



# BUSINESS POLICY OF CEZ GROUP AND ČEZ, A. S.

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## Introduction

The purpose of the Business Policy is to define, pursuant to the Articles of Association of the individual companies, the range of business activities for CEZ Group as well as for the parent company ČEZ, a. s. The concept provides basic direction to the CEZ Group, defines its business vision and mission, and sets the strategic focus for the individual areas of activity. This update reflects the current situation of the CEZ Group, the situation in the relevant markets, and expected future developments, including potential opportunities and risks.

The situation in the electricity market is characterised by considerable uncertainty, especially concerning the prospects of the European power market. While the first decade of the 21st century was typical of a clear trend towards liberalisation, integration and deregulation of markets and strong support for the decarbonisation of power generation; at the beginning of the second decade we are witnessing opposite trends, especially market fragmentation and increasing local regulations. This situation is accompanied by significant risks, especially for long-term investments, since it is extremely difficult to project future developments for more than a couple of years.

The CEZ Group addresses these trends by increasing the efficiency of its existing assets and consolidation in its key markets, by actively focusing on any growth opportunities in the main and related business areas, and last but not least, by developing new opportunities in the medium and long term horizon.

## **CEZ Group will always be a respected European energetic group**

### **1. CEZ Group mission and vision**

**CEZ Group mission: We provide safe, secure and positive energy for customers and society.**

**CEZ Group vision: Bringing innovation to solving energy needs and contributing to a better quality of life.**

### **2. CEZ Group scope of business**

**The primary business activity is generating, buying, distributing, and selling electrical power.**

The most important CEZ Group business activity is the generation, purchase, distribution and sale of electricity to the customers across all segments. This activity generates the dominant volume of revenues. Electricity is produced with high reliability, efficiency, with controlled safety risks and with acceptable environmental impacts. Nuclear energy generation gives utmost priority to safety. Electricity distribution provides its services without discrimination, with the required reliability, and at affordable cost, in compliance with the regulatory framework. Another component of the primary business activities is the provision of ancillary services to the operator of the power transmission network and the provision of other services to power distribution system operators.

**Secondary business activities include the production and sale of heat, providing services and products for customers in energy-related areas, coal mining, processing energy by-products, and the sale of gas.**

An important secondary business activity is the delivery of heat from the combined production of electricity and heat. In this area, the goal of the CEZ Group is not only to maximize the heat sale revenues, but also to optimise the efficiency of combined electricity and heat generation. The Group intends to keep developing and extending its activities in heat generation.

The CEZ Group plays an active role in the natural gas trade and has become an important alternative supplier of this commodity.

ČEZ has successfully initiated activities in the mobile telephone service market. In the future, ČEZ intends to keep extending its offer of products and services to its customers in order to utilise the available synergies.

In addition to the sale of the existing products and services, ČEZ also responds to technological developments in decentralised electricity and heat generation and new trends in products and services in energy and related areas. We will actively enter these new markets in order to benefit from our existing competitive advantages, to fully use innovations for the benefit of our customers, and to ensure the long-term growth of the CEZ Group in value. The objective is to acquire a strategic position in new areas (e.g. smart houses and smart networks, decentralised power generation services connecting energy business with related areas, new models of operation and services in renewable energy). We are pursuing specific business activities in these fields, e.g. in the area of small co-generation units or energetic services for industrial companies or municipalities. We actively assess opportunities to extend our activities along the whole value chain from ownership participation in technology producers, through supplier and service operations, to financing and consulting. We are also focusing on making improvements in customer care and communication with customers across the whole CEZ Group.

CEZ Group assumes an active role in coal mining. It mines lignite primarily for its own needs, while selling additional output to the market.

An additional secondary business activity of the Group is processing by-products of generating electricity and heat, thus allowing their economically efficient commercial utilisation. The objective is not only to reduce costs and increase income, but also to significantly reduce the environmental burden.

Another business activity involves providing engineering services for construction and renovation of power plants, mostly for the Group's own projects, or projects where the Group plans to invest. Additional available capacities are offered to the external market.

Primary and secondary activities are coordinated in order to maximize synergies.

**Tertiary business activities efficiently support the primary and secondary business activities.**

Tertiary business activities are key support processes and activities which help achieve efficient implementation of the primary and secondary business activities. They also help to reduce the risks of core activities and strategic projects. They enable more efficient use of the material and intellectual potential of the Group and its employees. The goal of these activities is to support the overall strategy of the Group. For example:

- shared service centers – in order to increase efficiency, services have been consolidated into 3 centers for customer, distribution and corporate services,
- human resources development – focus is placed on developing the competence of both managers and employees, improving work efficiency and agility in order to contribute to company value growth,
- ownership stakes or alliances, which allow for efficient control, operation and development of energetic assets.

### 3. Business concept

#### GUIDING PRINCIPLES

**By following the best business practices and through active communication and openness, we will strive to ensure that CEZ Group companies are perceived as trustworthy, stable and successful.**

We will continue making CEZ Group companies:

- Environmentally responsible
- Entities with high business ethics,
- Respected, sought after, and reliable business partners of current and potential customers,
- Demanding, respected and sought after business partners of our suppliers, investors and creditors, who are perceived as such by the authorities, media, professionals, and the general public.

#### TRADE

**Continue to pursue an active business policy focusing on traditional and new customers and markets. Bring solutions and innovation to respond to the energy needs of our customers and society.**

CEZ Group will maintain its long-term competitive advantage in power and energy service markets, particularly in the Czech Republic, and will reinforce its position in other European markets by:

- Efficiently satisfying the demand for electricity and ancillary services with its own sources and complimentary purchases of electricity from the market,
- Extending the base of satisfied and loyal customers by ensuring electricity supply conditions which meet their requirements,
- Developing a wide range of energy-related services, optimization of customer care, rates and tariffs, and creating customized contracts for important individual customers,
- Identifying new customer needs on the one hand and new technologies on the other in order to foster innovative solutions to energy needs,
- Creating alliances with other producers, sellers, suppliers and customers as well as research organisations, incubators and technological investment funds, wherever this is advantageous.

The servicing of individual customer groups will be suitably structured to support the business policy.

#### GENERATION

**Ensure sustainable competitiveness of electricity and heat generation, with a high standard of safety and reliability and an optimum portfolio of production sources**

In generation, we need to undertake initiatives which focus on the efficient optimization and development of our production base:

- Carry out improvement measures focusing on increasing the efficiency of production sources and thus on reducing emissions,
- Efficiently operate new and retrofitted coal plants with higher efficiency,
- Manage the gradual decommissioning of non-retrofitted coal power plant blocks in the medium-term through the process of controlled ageing,
- Carry out programs to increase the safety and efficiency of the Dukovany and Temelín nuclear power plants, ensure a permanently high level of operating safety and reliability, and acceptance of nuclear power by the public,
- Carry out long-term operation programs of both nuclear power plants to continue their safe and efficient operation, extend their economic life, to maximise the utilization of our operating assets,
- Prepare construction of new nuclear sources in the Czech Republic in compliance with the government's energy policy and possibly take part in constructing such sources abroad,
- Evaluate options for the efficient use of renewable resources which would gradually increase the share of energy produced from renewable resources by the CEZ Group in the Czech Republic and abroad, especially in biomass, hydro, wind and solar energy.

## ELECTRICITY DISTRIBUTION

**Develop and maintain the CEZ Group's distribution system to ensure reliable supply of electricity to customers in the required amount.**

In electricity distribution, we are particularly focusing on:

- Fulfilling the conditions of unbundling, non-discriminatory treatment and meeting the legislative requirements,
- Securing an optimum split of roles among entities in the Czech Republic's electricity market and operating of Czech electricity networks,
- Achieving business excellence through maximal standardization of technological procedures in the whole area of electricity distribution,
- Ensuring a fair return on invested assets and capital,
- Optimum financing of regulated assets in accordance with relevant regulation,
- Cost-effective use of smart grid elements for the benefit of quality and power supply reliability.

## CAPITAL

**Ensuring a long-term optimum return on the invested capital for shareholders, striving for permanent growth in equity value, and a reliable dividend policy.**

Using available financial sources to meet long-term objectives:

- To create reserves (especially for the decommissioning of nuclear plants),
- For suitable financial investment in the energy chain, focusing on diversification of business risks,
- To apply suitable financial tools and business models to develop new business, especially in decentralised power generation and in new products and services for customers
- Additionally also in areas outside core business activities.

All these activities shall be performed so as to create economic profit and taking into consideration the financial health of all companies within the CEZ Group, so as to ensure smooth cash flow and optimization of capital structure, while maintaining an adequate credit rating of the parent company as well as subsidiaries.

## RAW MATERIALS

**CEZ Group will employ primary energy sources including renewable sources of energy in order to achieve long-term optimization of the domestic source pool.**

When using natural resources for our business activities we will:

- Utilize the competitive advantages of the domestic fuel and raw material base,
- Efficiently use extractable reserves of fuel and raw materials, prepare and implement the of sanitation and reclamation program to eliminate the impact of mining activities,
- Optimally diversify our fuel supply,
- Carry out rationalisation measures to increase the efficiency of production sources and reduce emissions,
- Increase the use of renewable sources of energy so as to contribute to meeting the national target for electricity consumption generated with renewable resources.

## HUMAN RESOURCES

**Ensuring and developing a team of qualified professionals – competent and efficient employees following the principles of corporate culture.**

The priority is that the employees should:

- Share the company's values,
- Fulfill the required level of efficiency, performance, quality and education,
- Be able and willing to adapt to changes,
- Share their experience with others, communicate and cooperate openly,
- Have a sufficient level of self-confidence and ability to make decisions in line with the mission and business plans of the Group.

The structure, competences and number of employees of CEZ Group companies shall be gradually optimized in order to achieve strategic objectives.

#### 4. CEZ Group governance

**Maintain a maximally efficient management system at the CEZ Group. Ensure a transparent environment at all levels of management and use effective communication to create a high performance environment, thus ensuring long-term prosperity of the CEZ Group.**

The CEZ Group will systematically fulfill the needs of external and internal customers by adhering to the following principles:

- Clearly defined responsibilities and competences of management at the individual level,
- Clearly defined responsible parties from the top management who are responsible for achieving set objectives in individual areas,
- Formulating and observing specific concepts and policies and tools for monitoring significant processes related to the Business Policy and support the achievement of synergies, including when introducing important innovations,
- Consistent monitoring and continuous assessment of approved measurable objectives, especially in relation to
  - Safe, reliable and environmentally friendly operation of the facilities,
  - Meeting the expectations of shareholders, customers and employees,
- Value-based methods of financial management with the support of a unified and reliable information system allowing optimal monitoring and evaluation

Apart from the Business Policy, key position within CEZ Group management tools include strategic programs, segment concepts, business plans, and annual budgets, which add detail to the approved Business Policy, e.g. in the form of key performance indicators (KPIs).

#### 5. Strategic development plans

In the development of the CEZ Group, we focus on the following strategic plans:

##### A – ELECTRICITY AND HEAT GENERATION

- A.1 In projects for long-term safe use of nuclear power plants, we will create conditions for operating plants for 50 or more years.
- A.2 In accordance with the State Energy Policy we will prepare conditions for responsible construction of new nuclear power plant blocks.
- A.3 We will renew the production capacity of coal power plants in relation to the end of their technical service life, i.e. to build new coal plant blocks with higher efficiency, or renew existing coal blocks considering their profitability and the availability of lignite; and optimize the operation of CEZ Group lignite mines for this purpose.
- A.4 We will optimize financial results in the greenhouse gas emission permit trading by increasing the efficiency of electricity generation in coal power plants, optimizing the generation portfolio, and contributing to JI/CDM projects.
- A.5 Increase the share of electricity produced from renewable energy sources in the CEZ Group generation portfolio (especially biomass, also the use of water, wind and solar energy).
- A.6 Continue to optimize the generation portfolio's performance – by controlled ageing, shutdown, purchase of ownership stakes, or the sale of a part of whole power plant units.
- A.7 Continue to increase operating performance and flexibility of generation assets, e.g. increasing the performance range of coal plants, allowing for a faster response to price fluctuations on the market, and cost cuts – to ensure efficient use of production resources.

##### B – PRODUCTS AND SERVICES FOR END CUSTOMERS

- B.1 We will fulfil the needs of end customers through efficient business and marketing activities in energy-related markets in order to reinforce the role of the CEZ Group as a reliable and sought after partner who addresses the needs of the customers.
- B.2 Enter new business areas outside of the traditional generation and distribution of electricity, either directly or in suitable alliances with other entities across the value chain, to create new sources of long-term value for shareholders.
- B.3 Systematically search for and use suitable innovations – in technologies, new products, services, and business models – especially focusing on finding solutions to the needs of the end customer.
- B.4 Develop the active entrepreneurship and customer orientation of Group employees so as to improve the quality of services, add value, and strengthen the CEZ Group's position in developing segments.

## C – ELECTRICITY DISTRIBUTION

- C.1 We will secure construction, extension and renewal of the distribution network to comply with the requirements of consumers and producers and with regulation and legislative standards including relevant national energy concepts.
- C.2 Introduce the construction and configuration of a next generation network – „smart grids” – wherever economically rational.
- C.3 Perform all investment and operation activities efficiently so as to achieve the required level of service quality at minimum costs.
- C.4 Through active communication with the market regulator, contribute to the proper setting of market rules and the regulatory environment so as to reflect the needs of network users and to motivate network operators and ensure a sufficient return on investments.

## D – CEZ GROUP TRANSFORMATION

- D.1 Provide a transparent environment at all levels of management and use effective communication methods to create conditions to sustain the long-term prosperity of all CEZ Group members.
- D.2 Continue in the outsourcing of the activities, wherever this is effective from the long-term perspective.
- D.3 Continuously improve the public image of the CEZ Group as a reliable partner and responsible entity, which efficiently uses its capacities not only for the benefit of its shareholders and employees, but also customers and society.

## E – ACQUISITIONS AND DIVESTMENTS

- E.1 Monitor development of energy markets in Central Europe in order to optimize ownership stakes in energy companies by either purchasing or selling shares or assets.
- E.2 Acquire ownership stakes in companies which have significant potential for growth in developing segments of the energy business either directly or via incubators, funds or research institutions, and thus support an innovative approach to the offer of services to customers.
- E.3 Acquisitions in the electricity generation area will focus on sources with low emissions of greenhouse gases, especially CO<sub>2</sub>.
- E.4 Use the acquisition of companies and projects offering efficient electricity production from renewable sources to increase the share of this type of electricity production (especially from water, wind and biomass).
- E.5 Identify and sell assets which do not increase the value of the CEZ Group.