sales Officer	January 1, 2016

*Daniel Beneš.* Mr. Beneš has been our Chief Executive Officer since September 15, 2011. For more information on Mr. Beneš, please see “*Board of Directors*” above.



*Michaela Chaloupková.* Ms. Chaloupková has been our Chief Administrative Officer (formerly Chief Purchasing Officer) since January 1, 2012. For more information on Ms. Chaloupková, please see “*Board of Directors*” above.

*Pavel Cyraní,* Mr. Cyraní has been our Chief Sales Officer since January 1, 2016. For more information on Mr. Cyraní, please see “*Board of Directors*” above.

*Ladislav Štěpánek.* Mr. Štěpánek has been our Chief Generation Officer since July 1, 2013. For more information on Mr. Štěpánek, please see “*Board of Directors*” above.

*Martin Novák.* Mr. Novák has been our Chief Finance Officer since January 1, 2008 and appointed Chief Financial and Operations Officer on January 1, 2016. For more information on Mr. Novák, please see “*Board of Directors*” above.

*Tomáš Pleskač.* Mr. Pleskač has been our Chief Foreign Assets Officer since May 1, 2014, and appointed our Chief Renewables and Development Officer since January 1, 2016.

Responsibilities of Mr. Pleskač as Chief Renewables and Development Officer were subsequently extended and the position was renamed to Chief *Renewables, Development and Distribution Officer* on March 1, 2017. For more information on Mr. Pleskač, please see “*Board of Directors*” above.

### ***Team Operations and Team Development***

In 2015, in accordance with Art. 17, sub. 1 of the Articles of Association, we established the operations team (“*Team Operations*”) and development team (“*Team Development*”). The Vice-Chairman and the Chief Finance Officer has been appointed the leader of Team Operations, and became the Chief Financial and Operations Officer. The Chief Renewables Foreign Assets Officer was appointed the Leader of the Team Development on January 1, 2016 and became Chief Renewables and Development Officer. Responsibilities attached to the position of Chief Renewables and Development Officer were subsequently extended and the position was renamed to Chief Renewables, Development and Distribution Officer on March 1, 2017.

Team Operations consists of the Chief Financial and Operations Officer, Chief Administrative Officer and Chief Generation Officer and focuses on management of mining, electricity production, heat production and distribution, finance, personal resources and procurement.

Team Development consists of the Chief Renewables, Development and Distribution Officer and Chief Sales Officer and focuses on management of sales, customer solutions, innovations, distribution and regulation, foreign country management units, mergers & acquisitions and renewable resources.

### ***Committees of Members of the Board of Directors***

Each member of the Board of Directors may set up working commissions, teams, and committees in their appointed area. Other members of the Board of Directors involved in the matters in question and relevant CEZ Group employees may participate in their work.

The following were the key committees in the CEZ Group as at the date of this Base Prospectus:

**The Committee for ČEZ, a. s. Plant Safety**, which, among other things, assesses the level and condition of plant safety at ČEZ, a. s. It assesses the quality and safety aspects of the corporate culture, current and potential safety problems, quality issues, and optimal solutions thereto. The committee is an advisory body to the Chairman of the Board of Directors (Chief Executive Officer).

**The CEZ Group Security Committee**, which, among other things, deals with CEZ Group security policies, strategies, and objectives; threats; risks; analyses of security incidents; and proposed security requirements, corrective measures, and the priorities/conditions for their implementation. The committee is an advisory body to the Chairman of the Board of Directors (Chief Executive Officer).

**The Risk Committee**, which deals with matters concerning CEZ Group’s risk management; in particular, it proposes the risk management system development strategy and adopts recommendations and opinions on venture capital management, the oversight of internal risk management, and the monitoring of the overall impact of risks on the

CEZ Group's value. The Risk Committee is an advisory body to the Vice-Chairman of the Board of Directors in charge of the Finance Division (Chief Financial Officer).

## Compensation

The remuneration of the members of the Board of Directors, the Supervisory Board, the Audit Committee, Chief Executive Officer and our Division Heads and selected managers of departments with group field activity decreased to CZK 297 million in 2016 compared with CZK 308 million in 2015.

Remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of our shareholders. In accordance with resolutions passed by our General Meeting, we enter into a membership contract with each member of these bodies. Remuneration of members of our Board of Directors, including all benefits, is approved by the Supervisory Board. In accordance with resolutions passed by our Supervisory Board, we enter into a membership contract with members of our Board of Directors. The contracts and remuneration of the Chief Executive Officer and our Division Heads are concluded by members of our Board of Directors subject to the prior consent of the Supervisory Board, unless they are members of the Board of Directors.

Remuneration and benefits received by members of our governing bodies include:

- fixed remuneration;
- annual bonus in addition to the base monthly wage; the amount of the bonus depends on fulfilment of criteria stipulated in advance;
- target remuneration based on fulfilment of specific tasks assigned by our General Meeting. Members of our Board of Directors may receive target remuneration up to six times multiple of the amount of his or her monthly remuneration;
- participation in our profit sharing by members of our Board of Directors and Supervisory Board by a decision of our General Meeting;
- stock options for members of our Board of Directors, but not for Members of our Supervisory Board or our Audit Committee;
- endowment life insurance;
- severance pay for members of our Board of Directors should their contract be terminated before it is due to expire. The severance pay amount is the aggregate total remuneration that would otherwise have been paid for the months remaining until the end of the term of their contract;
- cash settlement on compliance with a ban on competition on termination of employment for our Board of Directors; and
- passenger car, increased travel expenses and employee benefits according to the collective bargaining agreement.

Remuneration of our Chief Executive Officer and our Division Heads is determined by our Board of Directors subject to the prior consent of our Supervisory Board, unless they are members of our Board of Directors. Remuneration and benefits of our Chief Executive Officer and our Division Heads include:

- base monthly wage paid for the amount of time worked;
- annual bonus in addition to the base monthly wage. The bonus amount depends on fulfilment of criteria stipulated in advance;
- strategic bonuses tied to fulfilment of specific, long-term tasks in the areas of plant construction and renewal, and acquisition activities;
- stock options subject to a decision of our Board of Directors and the consent of our Supervisory Board;

- endowment life insurance;
- severance pay and cash settlement on termination of employment; and
- passenger car, increased travel expenses and employee benefits according to the collective bargaining agreement.

### **Share Options of Senior Management**

As of December 31, 2016, members of our Board of Directors, our Division Heads and certain departmental managers held a total of 2,512 thousand options to acquire shares of ČEZ. For information on the number of share options granted to and exercised and forfeited by our senior management in the year ended December 31, 2016, please see Note 27 of our audited consolidated financial statements for the year ended December 31, 2016.

### **Corporate Governance**

Our corporate governance is based on the recommendations of the Czech 2004 Corporate Governance Codex compiled by the former Czech Securities Commission. For information on our governing bodies, a description of how they are established, their current composition, a description of how their members are remunerated, and a summary of Supervisory Board committees, please see “*Supervisory Board - Board of Directors - Chief Executive Officer and Division Heads - Audit Committee and Compensation*” above.

In addition, we comply with all Czech Companies Act provisions regarding shareholder rights, convening our General Meetings and ensuring equal treatment of our shareholders.

Further, as an issuer of securities accepted for trading on the Warsaw Stock Exchange, we also comply with the corporate governance requirements of the Warsaw Stock Exchange.

## PRINCIPAL SHAREHOLDERS

As of December 31, 2016, the registered capital of CEZ as recorded in the Commercial Register was CZK 53,798,975,900, comprising 537,989,759 shares, each with a nominal value of CZK 100. The issue price of all shares had been fully paid up and all of the shares were booked to owner and listed.

The registered capital of CEZ is comprised exclusively of common shares, with no special rights attached. All of the shares of CEZ are admitted to trading on the Prague Stock Exchange and the Warsaw Stock Exchange and are freely transferable without any restrictions. No other securities issued by CEZ are limited in their transferability, nor are any special rights attached thereto.

In accordance with Section 309 of the Czech Companies Act, the voting rights attached to treasury shares acquired by CEZ on the basis of a General Meeting resolution are not exercised by CEZ. As of December 31, 2016, CEZ held 3,755,021 treasury shares.

The following table sets forth the shareholdings of the Czech Republic as of December 31, 2016.

Shareholder	As of December 31, 2016		
	Number of shares	% of share capital	% of voting rights
Ministry of Finance of the Czech Republic .....	375,411,276	69.8	70.3

The Czech Republic, through the Ministry of Finance, owns approximately 69.8% of the share capital of CEZ a. s., the parent company of the CEZ Group. As our controlling shareholder, the Ministry of Finance of the Czech Republic exercises shareholder rights provided for in our Articles of Association and applicable laws (including the Czech Companies Act and the Capital Market Act), which include the power to elect all members of our Supervisory Board, who in turn appoint all members of our Board of Directors. There are no mechanisms in place to prevent abuse of control over the CEZ Group by the Ministry of Finance of the Czech Republic except for provisions contained in our Articles of Association and applicable laws (including the Czech Companies Act and the Capital Market Act). For information on certain Czech statutory mechanisms which are currently in effect and preventing abuse of control by the Ministry of Finance of the Czech Republic, please see “*Related Party Transactions*”.

As of December 31, 2016, besides the Ministry of Finance of the Czech Republic there were 5 shareholders holding more than 1% of the share capital or of the voting rights of the shares of CEZ. The following table sets forth their shareholdings.

Shareholder	As of December 31, 2016	
	% of share capital	% of voting rights
Clearstream Banking S.A.....	3.21	3.23
State Street Bank and Trust Co.....	1.37	1.38
Chase Nominees Limited .....	1.33	1.34
Nortrust Nominees Limited	1.21	1.22
Brown Brothers Harriman Co.	1.05	1.05

Data in the table above is based on the information provided by the Czech Central Securities Depository. The shareholders holding more than 1% of the share capital or of the voting rights of the shares of CEZ mentioned in the table above might hold the shares of CEZ on behalf of other entities or individuals.

To the best of our knowledge, as of the date of this Base Prospectus, no agreements exist that could change the control structure of the Issuer at any date.

## RELATED PARTY TRANSACTIONS

The relationships between us and our related parties, identified according to the principles of International Accounting Standard 24 (“IAS 24”), primarily consist of business transactions relating to the sale and purchase of products, goods and services. They fall within the activities carried out by us in the ordinary course of our business. Please see Note 33 of our audited consolidated financial statements as of and for the year ended December 31, 2016, incorporated by reference into this Base Prospectus, for information on our related party transactions.

Our transactions with the related parties are regulated by the Czech Companies Act, which provides for comprehensive regulation of rules concerning related party transactions and conflicts of interest between a company and members of its board of directors or supervisory board (and persons close to such members). The Companies Act provides the following rules for joint stock companies (such as CEZ):

- if the value of the assets to be acquired by a joint stock company, within two years of its incorporation, from its shareholder or founder exceeds one tenth of the company’s registered capital, the price for the transferred assets shall not exceed the value determined by an independent expert and the transfer shall be approved by a general meeting, unless such transaction is entered into in the ordinary course of company’s business or on a regulated market or supervised by a state authority;
- members of a board of directors and a supervisory board and a procurist are obliged to notify the supervisory board or the general meeting that such members (or persons close to them) have or could have a conflict of interest; the notification obligation also exists if the joint stock company is to secure or affirm debts, or to become a co-debtor in relation to a member of the board of directors or the supervisory board or a procurist (or a person close to such member);
- the supervisory board (or the general meeting) is entitled, depending on the circumstances, to either suspend the execution of the post of the relevant member of the board of directors or the supervisory board or procurist prohibit the legal steps (such as the conclusion of an agreement or the provision of security) in connection with which the conflict of interest occurred or threatens to occur; and
- a failure to notify a potential conflict of interest, or conduct that is in conflict with a supervisory board or general meeting decision on a suspension of the execution of a post or a prohibition of carrying out legal steps, constitutes a breach of due managerial care and the relevant member of the board of directors or the supervisory board or procurist would be liable to the joint stock company for such breach.

### Our Related Party Transactions

We conduct transactions with the following related parties:

- our joint ventures;
- our affiliates;
- the Ministry of Finance and companies controlled by it; and
- certain members of our senior management or with certain companies over which we or our senior management may have a significant influence.

We believe that we conduct our business with these companies and individuals in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in us, if we did not have equity holdings in them, if they were not members of our senior management, or if we or our senior management did not have significant influence over them, as the case may be. With the exception of transactions with our joint ventures and other affiliates, none of these transactions is or was material to us or, to our knowledge, to the other party.

In our opinion, all agreements with related parties are conducted on an arm’s length basis and we believe that all of the transactions between us and related parties take place at market prices.

## Transactions with Joint Ventures and Other Affiliates

We enter into transactions with joint ventures and affiliates. The profits from such transactions are eliminated in proportion to the share that we have in such joint ventures and affiliated companies. We believe that all of these transactions take place at arm's length. For a list of our joint ventures, please see Note 9 of our audited consolidated financial statements for the year ended December 31, 2016.

The following table summarizes the sales to and purchases from related parties for the years 2015 and 2016.

	Sales to Related Parties for the year ended December 31,		Purchases from Related Parties for the year ended December 31,	
	2015	2016	2015	2016
<b>Joint-ventures and other affiliates:</b>				
	(CZK in millions)			
Akcez Enerji A.S.....	41	29	-	-
Akernerji Elektrik Üretim A.S.....	39	33	-	-
ČEZ Energo, s.r.o. ....	384	269	293	51
in PROJEKT LOUNY ENGINEERING s.r.o.....	22	28	16	36
LOMY MOŘINA spol. s r.o.....	11	11	169	189
OSC, a.s.....	-	-	129	121
Teplo Klášterec s.r.o. ....	55	56	-	1
Ústav aplikované mechaniky Brno, s.r.o.....	2	2	37	57
Výzkumný a zkušební ústav Plzeň s.r.o. ....	70	2	8	9
Others .....	110	58	41	35
<b>Total .....</b>	<b>734</b>	<b>488</b>	<b>693</b>	<b>499</b>

The following table summarizes the receivables from, and payables to related parties as of December 31, 2015 and 2016.

	Receivables as of December 31,		Payables as of December 31,	
	2015	2016	2015	2016
<b>Joint-ventures and other affiliates:</b>				
	(CZK in millions)			
Akcez Enerji A.S.....	10	8	-	-
CM European Power Slovakia s.r.o. <sup>1</sup> .....	494	-	-	-
ČEZ Energo, s.r.o. ....	127	48	35	11
in PROJEKT LOUNY ENGINEERING s.r.o.....	13	14	9	9
LOMY MOŘINA spol. s r.o.....	-	1	21	22
OSC, a.s.....	-	-	32	18
Ústav aplikované mechaniky Brno, s.r.o.....	1	1	24	32
Výzkumný a zkušební ústav Plzeň s.r.o. ....	58	55	3	8
Others .....	103	12	16	8
<b>Total .....</b>	<b>806</b>	<b>139</b>	<b>140</b>	<b>108</b>

<sup>1</sup> Company was a related party until November 30, 2016

As of December 31, 2015 and 2016, guarantees provided to joint-ventures amounted to CZK 2,998 million and CZK 3,212 million, respectively (see Note 19.2 of our audited consolidated financial statements for the year ended December 31, 2015 and 2016).

## Transactions with the Ministry of Finance of the Czech Republic and the companies controlled by it

The Czech Republic, through the Ministry of Finance, owns approximately 69.8% of the share capital of CEZ. For detailed information on the interest held by the Czech Republic in our share capital, please see “*Principal Shareholders*”.

In the ordinary course of business, we enter into transactions with the Ministry of Finance of the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises. Due to the large number of such entities and of transactions carried out by them, the limitations of the reporting system adopted by the CEZ Group and the immateriality of such transactions to our results, we believe that the presentation of such transactions is not necessary for an accurate view of the financial situation of the CEZ Group. However, we believe that all of the transactions between us and the Ministry of Finance of the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises take place on an arm's length basis.

For example, in 2015 and 2016, in connection with our dividend policy, we paid dividends to the Ministry of Finance of the Czech Republic in the amount of CZK 15,016 million and CZK 15,016 million, respectively. CEZ and its fully consolidated subsidiaries in the Czech Republic are taxpayers and pay taxes to the Ministry of Finance of the Czech Republic. The terms and regulations applicable to the CEZ Group in this respect are identical to those applicable to other commercial entities in the Czech Republic. On June 25, 2010, an agreement was entered into between CEZ, and ČEPRO, a.s. (the Ministry of Finance of the Czech Republic is the sole shareholder of ČEPRO, a.s.) for the storage, purchase and sale of fuel from July 1, 2011 to June 30, 2019. The intention of this agreement was to secure the storage, stocking, filling and release of diesel fuel owned by ČEPRO, a.s. in tanks located in buildings of the Dukovany Nuclear Power Plant and Temelín Nuclear Power Plant. In 2015, CEZ concluded three agreements with ČEPRO, a.s. for delivery of TOLEX in December 2015 and five agreements for the delivery of gasoline. In 2016, CEZ concluded another agreement with ČEPRO, a.s. for the delivery of TOLEX. In addition, in 2014, 2015 and 2016 CEZ was a party to seven agreements with Kongresové centrum Praha, a.s. (the Ministry of Finance of the Czech Republic is 54.35% shareholder of Kongresové centrum Praha, a.s. and the City of Prague is 45.65% shareholder of Kongresové centrum Praha, a.s.) on lease of commercial premises, among others for the purpose of organising CEZ's general meetings in 2014, 2015 and 2016 in those premises and for providing some related support services (e.g. catering). All of these agreements were entered into at arm's length and the consideration provided complied with customary business terms.

## **TAXATION**

**The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of any Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities) may be subject to special rules.**

*Prospective purchasers of any Notes are advised to consult their own tax advisors as to the tax consequences, under the tax laws of each country of which they are residents and the Czech Republic, of a purchase of Notes including, without limitation, the consequences of receipt of interest and sale or redemption of the Notes or any interest therein.*

### **Taxation in the Czech Republic**

The information set out below is a summarized description of certain material Czech tax consequences of the purchase, holding and disposition of Notes and it does not purport to be a complete analysis of all Czech tax considerations relating to the Notes that may be relevant to a decision to purchase the Notes. This summary does not take into account or discuss the tax laws of any country other than the Czech Republic nor does it take into account specific double taxation treaties nor the individual circumstances, financial situation or investment objectives of an investor in the Notes.

This summary is based on the tax laws of the Czech Republic as in effect on the date of this Base Prospectus and their prevailing interpretations available on or before such date. All of the foregoing is subject to change, which could apply retroactively and could affect the continued validity of this summary.

As this is a general summary, holders of the Notes should consult their own tax advisors as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of the Czech Republic concerning the purchase, holding and disposition of the Notes and receiving payments of interest, principal and/or other payments under the Notes, including, in particular, the application to their own situation of the tax considerations discussed below as well as the application of state, local, foreign or other tax laws.

The information set out below in this section “Taxation in the Czech Republic”, except for section “Taxed Notes”, shall only apply to the Notes that:

- are issued outside of the Czech Republic; and
- are considered solely for Czech tax purposes as bonds (in Czech *dluhopis*) (i.e., the Notes the nominal amount of which is determined as a specific amount and under which the Issuer is obliged to pay to the Noteholder, on or before the Maturity Date, 100% of the nominal amount of the Notes).

Description of certain material Czech tax consequences of the Notes, which are not considered for Czech tax purposes as bonds, are described below in section “Taxed Notes”.

### ***Withholding Tax on Interest***

Assuming that the Notes are issued outside of the Czech Republic, all interest payments to be made by us under the Notes issued outside the Czech Republic may be made free of withholding or deduction of, for or on the account of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Czech Republic or any political subdivision or taxing authority thereof or therein.

### ***Non-Czech Holders, Holding and Sale***

Assuming that the Notes are issued outside of the Czech Republic, interest income on the Notes held by an individual who is not for tax purposes treated as a resident of the Czech Republic or by a taxpayer (other than an individual) who is not for tax purposes treated as a resident of the Czech Republic, a “Non-Czech Holder,” will be exempt from taxation in the Czech Republic.



Income realized by Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to other Non-Czech Holders, not purchasing the Notes through a permanent establishment in the Czech Republic, will not be subject to taxation in the Czech Republic.

Income realized by Non-Czech Holders, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes to an individual who is for tax purposes treated as a resident of the Czech Republic or to a taxpayer (other than an individual) who is for tax purposes treated as a resident of the Czech Republic, a “Czech Holder,” or to a Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic, unless:

- the Non-Czech Holder realizing that income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country, is the beneficial owner of that income, is entitled to enjoy the benefits of that double taxation treaty and does not have a permanent establishment in the Czech Republic to which the income would be attributable; or
- the Non-Czech Holder who is an individual has held the Notes for more than three years prior to their sale and the Notes have not been held in connection with business activities of the Non-Czech Holder and if so, the Notes will be sold after three years following the termination of such business activities at the earliest. Furthermore, income from the sale of the Notes realized by an individual is also exempt from taxation, if the annual (worldwide) income of that individual from the sale of securities (including the Notes) does not exceed the amount of CZK 100,000.

Income realized by Non-Czech Holders, holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes will be subject to taxation in the Czech Republic regardless of the status of the buyer.

If income realized by a Non-Czech Holder, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), the Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying the income will be obliged to withhold an amount of 1% on a gross basis representing tax security, unless the Non-Czech Holder selling the Notes is for tax purposes a resident of a member state of the European Union or the European Economic Area or unless the obligation to withhold is waived based on a tax authority decision. The tax security shall be credited against the final tax liability of the Non-Czech Holder selling the Notes.

A Non-Czech Holder will not become or be deemed to become a tax resident in the Czech Republic solely by reason of holding of the Notes or the execution, performance, delivery and/or enforcement of the Notes.

### ***Czech Holders, Holding and Sale***

Interest income on the Notes held by Czech Holders is subject to Czech corporate and personal income tax, as applicable, at the flat rates of 19% and 15%, respectively, and is payable on a self-assessment basis (in the case of Czech Holders who are individuals, the reporting obligation, in addition to whether the interest income shall be declared on a cash or an accrual basis, will depend on the individual’s circumstances in each case). Czech Holders that are subject to Czech accounting standards for entrepreneurs (most companies other than financial or insurance institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (including, in particular, banks) will be required to recognize the interest income on an accrual basis for accounting purposes and, accordingly, include it in their general tax base for Czech income tax purposes in the given period.

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Notes for the purposes of trading may be, under certain conditions, required to revalue the Notes to fair value for accounting purposes, whereby the unrealized gains or losses would be accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax deductible for Czech tax purposes.

Any gains upon a sale of the Notes will generally be taxable at the above mentioned rates (in case of individuals who have held the Notes in connection with their business activities, a solidarity surcharge of 7% may also apply) and in the case of Czech Holders who keep accounting books (in principle, all legal entities and certain

individuals), any losses will generally be tax deductible. By contrast, a loss realized by Czech Holders who are individuals (other than those mentioned in the preceding sentence) is generally non-deductible, except where such losses are compensated by taxable gains on sales of certain other securities and the income from the sale of the Notes is not exempt from tax. In the case of Czech Holders who are individuals, any gain derived from the sale of the Notes is exempt from Czech personal income tax if the holding period of the Notes exceeds three years and the Notes have not been held in connection with the business activities of the Czech Holders and, if so, the Notes will be sold after three years following the termination of such business activities at the earliest. Furthermore, income from the sale of the Notes realized by an individual is also exempt from taxation, if the annual (worldwide) income of that individual from the sale of securities (including the Notes) does not exceed the amount of CZK 100,000.

### ***Reporting Obligation***

A Noteholder (Czech and Non-Czech) who is an individual may be obliged to report to the Czech tax authority any income earned in connection with the Notes (including interest income or income from sale) if such income is exempted from taxation in the Czech Republic and exceeds, in each individual case, CZK 5 million (the “*Reporting Obligation*”). Although the Reporting Obligation is not imposed on certain tax exempt incomes that are recorded in registers available to the Czech tax authority, as specified by the tax authority, as at the date of this Base Prospectus, the tax exempt income earned in connection with the Notes has not been excluded from the Reporting Obligation. Non-compliance with the Reporting Obligation may be penalized by a sanction of up to 15% of the gross amount of the tax exempt income.

### ***Taxed Notes***

This section describes the tax treatment of the Notes, which are not considered for Czech tax purposes as bonds (in Czech *dluhopis*) (“*Taxed Notes*”).

Subject to the specific terms and conditions set out in the Pricing Supplement, certain Notes, including Index Linked Redemption Notes, may be considered as Taxed Notes and therefore, subject to taxation in the Czech Republic as described below.

It is not possible to exclude that Czech corporate or personal income tax will apply to Noteholders’ income from the Taxed Notes. In addition to the provisions of Czech taxation described in the sections above for Notes not considered as Taxed Notes, Czech withholding tax may apply to the payment of interest in respect of the Taxed Notes. The Issuer may be required to withhold tax at 15% (which may be decreased by an applicable double taxation treaty) or 35% from payments of interest in respect of the Taxed Notes. If the withholding tax does not apply, the Issuer may be required to withhold tax security at 10% from the gross amount of interest income payable to Non-Czech Holder. A double taxation treaty may provide for protection from this tax security.

Furthermore, if the withholding tax does not apply, the interest income on the Taxed Notes may be subject to Czech corporate and personal income tax, as applicable, at the flat rates of 19% and 15%, respectively, payable on a self-assessment basis (tax security withheld, if any, would be credited against the declared tax liability).

### ***Value Added Tax***

There is no Czech value added tax payable in respect of payments in consideration for the issue of the Notes, or in respect of the payment of interest or principal under the Notes, or in respect of the transfer of the Notes.

### ***Other Taxes or Duties***

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic by a Non-Czech Holder or a Czech Holder in respect of or in connection with the purchase, holding or disposition of the Notes, save for disposition in certain cases upon donation or inheritance.

### ***Luxembourg Taxation***

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes

should therefore consult their own professional advisors as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

### ***Withholding Tax***

#### ***Non-Resident Holders of Notes***

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

#### ***Resident Holders of Notes***

Under Luxembourg general tax laws currently in force and subject to the law of December 23, 2005 as amended (the “*Relibi Law*”) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 20%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of 20%.

### **FATCA Disclosure**

#### ***Foreign Account Tax Compliance Act***

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” (as defined by FATCA) may be required to withhold on certain payments it makes (“foreign pass thru payments”) to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the Czech Republic) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to January 1, 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign pass thru payments are published in the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under “*Terms and Conditions of the Notes — Further Issues*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## **The Proposed Financial Transactions Tax (“FTT”)**

On February 14, 2013, the E.U. Commission published a proposal (the “*Commission’s Proposal*”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “*participating Member States*”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement dated April 21, 2017 (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the “*Amended and Restated Programme Agreement*”), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Amended and Restated Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### United States

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms (or applicable Pricing Supplement in the case of Exempt Notes) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the U.S. Securities Act.

Each issuance of Exempt Notes which are also Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

### The Czech Republic

The Base Prospectus has not been and will not be approved by the Czech National Bank. No action has been taken in the Czech Republic (including the obtaining of the Base Prospectus approval from the Czech National Bank and the admission to trading on a regulated market (as defined in Section 55(1) of the Capital Market Act)) for the purposes of any Notes to qualify as securities admitted to trading on the European regulated market within the meaning of the Capital Market Act.

Each Dealer will be required not to offer or sell any Notes in the Czech Republic through a public offering (in Czech *veřejná nabídka*), except if in compliance the Capital Market Act. Public offering means, under the Capital Market Act, any communication to a broader circle of persons containing information on the securities being offered and the terms under which they may acquire the securities and which are sufficient for the investor to make a decision to subscribe for, or purchase, such securities.

Each Dealer will be required to represent and agree with the Issuer and each other Dealer that it has complied with and will comply with all the requirements of the Capital Market Act and has not taken, and will not take, any action which would result in the Notes being deemed to have been issued pursuant to Czech law or in the Czech Republic, the issue of the Notes being classed as “accepting of deposits from the public” by the Issuer in the Czech Republic under Section 2(2) of Act of the Czech Republic No. 21/1992 Coll., on Banks, as amended, (the “*Banks Act*”) or requiring a permit, registration, filing or notification to the Czech National Bank (including approval to or passport of this Base Prospectus and other than notifications described under “*General Information—Notification to the Czech National Bank*”) or other authorities in the Czech Republic in respect of the Notes in accordance with the Capital Market Act, the Banks Act or the practice of the Czech National Bank.

Each Dealer will be required to represent and agree with the Issuer and each other Dealer that it has complied with and will comply with all the laws of the Czech Republic applicable to the conduct of business in the Czech Republic (including the laws applicable to the provision of investment services (within the meaning of the Capital Market Act) in the Czech Republic) in respect of the Notes.

Each Dealer will be required to represent and agree with the Issuer and each other Dealer that no action has been taken by it or will be taken by it which would result in the issue of any Notes being considered an intention to manage assets by acquiring funds from the public in the Czech Republic for the purposes of collective investment pursuant to a defined investment policy in favour of the investors under the Act of the Czech Republic No. 240/2013 Coll., on Management Companies and Investment Funds, (the “*MCIFA*”), which implements the Directive 2011/61/EU. Each Dealer will be required to represent and agree with the Issuer and each other Dealer that any issue, offer or sale of any Notes by it has been or will be carried out in strict compliance with the MCIFA.

#### **Prohibition of sales to EEA Retail Investors**

From January 1, 2018, unless the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms (or Pricing Supplement, as the case may be) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “*retail investor*” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “*MiFID II*”); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “*Insurance Mediation Directive*”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression an “*offer*” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Prior to January 1, 2018, and from that date if the Final Terms in respect of any Notes (or Pricing Supplement, in the case of Exempt Notes) specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “*Relevant Member State*”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “*Relevant Implementation Date*”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer of Notes to the public*” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “*Prospectus Directive*” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “*FIEA*”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949 as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not directly or indirectly offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.



## GENERAL INFORMATION

### Authorization

The establishment of the Programme and the issue of Notes have been duly authorized by resolutions of the Board of Directors of the Issuer dated May 28, 2007, February 14, 2011 and April 10, 2012 and resolutions of the Supervisory Board of the Issuer dated June 28, 2007 and February 24, 2011 (see also “*Overview of the Programme – Programme Size*”).

### Listing, Approval and Admission to Trading of Notes

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

### Notification to the Czech National Bank

Pursuant to Section 8a of Czech Act No. 15/1998 Coll., on Capital Markets Supervision, as amended, the issuance of each Series and/or Tranche of the Notes must be notified to the Czech National Bank no later than on the date of issue of the relevant Notes setting out the place of issue and amount of relevant Series or Tranche and the form, yield and maturity of the relevant Notes.

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and Luxembourg:

- (a) the Articles of Association (with an English translation thereof) of the Issuer;
- (b) the consolidated audited financial statements of the CEZ Group in respect of the financial years ended December 31, 2015 and December 31, 2016 and the non-consolidated financial statements of the Issuer in respect of the financial year ended December 31, 2016. We currently prepare audited consolidated and non-consolidated accounts on an annual basis;
- (c) the most recently published audited annual consolidated financial statements of the CEZ Group and audited annual non-consolidated financial statements of the Issuer and the most recently published unaudited consolidated interim financial statements (if any) of the CEZ Group and unaudited non-consolidated interim financial statements (if any) of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. We currently prepare unaudited consolidated and non-consolidated interim accounts on a quarterly basis;
- (d) the Amended and Restated Agency Agreement and the Deed of Covenant, including the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (e) a copy of this Base Prospectus;
- (f) the Previous Terms and Conditions; and
- (g) any future offering circular, prospectuses, information memoranda, supplements to this Base Prospectus, Final Terms and Pricing Supplements (in the case of Exempt Notes) (save that Pricing Supplements will only be available for inspection by a holder of such Notes and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its identity and holding of such Notes) and any other documents incorporated herein or therein by reference.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes). If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### **Conditions for Determining Price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Significant Change or Material Adverse Change**

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries since December 31, 2016 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since December 31, 2016.

As of the date of this Base Prospectus, there are no recent events particular to the Issuer which are to a material extent relevant to the evaluation of its solvency.

### **Litigation**

Except as described on pages 147–154 under the heading “*Legal Proceedings*” neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Base Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or any of its subsidiaries.

### **Auditors**

The auditors of the Issuer are Ernst & Young Audit, s.r.o., a member of the Chamber of Auditors of the Czech Republic, who have audited the Issuer’s consolidated as well as non-consolidated financial statements, without qualification, in accordance with International Standards on Auditing for each of the two financial years ended on December 31, 2015 and December 31, 2016, respectively. The auditors of the Issuer have no material interest in the Issuer.

### **Post-Issuance Information**

The Issuer does not intend to provide any post-issuance information, except if required by any applicable laws or regulations.

### **Yield**

In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

### **Dealers Transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

## REGISTERED OFFICE OF THE ISSUER

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## AUDITORS OF THE ISSUER

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