



# CEZ GROUP: READY FOR DECENTRALIZED ENERGY FUTURE

Investment story, July 2019

# AGENDA



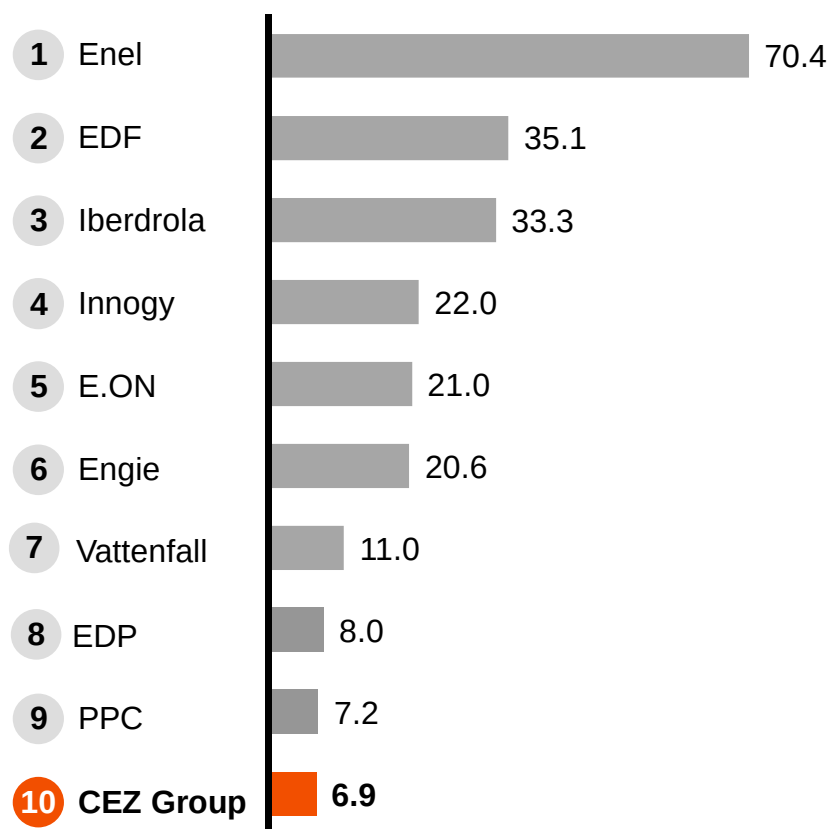
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# CEZ GROUP RANKS AMONG THE TOP 10 LARGEST UTILITY COMPANIES IN EUROPE



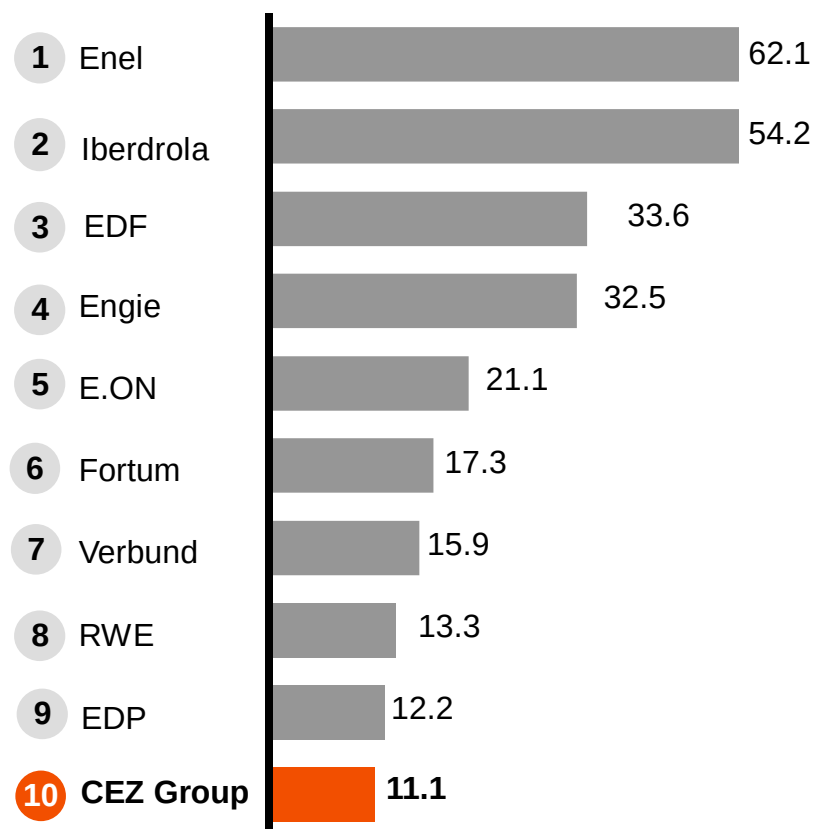
## Top 10 European power utilities

Number of customers in 2018, in millions

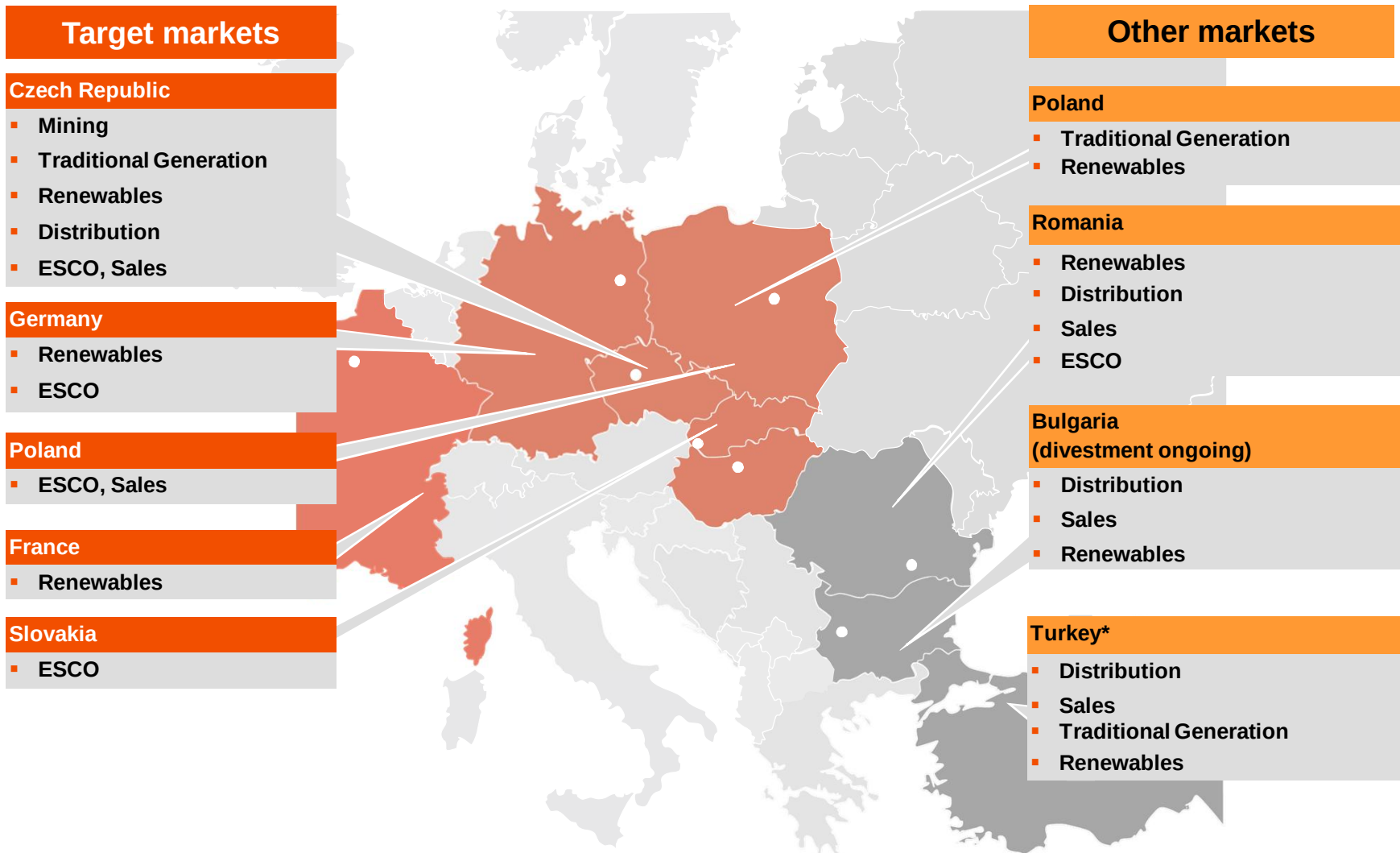


## Top 10 European power utilities

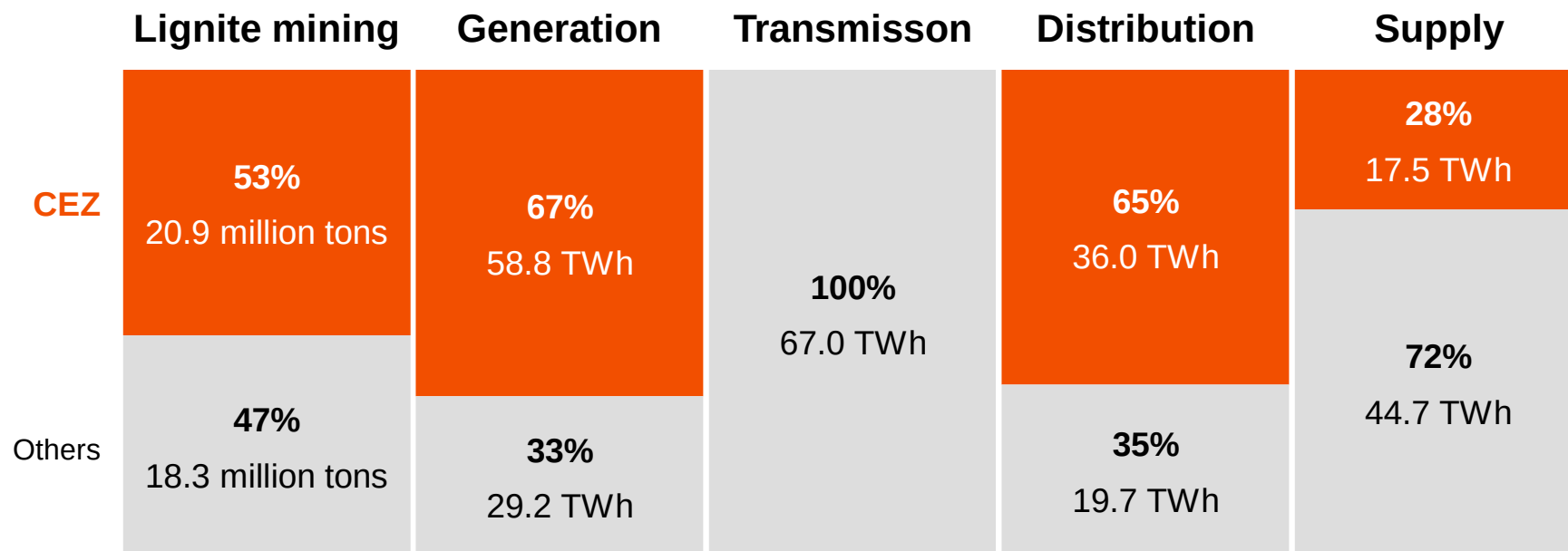
Market capitalization in EUR bn, as of June 28, 2019



# CEZ GROUP IS AN INTERNATIONAL UTILITY WITH A STRONG POSITION IN ITS DOMESTIC MARKET AND GROWING PRESENCE IN WESTERN EUROPE



# CZECH REPUBLIC IS THE MOST IMPORTANT MARKET FOR CEZ GROUP, IT IS VERTICALLY INTEGRATED THERE



- CEZ fully owns the largest Czech mining company (SD) covering 71% of CEZ's Lignite needs
- Remaining 3 coal mining companies are privately owned

- Other competitors are individual IPPs

- The Czech transmission grid is owned and operated by CEPS, 100% owned by the Czech state



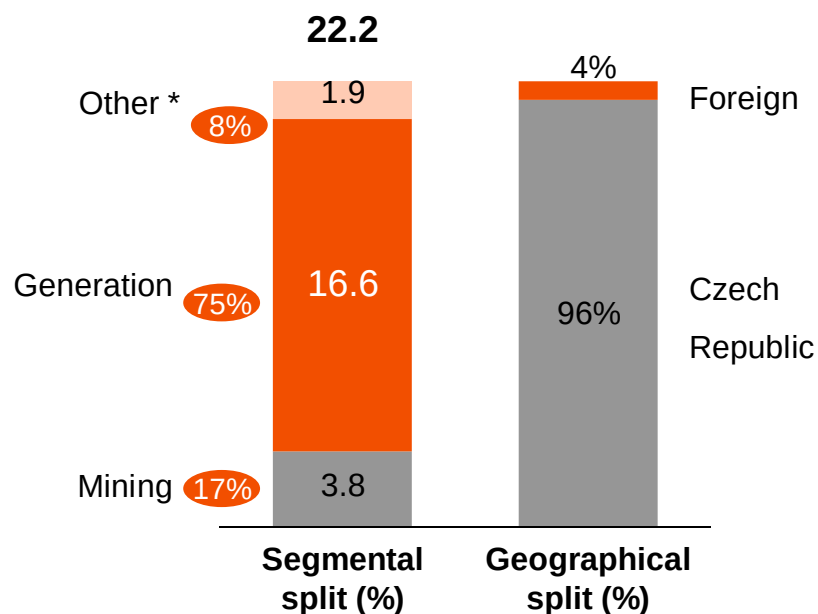
- Other competitors – E.ON, PRE (41% held by EnBW), Bohemia Energy, Innogy, Centropol Energy

# SEGMENTAL AND GEOGRAPHICAL CONTRIBUTIONS TO EBITDA IN 2018



2018 EBITDA CZK 49.5bn

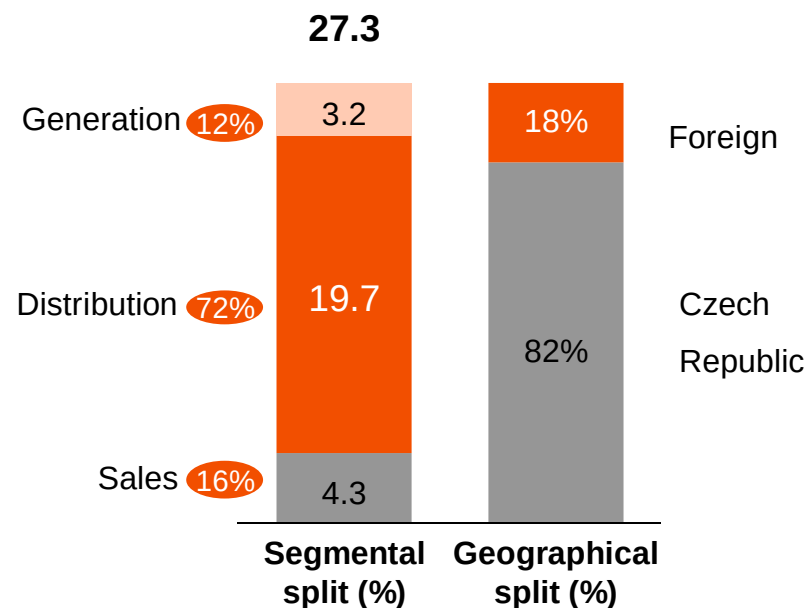
~45% Traditional Generation  
2018 EBITDA



## OPERATIONS TEAM

- The most effective use of our traditional assets
- Proactively adjusting to the new energy environment
- Generating sufficient cash flows to develop new activities and pay dividends to our shareholders

55% Regulated and New Energy  
2018 EBITDA



## DEVELOPMENT TEAM

- Ensuring future growth for CEZ based on ESCO activities, decentralized energy, distribution and domestic renewables with focus on end customers
- Acquisitions and organic growth in stable countries

# KEY BUSINESS DRIVERS OF CEZ GROUP



## Traditional Generation

- **Benefits from higher power prices.....**
  - Electricity price approx. 60% higher\* compared 2018 hedged baseload price
- **..... as it is positively geared toward growing price of CO2 allowances**
  - CEZ emission intensity 0.39 t/MWh is well below 0.6 t/MWh intensity of price setting plant and will further drop to 0.3 t/MWh by 2025
- **Stable CAPEX**
  - Upgrade of lignite fleet completed
  - Current Capex mostly maintenance related

## Regulated and New Energy

- **Benefits from RAB growth**
  - 10% increase by 2020 in Czech distribution
- **Additions of renewables capacity**
  - Current pipeline of up to 565 MW of wind parks in Europe
  - Ambition to add further renewable capacities in the Czech Rep.
- **Expansion of energy services offering („ESCO“)**
  - Expected 2019 revenues increase by 33% to CZK 21bn
  - Further growth anticipated organically and through acquisitions

# STRATEGY AIMS AT MAXIMISING CASH FLOW FROM ITS TRADITIONAL BUSINESS AND INCREASING PRESENCE IN RENEWABLES AND ENERGY SERVICES



| Strategic priorities                                                             | Key initiatives                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Trend* |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Efficient operation, optimal utilization and development of generation portfolio | <ul style="list-style-type: none"> <li>Effectively manage surface coal-mine power plants, heat plants and coal mines, while gradually reducing the portfolio of coal-fired power plants outside mining regions.</li> <li>Ensure conditions for the long-term operation of nuclear power plants, while constantly improve the level of safety as a top priority.</li> <li>Prepare projects for new nuclear sources only if the market and legislative conditions are favorable.</li> </ul>                                                                                                                                                     |        |
| Modern distribution and a care for customers' energy needs                       | <p>Distribution</p> <ul style="list-style-type: none"> <li>Optimize capital structure of regulated asset reflecting the relevant regulation.</li> <li>Grow investments in smart and innovative solutions focusing on the Smart Grid, integration of electro mobility and decentralized energy sources.</li> <li>Digitally transform operations to optimize operating expenses.</li> </ul> <p>Sales</p> <ul style="list-style-type: none"> <li>Extend the base of satisfied customers by offering non-commodity products and services.</li> <li>Digitalize processes across the entire sales chain and optimize operating expenses.</li> </ul> |        |
| Development of new energy in the Czech Republic                                  | <ul style="list-style-type: none"> <li>Build an effective structure to cover an entire chain of activities connected with developing renewables in particular in the Czech Republic</li> <li>Attain a significant position in generating and supplying heat from renewable energy sources.</li> <li>Consolidate energy service market in the Czech Republic.</li> </ul>                                                                                                                                                                                                                                                                       |        |
| Development of energy services in Europe                                         | <ul style="list-style-type: none"> <li>Continue fast growth of energy service markets close to the Czech Republic.</li> <li>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.</li> </ul>                                                                                                                                                                                                                                                                                                                  |        |



# CEZ GROUP INTENDS TO LEAVE MARKESTS WITH INSUFFICIENTLY APPEALING OUTLOOK AND NEED FOR INCREASED MANAGEMENT FOCUS



## Strategic priorities

Leaving risky and non-perspective markets and segments

Recovery of capital invested in foreign renewables

## Key initiatives

- Carry out divestments of assets in Romania and Poland
- Finalize divestments of assets in Bulgaria and Turkey
- Finalization of renewables development abroad and securing recovery of invested funds

## Reasons for the divestments

- Romanian regulatory environment has stabilized after brief wobbles at the start of new regulatory period
- Increased interest from various financial groups in Romania who seek infrastructure investments with higher yields compared to Western Europe
- Monetization of Polish coal business and reduction of CEZ's carbon footprint
- Turkish market as extremely risky especially due to currency volatility

## Potential use of proceeds

- Debt reduction to avoid negative impact on consolidated leverage through divested EBITDA
- Reinvestments into energy services and domestic renewables
- Distribution to shareholders

2018 EBITDA contribution of assets contemplated for sale: CZK 5.5bn

# CEZ IS COMMITTED TO GENERATE CARBON NEUTRAL POWER BY 2050, WITH 50% REDUCTION IN INSTALLED COAL CAPACITY ALREADY BY 2025



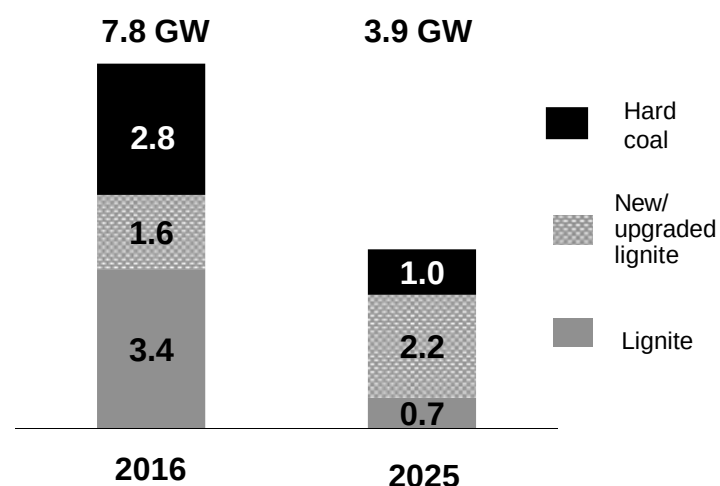
## Coal fired power plants will be gradually closed

- Coal fired power plants currently represent 46% of capacity and 44% of generation volume in 2018 and their revenues are less than 20% of total
- Coal fired capacity will decrease by half from 7.8 GW in 2016 to 3.9 GW by 2025

## CEZ is expanding its footprint in renewables, not planning any new coal fired power plants

- CEZ's strategy focuses on power generation capacity growth in renewables expanding its currently running 1700 MW renewable generation capacity (half of which built in the last decade)

## Expected development of installed capacity in coal (GW)



## Coal extracted is mainly used in own power plants

- CEZ Group produced 20.9 mil tones of coal, out of which only 28% is sold externally
- Share of coal mining and related activities (except power generation) on CEZ group's revenues is 2% only

## CEZ Group has reduced CO2 emissions by 43% since 2007

- In 2018 CEZ generated more than half of its electricity at zero-emission facilities
- **CEZ Group made a commitment to generate carbon neutral electricity before 2050**

# AGENDA



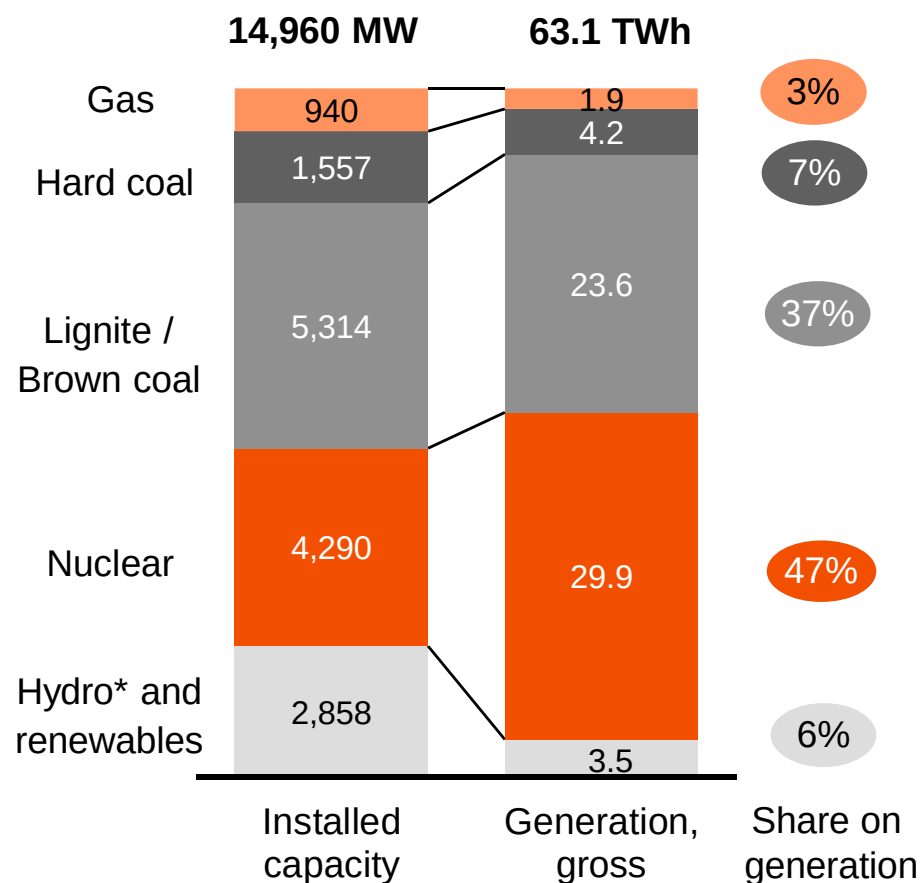
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# CEZ GROUP OPERATES LOW COST GENERATION FLEET



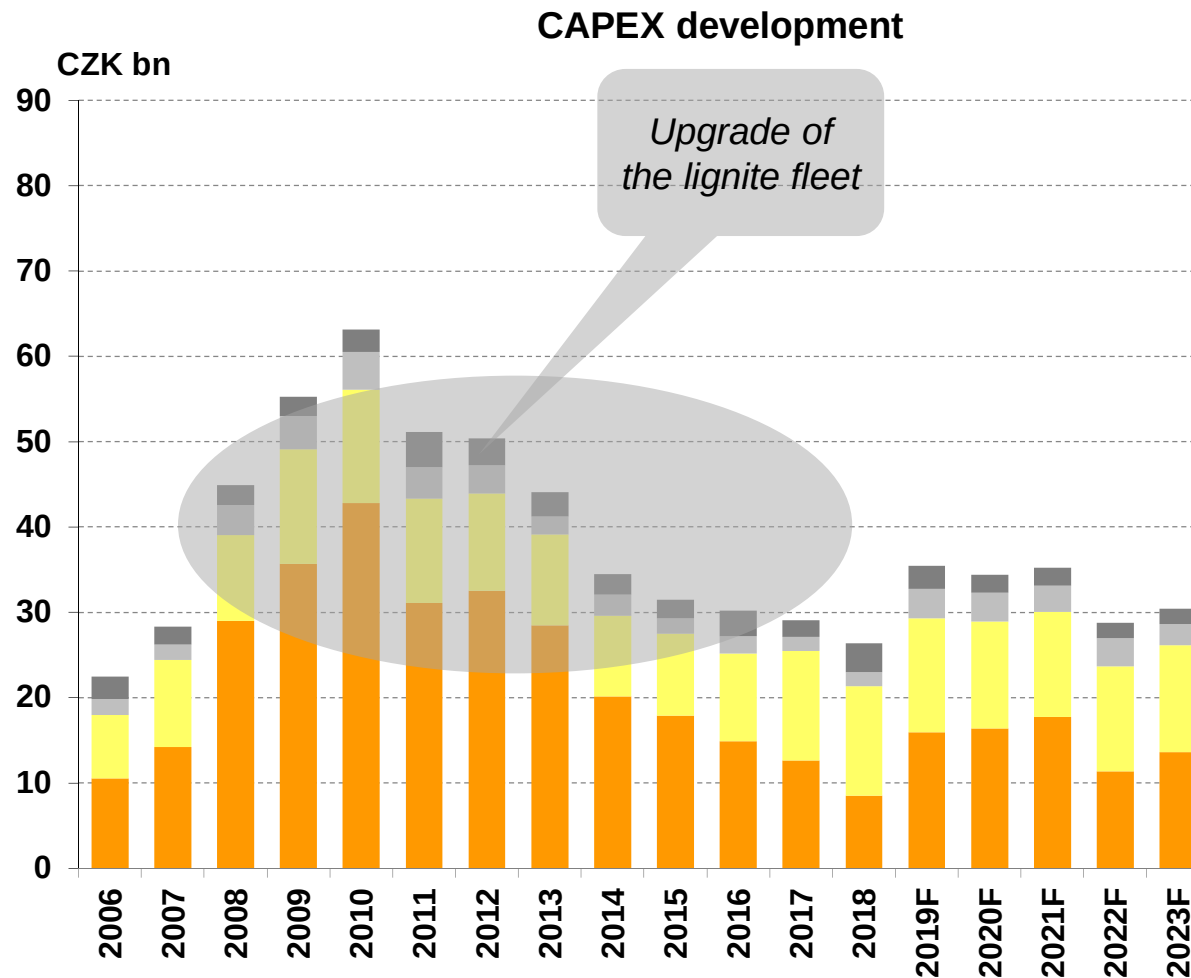
## Installed capacity and generation (2018)



- **Coal power plants are using mostly lignite from CEZ's own mine**  
(71% of lignite needs sourced internally, remaining volume through long-term supply contracts)
- **Nuclear plants have very low operational costs**

**CEZ has a long-term competitive advantage of low and relatively stable generation costs**

# CEZ GROUP COMPLETED UPGRADE OF ITS LIGNITE FLEET, GOING FORWARD MAINTENANCE CAPEX ONLY



## Total CAPEX during 2019-2023

(in CZK bn): 164.3

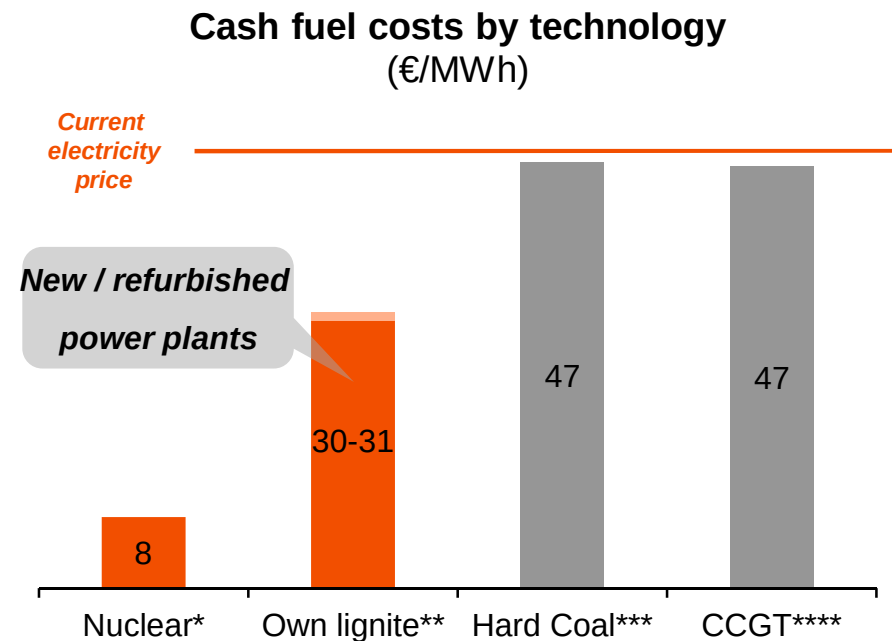
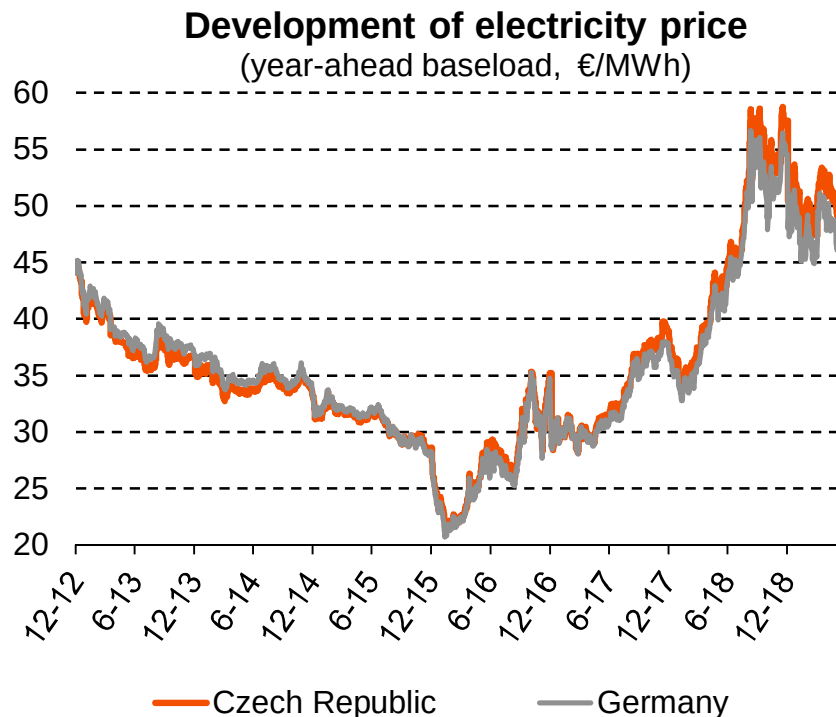
|                         |      |
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| Generation—traditional* | 69.6 |
| Generation – new**      | 5.4  |
| Distribution ***        | 63.0 |
| Mining                  | 15.8 |
| Other (including sales) | 10.5 |

\*Increase in 2019-21 primarily given by investments in Melnik (supply of heat to Prague)

\*\* primarily French and Polish wind farms

\*\*\* of which CZK 7.6 bn outside Czech Rep., excludes Bulgaria from 2020

# LOW COST AND UPGRADED GENERATION PORTFOLIO IS A GREAT ADVANTAGE IN THE CURRENT PRICE ENVIRONMENT



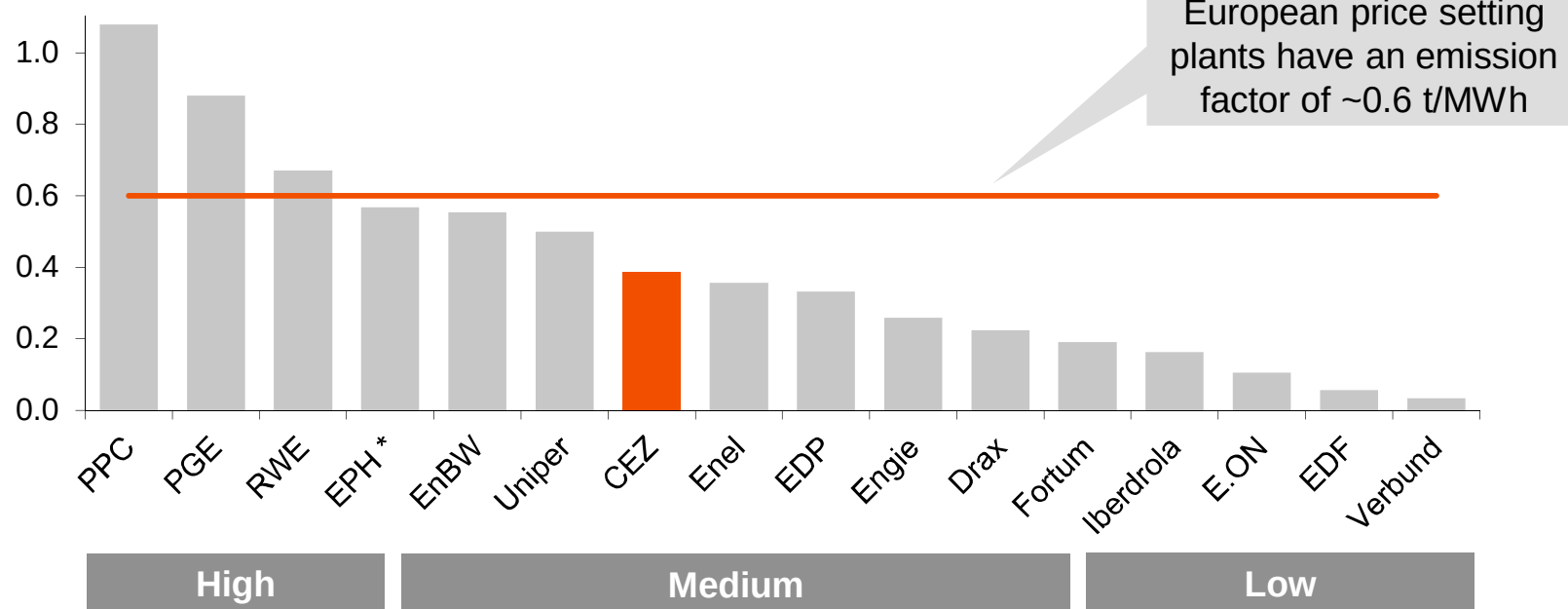
## Drivers of electricity price

- **hard coal prices** being mainly driven by levels of Chinese coal imports and shale gas discoveries in the US
- **carbon prices rising** due to implementation of MSR in 2019 and increase of switching costs
- **growing** capacity of subsidized **renewables**
- **stagnating** electricity **demand**

# CEZ GROUP'S CO<sub>2</sub> INTENSITY IS BELOW INTENSITY OF A EUROPEAN PRICE SETTING PLANTS



**Carbon intensity of selected European utilities**  
(2018, t/MWh)



**Increase in CO<sub>2</sub> price has a positive impact on CEZ profitability\*\***

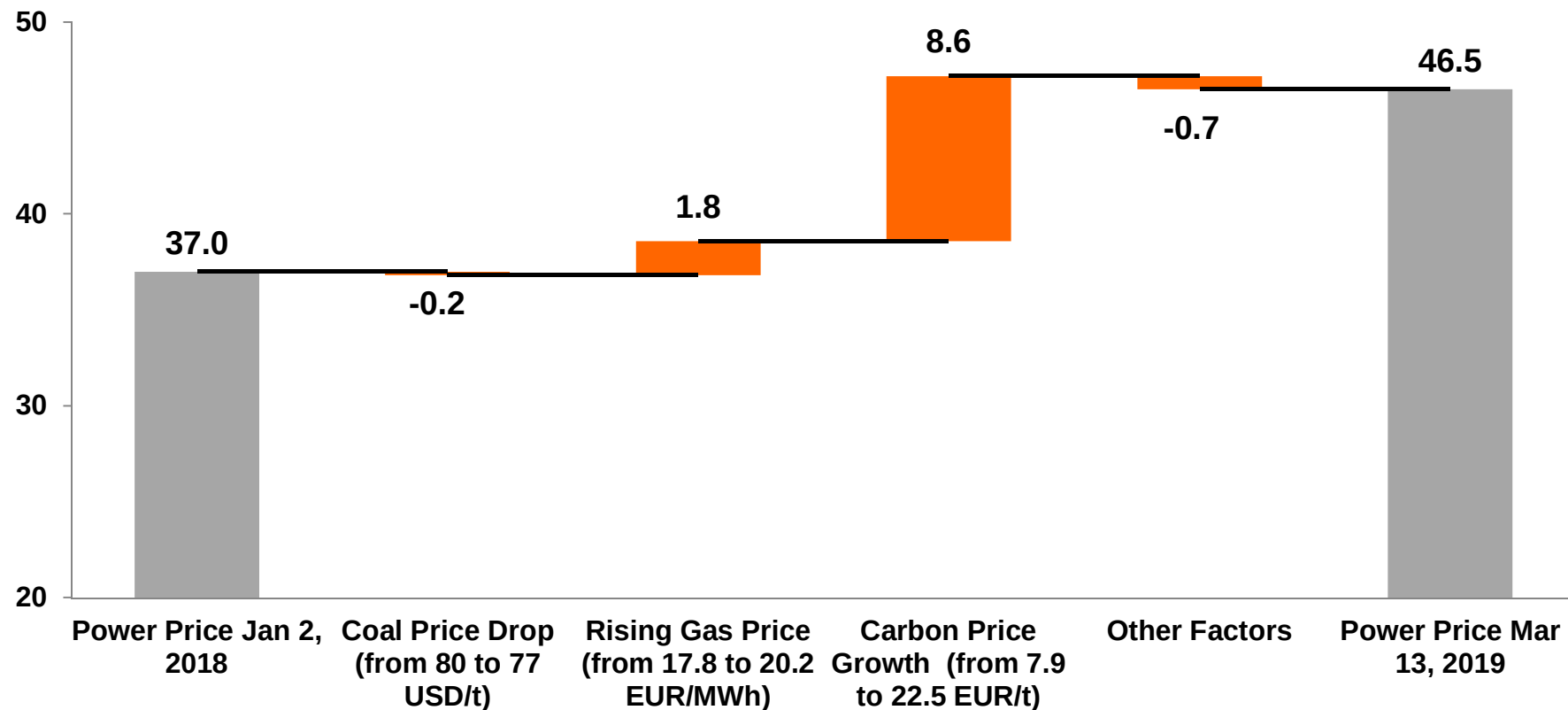
# ELECTRICITY PRICES HAVE INCREASED SINCE THE BEGINNING OF 2018 PRIMARILY DUE TO THE RISING PRICE OF CO<sub>2</sub> ALLOWANCES



## Breakdown of Causes for Change in Wholesale Electricity Prices in 2020

(EEX, Base Load 2020 in Germany; Jan 2, 2018–Mar 13, 2019)

EUR/MWh

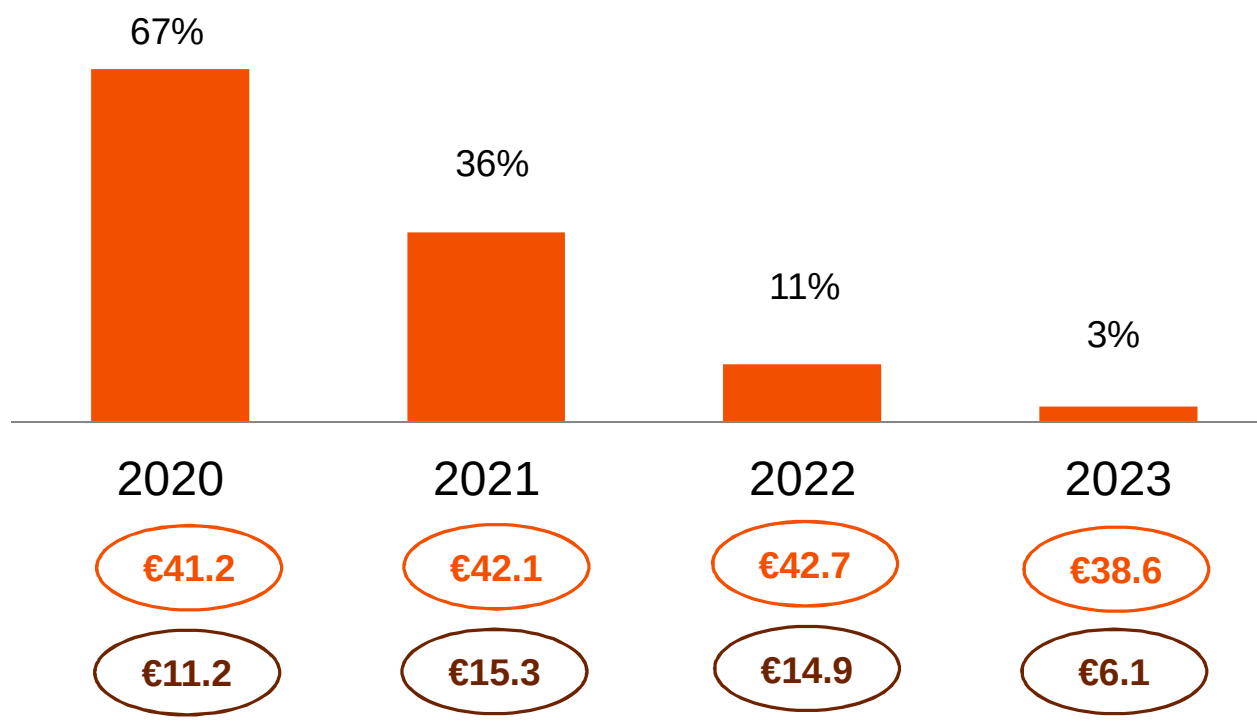




# ČEZ CONTINUES HEDGING ITS GENERATION REVENUES IN THE MEDIUM TERM IN LINE WITH STANDARD POLICY



**Share of Hedged Production of ČEZ\* Facilities as of Mar 31, 2019**  
(100% of deliveries in 2020–2023 corresponds to 51–55 TWh)



Electricity selling  
price (EUR/MWh)

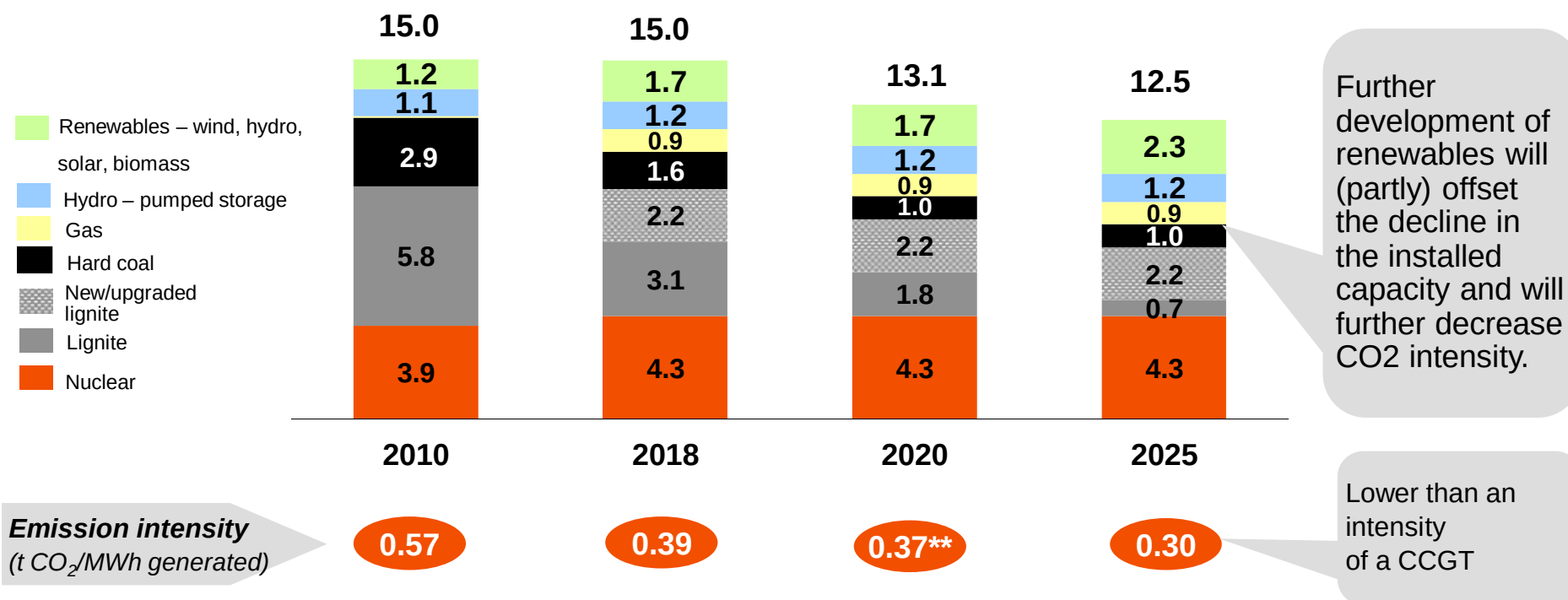
EUA purchase  
price\*\* (EUR/t)

As of Oct 2018 the 84% of the electricity for 2019 was hedged for 35.8 EUR/MWh; average EUA purchase price was 5.7 EUR/t

# CEZ GROUP'S CO2 EMISSIONS INTENSITY TO FURTHER DECLINE AS A RESULT OF CLOSURES OF OLD LOW-PROFIT COAL UNITS



**Expected development of installed capacity (GW)\***



- CO2 emission intensity to decrease by another 22% from 2018 levels.
- Upgraded portfolio contains highly efficient Tušimice (39%), Pruněřov (40%) and Ledvice (42.5%) power plants.
- Closures of old lignite and hard coal units not supplied by our own coal, i.e. units with low profit will result in decrease of the total installed capacity.
- Capacity of nuclear increased by 0.5 GW in 2009-13 enabling additional 3.8 TWh of carbon free production.

# OPERATIONS TEAM

## KEY OBJECTIVES FOR 2019



### Mining

- Minimize expenses associated with continued mining beyond environmental limits.
- Closely coordinate mining operations and development with planned operation of conventional facilities.
- Maintain the required level of commercial reserves for the future.
- Optimize capital expenditures on mining machinery projects.

### Generation—Traditional Energy

#### Existing Generating Facilities

- Continually enhance the safety of nuclear and nonnuclear generating facilities.
- Ensure NPP availability at the level of the world's best practice.
- Maximize the creation of the segment's operating cash flow in 2019 and ensure optimum compliance with environmental and regulatory requirements for the operation of coal-fired plants, in particular, in 2020+.
- Continue to prepare development projects with margin benefits resulting from increasing nuclear generation to over 31 TWh a year (combining change in fuel incl. campaign optimization as well as modifications to conventional island technology) with significant economic benefits from 2022.
- Ensure the conditions for long-term NPP operation (fulfilling the Dukovany LTO and Temelín PSR action plans).

#### Heat Sector

- Start the construction of a hot-water pipe from Temelín to České Budějovice.

#### New Nuclear Plants

- Ensure fulfillment of the targets of the New NPP strategic program for 2019 with emphasis on the EIA process at Dukovany.

### Finance and Administration

#### Finance

- Effectively support maintaining CEZ Group's medium-term financial stability.
- Minimize average financing costs.

#### Supporting and Centralized Activities

- Ensure nuclear fuel deliveries for 2019 and optimum purchase of fuel for 2020+.
- Manage expenditure on supporting activities efficiently.
- Complete the construction and commission a new corporate data center at Tušimice.
- Fulfill the objectives of the "Centralized and Supporting Activities Redesign & Optimization" project with a permanent gain of approx. CZK 0.5 bn a year.

# AGENDA



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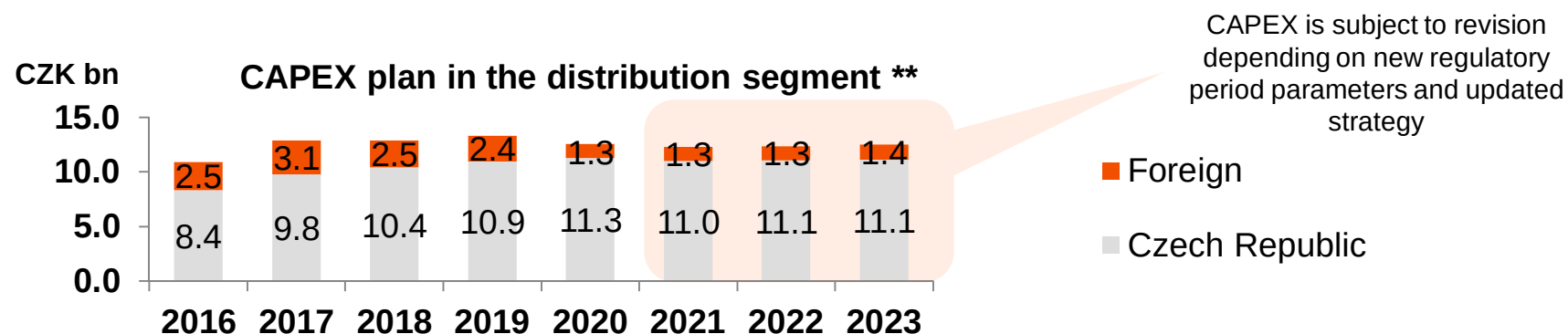
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# IN 2018 CZECH DISTRIBUTION MADE UP FOR 63% OF DEVELOPMENT TEAM EBITDA, TRANSPARENT CZECH REGULATION INCENTIVISES HIGHER INVESTMENTS

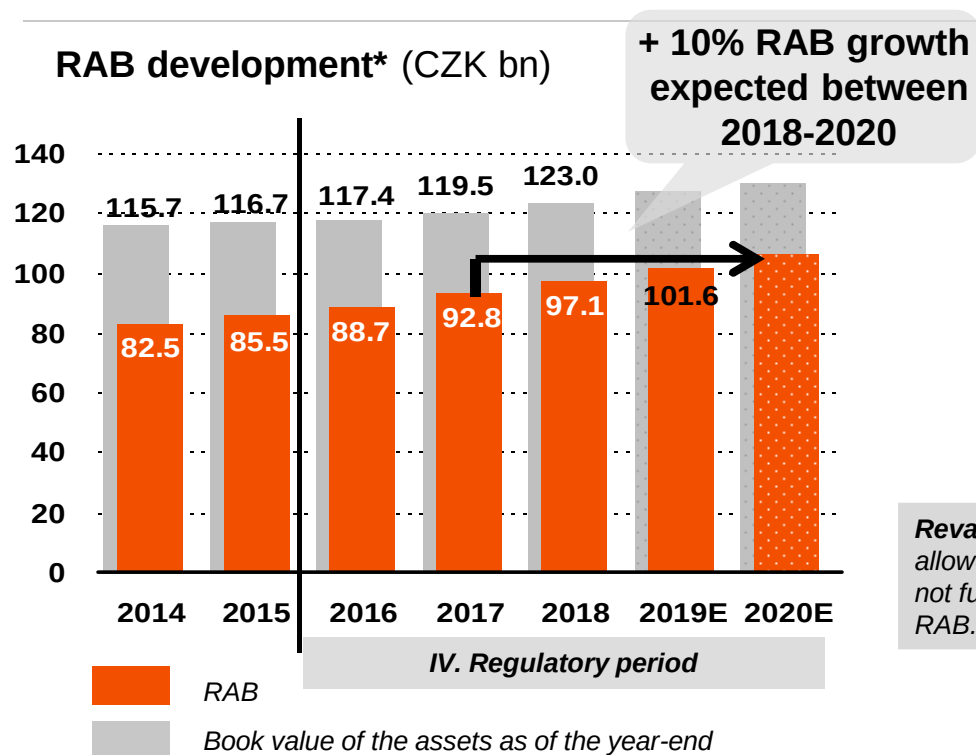


## Overview of 2019 regulation parameters and 2018 EBITDA contribution

|                        | Czech Republic<br>2019 | Romania<br>2019 | Bulgaria<br>2019 |
|------------------------|------------------------|-----------------|------------------|
| RAB (local currency m) | 101,580                | 2,278*          | 588              |
| RAB (€ m)              | 3,952                  | 462             | 300              |
| WACC pre-tax           | 7.951%                 | 6.9%            | 6.67%            |
| Regulatory period      | 2016 – 2020            | 2019 - 2023     | 2018 - 2021      |
| 2018 EBITDA (CZK bn)   | 17.2                   | 1.6             | 1.0              |



# CZECH REPUBLIC - RAB GROWS AS A RESULT OF POSITIVE NET CAPEX AND CLOSING GAP BETWEEN RAB AND ASSET BOOK VALUE



- Investments above depreciation lead to growth of the Regulatory Asset Base (RAB)
- Initial value of RAB was set at lower amount than the book value of assets.
- Revaluation coefficient\*\* reduces initial RAB discount to asset book value.

**Revaluation coefficient:**  
allowed depreciation is not fully deducted from RAB.\*\*

**Correction factor** to reflect planned and actual CAPEX (usual impact in tens of millions) and to reflect transfer of assets to another company.

**RAB formula:**

$$RAB(y) = RAB(y-1) + Investments(y) - Depreciation(y) \times \frac{RAB(y-1)}{NBV(y-1)} + Correction\ factor(y)$$

Public consultation of new regulatory parameters for 5<sup>th</sup> regulatory period will start in August 2019. The public consultation will end in January 2020.

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# WE SEE ATTRACTIVE OPPORTUNITIES IN GROWING ENERGY SERVICES SEGMENT



**The potential for CEZ Group's dynamic growth in ESCO is amplified by the EU countries' commitment to major energy savings by 2030.**

- We estimate investment costs needed for the fulfilment of the EU energy efficiency directive until 2030 (derived from GDP growth) at **approx. EUR 600bn in Germany** and **approx. CZK 700bn in the Czech Republic**.
- However, high demand for ESCO services in the future is primarily guaranteed by attractiveness for customers: **projects effectively pay for themselves from savings (they do not need subsidies)** and new technologies provide customers with greater comfort and modern functionalities.

| Indicative values today*        | ČEZ ESCO<br>(Czech Republic) | ESCO international | ESCO TOTAL         |
|---------------------------------|------------------------------|--------------------|--------------------|
| ANNUAL SALES (2019 E)           | Approx. CZK 6.6bn            | CZK 14.5 bn        | CZK 21.1 bn        |
| Annual sales growth<br>(2019 E) | 20%                          | 40%                | 33%                |
| EBITDA/SALES (2019 E)           | 8%–9%                        | 5%–6%              | 5%–6%              |
| LONG TERM ASSETS                | Approx. CZK 7.4bn            | Approx. CZK 9bn    | Approx. CZK 16.4bn |
| EMPLOYEE<br>HEADCOUNT           | Approx. 1,800                | Over 3,000         | Approx. 4,900      |



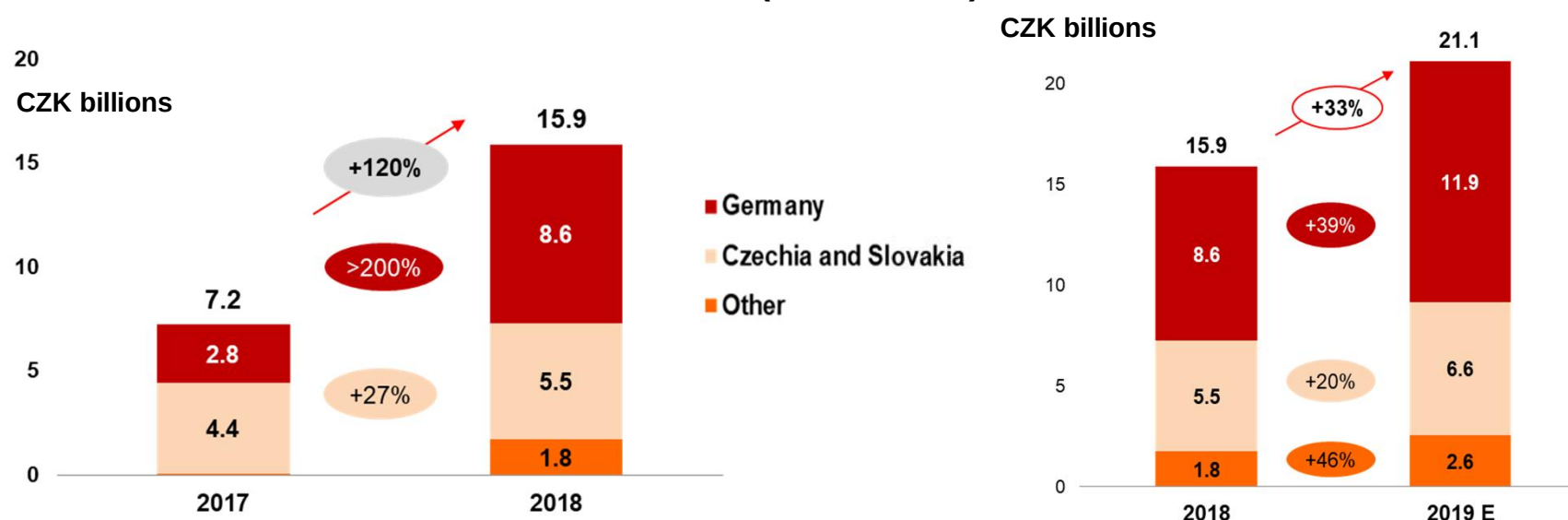
# CEZ GROUP CONTINUES ITS ESCO EXPANSION AND EXPECTS 33% REVENUE GROWTH IN 2019



## CEZ GROUP CONTINUES ITS EXPANSION IN ENERGY SERVICES ALSO IN 2019

- On Jan 25, acquisition of a 100% interest in **En.plus** GmbH, which deals with designing and installation of air-conditioning and cooling equipment.
- On May 16, the acquisition of a 100% stake in the **Hermos Group** was completed. HERMOS delivers solutions consisting of engineering, manufacturing of switchgears, software for automation systems and IT systems and from after-sale services. HERMOS group employs over 500 people.

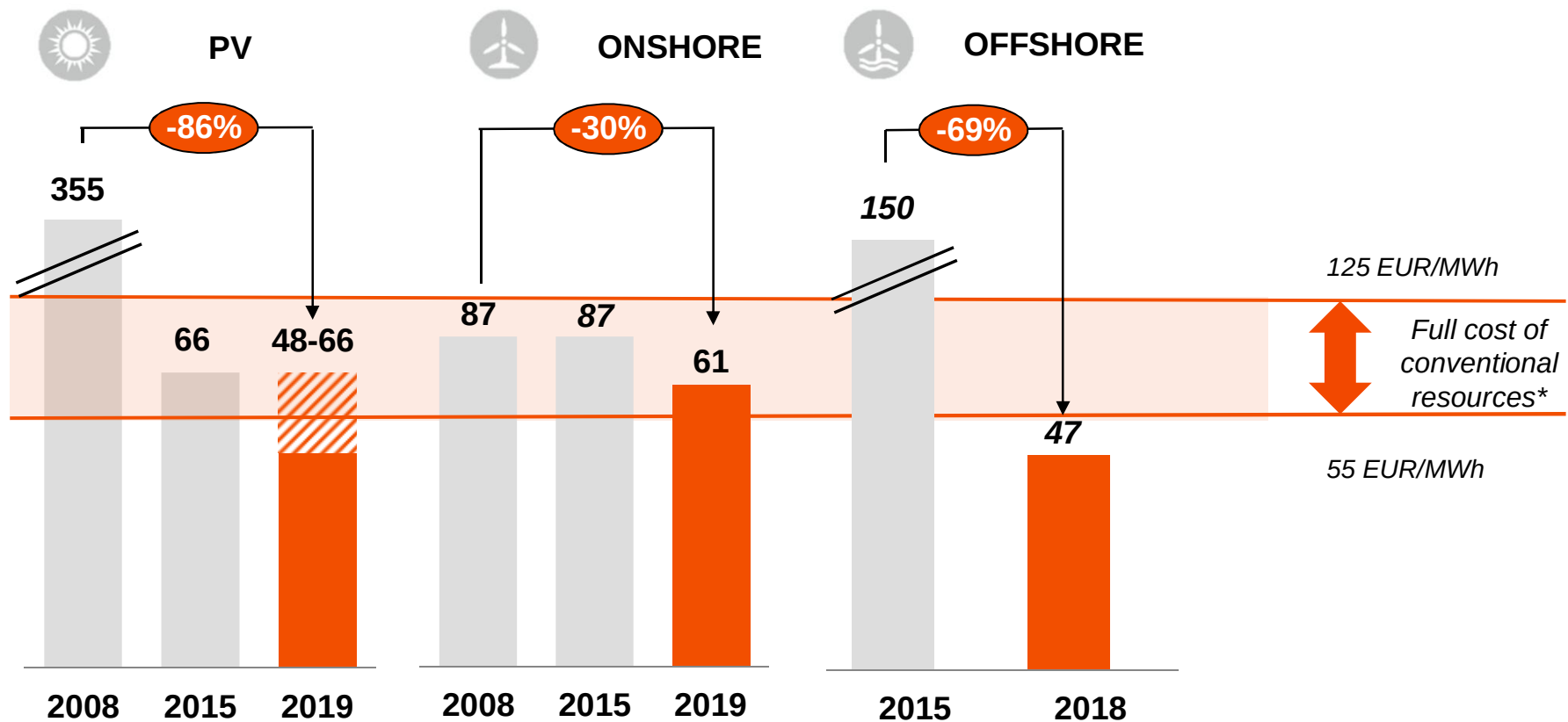
## ESCO Sales (CZK billions)



# CEZ INTENDS TO EXPAND ITS INVOLVEMENT IN RENEWABLES, WHICH ARE ALREADY COMPETITIVE WITH CONVENTIONAL GENERATION



EUR/MWh



# CEZ SUSSESFULLY OPERATES WIND FARMS IN ROMANIA AND GERMANY, IT HAS SIGNIFICAN PIPELINE ALSO IN FRANCE



## Romania

- The largest European on-shore wind park - **600 MW** operated since 2010.
- Operating support in the form of green certificates for 15 years

## Germany

- **133.5 MW** operated since 2016, operating support in the form of a 20-year feed-in tariff with average 89 EUR/MWh (flat)

## Pipeline in France, Germany and Poland

- Stakes in projects with a potential installed capacity of up to 565 MW acquired in Germany, France and Poland, of which 13.6 MW under construction
- The projects will participate in the auctions and are expected to be operational by 2025

**CEZ operates 742 MW of wind farms and has additional pipeline of 565 MW  
CEZ expects to develop the pipeline to „ready-to-build” phase and then decide if to sell or construct and operate them**

# NEW OPPORTUNITIES IN RENEWABLES ARE EMERGING IN THE CZECH REPUBLIC

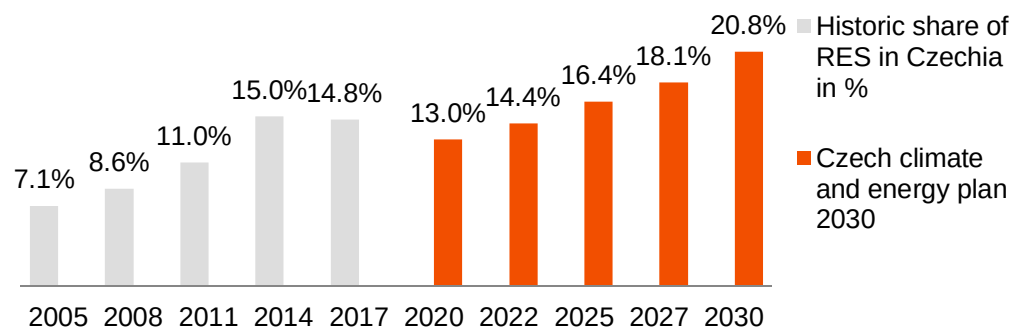


- Czech **climate and energy plan envisages significant increase in the share of production from renewables from 13.0% in 2020 to 20.8% in 2030.**
- Czech government intends to introduce the **Modernization Fund, which should provide investment subsidies for renewables**, energy efficiency and emission reductions. The proposal is subject to approval by the parliament.

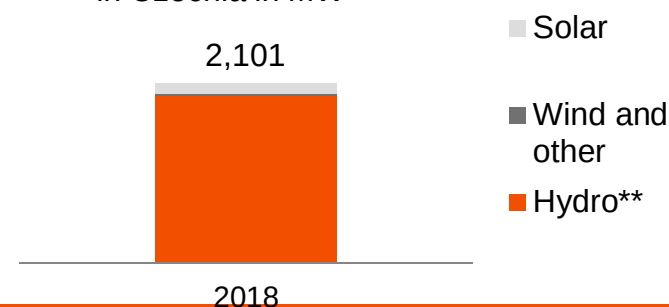
## CEZ aims to remain leader in the Czech Republic also in the renewables segment

### Competitive advantages

- deep knowledge of the market and construction process regulations
- ownership of land suitable for first renewable projects



### CEZ capacity in renewables in Czechia in MW



# INVEN CAPITAL SUCCESSFULLY CONCLUDED FIRST DIVESTMENT



**INV/E/N CAPITAL**

- Inven Capital SICAV, a.s., is ČEZ's wholly-owned subsidiary with variable capital, focusing on investments in clean-tech startups in a later stage of growth.

## Selected Events in 2018

- A co-investment contract was signed in March 2018 with the European Investment Bank (EIB), which undertook to entrust up to EUR 50 m to the fund. Inven Capital then changed its legal form and manages two sub-funds: Inven Capital—Sub-Fund A (CEZ Group) and Inven Capital—Sub-Fund B (EIB).
- The fund invested in five companies up to 2017: **sonnen**, **SunFire**, **tado**, **Cloud&Heat Technologies**, and **VU LOG**.
- Additional investments were made in 2018: **Cosmo Tech** (vendor of a SW platform for the optimization of decision-making in asset management), **Driivz** (vendor of SW platform for charging station management); **CyberX** (Provider of comprehensive solutions for industrial cybersecurity, protecting two of five largest energy companies in the U.S. as well as large companies in the pharmaceutical and chemical industries), additionally, investments were made in existing companies **sonnen**, **SunFire**, and **Cloud&Heat Technologies**.

## First successful exit: Sale of the Fund's first acquisition—sonnen

- Investment in a minority share in **sonnen**, a German manufacturer of battery storage systems, was the Fund's first investment back in 2015.
- In February 2019 sale of Inven Capital's stake in **sonnen** (jointly with other investors) to Shell was finalized.
- The sale was in accordance with the company's strategy to seek companies with high potential for investment appreciation and hold shares for 3–7 years. Achieved selling price and achieved return on invested capital considerably exceeded its initial expectations of ČEZ.

# DEVELOPMENT TEAM

## KEY OBJECTIVES FOR 2019



### Distribution

#### Czechia

- Preparation for the price regulation and the public consultation process for the 5th regulatory period.
- Prepare the distribution system for the development of decentralized generation, accumulation, electric mobility, and change in consumption structure.

#### Abroad

- Protect ČEZ's legal rights in Bulgaria and complete the sale of assets
- Maximize return on investment in Romania.

### Sales—Retail

#### Czechia

- Maintain market share in electricity (No. 1 in the market) and reinforce our position in natural gas (No. 2) with unique services and product packages.
- Further develop noncommodity products and services (photovoltaics, heating maintenance, heating systems, ČEZ Mobil, etc.).
- Improve the care of and be closer to our customers (increasing the overall CX index by 6%, strengthening online tools, completing redesign of customer care centers) and continue cultivating the market and enhancing consumer protection.
- Increase sales and cost effectiveness.

**Abroad**, maximize gross margin and reduce fixed expenses.

### ESCO Activities

#### Czechia & Slovakia

- Reinforce ČEZ ESCO's position in the domestic market and in Slovakia through organic growth and acquisitions.
- Increase existing ESCO group companies' revenue from sale of noncommodity products in Czechia to CZK 7.7 bn.

#### Abroad (other than Slovakia)

- Continue to develop ESCO activities through organic growth and selective acquisitions (especially in Germany)
- Increase existing foreign companies' revenue from sale of noncommodity products to CZK 12.7 bn.

### New Energy

#### Renewables

- Execute the RES development strategy in Czechia.
- Operate the RES portfolio efficiently in Czechia and abroad.
- Complete the construction of the Ascheres, France wind park with an installed capacity of 13.6 MW.
- Increase the value of development acquisitions abroad.

#### Inven Capital

- Expand investment activities and make 1–2 new growth investments.
- Define exit strategies and financial parameters for sale of companies in the portfolio.

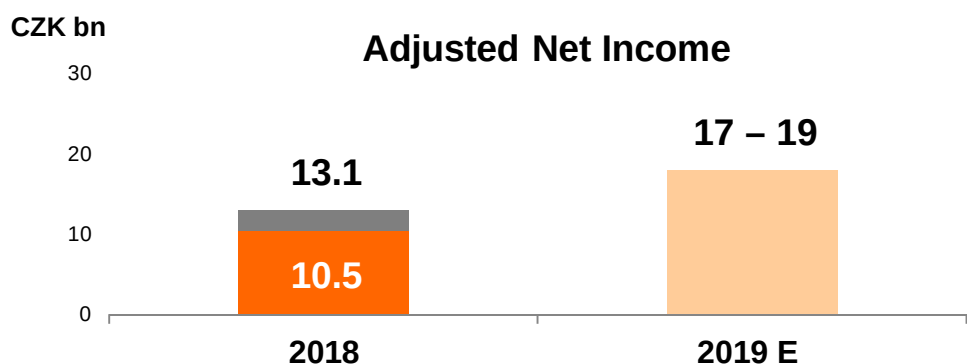
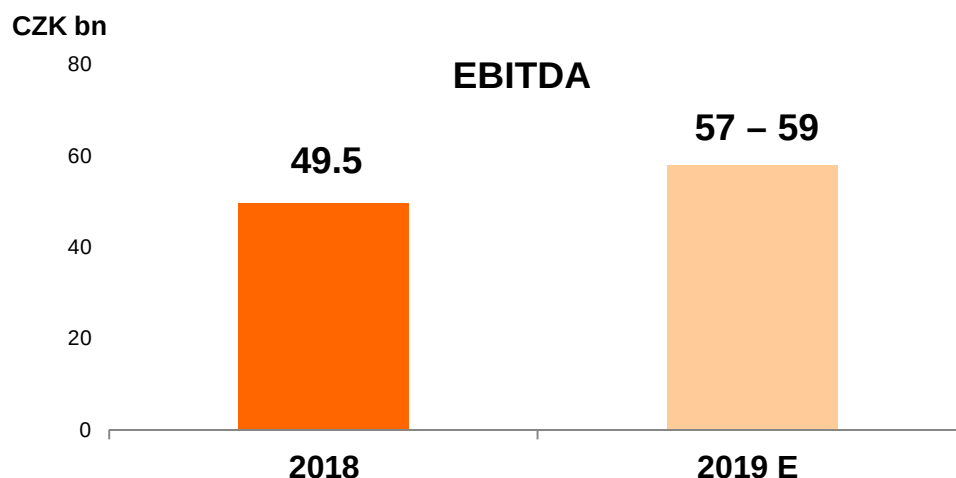
# AGENDA



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|                                                |    |
|------------------------------------------------|----|
| ▪ Introduction, strategic priorities           | 1  |
| ▪ Traditional Generation                       | 10 |
| ▪ Distribution and sales                       | 19 |
| ▪ Energy services and renewables               | 22 |
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| ▪ Electricity market fundamentals              | 39 |
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| ▪ Project of new nuclear in the Czech Republic | 50 |
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| ▪ Latest and historical financial results      | 65 |

# WE CONFIRM THE FINANCIAL OUTLOOK FOR 2019, ESTIMATING EBITDA AT CZK 57 TO 59 BN, ADJUSTED NET INCOME AT CZK 17 TO 19 BN



■ Effect of adjustment for extraordinary effects in 2018

## Key prediction assumptions:

- Electricity generation of 68.8 TWh, including 31.2 TWh by nuclear plants
- Estimated average realization price of generated electricity in Czechia, including the effect of hedges, is 39 EUR/MWh

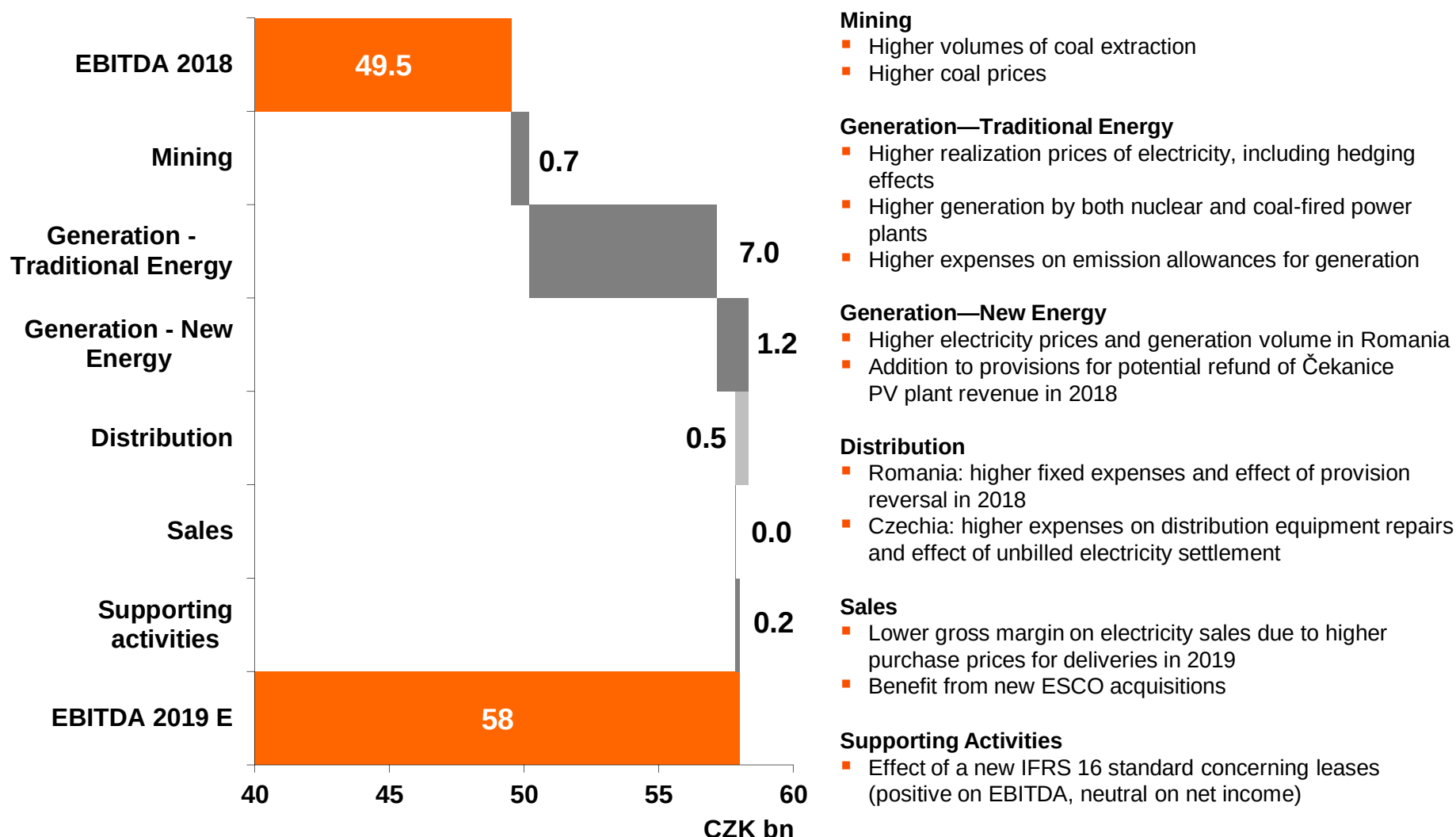
## Selected prediction risks and opportunities (reasons for using the interval):

- Availability of generating facilities
- New development acquisitions
- Legal disputes (in particular, with SŽDC)
- Divestment of Bulgarian assets

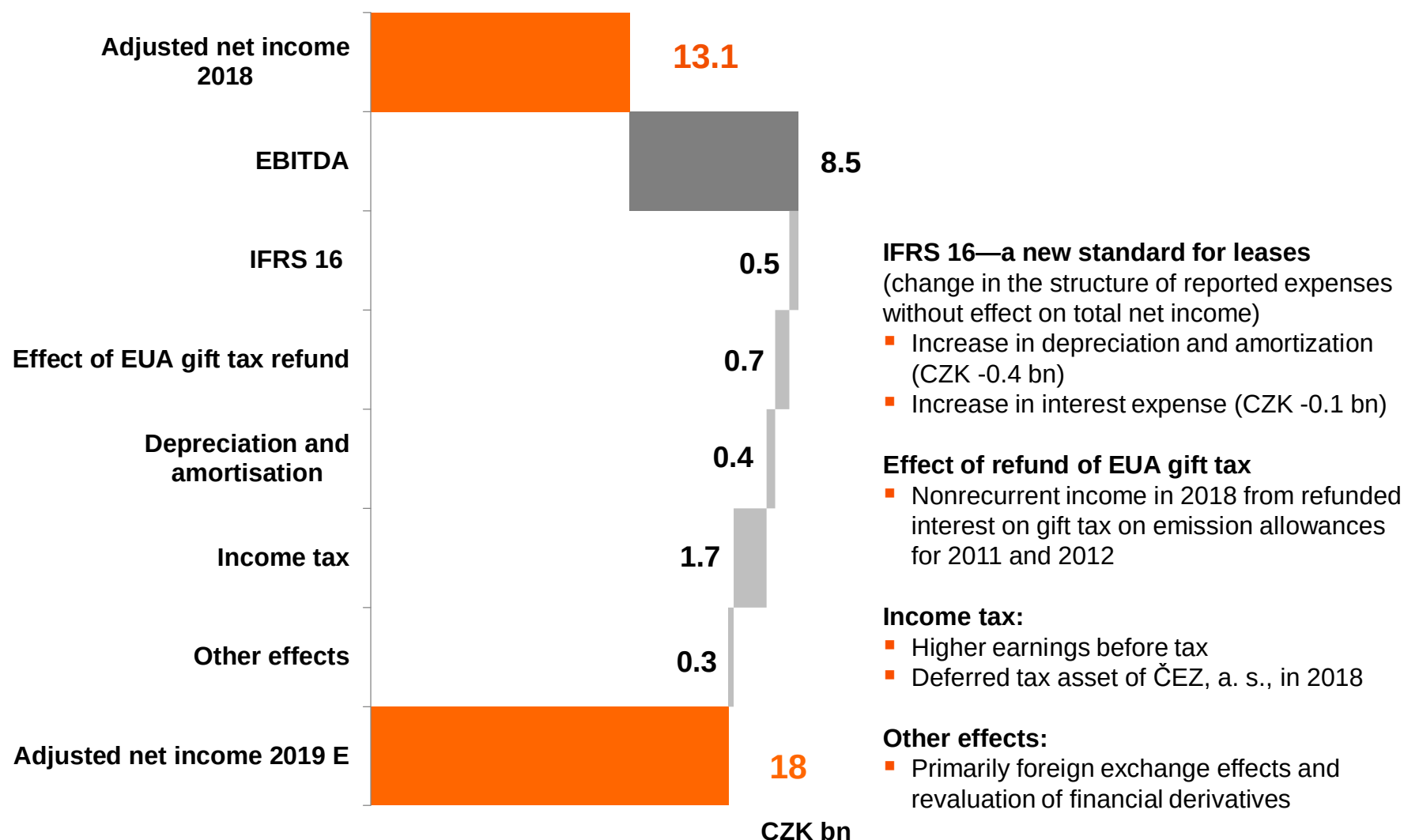


# ESTIMATED Y-O-Y CHANGE IN EBITDA

## MAIN CAUSES BY SEGMENT



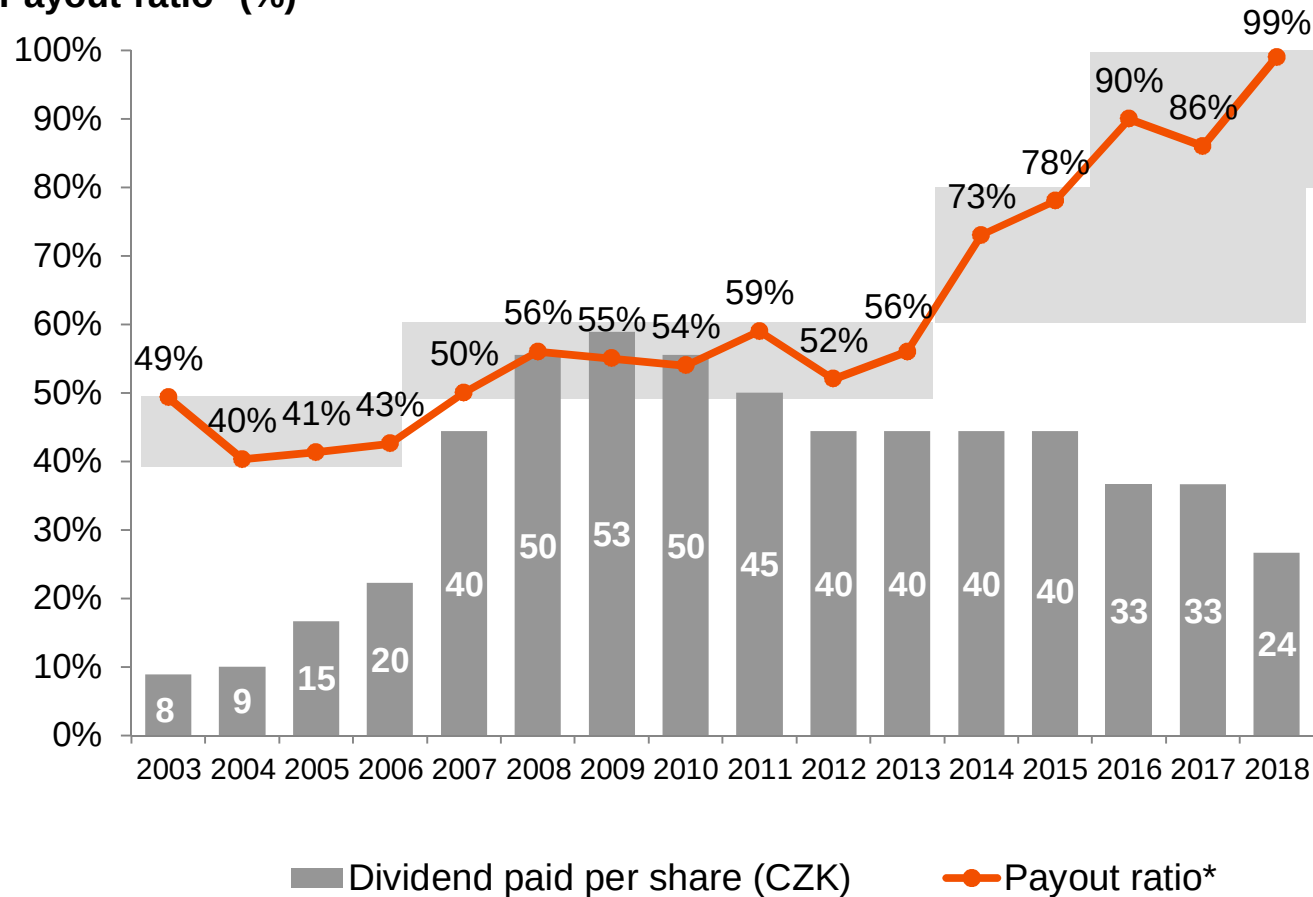
# ESTIMATED Y-O-Y CHANGE IN NET INCOME MAIN CAUSES



# DIVIDEND POLICY IS TO DISTRIBUTE 80 – 100 % OF ADJUSTED NET INCOME



**Payout ratio\* (%)**

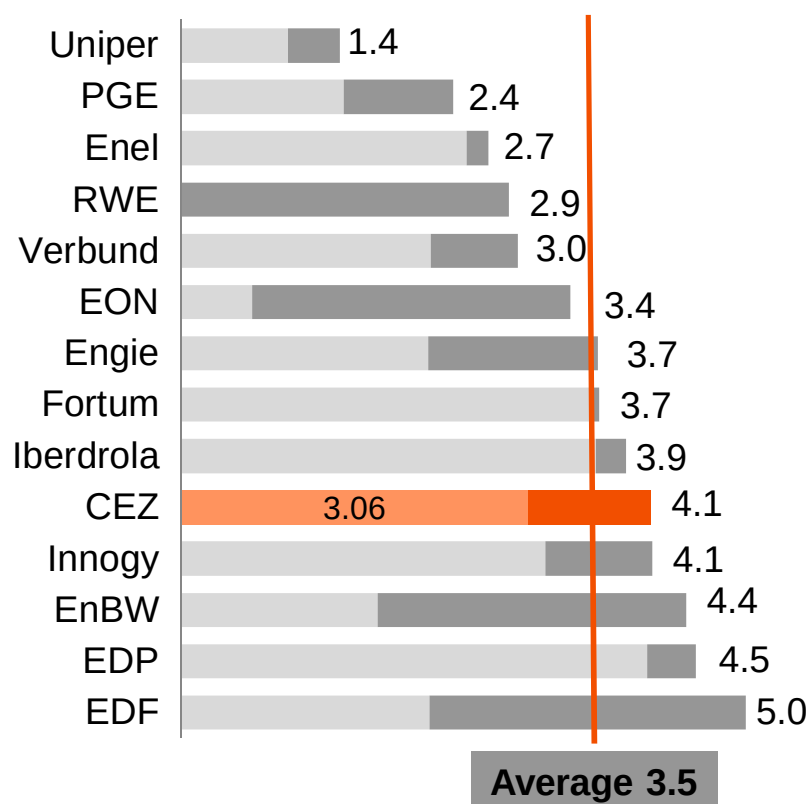


- On May 27, 2019 Board of Directors approved new **dividend policy of 80-100% payout**
- General meeting on June 26, 2019 approved **2018 dividend of CZK 24 per share**

# CEZ TARGETS ITS LEVERAGE RATIO OF NET FINANCIAL DEBT/EBITDA BETWEEN 2.5x AND 3.0x



## Net economic debt/ EBITDA\* 2018



## Current credit rating

- A-, stable outlook from S&P
- Baa1, positive outlook from Moody's

## Tolerated leverage

- net financial debt/EBITDA ratio at 2.5-3.0x
- 3.06x as of YE 2018 influenced by specific factors affecting the value of the ratio, such as higher margin deposits on commodity exchanges (in connection with increased electricity prices) or purchase of CO2 allowances for own use in 2020 and 2021
- 2019 ND/EBITDA ratio will be positively influenced by higher guided EBITDA and it reached 2.8x as of Q1 2019

\*EBITDA as reported by companies, \*\* Net economic debt = net financial debt + net nuclear provisions + provisions for employee pensions + net reclamation provision

# AGENDA



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# SUMMARY

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- CEZ is operating renewed low cost and profitable generation fleet and is positioned to get upsides from high CO2 and/or hard coal prices
- Future growth of CEZ comes from ESCO, distributed energy and renewables in countries in Central/Western Europe:
  - CEZ is increasing its investments into distribution
  - CEZ acquired ESCO companies in the Czech Republic and Germany and aims to become a leading player in energy efficiency solutions
  - CEZ wants to grow its presence in domestic renewables
- Dividend approved at CZK 24 per share from 2018 earnings, i.e. 99% of adjusted net income. Dividend policy: 80-100% payout ratio

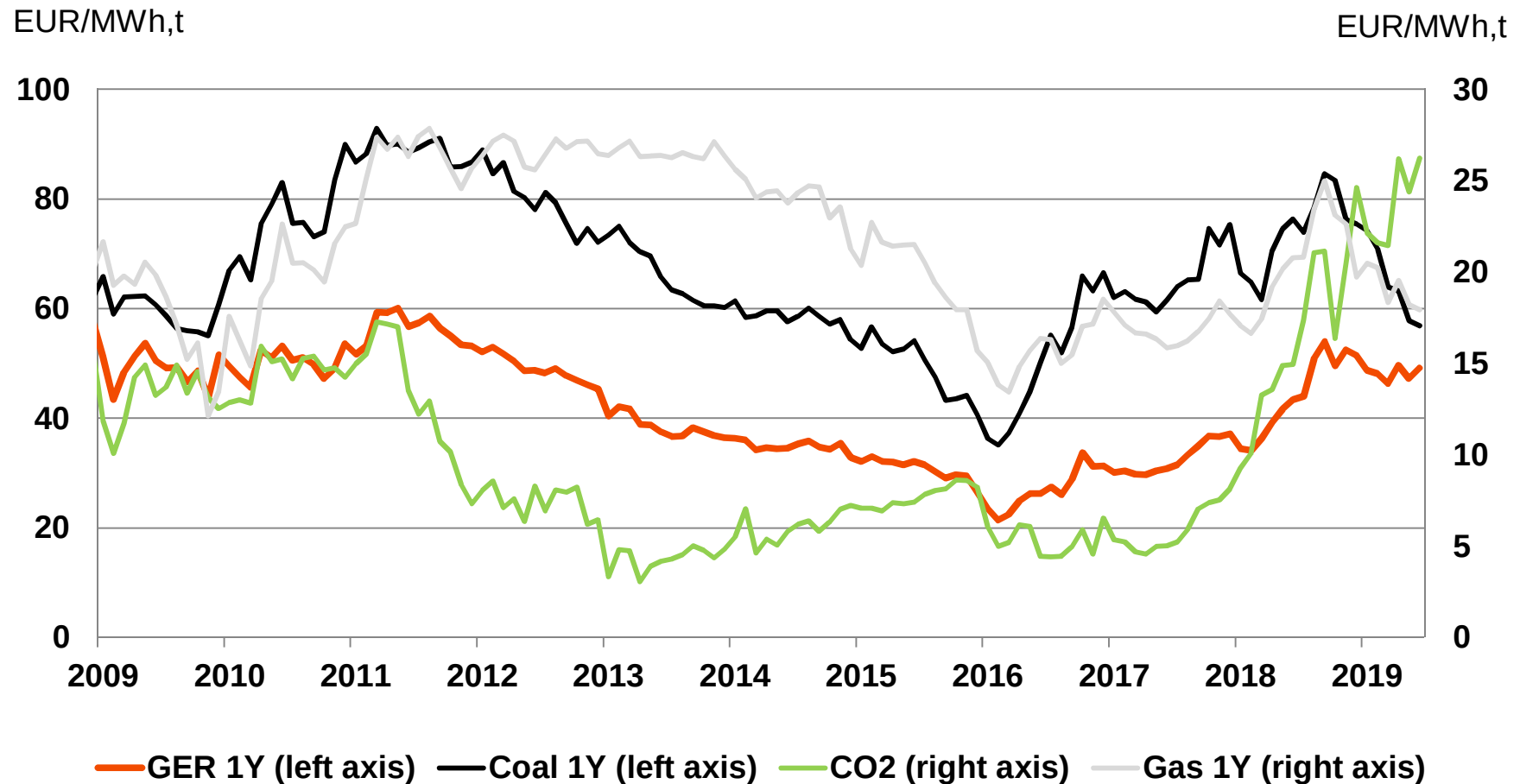
# AGENDA



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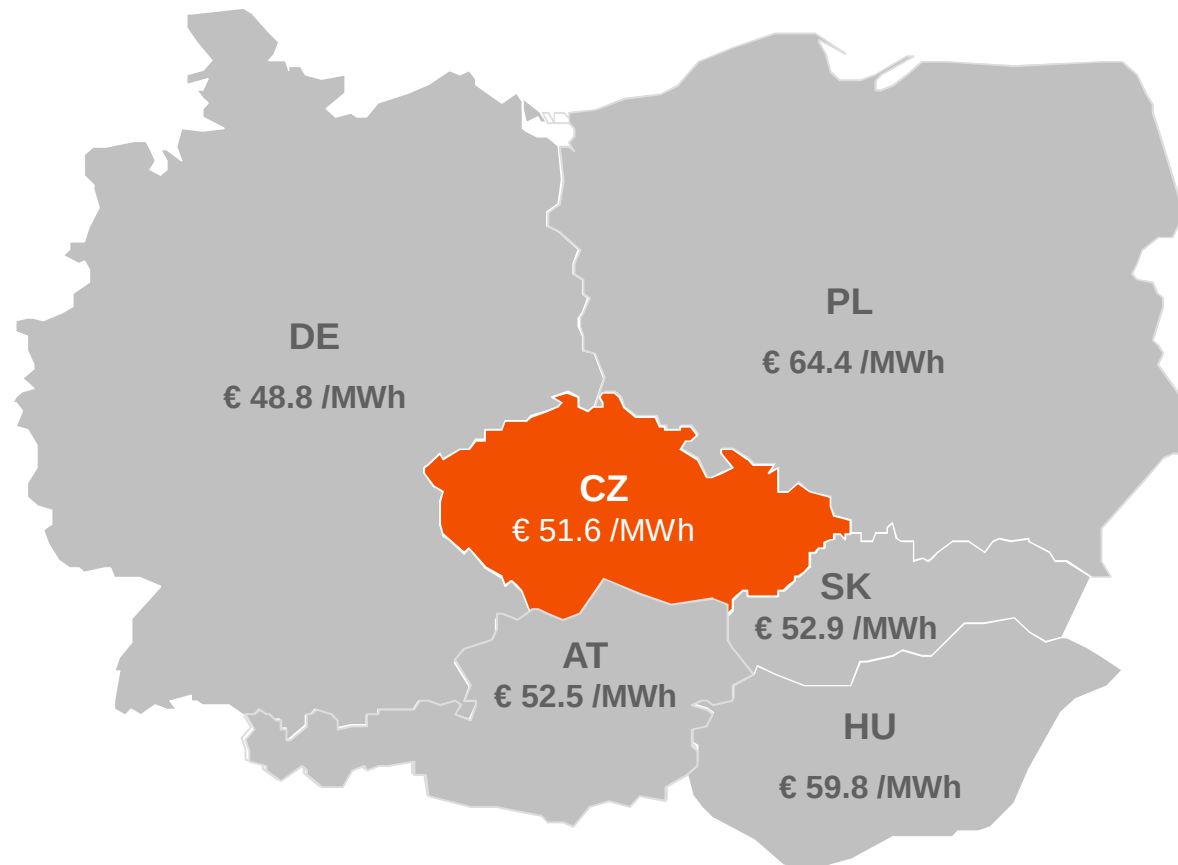
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# HISTORICAL DEVELOPMENT OF PRICES OF INPUT COMMODITIES





## ELECTRICITY MARKETS IN THE REGION ARE INTEGRATED, CEZ CAN SELL ITS POWER ABROAD

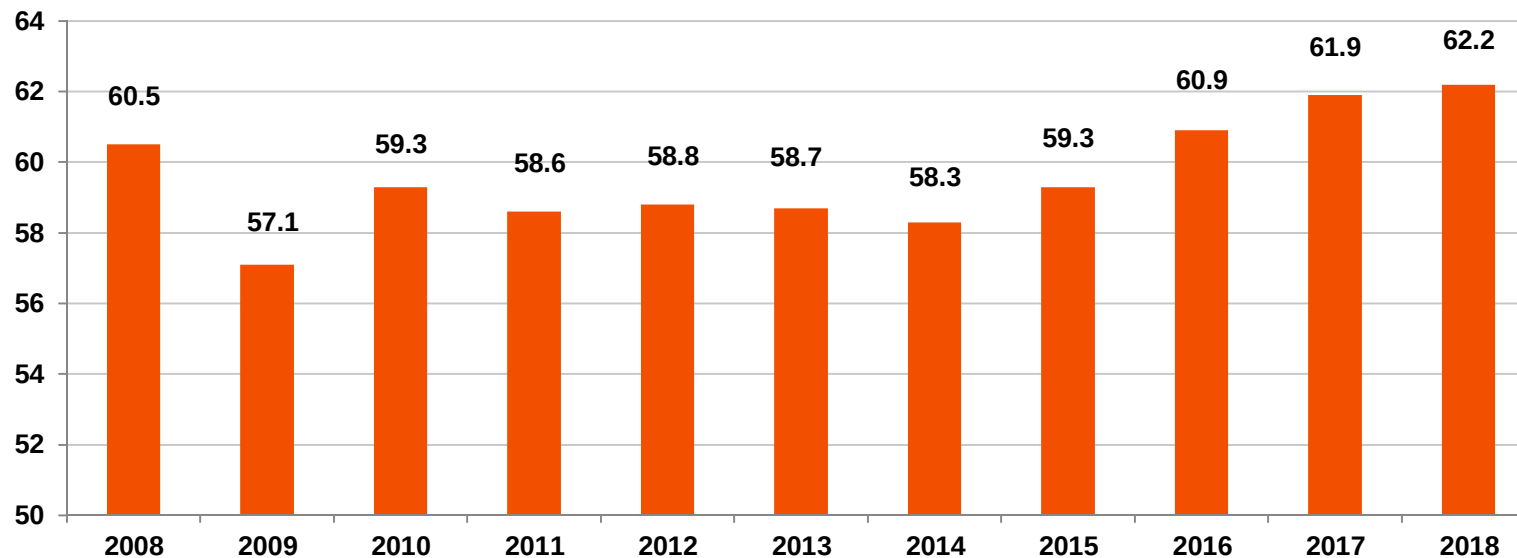


Source: EEX, PXE, TGE

# CZECH ELECTRICITY DEMAND GREW BY 0.5% IN 2018



Net electricity consumption in the Czech Republic (TWh)

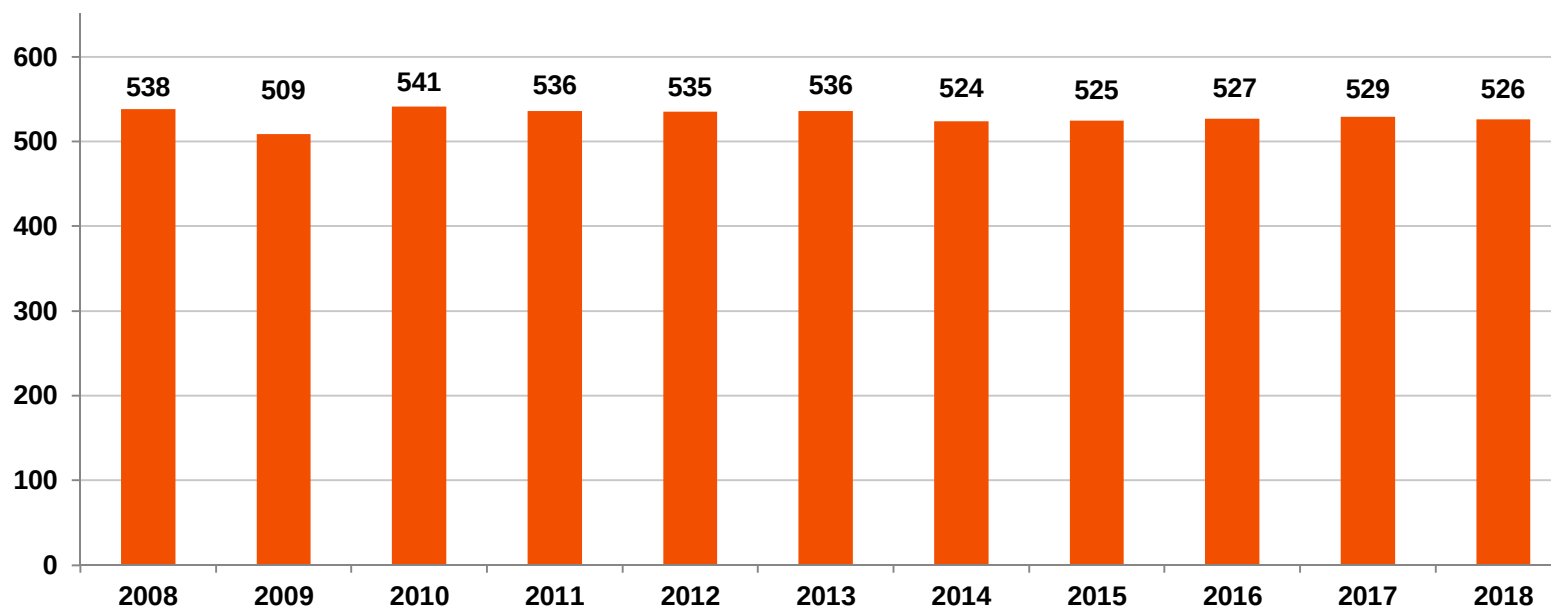


- **Consumption** in the Czech Republic grew **0.5% in 2018**, of which:
  - + 1.7% large industrial companies
  - - 1.1% households
  - - 0.6% small businesses
- **Consumption** in the distribution area of CEZ Distribuce\* grew by **0.5%**
  - + 1.4% large industrial companies
  - - 0.7% households
  - - 1.1% small businesses

# GERMAN ELECTRICITY DEMAND HAS SHRUNK Y/Y



Net electricity consumption in the Germany (TWh)

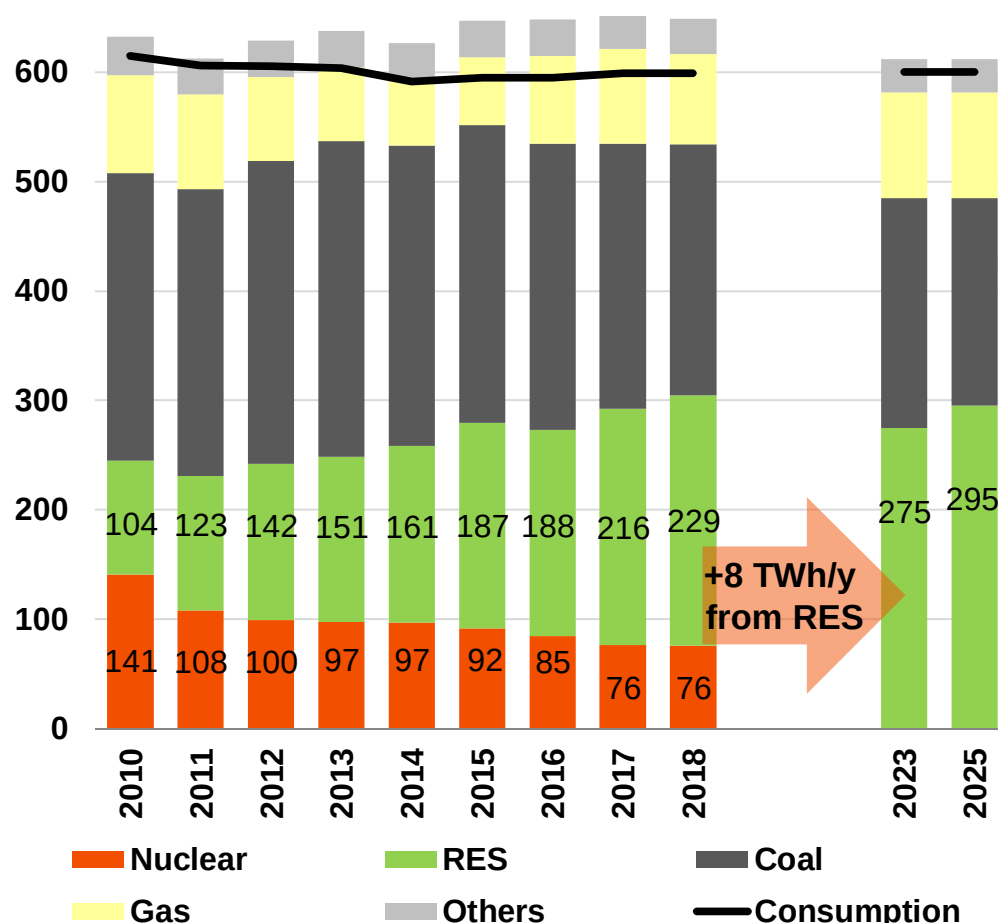


- **Net electricity consumption** in Germany has **decreased by 0.5 % in 2018** of which:
  - - 0.5% industry
  - - 0.8% households
  - +0.0% trade, small businesses, public institutions and agriculture

# RENEWABLE GENERATION GROWTH IN GERMANY WILL OFFSET PLANNED PHASE OUT OF GERMAN NUCLEAR AND COAL POWER PLANTS BY 2023...



**Electricity energy balance in Germany**  
TWh/year, brutto



## German consumption

- Long term stagnation
- Potential decrease due to Energy Efficiency Directive
- Most likely low support from EV; 2022 target: 1m cars ~ 2.5 TWh/year

## German supply (2023 vs 2010)

- Nuclear power plants phase out (Atomausstieg)** : -141 TWh from Nuclear
- Energiewende** : +170 TWh from RES
- Coal phase-out** : Germany plans to reduce coal capacity by ~ 9 GW to 30 GW in 2022, but coal generation should remain more or less stable until 2023 due to sufficient spare coal capacity

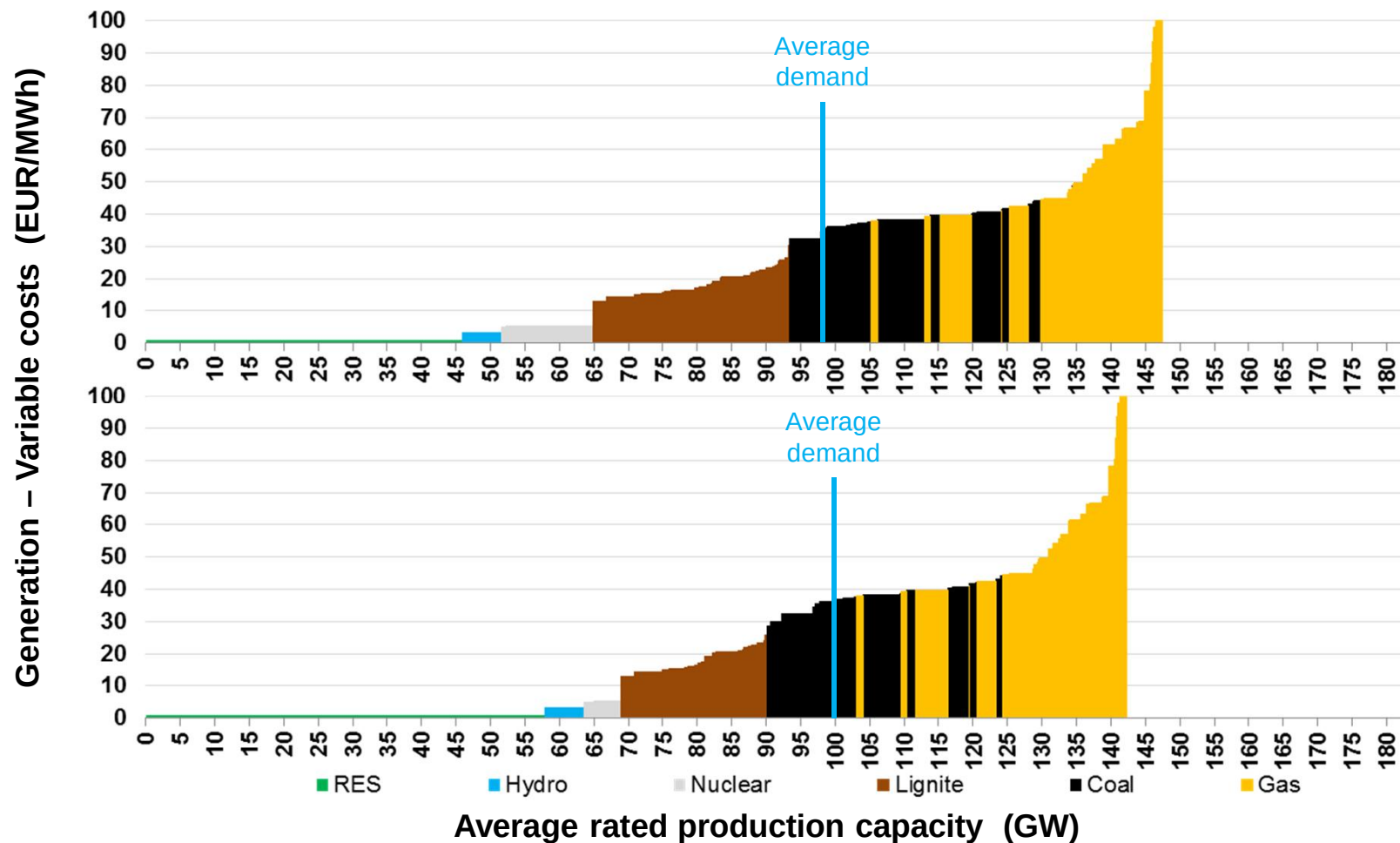
## After 2023

- Growth of RES volumes** based on plan. Annually displaces 1000 MW of coal from the market
- Germany aims at reducing its black- and brown-coal capacity to **30 GW in 2022, 17 GW in 2030** and **phase out all its coal capacity by 2038**

## ...AND PRICE UPSIDE FROM THE GERMAN'S PHASE OUT MIGHT BE EXPECTED...



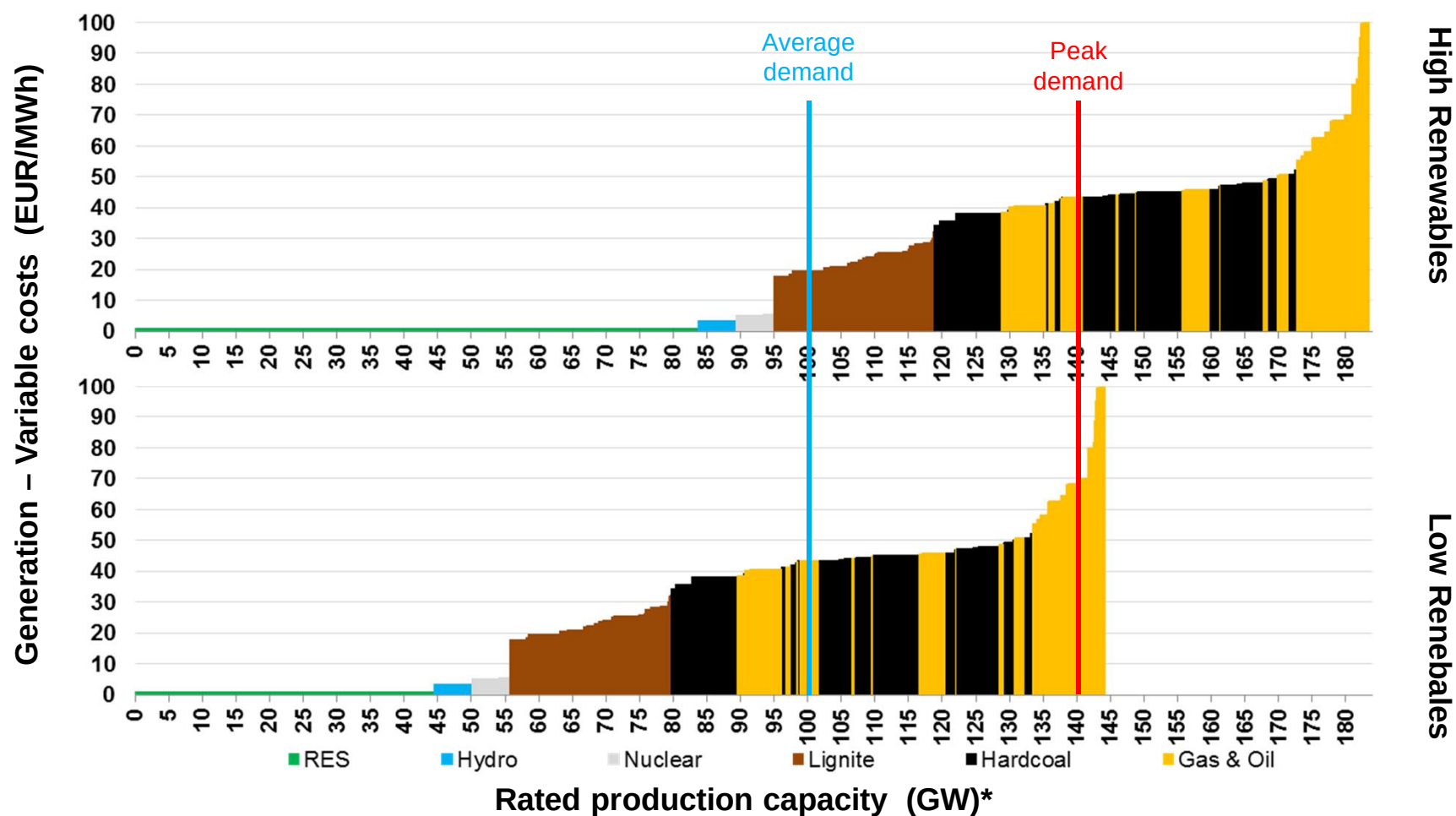
Illustrative cost curve for Central Europe 2017, 2023\*



# ... RENEWABLES WILL BRING MORE VOLATILITY INTO THE MARKET



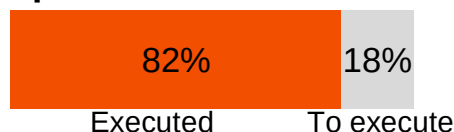
Illustrative cost curves for Central Europe 2023



# TARGETS OF 2020 STRATEGIC AMBITIONS ARE LARGELY ACHIEVED

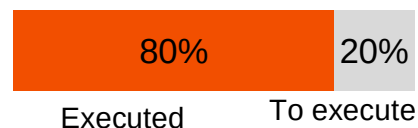


## Operations Team – additional CZK 3 bn EBITDA by 2020\*



- Cost reductions and efficiency increase in support services
- Power Generation and Mining optimization
- Strengthening position in the Heat market

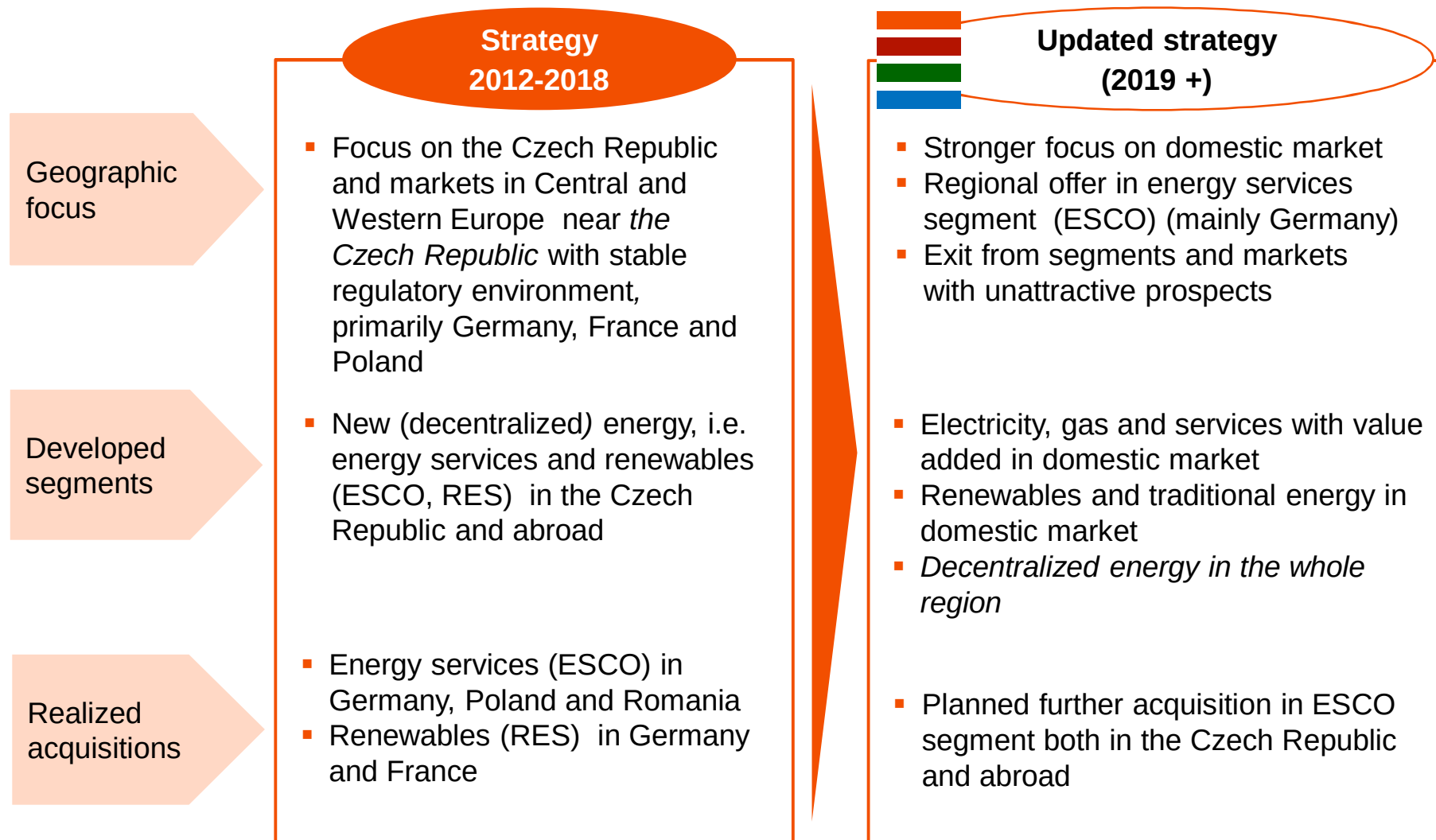
## Development Team - additional CZK 6 bn EBITDA by 2020\*



- Acquisitions and Development in Renewable Generation, ESCO and distribution in Western and Central Europe
- Acquisition potential up to CEZ Group's leverage of 3x Net Debt / EBITDA
- Optimization of Distribution operations and Sales to retail
- Venture-type investments in Energy related areas in Europe

Ambitions that were not executed already are being incorporated into updated strategy for the period 2019+

# SUMMARY OF MAIN PARAMETERS OF PREVIOUS AND UPDATED STRATEGY OF CEZ GROUP





# CEZ CONTEMPLATES SALE OF ITS DISTRIBUTION, SALES AND GENERATION ASSET EAST OF HOME MARKET



| 2018                                  | Bulgaria<br>(67% stake) | Romania sales and<br>distribution<br>(100% stake) | Romania RES<br>(100% stake) | Poland generation<br>(100% stake) |
|---------------------------------------|-------------------------|---------------------------------------------------|-----------------------------|-----------------------------------|
| 2019 RAB<br>(EUR m)                   | 300                     | 462                                               | -                           | -                                 |
| Installed capacity                    | -                       | -                                                 | 600 MW wind<br>22 MW hydro  | 678 MW coal                       |
| Electricity generated/<br>distributed | 9.5 TWh                 | 6.8 TWh                                           | 1.2 TWh                     | 2.8 TWh                           |
| Number of sales customers             | 2.1 m                   | 1.5 m                                             | -                           | -                                 |
| Revenues (CZK bn)                     | 16.5                    | 10.9                                              | 2.8                         | 4.6                               |
| EBITDA (CZK bn)                       | 1.3                     | 1.8                                               | 1.4                         | 1.0                               |
| Net profit (CZK bn)                   | 0.5                     | 0.4                                               | 1.1*                        | 0.2                               |

**Total contribution to CEZ Group (2018): CZK 5.5 bn EBITDA and CZK 34.8 bn revenues**

Turkish assets are consolidated with equity method. CEZ own 50% share in Akcez Enerji which distributed 9.7TWh of electricity to 1.8million customers in 2018. CEZ also owns 38% share in Akenerji Elektrik Üretim which own 904 MW CCGT plant, 28 MW wind and 289 MW hydro power plants. Akenerji generated 3.8TWh in 2018

# SALES PROCESS OF BULGARIAN ASSETS CONTINUES



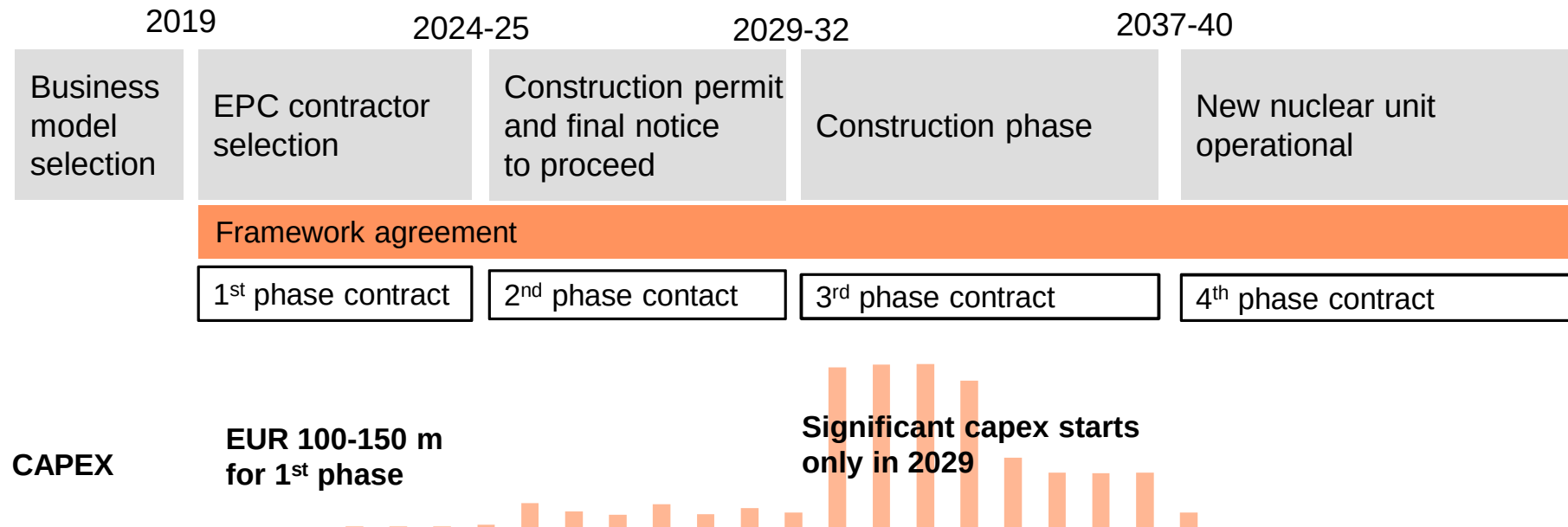
## NEGOTIATIONS ON THE SALE OF ASSETS IN BULGARIA CONTINUE WITH EUROHOLD

- Following the Bulgarian competition authority's disapproval of the sale of its Bulgarian assets to Inercom, ČEZ entered into parallel negotiations with other prospective buyers of the Bulgarian assets for sale. The sale concerns a total of seven companies: CEZ Bulgaria, CEZ Elektro Bulgaria, CEZ Razpredelenie Bulgaria, CEZ Trade Bulgaria, CEZ ICT Bulgaria, Free Energy Project Oreshets, and Bara Group.
- On Apr 1, 2019, ČEZ received binding offers to buy the Bulgarian assets in question from India Power and Eurohold.
- On Apr 12, 2019, ČEZ decided to terminate the purchase agreement for the sale of the Bulgarian assets to Inercom. The reason was frustration of agreement conditions and, consequently, of the settlement of the agreement by the Bulgarian state's unlawful conduct.
- After evaluation of the binding offers, Eurohold was granted exclusivity for finalizing the terms and conditions of the contract and arranging acquisition funding.
- On Jun 20, 2019, ČEZ has signed a contract with Eurohold for the sale of its Bulgarian assets. The selling price is EUR 335 million. The settlement of the transaction is subject to regulatory approvals of the Bulgarian antimonopoly office and the Bulgarian energy regulator.

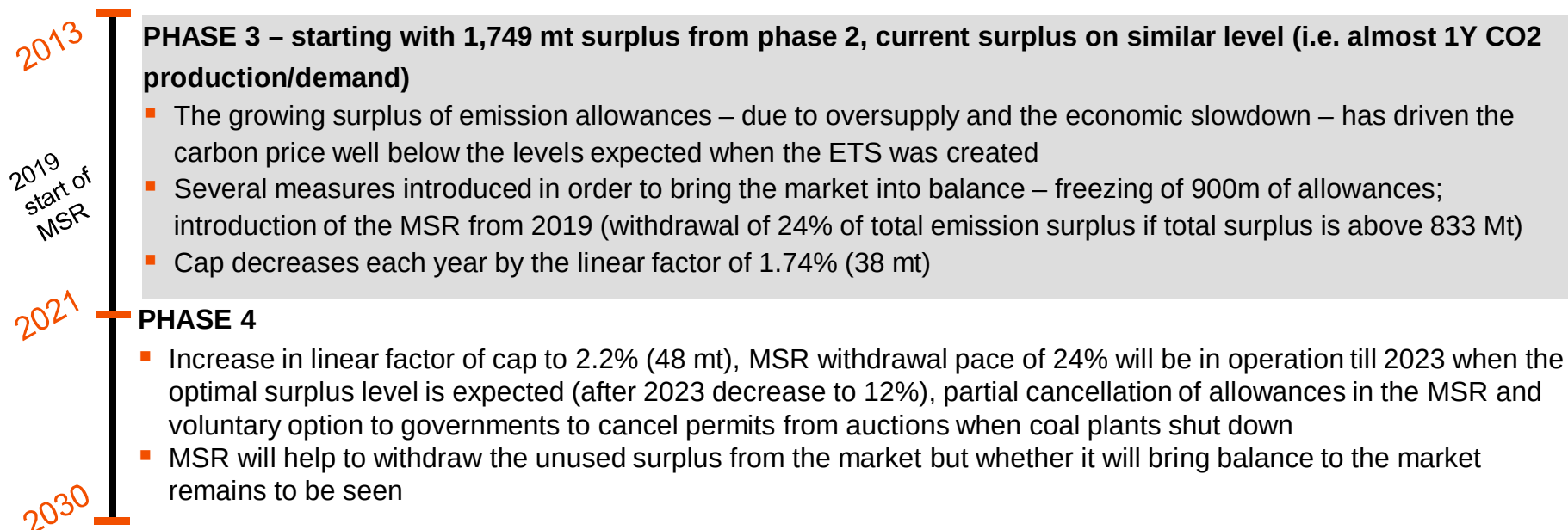
# PROJECT OF NEW NUCLEAR IN THE CZECH REPUBLIC



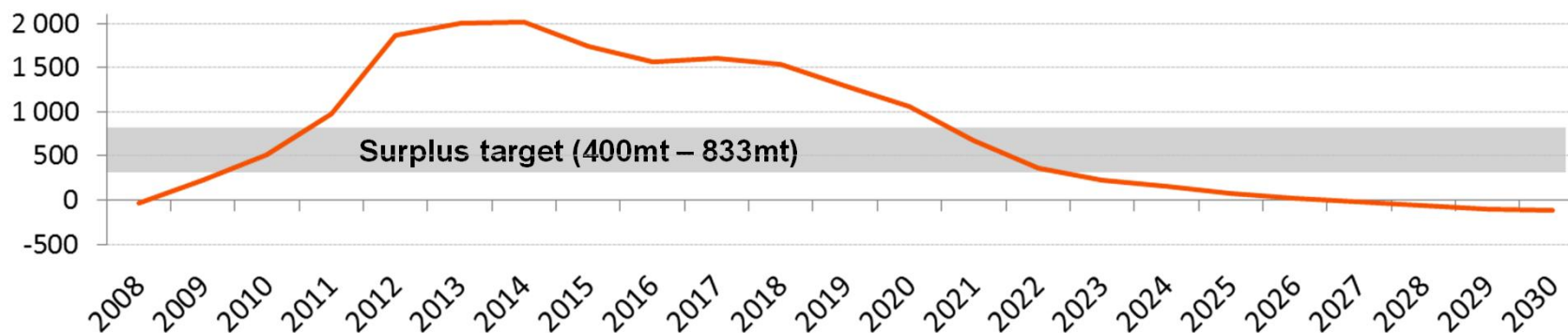
- Government currently works with a scenario, where CEZ develops the new nuclear plant through SPV. Conditions to be specified in a series of contracts between CEZ and the government. The negotiations are at the beginning.
- **Anticipated contract principles**
  - Contract will include put and call options with strike prices covering expenses at the end of each phase
  - Government will be obliged to buy SPV in case of the absence of the contract for the next phase



# EUROPEAN UNION IS PROGRESSING WITH REFORM OF ITS EMISSION TRADING SCHEME BUT THE MARKET BALANCE REMAINS FRAGILE



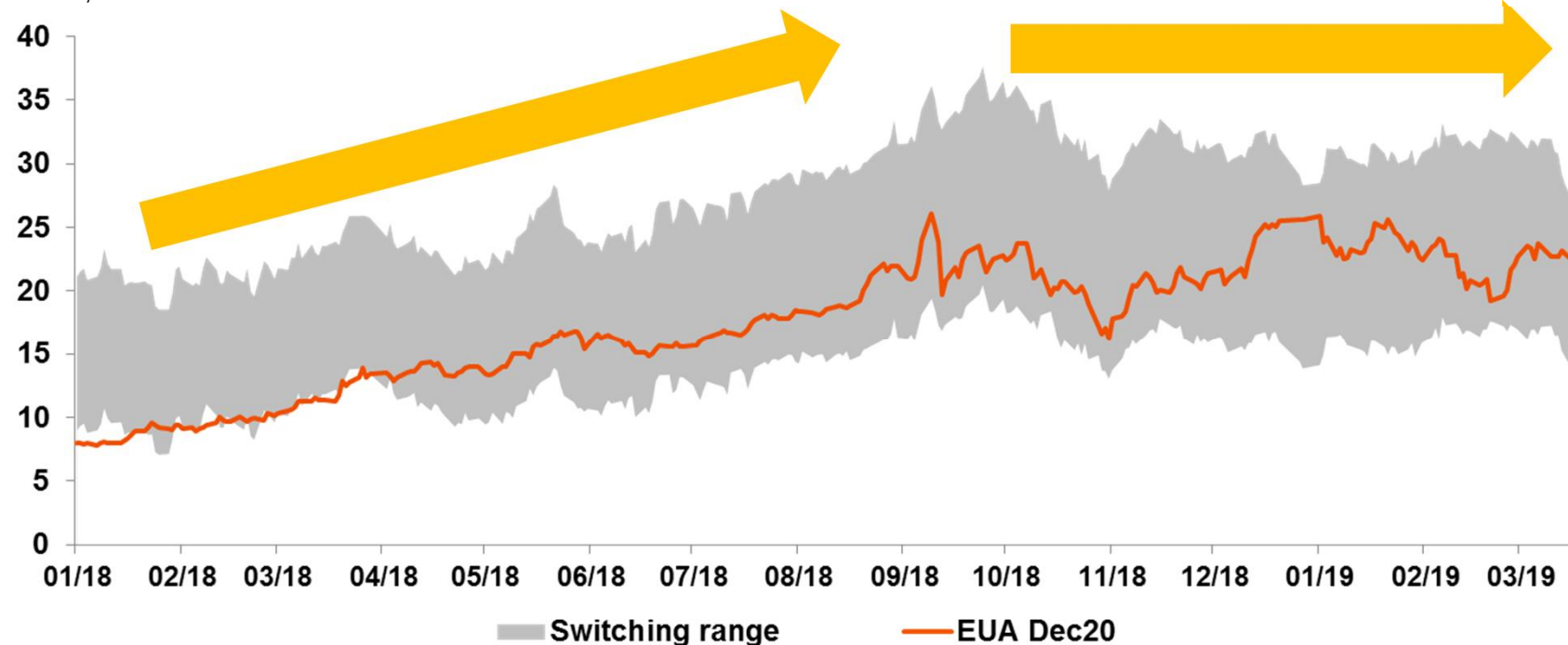
Emission allowances surplus\*\*, mt



# COAL-TO-GAS SWITCHING RANGE HAS MORE OR LESS STABILIZED



Price needed for Coal-to-Gas switching, low and average efficient sources\*, Emission allowance prices on forward market  
EUR/t, Cal 2020



- Current emission certificate price allows to switch part of the generation from the least efficient coal power plants to the most efficient gas power plants
- EUA prices have more or less followed the development of relative fuels' prices, and therefore their increase hasn't incentivized much additional emission savings
- The whole switching potential is estimated to 290 Mt of CO<sub>2</sub> savings, half of this potential would be achieved with EUA price below 30 EUR/t (assuming current fuel prices)

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY



**CEZ Group has formulated a sustainable development strategy “Energy for the Future”** and has nominated Member of the Board of Directors **Michaela Chaloupková** to be CEZ Group Sustainability Leader with responsibility for oversight of the sustainable development. The Board oversees ESG and climate-related issues regularly.

## Environment

- ČEZ made a commitment to generate carbon neutral electricity before 2050
- ČEZ is giving a priority to projects enabling plant operation after 2020 when new BAT/BREF limits are to enter into force

## Social

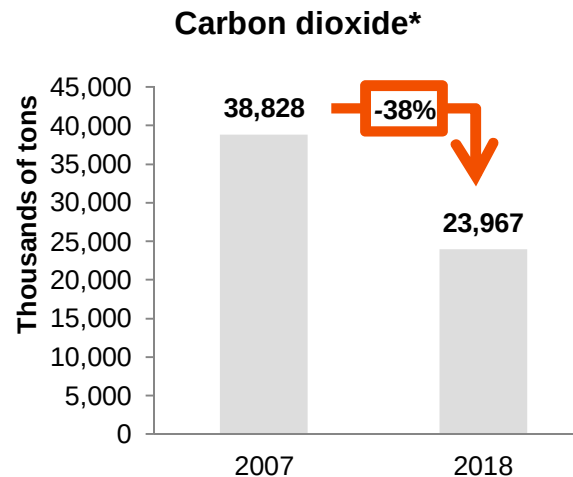
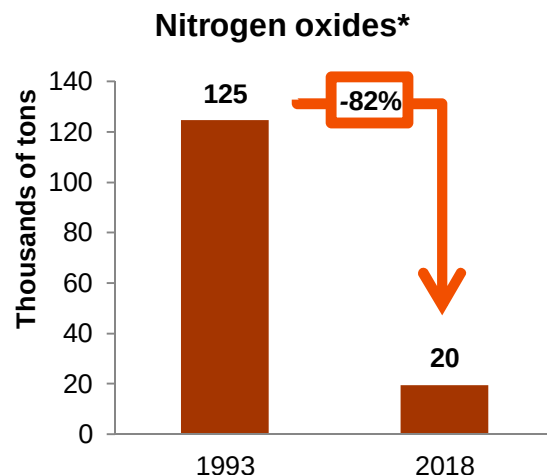
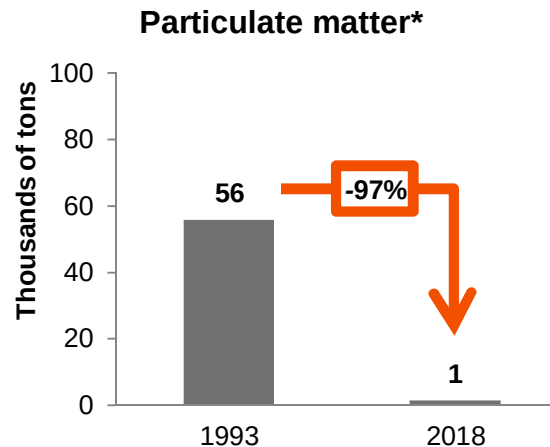
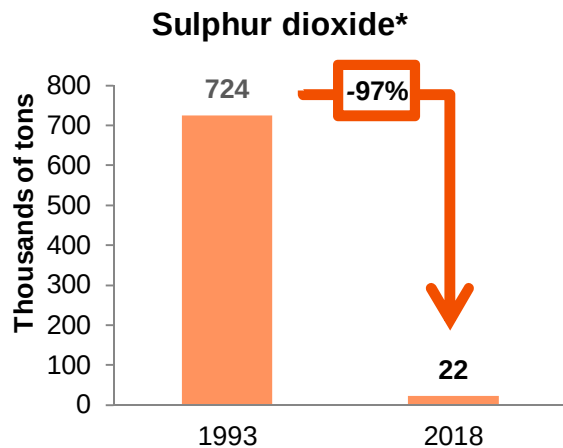
- ČEZ has donated CZK 336 million in 2018 through ČEZ Foundation or directly to more than thousand public benefit projects
- ČEZ has shortened 37.5-hour work week and guarantees one additional week of paid vacation beyond the statutory minimum.
- Freedom of association in trade unions, collective bargaining and a long-term collective agreement is in place within ČEZ Group companies.

## Governance

- 21.8% of employees are women, 29.6% of new employee hires are women
- 4 out of 12 Supervisory Board members are employee representatives
- 2 out of 19 Board of Directors and Supervisory Board members are women
- ČEZ has emphasis on providing equal opportunity and promoting diversity

Sustainability\* report providing details of our initiatives can be downloaded at  
[www.cez.cz/en/investors.html](http://www.cez.cz/en/investors.html)

# CEZ GROUP SIGNIFICANTLY REDUCED EMISSIONS FROM ITS COAL FLEET



- During 1990's CZK 111 bn has been invested into complex, modernization of power stations, desulphurization, denitrification and efficiency upgrades. 2,020 MW of old units have been decommissioned
- In 2000-02 nuclear power plant Temelin was commissioned and contributed to reduction of coal output
- 2010's comprehensive renewal of Tušimice and Prunéřov TPP's and new supercritical unit at Ledvice. Investment of more than CZK100 bn has led to further increase in efficiency of the power generation and emission reductions

# E-MOBILITY WITHIN CEZ GROUP INCLUDES BROAD SPECTRUM OF ACTIVITIES



## Charging infrastructure\*

- Main goal is to develop backbone network of fast charging stations throughout the Czech republic (regional cities and major roads)
- Additional implementation of normal charging stations (car parks, shopping centers, bus depots)

## ⇒⇒⇒ Co-financed by EU programs

- EV Fast Charging Backbone Network Central Europe
- CEZ EV TEN-T Fast Charging Network

## Offering set of different products to customers

- Commercial products\*\* - e-mobility for smart cities, electrification of public transport, products for different customers with individual operation (SME, large companies), ...
- Commodity products\*\*\* - main product is “electricity for charging” that offers customers accessible and simple connection to all stations operated by CEZ





# EU CLIMATE & ENERGY TARGETS SET FOR 2030 ARE HIGHLY AMBITIOUS even though there was a compromise between EU Council and EP ambitions



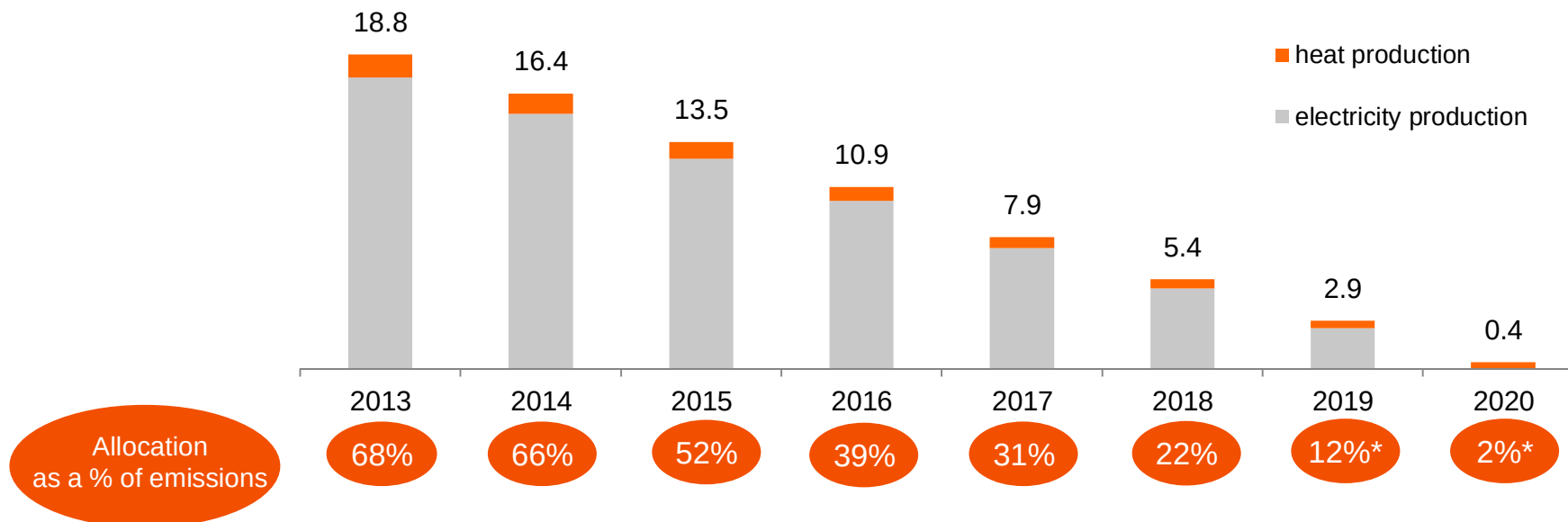
|                                                                              | 2020                                                                                                                                                                                                                                                                                                                           | 2030 (March 2018)                                                                                                                                                                  | 2030 (passed)*                                                                                                                                                                                                                                                                  |
|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Reduction of <b>greenhouse gas emissions</b> from 1990 levels                | <b>20%</b> <ul style="list-style-type: none"> <li>▪ <b>Binding EU-wide</b> target</li> <li>▪ Partial target for EU ETS: 21% reduction from 2005 levels by 2020</li> </ul>                                                                                                                                                      | <b>At least 40%</b> <ul style="list-style-type: none"> <li>▪ <b>Binding EU-wide</b> target</li> <li>▪ Partial target for EU ETS: 43% reduction from 2005 levels by 2030</li> </ul> | <b>At least 40%</b> <ul style="list-style-type: none"> <li>▪ <b>Binding at EU-wide</b> level</li> <li>▪ Can be reached as a side effect while going for the other two targets</li> </ul>                                                                                        |
| Share of <b>renewable energy sources</b> in total final energy consumption** | <b>20%</b> <ul style="list-style-type: none"> <li>▪ <b>Binding national</b> target</li> <li>▪ Initially supported primarily by means of feed-in tariffs, auctions since 2017</li> </ul>                                                                                                                                        | <b>Proposals for 27–35%</b> <ul style="list-style-type: none"> <li>▪ Compromise between EU Council target (27%) and European Parliament target (35%) in Trilogue</li> </ul>        | <b>At least 32%</b> <ul style="list-style-type: none"> <li>▪ <b>Binding at EU-wide</b> level, national targets may differ</li> <li>▪ Fulfillment in electricity, heat, and transportation</li> <li>▪ RES electricity in the EU should grow to 55% (from 34% in 2020)</li> </ul> |
| <b>Energy savings (EED***)</b> in comparison with levels in 2007 predictions | <b>20%</b> <ul style="list-style-type: none"> <li>▪ <b>Indicative national</b> target</li> <li>▪ Mandatory energy-saving measures in final consumption</li> </ul>                                                                                                                                                              | <b>Proposals for 30–35%</b> <ul style="list-style-type: none"> <li>▪ Compromise between EU Council target (30%) and European Parliament target (35%) in Trilogue</li> </ul>        | <b>At least 32.5%</b> <ul style="list-style-type: none"> <li>▪ <b>Indicative at EU-wide</b> level</li> <li>▪ <b>Binding annual savings of 0.8% of consumer energy at national level</b> (for Czechia in total app. 32.3%) ****</li> </ul>                                       |
| <b>Implications for CEZ Group</b>                                            | <ul style="list-style-type: none"> <li>▪ Potential for increased emission allowance prices and thus <b>higher generation margin</b> by virtue of low CO<sub>2</sub> emission factor</li> <li>▪ Further potential for <b>ESCO development</b> (as a result of pressure on energy savings) and <b>RES development</b></li> </ul> |                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                 |

# CEZ GROUP RECEIVES PART OF EMISSION ALLOWANCES FOR FREE



- CEZ Group to receive up to **69.6 million** emission allowances for electricity production in the Czech Republic in 2013–2019 in exchange for investments reducing greenhouse gas emissions.
- Up to 60% of the standard national auction volumes can be freely allocated for the modernization of the energy sector in less developed countries post 2020 (including Czech republic)

Expected allocation of allowances for CEZ Group in the Czech Republic (millions)



# CZECH REPUBLIC: ELECTRICITY DISTRIBUTION - OVERVIEW OF REGULATORY FRAMEWORK



## Regulatory Framework

- Regulated by ERU (Energy Regulatory Office, [www.eru.cz](http://www.eru.cz))
- The main components of regulatory formula for distribution
  - Revenue cap = Operating expenses + Depreciation + Regulatory return on RAB - Other revenues corrections +/- Quality factor + Market factor
  - RAB adjusted annually to reflect net investments
  - Regulatory rate of return (WACC nominal, pre-tax) – 7.951% for 2016-2020
  - Operating costs are indexed to CPI + 1% (30% weight) and market services price index (70% weight). In IV. Regulatory period efficiency factor set at 1.01%/year.
  - Quality factor – prescribed levels of SAIDI and SAIFI parameters Maximum bonus or penalisation +/- 4% of allowed profit. Currently has neutral impact on CEZ Distribuce.
  - Market factor to reflect unexpected cost which could not had been planned while setting planned values of allowed costs (e.g. new duties coming from new legislation). Never used by ERU in case of CEZ Distribuce.

## Regulatory period

- 4<sup>th</sup> regulatory period from January 1, 2016 till December 31, 2020,
- Main focus:
  - lowering allowed costs compared to the previous period (reflecting actual costs in the previous regulatory period);
  - pressure on quality and security of electricity distribution (prescribed SAIDI and SAIFI parameters);
  - renew and develop the networks incentivised by reasonable regulation parameters.

## Unbundling & Liberalization

- Since January 1, 2006 all customers can choose their electricity supplier, market is 100% liberalized
- Prices for distribution regulated as per above, prices of commodity is not regulated at all.

# CZECH DISTRIBUTION - WACC COMPONENTS IN IV. REGULATORY PERIOD



- WACC set using CAPM formula:

$$WACC = \left( k_e \times \frac{E}{D+E} \right) + \left[ \left( k_d \times \frac{D}{D+E} \right) \times (1-T) \right]$$

$$k_e = r_f + \beta \times MRP$$

$$k_d = r_f + \text{credit risk margin (CRM)}$$

- Risk free rate ( $r_f$ ) was derived from median yields of 10-y Czech sovereign bonds for 10 years period
- Credit risk margin set as a difference between BBB rated corporate bonds and 10Y German and French Sovereign bonds\*

| WACC components                                 | 4th regulatory period<br>2016 – 2020 |
|-------------------------------------------------|--------------------------------------|
| Risk free rate ( $r_f$ )                        | 3.82 %                               |
| Market risk premium (MRP)                       | 5 %                                  |
| $\beta$ unlevered                               | 0.536                                |
| $\beta$ levered ( $\beta$ )                     | 0.901                                |
| <b>Cost of equity (<math>k_e</math>)</b>        | <b>8.32 %</b>                        |
| Credit risk margin (CRM)                        | 1.38 %                               |
| FTSE Euro Corporate<br>Bonds BBB                | 4.53 %                               |
| EUR gov 10YEUR                                  | 3.15 %                               |
| <b>Cost of debt, pre tax (<math>k_d</math>)</b> | <b>5.19 %</b>                        |
| Tax rate (T)                                    | 19 %                                 |
| <b>Cost of debt, post-tax</b>                   | <b>4.21 %</b>                        |
| Debt/(Debt+Equity)                              | 45.75 %                              |
| <b>WACC (nominal, before tax)</b>               | <b>7.951%</b>                        |

# ROMANIA: REGULATORY FRAMEWORK OF ELECTRICITY DISTRIBUTION



## Regulatory Framework

- Regulated by ANRE (Autoritatea Nationala de Reglementare in domeniul Energiei)
- Price cap (tariff basket) methodology
- Revenue = Controllable OPEX + non-controllable OPEX + Depreciation + Purchase of losses + Regulatory return on RAB - Revenues from reactive energy - 50% gross profit from other activities
- Losses ( technical + commercial ) reduction program agreed with ANRE on voltage levels
- Possibility for annual corrections
- Investment plan – approved by ANRE before regulatory period starts, revision of investments carried out usually done at the end of the regulatory period.
- Regulatory return (WACC pre-tax real terms) equals to 6.9%.
- Distribution tariff growth capped in real terms at 10% yearly on voltage levels and at 7% yearly for average weighted distribution tariff in the third regulatory period

## Regulatory periods

- 4th regulatory period Jan 1, 2019 – Dec 31, 2023

## Liberalization

- Removal of regulated prices for industrial consumers by end 2013, for residential consumers by end 2017
- Starting January 2018 the market was liberalized. Consumers who have not chosen their energy supplier in the free market are priced with a Last Resort Supplier tariff (endorsed by ANRE)

# BULGARIA: REGULATORY FRAMEWORK OF ELECTRICITY DISTRIBUTION



## Regulatory Framework

- Regulated by EWRC (Energy and Water Regulatory Commission)
- The regulatory formula for distribution
  - Revenue cap = Costs + Regulatory return on RAB + Depreciation
  - Regulatory rate of return (WACC nominal, pre-tax) at 6.67% for the 5<sup>th</sup> regulatory period
  - Average values set for the NBV, depreciation and investments for the whole period
  - RAB set at EUR 300.5 mil. for the 5<sup>th</sup> regulatory period\*
  - Technological losses in 5<sup>th</sup> regulatory period set by regulator at 8%
  - Efficiency factor introduced in the 2<sup>nd</sup> regulatory period, not applied in the 5<sup>th</sup> regulatory period, yet. EWRC may apply it later.

## Regulatory periods

- 3<sup>rd</sup> regulatory period August 1, 2013 – July 31, 2015
- 4<sup>th</sup> regulatory period August 1, 2015 – June 30, 2018
- 5<sup>th</sup> regulatory period July 1, 2018 – June 30, 2021

## Unbundling & Liberalization

- Unbundling successfully completed by December 31, 2006
- Since July 2007, all consumers have the right to become eligible. Most of the household customers remain in universal service with regulated tariffs though
- Liberalization process and transfer of consumers to free market is partly restrained due to a limited scale of energy products provided by the Bulgarian energy exchange (IBEX)

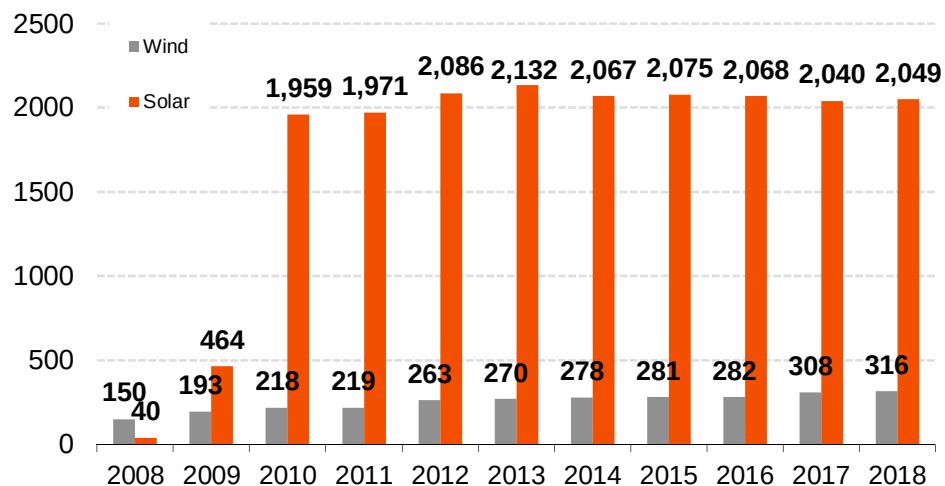
# CZECH REPUBLIC: RENEWABLES SUPPORT



2019 feed-in-tariffs (EUR per MWh)

|              | Plants commissioned in 2010 | Plants commissioned in 2019 |
|--------------|-----------------------------|-----------------------------|
| Solar <30 kW | 569.3                       | 0                           |
| Solar >30 kW | 564.8                       | 0                           |
| Wind         | 104.0                       | 75.0                        |

Installed capacity of wind and solar power plants in the Czech Republic (MWe)



- Operators of renewables can choose from two options of support:
  - Feed-in tariffs (electricity purchased by distributor)
  - Green bonuses (electricity sold on the market, bonuses paid by distributor, level of green bonuses is derived from feed-in tariffs)
- Feed-in tariffs are set by a regulator to ensure 15-year payback period. During operation of a power plant they are escalated by PPI index or by 2% at minimum and 4% at maximum.
- Support is provided for 20 years to solar, wind, pure biomass and biogas plants and for 30 years to hydro.
- Solar plants commissioned in 2014 or later do not receive any support.
- Solar plants put into operations in 2010 with capacity over 30kWp are obliged to pay 10% tax of revenues.

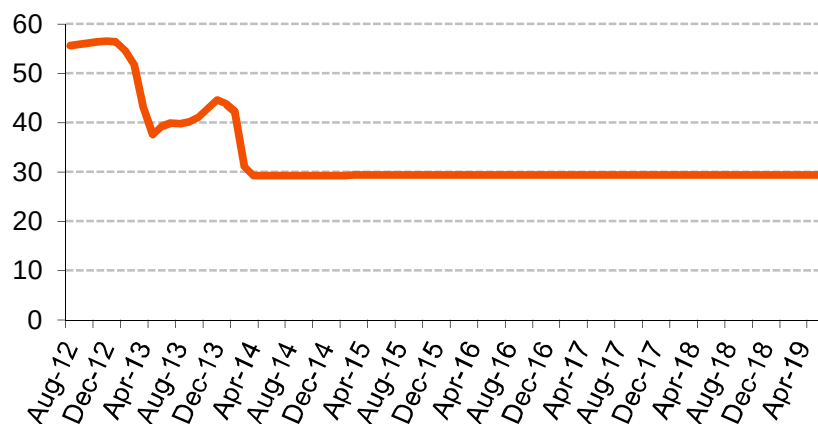
# ROMANIA: RENEWABLES SUPPORT

## UPDATE OF THE RULES ADOPTED IN 2017 SIGNIFICANTLY IMPROVES VISIBILITY OF FUTURE CASH FLOWS

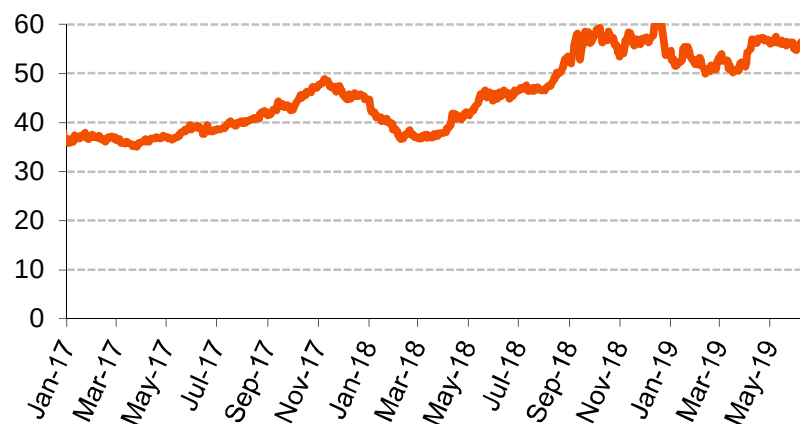


- Two green certificates (GC) obtained by the producer for each MWh supplied from wind to the network until 2017, one GC from 2018 onwards, duration of support – 15 years.
- Legally set price for green certificate is EUR 29.4 – EUR 35 (adjusted in March 2017 from previous EUR 27 to EUR 55)
- In March 2017 the tradability of green certificates was extended – all certificates issued after 1st April 2017 are tradable until 31st March 2032 (originally the lifespan was limited to 12 months).
- The updated regulatory scheme assumes an obligation to buy a constant annual amount of green certificates for 15 years, starting Apr 1, 2017, so that all green certificates are absorbed at the end of the 15-year period

**Green certificates market clearing price (EUR/certificate)**

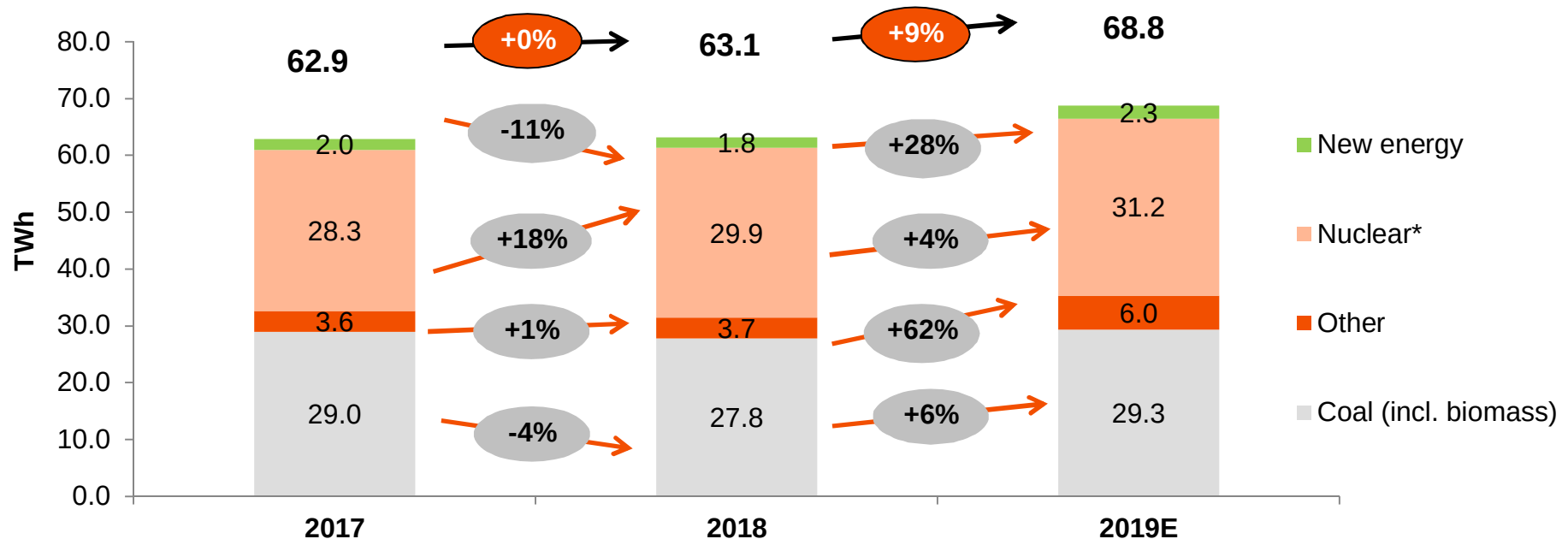


**Romanian year ahead electricity price (EUR/MWh)**





# 2018 GENERATION VOLUMES AFFECTED BY OUTAGES IN COAL-FIRED POWER PLANTS, AMBITION TO RAISE GENERATION BY 9% IN 2019



## 2018 volume trends

- + Optimization of outages in both nuclear power plants
- + Commercial operation of new Ledvice 4 coal power plant
- + Higher generation in Poland
- + Shorter outages in Tušimice 2 power plant
- Lower generation in Dětmarovice, Prunéřov and Mělník
- Worse weather conditions in Romania, Germany and Czechia

## 2019 volume ambition

- + Optimization of outages in both nuclear power plants
- + Shorter outages at Prunéřov 2 and Ledvice 4 power plants
- + Primarily higher generation by Počerady CCGT plant due to favorable market prices of electricity and gas
- + Worse-than-average weather conditions in 2018

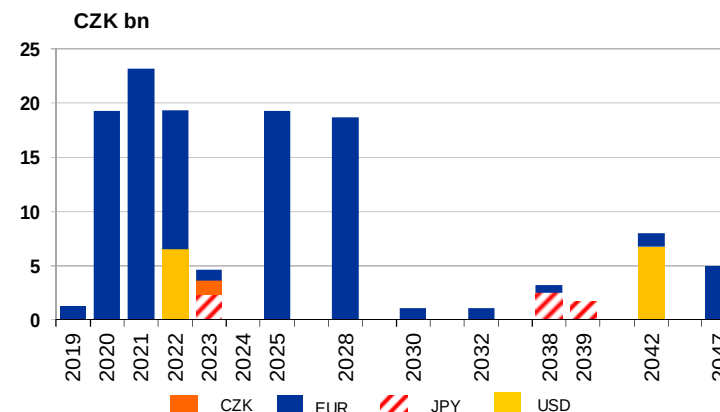
# DEBT STATUS AND STRUCTURE



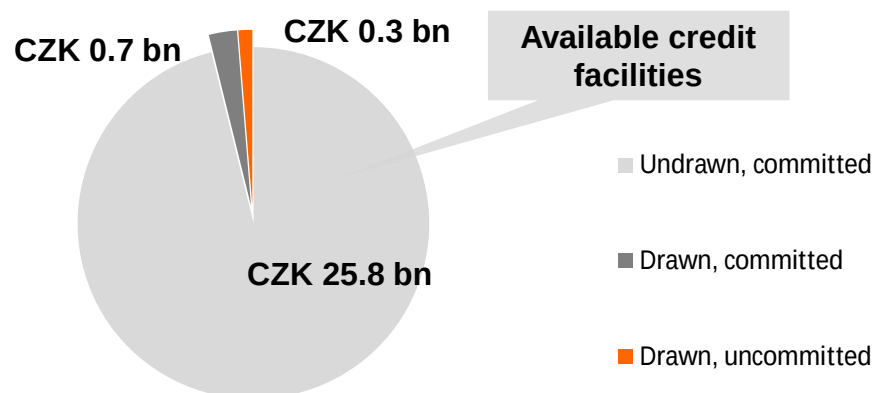
## Debt Level

|                            |        | as of<br>12/31/2018 | as of<br>3/31/2019 | Change |
|----------------------------|--------|---------------------|--------------------|--------|
| Debts and Loans            | CZK bn | 162.8               | 158.1              | -4.7   |
| Cash and Financial Assets* | CZK bn | 11.5                | 12.1               | 0.6    |
| Net debt                   | CZK bn | 151.3               | 146.0              | -5.3   |
| Net debt / EBITDA          |        | 3.1                 | 2.8                |        |

## Bond Maturity Profile (as at Mar 31, 2019)



## Utilization of Short-Term Lines (as at Mar 31, 2019)



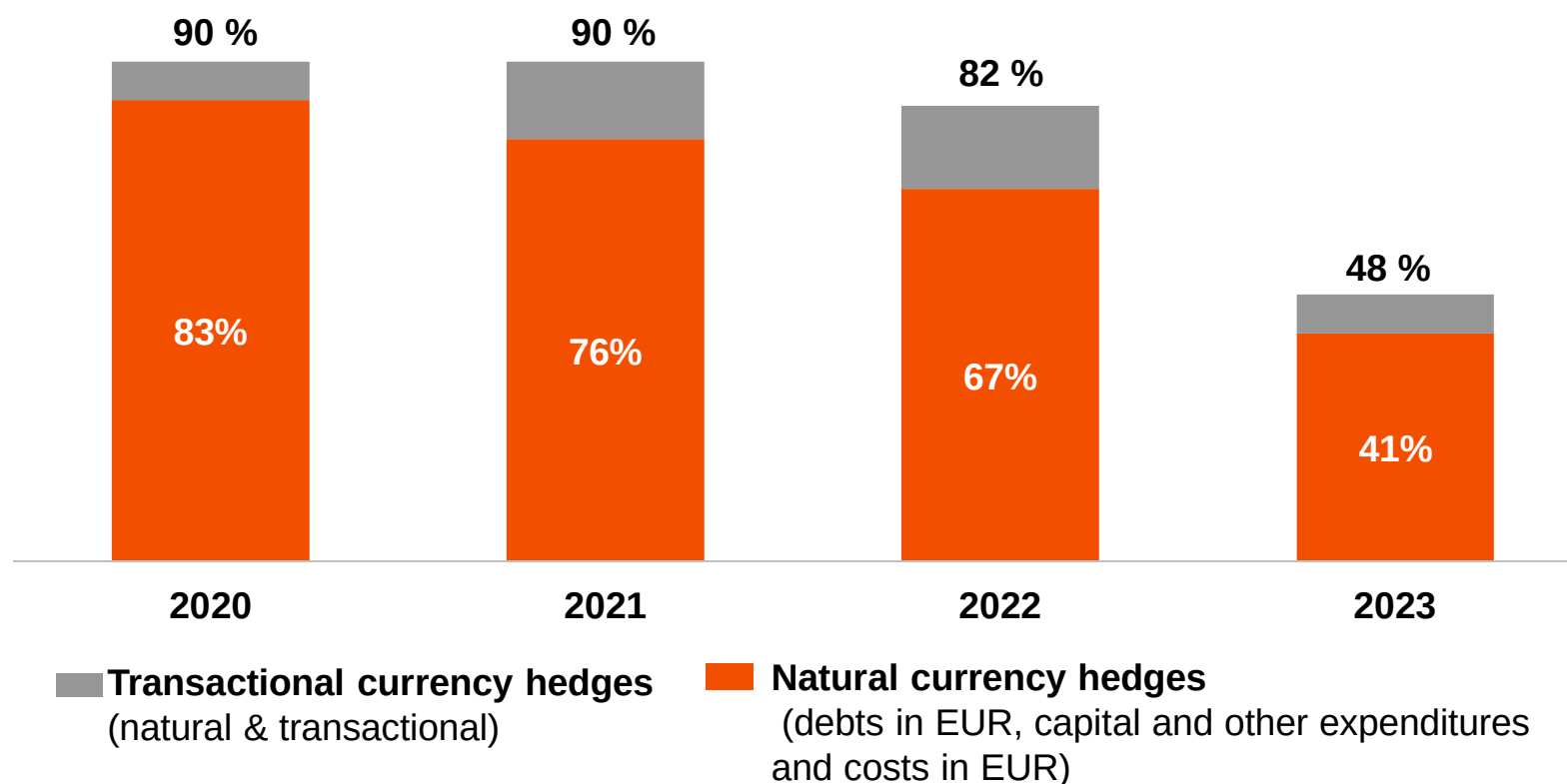
- CEZ Group has access to CZK 26.5 bn in committed credit facilities, using CZK 0.7 bn as at Mar 31, 2019.
- Committed facilities are kept as a reserve for covering unexpected expenses and to fund short-term financial needs.

# ČEZ CONTINUES HEDGING ITS CURRENCY EXPOSURE IN LINE WITH STANDARD POLICY



## Total currency hedges as of Mar 31, 2019

(as % of total expected EUR long position in a given year)



The foreign exchange position for 2020 is hedged at an average rate of 27.0 CZK/EUR and the foreign exchange position for 2020–2023 is hedged at approx. 26–27 CZK/EUR on average.

# CEZ GROUP FINANCIAL AND OPERATING RESULTS



| (CZK bn)                | Q1 2018 | Q1 2019 | Change | %    |
|-------------------------|---------|---------|--------|------|
| Revenues                | 46.4    | 51.8    | +5.5   | +12% |
| EBITDA                  | 17.5    | 19.3    | +1.8   | +10% |
| EBIT                    | 10.4    | 11.8    | +1.4   | +13% |
| Net income              | 7.3     | 8.3     | +1.0   | +14% |
| Net income - adjusted * | 7.3     | 8.8     | +1.5   | +21% |
| Operating CF            | 17.2    | 19.7    | +2.6   | +15% |
| CAPEX                   | 3.1     | 4.6     | +1.5   | +48% |

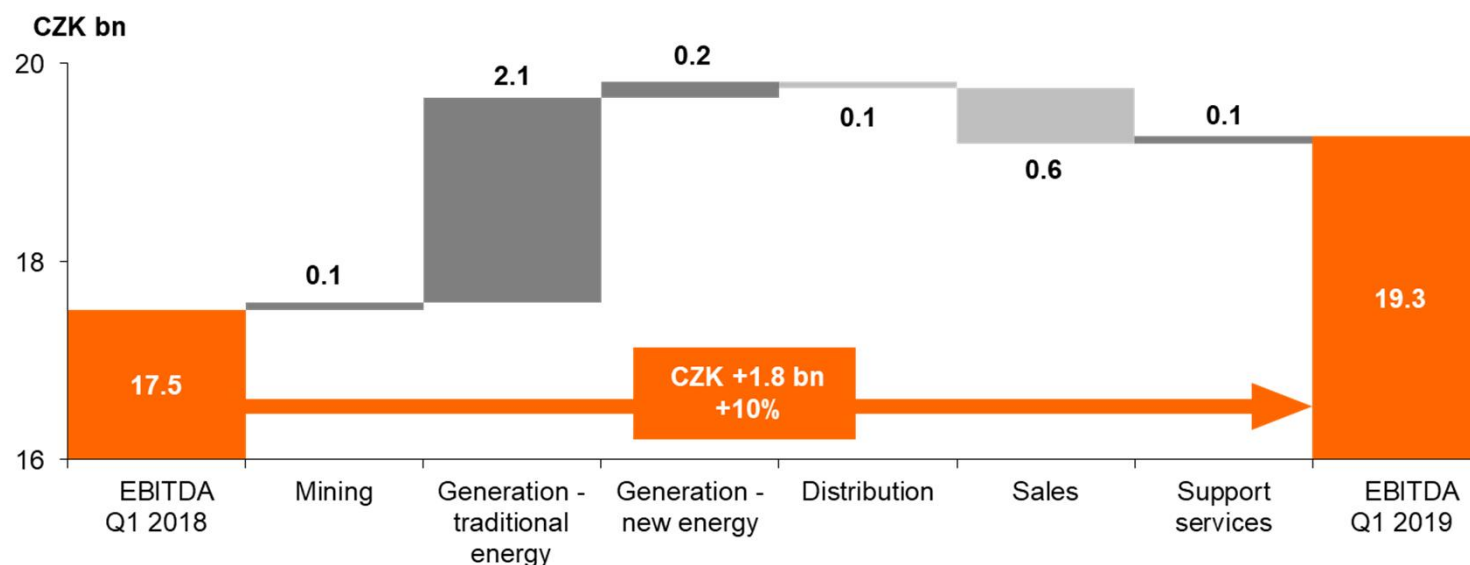
|                                                           |        | Q1 2018 | Q1 2019 | Change | %    |
|-----------------------------------------------------------|--------|---------|---------|--------|------|
| Installed capacity **                                     | GW     | 14.9    | 15.0    | +0.1   | +1%  |
| Mining                                                    | m tons | 5.7     | 5.6     | -0.1   | -1%  |
| Generation of electricity - segment traditional energy    | TWh    | 15.6    | 16.6    | +1.0   | +6%  |
| Generation of electricity - segments new energy and sales | TWh    | 0.6     | 0.7     | +0.1   | +18% |
| Electricity distribution to end customers                 | TWh    | 14.8    | 14.5    | -0.3   | -2%  |
| Electricity sales to end customers                        | TWh    | 10.7    | 9.9     | -0.8   | -8%  |
| Sales of natural gas to end customers                     | TWh    | 3.9     | 3.8     | -0.1   | -3%  |
| Sales of heat                                             | 000'TJ | 10.2    | 9.9     | -0.2   | -2%  |
| Number of employees **                                    | 000's  | 30.3    | 31.5    | +1.2   | +4%  |

\* Adjusted net income = Net income adjusted for extraordinary effects that are generally unrelated to ordinary financial performance in a given year (such as fixed asset impairments and goodwill write-offs)

\*\* As at the last day of the period



## YEAR-ON-YEAR CHANGE IN EBITDA BY SEGMENT



### Main causes of year-on-year change in Q1 EBITDA:

- Higher realization prices of generated electricity in Czechia, including the effect of hedges and commodity trading (CZK +2.0 bn)
- Higher generation by nuclear power plants (CZK +0.5 bn)
- Higher expenses on emission allowances for generation in Czechia (CZK -0.7 bn) due to increased market prices and lower allocation of free allowances
- Lower gross margin on electricity and gas sales in Czechia primarily due to higher purchase expenses (CZK -0.4 bn)



## OTHER INCOME (EXPENSES)

| (CZK bn)                                           | Q1 2018     | Q1 2019     | Change      | %           |
|----------------------------------------------------|-------------|-------------|-------------|-------------|
| EBITDA                                             | 17.5        | 19.3        | +1.8        | +10%        |
| <b>Depreciation, amortization and impairments*</b> | <b>-7.1</b> | <b>-7.5</b> | <b>-0.4</b> | <b>-5%</b>  |
| <b>Other income (expenses)</b>                     | <b>-1.5</b> | <b>-1.6</b> | <b>-0.1</b> | <b>-6%</b>  |
| Interest income (expenses)                         | -1.2        | -1.3        | -0.1        | -6%         |
| Interest on nuclear and other provisions           | -0.4        | -0.5        | 0.0         | -4%         |
| Income (expenses) from investments and securities  | 0.0         | 0.0         | -0.1        | -           |
| Other                                              | 0.1         | 0.2         | +0.1        | +77%        |
| <b>Income taxes</b>                                | <b>-1.6</b> | <b>-1.9</b> | <b>-0.3</b> | <b>-16%</b> |
| Net income                                         | 7.3         | 8.3         | +1.0        | +14%        |
| <b>Net income - adjusted</b>                       | <b>7.3</b>  | <b>8.8</b>  | <b>+1.5</b> | <b>+21%</b> |

### Depreciation, Amortization, and Impairments\* (CZK -0.4 bn)

- Additions to impairments of fixed assets in Bulgaria (CZK -0.3 bn) and additions to impairments of fixed assets in Romania (CZK -0.2 bn)
- Lower depreciation and amortization (CZK +0.1 bn)

### Other Income (Expenses) (CZK -0.1 bn)

- Higher interest expenses (CZK -0.1 bn)
- Higher revenue from equity investments and securities in 2018 (CZK -0.1 bn)
- Change in value of Inven Capital portfolio (CZK +0.1 bn)\*\*

### Net Income Adjustments

- Net income in Q1 2019 was adjusted for negative effects amounting to CZK 0.5 bn, including impairments of fixed assets in Bulgaria (CZK +0.3 bn) and impairments of fixed assets in Romania (CZK +0.2 bn)

\* Including profit/loss from sales of tangible and intangible fixed assets

\*\* The result of Inven Capital in Q1 2019 reflects only change in value for the period; CEZ Group's total profit from the sale of German company sonnen (from acquisition in 2015) was primarily reported in past years' profits because change in the market value of the investment was, in accordance with IFRS, remeasured in profits on a running basis

# NUCLEAR AND MINING PROVISIONS AS OF YE 2018



## Nuclear and mining provisions as of YE 2018 in accordance with IFRS

(discount rate 1.25% p.a. (real), est. Inflation effect 1.25%)

|                                         | Provision<br>(CZK bn) | Responsibility of:        | Cash cover (CZK)                                      |
|-----------------------------------------|-----------------------|---------------------------|-------------------------------------------------------|
| Interim storage of spent nuclear fuel   | 7.6 bn                | CEZ                       | 0.01 bn                                               |
| Permanent storage of spent nuclear fuel | 32.2 bn               | State*, costs paid by CEZ | Fee 55 CZK/MWh generated in NPP to Nuclear Account*** |
| Nuclear Facility decommissioning        | 23.8 bn               | CEZ                       | 13.1 bn                                               |
| Mining reclamation                      | 8.6 bn                | CEZ (SD**)                | 5.2 bn                                                |
| Landfills (ash storage)                 | 0.7 bn                | CEZ                       | 0.2 bn                                                |

\* RAWRA - Radioactive Waste Repository Authority

\*\*SD – Severočeské doly

\*\*\* State Nuclear Account balance as of YE 2017 CZK 26.9bn

# SELECTED HISTORICAL FINANCIALS OF CEZ GROUP

CZK



| <b>Profit and loss</b>                       | <i>CZK bn</i> | <b>2010</b>         | <b>2011</b>         | <b>2012</b>         | <b>2013</b>         | <b>2014</b>         | <b>2015</b>         | <b>2016</b>         | <b>2017</b>         | <b>2018</b>         |
|----------------------------------------------|---------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues                                     |               | <u>198.8</u>        | <u>209.8</u>        | <u>221.9</u>        | <u>216.7</u>        | <u>201.8</u>        | <u>210.2</u>        | <u>203.7</u>        | <u>205.1</u>        | <u>184.5</u>        |
| Sales of electricity                         |               | 175.3               | 181.8               | 186.8               | 189.4               | 173.8               | 182.1               | 174.9               | 104.1               | 103.1               |
| Sales of services                            |               |                     |                     |                     |                     |                     |                     |                     | 76.3                | 59.9                |
| Sales of gas, heat and coal and other income |               | 23.6                | 28                  | 35.1                | 27.4                | 27.9                | 28.1                | 28.8                | 24.7                | 21.5                |
| Operating Expenses                           |               | <u>110</u>          | <u>122.4</u>        | <u>136.1</u>        | <u>134.7</u>        | <u>129.3</u>        | <u>145.1</u>        | <u>145.7</u>        | <u>148</u>          | <u>135</u>          |
| Purchased power and related services         |               | 54.4                | 65.9                | 71.7                | 79                  | 75.8                | 90.9                | 88.3                | 57.4                | 52.2                |
| Fuel and emission rights                     |               | 16.9                | 17.1                | 15.8                | 13.8                | 12.7                | 13.1                | 13.2                | 16.0                | 19.1                |
| Salaries and wages                           |               | 18.7                | 18.1                | 18.7                | 18.7                | 18.9                | 17.8                | 19.2                | 22.1                | 25.6                |
| Other                                        |               | 20                  | 21.3                | 29.9                | 23.2                | 21.9                | 23.4                | 25.1                | 26.3                | 38.1                |
| <b>EBITDA</b>                                |               | <b><u>88.8</u></b>  | <b><u>87.4</u></b>  | <b><u>85.8</u></b>  | <b><u>82</u></b>    | <b><u>72.5</u></b>  | <b><u>65.1</u></b>  | <b><u>58.1</u></b>  | <b><u>53.9</u></b>  | <b><u>49.5</u></b>  |
| <i>EBITDA margin</i>                         |               | <i>45%</i>          | <i>42%</i>          | <i>39%</i>          | <i>38%</i>          | <i>36%</i>          | <i>31%</i>          | <i>29%</i>          | <i>26%</i>          | <i>27%</i>          |
| Depreciation, amortization, impairments      |               | 26.9                | 26.2                | 28.9                | 36.4                | 35.7                | 36.3                | 32.1                | 29.5                | 29.7                |
| <b>EBIT</b>                                  |               | <b><u>62</u></b>    | <b><u>61.3</u></b>  | <b><u>57</u></b>    | <b><u>45.7</u></b>  | <b><u>36.9</u></b>  | <b><u>29</u></b>    | <b><u>26.1</u></b>  | <b><u>25.6</u></b>  | <b><u>19.8</u></b>  |
| <i>EBIT margin</i>                           |               | <i>31%</i>          | <i>29%</i>          | <i>26%</i>          | <i>21%</i>          | <i>18%</i>          | <i>14%</i>          | <i>13%</i>          | <i>12%</i>          | <i>11%</i>          |
| <b>Net Income</b>                            |               | <b><u>46.9</u></b>  | <b><u>40.8</u></b>  | <b><u>40.1</u></b>  | <b><u>35.2</u></b>  | <b><u>22.4</u></b>  | <b><u>20.5</u></b>  | <b><u>14.6</u></b>  | <b><u>19</u></b>    | <b><u>10.5</u></b>  |
| <i>Net income margin</i>                     |               | <i>24%</i>          | <i>19%</i>          | <i>18%</i>          | <i>16%</i>          | <i>11%</i>          | <i>10%</i>          | <i>7%</i>           | <i>9%</i>           | <i>6%</i>           |
| <b>Adjusted net income</b>                   |               | <b><u>49.8</u></b>  | <b><u>41.2</u></b>  | <b><u>41.3</u></b>  | <b><u>43</u></b>    | <b><u>29.5</u></b>  | <b><u>27.7</u></b>  | <b><u>19.6</u></b>  | <b><u>20.7</u></b>  | <b><u>13.1</u></b>  |
| <i>Adjusted net income margin</i>            |               | <i>25%</i>          | <i>20%</i>          | <i>19%</i>          | <i>20%</i>          | <i>15%</i>          | <i>13%</i>          | <i>10%</i>          | <i>10%</i>          | <i>7%</i>           |
| <b>Balance sheet</b>                         | <i>CZK bn</i> | <b>2010</b>         | <b>2011</b>         | <b>2012</b>         | <b>2013</b>         | <b>2014</b>         | <b>2015</b>         | <b>2016</b>         | <b>2017</b>         | <b>2018</b>         |
| Non current assets                           |               | 448.3               | 467.3               | 494.7               | 485.9               | 497.5               | 493.1               | 489.3               | 487.9               | 480.4               |
| Current assets                               |               | 96.1                | 131                 | 141.1               | 154.5               | 130.4               | 109.6               | 141.6               | 136                 | 227                 |
| - out of that cash and cash equivalents      |               | 22.2                | 22.1                | 18                  | 25                  | 20.1                | 13.5                | 11.2                | 12.6                | 7.3                 |
| <b>Total Assets</b>                          |               | <b><u>544.4</u></b> | <b><u>598.3</u></b> | <b><u>635.8</u></b> | <b><u>640.4</u></b> | <b><u>627.9</u></b> | <b><u>602.7</u></b> | <b><u>630.8</u></b> | <b><u>623.9</u></b> | <b><u>707.4</u></b> |
| Shareholders equity (excl. minority. int.)   |               | 221.4               | 226.8               | 250.2               | 258.1               | 261.3               | 267.9               | 256.8               | 250                 | 234.7               |
| <i>Return on equity</i>                      |               | <i>22%</i>          | <i>18%</i>          | <i>17%</i>          | <i>14%</i>          | <i>9%</i>           | <i>8%</i>           | <i>6%</i>           | <i>8%</i>           | <i>4%</i>           |
| Interest bearing debt                        |               | 158.5               | 182                 | 192.9               | 199                 | 184.1               | 157.5               | 167.8               | 154.3               | 161                 |
| Other liabilities                            |               | 164.4               | 189.4               | 192.6               | 183.3               | 182.4               | 177.3               | 206.2               | 219.6               | 311.7               |
| <b>Total liabilities</b>                     |               | <b><u>544.4</u></b> | <b><u>598.3</u></b> | <b><u>635.8</u></b> | <b><u>640.4</u></b> | <b><u>627.9</u></b> | <b><u>602.7</u></b> | <b><u>630.8</u></b> | <b><u>623.9</u></b> | <b><u>707.4</u></b> |



# SELECTED HISTORICAL FINANCIALS OF CEZ GROUP

EUR



| <b>Profit and loss</b>                       | <i>EUR M</i> | <b>2010</b>   | <b>2011</b>   | <b>2012</b>   | <b>2013</b>   | <b>2014</b>   | <b>2015</b>   | <b>2016</b>   | <b>2017</b>   | <b>2018</b>   |
|----------------------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenues                                     |              | 7,735         | 8,163         | 8,634         | 8,432         | 7,852         | 8,179         | 7,926         | 7,981         | 7,179         |
| Sales of electricity                         |              | 6,821         | 7,074         | 7,268         | 7,370         | 6,763         | 7,086         | 6,805         | 4,051         | 4,012         |
| Sales of services                            |              |               |               |               |               |               |               |               | 2,969         | 2,331         |
| Sales of gas, heat and coal and other income |              | 918           | 1,089         | 1,366         | 1,066         | 1,086         | 1,093         | 1,121         | 961           | 837           |
| Operating Expenses                           |              | 4,280         | 4,763         | 5,296         | 5,241         | 5,031         | 5,646         | 5,669         | 5,759         | 5,253         |
| Purchased power and related services         |              | 2,117         | 2,564         | 2,790         | 3,074         | 2,949         | 3,537         | 3,436         | 2,233         | 2,031         |
| Fuel and emission rights                     |              | 658           | 665           | 615           | 537           | 494           | 510           | 514           | 623           | 743           |
| Salaries and wages                           |              | 728           | 704           | 728           | 728           | 735           | 693           | 747           | 860           | 996           |
| Other                                        |              | 778           | 829           | 1,163         | 903           | 852           | 911           | 977           | 1,023         | 1,482         |
| <b>EBITDA</b>                                |              | <b>3,455</b>  | <b>3,401</b>  | <b>3,339</b>  | <b>3,191</b>  | <b>2,821</b>  | <b>2,533</b>  | <b>2,261</b>  | <b>2,097</b>  | <b>1,926</b>  |
| <i>EBITDA margin</i>                         |              | <i>45%</i>    | <i>42%</i>    | <i>39%</i>    | <i>38%</i>    | <i>36%</i>    | <i>31%</i>    | <i>29%</i>    | <i>26%</i>    | <i>27%</i>    |
| Depreciation, amortization, impairments      |              | 1,047         | 1,019         | 1,125         | 1,416         | 1,389         | 1,412         | 1,249         | 1,148         | 1,156         |
| <b>EBIT</b>                                  |              | <b>2,412</b>  | <b>2,385</b>  | <b>2,218</b>  | <b>1,778</b>  | <b>1,436</b>  | <b>1,128</b>  | <b>1,016</b>  | <b>996</b>    | <b>770</b>    |
| <i>EBIT margin</i>                           |              | <i>31%</i>    | <i>29%</i>    | <i>26%</i>    | <i>21%</i>    | <i>18%</i>    | <i>14%</i>    | <i>13%</i>    | <i>12%</i>    | <i>11%</i>    |
| <b>Net Income</b>                            |              | <b>1,825</b>  | <b>1,588</b>  | <b>1,560</b>  | <b>1,370</b>  | <b>872</b>    | <b>798</b>    | <b>568</b>    | <b>739</b>    | <b>409</b>    |
| <i>Net income margin</i>                     |              | <i>24%</i>    | <i>19%</i>    | <i>18%</i>    | <i>16%</i>    | <i>11%</i>    | <i>10%</i>    | <i>7%</i>     | <i>9%</i>     | <i>6%</i>     |
| <b>Adjusted net income</b>                   |              | <b>1,938</b>  | <b>1,603</b>  | <b>1,607</b>  | <b>1,673</b>  | <b>1,148</b>  | <b>1,078</b>  | <b>763</b>    | <b>805</b>    | <b>510</b>    |
| <i>Adjusted net income margin</i>            |              | <i>25%</i>    | <i>20%</i>    | <i>19%</i>    | <i>20%</i>    | <i>15%</i>    | <i>13%</i>    | <i>10%</i>    | <i>10%</i>    | <i>7%</i>     |
| <b>Balance sheet</b>                         | <i>EUR M</i> | <b>2010</b>   | <b>2011</b>   | <b>2012</b>   | <b>2013</b>   | <b>2014</b>   | <b>2015</b>   | <b>2016</b>   | <b>2017</b>   | <b>2018</b>   |
| Non current assets                           |              | 17,444        | 18,183        | 19,249        | 18,907        | 19,358        | 19,187        | 19,039        | 18,984        | 18,693        |
| Current assets                               |              | 3,739         | 5,097         | 5,490         | 6,012         | 5,074         | 4,265         | 5,510         | 5,292         | 8,833         |
| - out of that cash and cash equivalents      |              | 864           | 860           | 700           | 973           | 782           | 525           | 436           | 490           | 284           |
| <b>Total Assets</b>                          |              | <b>21,183</b> | <b>23,280</b> | <b>24,739</b> | <b>24,918</b> | <b>24,432</b> | <b>23,451</b> | <b>24,545</b> | <b>24,276</b> | <b>27,525</b> |
| Shareholders equity (excl. minority. int.)   |              | 8,615         | 8,825         | 9,735         | 10,043        | 10,167        | 10,424        | 9,992         | 9,728         | 9,132         |
| <i>Return on equity</i>                      |              | <i>22%</i>    | <i>18%</i>    | <i>17%</i>    | <i>14%</i>    | <i>9%</i>     | <i>8%</i>     | <i>6%</i>     | <i>8%</i>     | <i>4%</i>     |
| Interest bearing debt                        |              | 6,167         | 7,082         | 7,506         | 7,743         | 7,163         | 6,128         | 6,529         | 6,004         | 6,265         |
| Other liabilities                            |              | 6,397         | 7,370         | 7,494         | 7,132         | 7,097         | 6,899         | 8,023         | 8,545         | 12,128        |
| <b>Total liabilities</b>                     |              | <b>21,183</b> | <b>23,280</b> | <b>24,739</b> | <b>24,918</b> | <b>24,432</b> | <b>23,451</b> | <b>24,545</b> | <b>24,276</b> | <b>27,525</b> |

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