



Proposal of Updated Wording of Business Policy of CEZ Group and ČEZ, a. s., presented by the Board of Directors to the General Meeting of the Company held on 26. 6. 2019 for approval

BUSINESS POLICY OF CEZ GROUP AND ČEZ, a. s.

Contents:

Introduction

1. CEZ Group's Mission and Vision
2. CEZ Group's Business Activities
3. Business Concept and Strategic Priorities of CEZ Group

Introduction

The purpose of the business policy is to define, in accordance with the Articles of Association, the framework of business activities to be pursued by CEZ Group as well as the parent company, ČEZ, a. s.

The business policy fundamentally defines a direction of CEZ Group's business activities, formulates its business vision and mission, and sets forth specific strategies for each of the business areas. In doing so, the policy reflects CEZ Group's current condition, situation in the relevant markets, and expected future developments including potential opportunities and risks.

The situation in the electricity market is marked with significant uncertainty, in particular as to the future developments in the European energy sector. While the first decade of the 21st century was marked by a clear trajectory toward market liberalization, integration and deregulation, with energy decarbonization receiving strong support, in the second decade we have witnessed contrary trends, in particular market fragmentation and the rise of influence of local energy regulation. This situation has brought significant risks in particular with respect to long-term investment policy since it is very difficult to estimate future developments for more than just a few years ahead.

Therefore, the business policy effective since 2014 placed a greater emphasis on renewable sources and decentralized energy apart from activities in the traditional energy industry. Geographically, CEZ Group's development strategy focused more on the Czech Republic and other stable markets in Central and Western Europe, in particular on Germany and France.

CEZ Group expects the third decade to be symbolized by further development of renewable sources and decentralized energy, both made possible by fast technology development. The European Commission has already approved another set of ambitious goals for 2030 to reduce CO₂ emissions, increase the share of energy generated from renewable sources and assure greater energy savings. The Czech Republic is going to gradually implement its climate-energy plan to achieve its specific objectives. In terms of decentralized energy generation, one common attribute is more active involvement of customers in energy management, complemented with the digitalization of specific areas of the energy sector and a rising degree of electrification (i.e. the share of electricity) in transport, heating and industrial production. At the same time, there is an ever greater emphasis on sustaining and renewing the traditional power generation portfolio. For this purpose, various countries have been introducing new legislative models – capacity markets, strategic reserves, electricity feed-in contracts etc.

CEZ Group has responded to these trends by updating its business policy.

This updated business policy fully replaces the business policy of CEZ Group and ČEZ, a. s., which was approved by the General Meeting of ČEZ, a. s., on June 27, 2014.

ČEZ is a long-respected energy group in the European market

1. CEZ Group's Mission and Vision

Mission:

We supply safe, reliable and positive energy to our customers and the entire society.

Vision:

We bring innovation to solve energy needs and contribute to a better quality of life.

2. CEZ Group's Business Activities

The primary business activity is the generation, distribution, trade and sale of electricity and heat, coal mining, trade and sale of natural gas, and providing comprehensive energy services.

In terms of sales, earnings, capital expenses and headcount, CEZ Group is involved in the following core business activities:

- Nuclear power and heat generation
 - Electricity from nuclear sources is generated with a high degree of reliability and efficiency, with operation safety being of top priority.
- Traditional power and heat generation and coal mining
 - Effective and reliable power and heat generation from traditional sources and brown coal mining are ensured while minimizing environmental impacts.
 - Coal used for energy generation is mined primarily to cover the needs of our power plants, with free capacity supplied to the market, where CEZ Group is a major supplier of sorted coal in particular.
- Electricity generation from renewable sources
 - Dynamically and effectively develop power generation from renewable sources in order to gain and use relevant important know-how to gradually transform in particular the Czech energy sector to one with long-term sustainable and emission-free sources, considering the global trend of decarbonization and the growing share of electricity generated from renewable energy sources.
- Trading in electricity and commodities in wholesale markets
 - Demand for power and auxiliary services is effectively covered using our own resources and, if need be, electricity is bought in the wholesale market.
 - Respond effectively to price fluctuations on the commodity exchange in order to generate additional value and profit for the company.
- Electricity distribution
 - Distribute electricity to all consumers with the required delivery reliability and safety, ensuring high customer satisfaction at reasonable costs in accordance with the regulatory framework.
- Sale of electricity, gas and other energy management solutions
 - Sell power, gas and non-commodity products and services related to comprehensive energy needs of our customers with maximum efficiency and reliability to ensure high customer satisfaction, which is of utmost priority.
- Providing energy services
 - Provide energy services to customers from among corporations, municipalities, state institutions and households in response to the gradual trend of energy decentralization and ever more comprehensive energy needs.

Apart from the aforementioned core business areas, CEZ Group also focuses on developing new industries with a promising potential in the future energy system with the objective of entering these industries in the early maturity phase. Furthermore, CEZ Group provides auxiliary information and communication technology services, non-technology asset management services and corporate services.

As part of its business activities, CEZ Group also promotes the principles of sustainable development and social responsibility. CEZ Group strives to improve the quality of life of the entire society in the country, primarily by supporting publicly beneficial objectives and cooperating closely with municipalities, cities and regions. The specific actions taken to promote sustainable development, with clearly defined goals, measures, responsibilities and expected results, are described in a separate document.

3. Business Concept and Strategic Priorities of CEZ Group

CEZ Group sees its main opportunities in improving the energy security of the Czech Republic, upgrading the Czech energy sector, and fulfilling the Czech Republic's climate and energy plan, which reflects the EU's objectives, and in the ongoing interconnection of Czech industry and trade with the neighboring countries. These opportunities are addressed by CEZ Group's main strategic priorities, which are listed below:

1) Effective operation, optimal use and development of power generation portfolio

Effectively manage nuclear power plants and surface coal-mine power plants; prepare conditions to build a new nuclear source in order to improve the energy security and decarbonize the power generation portfolio of the Czech Republic.

2) Modern distribution and care for the energy needs of our customers

Modernize and digitalize distribution and sale in the Czech Republic with a view to our customers' needs in the context of the Czech energy sector's development.

3) New energy development in the Czech Republic

Develop energy services and renewable sources in the Czech Republic and use the conditions and requirements defined in the climate and energy plan of the Czech Republic.

4) Energy service development in Europe

Develop energy services abroad with the objective of attaining a significant position in other European markets that are close to the Czech Republic.

These main strategic priorities are further described in detail in the specific strategies for each of the core business activities of CEZ Group.

- Nuclear power and heat generation
 - In accordance with the international practice, constantly improve the level of safety.
 - Ensure conditions for the long-term operation of nuclear power plants.
 - Continuously ensure optimum availability of our nuclear portfolio.
 - Ensure that staff are prepared to operate our existing sources and develop and build new nuclear sources.
 - Prepare projects for new nuclear sources depending on the market and legislative conditions of the Czech Republic and the EU.
- Traditional power and heat generation and coal mining
 - Effectively manage our portfolio of surface coal-mine power plants, heat plants and coal mines all the way to electricity supply.
 - Effectively operate and gradually reduce the portfolio of coal-fired power plants outside mining regions.
 - Develop back-up sources according to the energy needs of the Czech Republic and the developments on the capacity markets.
 - Effectively accommodate demand for electricity and auxiliary services from our own sources and, if need be, purchase relevant commodities on the exchange.
 - Utilize opportunities on commodity exchanges in order to generate additional value.

- Electricity distribution
 - Contribute to setting market rules and the regulatory environment so that they reflect the needs of the distribution grids, are motivating for grid operators, and ensure a reasonable return on investment to ensure secure and reliable power supply and high customer satisfaction.
 - Ensure the required return on invested capital and assets.
 - Set an optimum ratio of financing regulated assets in view of the relevant regulation.
 - Seek growth investments in smart and innovative solutions focusing on the Smart Grid, integration of electromobility and decentralized renewable energy sources.
 - Promote the development of new business models in electricity distribution.
 - Digitally transform operations and make the segment more attractive for a new generation of employees by ensuring an effective and modern organization.
- Sale of electricity, gas and other energy management solutions
 - Maintain a leading position in the energy markets, in particular in the Czech Republic.
 - Extend the base of satisfied customers by offering non-commodity products and services that meet their needs in energy management.
 - Strengthen our position among companies with the best customer service in the market.
 - Digitalize processes across the entire sales chain and optimize operating expenses.
- Electricity generation from renewable sources
 - Assess the potential for developing an effective utilization of renewable sources and speed up their development also with a view to the adopted EU climate and energy package, all that with the objective of gradually increasing the share of electricity generated from these power generation facilities of CEZ Group, in particular in the Czech Republic.
 - Build an effective structure to cover an entire chain of activities connected with developing renewable sources in particular in the Czech Republic.
 - Attain a significant position in the Czech Republic in generating and supplying heat from renewable energy sources.
- Providing energy services
 - Continue to pursue the strategy of fast growth and the consolidation of energy service markets in the Czech Republic and other European markets close to the Czech Republic.
 - Build a unique sales and engineering team and offer innovative products that will enable customers to cut their energy costs and increase comfort in industrial processes, heating and cooling, lighting, mobility and other areas.
- Other innovative activities in energy-related areas
 - Systemically seek and use suitable innovations in terms of technologies, new products and services and business models related to energy.
 - Continue to identify new customer needs in energy-related areas on the one hand and new technologies on the other hand, all to facilitate the provisioning of innovative solutions to energy needs.
 - Create favorable contractual and/or ownership alliances with other producers, traders, suppliers and customers as well as with research organizations, incubators and technology investment funds in energy-related areas.

In parallel to implementing our strategies in the core business areas, we also want to continue to optimize the ownership structure of our existing assets and carry out effective exit strategies in risky and non-prospective markets and energy sector segments.

Apart from the aforementioned key strategic priorities, there are other cross-sectional areas that are key for CEZ Group and that are instrumental in our effective achievement of the set goals, contributing to CEZ Group being perceived as a trustworthy, stable and successful company not only in the Czech Republic, but also in Europe.

Key Areas for Fulfilling Main Strategic Priorities:

▪ Human Resources

The objective is to maintain and develop a team of qualified professionals, capable and high-performing employees who identify themselves with the principles of our corporate culture.

It is our priority that our employees:

- Act in accordance with our corporate values and maintain the required level of security, performance, innovation, expertise and cooperation;
- Are motivated to achieve our strategic objectives, mission and vision of CEZ Group;
- Are able and willing to adapt to changes;
- Continuously develop their expertise and are willing to share their knowledge and experience;
- Take the courage and have the ability to make decisions in accordance with the mission and business concept of the Group.

CEZ Group wants to be one of the most attractive employers and successfully foster a sufficient number of qualified candidates in the labor market in the long run. The structure, capabilities and numbers of employees in CEZ Group are continuously optimized so that we achieve our strategic objectives.

▪ Raw Materials

CEZ Group aims at using primary sources of energy, including renewable ones, in order to ensure long-term optimization of the use of the raw materials available in our country.

As part of its business activities, CEZ Group strives to ensure the following in respect of raw materials:

- Use competitive advantages of the Czech fuel and raw-material base;
- Effectively use exploitable supplies of fuels, prepare and implement a program for reclaiming and recultivating land to eliminate the effects of coal mining;
- Optimally diversify the fuel base and ensure long-term fuel supply for our own power generation portfolio;
- Implement streamlining measures to improve power generation source efficiency in order to reduce emissions, including greenhouse gases.

▪ Capital

The objective is to ensure a long-term optimum return on the capital invested by shareholders, strive to sustain the growth of our market capitalization and maintain long-term financial stability.

To attain its long-term goals, CEZ Group uses the following primary tools:

- Responsibly allocate capital in accordance with our debt capacity and the principle of business risk diversification;
- Maintain a transparent and trustworthy dividend policy;
- Create liquid financial reserves (in particular for the future decommissioning of nuclear facilities);
- Use appropriate financial instruments and business models to develop our business, in particular in decentralized energy and new products and services for our customers.

CEZ Group carries out all its activities with a view to financial effectiveness and considering the financial standing of all CEZ Group member companies, always ensuring a smooth cash flow and optimum capital structure in order to maintain a corresponding credit rating of the parent company.

- CEZ Group's Management

CEZ Group strives to apply a highly effective management system, ensure a transparent environment on all management levels, and use leadership to create conditions for high performance, with all of that leading to long-term prosperity.

Apart from the business policy, other key management instruments used in CEZ Group include strategic programs, segment strategies, business plans and annual budgets, which specify the approved business policy elements, among other things, by means of key performance indicators.