

CZK 30,000,000,000



## 10-Year Bond Offering Program Base Prospectus

This document constitutes a base prospectus (the “**Base Prospectus**”) for bonds under an offering Program pursuant to Section 36a(1)(a) of Act No. 256/2004 Coll., the Capital Markets Act, as amended (the “**Capital Markets Act**” or “**CMA**”). Pursuant to the provisions of Section 11 of Act No. 190/2004 Coll., on Bonds, as amended (the “**Bonds Act**”), the bonds shall be issued under a bond Program (the “**Bond Program**”) launched by ČEZ, a. s., Identification No. 452 74 649, with its registered seat at Duhová 2/1444, Prague 4, Postal Code: 140 53, Czech Republic, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 1581 (the “**Issuer**” or “**ČEZ**”) on June 27, 2011. Under the Bond Program, the Issuer may issue individual bond issues in accordance with legal regulations of general application (the “**Bond Issue**” or “**Issue**” or “**Bonds**”). The aggregate nominal value of all outstanding Bonds issued under the Bond Program may at no point exceed CZK 30,000,000,000. The term of the Bond Program during which the Issuer may issue individual Bond Issues under the Bond Program shall be 10 years. The Bond within any Issue under the Bond Program shall be at least in nominal value equal to EUR 100,000.

The application for the Bonds issued under the offering Program to be admitted on the regulated or, if applicable, non-regulated market of the Prague Stock Exchange (Burza cenných papírů Praha, a.s., the “**PSE**”) shall be filed by Komerční banka, a.s., with its registered seat at Na Příkopě 33/969, Prague 1, Postal Code: 114 07, Identification No. 453 17 054, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 1360 (“**KB**”); Česká spořitelna, a.s., with its registered seat at Olbrachtova 1929/62, Prague 4, Postal Code: 140 00, Identification No. 452 44 782, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 1171 (“**ČS**”); and/or Československá obchodní banka, a.s., with its registered seat at Radlická 333/150, Prague 5, Postal Code: 150 57, Identification No. 000 01 350, entered in the Commercial Register administered by the Prague Municipal Court, File No. BXXXVI 46 (“**ČSOB**”); or any other person so authorized by the Issuer (KB, ČS, ČSOB or such other authorized person the “**Lead Manager**”).

The Issuer shall prepare a special document for each Bond Issue under the Bond Program (the “**Issue Supplement**”), which is to contain a supplement to the Bond Program, namely a supplement to the issue terms of the Bond Program for such Issue (the “**Bond Program Supplement**”). Each Bond Program Supplement shall, in particular, determine the nominal value and quantity of Bonds within the Issue, the date and method of the issue of the Bonds, proceeds from the Bonds under the given Issue and the issue price, due date, as well as other terms and conditions of the Bonds of the given Issue that are not regulated by the issue terms of the Bond Program set out in chapter “*Joint Terms and Conditions*” in this Base Prospectus (the “**Joint Terms and Conditions**”), or which are to be supplemented for individual Bond Issues in addition to the Joint Terms and Conditions. If the Issuer chooses to apply for admittance of any Bond Issue to trading in the regulated market as of the issue date, the Issue Supplement shall also contain final terms (the “**Final Terms**”) in order for each Issue Supplement, together with the Base Prospectus, to constitute a prospectus of the respective Issue. If the Issuer chooses to apply for admittance of any Bond Issue to trading on the regulated market only after such Bond Issue has been issued, the Issuer shall extend the respective Issue Supplement published or made accessible to the investors, as applicable, no later than as of the issue date by the Final Terms after it adopts a decision regarding such admittance of the Bond Issue to trading in the regulated market.

If individual Bond Issues are to be issued in order for the Bonds within such Issue to become listed securities, the Issuer shall apply for their admittance to trading in the Standard market of the PSE. The Issue Supplement may also contain a note that the Bonds will not be traded in any market (whether regulated or non-regulated).

The Issuer does not intend to make a public offering of the Bonds issued under the Bond Program. The Bonds shall be offered only to qualified investors based on one or several exceptions set out in Section 35(2) of the Capital Markets Act. If the information contained in this Base Prospectus significantly changes following approval of this Base Prospectus and prior to the end of the public offer (if any) of the Bonds or their admittance to trading on the regulated market, the Issuer shall update the Base Prospectus in the form of supplements. Each such supplement shall be subject to approval by the Czech National Bank and published in a statutory manner.

Payments under the Bonds issued under this offering program shall in all cases be made in accordance with the laws of general application in force at the time of making the relevant payment in the Czech Republic. Where required by the laws of the Czech Republic in force at the time of repayment of the interest and the nominal value (or, as the case may be, Discounted Value) to be set in the Bond Program Supplement as the value to be paid by the Issuer to Bondholders when due), the relevant taxes and charges shall be withheld from the payments being made to the Bondholders. The Issuer shall not be required to make any additional payments to the Bondholders in compensation for such withholding of taxes or charges. Under certain conditions, the Issuer shall pay the tax withheld from the bond proceeds (for details, see the chapter “*Taxation and Foreign Exchange Regulation in Czech Republic*”).

The Joint Terms and Conditions, which shall be the same for the individual Bond Issues issued under the Bond Program are set out in the chapter “*Joint Terms and Conditions*” in this Base Prospectus.

The Base Prospectus was approved by a decision of the CNB on June 7, 2016, Ref. 2016/065847/CNB/570, S-Sp-2016/00027/CNB/572, which entered into force on June 10, 2016 and replaces in its entirety the base prospectus dated May 12, 2015.

The Base Prospectus itself does not constitute any public or other offer of any Bonds. Any potential investors in the Bonds within the individual Issues that may be issued under this offering program shall adopt their investment decisions in reliance on the information contained in this Base Prospectus, as well as any supplement to the Base Prospectus and any Issue Supplement relating to the particular Issue.

Any extension of the Base Prospectus and any offer, sale or purchase of the Bonds under the individual Issues issued under this offering program are subject to statutory restrictions in some countries. The Issuer will not apply for recognition of the Base Prospectus and the relevant Issue Supplement in any other country, and the relevant Bonds will not be listed, registered, permitted or approved by any administrative or other authority in any jurisdiction, except for the CNB and the Czech Republic, respectively (see also the chapter “*Important Notice*”).

The Base Prospectus was prepared as of May 25, 2016 and the information contained herein is only current as of such date, unless the Base Prospectus is updated by a supplement, in which case the information in the Base Prospectus shall be current as of the date specified in such supplement.

The Base Prospectus, any supplements or Issue Supplements, and any annual, semi-annual or other reports of the Issuer published after the date of this Base Prospectus, as well as any other documents referred to in this Base Prospectus, shall also be available in electronic form on the Issuer’s website at [www.cez.cz](http://www.cez.cz).

*Program Arrangers*

**Komerční banka, a.s.**

**Česká spořitelna, a.s.**

**Československá obchodní banka, a.s.**

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**IMPORTANT NOTICES**

*This document constitutes the Base Prospectus of the offering program of the Bonds within the meaning of the Capital Markets Act, Article 5(4) of the Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, as amended by Directive 2010/73/EU (the “**Prospectus Directive**”), and Section 26 of Commission Regulation (EC) No. 809/2004 of April 29, 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses, as well as the format, incorporation by reference and publication of such prospectuses and the dissemination of advertisements (the “**PD Regulation**”). The Joint Terms and Conditions, which shall be the same for the individual Bond Issues issued under the Bond Program are set out in the chapter “Joint Terms and Conditions” in this Base Prospectus.*

*The Base Prospectus was approved by a CNB resolution dated June 7, 2016, Ref. 2016/065847/CNB/570, S-Sp-2016/00027/CNB/572, which became effective as of June 10, 2016.*

*The distribution of this Base Prospectus, and the offering, sale, or purchase of the Bonds issued under the Bond Program are restricted by law in certain jurisdictions. Unless where explicitly stated otherwise herein or in the respective Issue Supplement for the given Bond Issue, the Bonds issued under the Bond Program will not be listed, registered, authorized, or approved in any jurisdiction by any administrative or other authority other than the Czech National Bank. In particular, the Bonds issued under the Bond Program will not be registered under the U.S. Securities Act of 1933, and may not be offered, sold, or delivered within the United States or to any U.S. persons other than in reliance on the exemption from the registration requirement of such Act or in a transaction that is not subject to such registration requirement. Persons into whose possession this Base Prospectus comes are responsible for compliance with any restrictions applicable in such jurisdictions to the offering, purchase, or sale of the Bonds issued under the Bond Program, or the possession and distribution of any materials relating to the Bonds issued under the Bond Program.*

*Neither the Issuer nor any of the Lead Managers have authorized any representation or information regarding the Issuer and/or the Bond Program other than as contained in this Base Prospectus, its supplements (if any) and the respective Issue Supplement. Any such representation or information should not be relied upon as having been authorized by the Issuer. Unless otherwise indicated, all information in this Base Prospectus is given as of the date of this Base Prospectus. The delivery of this Base Prospectus at any time does not imply that the information contained in it is correct as of any time subsequent to the date of this Base Prospectus. This information may be further amended or completed by means of supplements to the Base Prospectus and further specified or completed by means of the respective Issue Supplement.*

*Potential investors in the Bonds within the individual Issues that may be issued under this offering program shall adopt their investment decisions in reliance on the information contained in this Base Prospectus, any supplement to the Base Prospectus, and in the relevant Issue Supplement. Any decision concerning the underwriting of the offered Bonds shall be based solely on the information contained in these documents as a whole, and on the offering terms, including an independent analysis of the risk factors of an investment in the Bonds by each potential investor.*

*Information under the heading “Taxation and Foreign Exchange Regulation in Czech Republic”, and “Enforcement of Private Law Obligations against Issuer” is given solely as general information and has been obtained from public sources that have not been processed or independently verified by the Issuer. Prospective purchasers of the Bonds issued under the Bond Program should rely solely on their own analysis of the factors described under these headings, and on their own legal, tax, and other professional advisers. Purchasers of the Bonds issued under the Bond Program, especially those from foreign countries, are advised to consult with their own legal and other advisers as to the provisions of applicable laws, including, but not limited to, the foreign exchange and tax regulations of the Czech Republic, the countries of which they are residents, and any other relevant jurisdictions, as well as any international treaties and the impact thereof on the particular investment decision.*

*The Bondholders, including all prospective foreign investors, are required to keep themselves informed of all laws and regulations governing the possession of the Bonds, the sale of the Bonds abroad, the purchase of the Bonds from abroad, and any other transactions with the Bonds, and to comply with these laws and regulations.*

*To the extent required by generally binding laws and regulations and the regulations of the securities market on which the Bonds are admitted to trading (if applicable), the Issuer will publish reports on the results of its operations and its financial position, and comply with the information requirements.*

*The Base Prospectus, its supplements (if any), Issue Supplements, the Annual and Semi-annual Reports and copies of the relevant financial statements and audit reports are available for inspection without charge during regular office*

hours from 9:00 a.m. to 3:00 p.m. at the Issuer's registered seat at Duhová 2/1444, 140 53 Prague 4, Czech Republic. The documents are also available on the Issuer's website [www.cez.cz](http://www.cez.cz).

The Base Prospectus is also available for inspection at no charge at the registered seats of the Arrangers at Komerční banka, a.s., Na Příkopě 33/969, 114 07 Prague 1, Czech Republic, Česká spořitelna, a.s., Olbrachtova 1929/62, 140 00, Prague 4, Czech Republic and Československá obchodní banka, a.s., Radlická 333/150, 150 57, Prague 5, Czech Republic, in all cases during regular office hours from 9:00 a.m. to 5:00 p.m.

As long as any of the Bonds issued under the Bond Program are outstanding, a counterpart of the relevant Fiscal and Paying Agency Agreement will be available for inspection without charge at the Paying Agent's Specified Office during regular business hours from 9:00 a.m. to 5:00 p.m. For more details, see the heading "Joint Terms and Conditions".

Any assumptions and projections concerning the future development of the Issuer, its financial situation, line of business, or its position in the market may not be construed as representations or promises of the Issuer regarding future events or performance, as such future events and performance are subject, in whole or in part, to effects and events beyond the direct or full control of the Issuer. Prospective purchasers of the Bonds issued under the Bond Program should make their own analysis of any developmental trends and projections contained in the Base Prospectus, or if required, conduct their own independent investigation, and base their investment decisions on the results of such independent analysis and investigation.

Unless otherwise indicated, all financial information of the Issuer is based on the International Financial Reporting Standards (the "IFRS"). Certain figures included in this Base Prospectus have been adjusted by rounding. Accordingly, figures shown for the same item of information presented at different places may vary slightly, and figures shown as sums of certain values may not be an arithmetic aggregate of the figures preceding such totals.

Definitions of certain terms used in the Base Prospectus are set forth under the heading "List of Definitions, Terms, and Abbreviations."

In case of translation of the Base Prospectus into other language(s), the English version shall prevail in the event of any interpretation inconsistencies between the English version and any other language version of the Base Prospectus.

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## RISK FACTORS

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

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

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

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

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

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

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

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

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

reduce our revenues and have a material adverse effect on our business, results of operations and financial condition.

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

We may incur impairment losses in connection with our assets or investments due to adverse regulatory actions and adverse market conditions. In 2015 and 2014, we performed impairment tests of goodwill and tests of other non-current assets. Recognized impairments mainly resulted from the adverse regulation of electricity distribution and support of renewable power generation and significant deterioration of current market conditions. Significant impairment losses were also incurred by other major European power and utility companies. In 2015, we recognized total impairment losses of CZK 7,775 million, of which CZK 2,295 million were incurred with respect to our Romanian wind power farms, CZK 1,441 million were incurred with respect to our Bulgarian distribution and sale businesses, CZK 1,195 million were incurred with respect to our Polish coal-fired power plants in Skawina and Chorzów, CZK 986 million and CZK 605 million were incurred with respect to our Czech coal-fired power plants in Dětmarovice and Tisová, respectively. For information on impairment of property, plant and equipment and intangible assets including goodwill in 2014 and 2015, please refer to Note 7 of our audited consolidated financial statements for years ended December 31, 2014 and December 31, 2015 respectively. Any future adverse changes in the economic and regulatory environment or market conditions of our reporting segments could result in further impairment charges, which could have a material adverse effect on our business, results of operations and financial condition.

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

As of the date of this Base Prospectus, ČEZ has a credit rating of A- with a stable outlook by Standard & Poor's Credit Market Services Europe Limited and Baa1 with a stable outlook by Moody's Investors Service Ltd. Standard & Poor's Credit Market Services Europe Limited (domiciled in the United Kingdom) and Moody's Investors Service Ltd. (domiciled in the United Kingdom) are both established in the European Union and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website ([www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs)). These ratings reflect each agency's opinion of our financial strength, operating performance and ability to meet our debt obligations as they become due. These ratings are near the low-end of the respective rating agency's scale of investment-grade ratings. Credit rating agencies now monitor companies more closely and have made liquidity, and the key ratios associated with it, such as gross leverage ratio, a particular priority. Our ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depend in part on our credit ratings. We currently expect to operate with sufficient liquidity to maintain our current ratings. However, this is dependent on a number of factors, some of which may be beyond our control. If we fail to maintain adequate levels of liquidity, our ratings may be downgraded. On June 23, 2015, our credit rating granted by Moody's Investors Service Ltd. was downgraded from A2 to A3 and on April 6, 2016, our credit rating granted by Moody's Investors Service Ltd. was further downgraded from A3 to Baa1 due to CEZ Group's exposure to a decreasing power price environment. On February 26, 2016 Standard & Poor's Credit Market Services Europe Limited confirmed ČEZ's A- rating with stable outlook. In the event our credit or debt ratings are further lowered by the rating agencies, we may not be able to raise additional indebtedness on terms similar to our existing indebtedness or at all, and our ability to access credit and bond markets and other forms of financing (or refinancing) could be limited, which could have a material adverse effect on our business, results of operations and financial condition. Further lowering of our credit rating may also trigger our obligation to redeem certain debt securities prior to their scheduled redemption date which could have a material adverse effect on our business, results of operations and financial condition.

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

We have substantial debt and other financial obligations. As of 31 December 2015 our consolidated total debt amounted to CZK 157bn. We cannot give any assurances that our cash flow from operations will be sufficient to service our debt and to meet other payment obligations or to fund our planned capital expenditures without the need for additional external financing. Our substantial debt and other financial obligations could limit our flexibility in planning for, or reacting to, changes in our business or our industry, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

Our profitability is exposed to developments in the capital markets and economy in Europe and globally. The latest global crisis and sovereign debt crisis in Europe has had a significant impact on the world's banking system and financial markets. If the global economic situation worsens, we may face liquidity problems and may experience increased costs of funding which could have a material adverse effect on our business, results of operations and financial condition.

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

The electricity generation industry in Europe is strongly influenced by the European Union's policy, implemented in 2008 by the E.U. Climate and Energy Package, to increase the share of electricity generated by renewable energy sources. We are effectively obliged, due to economic incentives, to reflect the E.U. Climate and Energy Package within our own strategy. By 2020, the E.U. Climate and Energy Package requires a 20% decrease in carbon dioxide ("CO<sub>2</sub>") emissions, a 20% increase in energy efficiency and requires renewable energy sources to comprise 20% of total energy consumption. In October 2014, the E.U. Council adopted new targets and the architecture for the E.U. framework on climate and energy in the period from 2020 to 2030 and the newly adopted targets require at least 40% decrease in CO<sub>2</sub> emissions by 2030 (compared to 1990 levels), renewable energy sources to comprise 27% of total E.U. energy consumption (resulting in up to 47% share of renewable energy sources in electricity production), increase in E.U. wide energy efficiency to 27% and achieving 10% electricity interconnection by 2020.

At the Paris climate conference (COP21) in December 2015, 195 countries adopted the first-ever universal global climate deal (the Paris Agreement). Governments agreed a long-term goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels; to aim to limit the increase to 1.5°C; on the need for global emissions to peak as soon as possible, recognising that this will take longer for developing countries and to undertake rapid reductions thereafter in accordance with the best available science. The agreement is due to enter into force in 2020. The agreement will enter into force after 55 countries that account for at least 55% of global emissions have deposited their instruments of ratification.

The implementation of the E.U. Climate and Energy Package and targets of the E.U. council for period from 2020 to 2030, or any amendments to such targets and national action plans which may be formed if Paris Agreement is ratified, could have a material adverse effect on our business, results of operations and financial condition. Support for renewable sources may decrease energy prices, limit the production time, the stability of



transmission and distribution grid, the profitability of distribution services provided by us and production quantity of conventional power plants that we operate and may decrease our market share. Continued or increased support for renewable energy sources in the European Union, particularly in the Czech Republic and Germany, may adversely affect our profit from nuclear, coal-fired and gas power plants, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

As part of our strategy to meet future electricity demand, and in accordance with the historical energy policies and requirements of the Czech government, we intended to increase the nuclear generation capacity of the Temelín nuclear power plant (where two nuclear reactors are currently in operation). In 2009, we commenced a tender process for selection of contractors (involving The Westinghouse Electric Corporation, AREVA NP and a consortium of ŠKODA JS, JSC Atomexport and JSC OKB Hidropress) to build two new nuclear reactors at the site of the Temelín nuclear power plant. In April 2014, we cancelled this tender process. We are also considering increasing the nuclear generation capacity of the Dukovany nuclear power plant. Our decision to reopen the tender for selection of a contractor for increasing the generation capacity of the Temelín nuclear power plant and increasing the nuclear generation capacity of the Temelín and Dukovany nuclear power plants may result in a significant capital expenditure investment, as well as imposing significant risks associated with building a nuclear power plant, particularly the overall debt capacity risks and the risks and uncertainties involved in such a long and complex project, which could have a material adverse effect on our business, results of operations and financial condition. In addition, any failure to complete the project, if eventually commenced, within budget and on schedule may result in additional cost and loss of revenues, which could have a material adverse effect on our business, results of operations and financial condition. Moreover, the profitability of the projects would be subject to many of the risk factors that we already face, including any political and regulatory developments, decrease in prices obtained for our electricity or default or delay by our counterparties, and would therefore be highly uncertain. Any significant decrease in expected revenues from the project or any significant increase in operating costs could have a material adverse effect on our business, results of operations and financial condition.

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

Our revenues are sensitive to the performance of the Czech economy. As of December 31, 2015, approximately 89% of our property, plant and equipment were located in the Czech Republic and approximately 74% of our revenues and other operating income for the year ended December 31, 2015 derived from the Czech Republic. Changes in economic, regulatory, administrative or other policies of the Czech government, as well as political

or economic developments in the Czech Republic (including potential changes in the Czech Republic's credit ratings) over which we have no control, could have a significant effect on the Czech economy, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

In the Czech Republic, certain authorizations are required to operate nuclear power plants. Operation of nuclear power plants is subject to overall E.U. and national regulatory requirements and political policies, which are in turn sensitive to public opinion and E.U. development risks. We cannot give any assurance that we will successfully obtain the necessary authorizations at the appropriate time, or at all, that the duration of such authorizations will not change, or that we will not be subject to conditions that require us to make significant capital expenditures. Moreover, we cannot give any assurance, particularly in the event of an incident affecting the safety or operation of our facilities, that our nuclear power plants will actually be operated for such period of time, or at all. In 2015, we extended the scheduled maintenance outage of Unit 2 of the Temelín power plant and undertook three other minor operation outages, two in respect of Unit 2 and one in respect of Unit 1 of the Temelín power plant. In addition, we undertook unplanned outages of Units 1, 2 and 3 of the Dukovany power plant because of the license extension process (in case of Unit 1) and welds control (in case of Units 1, 2 and 3) - in June 2015, a leak of the secondary medium was identified at the Dukovany Nuclear Power Plant at a heterogeneous weld on a super-accident steam generator feed pipe connection at Unit 4. As a result, a decision was made in September 2015 to carry out a special inspection of all X-ray images of heterogeneous welds. The inspection showed that weld documentation was not conclusive in some cases, so it was decided to perform preventive X-ray retesting, which required shutting down Units 2 and 3. Unit 4 remained in operation based on the performed safety assessment of its condition. Consequently, it was the only unit in operation at the Dukovany Nuclear Power Plant from 19 September 2015 to 28 December 2015. On the grounds of the findings from the Dukovany Nuclear Power Plant, X-ray image documentation was checked and welded joint documentation was subsequently reviewed at the Temelín Nuclear Power Plant, too. Even though similar nonconformities were found, its two units remain in operation on the basis of the performed safety assessment and the fact that safety-relevant equipment is checked using other inspection methods.

If any of our nuclear power plants are closed before the end of their currently expected operating lives, we may be required to make additional investments to replace the loss of generation capacity or purchase electricity on the wholesale market and the payment of decommissioning costs would be accelerated. Inability to operate our nuclear power plants as expected would have a significant material adverse effect on our profit margin and cash flow from operations. Furthermore, should we be unable to operate our nuclear power plants over a period at least equal to the currently expected period, we might not accumulate appropriate cash surpluses for decommissioning of such power plants. As a result, our failure to obtain all of the necessary authorizations and to operate our nuclear power plants for the duration of such authorizations, could have a material adverse effect on our business, results of operations and financial condition.

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

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

Our revenues are generated by sales to end-consumers or wholesale partners and state owned customers across European markets. There is a risk that some of our key counterparties, end-consumers (predominantly the state

owned companies such as the national railway operators) or suppliers could default on or dispute their contractual obligations towards us, which could have a material adverse effect on our business, results of operations and financial condition. Further, the majority of our forward sales are executed on the over the counter (OTC) market. The credit quality of our counterparties may deteriorate during adverse economic conditions, which may threaten the results of our hedging strategy, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

Since our foundation, we have expanded our operations through mergers and acquisitions, especially in Central and South East Europe and Turkey. We continue to evaluate investment opportunities in the future and we may expand our operations in other countries or in new markets. We face many risks inherent in expanding our operations and doing business on an international level, such as unexpected changes in regulatory requirements; default by our joint venture partners; trade barriers, including import and export controls, tariffs, customs and duties; difficulties in staffing and managing foreign operations; longer payment cycles and problems in collecting accounts receivable; political instability, expropriation, nationalization, war and other political risks; fluctuations in currency exchange rates; foreign exchange controls which restrict or prohibit repatriation of funds; technology export and import restrictions or prohibitions; and potentially adverse tax consequences. Any failure to manage the risks associated with expanding our operations could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

We are subject to the laws of various countries and jurisdictions, including the laws of the Czech Republic, Bulgaria, Poland, Romania, Turkey and the European Union, as well as the regulations of the regulatory agencies of the countries in which we operate, including the Energy Regulatory Office and the State Office for Nuclear Safety in the Czech Republic, the Energy Regulatory Office in Romania, and the Energy and Water Regulatory Commission in Bulgaria. These laws and regulations affect many aspects of our business and, in many respects, determine the manner in which we conduct our business and the fees we charge or obtain for our products and services, including in respect of electricity generation (both traditional and from renewable sources). In particular, as an owner and operator of nuclear, coal-fired and gas power plants (including combined heat and electricity power plants), renewable energy facilities and electricity distribution, heat distribution and mining businesses, we are subject to extensive governmental and other regulations in the markets in which we operate, including in relation to nuclear safety. Any new regulation or any changes in the existing regulations or requirements of the governments or regulatory authorities of the countries in which we operate, may require

significant changes in our business in ways that we cannot predict, in particular the way in which we operate our nuclear assets. Any new regulations or requirements that cause us to restructure or otherwise change our business in any way, or that affect electricity generation, transmission, distribution or supply prices or related financial conditions, could have a material adverse effect on our business, results of operations and financial condition. In addition, we may fail to respond swiftly and appropriately to changes in applicable laws and regulations or to changes in the energy industry generally, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

Our business as well as our capital investment program and financial investment strategy are subject to decisions of numerous national and international institutions, regulatory and administrative authorities. We face the risk that decision makers in these institutions may not act within the scope of existing laws and regulations, which could have uncertain and unexpected consequences on our business and operations in the Czech Republic, Poland, South East Europe and Turkey, which in turn could have a material adverse effect on our business, results of operations and financial condition. Although we are not aware of any misconduct, we cannot exclude a politically motivated revocation of the license(s) which would have a material adverse effect on our business, results of operations and financial condition.

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

We sell the electricity we generate in the Czech Republic on markets such as the PXE and the EEX, which trade electricity contracts denominated in Euro. As a result, the revenues we receive from these sales are either denominated in Euro or denominated in Czech crowns, but derived from Euro-denominated electricity prices and the EUR/CZK exchange rate at the time the contract concludes. However, a significant portion of our operating expenses and capital expenditure needs related to power generation in the Czech Republic are denominated in Czech crowns, leading to substantial foreign exchange risk. We also generate revenues and incur costs in currencies other than Euro and Czech crown, including Bulgarian lev, Polish zloty, Romanian lei and Turkish lira. We believe that our Euro denominated indebtedness acts as a natural foreign exchange hedge for our

exposure to Euro denominated revenues and we also engage in transaction currency hedging, however, any increase in our exposure to foreign exchange risks or our failure to manage or make use of financial or natural hedging in order to manage our exposure to foreign exchange risk could have a material adverse effect on our business, results of operations and financial condition.

As of December 31, 2015 our currency exposure measured by the Value at Risk (95% confidence) amounted to CZK 848 millions.

The Czech Republic has experienced growing public finance deficits which could potentially destabilize the Czech crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic through lower debt ratings. The Czech crown volatility is affected by the overall development of the global economy and the relative perception of risks associated with new E.U. member states and other central and eastern European countries. The volatility of the Czech crown is also affected by the anticipated date that the Czech Republic will join the Eurozone, which has been delayed due to political developments and the growing public and budget deficit of the Czech Republic. As of the date of this Base Prospectus, there is no official target date for the Czech Republic to join the Eurozone. Since November 2013, the Czech National Bank has been intervening in the markets to weaken the Czech crown against the euro. In January 2015, European Central Bank announced a EUR 60 billion-a-month bond-buying programme, recently increased to EUR 80 billion, to revitalize the Eurozone economy and counter deflation. We cannot give any assurance that any government and monetary authorities will not impose (as some have done in the past) exchange controls or interventions that could adversely affect an applicable exchange rate. Any significant change or fluctuation in the Czech crown's exchange rate or inflation in the Czech Republic could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

In addition, we may need to temporarily shut down some of our power plants and incur expenses in connection with inspections, maintenance or repair activities in addition to those that we currently conduct, including such additional activities that the governmental authorities in the countries in which we operate may require us to conduct. Any physical damage to our facilities may be costly to repair and we may not have insurance coverage for all potential losses or our insurance claims may be subject to challenge or delay. In particular, due to our contractual obligations to deliver electricity at pre-established prices and quantities, if we suffer a reduction in electricity generation, we may be required to purchase electricity in the open market which may be at unfavorable prices. As a result, any failure, breakdown or unplanned outages at our power plants or any failure or interruption of our distribution infrastructure could have a material adverse effect on our reputation, business, results of operations and financial condition.

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

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

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

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

With effect from January 1, 2014, operators of certain solar electricity producing facilities in the Czech Republic which were put into operation between January 1, 2010 and December 31, 2010 are subject to a withholding tax in the amount of (i) 10% of the income corresponding to the feed-in tariff, or (ii) 11% of the income corresponding to a "green bonus". As of December 31, 2015, we owned and operated 12 solar power plants in the Czech Republic, with installed capacity of 125.2 MW. The majority of these solar power plants were put into operation between January 1, 2010 and December 31, 2010 and are subject to the withholding tax. Extension or amendment to such tax legislation or introduction of any similar tax in the future, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

We are also exposed to other financial risks. Financial markets have experienced volatility in recent years and markets may decline again or become even more volatile in the future. The value of certain of our assets and financial investments, including joint ventures, is sensitive to the performance of the European and global economies. For example, we hold a 7% share in MOL (MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság), the Hungarian oil company, which represented 1.6% of our total assets as of December 31, 2015. We also hold substantial amounts in certain government bonds (market value of these bonds as of 31 December 2015 amounted to approximately 2% of our total assets), particularly Czech government bonds. Any future fluctuations in the capital markets could negatively influence the value of those assets which could have a material adverse effect on our business, results of operations and financial condition. We are dependent on debt capital markets to fund the majority of our working capital and capital expenditures. Any volatility in the debt capital markets could negatively affect this source of funding, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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



interconnections and may experience significant increases or decreases in price movements and liquidity crises that are difficult to predict. Any such fluctuations in the wholesale energy markets could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

In 2014 and in previous years, the Bulgarian Energy and Water Regulatory Commission (the “KEVR”) and other Bulgarian authorities and agencies have taken various adverse regulatory and related actions against CEZ Elektro Bulgaria AD and CEZ Razpredelenie Bulgaria AD, our Bulgarian electricity distributor and sellers. On March 19, 2014, the KEVR initiated license revocation proceedings in respect of the electricity sale license held by CEZ Elektro Bulgaria AD. Although we are defending against all adverse regulatory actions in Bulgaria, we cannot give any assurance that we would be able to recover our investment in our business in Bulgaria. Consequently, the developments could have a material adverse effect on our business, results of operations and financial condition.

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

We own and operate wind power plants in Romania with total installed capacity of 600 MW that are subject to Romanian support scheme for renewable energy sources. Until 2013, our Romanian wind farms were authorized to receive two green certificates per MWh of electricity to be generated. In 2013, the Romanian government approved a decree on promotion of renewable energy sources by which the support of renewable energy sources was significantly reduced and tradability of one of the two green certificates already received and to be received by our Romanian wind power plants was postponed until 2018. These adverse government actions caused a (i) fall of the market price of green certificates to the statutory minimum, and (ii) suspension of the allocation of tradable green certificates to most Romanian wind farms.

In addition, temporary two-year accreditation for allocation of green certificates to our wind power plants expired in 2013 and 2014. Under Romanian law, each renewable energy provider is required to notify the E.U. Commission of each electricity production facility with a capacity exceeding 125 MW which has applied for accreditation for allocation of green certificates. The notification is submitted to the Romanian government which in turn notifies the E.U. Commission. We prepared such notification and all ancillary materials and submitted them to Romanian authorities in accordance with Romanian law and within the statutory deadline in January 2012. However, during this process, the Romanian government modified the support scheme for renewable energy sources which has not been approved by the E.U. Commission. Until the E.U. Commission reaches a conclusion on the new Romanian law relating to the support scheme for renewable energy sources, the E.U. Commission will not consider notifications for allocation of green certificates, including the notification with respect to our wind power plants. As a result, the majority of our Romanian wind farms have not been receiving all of the green certificates which we had been authorized by the Romanian government to receive.

According to the amendment to Romanian law on support of renewable energy sources (which entered into effect on June 3, 2015), ANRE issued an implementing regulation on July 1, 2015. On September 2, 2015, ANRE approved temporary accreditation for allocation of green certificates to the Cogecalac and Fantanele Vest wind farms on the basis of this implementing regulation. The temporary accreditation entitles each wind farm to receive one green certificate per MWh of electricity produced and is valid for 12 months. The temporary accreditation may be extended should the E.U. Commission's examination of the individual notification of the respective wind farm still be pending. On January 18, 2016, we filed an application to ANRE for extension of the temporary accreditation for an additional 12 months. The accreditation and allocation of the second certificate to our wind farms remains suspended until the period from 2018 to 2020.

We recognized impairment losses of CZK 6,593 million with respect to our Romanian wind power farms in 2014 and CZK 2,295 million in 2015.

Any further suspensions or delays in accreditation and allocation of the green certificates or other adverse decision with respect to Romanian support of renewable energy sources could have an adverse effect on our ability to fully recover our investment in our Romanian wind power plants and have an adverse effect on results of our operations.

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

We may incur significant liabilities in connection with pending litigation concerning the squeeze-out of former minority shareholders of mining and heating companies that we have acquired.

We are a party to the following pending proceedings in connection with the squeeze-out of former minority shareholders in our subsidiaries:

- Action against Severočeské doly a.s. for review of consideration and stipulation of further consideration in connection with the squeeze-out in Severočeské doly a.s. the proceedings are currently pending in the first instance. If the claimants prevailed in the proceedings, the aggregate further consideration might amount to up to CZK 1,800 million.
- Action against ČEZ Teplárenská, a.s. for review of consideration and stipulation of further consideration in connection with squeeze-out in United Energy, a.s. the proceedings are currently pending in the first instance. The possible impact of the action to ČEZ Teplárenská, a.s. or ČEZ cannot be estimated at this stage.
- Action against ČEZ Teplárenská, a.s. for declaration of the invalidity of the squeeze-out General Meeting resolution - the claim was finally dismissed by the court.

If such litigation is not decided in our favor, the final decision of the Czech courts, particularly in relation to share price, additional payments or supplementary interest, could have a material adverse effect on our business, results of operations and financial condition.

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

Our core activities of generation, distribution and supply of electricity require various administrative authorizations, at local and national levels, in the Czech Republic and in the other countries in which we operate (Bulgaria, Poland, Romania and Turkey). The procedures for obtaining and renewing these authorizations can be protracted and complex. Obtaining these authorizations is not routine and the conditions attached to obtaining them are subject to change and may not be predictable. As a result, we may incur significant expenses in order to comply with the requirements associated with obtaining or renewing these authorizations (for example, the cost of preparing applications for authorizations or investments associated with installing equipment that are required before the authorization can be issued). Delays, extremely high costs or the suspension of our industrial activities

due to our inability to obtain, maintain, or renew authorizations, may also have a negative impact on our business activities and profitability. In addition, we often invest resources prior to obtaining the necessary permits and authorizations, particularly in connection with feasibility studies and environmental studies, but may have to cancel or withdraw from a project if we are unable to obtain the necessary permits or authorizations. Licenses for the generation of electricity in the Czech Republic are granted for a maximum of 25 years. Certain other material licenses for the operation of our nuclear and coal-fired power plants are due to expire within the next five years. Any failure to obtain, maintain, renew or extend all the necessary administrative authorizations and licenses necessary for the operation of our business and execution of our strategy, could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

new competition and we may be unable to offset the financial effects of decreases in production and sales of electricity through efficiency improvements, or expansion into new business areas or markets. As a result, any increase in competition in the markets in which we operate could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

In the ordinary course of our business, we are exposed to the risk of disruptions in the supply of coal, nuclear fuel, gas or other raw materials, and to increases in their cost. Our generation operations depend upon obtaining deliveries of adequate supplies of raw materials on a timely basis and are therefore vulnerable to changes in the supply of the raw materials, including brown coal, nuclear fuel and gas. Any significant shortages or interruption in the supply of raw materials or increases in their costs could disrupt our generation operations and increase our cost of raw materials, which could have a material adverse effect on our business, results of operations and financial condition.

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

***Risks associated with deliveries of coal from Sokolovská uhelná.***

We are currently involved in a dispute with Sokolovská uhelná, právní nástupce, a.s. relating to the amount and price of brown coal supplied to us under a long-term purchase contract expiring in 2027. Sokolovská uhelná, právní nástupce, a.s. has challenged the validity of the purchase contract. In relation to this dispute, we have filed a lawsuit for compensation relating to the unjust enrichment of Sokolovská uhelná, právní nástupce, a.s.. In the event that Sokolovská uhelná, právní nástupce, a.s. is successful and the long-term purchase contract is found to be invalid, any failure to conclude a new agreement on similar terms or at all could adversely affect the operation

of our Tisová power plant and have a material adverse effect on our business, prospects, results of operations and financial condition.

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

In the ordinary course of our business, we are subject to numerous civil, administrative and arbitration proceedings. Our audited consolidated financial statements show accrued provisions for contingent liabilities relating to particular proceedings, calculated based on the advice of our internal and external legal counsel. As of December 31, 2015, we also recorded provisions relating to various other risks and charges, primarily in connection with regulatory disputes and disputes with local authorities. However, we have not recorded provisions in respect of all legal, regulatory and administrative proceedings to which we are a party or in which we may become a party. In particular, we have not recorded provisions in cases in which the outcome is unquantifiable or which we currently expect to be ruled in our favor. As a result, we cannot give any assurance that our provisions will be adequate to cover all amounts payable by us in connection with such proceedings. Our failure to quantify sufficient provisions or to assess the likely outcome of any proceedings against us could have a material adverse effect on our business, results of operations and financial condition.

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

ČEZ has been contacted by the police of the Czech Republic in several cases that are subject to investigation. All cases are still at their preliminary stage. At that stage (which typically lasts for several months and sometimes a year or longer) the police collects and verifies information in order to decide whether there are justified reasons for starting criminal prosecution.

The major case concerns the company ČEZ Obnovitelné zdroje, s.r.o. In April 2016, ČEZ Obnovitelné zdroje, s.r.o., an operator of the solar power plant Vranovská Ves with installed capacity of 16.033 MW received a resolution of the police of the Czech Republic on seizure of a part of funds which ČEZ Obnovitelné zdroje, s.r.o. is in the future entitled to receive under the settlement agreement between ČEZ Obnovitelné zdroje, s.r.o. and OTE, a.s. The funds to be seized by the Czech police equals the difference between the portion of subsidies paid to the solar power plant Vranovská Ves and the portion of subsidies that would be paid to the solar power plant Vranovská Ves should it have been put into operation in 2011 when the subsidies decreased. We believe that the solar power plant Vranovská Ves received the subsidies in compliance with applicable law which was confirmed by several inspections conducted by the ERO. Therefore, ČEZ Obnovitelné zdroje, s.r.o. filed a complaint against the resolution of the police of the Czech Republic, and there was neither a provision, nor an impairment loss accounted in this respect.

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

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

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

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

***decommissioning and reclamation of our mines and the remediation of mining damage.***

Under Czech law, we are required to reserve restricted funds to meet the expected future costs of decommissioning our nuclear power plants. We pay these funds into nuclear escrow accounts that can be used only to meet decommissioning costs with the permission of the Czech Repository Authority. In 2015 and 2014, the payments to the nuclear escrow account amounted to CZK 408.5 million and CZK 408.4 million, respectively. We cannot give any assurance that amounts held by us as restricted funds will not increase as a result of increased projected costs of decommissioning or as a result of other factors determining the amount of our annual contributions. In addition, if such amounts are not sufficient to meet future decommissioning costs, we may be required to pay additional amounts, which could have a material adverse effect on our business, results of operations and financial condition.

We are involved in open pit mining in the Czech Republic and are required to keep funds to decommission mines at the end of their operating lives. In addition, Czech law relating to open pit mining also requires us to remediate land affected by our mining operations. The cost of remediation depends on the type of remediation and is subject to periodical review. In addition to the creation of remediation reserves, the Czech authorities may also require other payments relating to mining licenses. The methodology for determining remediation costs and such other payments may change as might the requirements relating to the collateralization of obligations, which could have a material adverse effect on our business, results of operations and financial condition. As an owner and operator of electricity and heat facilities, we may incur in the future significant costs and expenses in connection with decommissioning of such facilities.

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

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

Following the nuclear disaster at Fukushima in 2011, we have been required to carry out “stress tests” by the European Council in order to assess the safety of our nuclear power plants and how resistant these power plants are to natural disasters such as floods and earthquakes. We have successfully passed all such tests and our nuclear power plants are compliant with recommendations of the European Council. However, we are required to take certain corrective action to further improve the safety and resistance of our nuclear power plants. If we fail to implement the proposed corrective action within the specified deadlines or if we are required to comply

with any additional requirements of the European Council in the future, we could incur significant costs, which in turn could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

***A strike or other labor disruption at our facilities could adversely affect our business.***

A substantial number of our employees are represented by labor unions and all ČEZ employees were covered by our collective bargaining agreement as of December 31, 2015. This agreement includes provisions that limit our ability to realize cost savings from restructuring initiatives such as plant closures and reductions in workforce. Since our foundation we have not experienced any strikes or work stoppages, however, any strikes, threats of strikes, or other resistance or work stoppages in the future, particularly those affecting our facilities in the Czech



Republic, could impair our ability to implement further measures to reduce costs and improve production efficiencies in furtherance of our strategy, which could have a material adverse effect on our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

Experienced and capable personnel in the energy industry are in high demand and we face significant competition in our principal markets to recruit such personnel. Consequently, when our experienced employees leave our business, we may have difficulty, and incur additional costs, replacing them. In addition, the loss of any member of our senior management team may result in a loss of organizational focus, poor execution of our operations and corporate strategy and our inability to identify and execute potential strategic initiatives in the future, including strategies relating to the growth of our business. Our failure to hire, train or retain a sufficient number of experienced, capable and reliable personnel, especially senior and middle management with appropriate professional qualifications, or to recruit skilled professional and technical staff in pace with our growth, could have a material adverse effect on our business, results of operations and financial condition.

## **Risks concerning Bonds**

### **General Factors**

*Bonds can be a complex financial instrument, and the investor must carefully consider the suitability of such an investment.*

Some Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments - they diversify them. They purchase complex financial instruments as a means of reducing risk or enhancing yield, with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Bonds that are complex financial instruments unless they have the expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds, and the impact this investment will have on the potential investor’s overall investment portfolio.

*The Issuer is not limited in accepting additional debt financing.*

There are no major legal restrictions with respect to the volume and conditions of any future unsubordinated debt financing of the Issuer that would stem from the Joint Terms and Conditions. The acceptance of any additional debt financing could ultimately mean that in the event of an insolvency proceeding, the Bondholders’ claims under the Bonds will be satisfied to a lesser extent than in the absence of any such debt financing. Any increase in debt financing of the Issuer also entails a risk that the Issuer may be in default in the performance of its obligations under the Bonds.

*Trading in Bonds may be less liquid than in the case of other bonds.*

It is impossible to estimate the nature and scope of any secondary bond market, and potential investors in Bonds should consider the expected liquidity of the Bonds. If the Bonds within any Issue are issued as listed securities, the Issuer intends to apply for their admission to trading on the regulated market of the PSE, with the specific segment of the regulated market of the PSE to be made more precise in the respective Issue Supplement. An

Issue Supplement may also determine that the Bonds within such Issue are to be traded on a market other than the regulated securities market or that they are not to be traded on any regulated securities market. Regardless of any listing of Bonds, it cannot be guaranteed that the Bonds in fact will be actively traded on such regulated market, and there is no warranty that a sufficiently liquid secondary market with the Bonds will be formed, or if such market is formed, that such secondary market will last. The fact that the Bonds may be listed on a regulated market does not necessarily have to result in a higher level of liquidity of listed Bonds over unlisted Bonds, whereas in the case of unlisted Bonds, it may be difficult to evaluate them, which may negatively affect their liquidity. Insufficient liquidity of Bonds may prevent the Bondholders from selling the Bonds on the market at all, or selling them only for a price below their original investment.

*Bonds denominated in foreign currency are exposed to currency exchange risks.*

The holder of a Bond denominated in a foreign currency is exposed to a risk of movements in exchange rates, which may affect the final yield or the amount of the payment to be made upon redemption of such Bonds. For instance, any change in the value of any foreign currency vis-à-vis Czech crown results in the relevant change in the CZK value of the Bond denominated in this foreign currency, and in the relevant change in the value of the principal and interest payments made in this foreign currency in accordance with the terms and conditions of the Bonds. If an initial exchange rate drops and the CZK value increases as a result, the price of a Bond and the value of the principal and the interest payments denominated in CZK will diminish in this particular case.

*The value of Bonds may be affected by legislative changes.*

The rights and obligations attached to Bonds are based on Czech law as in force and effect as of the Bonds' issue date. After the Bonds' issue date, laws applicable to the rights and obligations attached to the Bonds may change, even with retroactive effect. No representation or warranty can be given by the Issuer as to the impact of such possible changes on the value of the Bonds.

*Legal investment considerations may restrict certain investors' investment in Bonds, or even prevent them from investing in Bonds.*

Investment activities of certain investors are regulated by laws and orders and/or are subject to inspection or regulation by certain authorities. Each potential investor in Bonds should consult their legal advisers to determine whether and to what extent (i) the Bonds are legal investments for them, and (ii) other restrictions apply to their purchase or pledge or usage as a collateral. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

*Return on investment in Bonds may be affected by various fees.*

The overall return on investments in Bonds may be affected by the amount of the fees charged by the fiscal and paying agent of the Bond issue and/or an agent for the sale/purchase of the Bonds and/or charged by the relevant settlement system used by the investor. Any such person or institution may charge fees for the opening and keeping of an investment account, securities transfers, securities safekeeping services, etc. The Issuer recommends that the potential investors in the Bonds familiarize themselves with the materials that will serve as the basis for charging fees related to the Bonds.

*Return on investment in Bonds may be affected by tax burden.*

Potential investors in or sellers of the Bonds should realize that they may be subject to taxes or other claims or charges imposed by the laws and customs of the country in which the Bonds are being transferred, or in some other country relevant under the circumstances. In certain countries, it may happen that no official position of tax authorities or court decision related to financial instruments such as bonds will be available. When acquiring, selling or redeeming the Bonds, the potential investors should not rely on the brief summary of the tax issues contained in this Base Prospectus or, as the case may be, in the relevant Issue Supplement, but rather act upon the recommendation of their tax advisors in view of their individual taxation issues. Investment considerations in view of the risks specified in this section should be made at least after reading the chapter "Taxation and Foreign Exchange Control in the Czech Republic" contained in this Base Prospectus, as well as any other chapters concerning taxation and contained in the relevant Issue Supplement.

*Return on investment in Bonds may be affected by the inflation rate.*

The potential investors in or sellers of the Bonds should realize that if the Bonds lack a no-inflation clause, the fair value of an investment in the Bonds may diminish concurrently with inflation, reducing the currency value. Inflation also reduces real yields on the Bonds. If the inflation rate exceeds the nominal yield on the Bonds, the real value of the yield on the Bonds will be negative.

*Bond Program Supplement may establish the Issuer's right to early redemption of the Bonds within the given Issue, thus exposing the investor to the risk of a lower-than-expected yield.*

A Bond Program Supplement may determine that the Issuer may redeem Bonds within an Issue before the final redemption date. If the Issuer redeems any Bonds within any Issue before the final redemption date, a Bondholder is exposed to a risk of a lower-than-expected yield on account of such early redemption. Depending on the wording of the relevant Bond Program Supplement, the Issuer may, for instance, exercise such right, if the yield on comparable bonds on the capital markets declines, which means that an investor may be able to invest the repaid yields only into lower-yield bonds.

*Under certain conditions, the Calculating Agent may determine the Reference Rate at its sole discretion and binding procedures or standards for making such determinations or adjustments to the Reference Rate will not be available to the Calculating Agent.*

In cases where the Calculating Agent is authorized by the Joint Terms and Conditions to ascertain the value of any asset based on currently prevailing market practice (which may change significantly from time to time), no binding procedures, standards or internal regulations regarding such adjustments will be available to the Calculating Agent. Furthermore, if the relevant Reference Rate Index ceases to exist, the Calculating Agent may determine the value of such Index at its sole discretion so as to make such value comparable to the standard value of the Index as it would have otherwise been calculated. The Calculating Agent will not have any binding procedures, standards, internal regulations or precedents at its disposal when making such determination and any such decision will therefore be reached on an ad hoc basis pursuant to a case-specific analysis. Because not every event or development concerning the Reference Rate or its Index is foreseeable, any adjustments or determinations made to the Reference Rate performed by the Calculating Agent may (negatively) influence the Bond yield as anticipated by an otherwise experienced investor at the time of the investment.

*The Calculating Agent may identify or evaluate a Market Disruption Event at its sole discretion and binding procedures or standards for making such identifications or evaluations will not be available to the Calculating Agent.*

The Calculating Agent is authorized by the Joint Terms and Conditions to, at its sole discretion, identify and evaluate (among others) the significance of any limitation of trading resulting in an outage on the affected market, any event resulting in a significant disruption of the market participants' standard ability to obtain valuations and/or conduct transactions, any closure of a relevant outage-stricken market or any change in domestic or foreign financial, political or economic condition, as further provided for by the Joint Terms and Conditions. The Calculating Agent has sole discretion to decide which events enumerated by the Joint Terms and Conditions are sufficiently important and detrimental so as to preclude or render reasonably unfeasible the calculation of the Reference Rate under the conditions specified by the Joint Terms and Conditions. The Calculating Agent will not have any binding procedures, standards, internal regulations or precedents at its disposal when making such identifications or evaluations and any such decision will therefore be reached on an ad hoc basis pursuant to a case-specific analysis. Any identifications or evaluations of a Market Disruption Event performed by the Calculating Agent may (negatively) influence the Bond yield as anticipated by an otherwise experienced investor at the time of the investment.

### **Special risk factors stemming from the method of determining the yield on Bonds**

#### *Fixed Rate Bonds*

A holder of a fixed rate Bond is exposed to a risk of a decline in the value of such Bond as a result of a change in the market interest rates. While the nominal interest rate determined in the relevant Bond Program Supplement is fixed for the term of the Bonds, the current interest rate on the capital market (the "market interest rate") generally changes every day. Every change in the market interest rate also entails a change in the price of fixed rate Bonds, but the other way around. This means that if the market interest rate rises, the price of the fixed rate Bond generally declines to a level when the yield on such Bond approximately equals the market interest rate. If

the market interest rate declines, the price of the fixed rate Bond generally rises to a level when the yield on such Bond approximately equals the market interest rate.

#### *Floating Rate Bonds*

Floating rate Bonds may be considered a volatile investment, because a holder of such Bonds is exposed to the risk of floating interest rates and thus faces uncertainty as to the amount of interest income. If an investor does not create any security in relation to the risk of floating rate Bonds, it may only determine the overall rate of return of its investment in such Bonds with difficulty.

#### *Discounted Bonds*

The Bonds issued as discounted Bonds shall bear no interest, but their issue price is generally below their nominal value. Instead, yield on the discounted Bond shall be represented by the difference between the nominal value and a lower issue price and shall reflect the market interest rate. A holder of a discounted Bond is exposed to a risk of decline of the price of such Bond in response to a change in the market interest rates.

### **PRESENTATION OF FINANCIAL INFORMATION**

The financial information as of and for the years ended December 31, 2014 and 2015 included in this Base Prospectus has been derived from the audited consolidated financial statements of the CEZ Group as of and for the years ended December 31, 2014 and 2015, which are incorporated by reference into this Base Prospectus (please see “*Documents Incorporated by Reference*”). The audited financial statements of ČEZ for the year ended December 31, 2015 are also incorporated by reference in this Base Prospectus (see “*Documents Incorporated by Reference*”).

Information in this Base Prospectus relating to the net debt, EBITDA or EBITDA margin of our European peers (EdF, EdP, EnBW, Enel, E.ON, Fortum, Iberdrola, RWE and Verbund) has been derived from information publicly disclosed by those companies. However, the Issuer has not independently verified such information and cannot give any assurance as to the accuracy or completeness of such information.

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

#### **Non-IFRS Measures**

In this Base Prospectus, we present certain financial data and measures which are not calculated in accordance with IFRS, such as “*EBIT*,” “*EBITDA*” and the related ratios. As presented herein:

- EBIT represents income before income taxes and other income (expenses);
- EBITDA consists of income before income taxes and other income (expenses) plus depreciation and amortization, plus impairment of property, plant and equipment and intangible assets including goodwill less gain (or loss) on sale of property, plant and equipment;
- EBITDA Margin consists of EBITDA divided by total revenues, expressed as a percentage; and
- Net Debt consists of long-term debt, net of current portion, plus short-term loans, plus current portion of long-term debt, minus cash and cash equivalents plus highly liquid financial assets.

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

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

Our non-IFRS measures have limitations as analytical tools, and you should not consider them in isolation, or as a substitute for analysis of our results as reported under IFRS as set out in our audited consolidated financial statements and you should not place any undue reliance on our non-IFRS measures. Some of these limitations related to non-IFRS measures are:

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

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

## **FORWARD-LOOKING STATEMENTS**

This Base Prospectus includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believe,” “estimate,” “anticipate,” “expect,” “forecast,” “foresee,” “aim,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “will,” “would” or, in each case, similar expressions or the negative thereof, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realized. They appear in a number of places throughout this Base Prospectus and include

statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

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

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

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

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

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

## HISTORICAL AND CURRENT MARKET AND INDUSTRY DATA

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

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

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

In addition, the Issuer has provided the data contained in this Base Prospectus as to installed capacity, generation and other market share information with respect to the electricity and heating industries in the Czech Republic (unless explicitly stated otherwise). The Group compiles and publishes certain of this data on a regular basis, and also supplies certain of this data to the Czech Statistical Office and the Czech Energy Regulatory Office for use in compiling national data on the energy sector. Unless otherwise indicated, all figures in this Base Prospectus presenting units of generation of electricity are gross (i.e., including the electricity consumed by the power plants themselves).

## RESPONSIBLE PERSONS

### Persons Responsible for Information Provided in Prospectus

The person responsible for the accuracy and completeness of information provided in the Base Prospectus, as well as for the accurate execution thereof, is the Issuer, ČEZ, a. s., with its registered seat at Duhová 2/1444, 140 53 Prague 4, Czech Republic, Identification No. 452 74 649, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 1581.

### Issuer's Declaration

The Issuer hereby declares that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts, and the Base Prospectus makes no omission likely to affect the import hereof.

Further, the Issuer represents that the financial statements for the last two fiscal periods, *i.e.* the years ended December 31, 2014 and December 31, 2015, have been audited, and that the auditor's statement set forth in this Base Prospectus corresponds with the opinion set forth in the respective auditor's report.

As of the date of the Base Prospectus, in Prague

ČEZ, a. s.

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Name: Martin Novák  
Title: Vice-Chairman of the Board of Directors

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Name: Tomáš Pleskač  
Title: Member of the Board of Directors



**DOCUMENTS INCORPORATED BY REFERENCE**

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

The auditors report and audited consolidated and non-consolidated annual financial statements of the Issuer for the financial years ended 31 December 2014 and 31 December 2015 including the information set out at the following pages in particular:

	<u>2014 Annual Report</u>		<u>2015 Annual Report</u>	
	<u><a href="http://www.cez.cz/edee/content/file/investors/2014-annual-report/2014-annual-report.pdf">http://www.cez.cz/edee/content/file/investors/2014-annual-report/2014-annual-report.pdf</a></u>		<u><a href="http://www.cez.cz/edee/content/file/investors/2015-annual-report/2015-annual-report.pdf">http://www.cez.cz/edee/content/file/investors/2015-annual-report/2015-annual-report.pdf</a></u>	
	<u>Consolidated</u>	<u>Non-consolidated</u>	<u>Consolidated financial statements</u>	<u>Non-consolidated financial statements</u>
Balance Sheet.....	Page 212	Page 274	Page 214	Page 276
Statement of Income.....	Page 213	Page 275	Page 215	Page 277
Statement of Comprehensive Income...	Page 214	Page 276	Page 216	Page 278
Statement of Changes in Equity.....	Page 215	Page 276	Page 217	Page 278
Statement of Cash Flows.....	Page 216	Page 277	Page 218	Page 279
Accounting Principles .....	Pages 217	Pages 278	Pages 219	Pages 280
and Notes.....	to 271	to 319	to 273	to 323
Audit Report.....	Pages 210 to 211	Pages 272 to 273	Pages 212 to 213	Pages 274 to 275

On 10 May 2016 the Issuer published (in two separate documents) its consolidated unaudited interim financial statements and its non-consolidated interim unaudited financial statements, in each case as at and for the three month period ended 31 March 2016 (together the **Financial Statements**). The following extracts from the Financial Statements are incorporated by reference each as a separate document.

Consolidated Financial StatementsNon-Consolidated Financial Statements

<a href="http://www.cez.cz/edee/content/file-s/pro-investory/informacni-povinnost-emitenta/2016-05/cez-024-2016_en_begsq0a69de7dmvf.pdf">http://www.cez.cz/edee/content/file-s/pro-investory/informacni-povinnost-emitenta/2016-05/cez-024-2016_en_begsq0a69de7dmvf.pdf</a>	Page	<a href="http://www.cez.cz/edee/content/file-s/pro-investory/informacni-povinnost-emitenta/2016-05/cez-023-2016_en_eh7ow5dtgrep1h98.pdf">http://www.cez.cz/edee/content/file-s/pro-investory/informacni-povinnost-emitenta/2016-05/cez-023-2016_en_eh7ow5dtgrep1h98.pdf</a>	Page
Balance Sheet	2-3	Balance Sheet	1
Statement of Income	4	Statement of Income	2
Statement of Comprehensive Income	5	Statement of Comprehensive Income	3
Statement of Changes in Equity	6	Statement of Changes in Equity	4
Statement of Cash Flows	7-8	Statement of Cash Flows	5
Notes to the Consolidated Financial Statements	9-20		

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

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the CNB in accordance with Section 36j of the Capital Markets Act. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified offices of the Fiscal and Paying Agent for the time being in the Czech Republic. The documents incorporated by reference will also be available on the website of the Issuer ([www.cez.cz](http://www.cez.cz)).

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

## SELECTED FINANCIAL INFORMATION

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

With the exception of certain non-IFRS financial measures discussed in “*Presentation of Financial Information*” the financial information as of and for the years ended December 31, 2014 and 2015 included in this Base Prospectus has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2014 and 2015 prepared in accordance with IFRS, which are incorporated by reference into this Base Prospectus.

In 2015, certain figures in our financial statements for the year ended December 31, 2014 were reclassified and the corresponding figures for the year ended December 31, 2014 were adapted accordingly so as to provide reliable comparative information. The reclassification has been intended to enhance accuracy of information contained in the financial statements and reflect the development of industry specific best practices in financial reporting in adhering to all IFRS requirements. For further information, please see Note 2.3 of our audited consolidated financial statements for the year ended December 31, 2015.

The summary financial data in the tables below should be read together with our audited consolidated financial statements as of and for the years ended December 31, 2014 and 2015, including the notes thereto, which are incorporated by reference into this Base Prospectus. Please also see “*Presentation of Financial Information*” and “*Risk Factors*” herein.

### Income Statement Data

The following table sets forth summary consolidated income statement data of the CEZ Group for the years ended December 31, 2014 and 2015.

	<b>For the year ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
	<b>(CZK in millions)</b>	
<b>Revenues and other operating income:</b>		
Sales of electricity .....	173,819	182,105
Sales of gas, coal, heat and other revenues .....	21,626	24,569
Other operating income .....	6,306	3,493
<b>Operating expenses:</b>		
Gains and losses from commodity derivative trading, net .....	2,861	(540)
Fuel .....	(12,686)	(13,053)
Purchased power and related services .....	(75,777)	(90,905)
Repairs and maintenance .....	(4,991)	(4,619)
Depreciation and amortization .....	(27,705)	(28,619)
Impairment of property, plant and equipment and intangible assets including goodwill .....	(8,025)	(7,685)
Salaries and wages .....	(18,852)	(17,758)
Materials and supplies .....	(4,334)	(4,062)
Emission rights, net .....	(1,959)	(1,711)
Other operating expenses .....	(13,337)	(12,254)
<b>Income before other income (expenses) and income taxes</b> ..	<b>36,946</b>	<b>28,961</b>
Other income (expenses) .....	(8,290)	(2,066)
<b>Income before income taxes</b> .....	<b>28,656</b>	<b>26,895</b>
Income taxes .....	(6,224)	(6,348)
<b>Net income</b> .....	<b>22,432</b>	<b>20,547</b>

### Balance Sheet Data

The following table sets forth summary consolidated balance sheet data of the CEZ Group as of December 31, 2014 and 2015.

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2015</b>
	<b>(CZK in millions)</b>	
<b>Assets:</b>		
Total property, plant and equipment.....	426,542	421,364
Total other non-current assets .....	70,974	71,691
Total non-current assets.....	497,516	493,055
Total current assets .....	130,354	109,631
<b>Total assets</b> .....	<b>627,870</b>	<b>602,686</b>
<b>Equity and Liabilities:</b>		
Total equity attributable to equity holders of the parent.....	261,308	267,893
Total equity.....	265,851	272,155
Total long-term liabilities .....	252,189	236,832
Total current liabilities.....	109,830	93,699
<b>Total equity and liabilities</b> .....	<b>627,870</b>	<b>602,686</b>

### Statement of Cash flow Data

The following table sets forth summary consolidated cash flow statement data of the CEZ Group for the years ended December 31, 2014 and 2015.

	<b>For the year ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
	<b>(CZK in millions)</b>	
Net cash provided by operating activities .....	70,675	72,579
Total cash used in investing activities.....	(34,647)	(31,570)
Total cash provided by (used in) financing activities.....	(40,893)	(47,374)
Net effect of currency translation in cash.....	(43)	(248)
<b>Net increase (decrease) in cash and cash equivalents</b> .....	<b>(4,908)</b>	<b>(6,613)</b>
Cash and cash equivalents at the beginning of the period.....	25,003	20,095
Cash and cash equivalents at the end of the period.....	20,095	13,482

### Other Financial Information

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

	<b>For the year ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
	<b>(CZK in millions, except percentages)</b>	
EBIT.....	36,946	28,961
EBITDA.....	72,498	65,104
EBITDA Margin .....	35.9%	31.0%

Net Debt.....	147,245	131,223
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The non-IFRS measures presented below may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. These non-IFRS measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to operating income or net profit or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles, or as alternatives to cash flow from operating, investing or financing activities.

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

The following table illustrates the methodology we use to determine our Net Debt as of December 31, 2014 and 2015. Net Debt is a non-IFRS financial measure. Please see “*Presentation of Financial Information—Non-IFRS Measures.*”

	<b>For the year ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
	<b>(CZK in millions)</b>	
<b>Long-term debt:</b>		
Total bonds and debentures.....	157,785	134,701
Total long-term bank and other loans .....	18,741	22,570
<b>Short-term loans:</b>		
Short-term bank loans .....	7,466	40
Bank overdrafts .....	142	183
Cash and cash equivalents.....	(20,095)	(13,482)
Highly liquid financial assets <sup>(1)</sup> .....	(16,794)	(12,789)
<b>Net Debt</b> .....	<b>147,245</b>	<b>131,223</b>

<sup>(1)</sup> Highly liquid financial assets are selected financial assets of the CEZ Group that can be very quickly transferred into cash, such as money market funds and highly liquid bonds.

The following table is a reconciliation of EBIT and EBITDA to net income for the years ended December 31, 2014 and 2015. EBIT and EBITDA are non-IFRS financial measures. Please see “*Presentation of Financial Information—Non-IFRS Measures.*”

	<b>For the year ended December 31,</b>	
	<b>2014</b>	<b>2015</b>
	<b>(CZK in millions, except percentages)</b>	
Net income .....	22,432	20,547
Income taxes .....	6,224	6,348
Total other income/(expenses) .....	8,290	2,066
<b>EBIT</b> .....	<b>36,946</b>	<b>28,961</b>
Depreciation and amortization .....	27,705	28,619
Impairment of property, plant and equipment and intangible assets including goodwill .....	8,025	7,685
Gain on sale of property, plant and equipment .....	(178)	(161)
<b>EBITDA</b> .....	<b>72,498</b>	<b>65,104</b>

**For the year ended December 31,**

	<b>2014</b>	<b>2015</b>
	<b>(CZK in millions, except percentages)</b>	
EBITDA Margin .....	35.9%	31.0%

**SUBSCRIPTION AND SALE**

Under this Bond Program, the Issuer is entitled to issue from time to time individual Bond Issues, whereas the total nominal value of all outstanding Bonds issued under the Bond Program must at no time exceed CZK 30,000,000,000. Individual Bond Issues made under the Bond Program will be offered for subscription and sale in the Czech Republic.

The joint terms and conditions of the Bond Program as reproduced further below in the chapter "*Joint Terms and Conditions*" of this Base Prospectus have been made accessible to the investors through their publication on [www.cez.cz](http://www.cez.cz); these shall be identical for all individual Bond Issues to be issued under the Bond Program. Such joint terms and conditions of the Bond Program, along with the individual Bond Program Supplements which the Issuer shall draw up in connection with each individual Bond Issue issued under the Bond Program (as set out in the respective Issue Supplement) and which the Issuer shall publish or make accessible to the investors entitle the Issuer to issue Bonds in accordance with the laws of the Czech Republic in force at the time of the respective Issue.

If the respective Issue Supplement states that the Issuer has requested or is requesting acceptance of the Bonds for trading in the Standard market of the PSE and if the Bonds are actually accepted for trading in such a regulated market upon fulfillment of all statutory prerequisites, then the Bonds become listed securities.

In certain jurisdictions, there exist restrictions on the expansion of this Base Prospectus and the offering, sale, or purchase of Bonds issued in the individual Issues. Unless where explicitly stated otherwise herein or in the respective Issue Supplement for the given Bond Issue, the Issuer will not ask for recognition of this Base Prospectus (and its supplements, if any) and of the respective Issue Supplement in other countries; the Bonds of the respective Issue will not be listed, registered, approved, or certified by any administrative or other body of any jurisdiction (other than the Czech National Bank), and in the same vein, their offering may not be *a priori* permissible, with the exception of the territory of the Czech Republic (and such other countries as recognize the Base Prospectus approved by the Czech National Bank and the Issue Supplement as a prospectus based upon which the Bonds may be offered in those countries without necessitating further steps). Anyone who acquires possession of this Base Prospectus is responsible for observance of the restrictions which may apply in individual countries to the offering, purchase, or sale of Bonds or the possession and distribution of any material related to the Bonds).

The Issuer has no intention to make a public offering of the Bonds issued under the Bond Program. Any potential offering of any Bonds issued under the Bond Program (including the distribution of this Base Prospectus, its supplements, if any, or the Issue Supplements to selected investors on the basis of confidentiality) shall be made on the basis of Section 35(2)(a) of the Capital Markets Act. Lead Managers, subscribers of individual Bond Issues, and any other persons must abide by the restrictions imposed on a public offering of bonds; if they offer Bonds issued under the Bond Program, they may do so exclusively in a manner which does not qualify as a public offering or, as it were, does not require the public dissemination of a prospectus. In such a case, they ought to inform the recipients of their offer of Bonds of this restriction.

Aside from the above, the Issuer urges subscribers and purchasers of the Bonds issued under the Bond Program to comply with the provisions of all applicable laws and regulations in effect in any jurisdiction (including the Czech Republic) where they will purchase, offer, sell, or deliver the Bonds issued by the Issuer under the Bond Program, or where they will distribute, make available, or otherwise circulate this Base Prospectus (including supplements, if any), any Issue Supplement, or any other offering or promotional material or information related to the Bonds, in all cases at their own cost and irrespective of whether the Base Prospectus and its supplements, the relevant Issue Supplement, or such other offering or promotional material or information related to the Bonds is in printed form or in an electronic or other intangible form only.

The Issuer assumes no liability for the actions of individual parties acquiring Bonds, who, in conflict with the provisions of the Capital Markets Act, make a public offering of Bonds without a public dissemination of the

pertinent prospectus for these Bonds (where applicable). Such parties acquiring Bonds are fully responsible for their own actions, and the Czech National Bank may impose sanctions on them for breaking the law.

Each person who acquires a Bond issued under the Bond Program shall be deemed to have represented and agreed that (i) such person is familiar with all the relevant restrictions on the offer and sale of the Bonds (especially in the Czech Republic) related to such person and the relevant method of offer or sale, (ii) such person shall not offer for resale or resell the Bonds without complying with the relevant restrictions applicable to such person and to the relevant method of offer and sale, and (iii) before offering for resale or reselling the Bonds, such person shall inform the prospective purchasers that the offer for resale or the resale of the Bonds may in various jurisdictions be subject to statutory restrictions that must be observed.

The Issuer points out to the prospective purchasers of the Bonds that the Bonds are not and will not be registered under the U.S. Securities Act of 1933, as amended (hereinafter the “**U.S. Securities Act**”), or by any securities commission or any other regulatory agency of any other regulatory agency of any state of the United States of America, and accordingly, the Bonds may not be offered, sold, or delivered within the United States or to U.S. persons (as such terms are defined in Regulation S under the U.S. Securities Act) other than by virtue of an exemption from the registration requirement under the U.S. Securities Act, or in a transaction that is not subject to the registration requirement under the U.S. Securities Act.

## JOINT TERMS AND CONDITIONS

Bonds under this Bond Program (collectively also the “**Bonds**”) shall be issued in accordance with Czech Act No. 190/2004 Coll., on Bonds, as amended (the “**Bonds Act**”) by ČEZ, a. s., with its registered seat at Duhová 2/1444, Prague 4, Postal Code: 140 53, Identification No. 452 74 649, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 1581 (the “**Issuer**”). The Bonds shall be governed by these Joint Terms and Conditions of the Bond Program and also by the respective Bond Program Supplement (as defined below).

These Joint Terms and Conditions of the Bond Program (the “**Joint Terms and Conditions**”) shall be identical for individual Bond issues to be issued under the Bond Program. If in case of any Bond issue the Issuer so decides or if so required by legal regulations, the Bonds shall be allocated individual ISIN codes by the central securities depository, i.e. Centrální depozitář cenných papírů, a.s., with its registered seat at Rybná 14, Prague 1, Postal Code: 110 00, Identification No. 25 08 14 89, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 4308 (“**CDCP**”), or by another entity authorized to allocate ISIN codes. Information on allocated ISIN codes, or if applicable, on any other identification detail in relation to the Bonds shall be given in the respective Bond Program Supplement. In addition, the Bond Program Supplement shall also specify whether the Issuer intends to apply for listing of the respective Bond issue in the regulated market, i.e. whether the Issuer intends to take any and all steps necessary for the Bonds of such issue to be listed securities. Further, the Bond Program Supplement shall specify the method for offering of the Bonds, with the Issuer not intending to offer the Bonds in a public offering. For the avoidance of any doubts, “regulated market” (*regulovaný trh*), “listed Bond” (*kótovaný dluhopis*), and “public offering” (*veřejná nabídka*) shall have the meaning as ascribed to them in the Czech Act No. 256/2004 Coll., on Doing Business on the Capital Markets, as amended (the “**Capital Markets Act**”).

These Joint Terms and Conditions shall be made more specific for each Bond issue issued under the Bond Program in a Bond Program Supplement, which shall be published or made accessible to the investors, as applicable, in accordance with applicable legal regulations. The terms and conditions of each Bond issue issued under the Bond Program shall be constituted by the provisions of these Joint Terms and Conditions and the provisions of the respective Bond Program Supplement and shall be published or made accessible to the investors, as applicable, in accordance with the applicable regulations.

To the extent permitted by the Commission Regulation (EC) No. 809/2004, implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (the “**PD Regulation**”) and subject to the Issuer’s consent, these Joint Terms and Conditions may be supplemented by a Bond Program Supplement in respect of any Bond issue issued under the Bond Program. However, this shall not be prejudicial to the wording of these Joint Terms and Conditions in respect of any other Bond issue issued under the Bond Program.

Unless otherwise provided in the respective Bond Program Supplement, individual Bonds issues shall be arranged by Komerční banka, a.s., with its registered seat at Prague 1, Na Příkopě 33/969, Postal Code: 114 07, Identification No. 453 17 054, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 1360 (“**KB**”), Česká spořitelna, a.s., with its registered seat at Olbrachtova 1929/62, Prague 4, Postal Code: 140 00, Identification No. 452 44 782, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 1171 (“**CS**”), Československá obchodní banka, a.s., with its registered seat at Radlická 333/150, Prague 5, Postal Code: 150 57, Identification No. 000 01 350, entered in the Commercial Register administered by the Prague Municipal Court, File No. BXXXVI 46 (“**CSOB**”) or any other entity, as may be authorized to perform the same by the Issuer (KB, CS, CSOB or any other so authorized entity as the “**Lead Manager**”).

Unless otherwise provided in the respective Bond Program Supplement or unless a change under Section 11.1.2 of these Joint Terms and Conditions occurs, KB shall act as a fiscal and paying agent in charge of the settlement and administration of payments in connections with the Bonds under the Program fiscal and paying agency agreement (the “**Program Fiscal and Paying Agency Agreement**”). In respect of any Bond issue, the Issuer may delegate the performance of the services of the fiscal and paying agent related to the settlement and administration of payments in connection with the Bonds to any other person having a license for the conduct of such activities, which person shall be specified in the respective Bond Program Supplement (KB or any such other person also as the “**Fiscal and Paying Agent**”) under an issue fiscal and paying agency agreement (the “**Issue Fiscal and Paying Agency Agreement**”) and together with the Program Fiscal and Paying Agency Agreement also as the “**Fiscal and Paying Agency Agreement**”). The Bondholders (as defined below) are



advised to make themselves familiar with the Fiscal and Paying Agency Agreement, as it is important, inter alia, for the actual making of payments to the Bondholders.

Unless otherwise provided in the respective Bond Program Supplement and unless a change under Section 11.2.2 of these Joint Terms and Conditions occurs, KB shall perform the services of the Calculation Agent related to calculations for certain Bond issues under the Program Fiscal and Paying Agency Agreement. In respect of any Bond issue, the Issuer may delegate the performance of the services of the Calculation Agent related to calculations for certain Bond issues to any other person having a license for the conduct of such activities (KB or such other person also as the “**Calculation Agent**”) under the Fiscal and Paying Agency Agreement.

Unless otherwise provided in the respective Bond Program Supplement and unless a change under Section 11.3.2 of these Joint Terms and Conditions, the respective Lead Manager shall act as the Listing Agent in respect of issues of listed Bonds, i.e. shall list such Bonds on the respective regulated market. In respect of any particular Bond issue, the Issuer may delegate the performance of the services of the Listing Agent consisting in listing of such Bonds in the respective regulated market to any other person having a license for the conduct of such activity (the respective Lead Manager or such other person also as the “**Listing Agent**”) under a Listing Agency Agreement (the “**Listing Agency Agreement**”).

Certain terms used in these Joint Terms and Conditions are defined in Section 15 hereof. Certain terms used in these Joint Terms and Conditions not defined in Section 15 or in these Joint Terms and Conditions shall be defined in the respective Bond Program Supplement.

## **1. General Characteristics of Bonds**

### **1.1 Form, Type, Nominal Value, and Other Characteristics of Bonds**

The Bonds issued under this Bond Program shall be book-entry registered or bearer securities. The Bonds shall be issued each having the nominal value and with the aggregate anticipated nominal value, in the quantity, and numbering (if applicable), as specified in the respective Bond Program Supplement, with the minimum nominal value of each Bond of any Issue issued under the Bond Program to equal to the amount of no less than EUR 100,000.

The Bond Program Supplement shall also specify the currency of the Bonds, or if applicable, rating of the Bonds, and if applicable, the Issuer’s right to increase the volume of the Bond issue, including the terms and conditions of such an increase. No pre-emptive or conversion rights shall be attached to the Bonds. The name of each Bond issue issued under this Bond Program shall be specified in the respective Bond Program Supplement.

### **1.2 Bondholders, Transfer of Bonds**

#### **1.2.1 Separation of Rights to Interest on Bonds**

There will be no separation of the right to receive interest payable on the Bonds issued under the Bond Program through issuing coupons as separate securities, to which the right to receive interest on the Bonds is attached.

#### **1.2.2 Transferability of Bonds**

Transferability of the Bonds is not restricted.

#### **1.2.3 Holders and Transfers of Bonds**

- (a) Unless the contrary is proved, a holder of the Bond (the “**Bondholder**”) is any person, in favor of which a holder’s account has been established with CDCP or with any register linked to the central register, on which account such Bonds are recorded.
- (b) The transfer of bearer and registered Bonds shall occur upon registration of such transfer on a holder’s account in CDCP in accordance with applicable legal regulations and CDCP regulations. In case of Bonds registered in CDCP on a client’s account, the transfer of such bearer and registered Bonds shall occur upon registration of the transfer on the client’s account in accordance with applicable legal

regulations and CDCP regulations, with the owner of the client's account being obligated to promptly register such transfer on the holder's account as of the time of registration on the client's account.

- (c) Unless the Issuer is conclusively notified of facts evidencing that a Bondholder is not the owner of the securities in question, the Issuer and the Fiscal and Paying Agent shall consider the Bondholder to be the authorized owner of the Bonds in all respects, and make payments to such Bondholder in accordance with these Joint Terms and Conditions and the respective Bond Program Supplement.

## **2. Issue Date and Issue Method, Issue Price**

### **2.1 Issue Date; Issue Period**

The Issue Date of each Bond issue and the Issue Period shall be specified in the respective Bond Program Supplement. Unless as of the Issue Date the Issuer issues all Bonds forming the respective Bond issue, it may issue the balance of the Bonds at any time within the Additional Issue Period by way of successive steps (in tranches). As of the Issue Date or within the Additional Issue Period, the Issuer has the right to issue Bonds in a higher volume than the anticipated volume of the Bond issue. The Issuer shall notify Bondholders of the decision to determine the Additional Issue Period which shall end no later than on the respective Record Date for Nominal Value Repayment and shall make it public or accessible, as applicable, in the same manner, in which the terms and conditions of the respective Bond issue have been published or made accessible, as applicable.

Without undue delay after the Additional Issue Period has expired, the Issuer shall notify the Bondholders and the respective person authorized to maintain a register of the Bonds of the aggregate nominal value of all Bonds issued in the respective Bond issue, however, only if the aggregate nominal value of all Bonds issued in the respective issue is lower or higher than the aggregate anticipated nominal value of the relevant issue of Bonds. The Issuer shall make such fact public or accessible, as applicable, in the same manner, in which the terms and conditions of the respective Bond issue have been published or made accessible, as applicable. The Issuer shall indicate any such aggregate nominal value of all Bonds issued in the respective issue exceeding the aggregate anticipated nominal value of the relevant issue of Bonds in the respective Issue Supplement.

### **2.2 Issue Price**

The Issue Price of all Bonds issued as of the Issue Date or the method of its calculation shall be specified in the Bond Program Supplement. The Issue Price of any Bonds issued within the Additional Issue Period after the Issue Date shall be determined by the Issuer in all cases so as to reflect prevailing up-to-date market conditions. The Issue Price of any Bonds issued after the Issued Date shall be further increased by the corresponding aliquot interest or aliquot portion of the difference between the nominal value of the Bond and the Issue Price as of the Issue Date.

### **2.3 Method and Place of Underwriting Bonds**

The method and place of underwriting the Bonds of each issue of Bonds issued under this Bond Program, including information on persons involved in the arrangement of the Bond issue shall be specified in the respective Bond Program Supplement.

The Issuer does not intend to offer the Bonds issued under the Bond Program in a public offering. Any prospective offering of the Bonds issued under the Bond Program (including the distribution of this Base Prospectus, its supplements (if any), or Issue Supplements to certain investors on a confidential basis), shall be made under certain exceptions specified in Section 35(2) of the Capital Markets Act.

## 2.4 Withdrawal Right

An investor who agreed to purchase or subscribe for any Bonds and has not acquired the title to such Bonds before the changes to the Joint Terms and Conditions requiring a prior consent of the Meeting were made accessible, is entitled to withdraw from purchase or subscription of such Bonds within five (5) working days following such change to the Joint Terms and Conditions having been made accessible to such investor.

## 3. Status of Bonds

The Bonds issued in individual issues of the Bond Program and all of the Issuer's payment obligations with respect to Bondholders arising under the Bonds constitute direct, general, unsecured, unconditional, and unsubordinated obligations of the Issuer, which, as to the order of their satisfaction, rank and will rank without preference (*pari passu*) among themselves, as well as with any other present or future unsubordinated and unsecured obligations of the Issuer, except for such obligations of the Issuer where mandatory provisions of Czech law stipulate otherwise. The Issuer undertakes to grant equal treatment on the same terms and conditions to all Bondholders in the same Bond issue.

## 4. Negative Pledge

So long as any Bond remains outstanding the Issuer will not, nor will it permit any Material Subsidiary to, issue, assume or guarantee any Indebtedness, if such Indebtedness is secured by a Lien upon any Principal Property now owned or hereafter acquired, unless, at the same time or prior thereto, the Issuer's obligations under the Bonds shall (x) be secured equally and ratably with (or prior to) such Indebtedness or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by a resolution of Bondholders Meeting; provided, however, that the foregoing restriction shall not apply to:

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

The Issuer or any Material Subsidiary, however, may issue, assume or guarantee Indebtedness secured by a Lien which would otherwise be prohibited under this Section 4; provided that the aggregate amount of such

Indebtedness of the Issuer and its Material Subsidiaries at any time outstanding shall not exceed the sum of (x) 10% of the Consolidated Net Tangible Assets at the time any such Indebtedness denominated in a currency other than that of the Czech Republic is issued, assumed or guaranteed by the Issuer or any Subsidiary, plus (y) the aggregate amount of any such Indebtedness that is denominated in the currency of the Czech Republic, up to an additional 20% of Consolidated Net Tangible Assets at such time.

For the purposes of the Joint Terms and Conditions, the following terms have the following meanings:

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

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

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

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

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

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

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

- (a) whose total assets or EBITDA (or, where the Subsidiary in question prepares consolidated financial statements, whose consolidated total assets or consolidated EBITDA), attributable to the Issuer represent not less than 10% of the Consolidated Total Assets or (as the case may be) the consolidated EBITDA of the Issuer and its Subsidiaries taken as a whole, all as determined, respectively, by reference to the most recent audited annual financial statements (or, as the case may be, audited consolidated annual financial statements) of such Subsidiary and the most recent Audited Statements; or
- (b) to which is transferred all or substantially all of the assets and undertaking of a Subsidiary of the Issuer which was a Material Subsidiary immediately prior to such transfer (which Subsidiary shall cease to be a Material Subsidiary upon such transfer becoming unconditional) and so that a Subsidiary of the Issuer which becomes a Material Subsidiary pursuant to this paragraph (b) shall remain a Material Subsidiary only until the publication of the next Audited Statements, unless on such publication it remains a Material Subsidiary pursuant to paragraph (a) above,

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

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

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

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

## **5. Yield on Bonds**

### **5.1 Fixed Rate Bonds**

- (a) Bonds designated in the respective Bond Programme Supplement as fixed rate Bonds shall bear a fixed interest determined in the Bond Programme Supplement.
- (b) Interest shall accrue as of the first day of each Interest Period (as defined in Section 15 of these Joint Terms and Conditions) until the last day included in such Interest Period, at the rate pursuant to paragraph (a) of this Section.
- (c) The interest for each Interest Period shall be payable on the Interest Redemption Date (as defined in Section 7.2 of these Joint Terms and Conditions). The interest set with respect to each individual Bond for each Interest Period by the Calculation Agent shall be rounded up in accordance with mathematical rules to 2 (two) decimal points according to the 3rd (third) decimal point.
- (d) The Bonds shall cease to bear interest as of the Redemption Date unless, following the satisfaction of all conditions and requirements, the Issuer wrongfully retains the amount due or declines to pay the same. In such case, the interest shall continue to accrue at the rate provided in paragraphs (a) and (b) above, until the earlier of (i) the day when any and all amounts due as of that day are paid to the Bondholders, or (ii) the day when the Fiscal and Paying Agent advises the Bondholders that it has received all the amounts due in connection with the Bonds, unless a further wrongful retention or refusal of payment occurs following such notification.
- (e) The interest amount per Bond and each regular year period shall be determined as the multiple of the nominal value of the Bond (or its unredeemed portion, if the nominal value is not redeemed as an one-off payment) and the applicable interest rate (expressed as a decimal number). The interest amount per Bond for any period shorter than a regular year shall be determined as the multiple of the nominal value of the Bond (or its unredeemed portion, if the nominal value is not redeemed as an one-off payment), the applicable interest rate (expressed as a decimal number) and the applicable Day Fraction.

### **5.2 Floating Rate Bonds**

#### **5.2.1 *Accrual of Interest on Floating Rate Bonds***

- (a) Bonds designated in the respective Bond Programme Supplement as floating rate Bonds shall bear a floating interest corresponding to the applicable (i) Reference Rate increased or reduced by the applicable Margin (where applicable) during the individual consecutive Interest Periods.
- (b) Interest shall accrue as of the first day of each Interest Period until the last day included in such Interest Period, at the rate applicable to such Interest Period.

- (c) The interest rate applicable to each Interest Period shall be determined by the Calculation Agent as the applicable Reference Rate established by the Calculation Agent on the Reference Rate Date, at the time customary for the respective currency in the Clearing Center, adjusted for the applicable Margin. The interest for each Interest Period shall be rounded up by the Calculation Agent in accordance with mathematical rules to 2 (two) decimal points according to the 3rd (third) decimal point. The interest rate for each Interest Period shall be communicated by the Calculation Agent to the Fiscal and Paying Agent upon its determination, and the Fiscal and Paying Agent shall communicate the same to the Bondholders without undue delay in accordance with Section 13 of these Joint Terms and Conditions.
- (d) The interest for each Interest Period shall be payable on the Interest Redemption Date. The interest set with respect to each individual Bond for each Interest Period by the Calculation Agent shall be rounded up in accordance with mathematical rules to 2 (two) decimal points according to the 3rd (third) decimal point.
- (e) The Bonds shall cease to bear interest as of the Redemption Date unless, following the satisfaction of all conditions and requirements, the Issuer wrongfully retains the amount due or declines to pay the same. In such case, the interest shall continue to accrue at the rate provided in paragraphs (a) through (c) above, until the earlier of (i) the day when any and all amounts due as of that day are paid to the Bondholders, or (ii) the day when the Fiscal and Paying Agent advises the Bondholders that it has received all the amounts due in connection with the Bonds, unless a further wrongful retention or refusal of payment occurs following such notification.
- (f) The interest amount per Bond for the period of 1 (one) regular year shall be determined as the multiple of the nominal value of the Bond (or its unredeemed portion, if the nominal value is not redeemed as an one-off payment) and the applicable interest rate (expressed as a decimal number). The interest amount per Bond for any period shorter than 1 (one) regular year shall be determined as the multiple of the nominal value of the Bond (or its unredeemed portion, if the nominal value is not redeemed as an one-off payment), the applicable interest rate (expressed as a decimal number) and the applicable Day Fraction.

### **5.2.2 Determination of the Reference Rate on the Basis of Interest Rate**

If the Reference Rate is to be determined on the basis of interest rate(s), the Reference Rate for the applicable Interest Period shall be calculated by the Calculation Agent in the manner provided for herein and the applicable interest rate(s) shall be obtained by the Calculation Agent from the Reference Rate Source on the respective day and at the time customary at the respective Clearing Center.

### **5.2.3 Determination of the Reference Rate on the Basis of the Index**

If the Reference Rate is to be determined on the basis of the Index, or a change to the Index within a specified time period, the Reference Rate for the applicable Interest Period shall be calculated by the Calculation Agent in the manner provided for herein.

The Index values, shall be obtained by the Calculation Agent from the respective Reference Rate Source on the relevant day as the final values for that business day.

If after the last day on which the Calculation Agent completes the subtraction, computation and establishment of the Index, the composition of the Index or the weight allocated to any of the components of the Index changes, or any other adjustment occurs, whereby the Calculation Agent deems at its discretion that the value of the Index following such adjustment is not comparable to the value of the Index prior to the adjustment in its material respects, the value of the Index shall be determined by the Calculation Agent at its sole discretion in such a way that the value so set is comparable to the value of the Index prior to the adjustment in its material respects.

If the Index ceases to exist (and at the Calculation Agent's sole discretion, no reasonable acceptable Index replacing the defunct Index in all material respects is available), the Calculation Agent shall determine the value of the Index at its sole discretion so as to make such value comparable to the value of the Index calculated by means of the formula and method used before such adjustment.

If a Market Disruption Event occurs with respect to an asset comprising a part of the Index, the Calculating Agent may base its determination of the percentage share of such asset on the value of the Index on a comparison of (i) a part of the Index corresponding to such asset (immediately before the occurrence of the

Market Disruption Event) and (ii) the Index as a whole (immediately before the occurrence of the Market Disruption Event).

When exercising its sole discretion and opinion in all cases referred to above, the Calculation Agent shall be obliged to act with due diligence of a securities trader, and in accordance with practice customary at the time on capital markets.

#### **5.2.4 Determination of the Reference Rate on the Basis of the Exchange Rate**

If the Reference Rate is to be determined on the basis of the Exchange Rate, or a change to the Exchange Rate within a specified time period, the Reference Rate for the applicable Interest Period shall be obtained by the Calculation Agent at the relevant time and on the relevant day from the applicable Reference Rate Source.

#### **5.2.5 Minimum Interest Rate Applicable to the Bonds**

If the respective Bond Program Supplement stipulates the minimum interest rate applicable to the Bond, or the minimum Reference Rate, then in case that the interest rate applicable to the Bond or the Reference Rate (as applicable), calculated by the Calculation Agent for any Interest Period, is lower than the minimum interest rate applicable to the Bond or the minimum Reference Rate stipulated in such Bond Program Supplement, the interest rate applicable to the Bond or the Reference Rate (as applicable) for such Interest Period shall equal the minimum interest rate applicable to the Bond or the minimum Reference Rate (as applicable) for that Interest Period. The minimum interest rate applicable to the Bond, or the minimum Reference Rate (as applicable) shall apply to all Interest Periods.

#### **5.2.6 Maximum Interest Rate Applicable to the Bonds**

If the respective Bond Program Supplement stipulates the maximum interest rate applicable to the Bond, or the maximum Reference Rate, then in case that the interest rate applicable to the Bond or the Reference Rate (as applicable), calculated by the Calculation Agent for any Interest Period, is higher than the maximum interest rate applicable to the Bond or the maximum Reference Rate stipulated in such Bond Program Supplement, the interest rate applicable to the Bond or the Reference Rate (as applicable) for such Interest Period shall equal the maximum interest rate applicable to the Bond or the maximum Reference Rate (as applicable) for that Interest Period. The maximum interest rate applicable to the Bond, or the maximum Reference Rate (as applicable) shall apply to all Interest Periods.

### **5.3 Discounted Bonds**

- (a) The Bonds issued as discounted Bonds shall bear no interest. Yield on the discounted Bonds shall be represented by the difference between the nominal value of the Bond and its lower issue price.
- (b) Unless the amount (Discounted Value or nominal value) in connection with any interest-free discounted Bond is duly paid by the Issuer when it becomes due and payable, such amount shall bear interest at the applicable Discount Rate until the earlier of (i) the date all amounts due and payable as of that date have been paid to the Bondholders, or (ii) the date, on which the Fiscal and Paying Agent notifies the Bondholders that it has received all amounts due and payable in connection with the Bonds, unless additional retention or withholding of payments occurs after such notice. The calculation for a period shorter than 1 (one) year shall be made using the respective Day Fraction determined in the respective Bond Program Supplement.

## **6. Redemption of Bonds**

### **6.1 Final Redemption**

Unless early redeemed by the Issuer for reasons specified in these Joint Terms and Conditions, the nominal value of the Bonds shall be repaid on the Final Redemption Date in accordance with Section 7 of these Joint Terms and Conditions. The entire nominal value of the Bonds shall be repaid on the Final Redemption Date in a single payment.

## 6.2 Early Redemption at Option of Issuer

### 6.2.1 Admissibility of Early Redemption at Option of Issuer

(a) Unless provided to the opposite in the respective Bond Program Supplement in accordance with clause (b) below, the Issuer may not, at its option, call all outstanding Bonds for redemption before the Final Redemption Date for the respective Bond issue, save for the early redemption of Bonds due to tax reasons as described below in this Section 6.2.1 and/or the early redemption of Bonds held by the Issuer in accordance with Section 6.5 of these Joint Terms and Conditions. In each case, the Issuer may, at its option, call all outstanding Bonds for redemption before the Final Redemption Date for the respective Bond issue if, on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Section 8 as a result of any change in, or amendment to, the laws or regulations of the Czech Republic or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first tranche of the Bonds, and such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

(b) The respective Bond Program Supplement may provide that the Issuer may, at its option, call all outstanding Bonds for redemption before the Final Redemption Date for the respective Bond issue, at any time for any reason or without a reason.

### 6.2.2 Early Redemption Notice

If the respective Bond Program Supplement enables the early redemption of the Bonds at the option of the Issuer under Section 6.2.1(b) or, if the respective conditions for early redemption of the Bonds under Section 6.2.1(a) occur, then the Issuer may, at its option, call all outstanding Bonds of the particular issue by giving notice of its option to the Bondholders in accordance with Section 13 of these Joint Terms and Conditions no more than 60 (sixty) days and no less than 45 (forty-five) days prior to the intended date of early redemption set in the Issuer's notice (the "**Early Redemption Date**").

### 6.2.3 Early Redemption

The notice of early redemption at the option of the Issuer pursuant to Section 6.2.2 of the Joint Terms and Conditions shall be irrevocable and shall bind the Issuer to early redemption of all the Bonds of the relevant Bond issue in accordance with the provision of this Section 6.2 and the respective Bond Program Supplement. In such event the Issuer shall repay all outstanding Bonds of the relevant issue together with accrued and undistributed interest (if applicable).

## 6.3 Early Redemption at Option of Bondholders

### 6.3.1 Admissibility of Early Redemption at Option of Bondholders

(a) Unless provided to the opposite in the respective Bond Program Supplement in accordance with clause (b) below, the Bondholder may not, at its option, request the repayment of the Bonds before the Final Redemption Date for the respective Bond issue, save for the early redemption of the Bonds in accordance with Sections 9., 12.4.1, and 12.4.2 of these Joint Terms and Conditions.

(b) The respective Bond Program Supplement may provide that the Bondholders may, at their option, require the Issuer to redeem all outstanding Bonds before the Final Redemption Date for the respective Bond issue, if the following events occur:

- (1) any Person or Persons acting in concert come(s) to own or acquire(s) more than 50 per cent. of the issued share capital of the Issuer, or more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer (each a "**Change of Control**"); and
- (2) during the Change of Control Period (as defined below), the Bonds carry from any of Standard & Poor's Credit Market Services France S.A.S., or Moody's Investors Service Ltd., or any of their respective successors (each a "**Rating Agency**") either:



- (a) an investment grade credit rating (*BBB-/Baa3, or equivalent, or better*), and such rating from any Rating Agency is within the Change of Control Period either downgraded to a non-investment grade credit rating (*BB+/Ba1, or equivalent, or worse*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to an investment grade credit rating by such Rating Agency or (in the case of a withdrawal) replaced by, or reinstated to, an investment grade credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or
  - (b) a non-investment grade credit rating (*BB+/Ba1, or equivalent, or worse*), and such rating from any Rating Agency is within the Change of Control Period downgraded by one or more notches (*for illustration, Ba1 to Ba2 being one notch*) or withdrawn and is not within the Change of Control Period subsequently (in the case of a downgrade) upgraded to its earlier credit rating or better by such Rating Agency, or (in the case of a withdrawal) replaced by, or reinstated to, a credit rating equal to or better than such earlier credit rating from any other Rating Agency, or such Rating Agency, as the case may be; or
  - (c) no credit rating, and no Rating Agency assigns within the Change of Control Period an investment grade credit rating to the Bonds; and
- (3) in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decisions(s) resulted, in whole or in part, from the occurrence of the Change of Control or the public notice of an arrangement that could result in a Change of Control.

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

Promptly upon the Issuer becoming aware that a Change of Control has occurred, the Issuer shall give notice (a “**CoC Notice**”) to the Noteholders in accordance with Section 13 specifying the nature of the Change of Control and the circumstances giving rise to it and the procedure for exercising the option contained in this Section 6.3.1(b).

### **6.3.2 Early Redemption Notice**

If the respective Bond Program Supplement enables the early redemption of the Bonds at the option of the Bondholders under Section 6.3.1(b) and the Change of Control occurs, then any Bondholder may, at its discretion, request early redemption of the Bonds held by it as of any such date, however, provided that it gives notice of its option to the Issuer and delivers it to the Fiscal and Paying Agent to the address of the Fiscal and Paying Agent’s Specified Address no more than 60 (sixty) days and no less than 45 (forty-five) days after the CoC Notice is given (the “**Early Redemption Notice**”).

### **6.3.3 Early Redemption**

The notice of early redemption at the option of the Bondholders pursuant to Section 6.3.2 of these Joint Terms and Conditions shall be irrevocable and shall bind the Bondholder to accept early redemption of all the Bonds of the relevant Bond issue, which early redemption it requested in the notice pursuant to Section 6.3.2 above, in accordance with the provision of this Section 6.3 and the respective Bond Program Supplement and to provide the Issuer or the Fiscal and Paying Agent with any and all cooperation, as the Issuer, or the Fiscal and Paying Agent may require in connection with such early redemption. In such event, the Issuer shall repay all outstanding Bonds of the relevant issue in the, together with accrued and undistributed interest (if applicable).

### 6.3.4 Purchase of Bonds

The Issuer shall be entitled to purchase the Bonds at any time in the market or otherwise at any price.

## 6.4 Cancellation of Bonds

The Bonds purchased in accordance with Section 6.3.4 of these Joint Terms and Conditions shall not be cancelled, and the Issuer shall have discretion in deciding whether to hold, and if applicable, resell or whether to declare them due and payable before maturity by notice to the Fiscal and Paying Agent. In such event, the Bonds shall automatically terminate by virtue of a merger of the rights and obligations in a single person (for the avoidance of doubt, the provision of Section 7.3 of these Joint Terms and Conditions shall not be applied).

## 6.5 Deemed Payment

In the event the Issuer deposits with the Fiscal and Paying Agent the full payment for the nominal value of the Bonds (or the Discounted Value) and accrued interest (if applicable) payable in connection with the repayment of the Bonds pursuant to Sections 5., 6., 9., 12.4.1, and 12.4.2 of these Joint Terms and Conditions and in accordance with the respective Bond Program Supplement, all obligations of the Issuer under the Bonds shall be deemed fully discharged for the purposes of Section 4 of these Joint Terms and Conditions as of the date such payments are credited to the account of the Fiscal and Paying Agent.

## 7. Payment Terms and Conditions

### 7.1 Currency of Payments

The Issuer undertakes to pay the interest (if applicable) and the nominal value of the Bonds (or if applicable the Discounted Value) exclusively in the currency, in which the nominal value of the Bonds is denominated in the respective Bond Program Supplement, unless the respective Bond Program Supplement allows the payment of the interest (if applicable) and/or the nominal value (or if applicable Discounted Value) in other currency or currencies. The interest (if applicable) and nominal value of the Bonds (or if applicable Discounted Value) shall be paid to the Bondholders subject to these Joint Terms and Conditions, and the tax, foreign exchange, and other applicable laws and regulations of the Czech Republic as in effect at the time of the relevant payment.

If any currency or national currency unit, in which the Bonds are denominated and/or in which payments shall be made in connection with the Bonds in accordance with the respective Bond Program Supplement, ceases to exist and is superseded by the euro (i) denomination of such Bonds shall be changed to euro in accordance with applicable law, and (ii) all the sums payable under such Bonds shall automatically and without further notice to the Bondholders be payable in euro, with the official rate (i.e. the fixed conversion ratio) in accordance with applicable law being used as the exchange rate between the respective currency or national currency unit and the euro. Such replacement of the applicable currency or the national currency unit (i) shall not, in any respect, affect the existence or enforceability of the Issuer's obligations arising under the Bonds and (ii) for the avoidance of doubt, shall not be deemed to constitute any change to these Joint Terms and Conditions or the Bond Program Supplement in respect of the relevant Bonds or an Event of Default under these Joint Terms and Conditions.

### 7.2 Redemption Date

The repayment of the interest (if applicable) and the nominal value of the Bonds (or if applicable the Discounted Value) shall be made by the Issuer through the Fiscal and Paying Agent on such dates as specified in these Joint Terms and Conditions and in the respective Bond Program Supplement (each such date being hereinafter referred to, according to its meaning, as the “**Interest Redemption Date**” or “**Final Redemption Date**” or “**Early Redemption Date**” or also as the “**Redemption Date**”). If specified in the respective Bond Program Supplement that the Redemption Dates are subject to adjustment in accordance with the Business Day convention, then should any Redemption Date fall on a date which is not a Business Day, such Redemption Date shall fall on the Business Day, which:

- (a) is the nearest following Business Day provided that the Bond Program Supplement specifies the Business Day convention as “**Following**”; or
- (b) is the nearest following Business Day, however, should such nearest following Business Day fall in the following calendar month, the Redemption Date shall instead fall on the nearest preceding Business Day

provided that the Bond Program Supplement specifies the Business Day convention as “**Adjusted Following**”; or

- (c) is the nearest preceding Business Day provided that the Bond Program Supplement specifies the Business Day convention as “**Preceding**”,

provided that the Issuer shall not be obligated to pay interest or any other additional charge for any time delay due to the determined Business Day convention.

### 7.3 Determination of Right to Receive Payments Related to Bonds

- (a) The payees to whom the Issuer is to pay interest on Bonds are persons, on whose holder’s account kept with the respective registrar of securities or in the records of a person managing any register linked to the central register the Bonds are registered at the close of the respective Record Date for Interest Repayment (the “**Payees**”). For the purposes of determining the recipient of the interest, neither the Issuer nor the Fiscal and Paying Agent shall take account of transfers of any Bonds effected from the Ex-Coupon Date pertaining to such payment, inclusive of such day.
- (b) The nominal value of the Bonds (or if applicable the Discounted Value) shall be paid by the Issuer to persons, on whose holder’s account kept with the respective registrar of securities or in the records of a person managing any register linked to the central register the Bonds are registered at the close of the respective Record Date for Nominal Value Repayment (or if applicable for the repayment of the Discounted Value) (such person also as the “**Payees**”). For the purposes of determining the recipient of the nominal value of the Bonds (or if applicable the Discounted Value), neither the Issuer nor the Fiscal and Paying Agent shall take account of transfers of any Bonds effected from the Ex-Principal Date until the relevant Redemption Date. Unless it is contrary to applicable law, transfers of all Bonds may be suspended from the Ex-Principal Date until the relevant Redemption Date, and at the request of the Fiscal and Paying Agent, the Bondholder shall be obligated to provide any assistance necessary to suspend such transfers.

### 7.4 Payments

- (a) The Fiscal and Paying Agent shall make payments to each Payee by wire transfer to such Payee’s account according to an instruction that shall be communicated by the Payee to the Fiscal and Paying Agent at the address of the Fiscal and Paying Agent’s Specified Office in a verifiable manner no less than 5 (five) Business Days prior to the Redemption Date. Such instruction shall be in the form of a written statement (with a notarized signature or signatures), and contain sufficient details of such account to allow the Fiscal and Paying Agent to make the payment, and shall be accompanied by an original or an officially certified copy of a certificate evidencing the domicile of the Payee for the relevant taxable period and in the case of a legal entity shall be further accompanied by an original or an officially certified copy of an extract from the Commercial Register in respect of the Payee as of the Redemption Date not older than 3 (three) months (such instruction, together with the extract from the Commercial Register (if applicable) and the tax domicile certificate and other relevant schedules is hereinafter also referred to as the “**Instruction**”). Any originals of foreign official instruments or any instruments notarized abroad must be super-legalized or certified by the Hague Convention apostille (whichever is relevant). The Instruction must be reasonable satisfactory in form and substance to the Fiscal and Paying Agent, and the Fiscal and Paying Agent shall be entitled to require that reasonably satisfactory evidence be given of the authority of the signatory of such Instruction on behalf of the Payee. Such evidence shall also be delivered to the Fiscal and Paying Agent no less than 5 (five) Business Days prior to the Redemption Date. In this respect, the Fiscal and Paying Agent shall be in particular authorized to require (i) a power of attorney be delivered in the event that the Payee is acting through an agent (if required, along with an officially certified translation into Czech), and (ii) the Instruction from the Payee be subsequently confirmed. Notwithstanding such rights, neither the Fiscal and Paying Agent nor the Issuer shall verify the authenticity and completeness of such Instructions, or be liable for any damage incurred in connection with any delay in the delivery of such Instruction by any Payee, or with the delivery of incorrect or otherwise defective Instruction. An Instruction shall be deemed proper if it contains all items required by this Section, is communicated to the Fiscal and Paying Agent in accordance with this Section, and meets the requirements of this Section.
- (b) The Issuer’s obligation to pay any amount owing in connection with the Bonds shall be deemed discharged in a proper and timely manner if the relevant amount has been remitted to the Payee in

accordance with the Instruction under item (a) of this Section, and if on or before the maturity date such amount is (i) credited to the account of such Payee's bank with the clearing center of the Czech National Bank, if the payment is made in Czech crowns or in a currency that replaces the Czech crown (provided that settlement in such currency is made through the clearing center of the Czech National Bank), or (ii) entered to the debit of the Fiscal and Paying Agent's account if the payment is made in a currency other than the Czech crown (save for currency that replaces the Czech crown, provided that settlement in such currency is made through the clearing center of the Czech National Bank). If any Payee has failed to deliver a proper Instruction to the Fiscal and Paying Agent in accordance with item (a) of this Section, then the Issuer's obligation to pay any amount owing shall be deemed discharged in a proper and timely manner with respect to the Payee if the relevant amount has been remitted to the Payee in accordance with a proper Instruction under item (a) of this Section and if no less than 5 (five) Business Days following the day on which the Fiscal and Paying Agent received the proper Instruction the relevant amount has been (x) credited to the account of such Payee's bank with the clearing center of the Czech Republic if the payment is made in Czech crowns or in a currency that replaces the Czech crown (provided that settlement in such currency is made through the clearing center of the Czech National Bank), or (y) entered to the debit of the Fiscal and Paying Agent's account if the payment is made in a currency other than the Czech crown (save for currency that replaces the Czech crown, provided that settlement in such currency is made through the clearing center of the Czech National Bank), in which case such Payee shall have no right to receive any interest or additional payment on account of the delay.

- (c) Neither the Issuer nor the Fiscal and Paying Agent shall be liable for any delay in the payment of any amount owing caused by (i) the failure of the Payee to deliver in time the proper Instruction or any other documents or information required in this Section 7.4, (ii) such Instruction, document, or information being incomplete, inaccurate, or untrue, or (iii) circumstances beyond control of the Issuer or the Fiscal and Paying Agent, and no Payee shall be entitled in any such event to receive any additional payment, interest for any such delay in the relevant payment.

## 7.5 Business Terms and Conditions for Payments

To the extent not provided for in these Joint Terms and Conditions, payments made in connection with the Bonds shall be governed by business terms and conditions of the Fiscal and Paying Agent effective at the time of the payment or, as the case may be, by the terms and conditions of the respective Fiscal and Paying Agency Agreement. The Issuer together with the Fiscal and Paying Agent shall be entitled to decide on a change in making the payments, unless such change has a material adverse effect on the rights of the Bondholders. Notice of such decision shall be given to the Bondholders in accordance with Section 13 of these Joint Terms and Conditions.

## 8. Taxation

The repayment of the interest (if applicable) and the nominal value of the Bonds (or, if applicable, the Discounted Value) may be subject to withholding of tax at the rate of 15% (Czech Act No. 586/1992 Coll., on Income Taxes, as amended ("ITA"), Section 36(1)(b)(1) and 36(2)(a)) or to withholding of tax securing (ITA, Section 38e(1) and 38e(2)). Please see section "Taxation and Foreign Exchange Regulation in the Czech Republic" for details. If such withholding is required by the ITA at the time of such payment, the Issuer shall not be obligated to pay to the Bondholders any additional amounts as compensation for such withholdings.

## 9. Early Redemption of Bonds upon Occurrence of Events of Default

### 9.1 Events of Default

If any of the following events occurs and is continuing (each an "Event of Default"):

- (a) ***Breach of Issuer's Obligations:***

The Issuer defaults in the performance or observance of any of its obligations under or in respect of the Bonds and (except where such default is not capable of remedy) such default remains unremedied for 60 days after written notice specifying such default or breach and requiring it to be remedied has been delivered to the Issuer; or

- (b) ***Cross-acceleration:***

Any present or future indebtedness of the Issuer or any Material Subsidiary of the Issuer (excluding any such indebtedness owed to trade creditors not evidenced by a note, bond, debenture or similar instrument) having an aggregate principal amount exceeding USD 30,000,000 (or its equivalent in any other currency or currencies) other than the Bonds becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) such Material Subsidiary; or

(c) ***Insolvency, etc.:***

(i) The Issuer or any Material Subsidiary becomes insolvent, stops payment on its obligations generally or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any Material Subsidiary or of the whole or any part of the undertaking, assets and revenues of the Issuer or (as the case may be) any Material Subsidiary is appointed, (iii) the Issuer or any Material Subsidiary takes any action for a readjustment or deferment of its obligations generally or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness, (iv) the Issuer or any Material Subsidiary is declared to be bankrupt by any court or (v) an application for a declaration of bankruptcy in relation to the Issuer or any Material Subsidiary is refused by any court and the court specifies that the sole ground on which such declaration has been refused is that the Issuer or (as the case may be) such Material Subsidiary has insufficient assets out of which to meet the costs and expenses of any bankruptcy proceedings; or

(d) ***Winding-up, etc.:***

A legally effective and non-appealable order is issued or a legally effective and non-appealable resolution is passed for the winding up, liquidation or dissolution of the Issuer or any Material Subsidiary; or

(e) ***Cessation of Business:***

The Issuer ceases to conduct or to be authorised to conduct the business of the generation or sale of electricity; or

(f) ***Analogous Event:***

Any event occurs which under the laws of the Czech Republic or the jurisdiction of the relevant Material Subsidiary has an analogous effect to any of the events referred to in Paragraphs (c) or (d) above.

In that event:

any Bondholder may, at its discretion, request early redemption of the Bonds held by it as of the Early Redemption Date by a written notice to that effect intended for the Issuer and delivered to Fiscal and Paying Agent's Specified Office (the "**Early Redemption Notice**"), such redemption to be requested in the nominal value of the Bonds and accrued and undistributed interest (if applicable) in accordance with Section 5.1 or 5.2 of these Joint Terms and Conditions, as of the Early Redemption Date. The Issuer shall be obligated to redeem such Bonds (if applicable, together with accrued and undistributed interest) in accordance with Section 9.2 of these Joint Terms and Conditions provided that the Bondholder has not transferred the Bonds prior to the Early Redemption Date.

## **9.2 Maturity of Bonds Accelerated Pursuant to Section 9.1**

All amounts payable by the Issuer to any Bondholder under Section 9.1 of these Joint Terms and Conditions shall become due and payable as of the last Business Day of the month following the month in which the Bondholder delivered to the Fiscal and Paying Agent to the address of the Fiscal and Paying Agent's Specified Office the respective Early Redemption Notice intended for the Issuer (the "**Early Redemption Date**").

## **9.3 Withdrawal of Early Redemption Notice**

Any Early Redemption Notice may be withdrawn by each Bondholder, but only with respect to the Bonds held by such Bondholder and provided that such withdrawal was addressed to the Issuer and delivered to the Fiscal and Paying Agent to the address of the Fiscal and Paying Agent's Specified Office before the relevant amount

became due and payable pursuant to preceding Section 9.2 of these Joint Terms and Conditions. However, any such withdrawal shall have no effect on Early Redemption Notices given by other Bondholders.

#### **9.4 Other Conditions for Early Redemption of Bonds**

The provisions of Section 7 of these Joint Terms and Conditions shall be applied, as appropriate, to the early redemption of the Bonds pursuant to Section 9. In addition, by filing the Early Redemption Notice the Bondholder shall be obliged to provide the Issuer and the Fiscal and Paying Agent with any and all cooperation, as the Issuer or the Fiscal and Paying Agent may request in relation to early redemption and shall not transfer the Bonds prior to the Early Redemption Date.

#### **10. Prescription**

Any claim arising under the Bonds shall be prescribed and become unenforceable unless made within 10 (ten) years from the date, on which such claim becomes due.

#### **11. Fiscal and Paying Agent, Calculation Agent, Listing Agent**

##### **11.1 Fiscal and Paying Agent**

###### ***11.1.1 Fiscal and Paying Agent, Fiscal and Paying Agent's Specified Office***

Unless otherwise provided in the Bond Program Supplement and unless there is a change pursuant to Section 11.1.2 of these Joint Terms and Conditions, KB shall be the Fiscal and Paying Agent. Unless otherwise provided in the Bond Program Supplement and unless there is a change pursuant to Section 11.1.2 of these Joint Terms and Conditions, the Fiscal and Paying Agent's Specified Office shall be at the following address:

Komerční banka, a.s.  
Václavské nám. 42  
114 07 Prague 1

###### ***11.1.2 Additional or Another Fiscal and Paying Agent and Fiscal and Paying Agent's Specified Office***

The Issuer reserves the right to appoint an additional or another Fiscal and Paying Agent at any time and to designate an additional or another Fiscal and Paying Agent's Specified Office. Before any particular Bond issue is made, the respective Fiscal and Paying Agent's Specified Office and the Fiscal and Paying Agent shall be specified in the respective Bond Program Supplement. If there is a change in the Fiscal and Paying Agent or the Fiscal and Paying Agent's Specified Office in respect of Bond issue already made, the Issuer shall give notice of any such change to the Bondholders and shall make such fact public or accessible, as applicable, in the manner, in which the terms and conditions of the respective Bond issue have been published or made accessible, as applicable. Any such change shall become effective within 15 (fifteen) calendar days following such notice unless a later date is specified in such notice. In any event, any such change that would otherwise become effective less than 30 (thirty) calendar days before or after the Redemption Date for any amount payable under the Bonds shall become effective on the 30<sup>th</sup> (thirtieth) calendar day following such Redemption Date.

###### ***11.1.3 Relationship between the Fiscal and Paying Agent and the Bondholders***

In connection with the discharge of obligations arising under the Fiscal and Paying Agency Agreement concluded between the Issuer and the Fiscal and Paying Agent, the Fiscal and Paying Agent shall act as the Issuer's agent and shall not be in any legal relationship with the Bondholders.

##### **11.2 Calculation Agent**

###### ***11.2.1 Calculation Agent***

Unless otherwise provided in the Bond Program Supplement and unless there is a change pursuant to Section 11.2.2 of these Joint Terms and Conditions, KB shall be the Calculation Agent.

### **11.2.2 Additional or Another Calculation Agent**

The Issuer reserves the right to appoint an additional or another Calculation Agent. Before any particular Bond issue is made, the respective Calculation Agent shall be specified in the respective Bond Program Supplement, unless such new appointment has a material adverse effect on the rights of the Bondholders. If there is a change in the Calculation Agent in respect of a Bond issue already made, the Issuer shall give notice of any such change to the Bondholders and shall make such fact public or accessible, as applicable, in the manner, in which the terms and conditions of the respective Bond issue have been published or made accessible, as applicable. Any such change shall become effective within 15 (fifteen) calendar days following such notice unless a later date is specified in such notice. In any event, any such change that would otherwise become effective less than 15 (fifteen) calendar days before or after the day, on which the Calculation Agent is supposed to make any calculation in connection with the Bonds, shall become effective on the 15<sup>th</sup> (fifteenth) calendar day following such day, on which the Calculation Agent made such calculation.

### **11.2.3 Relationship between Calculation Agent and Bondholders**

In connection with the discharge of obligations arising under the Fiscal and Paying Agency Agreement concluded between the Issuer and Calculation Agent, the Calculation Agent shall act as the Issuer's agent and shall not be in any legal relationship with the Bondholders.

## **11.3 Listing Agent**

### **11.3.1 Listing Agent**

Unless otherwise provided in the Bond Program Supplement and unless there is a change pursuant to Section 11.3.2 of these Joint Terms and Conditions, the respective Lead Manager shall be the Listing Agent.

### **11.3.2 Additional or Another Listing Agent**

The Issuer reserves the right to appoint an additional or another Listing Agent. Before any particular Bond issue is made, the respective additional or another Listing Agent shall be specified in the respective Bond Program Supplement.

### **11.3.3 Relationship of Listing Agent and Bondholders**

In connection with the discharge of obligations arising under the Fiscal and Paying Agency Agreement, or the Listing Agency Agreement concluded between the Issuer and the Listing Agent, the Listing Agent shall act as the Issuer's agent and shall not be in any legal relationship with the Bondholders.

## **12. Meeting and Changes to terms and conditions of Bond issue**

### **12.1 Authority of and Convening Meeting**

#### **12.1.1 Right to Convene Meeting**

The Issuer or any Bondholder or Bondholders may convene a meeting of the Bondholders (a "Meeting", provided that in respect of a meeting of Bondholders convened by the Issuer this term also includes a common meeting of Bondholders if the Issuer issued more than one Bond issue under the Bond Program) in accordance with these Joint Terms and Conditions, the respective Bond Program Supplement and applicable legal regulations if so required to decide on common interests of the Bondholders. The cost of organizing and convening a Meeting shall be borne by the person convening the meeting, unless otherwise stipulated by generally binding legal regulation. The person convening a Meeting (if such person is any Bondholder or the Bondholders) shall, no later than the day on which notice of the Meeting is published (see Section 12.1.3 of these Joint Terms and Conditions) deliver to the Fiscal and Paying Agent a request for procuring evidence of the number of all Bonds within the issue, in respect of which the Meeting is held and which entitle the same to attend the Meeting convened thereby, i.e. an extract from the relevant register in relation to the Bond issue and if applicable, pay to the Fiscal and Paying Agent an advance for costs associated with its services in relation to the Meeting. The due and timely delivery of the request as specified above and the payment of the advance for the costs are the prerequisite to the valid convening a Meeting.

### 12.1.2 Meeting Convened by Issuer

The Issuer shall be obligated to convene a Meeting, or a common Meeting, as the case may be, and to request an opinion of the Bondholders of Bonds issued in one issue or under this Bond Program in such cases as specified in this Section 12.1.2 below and in other cases determined by the applicable generally binding legal regulations (each such case hereinafter as the “**Material Change**”):

- (a) a proposed change or changes to the terms and conditions of the respective Bond issue, which are formed by these Joint Terms and Conditions and the respective Bond Program Supplement, except where no consent of the Bondholders to such change is required under applicable legal regulations;
- (b) a proposal for a transformation of the Issuer;
- (c) a proposal for entering into a controlling agreement or a profit transfer agreement, irrespective of which party the Issuer is;
- (d) a proposal for entering into an agreement on the disposition of all or any part of a business or an agreement on the lease of all or any part of a business, irrespective of which party the Issuer is, to the extent that the due and timely repayment of the obligations under the respective Bond issue may be jeopardized;
- (e) the Issuer’s default in the satisfaction of the rights attached to the respective Bond issue for more than 7 (seven) days following the day, on which the right could be exercised;
- (f) a proposal for the filing of an application for withdrawal of the respective Bond issue from trading in the EU regulated market or foreign market similar to such regulated market or in the multilateral trading facility of an operator seated in an EU member state or another country in the European Economic Area, to which the Bonds of the respective Bond issue have been admitted for trading;
- (g) any other changes that may significantly impair the Issuer’s ability to discharge its obligations under the respective Bond issue.

### 12.1.3 Notice of Meeting

The person convening a Meeting shall be obligated to publish a notice of the Meeting in the same way as the Joint Terms and Conditions of the respective Bonds and/or on the Issuer’s website no later than 15 (fifteen) calendar days prior to the Meeting, unless otherwise provided by generally binding legal regulation.

If a Meeting is convened by any Bondholder or the Bondholders, such Bondholder(s) shall deliver a notice of the Meeting to the Issuer to the address of the Fiscal and Paying Agent’s Specified Office within the same time limit. The notice of the Meeting shall contain at least (i) the business name, the business identification number and the registered office of the Issuer, (ii) the designation of the Bonds, in respect of which the Meeting is held, at least: name of the Bond, Issue Date, and ISIN, (iii) the venue, date, and hour of the Meeting, with the venue being solely a place in Prague, the date being a Business day and the hour being not earlier than 10:00 a.m. and not later than 16:00, (iv) the agenda of the Meeting, including full proposals for resolutions relating to individual items of the agenda, and (v) Record Date for Attendance at the Meeting. The Meeting shall be authorized to decide on the proposed resolutions that have not been contained in the notice of the Meeting only in presence and upon consent of all Bondholders.

## 12.2 Persons Entitled to Attend and Vote at Meeting

### 12.2.1 Authorized Attendees

A person entitled to attend and vote at a Meeting (the “**Authorized Attendee at Meeting**”) shall only be the Bondholder of the respective issue which:

- (a) was registered as the Bondholder in the respective register at the close of the day that is 7 (seven) days prior to the date of the relevant Meeting (the “**Regulated Record Date for Attendance at the Meeting**”) in respect of the Bonds admitted to trading on a foreign market similar to the regulated market or on the multilateral trading facility of an operator seated in an EU member state or another country in the European Economic Area,



(b) was registered as the Bondholder in the respective register at the close of the day that is determined in the Issue Supplement and is no more than 30 (thirty) days prior to the date of the relevant Meeting (the “**Non-Regulated Record Date for Attendance at the Meeting**”; and together with the Regulated Record Date for Attendance at the Meeting, the “**Regulated Record Date for Attendance at the Meeting**”) or which produces a certificate of the person in whose client account kept with the respective registrar the relevant number of Bonds was recorded on the Record Date for Attendance at the Meeting certifying that it is the holder of the Bonds and that such Bonds are registered in the account of the former for the purposes of their administration thereby, in each case in respect of the Bonds other than listed above under (a). The certificate pursuant to the preceding sentence must be satisfactory in form and substance to the Fiscal and Paying Agent.

No transfers made after the Record Date for Attendance at the Meeting shall be taken into account.

### **12.2.2 Voting Right**

Authorized Attendee at Meeting shall have a number of votes of the total number of votes as corresponds to the ratio of the nominal value of the Bonds held by such Bondholder on the Record Date for Attendance at the Meeting to the aggregate outstanding nominal value of the Bond issue on the Record Date for Attendance at the Meeting. No voting right shall be attached to any Bonds that were held by the Issuer on the Record Date for Attendance at the Meeting and that did not terminate at the option of the Issuer within the meaning of Section 6.5 of these Joint Terms and Conditions and no such Bonds shall be counted in determining the presence of a quorum at the Meeting. When the Meeting decides on recalling a common proxy, the common proxy may not exercise the voting rights related to the Bonds held by it and its voting rights shall not be included in the total number of votes required for the Meeting to constitute quorum.

### **12.2.3 Attendance of Other Persons at Meeting**

The Issuer shall be obligated to attend the Meeting, either in person or by proxy. Other persons entitled to attend a Meeting are proxies of the Fiscal and Paying Agent, common proxy of the Bondholders within the meaning of Section 12.3.3 of these Joint Terms and Conditions (unless otherwise entitled to attend the Meeting) and any guests invited by the Issuer and/or the Fiscal and Paying Agent.

## **12.3 Proceedings of Meeting; Action by Meeting**

### **12.3.1 Quorum**

Subject to Section 12.2.3, a Meeting shall constitute quorum if attended by Authorized Attendees at Meeting, which on the Record Date for Attendance at the Meeting held Bonds, the nominal value of which represents more than 30% (thirty per cent) of the aggregate nominal value of the issued and outstanding Bonds of the respective issue as of the Record Date for Attendance at the Meeting. In case of a common meeting of Bondholders, the Meeting shall constitute quorum if attended by Authorized Attendees at Meeting, which on the Record Date for Attendance at the Meeting held Bonds, the nominal value of which represents more than 30% (thirty per cent) of the aggregate nominal value of the outstanding part of each issue so far made as of the Record Date for Attendance at the Meeting; unless the Meeting addresses matters common to all issues under the Bond Program, it is required to be attended by holders of 30% (thirty per cent) of the nominal value of outstanding part of such Bond issues, to which the matters relate. Prior to the opening of the Meeting, the person convening the same shall present information on the number of all Bonds, in respect of which the Authorized Attendees at Meeting are entitled, in accordance with these Joint Terms and Conditions and the respective Bond Program Supplement, to attend and vote at the Meeting.

### **12.3.2 Chairman of the Meeting**

The Meeting convened by the Issuer shall be chaired by the chairman appointed by the Issuer. The Meeting convened by a Bondholder or the Bondholders shall be chaired by the chairman elected by a majority of the attending Authorized Attendees at Meeting. Until the chairman is elected, the Meeting shall be chaired by the person appointed by the convening Bondholder or Bondholders. The election of the chairman must be the first item on the agenda of any Meeting not convened by the Issuer.

### **12.3.3 Common Proxy**

The Meeting may elect, by resolution, an individual or legal entity to be a common proxy and entrust the common proxy in accordance with legal regulations with the joint assertion of rights before a court or another body or with the monitoring of the fulfillment of these Joint Terms and Conditions and the respective Bond Program Supplement. The Meeting may recall the common proxy in the same way, in which the common proxy was elected, or may substitute the same with another common proxy.

### **12.3.4 Action by Meeting**

The Meeting shall decide on the matters submitted in the form of a resolution. To be adopted, any resolution that approves changes to these Joint Terms and Conditions or the Bond Program Supplement, which changes are, under Section 12.1.2 (a) of these Joint Terms and Conditions, subject to the approval by the Meeting, and any resolution that appoints or recalls a common proxy of the Bondholders shall require the affirmative vote of at least  $\frac{3}{4}$  (three-quarters) of the votes of the Authorized Attendees at Meeting present. Any other resolutions by the Meeting shall be adopted upon receiving the affirmative vote of a majority of the Authorized Attendees at Meeting.

### **12.3.5 Adjournment of Meeting**

(a) Subject to paragraph (b) below, if within 1 (one) hour from the time appointed for the Meeting a quorum is not present, then (i) if the Meeting was convened at the request of a Bondholder or the Bondholders, such Meeting shall be automatically dissolved, and (ii) if the Meeting was convened by the Issuer, it shall be adjourned for such time and to such place as determined by the chairman of the Meeting. The provisions applicable to the holding of a regular Meeting shall apply, mutatis mutandis, to the holding of an adjourned Meeting.

(b) If within 1 (one) hour from the time appointed for the Meeting, agenda of which is to decide on the change of these Joint Terms and Conditions, a quorum is not present, then, if still necessary, a convenor shall convene a substitute Meeting (a “**Substitute Meeting**”) which shall take place within six (6) weeks from the date on which the original Meeting was planned to take place. A time and place of the Substitute Meeting with unchanged agenda shall be notified to the Bondholders no later than fifteen (15) days from the date on which the original Meeting was to take place. A Substitute Meeting shall constitute quorum regardless of the conditions referred to in Section 12.3.1 of these Joint Terms and Conditions.

### **12.3.6 Cancellation of the Meeting**

If the reason for convocation of a Meeting ceases to exist, the person convening such Meeting shall cancel such Meeting in the same manner as it has been convened.

## **12.4 Certain Additional Rights of Bondholders**

### **12.4.1 Consequences of Voting Against Certain Resolutions of Meeting**

If a Meeting consented to any Material Changes as specified in Section 12.1.2 (a) through (g) of these Joint Terms and Conditions, the Authorized Attendee at Meeting, who according to the minutes of the Meeting, voted against a resolution or failed to attend the Meeting (also referred to as the “**Applicant**”), may, within 30 (thirty) days of the respective Meeting, request the repayment of the nominal value of the Bonds including accrued interest (or, if applicable, the Discounted Value), held by the Authorized Attendee at Meeting as of the Record Date for Attendance at the Meeting. Such right must be exercised by the Applicant within 30 (thirty) days of publication of the resolution of the Meeting by written notice (also referred to as the “**Application**”) intended for the Issuer and delivered to the Fiscal and Paying Agent at the address of the Fiscal and Paying Agent’s Specified Office, or else the said right terminates. The amounts referred to above shall become due and payable within 30 (thirty) days following the delivery of the Application to the Fiscal and Paying Agent (also referred to as the “**Early Redemption Date**”).

### **12.4.2 Resolution on Early Redemption of the Bonds**

If the agenda of the Meeting contains any of the Material Changes as specified in Section 12.1.2 (b) through (g) of these Joint Terms and Conditions and the Meeting does not consent to such Material Change, then the

Meeting may decide, above and beyond the agenda of the discussed items, that the Issuer, if it were to proceed in conflict with such a resolution by the Meeting, must provide early repayment of the nominal value of the Bonds including accrued interest (or, if applicable, the Discounted Value) to any Bondholder who thus requests (the “**Applicant**”). Such right must be exercised by the Applicant within 30 (thirty) days of publication of the resolution of the Meeting by written notice (also referred to as the “**Application**”) intended for the Issuer and delivered to the Fiscal and Paying Agent at the address of the Fiscal and Paying Agent’s Specified Office, or else the said right terminates. The amounts referred to above shall become due and payable within 30 (thirty) days following the delivery of the Application to the Fiscal and Paying Agent (also referred to as the “**Early Redemption Date**”).

#### **12.4.3 Required Content of the Application**

The Application must list the number of Bonds for which repayment is sought in line with this Section. The Application must be made in writing and signed by the Applicant (or, as the case may be, individuals who are authorized to act on behalf of the Applicant), whereas the signatures must be certified. Within the same time period, the Applicant must deliver all documents required for payout under Section 7 hereof to the Fiscal and Paying Agent, at the address of the Fiscal and Paying Agent’s Specified Office. In addition, by filing the Application the Bondholder shall be obliged to provide the Issuer and the Fiscal and Paying Agent with any and all cooperation, as the Issuer or the Fiscal and Paying Agent may request in relation to early redemption and shall not transfer the Bonds prior to the Early Redemption Date.

#### **12.5 Minutes of the Meeting**

The Meeting shall be recorded in minutes by the person who convened it (either by themselves or through an authorized agent) within 30 (thirty) days from the day on which the Meeting was held; these minutes shall state the conclusions reached by the Meeting, i.e., in particular, the resolutions adopted by the Meeting. If the Meeting was convened by the Bondholder or the Bondholders, then the minutes of the Meeting must also be delivered to the Issuer (to the address of the Fiscal and Paying Agent’s Specified Office) within 30 (thirty) days from the day on which the Meeting was held. The Issuer must archive the minutes of the Meeting until the rights vested in the Bonds have become statute-barred. The minutes of the Meeting shall be available for inspection by the Bondholders during regular business hours at the Fiscal and Paying Agent’s Specified Office. Within 30 (thirty) days from the day on which the Meeting was held, and either by itself or through an authorized agent (i.e., in particular, the Fiscal and Paying Agent), the Issuer shall make public or accessible, as applicable, all decisions reached by the Meeting, and in doing so shall proceed in the same manner in which it published or made accessible, as applicable, these Joint Terms and Conditions and the respective Bond Program Supplement. If the Meeting discussed any of the Material Changes referred to in Section 12.1.2 (a) through (g) hereof, then a notarial deed must be drawn up with respect to attendance at the Meeting and with respect to the decisions made by the meeting. If the Meeting passed any of these changes, then the notarial deed shall name those Bondholders who voted in favor of the change, and the number of Bonds of the given issue which each of these Bondholders holds as at the Record Date for Attendance at the Meeting.

### **13. Notices**

Unless where stipulated otherwise by law or in the terms and conditions of Bond issue, any notice addressed to Bondholders (with the exception of the Notice of Meeting referred to in Section 12.1.3 hereof) shall be valid upon publication in English or any other language provided for in the Issue Supplement on the website of the Issuer [www.cez.cz](http://www.cez.cz) or, as the case may be, another website whose address will be announced beforehand by way of a notice given in accordance with this Section (“**Issuer’s Website**”). The date of such a notice shall be the date on which it was first published on the Issuer’s Website. In the event that the law requires a different procedure of public announcement for specific notices to Bondholders, then such notices shall be valid upon having been given in the manner prescribed by law.

Changes to these Joint Terms and Conditions, together with amended and restated version of the Joint Terms and Conditions, and any Bond Program Supplements shall be made public or accessible, as applicable, in the same manner as the present Joint Terms and Conditions.

### **14. Governing Law, Language**

Any and all rights and obligations arising from the Bonds shall be governed by and interpreted in accordance with the laws of the Czech Republic. Any disputes between the Issuer and Bondholders in relation to the Bonds arising from these Joint Terms and Conditions and any of the Bond Program Supplements shall be resolved by

the Prague Municipal Court. These Joint Terms and Conditions and the Bond Program Supplements may be translated into other languages. In such case, the English version shall prevail in the event of any discrepancy between various language versions.

## 15. Definitions

For the purposes of these Joint Terms and Conditions, the terms stated below shall have the following meaning:

“**Accounting Reference Day Close**” means the moment after which CDCP or any person maintaining an independent or follow-up records of the Bondholders (whichever is relevant in relation to the given issue of Bonds) registers transfer of the relevant Bond in accordance with the laws and rules binding on it (depending on what is relevant to the given issue of Bonds) as of the following day.

“**Additional Issue Period**” shall mean the period set out by the Issuer in accordance with Section 2.1 of these Joint Terms and Conditions and in accordance with the applicable laws.

“**Applicant**” shall have the meaning set out in Sections 12.4.1 and 12.4.2 of these Joint Terms and Conditions.

“**Application**” shall have the meaning set out in Sections 12.4.1 and 12.4.2 of these Joint Terms and Conditions.

“**Authorized Attendee at Meeting**” shall have the meaning set out in Section 12.2.1 of these Joint Terms and Conditions.

“**Bond Program**” means the bond Program of the Issuer in the maximum volume of outstanding Bonds of CZK 30,000,000,000 (thirty billion Czech crowns), the Program term being 10 (ten) years.

“**Bond Program Supplement**” means a supplement to these Joint Terms and Conditions for each individual issue of Bonds issued under the Bond Program.

“**Bondholder**” shall have the meaning set out in Section 1.2 of these Joint Terms and Conditions.

“**Bonds Act**” means Act No. 190/2004 Coll., on Bonds, as amended, or any act or acts replacing it.

“**Bonds**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Business Day**” means (a) in relation to the CZK denominated Bonds, any day on which banks in the Czech Republic are open for business and on which inter-bank trades in CZK are cleared, (b) in relation to EUR denominated Bonds, any day on which banks are open in the Czech Republic and on which inter-bank trades are cleared, and on which the TARGET clearing system is also opened for business, and, for Bonds denominated in other than CZK or EUR, any day on which banks are opened and foreign exchange trades are cleared in the Czech Republic and the main Clearing Center for the currency in which the Bonds are denominated.

“**Calculation Agent**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Capital Markets Act**” means Act No. 256/2004 Coll. the Capital Markets Act, as amended, or any act or acts replacing it.

“**CDCP**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Clearing Center**” for each individual currency means a place where Reference Rates are listed for the given currency and where inter-bank payments in such currency are cleared.

“**Day Fraction**” for calculation of interest on the Bonds for a period shorter than 1 (one) year means:

- (a) if the interest convention “actual number of days/actual number of days” or “Act/Act” is specified in the relevant Bond Program Supplement as the Day Fraction, the actual number of days in a period for which the interests are calculated divided by 365 (or if any part of the interest calculation period falls to a leap year, then the sum of (i) the actual number of days in that part of the interest calculation period, which falls to a leap year divided by 366, and (ii) the actual number of days in that part of the interest calculation period, which falls to a regular year, divided by 365);
- (b) if the interest convention “Actual Number of Days/365” or “Act/365” is set out in the relevant Bond Program Supplement as the Day Fraction, the actual number of days in the interest calculation period divided by 365;
- (c) if the interest convention “Actual Number of Days/360” or “Act/360” is set out in the relevant Bond Program Supplement as the Day Fraction, the actual number of days in the interest calculation period, divided by 360;
- (d) if the interest convention “30/360” or “360/360” is set out in the relevant Bond Program Supplement as the Day Fraction, the number of days in the interest calculation period divided by 360 (where the number of days is set based on a 360-day year divided into 12 (twelve) months with 30 (thirty) days each; however, if (i) the last day of the interest calculation period falls to the 31st (thirty first day) in a month and concurrently the first day of the same period is other than the 30th (thirtieth) or 31st (thirty first) day in a month, the number of days in a month whose 31st (thirty first) day is the last day of the period shall not be reduced to 30 (thirty) days or (ii) the last day of the interest calculation period falls to February, February shall not be extended to a month with 30 (thirty) days);
- (e) if the interest convention “30E/360” or “BCK Standard 30E/360”, is set out in the relevant Bond Program Supplement as the Day Fraction, the number of days in the interest calculation period divided by 360 (where the number of days is set based on a 360-day year divided into 12 (twelve) months with 30 (thirty) days each, divided by the entire period of the calendar year).

“**Discount Rate**” means an interest rate fixed as such in the relevant Bond Program Supplement. If the Discount Rate is not defined in the relevant Bond Program Supplement, it shall be deemed equal to the interest rate at which the Discounted Value of the Bonds as of the Issue Date would be equal to the issue price of the Bonds as of the Issue Date (i.e. the interest rate that necessary for retroactive discounting of the Bonds’ nominal value from the Redemption Date to the Issue Date, in order for the Discounted Value as of the Issue Date to be equal to the Bonds’ issue price as of the Issue Date). For the avoidance of any doubt, the Discount Rate shall not be identical with the discount rate of the Czech National Bank or any other Clearing Center.

“**Discounted Value**” means, in relation to an interest-free discounted Bond, a nominal value of such Bond discounted by the Discount Rate from the Redemption Date as of the date of calculation of the Discounted Value. In cases concerning calculation for periods of less than 1 (one) year, such calculation shall be made based on the relevant Day Fraction.

“**Early Redemption Date**” shall have the meaning set out in Sections 6.2.2, 6.3.2, 7.2, 9.2, 12.4.1 and 12.4.2 of these Joint Terms and Conditions and also any other day denoted as such in the Bond Program Supplement.

“**Early Redemption Notice**” shall have the meaning set out in Section 9.1 of these Joint Terms and Conditions.

“**EUR**” means the single currency of the European Union.

“**EURIBOR**” means:

- (A) interest rate in per cent p.a. offered for EUR and indicated at “Reuters Screen Service“, EURIBOR page (or any successor page or other official source quoting such rate) for the period corresponding to the applicable Interest Period and applicable to the day in respect of which EURIBOR is being established. If the Interest Period is a period for which no EURIBOR is provided on the EURIBOR page, the Calculation Agent shall determine the EURIBOR by means of linear interpolation on the basis of EURIBOR for the closest longer period for which EURIBOR is provided on the EURIBOR page, and

EURIBOR for the closest shorter period for which EURIBOR is provided on the EURIBOR page. If EURIBOR cannot be established in the manner described in this item (A), item (B) below shall apply.

- (B) If EURIBOR cannot be established on any day in accordance with item (A) above, EURIBOR for such day shall be determined by the Calculation Agent as an arithmetic mean of interest rate quotations for the sale of interbank deposits denominated in EUR for the period corresponding to the applicable Interest Period, and amounts obtained on that day after 11 a.m. (eleven) Brussels time from at least 3 (three) banks selected at the Calculation Agent's discretion and operating on the relevant interbank market. If EURIBOR cannot be established even in this manner, the interest rate per annum shall equal EURIBOR established in accordance with item (A) above on the closest preceding Business Day on which EURIBOR could be established in that manner.

“**Event of Default**” shall have the meaning set out in Section 9.1 of these Joint Terms and Conditions.

“**Exchange Rate**” means the exchange rate indicated in the respective Bond Program Supplement, the value of which shall be determined as of each date for which it is to be established by the Calculation Agent by obtaining the value from the relevant Reference Rate Source.

“**Ex-Coupon Date**” means a day immediately following the Record Date for Interest Repayment; for the purposes of setting the Ex-Coupon Date, it shall be understood that the Ex-Coupon Date shall not be rolled in accordance with the Business Day convention.

“**Ex-Principal Date**” means a day immediately following the Record Date for Nominal Value Repayment (or that of Discounted value); for the purposes of setting the Ex-Principal Date, it shall be understood that the Ex-Principal Date shall not be rolled in accordance with the Business Day convention.

“**Final Redemption Date**” shall mean each date denoted as such in Section 7.2 of these Joint Terms and Conditions.

“**Fiscal and Paying Agency Agreement**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Fiscal and Paying Agent**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Fiscal and Paying Agent's Specified Office**” shall mean the Fiscal and Paying Agent's specified office and place of payment.

“**Index**” means the index indicated in the respective Bond Program Supplement, the value of which shall be determined as of each date for which it is to be established by the Calculation Agent by obtaining the value from the relevant Reference Rate Source.

“**Instructions**” shall have the meaning set out in Section 7.4 (a) of these Joint Terms and Conditions.

“**Interest Period**” means the period starting on the Issue Date (inclusive) and ending on the first Interest Redemption Date (exclusive), and further each consecutive period starting on the Interest Redemption Date (inclusive) and ending on the following Interest Redemption Date (exclusive), up until the Final Redemption Date; the Interest Redemption Date shall not be shifted in accordance with the business day convention for the purposes of the commencement of any Interest Period.

“**Interest Redemption Date**” shall mean the date denoted as such in Section 7.2 of these Joint Terms and Conditions.

“**Issue Date**” shall mean the date denoting the first day on which it is possible to issue Bonds within the relevant issue to the first investor and which is set out in the relevant Bond Program Supplement.

“**Issue Fiscal and Paying Agency Agreement**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Issue Period**” means the underwriting period set out in the relevant Bond Program Supplement.

“**Issuer’s Website**” shall have the meaning set out in Section 13 of these Joint Terms and Conditions.

“**Issuer**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Joint Terms and Conditions**” shall mean these terms and conditions of the Bond Program.

“**Lead Manager**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**LIBOR**” means:

- (A) interest rate in per cent p.a., offered for the relevant currency and indicated at “Reuters Monitor“, LIBOR (or any successor page or other official source quoting such rate) for the period corresponding to the applicable Interest Period and applicable to the day in respect of which LIBOR is being established. If the Interest Period is a period for which no LIBOR is provided on the LIBOR page, the Calculation Agent shall determine the LIBOR by means of linear interpolation on the basis of LIBOR for the closest longer period for which LIBOR is provided on the LIBOR page, and LIBOR for the closest shorter period for which LIBOR is provided on the LIBOR page. If LIBOR cannot be established in the manner described in this item (A), item (B) below shall apply.
- (B) If LIBOR cannot be established on any day in accordance with item (A) above, LIBOR for such day shall be determined by the Calculation Agent as an arithmetic mean of interest rate quotations for the sale of interbank deposits denominated in the respective currency for the period corresponding to the applicable Interest Period, and amounts obtained on that day after 11 a.m. (eleven) London time from at least 3 (three) banks selected at the Calculation Agent’s discretion and operating on the London interbank market. If LIBOR cannot be established even in this manner, the interest rate per annum shall equal LIBOR established in accordance with item (A) above on the closest preceding Business Day on which LIBOR could be established in that manner.

“**Listing Agency Agreement**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Listing Agent**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Margin**” means the margin related to the Reference Rate for the determination of interest on the floating rate Bonds, as determined in the respective Bond Program Supplement.

“**Market Disruption Event**” shall mean that in relation to any underlying asset any of the following situations has occurred or currently exists: (i) an interruption or limitation of trading with the respective underlying asset on the market, resulting in an outage on the affected market regardless of the cause (whether due to over-limit price values or otherwise), which the Calculating Agent in its sole discretion identifies as significant; or (ii) any event, which, in the sole discretionary opinion of the Calculating Agent, results in a significant decline or disruption of the market participants’ standard ability to conduct transactions with the respective underlying assets or to determine their market value on the respective outage-stricken market; or (iii) a closure of the respective outage-stricken market during any Business Day before the usual close of business, unless such prematurely closed market notifies such premature closure at least one (1) hour before the earlier of (a) the regular close of trading on such outage-stricken market or (b) the deadline for placing trading orders on such outage-stricken market; or (iv) any change in domestic or foreign financial, political or economic conditions, exchange rates or foreign exchange regulations, the impact of which the Calculating Agent deems to be sufficiently important and detrimental so as to preclude or render reasonably unfeasible the calculation of the Reference Rate under the conditions and in the form and manner specified by these Joint Terms and Conditions.

“**Material Change**” shall have the meaning set out in Section 12.1.2 of these Joint Terms and Conditions.

“**Meeting**” shall have the meaning set out in Section 12.1.1 of these Joint Terms and Conditions.

“**Payees**” shall have the meaning set out in Section 7.3 of these Joint Terms and Conditions.

„PRIBOR“ means:

- (A) interest rate in per cent p.a., as indicated on “Reuters Screen Service“, PRBO page (or any successor page or other official source quoting such rate) as the value of interest rate fixing for sale on the Prague market of inter-bank deposits denominated in CZK for the period corresponding to the applicable Interest Period, stipulated by the Czech National Bank and applicable to the day in respect of which PRIBOR is being established. If the Interest Period is a period for which no PRIBOR is provided on the PRBO page (or other official source), the Calculation Agent shall determine the PRIBOR by means of linear interpolation on the basis of PRIBOR for the closest longer period for which PRIBOR is provided on the PRBO page (or other official source) and PRIBOR for the closest shorter period for which PRIBOR is provided on the PRBO page (or other official source). If PRIBOR cannot be established in the manner described in this item (A), item (B) below shall apply.
- (B) If PRIBOR cannot be established on any day in accordance with item (A) above, PRIBOR for such day shall be determined by the Calculation Agent as an arithmetic mean of interest rate quotations for the sale of interbank deposits denominated in CZK for the period corresponding to the applicable Interest Period, and amounts obtained on that day after 11 a.m. (eleven) Prague time from at least 3 (three) banks selected at the Calculation Agent’s discretion and operating on the Prague interbank market. If PRIBOR cannot be established even in this manner, PRIBOR shall equal PRIBOR established in accordance with item (A) above on the closest preceding Business Day on which PRIBOR could be established in that manner.

For the avoidance of doubt, if PRIBOR ceases to exist or is generally no longer used on the market for interbank deposits, a rate commonly used on the market for interbank deposits in the Czech Republic shall be used in its stead.

“**Program Fiscal and Paying Agency Agreement**” has the meaning set out in the introductory section of these Joint Terms and Conditions.

“**Record Date for Attendance at the Meeting**” shall have the meaning set out in Section 12.2.1 of these Joint Terms and Conditions.

“**Record Date for Interest Repayment**” means a day that precedes the relevant Redemption Date by 30 (thirty) days or such shorter period as may be provided for in the Issue Supplement; however, it shall be understood that when determining the Record Date for Interest Repayment, the Redemption Date shall not be rolled in accordance with the Business Day convention.

“**Record Date for Nominal Value Repayment**” means a day that precedes the relevant Redemption Date by 30 (thirty) days or such shorter period as may be provided for in the Issue Supplement; however, it shall be understood that when determining the Record Date for Nominal Value Repayment, the Redemption Date shall not be rolled in accordance with the Business Day convention.

“**Redemption Date**” means the Interest Redemption Date, the Final Redemption Date and the Early Redemption Date, as stated in Section 7.2 of these Joint Terms and Conditions.

“**Reference Rate**” means the respective interest rate (as specified in more detail below in this paragraph), Index (or a change thereof), or Exchange Rate (or a change thereof), as applicable. In respect of Reference Rate on the basis of interest rate, Reference Rate means PRIBOR, EURIBOR or LIBOR. PRIBOR shall be deemed to be the Reference Rate for floating rate Bonds with nominal value denominated in CZK, EURIBOR shall be the Reference Rate for Bonds denominated in EUR, and LIBOR for the respective currency shall be the Reference Rate for Bonds denominated in any currency other than Czech crowns and Euro.

“**Reference Rate Source**” means the source identified in the Bond Program Supplement from which the Calculating Agent can ascertain the value of the Reference Rate or, if applicable, its individual components comprising the Reference Rate.

- (a) If the Reference Rate or its individual components are quoted in the Reference Rate Source for differing periods of time, the Calculating Agent shall use the Reference Rate or individual component thereof for a period identical with the duration of the Interest Period for which the Reference Rate or



its individual component is to be ascertained. In case the Reference Rate or its individual component is not quoted for such period, the Calculating Agent shall determine its value at its sole discretion while taking into account the Reference Rate for the next shorter and next longer period for which the Reference Rate or its individual component is quoted in the Reference Rate Source.

- (b) If the Reference Rate Source constitutes a specific page in an information service and the Reference Rate or its individual component is not quoted therein on any date in which the Reference Rate or its individual component is to be ascertained, the Calculating Agent shall ascertain the value of the Reference Rate or its individual component from the succeeding page of the information service or from a different page of a succeeding information service.
- (c) If on any date it becomes impossible to ascertain the value of the Reference Rate or its individual component in the manner described above, the Calculating Agent shall determine the value of the Reference Rate or its individual component at its sole discretion and while exercising the due care of a securities broker.

## ISSUE SUPPLEMENT FORM – FINAL TERMS FORM

This section contains an Issue Supplement form setting out the final terms of Bonds offering, which shall be made out for each individual Issue issued under this offering program requiring preparation of a prospectus. In cases where no prospectus is required for the particular Issue, the Issuer may prepare, and, pursuant to the Bonds Act, shall make public or accessible to investors, as applicable, a Bond Program Supplement together with the amended and restated version of the Joint Terms and Conditions in the same manner as the Joint Terms and Conditions.

**Important Notice:** *The following text serves as an Issue Supplement form (without cover page, which is to be attached to each Issue Supplement) containing the final terms of the particular Bond issue, i.e. the terms and conditions specific for that particular Issue. Only the arrangement contained in the particular Issue Supplement shall be of relevance.*

## ISSUE SUPPLEMENT – FINAL TERMS

Terms and conditions (the “**Joint Terms and Conditions**”) of a bond program of ČEZ, a. s., with its registered seat at Duhová 2/1444, Prague 4, Postal Code: 140 53, Identification No. 45274649, entered in the Commercial Register administered by the Prague Municipal Court, File No. B 1581, (the “**Issuer**”), in the maximum volume of outstanding bonds of CZK 30,000,000,000, the program term being 10 years (the “**Bond Program**”), with the minimum nominal value per bond within any issue under the Bond Program to be at least equal to EUR 100,000 have been made public as part of the Base Prospectus in accordance with the Bonds Act and the Capital Markets Act.

By Decision Ref. 2016/065847/CNB/570, S-Sp-2016/00027/CNB/572, dated June 7, 2016, which entered into force on June 10, 2016, the CNB approved the base prospectus of the Bond Program [as amended by a supplement approved by CNB Decision Ref. [●], dated [●], which entered into force on [●]] (the “**Base Prospectus**”).

The issue supplement (the “**Issue Supplement**”) constitutes the final terms and conditions of the [●]. Bond issue, i.e. that together with the Base Prospectus, it constitutes a full prospectus of the Bonds specified below. This Issue Supplement comprises (i) a bond program supplement which is a supplement to the Joint Terms and Conditions, which was made public or accessible to the investors, as applicable, on [●] (the “**Bond Program Supplement**”), and (ii) additional information related to the [●]. Bond issue and the Issuer, which form the statutory prerequisites of a prospectus and which are not part of the Base Prospectus nor are they contained in the Bond Program Supplement (the “**Additional Information**”).

Distribution of this Issue Supplement and the Base Prospectus, and the offering, sale or purchase of Bonds is restricted by law in some countries. Neither the Bonds, the Issue Supplement, nor the Base Prospectus have been or shall be notified, listed, registered, permitted, recognized or approved on an application of the Issuer by any authority of any jurisdiction other than the CNB in accordance with the laws of the Czech Republic. In particular, the Bonds shall not be so registered in accordance with the U.S. Securities Act of 1933 and may not be offered, sold or delivered within the territory of the United States or to U.S. residents other than based on an exemption from the registration duty under the said Act or as part of a transaction exempt from such registration duty. Persons getting possession of this Issue Supplement or the Base Prospectus shall be liable for compliance with the restrictions applicable in the individual countries to any offering, purchase or sale of the Bonds or possession and distribution of any materials related to the Bonds.

**The terms not defined herein shall have the meaning ascribed thereto in the Joint Terms and Conditions, unless the context of their use herein requires otherwise. This Issue Supplement, including the final terms of the Bonds, has been prepared for the purpose of Article 5(4) of the Prospectus Directive and shall be read in conjunction with the Base Prospectus, including any supplements thereto, in order to get the full information. The Base Prospectus (including any supplements thereto) is available for download at the Issuer’s website: [www.cez.cz](http://www.cez.cz).**

## RESPONSIBLE PERSONS

The Issuer, i.e. ČEZ, a. s., with its registered seat at Duhová 2/1444, Prague 4, Postal Code: 143 53, Identification No. 452 74 649, entered in the Commercial Register administered by the Prague Municipal Court,

File No. B 1581, is a responsible person for the accuracy and completeness of the information contained in this Issue Supplement.

The Issuer represents that having exerted all the reasonable care, it states that to its best knowledge, the information contained in this Issue Supplement reflects the reality and that no information apt to change its import has been concealed from the Issue Supplement.

**For ČEZ, a. s.**

<i>Name</i>	<i>Name</i>
<i>Title</i>	<i>Title</i>

**A. BOND PROGRAM SUPPLEMENT**

This Bond Program Supplement together with the Joint Terms and Conditions form the terms and conditions of the bonds specified below in further detail (the “**Bonds**”), which are issued under the Bond Program. The Joint Terms and Conditions for the Bond Program are available for download at the Issuer’s website: [www.cez.cz](http://www.cez.cz).

The Bonds are being issued pursuant to Act No. 190/2004 Coll., on Bonds, as amended. This Bond Program Supplement was made [public / accessible to the investors] on [●].

The capitalized terms shall have the same meaning as in the Joint Terms and Conditions. The below-stated parameters of the Bonds make the previously published or made accessible Joint Terms and Conditions (as specified above) more specific and supplement the same in connection with this Bond issue.

- |     |  |   |
|-----|--|---|
| 1.  | Bonds ISIN:  | [●]   |
| 2.  | Bonds Listing / Relevant Regulated Market / Public Offer:  | [Yes/No.] / [Standard market of PSE/other market of PSE. The Bonds will not be publicly offered. The Bonds shall be offered for underwriting mainly in the Czech Republic under Section 35(2)(a) [and (c)], or under any other exception contained in the Capital Markets Act.] |
| 3.  | The earliest date on which the Bonds will be admitted to trading:  | [● / Not applicable.]   |
| 4.  | Estimated expenses related to the admission to trading:  | [● / Not applicable.]   |
| 5.  | Type of Bonds:   | Book-entry security registered in the central securities register kept by Centrální depozitář cenných papírů, a.s.  |
| 6.  | Form of Bonds:   | [Bearer / Registered.]  |
| 7.  | Nominal Value of Bond:   | [●]<br>(no less than EUR 100,000)   |
| 8.  | Aggregate Anticipated Nominal Value of Bond Issue:   | [●]   |
| 9.  | Quantity of Bonds:   | [●]   |
| 10. | Currency of Bonds:   | [●]   |
| 11. | Issuer’s Right to Increase Quantity of Bonds /Terms of Such Increase and Aggregate Nominal Value of Such Increase: | [Not applicable / As per Section 2.1 of the Joint Terms and Conditions. The Aggregate Nominal Value of Such Increase is [●].]   |

12.	Title of Bonds:	[●]
13.	Issue Date:	[●]
14.	Method and Time Limit of Bond Issue (Issue Period):	[●]
15.	Issue Price of Bond as of Issue Date or Method of Calculation:	[●]
16.	Method and Place of Underwriting of Bonds / Information on Persons Involved in Securing the Bond Issue:	[●]
17.	Interest/Yield:	[Fixed / Floating / Discounted.]
18.	Day Fraction:	[“Act/Act” / “Act/365” / “Act/360” / “30/360” / “30E/360”, or “BCK Standard 30E/360”.]
19.	In Case of Fixed Rate Bonds:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
19.1	Interest Rate:	[●]
19.2	Interest Redemption:	[Annually in arrears / Semiannually in arrears / Quaterly in arrears.]
19.3	Interest Redemption Date(s):	[●]
20.	In Case of Floating Rate Bonds:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
20.1	Type of Reference Rate:	[Interest rate / Index / Exchange rate.]
20.2	Reference Rate:	[●]
20.3	Description of the Underlying Assets:	[● / Not applicable.]
20.4	Reference Rate Source:	[●]
20.5	Market Disruption Event:	[As per Section 5.2.3 of the Joint Terms and Conditions.]
20.6	Adjustment Rules with Relation to Events Concerning the Reference Rate:	[As per Sections 5.2.2 to 5.2.4 of the Joint Terms and Conditions.]
20.7	Margin:	[● / Not applicable.]
20.8	Method of Determination of Interest for Particular Interest Period:	[Reference Rate [plus/minus] Margin.]
20.9	Reference Rate Date:	[●]
20.10	Interest Redemption:	[Annually in arrears / Semiannually in arrears / Quaterly in arrears.]
20.11	Interest Redemption Date(s):	[●]
20.12	Minimum Interest Rate:	[● / Not applicable.]
20.13	Maximum Interest Rate:	[● / Not applicable.]
21.	In Case of Discounted Bonds:	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
21.1	Discount Rate:	[●]
22.	Final Redemption Date:	[●]

23.	Record Date for Interest Repayment (other than under Section 15 of the Joint Terms and Conditions):	[● / Not applicable.]
24.	Record Date for Nominal Value Repayment (other than under Section 15 of the Joint Terms and Conditions):	[● / Not applicable.]
25.	Early Redemption of Bonds upon Issuer's Decision (other than under Section 6.2.1 (a) of the Joint Terms and Conditions):	[As per Section 6.2.1(b) of the Joint Terms and Conditions / Not applicable.]
26.	Early Redemption of Bonds upon Bondholders' Decision (if different from Section 6.3.1 (a) of the Joint Terms and Conditions):	[As per Section 6.3.1(b) of the Joint Terms and Conditions / Not applicable.]
27.	Currency in which Interest and/or Nominal Value or Discounted Value Shall Be Redeemed (if different from the currency in which the Bonds are denominated):	[● / As per Section 7.1 of the Joint Terms and Conditions.]
28.	Business Day Convention to Determine Redemption Date:	[“Following”/ “Adjusted Following” / “Preceding”.]
29.	Fiscal and Paying Agent:	[● / As per Section 11.1 of the Joint Terms and Conditions.]
30.	Specified Office of Fiscal and Paying Agent:	[● / As per Section 11.1.1 of the Joint Terms and Conditions.]
31.	Calculation Agent:	[● / As per Section 11.2 of the Joint Terms and Conditions.]
32.	Listing Agent:	[● / As per Section 11.3 of the Joint Terms and Conditions.]
33.	Notices to Bondholders:	[● / As per Section 13 of the Joint Terms and Conditions.]
34.	Clearing Center:	[●]
35.	Rating of the Bonds:	<p>[Not applicable / The Bonds to be issued [have been/are expected to be] rated:</p> <p>[●] by Standard &amp; Poor's Credit Market Services Europe Limited</p> <p>[●] by Moody's Investors Service Ltd</p> <p>[●] by [other rating agency].</p> <p>[Credit rating agency] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. / [Credit rating agency] is established in the European Union domiciled in [country] and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 Regulation (EU) No.</p>

462/2013, which is available on the ESMA website (*[insert link to ESMA web page]*) (last updated on *[date]*) / *[Credit rating agency]* is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013. / *[Credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013. However, the application for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013, of *[the relevant EU CRA affiliate that applied for registration]*, which is established in the European Union, disclosed the intention to endorse credit ratings of *[credit rating agency]*. / *[Credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013. The ratings have been/are expected to be endorsed by *[name of the relevant EU-registered credit rating agency]* in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013. *[The relevant EU-registered credit rating agency]* is established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013. / *[Credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No. 513/2011 and Regulation (EU) No. 462/2013, but it is certified in accordance with such Regulation.]

- |     |  |                       |
|-----|--|-----------------------|
| 36. | Resolutions, Authorisations and Approvals Relating to the Bonds:   | [●]                   |
| 37. | Capacity in Which Advisors on the Issue Acted:   | [● / Not applicable.] |
| 38. | Interest of Persons Involved in Issuance/Offering of Bonds Relevant for the Issue (Other Than Mentioned in the Base Prospectus): | [● / Not applicable.] |

**B. ADDITIONAL INFORMATION**

*This section is intended for listing specific limitations (if any) to offering or selling the Bonds.*

## **USE OF PROCEEDS**

The Issuer will use the total net proceeds from each Issue to further develop its business. The respective final terms of each Issue will contain further information on how the proceeds generated by the Issue will be used, including their designated main purpose.

## DESCRIPTION OF THE ISSUER

### Overview

According to ERO and our internal data, we are the largest electricity generation and distribution company in the Czech Republic. According to Sdružení CZECH TOP 100 and our internal data, we are one of the largest companies in the Czech Republic on the basis of our revenues and our total assets. In the years ended December 31, 2014 and 2015, we had revenues of CZK 201.8 billion and CZK 210.2 billion, respectively, and net income of CZK 22.4 billion and CZK 20.5 billion respectively. As of December 31, 2015, we had total assets of CZK 602.7 billion. In the year ended December 31, 2015, we had an average of 25,826 employees.

Our core business is the generation, distribution, trading and sale of power and heat, trading and sale of natural gas and coal mining. According to data published by the ERO, we accounted for approximately 68% of electricity generated, 61% of installed electricity generation capacity, 61% of electricity distribution in terms of the number of connection points and 34% of electricity sold to end-consumers in the Czech Republic in the year ended December 31, 2015. In addition, we are the largest producer of brown coal in the Czech Republic (source: CEZ Group internal data), accounting for approximately 55% of the total volume of brown coal produced in the Czech Republic in 2015. Our activities in the Czech Republic accounted for approximately 89.8% of our EBITDA for the same period.

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

The table below sets forth certain information relating to our generation, distribution and sales businesses for the year ended December 31, 2015.

As of and for the year ended December 31, 2015								
	Installed capacity		Electricity generated		Electricity distributed to end-consumers		Electricity sold to end-consumers	
	(MW)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
<b>Central Europe:</b>								
Czech Republic .....	13,351	83.8	56,630	93.0	33,310	68.0	19,833	52.3
Poland .....	681	4.3	2,944	4.8	-	-	1,612	4.2
Other .....	-	-	-	-	-	-	3,332	8.8
<b>Total .....</b>	<b>14,032</b>	<b>88.1</b>	<b>59,574</b>	<b>97.8</b>	<b>33,310</b>	<b>68.0</b>	<b>24,777</b>	<b>65.3</b>
<b>South East Europe:</b>								
Bulgaria .....	1,267	8.0	6	0.0	9,272	18.9	9,685	25.5
Romania .....	622	3.9	1,337	2.2	6,418	13.1	3,471	9.2
<b>Total .....</b>	<b>1,889</b>	<b>11.9</b>	<b>1,343</b>	<b>2.2</b>	<b>15,690</b>	<b>32.0</b>	<b>13,155</b>	<b>34.7</b>
<b>Total .....</b>	<b>15,921</b>	<b>100</b>	<b>60,917</b>	<b>100</b>	<b>49,000</b>	<b>100</b>	<b>37,933</b>	<b>100</b>

The total installed capacity of our generation facilities is 15,920.5 MW, of which 83.8% is in the Czech



Republic, 8.0% is in Bulgaria, 4.3% is in Poland and 3.9% is in Romania. In the year ended December 31, 2015, we generated 60,917 GWh of electricity, of which 93.0% was generated in the Czech Republic. In the same year, 47.8% of our total electricity generated was generated by our coal-fired power plants, 44.1% was generated by our nuclear power plants and the remaining 8.1% was generated by our hydroelectric, solar, wind, gas, biogas, biomass power plants or through biomass co-firing.

We distributed electricity to more than 3.6 million connection points in the Czech Republic covering an area of approximately 52 thousand square kilometres as of December 31, 2015, making us the largest of the three regional distributors of electricity in the country (source: ERO). In the year ended December 31, 2015, we distributed a total of 49,000 GWh of electricity to end-consumers, 68% of which was distributed to end-consumers in the Czech Republic. In addition, we are one of the largest of eight regional distribution companies in Romania (source: ANRE, CEZ) and we have majority interest in the principal distribution company in Bulgaria.

ČEZ was incorporated as a joint stock company under the laws of the Czech Republic on May 6, 1992 with unlimited duration and was registered in the Commercial Register administered by the Municipal Court in Prague, File B, Section 1581, with identification number 45274649. As of December 31, 2015, ČEZ had a registered share capital of CZK 53,798,975,900 and was 69.8% owned by the Czech Republic represented by the Ministry of Finance. The shares of ČEZ are listed on the Prague Stock Exchange and the Warsaw Stock Exchange. The registered office of ČEZ, a. s., is Duhová 2/1444, 140 53 Prague 4, Czech Republic, with telephone number +420 211 041 111

ČEZ follows the rules stipulated by applicable law, in particular Act No. 90/2012 Coll., act on companies, Act No. 89/2012 Coll., Civil Code and Act No. 418/2011 Coll. on criminal liability of legal entities and proceedings against them.

ČEZ as an issuer of securities admitted to trading on a public market is also governed by Act No. 256/2004 Sb., on capital market undertakings. Act No. 137/2006 Sb., on public procurement, which was amended by Act No. 40/2015 Sb., amending Act No. 137/2006 Sb., on public procurement, as amended, applies to the selection of contractors by ČEZ under the conditions defined therein. Both acts, Act No. 256/2004 Sb. and Act No. 137/2006 Sb., were amended by Act No. 375/2015 Sb., amending some acts in connection with the adoption of the act on remedial procedures and solutions for the financial market crisis and in connection with amendment to the deposit guarantee system (with effect from January 1, 2016).

Alongside this general legal framework, there is energy legislation that is also crucial for ČEZ and whose basis is formed by the following:

- Act No. 458/2000 Sb., on the conditions for doing business and exercising state administration in the energy sectors and on amendments to some acts;
- Act No. 18/1997 Sb., on the peaceful use of nuclear energy and ionizing radiation and on modifications and amendments to some acts;
- Act No. 406/2000 Sb., on energy management;
- Act No. 165/2012 Sb., on supported energy sources and on amendments to some acts.

In addition to these four core regulations, energy business - especially electricity and heat generation - is increasingly affected by environmental legislation. The following regulations can be regarded as crucial in that area:

- Act No. 201/2012 Sb., on air protection;
- Act No. 695/2004 Sb., on conditions for trading in greenhouse gas emission allowances and on amendments to some acts;
- Act No. 383/2012 Sb., on conditions for trading in greenhouse gas emission allowances;
- Act No. 76/2002 Sb., on integrated prevention and pollution control, on the integrated pollution register, and on amendment to some acts.

## History and Development of the CEZ Group

Principal events during our history and development include:

- 1992** ČEZ was established on May 6, 1992 through the aggregation of formerly State-owned power generation and distribution assets in the Czech Republic into one enterprise.
- 2002** The Czech Republic's electricity market began a process of market liberalization in accordance with the Czech Energy Act.
- We acquired the Czech Government's shares in the eight regional distribution utilities (the "REAS"), which were previously held by the Czech National Property Fund and the Czech Consolidation Agency. We subsequently held a majority interest in five of the REAS and a minority interest in three of the REAS.
- 2004** An amendment to the Czech Energy Act required the distribution of electricity to be separate and independent from the sale of electricity to end-consumers (so-called "unbundling") from January 1, 2007.
- 2005** We established ČEZ Distribuce, a.s., for electricity distribution and ČEZ Prodej, s.r.o., for electricity sales.
- We acquired three Bulgarian distribution companies, Elektrorazpredelenie Pleven AD, Elektrorazpredelenie Sofia Oblast AD and Elektrorazpredelenie Stolichno AD, which together had approximately 1.9 million customers in Bulgaria.
- We acquired a 51% stake in the Romanian distributor Electrica Oltenia S.A., which had approximately 1.4 million customers in Romania.
- 2006** We acquired Severočeské doly a.s., a brown coal mining company located in North Bohemia, which supplies a significant portion of brown coal to our power plants in the Czech Republic.
- We acquired a 100% share in TPP Varna EAD, the second largest power plant in Bulgaria with installed capacity of 1,260 MW.
- We acquired a 75.2% share in the voting rights of Elektrociepłownia Chorzów "ELCHO" S.A. and a 74.82% stake in Elektrownia Skawnia S. A. These Polish electricity generation companies had a combined installed capacity of 830 MW in 2006.
- 2007** We acquired 100% control over the five previously majority-owned REAS: Severočeská energetika, a.s., Severomoravská energetika a.s., Východočeská energetika, a.s., Západočeská energetika, a.s., and Středočeská energetická, a.s. Following the acquisition of the REAS, our distribution network became the largest in the Czech Republic.
- We formed a strategic alliance and signed a joint venture agreement with MOL (MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság) to focus on gas-fired power and heat generation and related gas infrastructure. There are currently no projects being developed under this alliance.
- 2008** We acquired the Fantanele and Cogevalac wind farm project in Romania which became one of the largest onshore wind farms in Europe, with a total installed capacity of 600 MW, on completion at the end of 2012.
- 2009** Pursuant to a joint venture arrangement with the Akkok Group, we acquired 100% of Sakarya Elektrik Dagitim A.S., the Turkish electricity distribution company which has the right to operate the distribution grid in the Sakarya region of Turkey for 30 years.

We acquired a 76% interest in CEZ SH, the Albanian distribution company which is 24% owned by the Republic of Albania.

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

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

Our joint venture with Energetický a průmyslový holding, a. s. acquired 100% of Mitteldeutsche Braunkohlengesellschaft GmbH ("*MIBRAG*"), the German coal mining company.

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

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

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

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

**2011** We agreed to acquire, subject to merger clearance and other conditions, a 100% holding in Energotrans, a.s., a company supplying heat from Mělník to Prague. The merger clearance was obtained and the transaction completed in June 2012.

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

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

In June 2012, we completed the sale of a 50% stake in JTSD Braunkohlebergbau, GmbH, the sole shareholder of the mining company MIBRAG, to EP Energy, a.s.

In June 2012, we completed the acquisition of a 100% stake in Energotrans, a.s., a Czech heat producer and distributor.

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

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

shareholding in Eco-Wind Construction S.A. to 75%.

**2013**

In January 2013, the Albanian ERE removed the electricity distribution and retail supply licenses of CEZ SH and fully took over management and operation of CEZ SH by appointing a temporary administrator. This situation resulted in ČEZ initiating international investment arbitration against the Republic of Albania.

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

On March 18, 2013, we concluded a coal supply contract with Vršanská uhelná (Czech Coal group) under which the supply of coal will be secured to the Počerady power plant for a term of up to nearly 50 years. The long-term contract significantly stabilizes the situation in the entire coal market and also in the electricity market. As a part of the transaction, the parties concluded a settlement agreement in respect of their mutual claims. We also concluded two put option agreements with Vršanská uhelná a.s. Under these contracts ČEZ has a right to transfer 100% of the shares in its subsidiary Elektrárna Počerady, a.s. (owner of the Počerady coal power plant) to Vršanská uhelná a.s. The first option could have been exercised in 2016 for cash consideration of CZK 8.5 billion, less CZK 0.4 billion per each block of the Počerady power plant that is not modernized, however, our Board of Directors decided not to exercise this first option. The second option can be exercised in 2024 for cash consideration of CZK 2 billion.

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

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

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

**2014**

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

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

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

On June 23, 2014, ČEZ signed a settlement agreement with the Republic of Albania providing for, *inter alia*, conditions for ending of the international investment arbitration commenced by ČEZ against the Republic of Albania. The settlement agreement took effect on October 16, 2014 and on the same day ČEZ transferred its entire shareholding CEZ SH to the Republic of Albania.

On August 27, 2014, the final arbitral award was issued in arbitration proceedings relating to the Gacko Project and the arbitration tribunal upheld our claims. In accordance with the arbitral award, we were granted compensation in the aggregate amount of approximately EUR 6.7 million and transferred our 51% share in the joint venture to our former joint venture partner, Elektroprivreda Republike Srpske (please see “*Description of the Issuer—Legal Proceedings— Arbitration Proceedings Relating to the Gacko Project*”).

In November 2014, ČEZ sent to ENEL an expression of interest for the acquisition of 66% shareholding in Slovenské elektrárne, a.s. (leading Slovak operator of nuclear, hydro and coal power plants with total installed capacity of 5.7 GW).

## 2015

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

On April 9, 2015, the International Court of Arbitration of the International Chamber of Commerce in Paris rejected the vast majority of claims of Electrica S.A. against ČEZ. Please see “*Description of the Issuer—Legal Proceedings— Electrica S.A. Arbitration*”.

On May 7, 2015, ČEZ announced its decision not to make a binding bid for Enel’s 66% stake in Slovenské elektrárne.

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

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

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

On June 23, 2015 ČEZ’s credit ratings were downgraded by Moody’s Investors Service Ltd. from A2 to A3.

In July 2015, the Albanian government duly paid another installment of EUR 21,750,000 under the EUR 95,000,000 settlement agreement, having paid a total of EUR 31,750,000 since payments commenced; further payments are to be made in yearly instalments until 2018.

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

In the second half of 2015, electricity generation by our nuclear power plants were

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

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

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

In November 2015, the CEZ Group acquired a minority shareholding in SunFire GmbH, a company developing and bringing into industrial production highly advanced energy technologies designed to reduce CO2 emissions. SunFire GmbH also develops decentralized energy generation.

On December 21, 2015, ČEZ submitted a non-binding offer to acquire Vattenfall's German lignite and hydro activities, including (i) Power Plants (Boxberg, Jänschwalde, Schwarze Pumpe, and Lippendorf Unit R), (ii) Mines (Jänschwalde, Nochten, Reichwalde, Welzow-Süd, and Cottbus Nord), and (iii) 10 Hydro Plants (which may not be sold separately, without the lignite assets).

## 2016

On February 26, 2016, Standard & Poor's Credit Market Services Europe Limited confirmed ČEZ's A- rating with stable outlook.

In March 2016, ČEZ decided not to submit a binding offer to acquire Vattenfall's German lignite and hydro activities.

On April 6, 2016 ČEZ's credit ratings were downgraded by Moody's Investors Service Ltd. from A3 to Baa1 because of ČEZ's exposure to a decreasing power price environment.

On April 28, 2016, ČEZ's Board of Directors decided to convene the general meeting of ČEZ on June 3, 2016, and to propose to the general meeting a gross dividend per share for 2015 in the amount of CZK 40, i.e., the same gross dividend per share as was gross dividend per share for 2014. Should the general meeting of ČEZ approve this dividends proposal, dividends in the total amount of CZK 21.4 billion will be distributed to the ČEZ's shareholders, CZK 15 billion of which will be collected by the Czech Republic as ČEZ's majority shareholder.

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

## Organizational Structure

As of December 31, 2015, the CEZ Group consisted of ČEZ and 91 fully consolidated entities. As of December 31, 2015, we also had interests in 15 joint ventures consolidated by the equity method of accounting. For a complete list of our subsidiaries and joint ventures as of December 31, 2015, please see Note 9 of our audited consolidated financial statements for the year ended December 31, 2015.

Pursuant to the Czech Energy Act, since January 1, 2007, the distribution of electricity must be separate and independent from the generation, transmission and sale of electricity (“unbundling”). In 2005, we established two new separate companies ČEZ Distribuce, a.s. (for distribution of electricity) and ČEZ Prodej, s.r.o. (for sales of electricity to end-consumers), and during 2006 we transferred all corresponding assets and activities from the REAS to these companies. Following a resolution of our Board of Directors in June 2007, we consolidated all assets and activities of the REAS into the CEZ Group. We completed this consolidation process by October 2007.

To ensure the independence and separation of distribution activities from all other activities, senior management responsible for our electricity distribution business must be different from senior management responsible for our electricity generation and sales business and we are required to take appropriate steps to prevent professional conflicts of interest between persons responsible for our electricity distribution business and our electricity generation and sales businesses. The Czech Energy Act also restricts how much control can be exercised by shareholders over distribution businesses.

### ***Principal Subsidiaries***

ČEZ Distribuce, a.s., a wholly owned subsidiary of the CEZ Group, was established on October 1, 2010, following the merger of ČEZ Distribuce, a.s. (a company of the same name which was incorporated on March 31, 2005 to comply with the requirement of the Czech Energy Act to separate our distribution business from our sales business, which ceased to exist with effect from the date of the merger) and ČEZ Distribuční zařízení, a.s. (a company incorporated in July 2009 to consolidate unclassified equipment for electricity distribution within the CEZ Group, which ceased to exist with effect from the date of the merger). The accounting record date for this transaction occurred on January 1, 2010. ČEZ Distribuce, a.s. is the only entity in the CEZ Group, other than ČEZ a. s., that holds an electricity distribution license in the Czech Republic. In the year ended December 31, 2015, ČEZ Distribuce, a.s., contributed approximately 24% of our EBITDA. For more information on our distribution business, please see “*Our Business—Distribution and Sale of Electricity*”.

ČEZ Prodej, s.r.o., a wholly-owned subsidiary of the CEZ Group, was established on March 31, 2005 to comply with the requirement of the Czech Energy Act to separate our sales business from our distribution business. Parts of our original regional power companies, including their customers, contracts and liabilities were transferred to ČEZ Prodej, s.r.o., by the end of 2005. ČEZ Prodej, s.r.o. has been fully operational since January 1, 2006 selling electricity to end-consumers in the Czech Republic. In the year ended December 31, 2015, ČEZ Prodej, s.r.o., contributed approximately 9.8% of our EBITDA. For more information on our sales business, please see “*Our Business—Distribution and Sale of Electricity*.”

Severočeské doly a.s., a wholly-owned subsidiary of the CEZ Group, was established in 1994. The core activities of Severočeské doly a.s. are prospecting for, extracting, processing, and selling brown coal and related raw materials. Severočeské doly a.s. is the largest brown coal mining company in the Czech Republic (source: www.sdas.cz). We acquired a 93.1% stake in Severočeské doly a.s. from the Government of the Czech Republic during 2005. Upon our request, as the majority shareholder, the general meeting of Severočeské doly a.s. held on March 27, 2006 approved the squeeze-out of minority shareholders and the transfer of their shares to us. In the year ended December 31, 2015, Severočeské doly a.s. contributed approximately 6.6% of our EBITDA. For more information on our mining operations, please see “*Our Business—Other Businesses—Coal Mining*.”

### **Our Strengths**

We benefit from the following key strengths:

#### ***Majority State-Owned Company, Backed by a Stable and Open Economy***

The Czech Republic, through the Ministry of Finance, owns approximately 69.8% of the share capital of ČEZ, the parent company of the CEZ Group. In August 2011, Standard & Poor’s Credit Market Services Europe Limited upgraded its rating of the Czech Republic by two notches to AA- (Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is

included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011 and Regulation (EU) No. 462/2013, which is available on the ESMA website ([www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs)). We believe that being majority-owned by a government that is backed by a stable and open economy provides additional credibility in the electricity and credit markets and allows us to benefit from more favorable credit terms than competitors without similar backing.

### ***Robust Credit Profile***

ČEZ's credit ratings of A- (stable outlook) by Standard & Poor's Credit Market Services Europe Limited and Baa1 (stable outlook) by Moody's Investors Service Ltd. are among the highest awarded to a European utility, reflecting our efforts to work proactively to maintain prudent leverage and liquidity positions (Standard & Poor's Credit Market Services Europe Limited (domiciled in the United Kingdom) and Moody's Investors Service Ltd. (domiciled in the United Kingdom) are both established in the European Union and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011 and Regulation (EU) No. 462/2013, which is available on the ESMA website ([www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs)). We had a relatively low Net Debt/EBITDA ratio of 2.02 as of December 31, 2015. In addition, we also monitor our total debt to total capital ratio. Our long term policy is to keep the total debt to total capital ratio below 50%. We are a well-established credit among European utilities having issued € 6.22 billion in 28 public and private transactions under the EMTN Programme since 2007 (including outstanding and issued and redeemed Notes). We aim to maintain an adequate liquidity position with access to sufficient back-stop credit facilities should cash flows become negative.

### ***Highly Integrated, Large-Scale Domestic Operations***

We benefit from highly integrated operations in the Czech Republic providing approximately 89.8% of our total consolidated EBITDA in the year ended December 31, 2015.

In the Czech Republic, we operate a low cost generation fleet which produced a total of 56.6 TWh of electricity, or 67.5% of the country's total electricity generated during the year ended December 31, 2015, of which 46.9% was produced by our coal-fired power plants. Approximately 67.4% of our brown coal consumption is provided by our mines, which is provided at the cost of extraction only on a consolidated basis. In addition, brown coal is not a traded commodity as its transportation is not economical and we are therefore not exposed to large fluctuations in the global commodities market. Approximately 47.4% of our total electricity generation output in the Czech Republic was generated by our nuclear power plants where variable costs are relatively low and stable (as opposed to initial construction costs). Furthermore, unlike in neighboring Austria and Germany, public opinion as well as political representation in the Czech Republic are relatively favorable towards nuclear power generation. The composition of our generation fleet results in relatively stable and low variable costs which is a chief reason for our EBITDA margin of approximately 31.0% for the year ended December 31, 2015, being one of the highest among our European peers (EdF, EdP, EnBW, Enel, E.ON, Fortum, Iberdrola, RWE and Verbund) over the last five years. EBITDA generated by our Power Production and Trading and Mining Segments in the Czech Republic accounted for approximately 51.2% of our consolidated EBITDA for the year ended December 31, 2015.

In the Czech Republic, we distributed 33.3 TWh of electricity to end-consumers and according to ERO had a market share of approximately 65% of the total electricity consumed in the regional distribution areas in the Czech Republic, in the year ended December 31, 2015. The ERO has a long-term record of fair and transparent regulation in line with E.U. directives and regulations. EBITDA generated by our distribution business in the Czech Republic accounted for approximately 25.3% of our total consolidated EBITDA for the year ended December 31, 2015.

We sold approximately 19.8 TWh of electricity to end-consumers in the Czech Republic, or 34% of the total net electricity consumed in the Czech Republic, in the year ended December 31, 2015 (source: CEZ). While our market share as an incumbent electricity provider has declined over the last several years (from approximately 44% in the year ended December 31, 2009, source: CEZ) we have established ourselves as the largest alternative



gas supplier over the last five years (source: www.ote-cr.cz) which has compensated for a significant part of the foregone margin. EBITDA generated by our sales business in the Czech Republic accounted only for approximately 9.8% of our consolidated EBITDA for the year ended December 31, 2015.

### ***Stable Domestic Market without Regulatory Excesses Seen in Some Other Parts of Europe***

The Czech Republic's power market is a fairly standardized market by E.U. standards. Power production and power supply are fully liberalized while distribution is regulated, in line with E.U. Directives and regulations. In addition, public opinion and practically all of the political parties in the Czech Republic (except the Greens, who are currently not represented in the Czech Parliament) support nuclear operations and new nuclear build up. Furthermore, the Czech Government has not to date introduced substantial windfall taxes as in many other countries. The only exception to this has been a set of measures aimed at mitigating the impact of solar power plants boost on regulated distribution charges in the election year of 2010. At that time, a temporary tax on CO<sub>2</sub> emission allowances allocated without charge in 2011 and 2012 and another tax on revenues of solar power plants were introduced (please see "*Regulation—Czech Republic—Electric Energy Sector—Renewable Energy Sources—Current Legislation - The Czech Promoted Energy Sources Act*"). However, the Czech Republic participated in the so-called "derogation scheme" allowing certain countries to opt-out from the mandatory auctioning of CO<sub>2</sub> emission allowances in 2013 to 2020. In December 2012, the Czech Republic's application was finally approved and announced by the European Commission, as a result of which we are eligible to obtain approximately 70.2 million tons of CO<sub>2</sub> emission allowances between 2013 and 2019, the total market value of which, in current prices (€5.07/ton), is EUR 356.1 million. In addition, the production of heat shall also partially be supported with CO<sub>2</sub> emission allowances granted for free during the period from 2013 to 2020, totally amounting to some 6.7 million, the total market value of which, in current prices (€ 5.07/ton), is EUR 33.8 million.

### ***Strong Market Position in the Czech Republic***

We operate in the liberalized E.U. power markets which are well integrated with most of their neighbors. Such integration allowed approximately 37% of the Czech Republic's power production to be exported in 2015. As a result of both of these factors, Czech power prices are driven by the same fundamentals as those of neighboring countries, specifically Germany, the most liquid market. This allows us to benefit from the structure of our generation fleet which is positioned towards the cheaper end of the merit order of the German market.

### ***Strong Presence in Several International Markets***

In addition to cultivating our leading position in the Czech market, we have also applied our expertise in managing a power business to developing leading market positions across power markets in Central and South East Europe, including in Bulgaria, Poland and Romania. We also have operations in Hungary, Slovakia and Turkey and trading activities in other European countries. In Bulgaria, for example, we distributed 9.3 TWh of electricity to approximately 2.1 million connection points, representing approximately 42% share of the Bulgarian electricity distribution market and sold 9.7 TWh of electricity to end-consumers during the year ended December 31, 2015. In addition, we also distribute electricity to approximately 14.5% of the Romanian market (as of December 31, 2014) and through our joint venture company Akcez Enerji A.S. (we have a 50% stake ) to 3.3% of the market in Turkey . In Romania, we have successfully constructed and now operate one of the largest on-shore wind farms in Europe (source: CEZ) with total installed capacity of 600 MW. Further, in Turkey, we have a 37.4% stake in one of the largest privately owned power producers, Akenerji Elektrik Üretim A.S. We believe our international portfolio provides us with opportunities to leverage the significant expertise and knowledge gained in our domestic market which as a result allows us to further grow outside our domestic market, where our growth potential is limited.

### ***Our Strategy***

The energy industry has been facing great challenges in recent years, and renewable energy sources, decentralized solutions and comprehensive customer products have come to the fore. In 2015, the ongoing market and regulatory uncertainties, as well as falling commodity prices impacted the European energy sector.

This led to a further decline in electricity prices on the wholesale market.

The energy market development in 2015 confirmed that the CEZ Group strategy, announced already in autumn 2014, corresponds to the current trends in the energy sector. The strategy of the CEZ Group is based on three strategic priorities:

- I. Be among the best in the operation of traditional power facilities and proactively respond to the challenges of the 21st century
- II. Offer to customers a wide range of products and services addressing their energy needs
- III. Strengthen and consolidate our position in Central Europe

In relation to these priorities we primarily focus on the following:

**I. Be among the best in the operation of traditional power facilities and proactively respond to the challenges of the 21st century**

- Focus on the operational efficiency as the essential condition for further participation in the conventional and new energy sector
- Ensure long-term operation of the Dukovany nuclear power plant
- Finalize refurbishment of our lignite power plants
- Gradually shut down our older conventional thermal power plants
- Prepare new unit projects in Temelín and Dukovany in accordance with the Czech Government's priorities in nuclear energy field
- Continually increase distribution network efficiency

**II. Offer to customers a wide range of products and services addressing their energy needs**

- Reach the top level of electricity and gas sale, as well as of customer care
- Develop other products and utilize synergy relating to energy commodities
- Launch new business models - ranging from equipment supplies to electricity production in, and supply to, the place of customers' consumption, including financing and related services
- Undertake early stage investments in opportunities and technology so that the CEZ Group occupies a favourable future position in the energy sector
- Prepare our distribution networks for operation under increasing decentralization of energy generation
- Acquire assets in the segments of conventional energy, renewables and distribution, as well as sales companies supplying energy and energy-related products to end-customers and companies developing new products and services, which are important from the future decentralized energy generation point of view
- Optimize our capital and ownership structure or, as the case may be, divest selected assets to decrease our risk exposure in specific regions
- Structure transactions so as to minimize the CEZ Group debt capacity utilization
- Focus on regions culturally close to the Czech Republic with stable regulatory environments

**III. Strengthen and consolidate our position in Central Europe**

- Acquire assets in the segments of conventional energy, renewables and distribution, as well as sales companies supplying energy and energy-related products to end-customers and companies developing

new products and services, which are important from the future decentralized energy generation point of view

- Optimize our capital and ownership structure or, as the case may be, divest selected assets to decrease our risk exposure in specific regions
- Structure transactions so as to minimize the CEZ Group debt capacity utilization
- Focus on regions culturally close to the Czech Republic with stable regulatory environments

Our target countries are Poland, Germany, France and Great Britain. In addition, in the next few years we intend to invest primarily in decentralized energy solutions, as well as heating and regulated sectors in countries neighbouring the Czech Republic.

As of January 1, 2016, a new management system for the CEZ Group has been implemented to accelerate the achievement of its strategic goals and to increase allocation of capacities and resources to the CEZ Group's development activities. The new management system introduced two teams – Operations and Development. The Operations Team focuses on efficient operation of the CEZ Group conventional power generating assets, mining and supporting services (including finance and administration). The Development Team is concerned with renewable energy sources, decentralised energy generation and with activities relating to distribution networks and sales.

Together with introduction of the two teams mentioned above, segmental management across the countries where the CEZ Group operates has been reinforced. Individual segments are functionally independent parts of the CEZ Group, which include all operations belonging to the same section of the energy industry product and management chain. Each segment falls under the authority of one member of ČEZ's board of directors. As of January 1, 2016, the segments have become the basic units responsible for the CEZ Group's activities across individual countries and for achieving the CEZ Group's strategic goals. Segmental management enables sharing best practices across the whole CEZ Group regardless of any geographical limitations.

## **Our Principal Markets**

### ***Overview***

Our core business is the generation, distribution and sale of electricity in the Czech Republic. In the year ended December 31, 2015, 83.8% of our total installed electricity generation capacity, 93.0% of our total electricity generation, 68.0% of our total electricity distributed to end-consumers and 52.3% of our total sales of electricity to end-consumers was in the Czech Republic. In the year ended December 31, 2015, our operations in the Czech Republic contributed approximately 89.8% of our EBITDA.

According to the ERO, we accounted for approximately 68% of electricity generated, 61% of installed electricity generation capacity, 61% of electricity distribution in terms of the number of connection points and 34% of electricity sold to end-consumers in the Czech Republic in the year ended December 31, 2015. In addition, we are the largest producer of brown coal in the Czech Republic accounting for approximately 55% of the total volume of brown coal produced in the Czech Republic in 2015 (source: CEZ). In 2015, the remaining 32% share of electricity generated in the Czech Republic came from independent power producers and self-generators.

To a lesser extent, we also generate electricity in Bulgaria, Poland and Romania and distribute and sell electricity to end-consumers in Bulgaria and Romania. In the year ended December 31, 2015, our operations in Bulgaria, Poland and Romania contributed approximately 2.1%, 3.0% and 5.1%, respectively, of our EBITDA.

### ***Central Europe***

#### ***Czech Republic***

Macroeconomic conditions in the Czech Republic are relatively stable and have benefited from lower levels of unemployment and the Czech Republic's relative recovery in growth since 2009. On November 8, 2013, the

Czech National Bank announced the launch of direct currency interventions to weaken the Czech crown, targeting a lower exchange rate to prevent possible deflation. We cannot predict the duration of the currency intervention of the Czech National Bank. The Czech Republic has been a member of the European Union since 2004, however, in light of fiscal uncertainty in the European Monetary Union (the “EMU”), the Czech Government has indeterminately postponed the EMU accession process.

The Czech Republic is a medium-sized, manufacturing based and open economy driven by exports, predominantly to Germany. The Czech National Bank’s stress tests indicate that the Czech banking system is prepared to absorb losses from severe adverse shock because of its low exposure to highly indebted European countries. CDS levels have also remained consistently below those of other Central Eastern European countries. In August 2011, the Czech Republic’s credit rating was upgraded by Standard & Poor’s Credit Market Services Europe Limited to AA- (Standard & Poor’s Credit Market Services Europe Limited is established in the European Union, domiciled in the United Kingdom and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011 and Regulation (EU) No. 462/2013, which is available on the ESMA website ([www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs))).

The Czech electricity market is an integral part of the wider European electricity market and the Czech Republic has a positive trade balance with most of its neighbors. The PXE was established in 2007 as a new business platform for trading electricity in the Czech Republic and the Slovak Republic. Due to cross-border integration and fully liberalized power prices, markets in the region are integrated and the primary price-setting market is Germany and its exchange in Leipzig. We expect that changes in Germany’s energy policies and its shift away from nuclear and coal generation, will create expansion opportunities in these markets for well-positioned companies like the CEZ Group.

The Czech power market and sales to end-consumers are fully liberalized. The gas market is also fully liberalized and the basic rules governing its operation are similar to those governing the electricity market. For an overview of such rules, please see “*Regulation—Czech Republic.*” Access to the transmission and distribution grids is regulated. The wholesale market in the Czech Republic is a part of the larger Central European market, primarily due to extensive cross-border transmission capacities between the Czech Republic and the transmission grids of neighboring countries. The Czech transmission system is operated by ČEPS, a.s., the sole holder of an electricity transmission license for the Czech Republic under the Czech Energy Act. Based on transmission services agreements, ČEPS, a.s. provides electricity transfer in the Czech Republic, controls power flows across the Czech transmission system, taking into account electricity exchange schedules agreed with neighboring transmission system operators as well as cooperating with distribution system operators.

According to the ERO, in the year ended December 31, 2015, the net electricity consumption by end-consumers in the Czech Republic increased by 2.1 TWh or 3.7% to 59.3 TWh from 57.2 TWh in the year ended December 31, 2014.

#### *Poland*

The fragmented electricity generation and distribution market in Poland has been unified by new state-owned integrated companies: ENEA S.A, TAURON Polska Energia, Energa and Polska Grupa Energetyczna S.A. (“PGE”). Integration is based on the geographical location of these companies, except in relation to PGE which owns central and eastern distribution companies and power plants across Poland. The electricity market in Poland is liberalized (with some limits). In 2009, PGE, the largest state energy company in Poland, was privatized, whereas the tender for the sale of the state’s share in ENEA S.A. was unsuccessful. The Polish Electricity Grid is responsible for transmission in Poland and the Polish Power Exchange (the “POLPX”) provides electricity trading.

According to the preliminary data of Polish Energy Electricity Networks Regulatory Office (Polskie Sieci Elektroenergetyczne), in the year ended December 31, 2015, total electricity consumption in Poland increased by 2.7 TWh, or 1.7%, to 161.4 TWh from 158.7 TWh in the year ended December 31, 2014.

## **South East Europe**

### *Bulgaria*

Approximately 63% of electricity generation in Bulgaria is controlled by the Bulgaria Government through BEH - Bulgarian Energy Holding (i.e., through (i) generation of electricity in large hydro power plants of National Electricity Company, thermal power plant Maritsa East 2 and nuclear power plant Kozloduy and (ii) purchasing electricity pursuant to long term power-purchase agreements with private thermal power plant AES Galabovo and thermal power plant Contur Global Maritsa East 1). The transmission grid is also owned and controlled by a subsidiary of Bulgarian Energy Holding. On the contrary, in Bulgaria, the distribution companies are controlled by foreign companies ENERGO-PRO, EVN and us.

45–50% of Bulgarian end consumption is sold on, effectively, a liberalized market. Households and businesses connected to the low-voltage grid are supplied energy for regulated prices using a system of quotas regulated by Bulgarian law and decisions of the KEVR. Electricity producers started to offer electricity using electronic tenders, which facilitated the establishment of an electricity spot market. The Independent Bulgarian Power Exchange (IBEX) was opened at the beginning of December 2015.

According to recent amendments to Bulgarian energy law, the KEVR issued a decision of June 29, 2015, pursuant to which the commencement of the next regulatory period was postponed until August 1, 2015. The tariff decision valid from August 1, 2015 reduced the end-customer price by 1.99%. As a result of this tariff decision, the distribution margin will grow by 0.21% and the sales company's margin will drop by 6.96%. Other changes in the energy act anticipate the creation of an "Energy Safety Fund", which should help fund the deficit of the state-owned energy company NEK. All electricity producers and importers will be required to contribute to this fund.

According to the Bulgarian electricity system operator ("ESO"), in the year ended December 31, 2015, electricity consumption by end-consumers in Bulgaria remained approximately at the same level compared to the year ended December 31, 2014

In 2013, the KEVR imposed various actions against our local Bulgarian subsidiaries CEZ Elektro Bulgaria and CEZ Razpredelenie Bulgaria AD with the threat of revoking our license for the distribution of electricity in Bulgaria. On March 19, 2014, the KEVR initiated the license revocation proceedings in respect of the electricity sale license held by CEZ Elektro Bulgaria AD. As a consequence of the aforementioned, and other various actions taken by other Bulgarian state bodies, on November 19, 2015, the CEZ Group officially informed the Government of Bulgaria of its intention to initiate international investment arbitration on the grounds of Bulgaria's failure to protect its investment, unless the current situation was quickly remedied and the damage caused duly compensated. For more information on our disputes in Bulgaria, please see "*Description of the Issuer – Legal Proceedings – Bulgaria*".

### *Romania*

Transmission, generation as well as distribution of electricity are partly state-owned in Romania. The electricity market is unbundled but is not fully privatized. Liberalization of the Romanian electricity industry is almost complete, but electricity supplies to households are still regulated. State-owned generation is split by fuel into separate companies (hydroelectric, coal-firing, gas-firing and nuclear). Medium and small-sized generation sources, mostly CHPs, are also owned by counties and municipalities. Distribution is partially privatized with three foreign investors (ENEL, E.ON and ČEZ) servicing 5 out of 8 distribution regions. In the generation sector, the older generation power plants (coal, gas, hydroelectric and nuclear) are partly state-owned, and only minor hydros and certain selected inefficient gas, oil and brown coal capacities are being privatized and foreign investment in new nuclear capacity is subject to ongoing negotiations. In addition, renewable power plants (wind power plants of 3 GW, solar power plants of 1.4 GW, some biofuel power plants and small hydro power plants) are owned by independent power producers. OMV PETROM has built 860 MW CCGT in the Brazi area and there are small and medium size gas turbines being built in industrial park areas. Transmission in Romania is handled by an independent majority state-owned company Transelectrica.

## Our Business

Our core business activities include the generation of electricity in the Czech Republic, Bulgaria, Poland and Romania; the distribution and sale of electricity to end-consumers in the Czech Republic, Bulgaria and Romania; and the trading of electricity and energy commodities in wholesale markets for sale to our end-consumers as well as for our own account.

### Electricity Generation

#### Overview

In the year ended December 31, 2015, we generated 60,917 GWh of electricity, of which 93.0% was generated in the Czech Republic. In the year ended December 31, 2014, 47.8% of our total electricity generated was generated by our coal-fired power plants, 44.1% was generated by our nuclear power plants and the remaining 8.1% was generated by our hydroelectric, solar, wind, gas, biogas and biomass power plants or through biomass co-firing. The total installed capacity of our generation facilities is 15,921 MW, of which 83.8% is in the Czech Republic, 8.0% is in Bulgaria, 4.3% is in Poland and 3.9% is in Romania.

In the Czech Republic, we own and operate 10 coal-fired power plants with total installed capacity of 5,245 MW, two nuclear power plants with total installed capacity of 4,290 MW, 35 hydroelectric power plants with total installed capacity of 1,960.2 MW, 12 solar (photovoltaic) power plants with total installed capacity of 125.2 MW, 2 wind power plants with total installed capacity of 8.2 MW, one gas-fired power plant with total installed capacity of 844.9 MW and one bio-gas station with a total installed capacity of 0.5 MW. In addition, we own and operate a number of heat plants in the Czech Republic with total installed capacity of 876.7 MW.

The following table sets forth a breakdown of the total installed capacity of our power plants for the years ended December 31, 2014 and 2015.

	<b>As of December 31,</b>			
	<b>2014</b>		<b>2015</b>	
	(MW)	(%)	(MW)	(%)
<b>Coal-fired and gas-fired power plants<sup>(1)</sup>:</b>				
<i>Central Europe</i>				
Czech Republic .....	7,086	44.2	6,967	43.8
Poland .....	678	4.2	678	4.3
<i>South East Europe</i>				
Bulgaria .....	1,260	7.9	1,260	7.9
Total .....	9,024	56.3	8,905	56.0
<b>Nuclear power plants:</b>				
Czech Republic .....	4,290	26.7	4,290	26.9
<b>Hydro, solar, wind, biogas and biomass power plants:</b>				
<i>Central Europe</i>				
Czech Republic .....	2,094	13.1	2,094	13.2
Poland .....	3	0.0	3	0.0
<i>South East Europe</i>				
Bulgaria .....	5	0.0	7	0.0
Romania .....	622	3.9	622	3.9
Total .....	2,724	17.0	2,726	17.1
<b>Total installed capacity<sup>(2)</sup></b> .....	<b>16,038</b>	<b>100</b>	<b>15,921</b>	<b>100</b>

<sup>(1)</sup> Includes 988.7 MW and 876.7 MW of installed capacity of our coal-, gas- and biomass-fired heat plants in the Czech Republic for the years ended December 31, 2014 and 2015, respectively.

<sup>(2)</sup> Some of our power plants are operated under joint venture agreements which are not fully consolidated. The installed capacity of these power plants was therefore not included in our total installed capacity. For the year

ended December 31, 2015, these amounts included:

- 174 MW of installed capacity of our oil-fired power plant in Slovakia;
- 904 MW of installed capacity of our gas-fired power plant in Turkey;
- 15 MW of installed capacity of our wind power plant in Turkey; and
- 370 MW of installed capacity of our hydroelectric power plants in Turkey.

As of December 31, 2015, the total installed capacity of our generation facilities was 15,921 MW, representing a decrease of 117 MW, or 0.7 %, from 16,038 MW as of December 31, 2014. The decrease of 119 MW was caused by suspending operations of the turbo-generators 5 and 6 (with installed capacity of 56 MW each) of the Mělník I plant and by the decrease in installed capacity of unit 6 of Tisová II power plant by 7 MW. The total installed capacity was increased by 2 MW after finalizing the construction of the BARA biomass combined heat and power plant in Bulgaria. As of December 31, 2015, 13,351 MW, or 83.8% of our total installed capacity, was in the Czech Republic, of which 45.9% was coal-fired, 6.3% was gas-fired, 32.1% was nuclear and 15.7% was hydroelectric, solar, wind, biogas power combined.

The following table sets forth a breakdown of the total electricity generated by our power plants by type of energy for the years ended December 31, 2014 and 2015.

	<b>For the year ended December 31,</b>			
	<b>2014</b>		<b>2015</b>	
	<b>(GWh)</b>	<b>(%)</b>	<b>(GWh)</b>	<b>(%)</b>
<b>Coal and gas<sup>(1)</sup>:</b>				
<i>Central Europe</i>				
Czech Republic .....	25,342	40.1	27,121	44.5
Poland .....	2,248	3.6	2,511	4.1
<i>South East Europe</i>				
Bulgaria .....	944	1.5	-	-
<b>Total</b> .....	<b>28,534</b>	<b>45.2</b>	<b>29,632</b>	<b>48.6</b>
<b>Nuclear:</b>				
Czech Republic .....	30,324	48.0	26,840	44.1
<b>Hydro, solar, wind, biogas and biomass:</b>				
<i>Central Europe</i>				
Czech Republic .....	2,625	4.2	2,669	4.4
Poland .....	379	0.6	433	0.7
<i>South East Europe</i>				
Romania .....	1,256	2.0	1,337	2.2
Bulgaria .....	5	0.0	6	0.0
<b>Total</b> .....	<b>4,265</b>	<b>6.8</b>	<b>4,444</b>	<b>7.3</b>
<b>Total electricity generated<sup>(2)</sup></b> .....	<b>63,123</b>	<b>100</b>	<b>60,917</b>	<b>100</b>

<sup>(1)</sup> Includes electricity generated by our coal -fired heat plants in the Czech Republic.

<sup>(2)</sup> Some of our power plants are operated under joint venture agreements which are not fully consolidated. The amount of electricity they generated is therefore not included in our total electricity generated. For the year ended December 31, 2015, these amounts included:

- 370 GWh of electricity generated by our power plant in Slovakia; and
- 4,611 GWh of electricity generated by our gas-fired, wind and hydroelectric power plants in Turkey.

In the year ended December 31, 2015, 56,630 GWh of electricity, or 93.0% of our total electricity generated, was generated in the Czech Republic, of which 47.9% was generated by our coal- and gas-fired power plants and 47.4% was generated by our nuclear power plants.

In the year ended December 31, 2015, we generated 60,917 GWh of electricity, representing a decrease of 2,206 GWh, or 3.5%, from 63,123 GWh in the year ended December 31, 2014. The decrease was caused by the

prolonged or off schedule operation outages in our nuclear power plants in the Czech Republic, and by suspending operation of our Varna coal-fired power plant in Bulgaria as of January 1, 2015. Both aforementioned events were partially off-set by increased production of our other facilities.

*Central Europe*

*Coal-fired power generation*

*Czech Republic.* We own and operate 10 coal-fired power plants in the Czech Republic with installed capacity of 5,245 MW as of December 31, 2015. Our coal-fired power plants are situated in various locations throughout the Czech Republic, the largest concentration being in the brown coal mining region in the north-west. In the year ended December 31, 2015, our coal-fired power plants in the Czech Republic generated 26,579 GWh of electricity, representing 44.6% of our total electricity generated in Central Europe and 43.6% of our total electricity generated. Our coal-fired power plants in the Czech Republic accounted for 37.4% of our total installed capacity in Central Europe and 32.9% of our total installed capacity as of December 31, 2015.

The following table sets forth certain information regarding our coal-fired power plants in the Czech Republic as of December 31, 2015.

<b>Plant</b>	<b>Type of Coal</b>	<b>Installed capacity (MW)</b>	<b>Start of operation</b>	<b>Desulphurization</b>	<b>Generation licenses valid until</b>
Dětmarovice	Black/brown	4 x 200	1975 - 1976	1998	February 2, 2038
Ledvice II	Brown	2 x 110	1966	1996	September 6, 2026
Ledvice III	Brown	1 x 110	1968	1998	September 6, 2026
Mělník II	Brown	2 x 110	1971	1998	September 6, 2026
Mělník III	Brown	1 x 500	1981	1998	September 6, 2026
Počerady	Brown	5 x 200	1970 – 1971, 1977	1994, 1996	October 1, 2037
Prunéřov I	Brown	4 x 110	1967 – 1968	1995	September 6, 2026
Prunéřov II <sup>1)</sup>	Brown	5 x 210	1981 – 1982	1996	September 6, 2026
Tisová II	Brown	1 x 105	1961	1997	September 6, 2026
Tušimice II	Brown	4 x 200	1974 – 1975, comprehensive retrofit 2007-2012	1997	September 6, 2026
<b>Total installed capacity</b>		<b>5,245</b>			

<sup>1)</sup> ongoing comprehensive retrofit of 3 units since September 1, 2012

As of December 31, 2015, we also owned and operated a number of heat plants in the Czech Republic with total installed capacity of 876.7 MW. Heat is also a by-product of the generation of electricity by our coal-fired power plants and gas-fired power plants operated under joint venture agreements in Slovakia and Turkey. Heat supplied by our power plants in the Czech Republic is sold to municipalities, district heating companies and industrial consumers. Heat is supplied to customers through steam/hot water pipelines that are owned and operated by us and third parties. In the year ended December 31, 2015, our coal-fired power plants and heat plants in the Czech Republic supplied 17,260 TJ of heat representing an increase of 531 TJ, or 3.2%, from 16,729 TJ in the year ended December 31, 2014. The increase was predominantly caused by cold weather in January and December 2015.

Our coal-fired power plants have a diversified age profile which is affected by various factors including the availability of coal. We have a schedule of regular repairs and overhauls for our coal-fired power plants. Since January 1, 1999, all of our coal-fired power plants in the Czech Republic have complied with the requirements of the Czech Act on Air. Since December 31, 2003, fluidized-bed boiler (a type of boiler that reduces the content of sulfur dioxide emissions in the flue gasses during the combustion process) or flue-gas desulphurization (flue stack technology which reduces sulfur dioxide content in power plant emissions) equipment has been installed



on all of our entirely coal-fired power plants and we have also installed or refurbished precipitators (which reduce emissions of ash) on all of our coal-fired power plants in the Czech Republic.

In the year ended December 31, 2015, our coal-fired power plants in the Czech Republic consumed 22.74 million tons of brown coal and 1.38 million tons of black coal. For information on our coal mining activities and purchases of coal from third parties, please see “*Other Businesses—Coal Mining*” and “*Fuel—Coal*.” Our coal-fired power plants in the Czech Republic were assigned approximately 13.5 million tons of CO<sub>2</sub> emission allowances for the year ended December 31, 2015. For additional information on CO<sub>2</sub> emission allowances and the allocation of CO<sub>2</sub> emission allowances, please see “*Regulation—Czech Republic—Carbon Compliance (Emission Allowances) — Allocation of emission allowances during phase III*” and “*—Czech —Emission Allowances Act*”.

Biomass in the form of wood chip, straw and pellets is combusted in our coal-fired power plants and heat plants in the Czech Republic. In the Czech Republic, we also own and operate one small heat plant that only burns biomass. Within our portfolio of renewable sources in the Czech Republic, biomass is the second most significant element after water from the perspective of electricity generated. In the year ended December 31, 2015, we burned 453,148 tons of biomass in our power and heat plants in the Czech Republic.

As part of our investment program to replace older power plants in the Czech Republic with new, more efficient and cleaner power plants, we are about to finish the construction of a new 660 MW unit at our Ledvice coal-fired power plant (with an expected service life of 40 years) which is currently in testing operation. In 2007, we also started work in connection with the renewal of four 200 MW units at our Tušimice II coal-fired power plant. Two units were completed in 2010, one unit was completed in 2011 and the remaining unit, was completed in June 2012. The renewal program extended the service life of the Tušimice II coal-fired power plant until 2035. In addition, we are about to finish the renewal of three 250 MW units at the Pruněřov coal-fired power plant. The Pruněřov power plant is currently undergoing tests.

*Poland.* We own and operate two black coal-fired power plants located in the southern region of Poland, the Chorzów (formerly called Elcho) power plant with installed capacity of 238.4 MW and the Skawina power plant with installed capacity of 440 MW as of December 31, 2015. The Elcho power plant started operating in 2003. The Skawina power plant started operating in 1957 and was desulfurized in 2008. A license is necessary in order to generate electricity in Poland, which is issued by the Polish Energy Regulatory Office. The licenses of the Chorzów power plant and the Skawina power plant for the generation of electricity and heat expire on December 31, 2023 and December 31, 2025, respectively.

In the year ended December 31, 2015, our coal-fired power plants in Poland generated 2,511 GWh of electricity, representing 17.9% of our total electricity generated in Central Europe and 4.1% of our total electricity generated. In the same year, our power plants in Poland generated 4,996 TJ of heat.

In the year ended December 31, 2015, our coal-fired power plants in Poland consumed 1,386 thousand tons of black coal and 288.1 thousand tons of biomass and emitted approximately 2.6 million tons of CO<sub>2</sub> emissions.

*Other.* Under a joint venture arrangement with MOL (MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság), we also operate a thermal power plant with a total installed capacity of 174 MW located in the Slovnaft refinery in Bratislava, Slovakia. Under the joint venture arrangement with AKKÖK Group we have a 37.4% stake in in one of the largest privately held power producers, Akenerji Elektrik Üretim A.S . which owns a number of gas-fired, water and wind power plants in Turkey, with a total installed capacity of 1,289 MW as of December 31, 2015. Our interests under these joint venture arrangements are not fully consolidated and therefore are not included in the calculations of our total electricity generation and our total installed capacity.

#### *Nuclear power generation*

*Czech Republic.* We own and operate two nuclear power plants in the Czech Republic, the Dukovany nuclear power plant and the Temelín nuclear power plant. In the year ended December 31, 2015, nuclear power generation accounted for approximately 45.1% of our electricity generated in Central Europe and 44.1% of our total electricity generated, as compared to 49.8% and 48.0%, respectively, in the year ended December 31, 2014.

In the year ended December 31, 2015, our nuclear power plants accounted for 30.6% of our installed capacity in Central Europe and 26.9% of our total installed capacity.

The following table sets forth certain information regarding our nuclear-powered plants as of December 31, 2015.

<b>Plant</b>	<b>Installed capacity (MW)</b>	<b>Start of operation</b>
Dukovany	4 x 510;	1985 – 1987, reconstruction in 2009 and 2010, 2011, 2012
Temelín	2 x 1,125	2002 - 2003
<b>Total installed capacity</b>	<b>4,290</b>	

*Dukovany nuclear power plant.* The construction of the Dukovany nuclear power plant commenced in 1979 and its four units became operational between May 1985 and July 1987. The power plant uses four Soviet designed VVER 440-V213 reactors with a total installed capacity of 2,040 MW. Outside Russia, such reactors are in operation in the Czech Republic, Finland, Hungary, Ukraine, Bulgaria and the Slovak Republic. The VVER 440-V213 reactors have proven to be robust and easy to operate with substantial safety margins, as demonstrated by the strong operational and safety performance of the reactors in such countries. The design of a VVER plant is generally considered to be identical to the design of PWR plants which are based on U.S. technology (in which water also acts as the moderator and the coolant) and which are the most common reactor type used commercially around the world.

Over the past years, we have improved the safety features of the Dukovany nuclear power plant in accordance with the requirements of SONS. As part of our modernization program, we have also been progressively implementing recommendations resulting from domestic and foreign technical audits, including recommendations by the IAEA. In 2011, a re-certification audits of the Dukovany nuclear power plant were successfully completed by the State Office of Occupational Health and Safety and Environmental Safety Management Company (ISO 14001 certification).

Another key project at the Dukovany nuclear power plant is the Long-Term-Operation (“LTO”) project. It consists of approximately 230 smaller sub-projects with combined estimated costs of more than CZK 14 billion between 2009 and 2015. The goal of the LTO project is to prepare the Dukovany nuclear power plant to operate beyond its original designed lifespan. The aim is to secure the license for operation of the Dukovany nuclear power plant after 2015. Since 2009, we have continued to modernize equipment at the Dukovany nuclear power plant, improve safety and security and fulfil SONS requirements for the operation of the Dukovany nuclear power plant after 2015.

The projected lifetime of the Dukovany nuclear power plant is 30 years, although it may be possible to extend the projected lifetime by up to an additional 20-30 years based on the level of usage. SONS grants operating licenses that are renewable upon application. The following table sets forth the status of our licenses at the Dukovany nuclear power plant as of the date of this Base Prospectus.

<b>Unit</b>	<b>License valid from</b>	<b>License valid until / Extended until</b>
1	January 1, 2006	indefinite
2	January 1, 2007	December 31, 2016
3	January 1, 2008	December 31, 2017
4	January 1, 2008	December 31, 2017

In June 2014, the Dukovany power plant successfully completed SAFEGUARD Dukovany 2014 training which focused on collaboration between the Czech Army, Czech Police, and ČEZ when ensuring the power plant’s external safety. In October 2014 the Dukovany power plant was reviewed by the WANO (World Association of Nuclear Operators) by the Follow-up Peer Review. All reviewed areas were positively assessed either as Satisfactory or On-Track. In 2014, the Dukovany power plant was visited by several international experts including WANO Technical Support mission in May 2014 and 6 experts from leading Japanese nuclear companies and organizations to share good practices in the storage of highly radioactive waste.

During 2015 the Dukovany Nuclear Power Plant was finishing its safety review and preparation of an

application to SUJB for a renewed operating license for its Unit 1.

In June 2015, a leak of the secondary medium was identified at the Dukovany Nuclear Power Plant at a heterogeneous weld on a super-accident steam generator feed pipe connection at Unit 4. As a result, a decision was made in September 2015 to carry out a special inspection of all X-ray images of heterogeneous welds. The inspection showed that weld documentation was not conclusive in some cases, so it was decided to perform preventive X-ray retesting, which required shutting down Units 2 and 3. Unit 4 remained in operation based on the performed safety assessment of its condition. Consequently, it was the only unit in operation at the Dukovany Nuclear Power Plant from 19 September 2015 to 28 December 2015.

The Dukovany Nuclear Power Plant's Unit 1 was shut down from August 2015 to February 2016 while capital projects aimed at safety enhancement resulting from stress tests were being completed; for example, the building's seismic resistance was increased, selected welds were reinspected and repaired, and a unique strength test of the gas-tight enclosures was performed, proving their very good condition. Unit 2 was out of operation from September 2015 to February 2016; Unit 3 was shut down from September to December 2015.

Electricity generation by the Dukovany power plant in 2015 was below expectations and generated 12.61 TWh of electricity in the year ended December 31, 2015, representing a decrease of 2.76 TWh, or 18.0% from 15.37 TWh in the year ended December 31, 2014.

Inspections of Unit 4 took place from February to May 2016. The only unit in operation at the Dukovany Nuclear Power Plant from 6 February 2016 to 13 February 2016 was Unit 3. Inspections of welds of units 2 and 3 of Dukovany nuclear power plant will continue in the extended amount during 2016. Since 23 April 2016 Unit 3 is undergoing planned shutdown which is expected to end in October 2016. Planned shutdown of Unit 2 will commence on September 16 and will continue until 2017.

*Temelín nuclear power plant.* The construction of the Temelín nuclear power plant commenced in 1987. Following the fall of the Communist regime in 1989, completion of the Temelín nuclear power plant became a political issue and the government stopped construction of Unit 3 and Unit 4. In March 1993, the government approved the completion of two units, out of four units originally planned, and at the same time ordered a fundamental change in the design of the power plant, primarily to enhance operational safety. This change consisted of adapting the Soviet plant technology to function with Western instrumentation and control systems. The adaptation of U.S. technology to the original Soviet plant construction was supplied by The Westinghouse Electricity Company LLC. It was the first such adaptation of its kind and as a result of extensive design and construction changes, the estimated completion date for the Temelín nuclear power plant was delayed several times. In July 2000, the Unit 1 reactor was loaded with nuclear fuel and started up on October 11, 2000 and it generated its first kilowatt-hour of electricity on December 21, 2000. On December 29, 2002, electricity was generated for the first time from Unit 2.

In September 2010, a new spent fuel storage facility became operational on a trial basis and the first spent fuel container was loaded to the prepared temporary storage. Fuel from Unit 1 was replaced with Russian TVEL fuel. A year later, the same change was also made at Unit 2. In the year ended December 31, 2012, our "Safely 15 Tera" project, which focused on improving available capacity and reducing equipment failure rates, was successfully completed and the Temelín nuclear power plant generated an annual total of 15 TWh of electricity for the first time in its history. Project results continued to positively influence the generation also in 2013 and 2014, when the Temelín nuclear power plant generated 15.065 TWh and 14.95 TWh of electricity, respectively, being the second and the third highest annual electricity production in the lifetime of the Temelín nuclear power plant. In summer 2015, operation of the Temelín power plant was partially suspended due to the extended scheduled maintenance outage of Unit 2 and three minor operation outages, two in respect of Unit 2 and one in respect of Unit 1. As a consequence, electricity generation by the Temelín power plant was below expectations and generated 14.23 TWh of electricity in the year ended December 31, 2015, representing a decrease of 0.72TWh, or 4.8%, from 14.95 TWh in the year ended December 31, 2014. Despite this decrease, electricity generation for the year ended December 31, 2015 has been the fourth highest annual electricity generation in the Temelín nuclear power plant history.

The projected lifetime of the Temelín nuclear power plant is 40 years, although it is technically possible to

extend the projected lifetime by an additional 20 years. SONS grants operating licenses that are renewable upon application. On October 7, 2010, before the original ten-year license expired on October 11, 2010, we obtained a license from SONS to operate Unit 1 of the Temelín nuclear power plant for a further ten-year period. In order to obtain the license, regular evaluations of the plant's safety are carried out. These evaluations involve checks on whether the power plant has been, is and will be for at least another ten years, safely operated. The license contains operational conditions stipulated by SONS.

The following table sets forth the status of licenses at the Temelín nuclear power plant as of the date of this Base Prospectus.

<b>Unit</b>	<b>License valid from</b>	<b>License valid until</b>
1	October 11, 2010	October 12, 2020
2	June 1, 2012	May 31, 2022

On April 10, 2014, we cancelled the tender process for selection of contractors (involving The Westinghouse Electric Corporation, AREVA NP and a consortium of ŠKODA JS, JSC Atomexport and JSC OKB Hidropress) to build two new nuclear reactors at the Temelín nuclear power plant which process commenced in 2009. Since 2009, the situation in the energy sector in Europe has significantly changed. Due to the situation in the electricity market and other factors, it is not financially feasible to build any nuclear energy source without cooperation with the governmental authorities. The profitability of the project has been threatened by development of electricity prices since the commencement of the tender. Our decision to cancel the tender process was consulted with the Czech Government and the Czech Government currently does not plan to subsidize or establish a stabilization mechanism for construction of nuclear power plants. The Czech Government declared its interest in further development of nuclear energy in the Czech Republic and that it will prepare a complex strategy for this area.

*Decommissioning of the nuclear power plants.* Pursuant to the Czech Nuclear Act, we will be responsible for decommissioning each of our nuclear power plants. We are providing funds for the future costs of decommissioning our nuclear power plants on a straight-line basis over the operating life of the relevant nuclear power plant. Total decommissioning costs are currently estimated to be CZK 22.4 billion for the Dukovany nuclear power plant and CZK 18.4 billion for the Temelín nuclear power plant. These decommissioning cost estimations are submitted for verification to the Czech Repository Authority. In order to accumulate an adequate amount of funds to cover the ultimate costs of decommissioning of the plants after their useful life, we periodically review the decommissioning cost estimates and update our decommissioning provisions. The last updates of decommissioning costs for the Dukovany and Temelín nuclear power plants were in 2013 and 2014, respectively.

To cover the costs of decommissioning, we are required by the Czech Nuclear Act to contribute to special nuclear escrow accounts. In 2015 and 2014, the payments to the nuclear escrow accounts amounted to CZK 408.5 million and CZK 408.4 million, respectively. As of December 31, 2015, restricted funds representing accumulated provision for the decommissioning of our nuclear power plants totalled CZK 12,356 million, representing an increase of CZK 691 million or 6%, from CZK 11,665 million as of December 31, 2014. These restricted funds are shown in the balance sheet of our audited consolidated financial statements, included elsewhere in this Base Prospectus, under “non-current financial assets.” We have established provisions to recognize our estimated liabilities for nuclear decommissioning of all facilities owned by the CEZ Group in the form of an accounting reserve, which as of December 31, 2015 amounted to CZK 19,498 million, representing an increase of CZK 2,690 million, or 16.0%, from CZK 16,808 million as of December 31, 2014.

#### *Hydroelectric power generation*

*Czech Republic.* We own and operate 35 hydroelectric power plants in the Czech Republic, comprising seven accumulation power plants, three pumped storage hydro power plants and 25 small-scale hydro power plants. In the year ended December 21, 2015, our hydroelectric power plants in the Czech Republic generated 2,153 GWh of electricity, representing approximately 3.6% of our electricity generated in Central Europe and 3.5% of our total electricity generated, compared to 3.4% and 3.3%, respectively, for the year ended December 31, 2014. Our

hydroelectric power plants in the Czech Republic accounted for 14.0% of our total installed capacity in Central Europe and 12.3% of our total installed capacity as of December 31, 2015.

The following table sets forth certain information regarding our hydroelectric power plants in the Czech Republic as of December 31, 2015.

<b>Plant</b>	<b>Installed capacity (MW)</b>	<b>Type of plant</b>	<b>Start of operation</b>
Kamýk	4 x 10	Accumulation	1961
Lipno I	2 x 60	Accumulation	1959
Orlík	4 x 91	Accumulation	1961 – 1962
Slapy	3 x 48	Accumulation	1954 – 1955
Střekov	3 x 6.5	Accumulation	1936
Štěchovice I	2 x 11.25	Accumulation	1943 – 1944
Vrané	2 x 6.94	Accumulation	1936
Brno — Kníničky	1 x 3.1	Small Hydro	1941
Brno — Komín	1 x 0.106; 1 x 0.140	Small Hydro	1923, reconstruction 2008
Čeňkova pila	1 x 0.096	Small Hydro	1912
Černé jezero	1x1.5; 1x0.04; 1x0.37	Small Hydro	1930, 2004, 2005
Dlouhé Stráně II	1 x 0.163	Small Hydro	2000
Hněvkovice	2 x 4.8	Small Hydro	1992
Hradec Králové	3 x 0.25	Small Hydro	1926
Hracholusky	1 x 2.55	Small Hydro	1964
Kořensko I	2 x 1.9	Small Hydro	1992
Kořensko II	1 x 0.94	Small Hydro	2000
Les Kralovství	2 x 1.105	Small Hydro	1923, reconstruction 2005
Lipno II	1 x 1.5	Small Hydro	1957
Mělník	1 x 0.59	Small Hydro	2010
Mohelno	1 x 1.2; 1 x 0.56	Small Hydro	1977, 1999
Obříství	2 x 1.679	Small Hydro	1995
Pardubice	1 x 1.998	Small Hydro	1978, reconstruction during 2012
Pastviny	1 x 3	Small Hydro	1938, reconstruction 2003
Plzeň — Bukovec	2 x 0.315	Small Hydro	2007
Práchev	1 x 9.75	Small Hydro	1953, reconstruction 2001
Předmeří nad Labem	1 x 2.6	Small Hydro	1953, reconstruction 2009
Přelouč	2 x 0.68; 2 x 0.49	Small Hydro	1927, reconstruction 2005
Spálov	2 x 1.2	Small Hydro	1926, reconstruction 1999
Spytihněv	2 x 2	Small Hydro	1951, reconstruction 2009
Vydra	2 x 3.2	Small Hydro	1939
Želina	2 x 0.315	Small Hydro	1994
Dalešice	3 x 120; 1 x 115	Pump Storage	1978
Dlouhé Stráně I	2 x 325	Pump Storage	1996
Štěchovice II	1 x 45	Pump Storage	1947 – 1949, reconstruction 1996
<b>Total installed capacity</b>	<b>1,960.2</b>		

Ten of our hydroelectric plants are situated on dams on the Vltava river in the Czech Republic creating a cascade operation (the Vltava Cascade) controlled by a central control system. The dams and related waterworks used by our hydroelectric power plants are owned by the relevant river-basin administrators with whom we have an agreement, although we own the Želina, Čeňkova Pila, Plzeň-Bukovec and Vydra dams and related waterworks.

Hydroelectric power plants have a high degree of flexibility in the regulation of their output. The ability to control hydroelectric power plants centrally permits the hydroelectric plants to commence operation rapidly thereby

facilitating the regulation of electricity output. Neither conventional storage nor pump storage hydroelectric power plants release polluting emissions into the atmosphere. These plants also represent an inexpensive source of electricity, particularly in periods of peak demand. In addition, pump storage power plants allow the productive use of excess electricity generated by base load plants by operating storage pumps in periods of low demand. Further development of hydroelectric power generation in the Czech Republic is limited by the topography and as a result we do not currently expect to construct any new hydroelectric power plants in the Czech Republic.

Our hydroelectric power plants may sustain damage in floods. In 1997, one of our hydroelectric power plants suffered minor damage caused by flooding and in 2002, seven out of nine of our hydroelectric power plants located on the Vltava river were damaged by floods. This damage was covered by our insurance.

*Poland.* We own and operate two small hydroelectric power plants in Poland with total installed capacity of 2.5 MW. The Skawinka hydroelectric power plant was built in 1961 and is located in the territory of our Skawina coal-fired power plant. In 2013 we completed construction of the Borek Szlachecki small hydroelectric power plant which is also located in the territory of the Skawina coal-fired power plant. In the year ended December 31, 2015, these two hydro power plants generated 11 GWh of electricity.

#### *Solar power generation*

*Czech Republic.* As of December 31, 2015, we owned and operated 12 solar power plants in the Czech Republic, with total installed capacity of 125.2 MW. In the year ended December 31, 2015, our solar power plants in the Czech Republic generated 135 GWh of electricity.

All of our solar power plants in the Czech Republic are located in regions where the conditions are suitable for solar generation. The Vranovská Ves, Žabčice, Hrušovany nad Jevišovkou and Panov solar power plants are situated in the southernmost part of the region of South Moravia which is generally the sunniest region in the Czech Republic, with the highest average number of days of sun. The majority of our solar power plants started operating in 2009 and 2010.

There was a significant increase in the number of newly connected renewable sources of electricity in the Czech Republic in 2009, primarily due to state support (mandatory purchasing and bonuses) for generation of electricity from renewable sources of energy. In particular, solar power generation increased, primarily due to a significant decrease in the cost of solar (photovoltaic) technology. However, due to legislative amendments in the area of support for generation of electricity from renewable sources in 2010, the conditions for supporting solar power plants were not as favorable in 2011 and in the following years and the trend towards rapid growth in the number of new solar generation installations, seen in 2009 and especially in 2010, did not continue. In 2012, the market recorded a moderate rebound in the segment of small roof-top solar installation (up to 5kWp) still benefiting from state support and further decrease in the cost of solar (photovoltaic) technology.

*Bulgaria.* In Bulgaria we own a photovoltaic power plant Orešec, operated by our 100% subsidiary Free Energy Project Oreshets EAD. The plant was commissioned upon its completion in 2012 and in the year ended December 31, 2015 it generated 6 GWh of electricity.

#### *Wind power generation*

*Czech Republic.* We own and operate two wind power plants in the Czech Republic with total installed capacity of 8.2 MW. In the year ended December 31, 2015, these wind power plants generated 9 GWh of electricity.

*Poland.* In 2011, we acquired a 67% interest in Eco-Wind Construction S.A., a leading wind farm developer in Poland, with an option to acquire the remaining 33% share. In 2012, we acquired an additional 8% interest in Eco-Wind Construction S.A. resulting in the increase of our interest in Eco-Wind Construction S.A. to 75%. In April 2015, we acquired the remaining 25% share in Eco-Wind Construction S.A. resulting in the CEZ Group being the sole owner of the company. Eco-Wind Construction S.A. develops wind farms and its portfolio of projects includes 15 wind farms at various stages of development.

*Gas-fired power generation*

*Czech Republic.* In October 2014, we completed the construction of Počerady gas-fired power plant with the installed capacity of 844.9 MW and an expected life of 30 years. With effect from December 1, 2014, Počerady gas-fired power plant is licensed to produce electricity. On December 19, 2014, the Czech Ministry of Industry and Trade granted its final approval to the construction. In the year ended December 31, 2015, Počerady gas-fired power plant generated 542 GWh of electricity.

*Slovakia.* We hold a 50% stake in Slovnaft TPP with the total installed capacity of 174 MW. The plant, located in the Slovnaft refinery in Bratislava, has been developed under the joint venture agreement with MOL (MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság), and is supplying heat and electricity primarily to the Slovnaft refinery in Bratislava. Our interest in this joint venture arrangement is not fully consolidated and therefore is not included in the calculations of our total installed capacity and our total electricity generated.

*South East Europe**Coal-fired power generation*

*Bulgaria.* We own the Varna coal-fired power plant in Bulgaria. The Varna coal-fired power plant commenced operations in 1968-1969 and has not been desulfurized (the process of removing sulfur dioxide (SO<sub>2</sub>) from exhaust flue gases of fossil-fuel power plants). A license is necessary in order to generate electricity in Bulgaria, which is issued by the Energy and Water Regulatory Commission. The electricity generation license of TPP Varna expires in February 2021. According to the Integrated Pollution Prevention and Control (IPPC) permit the Varna coal-fired power plant must have been desulfurized by the end of 2014 to be able to continue its operation.

In 2015, the coal-fired Varna power plant did not generate any electricity. On January 1, 2015, operation of the Varna power plant was suspended due to economic reasons. The situation in Bulgaria's energy sector and the current Bulgarian energy regulations do not allow the CEZ Group to generate a positive return on investment while carrying out the necessary refurbishments of the Varna power plant. We are currently negotiating with third parties interested in leasing or buying the Varna power plant. In addition, we are also negotiating with the Ministry of Energy in respect of the operation of the Varna power plant under satisfactory conditions.

*Hydroelectric power generation*

*Romania.* We own and operate four small hydroelectric power plants in Romania operated by our 100% owned subsidiary TMK Hydroenergy Power S.R.L. All four power plants are located in the south-west part of Romania in Karaş-Severin county, near Resita city. Refurbishment of the power plants initiated in July 2012 was completed in December 2013, as a result of which the total installed capacity of the plants was increased to 21.984 MW. In the year ended December 31, 2015, the four hydroelectric power plants generated 50 GWh of electricity.

*Turkey.* We have a joint venture interest in eight small hydroelectric power plants located in Turkey with total installed capacity of 370 MW as of December 31, 2015. Our interest is not fully consolidated and therefore is not included in the calculations of our total installed capacity and our total electricity generated.

*Wind power generation*

*Romania.* We own and operate two wind power plants in Fantanele and one wind power plant in Cogealac, Romania. The Fantanele and Cogealac power plants generated 1,286 GWh of electricity in the year ended December 31, 2015, representing approximately 95.8% of our total electricity generated in South East Europe and 2.1% of our total electricity generated in the year ended December 31, 2015. As of December 31, 2015, the 139 wind turbines of the Fantanele power plants had a total installed capacity of 347.5 MW and accounted for 2.2% of our total installed capacity. As of December 31, 2015, the 101 wind turbines of the Cogealac power plant had a total installed capacity of 252.5 MW and accounted for 1.6 % of our total installed capacity.

Until 2013, we had been authorized by the Romanian government to receive two green certificates for each MWh of electricity to be generated until 2017, with reduction to one green certificate per MWh of electricity to be generated thereafter. The price range for green certificates is set by Romanian law in the range of approximately EUR 27 to EUR 55 for a green certificate. Since 2014, the price of green certificates in Romania has declined to the statutory minimum of approximately RON 130. The drop from around RON 200 in first quarter of 2014 was primarily caused by the Romanian government's decision to decrease the amount of green certificates which must be purchased by suppliers of electricity to end consumers. We may not directly trade our green certificates with other market participants and may trade them only on the centralized market organized by the Romanian Power Market Operator (OPCOM).

On June 4, 2013, the Romanian government approved a decree on promotion of renewable energy sources which resulted in reduced support for renewable energy sources and tradability of one of the two green certificates to be received by our Romanian wind power plants was postponed until 2018. Since 2013, ANRE, the Romanian regulatory authority, has been including new power plants in the renewables support scheme only up to a volume to be approved by the Romanian government in the National Action Plan for each calendar year. Pursuant to this decree, green certificates are no longer granted to photovoltaic power plants built on farmland and to renewable energy power plants with installed capacity exceeding 10 MW (5 MW in case of photovoltaic power plants) in respect of electricity creating imbalance in the power grid. Suppliers of electricity to end customers, who are required by law to purchase green certificates, since 2013 can no longer include a penalty for insufficient purchases in their customers' bills. The above described law had significant adverse impact on production of electricity by our wind farms in Romania.

On October 31, 2013, the temporary two-year accreditation for allocation of green certificates to Fantanele Vest, a part of the Fantanele wind farm comprising 105 wind turbines with the total installed capacity of 262.5 MW, expired. Under Romanian law, each Renewable energy provider is required to notify the E.U. Commission of each electricity production facility with capacity exceeding 125 MW which has applied in Romania for accreditation for allocation of green certificates. The notification is submitted to the Romanian government which in turn notifies the E.U. Commission. We prepared such notification and ancillary materials in accordance with Romanian law and submitted them to the Romanian government within the statutory deadline in January 2012. However, during this process, the Romanian government modified the scheme for support of renewable energy sources which has not been approved by the E.U. Commission. Until the E.U. Commission reaches a conclusion on the new Romanian law relating to the support of renewable energy sources, the E.U. Commission will not consider the notifications for allocation of green certificates, including the notification with respect to our Romanian wind power plants.

According to the amendment to Romanian law on support of renewable energy sources (which entered into effect on June 3, 2015), ANRE issued an implementing regulation on July 1, 2015. On September 2, 2015, ANRE approved temporary accreditation for allocation of green certificates to the Cogealac and Fantanele Vest wind farms on the basis of this implementing regulation. The temporary accreditation entitles each wind farm to receive one green certificate per MWh of electricity produced and is valid for 12 months. The temporary accreditation may be extended should the E.U. Commission's examination of the individual notification of the respective wind farm still be pending. On January 18, 2016, we filed an application to ANRE for extension of the temporary accreditation for an additional 12 months. The accreditation and allocation of the second certificate to our wind farms remains suspended until the period from 2018 to 2020.

Fantanele Est, the second part of the Fantanele wind farm comprising of 34 wind turbines with total installed capacity of 85 MW is not required to file a notification with the E.U. Commission and was granted an accreditation for allocation of green certificates for 15 years.

The measures enacted by the Romanian government in 2013 changed the Romanian renewable energy sources support scheme in a manner that interferes with investors' legitimate expectations and violates the Treaty on the Functioning of the E.U. (concerning the freedom of establishment and free movement of capital) and other principles of E.U. law. We submitted a complaint and initiative to the E.U. Commission and requested the E.U. Commission to investigate whether the new renewable energy support scheme is in compliance with E.U. law. The E.U. is currently reviewing our complaint and initiative.



We recognized impairment losses of CZK 6,593 million with respect to our Romanian wind power farms in 2014 and CZK 2,295 million in 2015.

*Gas-fired power generation*

*Turkey.* Pursuant to joint venture arrangements with the AKKÖK Group, we have interests in two gas-fired power plants in Turkey, whose operation has been suspended in 2014 and are planned to be sold. In 2014, we successfully commissioned all (two gas and one steam) turbines of the new Turkish gas-fired power plant in Egemer with a total installed capacity of 904 MW and a service life of 30 years. Our interests in these joint venture arrangements are not fully consolidated and therefore are not included in the calculations of our total electricity generated and our total installed capacity.

*Biomass combined heat and power generation*

*Bulgaria.*

In 2015 we finalised the construction of BARA biomass combined heat and power plant (BCHP) in Bulgaria with a total installed capacity of 2MW, which is owned by our subsidiary Bara Group EOOD. The power plant has not started operation yet due to the changes in Bulgaria's system of promotion of renewable energy sources (the amendment of the respective act abolished feed-in tariffs for electricity generation in biomass-firing power plants). We do not expect the BARA BCHP to be put into operation in 2016.

***Distribution and Sale of Electricity***

*Overview*

*Distribution of electricity*

In the Czech Republic, we distributed electricity to more than 3.6 million connection points covering an area of approximately 52 thousand square kilometres as of December 31, 2015, making us the largest of the three regional distributors of electricity in the country (source: ERO). In addition, we are one of the largest of eight regional distribution companies in Romania (source: ANRE, CEZ) and we have majority interests in the principal distribution company in Bulgaria. In the year ended December 31, 2015, we distributed a total of 49,000 GWh of electricity to end-consumers, of which 68.0% was distributed to end consumers in the Czech Republic, 18.9% was distributed to end-consumers in Bulgaria and 13.1% was distributed to end-consumers in Romania.

The table below sets forth certain information regarding the volume of electricity distributed by us (including grid losses) in each of our principal markets in the year ended December 31, 2015.

	<b>For the year ended December 31, 2015</b>					
	<b>Distributed to end-consumers</b>		<b>Distributed to others<sup>(1)</sup></b>		<b>Grid losses</b>	
	<b>(GWh)</b>	<b>(%)</b>	<b>(GWh)</b>	<b>(%)</b>	<b>(GWh)</b>	<b>(%)</b>
<b>Central Europe:</b>						
Czech Republic.....	33,310	68.0	6,001	54.4	2,560	53.2
<b>South East Europe:</b>						
Bulgaria.....	9,272	18.9	2,851	25.8	1,227	25.5
Romania.....	6,419	13.1	2,181	19.8	1,023	21.3
<b>Total.....</b>	<b>49,000</b>	<b>100</b>	<b>11,033</b>	<b>100</b>	<b>4,810</b>	<b>100</b>

<sup>(1)</sup> Electricity distributed to others mainly includes electricity distributed to our distribution centers, specifically our power plants for consumption by us.

As of December 31, 2015, we owned and operated 309,245 kilometres of high-, medium- and low-voltage electricity distribution lines, 52.8% of which were in the Czech Republic. Our distribution grid losses were 4,810 GWh of electricity in the year ended December 31, 2015, representing an increase of 62 GWh, or 1.3%, from 4,872 GWh in the year ended December 31, 2014.

*Sale of electricity*

Our sales business sells electricity (procured by our trading business from our generation business and the wholesale market) to end-consumers in the Czech Republic, and, to a lesser extent, to end-consumers in Bulgaria and Romania. We are the largest supplier of electricity in the Czech Republic in terms of volume of electricity sold to end-consumers. In the year ended December 31, 2015, we sold 37,933 GWh of electricity to end-consumers, of which 19,833 GWh or 52.3% of which was sold to end-consumers in the Czech Republic.

The table below sets forth the volume of electricity sold by type of end-consumer in each of our principal markets in the year ended December 31, 2015.

For the year ended December 31, 2015								
	Household		Commercial		Industrial		Total	
	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)	(GWh)	(%)
<b>Central Europe:</b>								
Czech Republic .....	7,089	53.9	2,385	43.2	10,359	53.8	19,833	52.3
Poland .....	-	-	-	-	1,612	8.4	1,612	4.2
Other Central Europe .....	133	1.0	93	1.7	3,106	16.1	3,332	8.8
Central Europe total .....	7,222	54.9	2,478	44.9	15,077	78.3	24,777	65.3
<b>South East Europe:</b>								
Bulgaria.....	4,285	32.6	2,162	39.1	3,238	16.8	9,685	25.5
Romania.....	1,646	12.5	885	16.0	940	4.9	3,471	9.2
South East Europe total.....	5,931	45.1	3,047	55.1	4,178	21.7	13,156	34.7
<b>Total .....</b>	<b>13,153</b>	<b>100</b>	<b>5,525</b>	<b>100</b>	<b>19,255</b>	<b>100</b>	<b>37,933</b>	<b>100</b>

*Central Europe*

*Distribution of electricity*

We distribute electricity in nine of the 14 regions of the Czech Republic, namely Plzeň, Karlovy Vary, Ústí nad Labem, Central Bohemia, Liberec, Hradec Králové, Pardubice, Olomouc, and Moravia-Silesia. In the year ended December 31, 2015, we distributed 33,310 GWh of electricity to end-consumers making us the largest of the three distribution companies in the Czech Republic, with a market share of approximately 65% of the total electricity consumed in the regional distribution areas in the Czech Republic (source: CEZ, ERO). We do not distribute electricity to end-consumers in any other country in Central Europe.

As of December 31, 2015, we owned and operated 163,211 kilometers of distribution lines in the Czech Republic, of which 6% were high-voltage, 31% were medium-voltage and 63% were low-voltage. Our distribution grid losses were 2,560 GWh of electricity in the year ended December 31, 2015, representing an increase of 45 GWh, or 1.8%, from 2,515 GWh in the year ended December 31, 2014. We mainly cover losses in our distribution grid by purchasing electricity generated from renewable sources of energy.

Our distribution business in the Czech Republic is regulated by the ERO. A license is necessary in order to distribute electricity, which is issued by the ERO for an indefinite period of time since January 1, 2016. Under the Czech Energy Act (as amended by Act No. 131/2015 Coll.), the distribution licenses issued before January 1, 2016 for a definite period of time are to be considered as issued for an indefinite period of time. Prices for distribution services are also regulated by the ERO.

*Sale of electricity*

In the year ended December 31, 2015, we sold 19,833 GWh of electricity to end-consumers in the Czech Republic, representing an increase of 1.6% compared to the year ended December 31, 2014. The increase was

caused predominantly by overall market recovery in demand in spite of extremely warm weather in 2015. Sale of electricity is achieved mainly through our subsidiary ČEZ Prodej, s.r.o. which sold 19,583 GWh of electricity and achieved a market share in sales to end-consumers in the Czech Republic in the year ended December 31, 2015 of approximately 33.5%, compared to 34.3% in 2014, according to our data. ČEZ Prodej, s.r.o. remains the market leader in all electricity end-consumer segments.

Developments in the Czech market correspond to the developments in European markets in the period following energy market liberalization. In years, preceding 2010, the liberalization of the electricity market did not have a significant effect on the commercial and household segment. However, starting in 2010, market participants followed in the footsteps of companies participating in other European markets and began to intensely compete for these customers as well. A key role was played by smaller suppliers who increasingly used door-to-door sales. As a result, the number of customers changing their electricity supplier gradually increased from 2010 up to the peak of almost half a million per year in 2012. The significant portion of changes of electricity suppliers was also caused by expansion of its service portfolio by *RWE*, one of the largest German energy groups with operations in the Czech Republic, which started to sell electricity to Czech customers. Thus, we focused on retention activities in the small commercial and household segment to minimize the number of customers leaving us to join our competitors. In 2013, we realized the first decrease in the number of customers changing their suppliers per year and in 2014 and 2015, the trend was confirmed by a decrease when approximately 334 thousand customers in 2014 and 278 thousand customers in 2015 changed their electricity suppliers. Even though competition remains at a high level, the market is currently stabilized.

The sale of electricity in the Czech Republic is regulated by the Czech Energy Act and the ERO. A license is necessary in order to sell electricity, which is issued by the ERO for a maximum of five years. Our license for the sale (trading) of electricity in the Czech Republic was issued on September 2, 2010 and extended by the ERO by five years until September 1, 2020. The price of electricity comprises two amounts: the regulated amount, to cover transmission, distribution and system services, and the unregulated amount, which is for the sale of the electricity itself.

### *South East Europe*

#### *Distribution of electricity*

*Romania.* In the year ended December 31, 2015, we distributed 6,419 GWh of electricity to end-consumers making us one of the largest of eight regional distribution companies in Romania (source: ANRE, CEZ). As of December 31, 2015, we distributed electricity to approximately 1.43 million connection points in Romania. As of December 31, 2014 we had a market share of approximately 14.5% according to our data. Our distribution grid losses in Romania were 1,022 GWh of electricity in the year ended December 31, 2015, representing a decrease of 126 GWh, or 11.0% from 1,148 GWh in the year ended December 31, 2014.

Our distribution business in Romania is regulated by ANRE. A license is necessary in order to distribute electricity, which is issued by ANRE for a maximum term of 25 years. Our license for the distribution of electricity in Romania was issued on April 29, 2002 and expires on April 28, 2027. Prices for distribution services are also regulated by ANRE and are established annually.

*Bulgaria.* We own a majority interest in the principal distribution company in Bulgaria. In the year ended December 31, 2015 we distributed 9,272 GWh of electricity to end-consumers. As of December 31, 2015, we distributed electricity to approximately 2.1 million connection points in Bulgaria and had a market share of approximately 42% according to our data. Our distribution grid losses in Bulgaria were 1,227 GWh of electricity in the year ended December 31, 2015, representing an increase of 19 GWh, or 1.6%, from 1,208 GWh in the year ended December 31, 2014.

Our distribution business in Bulgaria is regulated by the Energy and Water Regulatory Commission. A license is necessary in order to distribute electricity, which is issued by the Energy and Water Regulatory Commission for a maximum term of 35 years. Our license for the distribution of electricity in Bulgaria was issued on August 13, 2004 and expires on August 13, 2039. Prices for distribution services are also regulated by the Energy and Water Regulatory Commission.

For information on our local disputes in Bulgaria, please see “*Description of the Issuer—Legal Proceedings — Bulgaria*”.

*Albania.* Until October 16, 2014 we had owned a majority interest in the sole distribution company in Albania, CEZ SH. In January 2013, the Albanian ERE removed electricity distribution and retail supply licenses of CEZ SH and fully took over the management and operation of CEZ SH by the appointment of a temporary administrator. In 2013, CEZ SH was excluded from ČEZ’s consolidation group. On May 16, 2013, ČEZ officially initiated international investment arbitration against the Government of Albania. On June 23, 2014, CEZ signed a settlement agreement with the Republic of Albania providing for, *inter alia*, conditions for ending of the international investment arbitration. The settlement agreement took effect on October 16, 2014 and on the same day ČEZ transferred its entire shareholding in CEZ SH to the Republic of Albania.

*Turkey.* In the year ended December 31, 2015, we distributed 8,454 GWh of electricity to end-consumers in Turkey through Sakarya Elektrik Dagitim A.S., an unconsolidated entity owned under a joint venture arrangement, representing an increase of 394 GWh, or 4.9%, from 8,060 GWh in the year ended December 31, 2014. Our Turkish distribution business is operated under a joint venture arrangement which is not fully consolidated and therefore is not included in the calculations of our total electricity distributed or our total electricity distributed to end-consumers.

#### *Sale of electricity*

*Romania.* In the year ended December 31, 2015, we sold 3,470 GWh of electricity to end-consumers in Romania, representing an increase of 9.6% compared to the year ended December 31, 2014. In the year ended December 31, 2015, we sold 940 GWh of electricity to industrial customers, 885 GWh of electricity to commercial customers and we sold the remaining 1646 GWh of electricity to household customers, representing 2.5%, 2.3% and 4.3%, respectively, of our total sales of electricity to end-consumers. Our market share of sales to end-consumers in Romania in the year ended December 31, 2015 was approximately 6.4% according to our data.

The sale of electricity in Romania is regulated by ANRE. A license is necessary in order to sell electricity in Romania, which is issued by the Romanian Energy Regulatory Authority for a maximum term of ten years. Our license for the sale of electricity in Romania was issued on March 15, 2007 and expires on March 14, 2017. The price of electricity on the unregulated market in Romania is unregulated and freely negotiable between market participants, except for the price of electricity supplied by default suppliers and last resort suppliers.

*Bulgaria.* In the year ended December 31, 2015, we sold 9,685 GWh of electricity to end-consumers in Bulgaria, representing an increase of 3.4% compared to the year ended December 31, 2014. In the year ended December 31, 2015, we sold 3,238 GWh of electricity to industrial customers, 2,162 GWh of electricity to commercial customers and we sold the remaining 4,285 GWh of electricity to household customers, representing 8.5%, 5.7% and 11.3%, respectively, of our total sales to end-consumers. Our market share of sales to end-consumers in Bulgaria in the year ended December 31, 2015 was approximately 30% according to our data and our market share of sales to end-consumers connected to distribution grid in Bulgaria was approximately 42% according to our data.

The sale of electricity in Bulgaria is regulated by the Energy and Water Regulatory Commission. A license is necessary in order to sell electricity in Bulgaria, which is issued by the Energy and Water Regulatory Commission. Our license for the sale of electricity in Bulgaria was issued on November 29, 2006 and expires on August 13, 2039. The price of electricity in Bulgaria’s regulated market is regulated by the Energy and Water Regulatory Commission.

On March 19, 2014 the KEVR initiated the license revocation proceedings in respect of the electricity sale license held by CEZ Elektro Bulgaria AD, based on the alleged delayed payments of CEZ Elektro Bulgaria AD to NEK, a Bulgarian producer of electricity, amounting to BGN 63.7 million (approximately CZK 880 million). There are no grounds for the license revocation proceedings and CEZ Elektro Bulgaria AD is taking action to prevent such revocation. On November 19, 2015, CEZ officially informed the Government of Bulgaria of its intention to initiate international arbitration on the grounds of Bulgaria’s failure to protect its investment, unless the current situation is quickly remedied and the damage caused duly compensated. For information on our

disputes in Bulgaria, please see “Description of the Issuer— Legal Proceedings — Bulgaria”.

*Turkey.* In Turkey, we sold 7,612 GWh of electricity to end-consumers in the year ended December 31, 2015 through Sakarya Elektrik Perakende Satış A.Ş. (SEPAS), the retail company, established in 2012 for the purpose of selling electricity to tariff and non-tariff eligible customers. The distribution of electricity is done by Sakarya Elektrik Dağıtım A.Ş. (SEDAS). Our Turkish sales business is operated under a joint venture arrangement which is not fully consolidated and therefore our sales of electricity to end-consumers in Turkey are not included in the calculations of our total electricity sold to end-consumers or our total electricity sold by type of end-consumer.

## Trading

### Overview

Our trading activities encompass selling electricity generated by us on wholesale markets and to our sales business; procuring on wholesale markets electricity sold by our sales business to end-consumers; and trading electricity, E.U. emission allowances (“EUAs”), CER credits, natural gas and black coal in wholesale markets on our own account.

The following table sets forth a breakdown of the volume of electricity purchased and sold by us on wholesale markets (including our net electricity generated and total sales to end-consumers) for the years ended December 31, 2014 and 2015.

	For the year ended December 31,		
	2014	2015	Change in 2015 compared to 2014
	(GWh)	(GWh)	(%)
<b>Wholesale trading in electricity:</b>			
Electricity purchased on wholesale markets .....	167,869	194,857	16.1
Electricity sold on wholesale markets .....	(184,613)	(206,414)	11.8
Balance of wholesale trading in electricity .....	(16,744)	(11,557)	(31.0)
<b>Electricity generated and sold to end-consumers:</b>			
Total electricity generated by us (gross) .....	63,124	60,917	(3.9)
Own consumption of electricity generated .....	(6,370)	(6,617)	3.9
Total electricity generated by us (net) .....	56,754	54,300	(4.3)
Distribution losses .....	(4,872)	(4,810)	(1.3)
Electricity sold by us to end-consumers .....	(35,138)	(37,933)	8.0
Balance between electricity generated by us and sold to our end-consumers .....	(16,744)	(11,557)	(31.0)

In the year ended December 31, 2014, we purchased a total of 203,007 GWh of electricity (167,869 GWh of electricity on wholesale markets and 35,138 GWh of our electricity generated (net of own consumption and distribution losses)) and we sold a total of 219,751 GWh of electricity (184,613 GWh of electricity on wholesale markets and 35,138 GWh of electricity sold to end-consumers). In the year ended December 31, 2015, we purchased a total of 232,790 GWh of electricity (194,857 GWh of electricity on wholesale markets and 37,933 GWh of our electricity generated (net of own consumption and distribution losses)) and we sold a total of 244,347 GWh of electricity (206,414 GWh of electricity on wholesale markets and 37,933 GWh of electricity sold to end-consumers).

We carry out proprietary trading that consists of taking on energy commodity (gas, coal, electricity and emissions) exposures in European markets by means of financial derivative instruments and contracts for physical delivery exchanged on the regulated and over-the-counter markets, seeking to exploit arbitrage opportunities and speculating on price developments. By trading on our own account, we aim to generate additional profits. We carry out these activities within a formal governance framework with strict risk limits set by our Risk Management Committee, and compliance therewith is verified daily by our Risk Management Department which is independent from the groups carrying out our trading operations. We have specific controls in place in terms of quantitative risk limits (value at risk and other risk limits with inclusion of stop-loss). Credit risk management

for trading operations is based on strict evaluation, assignment and monitoring procedures that we believe are in accordance with international best practices.

The risk limit set by the Risk Management Committee for our proprietary trading activities is CZK 1.36 billion. The potential open positions over a longer time period are limited by a daily value at risk limit of CZK 164 million. These relatively low limits and the strict rules set by our Risk Management Committee lead to a high number of transactions with a high aggregated volume on an annual basis but generally with a relatively low margin. The annual volume of electricity traded for own account can vary substantially depending on market conditions in the respective year, namely liquidity, price volatility and market trends.

We also trade smaller volumes of natural gas in the form of futures products on the London Intercontinental Exchange (“ICE”). Our trading also takes place on the European Energy Exchange (“EEX”) in Leipzig, Germany, on the New York Mercantile Exchange (“NYMEX”) in New York, the Hungarian Power Exchange (“HUPX”), European Power Exchange (Spot Markets) (“EPEX SPOT”) in Paris, the Towarowa Gielda Energii (“TGE”) in Poland, the PXE in Prague, OPCOM in Romania, the Hellenic Transmission System Operator (“HTSO”) in Greece, OTE in Prague and OKTE in Bratislava.

Outside of the Czech Republic, we also trade directly in Austria, Germany, France, the Netherlands, Switzerland, Poland, Hungary, Slovakia, Romania, Kosovo, Greece and Montenegro where a license is not required to trade in electricity or where the eligibility for such a license is not limited to entities established under the laws of the same country. In Bulgaria and Serbia we operate through our subsidiaries that hold the necessary local licenses.

#### *Central Europe*

*Czech Republic.* On the Czech wholesale market, we sell electricity for contractually agreed upon prices. Since 2002, the wholesale prices have been unregulated. Since the launch of the PXE on July 17, 2007, the majority of our electricity generated for wholesale distribution is sold on the PXE and on the electronic OTC broker platforms. Due to cross-border integration and fully liberalized power prices, the primary price-setting market in our region is Germany and its exchanges EEX and EPEX SPOT and there has historically been a strong correlation between power prices in the Czech and German markets. Prices in the wholesale market are set on the basis of supply and demand, through trading on the PXE and bilateral contracts. Instruments that can be traded on the Czech Republic’s exchange range from one-year contracts down to one-day contracts. Anonymous trading on a daily basis can also be realized through the organized spot markets of OTE. In addition to one-day trades, the organized markets of OTE also enable intra-day trading. Unlike the PXE, the OTE requires physical delivery.

We continued to sell the electricity that we generated almost exclusively in the Czech electricity market, either wholesale through the PXE, or through electronic broker market platforms, or to end-consumers. We continued to sell electricity on a forward basis, specifically, up to six years in advance, with the aim of leveraging market demand for these products to partially hedge sales against possible price volatility. This strategy helped us to maintain our results of operations even at a time of substantial declines in wholesale electricity prices.

As of December 31, 2015, we entered into a number of long-term contracts for physical power supply with various duration (longest duration until 2023) at a price structure which reflects the generation costs of our brown coal-fired and nuclear power plants. As of December 31, 2015, we have entered into 520 MW of base load power supply by means of such long-term contracts. Due to the current electricity price levels, we have not entered into any new long-term contracts and unless the market conditions change, we do not intend to sell further production of our brown coal-fired and nuclear power plants under long-term contracts.

*Poland.* Electricity generated in Poland by our Skawina power plant and Elcho power plant is sold on Poland’s wholesale electricity market, both on the TGE power exchange and on the OTC broker platforms. In relation to the Elcho power plant, we took advantage of a compensation scheme, defined by Polish law, for entities that voluntarily agreed prematurely to terminate long-term electricity sale contracts.

#### *South East Europe*

*Bulgaria.* We procure electricity in the regulated and unregulated market to be sold by our sales business to household and eligible industrial end-consumers.

*Romania.* We sell electricity generated by the Fantanele and Cogealac wind farms on the unregulated wholesale market in Romania. We also procure electricity in the wholesale market to be sold by our sales business to household customers for regulated prices and to eligible end-consumers for unregulated prices. In Romania, we also trade green certificates, which are awarded to the Fantanele and Cogealac wind farms as part of the Romanian support scheme for renewables. For more information, please see “Description of the Issuer—Our Business—Electricity generation—South East Europe—Wind power generation—Romania”.

### **Other Businesses**

#### *Coal Mining*

We mine, process and sell brown coal and its by-products in the Czech Republic. In the year ended December 31, 2015, we produced 21 million tons of brown coal, making us the largest producer of brown coal in the Czech Republic accounting for approximately 54.9% of the total volume of brown coal produced in the Czech Republic in 2015 (source: CEZ).

The Bílina Mines, operating in the Teplice-Bílina area in the North Bohemian Basin, is characterized by high heat content and a low proportion of hazardous substances. In the year ended December 31, 2015, the Bílina Mines produced 9.4 million tons of brown coal. The mining activity permit for the Bílina Mine was issued on the basis of the Opening, Preparation, and Extraction Plan for the Years 2010-2030 by the District Mining Office in Most on November 8, 2010 and entered into legal force on January 26, 2011. Our mining operations in the Bílina Mines are permitted until 2030. In October 2015, the Czech Government approved the extension of brown coal mining limits at the Bílina coal mine owned by the CEZ Group. The new available brown coal reserves are estimated to be 100 – 150 million tons.

The Nástup Tušimice Mines operates in the westernmost portion of the Ústí Region of the Czech Republic in the Tušimice mining area in the North Bohemian Basin. In the year ended December 31, 2015, the Nástup Tušimice Mines produced 11.6 million tons of brown coal. In the year ended December 31, 2015, majority coal extracted from the Nástup Tušimice Mines went to our power plants, Tušimice II and Pruněřov, Mělník and to other customers (Komořany heat plant and Opatovice power plant). A new Mining License for Doly Nástup Tušimice came into force in May 2013 and is valid until 2029.

The table below sets forth the amount of coal produced by our mines and the amount of which was delivered to our coal-fired power plants in the years ended December 31, 2014 and 2015.

	<b>For the year ended December 31,</b>			
	<b>2014</b>		<b>2015</b>	
	<b>Produced</b>	<b>Delivered for own consumption</b>	<b>Produced</b>	<b>Delivered for own consumption</b>
	<b>(in million tons)</b>			
Bílina Mines.....	9.4	4.4	9.4	4.6
Nástup Tušimice Mines .....	12.2	11.3	11.6	10.7
<b>Total .....</b>	<b>21.6</b>	<b>15.7</b>	<b>21.0</b>	<b>15.3</b>

In the year ended December 31, 2015, our plants consumed 15.3 million tons of our brown coal output, or 73% of our total brown coal output, compared to 15.7 million tons of our brown coal output, or 73% of our total coal output for the year ended December 31, 2014. In the year ended December 31, 2015, we sold a total of 5.7 million tons of brown coal to third parties, which generated total revenues of CZK 4.3 billion. In the year ended December 31, 2014, we sold a total of 5.9 million tons of brown coal to third parties, which generated total revenues of CZK 4.5 billion.

We carry out exploration works at the mines on an annual basis. Our exploration activities are primarily carried

out in order to assess the characteristics of our reserves and the hydrogeological and geotechnical conditions as well as in order to optimize extraction. However, based on our historic exploration of current deposits, we do not expect any material adjustments to the exploitable reserves of these mines (within their current limits).

We operate open pit coal mines and are responsible for decommissioning and reclamation of the mines (the process of restoring land that has been mined to a natural or economically useable purpose) as well as for damage caused by the operations of the mines. To cover such costs we are required by Czech law to contribute to a special escrow account. These restricted funds are shown in our balance sheet under restricted financial assets and as of December 31, 2015, restricted funds related to mining reclamation and damages totalled CZK 5,095 million (compared to CZK 4,805 million in the year ended December 31, 2014). We have also established provisions to recognize our estimated liabilities for decommissioning and reclamation of mines and damage caused by the operations of our mines. As of December 31, 2015, such provisions amounted to CZK 7,563 million compared to CZK 6,749 million as of December 31, 2014. In the year ended December 31, 2015, reclamation expenses totalled CZK 295 million.

#### *Gas Supply to End-Consumers*

We started to supply gas to industrial and commercial customers in the Czech Republic in August 2009 and gas to our household customers in the Czech Republic in June 2010. We purchase all of the gas that we sell to our customers on the wholesale market in the Czech Republic and abroad. In the year ended December 31, 2015, we supplied 4.7 TWh of gas to end-customers in the Czech Republic, which represents an increase of 17.5% compared to 4 TWh in the year ended December 31, 2014. At the same time we have a market share of 6.6% (11.3% for households segment). In the year ended December 31, 2015, our revenues from the supply of gas were CZK 4,573 million, representing an increase of CZK 576 million, or 14.4%, from CZK 3,997 million in the year ended December 31, 2014. The revenue growth was caused by the growth in the volume of gas distributed to newly acquired customers.

We started to supply gas to end-consumers in Slovakia in 2011. In the year ended December 31, 2015, we supplied 2.0 TWh of gas to wholesale and retail customers in Slovakia, which represents an increase of 42.9% compared to 1.4 TWh in the year ended December 31, 2014.

#### *Provision of Ancillary Services*

Ancillary services are generally defined as services provided by natural or legal persons for maintaining the operation of power systems and the quality and security of electricity supply. Ancillary services allow imbalances between electricity consumption and generation to be corrected by means of demand- or supply-side changes. Users of the power system who comply with the relevant technical and commercial terms and conditions set out by the transmission system operator generally have the right, but are not obliged, to offer ancillary services at market prices.

Ancillary services are purchased by transmission grid operators for stabilizing the grid in auctions for a wide range of products to be provided over various lengths of time. The Czech market is one of the most competitive in Europe for the provision of ancillary services, with independent producers offering approximately half of the necessary capacity of ancillary services.

Our revenues from the provision of ancillary services to transmission grid operators reached CZK 3,865 million in the year ended December 31, 2015, compared to CZK 4,200 million in the year ended December 31, 2014.

#### *Tolling agreements*

In August 2014, we and Vršanská uhelná a.s. (a Czech brown coal mining company) entered into a tolling agreement pursuant to which we will process the brown coal supplied by Vršanská uhelná a.s. into electricity and the electricity will remain the property of Vršanská uhelná a.s. Installed capacity, which has been made available to Vršanská uhelná a.s. by us, equals 200MW. The tolling agreement was entered into for the period of 2015 – 2020. The agreement was suspended for 2016 and negotiations are expected in 2016 to revive the agreement from 2017 on.



*New opportunities in energy sector*

We have identified and developed new opportunities in the Czech distribution and “small” energy sector (low capacity electricity production). In 2014, we established a new company ČEZ ESCO, a.s. which consolidated our capacities within the area of energy savings, decentralised energy sources, lighting and other energy services. ČEZ ESCO, a.s. focuses on providing products and services to large undertakings, SMEs and the public sector and offers comprehensive energy solutions on decentralised basis and emphasises new technologies, energy efficiency and integrated solutions. Individual products and services are supplied through several companies that are continually being integrated into the ČEZ ESCO Group – ČEZ Prodej, s.r.o., ČEZ Energo, s.r.o., ČEZ Energetické služby, s.r.o., EVČ, ENESA and others. ČEZ ESCO, a.s. is a leader in small cogeneration in the Czech Republic, in 2015 ČEZ ESCO, a.s. commissioned additional 15 MW of capacity to 53 MW of capacity operated in 2014. Through its 75% stake in EVČ, ČEZ ESCO, a.s. participates in construction in the field of energy and heat management and construction of energy-saving projects. In October 2015, ČEZ ESCO, a.s. started to offer turn-key installation of solar panels on customers’ rooftops.

*Telecommunications Services*

Since October 15, 2013, we also provide telecommunication services under the brand “Mobile from ČEZ” through our subsidiary ČEZ Prodej, s.r.o. as a mobile virtual network operator in the network of O2 Czech Republic. As of December 31, 2015, we had more than 71,000 customers in the Czech Republic. The services are available for all customers, not only our existing customers. We hold a valid license for the provision of the above mentioned services.

Our revenues from the provision of telecommunication services reached CZK 91 million in the year ended December 31, 2015, compared to CZK 58 million in the year ended December 31, 2014.

**Fuel**

*Coal*

Approximately 89% of the coal consumed by our coal-fired power and heat plants for the year ended December 31, 2015, was brown coal. Brown coal is supplied by four companies in the Czech Republic, the main supplier being Severočeské doly a.s., our wholly owned subsidiary. Black coal is used in the Dětmárovice power plant and the Ostrava-Vítkovice heat plant and in part of the Poříčí power plant in the Czech Republic; in the Elcho power plant and the Skawina power plant in Poland and was used in the Varna power plant in Bulgaria.

The table below sets forth information relating to the total amount of coal consumed by our coal-fired power plants and the amount of which was purchased from third parties for the years ended December 31, 2014 and 2015.

	For the year ended December 31,			
	2014		2015	
	Total consumed	Purchased from others	Total consumed	Purchased from others
	(in million tons)			
<b>Brown coal</b>				
Czech Republic .....	22.2	6.4	22.7	89.0
<b>Black coal</b>				
Czech Republic .....	1.2	1.2	1.4	5.5
Poland .....	1.3	1.3	1.4	5.5
Total black coal .....	2.9	2.9	2.8	11.0
<b>Total</b> .....	25.1	9.3	25.5	100

In the year ended December 31, 2015, we consumed 22.7 million tons of brown coal, of which 15.3 million tons, or 67.4%, were produced by our own mines (see “Other Businesses—Coal Mining”). In the year ended

December 31, 2015, approximately 22.7 million tons of brown coal were delivered to our coal-fired power plants in the Czech Republic, approximately 67.4% of which were supplied by our own mines, with the remainder purchased from Vršanská uhelná a.s. (approximately 25.9%), Sokolovská uhelná, právní nástupce, a.s. (approximately 6.2%), Severní energetická a.s. (approximately 0.5%). We currently purchase brown coal from Vršanská uhelná a.s. under a long term coal supply contract concluded on March 18, 2013, and from Sokolovská uhelná, právní nástupce, a.s., under a long-term agreement that expires in 2027. Please see “—*Legal Proceedings—Litigation with Sokolovská uhelná, právní nástupce, a.s.*” The black coal used in our black coal-fired power plants is purchased primarily from OKD, a.s. (65.3%), the rest being secured by import from Poland.

Most of our coal-fired power plants are located in the vicinity of the North Bohemian brown coal basin in the Czech Republic. Conveyor belts from nearby mines supply brown coal directly to two power plants, Ledvice II and III and Tušimice II. For other coal-fired power plants, rail is primarily used to transport coal supplies over relatively short distances. Taking into account geographical restrictions, current mining limits and current estimates of our coal-fired generation needs, we currently estimate that there are sufficient brown coal reserves in the Czech Republic for the operation of our coal-fired power plants until the end of their currently expected operation lifetime.

The Elcho power plant and Skawina power plant in Poland are located in Upper Silesia and Lesser Poland, respectively, and are supplied with black coal from mines in the region. The principal supplier of coal to the Elcho power plant in 2015 was Kompania Weglowa SA pursuant to a long-term contract. The Skawina power plant sources coal from multiple suppliers under one-year contracts and purchase orders, including from, among others, Kompania Weglowa SA, Katowicky Holding Weglowy SA, PG Silesia Sp. z o.o. and Jastrzebska Spółka Weglowa S.A..

### ***Nuclear Fuel***

We procure nuclear fuel materials (uranium) and services (conversion and enrichment) pursuant to medium-and long-term contractual arrangements. Our procurement activities are supervised by the ESA, which endorses and co-signs, if required by the Treaty Establishing the European Atomic Energy Community (the “*Euratom Treaty*”), all new supply contracts and amendments thereto, which must be in full compliance with the ESA supply policy.

Historically, the majority of our uranium needs have been met by domestic sources in the Czech Republic. However, uranium production in the Czech Republic has been continuously decreasing over the past decades. Improved pricing in the uranium market after 2004 enabled DIAMO s.p., a Czech uranium producer, to extend Czech uranium production. In 2014, an amendment to the existing uranium supply contract with DIAMO was concluded and supplies covering about one third of our annual uranium needs will continue also in 2016. The remainder of our uranium needs is satisfied by market purchases of uranium mainly on the basis of long-term contracts. To the extent authorized under the ESA supply policy, we also purchase uranium as a package (or “bundle”) together with conversion and enrichment services under existing long-term fuel fabrication contracts with the Russian company JSC TVEL (“*TVEL*”).

In respect of the needs of the Dukovany nuclear power plant, the earlier ESA limitation on the amount of enrichment services that could be purchased together with fabrication as a package from TVEL did not apply as the existing long-term fuel contract was grandfathered upon the accession of the Czech Republic to the European Union. Therefore, conversion and enrichment services needed for fabrication of fuel for Dukovany nuclear power plant are fully supplied by TVEL. For the Temelín nuclear power plant, conversion and enrichment services are supplied under a portfolio of contracts with primary suppliers. Our needs are basically covered for period of validity of the existing fabrication contract for the Temelín nuclear power plant with TVEL. There is an option for portion of supply of enrichment services till 2025. We also maintain strategic and working inventories of nuclear material in different stages of processing (uranium concentrate, natural and enriched uranium hexafluoride).

Our long-term nuclear fuel supplier, TVEL, produces nuclear fuel for both our nuclear power plants at its facilities in Elektrostal, Russia. The long-term fuel supply contract for the Temelín nuclear power plant, which

expires in 2020, was awarded to TVEL in May 2006 as a result of a tender opened in April 2004, in order to replace a previous fuel contract with The Westinghouse Electric Company LLC which expired in 2010. The last fuel deliveries from The Westinghouse Electricity Company LLC were received for Unit 1 in 2009 and for Unit 2 in 2010. Unit 1 was fully refuelled with new TVEL fuel assemblies in 2010 and the refuelling of the entire core at Unit 2 followed in 2011. Nuclear fuel fabrication and shipments of nuclear fuel for the Temelín nuclear power plant from TVEL are performed upon our request according to conditions in the fuel supply contract. In 2013 transition of both units to the operation at increased power (104%) output was completed. We decided to gradually build-up in the period 2015 – 2016 a strategic inventory of fabricated fuel at the Temelín nuclear power plant in order to reduce risk of operation disruption in case of delayed delivery of fuel. We initiated a development program for implementation of fuel design changes as a result of which fuel cycle efficiency will be further improved. With respect to future fuel supplies, we intend to select a fuel supplier for the period after 2020 in a competitive tender.

Nuclear fuel for the four reactors at the Dukovany nuclear power plant is supplied pursuant to a long-term supply contract, which was due to expire in 2018. Nevertheless, in 2013, ESA approved its extension until 2024 with an option until 2028. Nuclear fuel design has also been modified in order to accommodate the operation of reactors at an increased power level and in the “five year fuel cycle”. New improved design of fuel has been licensed and first delivery and loading occurred in 2014. We maintain a strategic inventory of fabricated fuel at the Dukovany nuclear power plant.

#### *Spent Nuclear Fuel Storage*

##### *Interim spent nuclear fuel storage facility*

*Dukovany nuclear power plant.* The first stage of an interim spent nuclear fuel storage facility (“ISFSF”) at the Dukovany nuclear power plant, which utilizes transport and storage casks (standard dry storage technology), became operational in December 1995. The capacity of this facility (60 Castor casks) was fully used up in the first half of 2006. In 1997, preparation started on the second stage of the Dukovany ISFSF with a storage capacity of 133 Castor casks. The second storage facility was commissioned in October 2006 and became operational in December 2006. Its capacity is expected to cover the Dukovany nuclear power plant’s operation for a period of 40 years and we therefore expect that the capacity of the Dukovany ISFSF will be sufficient for the planned long-term operation of the Dukovany nuclear power plant.

As of December 31, 2015, spent fuel is stored in advanced Castor 440/84M casks and 31 casks are exploited, representing approximately 23% of the entire storage capacity of the second storage hall.

*Temelín nuclear power plant.* The plan to build the Temelín ISFSF on the premises of the Temelín nuclear power plant went through a legislative procedure which also involved the neighboring countries of Austria and Germany. During the legislative process, the Ministry of Environment issued a positive EIA. SONS permitted the construction in terms of nuclear safety. A special expert committee of the European Union also assessed the Temelín ISFSF. We were awarded positive opinions in all administrative actions. We received the final building permit in February 2009.

The ISFSF at the Temelín nuclear power plant was put into operation for a one-year trial period in September 2010. In December 2011, we received a license issued by SONS for the common operation, valid until 2021. The storage capacity of the Temelín ISFSF is 1,370 tons of uranium, which represents spent fuel for the 30-year operation of the Temelín nuclear power plant. In the event the useful lifespan of the Temelín nuclear power plant is extended, the capacity of the Temelín ISFSF may be expanded by building additional storage halls.

As of December 31, 2015, there were 24 CASTOR 1000/19 casks with 456 fuel assemblies in total at the Temelín ISFSF, of which approximately 16% of the entire storage capacity is exploited.

##### *Central interim spent nuclear fuel storage facility*

As an alternative, an underground central ISFSF at the Skalka site in Southern Moravia, Czech Republic is currently being considered for the long-term storage of spent fuel from both of our nuclear power plants. We

obtained a construction permit for the first stage of ISFSF construction in May 2011. The first stage was finished in October 2012. The locality is permanently considered as a stand-by alternative to the on-site Dukovany ISFSF and Temelín ISFSF.

### **Biomass**

Biomass in the form of wood chip, straw and pellets is mainly combusted in our coal-fired power plants and heat plants in the Czech Republic and Poland. Within our portfolio of renewable sources, biomass is the second most significant element after water power plants. Our main suppliers of biomass in the Czech Republic are Jiří Prágr, Ondřej Šimeček, Na hranici, s.r.o. and Fischer TPD, s.r.o., with whom medium-term contracts are signed. These suppliers are farmers and owners of agricultural land. In Poland, we sign annual contracts with or make monthly orders from a number of local suppliers of biomass. We make monthly orders from 3-4 biomass suppliers.

In the Czech Republic, we burned 453,148 tons of biomass in the year ended December 31, 2015, compared to more than 367,729 tons in the year ended December 31, 2014, generating 369 GWh and 277 GWh of electricity, respectively.

In Poland, we burned more than 288 thousand tons of biomass in the year ended December 31, 2015, compared to more than 248 thousand tons in the year ended December 31, 2014, mostly in the form of co-burning with hard coal, generating 422 GWh and 369 GWh of electricity, respectively.

### **Property, Plant and Equipment**

We own all of our significant generation facilities and other properties and we hold the title to or have the right to use by virtue of leases all of the land underlying our facilities, including our coal mines. Our plant, property and equipment mainly comprise power plants and distribution networks as well as coal mining facilities, administrative buildings and other assets. As of December 31, 2015, we owned buildings with a total net book value of CZK 150.5 billion, plant and equipment with a net book value of CZK 162.4 billion and land with a net book value of CZK 7.1 billion.

As of December 31, 2015, we owned net plant in service pledged as a security for liabilities in the amount of CZK 6,445 million, representing approximately 2.0% of total net book value of plant in service as of December 31, 2015.

### **Capital Expenditures**

Capital expenditures are necessary to maintain and improve the operations of our facilities and meet regulatory and prudent operating standards. Construction and maintenance costs have increased throughout the power industry over the past several years, and future costs will be highly dependent on the cost of components and availability of contractors that can perform the work necessary to maintain and improve respective facilities. Since January 1, 2011, we have invested approximately CZK 70.8 billion towards improving the efficiency of our current coal-fired and gas-fired power plants in the Czech Republic, CZK 14.5 billion towards increasing our renewable generation capacity (particularly a wind farm in Romania and photovoltaic power plants in the Czech Republic), CZK 53.4 billion to improve our distribution networks and CZK 22.8 billion to improve our nuclear energy generation facilities.

In 2013, we announced the New Energy Sector strategic program responding to the changing energy market. We are looking for interesting opportunities in “new” energy both in the Czech Republic and abroad. Since 2013 we have invested in three “new energy” companies in Germany, Sonnenbatterie GmbH, Sunfire GmbH and tado° GmbH. These investments were made through ČEZ Nová energetika, a.s. under brand INVEN CAPITAL, used by the CEZ Group for investments in the field of innovative energy solutions. We intend to invest in companies focusing on new decentralized energy generation and renewables, with growth potential both in the Czech Republic and abroad. By 2020, depending on the market opportunities, we intend to acquire 15 to 20 up-and-coming companies with the total value up to CZK 5 billion.

In July 2015, we acquired shares in the German company Sonnenbatterie GmbH, a company which produces

battery energy storage systems. The investment was made in the form of an increase in the company's registered capital. The CEZ Group acquired a minority stake accompanied with the right to participate in the company's strategic decision-making. The company develops, manufactures, and sells smart battery systems for storing energy generated by solar panels and other renewable energy sources for households and commercial customers. The company operates in seven countries, including the U.S. So far, it has already sold approximately 8,000 smart energy storage systems.

In November 2015, we acquired a minority stake in Sunfire GmbH. Sunfire's key product is reversible fuel cell technology, which is able to convert a fuel (such as natural gas) into electricity and heat as well as electricity back into hydrogen and other gases (Power-to-Gas) or synthetic fuels (Power-to-Liquids). This technology represents a major step toward greater energy self-supply and improved efficiency in the utilization of energy sources.

In April 2016, we acquired a minority stake in tado° GmbH, a company providing solutions for intelligent home climate control. tado° GmbH key products are Smart Thermostat and Smart AC Control which connect any heating and air conditioning system to the internet and allow for their control through geo-aware tado° smartphone app which adapts home temperature to the local weather conditions and adjusts home temperature according to the location of its owners. The technology allows for reduction of energy bills while improving home comfort and helps protect the environment.

## Employees

We had an average of 26,248 and 25,826 employees in the years ended December 31, 2014 and 2015, respectively, out of which approximately 77.7% and 78.7%, respectively, were employed in the Czech Republic. Since our foundation in 1992, we have reduced the number of our employees to a level which brings the ratio of employees to installed MW capacity closer to the ratios of other advanced European power companies. We have also completed an organizational audit which resulted in a decrease in our average number of our employees and we are taking further steps aimed at further lowering our average number of employees.

As of December 31, 2015, all employees of ČEZ were covered by collective bargaining agreement in accordance with Czech law. Our collective bargaining agreement is valid until the end of 2017. Our collective bargaining agreement was amended in 2010, 2011, 2012, 2013, 2014 and 2015. In 2007, we also established our European Work Council in accordance with applicable national and European laws. We have not experienced any strikes or work stoppages in the Czech Republic.

## Research and Development

Research and development (“R&D”) activities of the CEZ Group significantly contribute to improvement of the safe, economical and reliable operation of our assets and to strengthening of our knowledge of innovative technologies in the energy sector. Our R&D projects are mainly performed by external, specialized engineering, consultancy organizations, or by the academic sector. R&D covers numerous topics in nuclear energy and conventional power generation, life management of power plants and their components, innovative renewables, utilization of biomass and development of waste-to-energy concepts, smart grids and energy storage.

The development of human resources and support of the R&D relevant knowledge base in the Czech Republic constitute important co-benefits of our R&D projects. Cooperation with technical universities accounts for an important part of these activities. We are a founding member of the Czech Sustainable Energy Technology Platform, forum of utilities, vendors, research, engineering, and academic entities acting for the improvement of energy R&D in the Czech Republic and for the intensification of international cooperation.

We are also a member of VGB PowerTech and hold full membership in the nuclear sector of the Electric Power Research Institute (EPRI) and in other EPRI's programs, focused on the life-management of fossil power plants. In addition, we are intensively involved in international energy R&D projects, particularly in the E.U.'s Framework Programs, mainly in the areas of developing nuclear technologies, nuclear safety and radiation protection, but also in non-nuclear areas, for instance, in the smart grids. We are also a member of three European technology platforms, for instance the Sustainable Nuclear Energy Technology Platform and the

NUGENIA association, focused on R&D in generation II and III nuclear power plants.

The CEZ Group research and development costs, net of grants and subsidies received, that are not eligible for capitalization, have been expensed in the period when incurred and amounted to CZK 351 million in the year ended December 31, 2015, compared to CZK 531 million in the year ended December 31, 2014.

### Licenses

As of the date of this Base Prospectus, we hold all material licenses necessary for the operation of our business. For information on licenses and permissions required under the Czech Energy Act and under other applicable regulations, please see “*Regulation—Czech Republic—Electric Energy Sector—Licensing Regime.*”

### Emission Rights

CO<sub>2</sub> emissions became an integral part of our management and decision-making, not only at our coal-fired power plants which are directly affected by the trading, but also at non-fossil fuel-fired power plants, which play a major role in optimizing generation in terms of CO<sub>2</sub> emissions. Our decision making process regarding the trade of CO<sub>2</sub> is based on a comparison of the wholesale electricity price with generation costs, which include the price of CO<sub>2</sub> emission allowances.

The following table summarizes the movements in the quantity and book value of emission rights and credits held by us during 2014 and 2015.

	<b>For the year ended December 31,</b>			
	<b>2014</b>		<b>2015</b>	
	<b>(in thousand tons)</b>	<b>(CZK in millions)</b>	<b>(in thousand tons)</b>	<b>(CZK in millions)</b>
Emission rights and credits (CERs, ERUs) granted and purchased for own use:				
Granted and purchased emission rights and credits at January 1	24,371	6,584	31,567	3,704
Emission rights granted	35,532	-	13,970	-
Settlement of prior year actual emissions	(29,010)	(3,422)	(26,328)	(3,707)
Emission rights purchased	3,650	644	11,398	2,225
Emission rights sold	(5,403)	(99)	-	-
Emission credits purchased	2,427	3	70	-
Currency translation differences	-	(6)	-	(10)
Granted and purchased emission rights and credits December 31	<u>31,567</u>	<u>3,704</u>	<u>30,677</u>	<u>2,212</u>
Emission rights and credits held for trading:				
Emission rights and credits for trading at January 1	4,045	424	5,042	1,017
Settlement of prior year actual emissions	-	-	(1,813)	(344)
Emission rights purchased	1,002	141	9,232	1,969
Emission rights sold	-	-	(9,672)	(2,086)
Emission credits purchased	517	2	389	3
Emission credits sold	(522)	(2)	(378)	(3)
Fair value adjustment	-	452	-	68
Emission rights and credits held for trading at December 31	<u>5,042</u>	<u>1,017</u>	<u>2,800</u>	<u>624</u>

Our total emissions of greenhouse gases amounted to an equivalent of 28,141 thousand tons and 29,097 thousand tons of CO<sub>2</sub> for the years ended December 31, 2014 and 2015, respectively. As of December 31, 2015, we recognized a total provision for CO<sub>2</sub> emissions in the amount of CZK 2,709 million.

Since January 1, 2013 no emission allowances shall be allocated without charge in respect of any

electricity production, except for emission allowances allocated without charge in accordance with the National Plan of Investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector approved by the E.U. Commission on July 6, 2012 (the “National Plan of Investment”) (please see “Regulation—Czech Republic—Carbon Compliance (Emission Allowances)—Allocation of emission allowances during phase III” and “Czech Emission Allowances Act”).

Under the approved National Plan of Investment we can gain up to 70.2 million of emission allowances between 2013 and 2019 for our installations in the Czech Republic. As a result of benefiting from the allowances allocated without charge we are required to invest in retrofitting and upgrading of the infrastructure and clean technologies, which investments should mirror at least the value of the free allocation for electricity production.

The following table shows the allocation of emission allowances without charge to our coal-fired power plants and heat plants in the Czech Republic.

	2013	2014	2015	2016	2017	2018	2019	2020
For electricity production (in tons)	17,358,828	15,246,935	12,540,678	10,032,544	7,524,405	5,016,272	2,508,136	0
For heat production (starting 2017 expected values only)	1,424,999	1,195,538	1,002,928	843,775	710,217	593,154	492,365	395,993

### Intellectual Property

We own the rights to numerous trademarks in relation to the name “ČEZ” and its “E” symbol as well as to the name “SKUPINA ČEZ” (“CEZ GROUP”) and its “E” symbol. The trademark of the word “ČEZ” is protected in 32 states under the Madrid Agreement Concerning the International Registration of Marks and its Protocol (the “Madrid Agreement”). The trademark of the word “ČEZ” combined with the symbol “E” is protected in 38 states under the Madrid Agreement, and the trademark of the word “CEZ GROUP” combined with the symbol “E” is protected in 20 states under the Madrid Agreement and the color symbol “E” is protected in 20 states under the Madrid Agreement. The registration of all essential trademarks is regularly extended.

We do not own rights to any patents, utility models or industrial designs.

### Insurance

We maintain several types of insurance to protect us against potential liabilities. These include property insurance for our conventional power plants and nuclear power plants and nuclear liability insurance, in addition to other liability and property insurance. Our general liability insurance also covers particular environmental liabilities that we may incur.

Our insurance coverage complies with the Czech Nuclear Act and the Vienna Convention requirements in respect of responsibility for damage caused by a nuclear incident. However, our insurance does not fully cover all risks and we cannot guarantee that costs connected with nuclear disasters or other unforeseen events in our nuclear power plants would not have any negative effects on our business, results of operations and financial condition (please see “Risk Factors—Risks Related to Our Business and Operations—We could incur significant losses in the event of a nuclear accident”). The Czech Nuclear Act sets limits on the liability of operators of nuclear facilities for nuclear damage. The Czech Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 8 billion per incident and limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Czech Nuclear Act also requires an operator/licensee to insure its liability for the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). We have obtained all necessary insurance policies with the minimum limits required by law for the operation of our nuclear power plants. We have concluded such insurance policies with Česká pojišťovna a.s., which represents the Czech Nuclear Insurance Pool (a group of insurance companies) and with the European Liability Insurance for the Nuclear Industry, which is a mutual insurance company insuring nuclear liability risks.

We maintain insurance policies covering the assets of our coal, gas fired nuclear and hydro power plants, as well as insurance policies covering non-technological equipment, general third party liability insurance in connection

with our main operations and car insurance. We also have insurance policies covering directors' and officers' liability.

### **Safety and Quality Management**

Safety and quality management is an integrated part of our management system. It is implemented, maintained and evaluated in a top-down manner from the senior management level to the employee level. Our senior management is responsible to stakeholders for assuring and securing the resources necessary for quality, health and safety and environmental management. Through responsible management of our internal processes, we aim to assure added value for our customers.

Our quality management policy was approved by our Supervisory Board in October 2010. In 2015 the quality management policy was integrated into the Safety and Environmental Protection Policy containing the main principles of quality for our employees. Each Group-entity is responsible for implementing management system tools and for implementing the principles of quality management in all day-to-day activities.

We were the first energy company in the Czech Republic to sign the Czech Quality Charter in 2010. As a result, we actively engaged in Czech National Quality Policy and we founded the technical section Quality in Energetics alongside the Quality Council of the Czech Republic. Members of the section are represented by energy companies, their suppliers, engineering companies and concerned national institutions.

Our safety management system is based on the management of safety processes close to risks in generation and distribution. We have created two segment centers of safety which aim to guarantee and directly and methodically control our safety and environmental protection. We have implemented a three-level system of safety management and inspection including the Safety Inspectorate within our CEO Division, which is responsible for independent managerial oversight and feedback on all safety areas and environmental protection. We also have the Safety and Environmental Protection Policy which has become a part of our strategic management. The policy contains safety goals which are split into divisional and organizational management systems.

### ***Nuclear Safety***

Under Czech law, SONS is responsible for supervising the safe operation of nuclear power plants. SONS supervises regulatory compliance and the operation of nuclear facilities, the quality of selected activities, maintenance and personnel training. SONS representatives (local inspectors) are permanently on site at both Dukovany and Temelín nuclear power plants to monitor their performance and compliance with safety standards and operating procedures, and to make sure that any modifications are being performed in an appropriate manner. The safe operation of Dukovany and Temelín nuclear power plants is governed by documented requirements, approved by SONS. It is the responsibility of each plant to comply with regulations and requirements set out in the approved documentation.

Since their commissioning Dukovany and Temelín nuclear power plants have been continuously monitoring the levels of radiation in the immediate vicinity of the plants under the supervision of SONS. To date, the results of the monitoring in the ventilation outlets and in the drains of the plants have indicated that radiation levels remain considerably below regulatory limits.

### ***WANO***

ČEZ, is a member of the World Association of Nuclear Operators (“WANO”) and, like other members of these organizations, nuclear power plants are reviewed. These peer reviews are carried out regularly by international teams of experts from various professional organizations.

In January 2009, a follow-up mission on the 2007 WANO Peer Review took place at the Dukovany nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. The next WANO Peer Review at the Dukovany nuclear power plant took place in September



2012. International requirements and standards (performance targets and WANO criteria) and world's best practice in several areas were compared to the actual everyday operations of the power plant. High safety standards were valued in all areas. The mission identified several areas for improvement (e.g. operations and technical support) and highlighted several areas where the power plant can serve as a good practice for others. The plant's senior management has prepared a set of corrective measures covering all areas for improvement, which is being implemented now. In October 2014, a follow-up mission on the 2012 WANO Peer Review took place at the Dukovany nuclear power plant with five areas evaluated as "satisfactorily solved" and 14 areas with "satisfactory progress" achieved.

In 2006, a follow-up mission of the 2004 WANO Peer Review took place at the Temelín nuclear power plant. The mission confirmed that the power plant was well operated and declared that all of the recommendations of the WANO Peer Review were implemented or were in the advanced stages of implementation. Some additional proposals were suggested. The next WANO Peer Review was held at the end of November 2011. The review team identified several areas for improvement as well as several good practices for sharing among nuclear power plants engaged in WANO. A set of corrective measures focused mainly on improving the control process has been prepared and implemented. A Follow-Up WANO Peer Review was conducted at the Temelín Nuclear Power Plant in February 2013, examining the implementation of recommendations in the areas for improvement identified during the 2011 WANO Peer Review. The review stated positive development in the implementation of defined areas and the need to keep implementing related measures. In November 2015, the first WANO Peer Review under new Performance and Objective Criteria took place in the Temelín nuclear power plant. The mission concluded that the power plant is properly operated and is in a good condition. The mission identified fifteen areas to be improved and mentioned three areas in which the power plant can serve as a good practice example for others.

### **IAEA**

The Czech Republic is a member of the IAEA and, as a result, the IAEA has carried out a number of on-site IAEA assessment missions.

The first OSART review took place at the Dukovany nuclear power plant in 1989 with a follow-up Re-OSART mission in 1991. In November 2001, the Dukovany nuclear power plant underwent its next OSART review. Based on the recommendations from this review, an action plan was prepared and fulfilled. In October 2003, a follow-up OSART mission was carried out to review our implementation of its earlier recommendations and subsequently declared its full satisfaction with our fulfilment of its recommendations. The next OSART review at the Dukovany nuclear power plant was held in June 2011. The review team identified a wide range of good practices as well as several areas for improvement to achieve even better results of operational safety. The plant's senior management has prepared and implemented a set of corrective measures to address these recommendations before the follow-up OSART mission in June 2013. The follow-up mission concluded that 64% of the original findings were implemented completely and the progress in the implementation of the remaining 36% was satisfactory.

The first Pre-OSART review at the Temelín nuclear power plant was held in 1990 with a follow-up mission in 1992. A regular OSART mission at the Temelín nuclear power plant took place in 2001 and the follow-up OSART mission held in 2003 was aimed at assessing the power plant's response to the recommendations of the OSART mission in 2001. Most of the recommendations and proposals were included in the category "completed," and the team generally noted the progress in operational safety enhancement, recommendation implementation and power plant appearance. The next OSART mission at the Temelín nuclear power plant focusing mainly on organization, management, operation, maintenance, technical support, radiation protection and emergency management systems took place in November 2012. The final report highlights consistency in operations of the power plant with the criteria of the IAEA and confirms that there are no major safety shortcomings. A set of recommendations for improvement in the operations, operating experience, technical support and severe accident management areas were also provided. The follow-up OSART mission at Temelín nuclear power plant took place in May 2014 and concluded that with a recommendation of excellent. Furthermore, foreign experts praised the fact that measures following the recommendations were adopted on the basis of in-depth analysis, and that measures in many cases went beyond the recommendations of the OSART

team. Eleven recommendations were assessed as “fully resolved”; four recommendations were assessed in stage of “satisfactory progress”.

In April 2013, there was an IAEA mission focusing on a seismic review of the site of the Temelín Nuclear Power Plant with the aim of evaluating the situation in five previously unfinished areas from the previous 2003 IAEA expert mission and reviewing compliance with the requirements of IAEA safety standards. Two areas were evaluated as completely solved and three as partially solved. An action plan of measures was prepared for the implementation of the remaining areas.

In September and October 2013, the historically first OSART Corporate assessment took place in ČEZ, focusing not only on technology, but also on management, human resources, communication, purchasing, corporate independent supervision and maintenance. The review team concluded that ČEZ fully complies with all legislative requirements for nuclear plant operation and identified 10 good practices which will serve as an example for other nuclear plants operators in the world, 6 suggestions for improvement and 3 recommendations.

In May 2014, an IAEA OSART follow-up mission reviewed the effectiveness of measures taken in the Temelín nuclear power plant (in organization and management, operations, maintenance, technical support, feedback, chemistry, radiation protection, and emergency management) based on 2012 recommendations and confirmed successful implementation of recommended measures in the Temelín nuclear power plant.

In May 2015, an IAEA OSART Corporate follow-up mission was conducted to review whether three IAEA expert recommendations and six suggestions of October 2013 relating to improvement of nuclear power plant safety management were implemented. This follow-up mission found six of the nine findings “resolved” and three evincing “satisfactory progress”.

In 1989, IAEA and the Nuclear Energy Agency of the OECD introduced the International Nuclear Events Scale (“INES”), an internationally recognized tool used to inform the public in consistent terms of the safety significance of reported nuclear and radiological incidents and accidents, excluding naturally occurring phenomena such as radon. Events are classified at seven levels: Levels 4 to 7 are termed “accidents” with a significant radiation exposure off-site, while Levels 1 to 3 are termed “incidents” with effects on the nuclear facilities only. Events without safety significance are called “deviations” and are classified Below Scale/Level 0. No incident higher than Level 1 was observed at the Dukovany and Temelín NPP as of December 31, 2015.

### ***Post Fukushima Stress Tests***

Stress tests of nuclear power plants required by the European Council are defined as a focused assessment of safety margins and resistance of nuclear plants, in light of the events that occurred at the Fukushima-Daiichi nuclear power plant in Japan following the tsunami on March 11, 2011.

The assessment of both of our nuclear power plants was performed by experts in nuclear safety, design of nuclear facilities, accident management, emergency preparedness and phenomenology research of severe accidents, fully qualified for the assessment. The evaluators complied with a deterministic approach to evaluate the expected successive failure of all preventive actions during extreme scenarios.

During the assessment, no conditions were that required immediate remedial action. Both of our nuclear power plants were assessed to be able to safely manage even highly improbable extreme emergency conditions without posing any threat to their vicinity. Despite identifying the robustness of barriers, the evaluators concluded that opportunities still existed for further safety enhancement with respect to highly improbable situations. The proposed measures which are subject to further review are broken down into short- and medium-term measures, categorized according to their importance. Short-term measures include:

- proposing and implementing alternative means of communication and support during interventions at the nuclear power plant and for communicating with public authorities in the event of significant damage to infrastructure and the isolation of the site area;
- finalizing the remaining procedures and guidelines for severe accidents; and

- reviewing the existing qualifications and capacity of personnel to fulfill the vital functions of the nuclear power plant if all units on the site are affected, or in case of loss of the control centers.
- Medium-term measures include:
- proposing and implementing alternative independent technical means (for example power sources and pumps) as another barrier to fulfilling the vital functions of the nuclear power plant including guideline implementation; and
- implementing the actions in process to reinforce the design against the effects of severe accidents.

The deadline, being the end of 2015, for implementation of the majority of the measures on both our nuclear power plants was complied with. Two measures with long-term implementation schedules remain open with implementation deadlines in 2016 and 2022, respectively. The safety enhancement program is understood to be open and new activities are supposed to be added based on the use of state-of-the-art methods and new technical solutions.

#### ***EMANI, Czech Nuclear Insurance Pool, ELINI***

The inspections of the European Mutual Association for Nuclear Insurance (“EMANI”), European Liability Insurance for the Nuclear Industry (“ELINI”) and the Czech Nuclear Insurance Pool were carried out in 2012, 2013 and 2015 at our nuclear power plants. The next inspections are planned to take place in 2016. These inspections were focused on fire protection, operation, maintenance, nuclear safety and overall condition of the plants.

Both plants were evaluated as well controlled, operated and maintained in all assessed areas.

#### **Risk Management**

We continue to develop our integrated risk management system in order to increase our fundamental value while taking into account the level of risk acceptable for shareholders. Our supreme risk authority is our Chief Financial and Operations Officer, who decides, based on the recommendation of the Risk Management Committee, on the development of an integrated system of risk management, on an overall allocation of risk capital to the individual risks and organizational units, and he approves obligatory rules, responsibilities and limit structure for the management of partial risks.

The Risk Management Committee (advisory committee of the Chief Financial and Operations Officer), which comprises of:

- seven permanent members: Chief Financial and Operations Officer, Chief Risk Officer, Chief Generation Officer, Chief Sales Officer, Chief Strategy Officer, Trading Director, Executive Finance Director;
- four non-permanent members (being the other members of the Board of Directors): Chief Executive Officer, Chief Renewables and Development Officer, Chief External Relations and Regulation Officer, Chief Administrative Officer; and
- one permanent guest: Internal Audit Director.

The Risk Management Committee continuously monitors an overall impact of risk on the CEZ Group, including utilization of risk limits of the CEZ Group, status of risks linked to our business plan targets, status of our hedging strategies, assessment of impact of investments and other activities on potential CEZ Group debt capacity and cash flow in order to maintain corporate rating.

Since 2005, we have applied a risk capital concept that allows the setting of particular risk limits as well as an aggregate annual risk limit. The value of our aggregate annual risk limit is approved by our Board of Directors each year (together with the annual budget) based on the proposal of our Risk Management Committee. The proposed limit value, in CZK, is set on the basis of a 95% confidence level and expresses a maximum profit decrease that we are willing to take in order to achieve our planned profit for the year.

Since 2009, the main Business Plan market risks (electricity price, emission allowances price and currency exchange rate between the Euro and Czech crowns) have been quantified on a monthly basis by the EBITDA @ Risk model based on the MonteCarlo simulation in Y+1 to Y+5 horizon. Through the integration of the EBITDA @ Risk outputs with mandatory investments and financials (within the five year horizon), the total debt capacity (which is defined as net debt/EBITDA) ratio is calculated each month and evaluated in light of our rating targets. We base all decisions about available capital for future investments on these calculations, as well as on key CEZ Group risks, and we continuously adjust our hedging and investment strategy accordingly.

Since 2011, the central unified @Risk concept has been used in the CAPEX investment process, where potential CAPEX increase and potential completion delay is calculated on the basis of a 95% confidence level for each individual investment project. This concept enables a relevant comparison of the risk profile of actual net present value of each project and contributes to the effective internal competition for capital resources.

We divide risks into four categories:

- market risks, comprising financial risks, commodity risks, volumetric risks and market liquidity;
- credit risks, comprising counterparty default, supplier default and settlement;
- operational risks, comprising operating risk, internal change, liquidity management and security; and
- business risks, comprising strategic, political, regulatory and reputational risks.

All essential quantifiable risks are quantified on a unified basis at least once each month. Our methodology and data provide for a unified quantification of the following risks:

- market risks, comprising financial risks (such as currency, interest and stock price), commodity price risks (relating to prices of electricity, emission allowances, coal, gas, crude oil), volumetric risks (such as volume of electricity production in wind farms);
- credit risks, comprising financial and business counterparty risk and electricity, gas and heat end-customer risk; and
- operational risks, comprising risks related to the operation of nuclear and coal power plants in the Czech Republic and investment risks.

We aim to manage business risks by using clear responsibility assessment, key risk identification, systematic sensitivity and scenario analysis. Property, casualty and other operational risks are managed through using insurance, emergency and crisis planning and preventive actions. Our ten most important cash flow risks are centrally monitored and coordinated and are updated and reported to the Risk Management Committee on a quarterly basis.

In addition, our annual budget risks, business plan risks and debt capacity risks are reported on a monthly basis to the Risk Management Committee.

For more information relating to material risks that we face, please see “*Risk Factors*” and Note 18 of our audited consolidated financial statements for the year ended December 31, 2015.

## Environmental Matters

As of the date of this Base Prospectus, we are in compliance with all material requirements of the Czech Waste Act, the Czech Air Protection Act, the Czech IPPC Act, the Czech Water Act and the Czech Nuclear Act.

### *Czech Waste Act*

Pursuant to the Czech Waste Act, and pursuant to related regulations, we use coal ash as a certification material for reclamation and improving the sanitary conditions of landscape and disused shafts of our existing mines. We also sell residue to certain producers of construction materials. In addition, since 1994, we have also sold a portion of the FGD gypsum (a coal combustion product of coal-fuelled power plants) remaining after the desulphurization process to certain producers of construction materials. This approach has the environmental advantage of saving natural materials, particularly in the building industry.

We are required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps. We are required by law to keep such amounts as restricted funds. Restricted funds representing our accumulated provision for waste storage and reclamation of our operations in the Czech Republic amounted to CZK 176.1 million as of December 31, 2015.

### *Czech Air Protection Act*

We fully comply with all applicable regulations and requirements under the Czech Air Protection Act.

Since we own numerous coal-fired power plants, we have the advantage that under applicable legislation we may exchange and allocate the assigned aggregate emission limits between our coal-fired power plants in such a way as to ensure compliance with the Czech Air Protection Act and we are therefore able to optimize generation.

The new Czech Air Protection Act sets more stringent emission limit values on combustion plants with a total thermal input of more than 50 MW from 2015. This change in law requires a certain amount of capital expenditure into emission reduction measures necessary to comply with these limits. Nearly all of our combustion plants that fall into this category took advantage of a legal possibility within the transitional national plan to comply with these limits in a transitional period, i.e. by July 2020 (please see “*Regulation – Czech Republic – Czech Air Protection Act – Emission limits*” and “*Exceptions to the emission limits*”).

For the year ended December 31, 2015, our total emission charges in the Czech Republic amounted to CZK 84 million, decreasing by 9% from CZK 92 million for the year ended December 31, 2014.

### *Czech Nuclear Act*

On June 24, 1994, the Czech Republic became a party to the Vienna Convention. In accordance with the Vienna Convention, the Czech Nuclear Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident please see “*Regulation - Nuclear Energy Power Plants - Nuclear incident*”.

The Dukovany and Temelín nuclear power plants are currently fully insured in accordance with the Czech Nuclear Act and the Vienna Convention. For more information about our insurance coverage, please see “*Insurance*.”

The Czech Nuclear Act contains a provision to the effect that the Czech Republic shall guarantee the safe final disposal of nuclear waste. The Czech Nuclear Act provides that a generator of nuclear waste will remain responsible for storage of nuclear waste and related costs until the handover of the waste to the Czech Repository Authority – please see “*Regulation - Nuclear Energy Power Plants - Nuclear fuel and nuclear waste*”.

In 1999, we sold our repository for disposal of nuclear waste from the operation of both the Dukovany and Temelín nuclear power plants to the Czech Repository Authority. The Czech Repository Authority has engaged us to continue operating the repository located at the Dukovany nuclear power plant.

The activities of the Czech Repository Authority are financed through the Czech Nuclear Account funded by the generators of nuclear waste. The Czech Nuclear Account is managed by the Czech Ministry of Finance. We are required to contribute to the Czech Nuclear Account in the amount of CZK 50 per MWh of electricity generated by our nuclear power plants. Since October 1, 1997, we have made regular payments to the Czech Nuclear Account. In the year ended December 31, 2015, our total payments to the Czech Nuclear Account amounted to CZK 21,267 million.

The originator of radioactive waste is required by the Czech Nuclear Act to cover directly all costs associated with interim storage of spent fuel and the disposal of radioactive waste. The operator is also liable under the Czech Nuclear Act to finance the decommissioning of its nuclear power plants. For this particular purpose, financial resources are accumulated in a special blocked account and any drawings from this account are subject to receiving the Czech Repository Authority's approval.

We have recognized provisions for our obligations to decommission our nuclear power plants and other nuclear facilities at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis as well as provisions for our obligation to provide financing for subsequent long term storage of spent fuel and irradiated parts of reactors. Actual costs incurred are charged against such accumulated provisions. As of December 31, 2015 the provision for interim spent fuel storage amounted to CZK 7.500 billion, the provision for long term spent fuel storage amounted to CZK 23.123 billion and the provision for decommissioning amounted to CZK 19.5 billion.

### **Legal Proceedings**

We are currently involved in a number of legal proceedings; however, we believe that liabilities relating to such proceedings would not, individually or in the aggregate, have a material adverse effect on our results of operations or financial condition. Certain significant legal proceedings in which we have been involved in the 12 months preceding the date of this Base Prospectus are described below.

### ***CZECH REPUBLIC***

#### ***Litigation with Sokolovská uhelná, právní nástupce, a.s.***

We are involved in a dispute with Sokolovská uhelná, právní nástupce, a.s. in relation to the amount of and price for brown coal supplies being supplied to us until 2027 under a long-term supply agreement. Sokolovská uhelná, právní nástupce, a.s. has challenged the validity of the supply agreement in connection with this dispute.

In July 2011, we filed a civil lawsuit on the grounds of unjust enrichment in the amount of approximately CZK 56 million against Sokolovská uhelná, právní nástupce, a.s. We request the return of the payments made by us in the period between January and May 2011 above the price agreed in the long-term supply agreement. The proceedings are still pending before the Regional Court in Plzeň. In June 2014, we filed a civil lawsuit on the grounds of unjust enrichment in the amount of approximately CZK 76.8 million against Sokolovská uhelná, právní nástupce, a.s. We request the return of the payments made by us in the period between June and December 2011 above the price agreed in the long-term supply agreement. The proceedings are still pending before the District Court in Sokolov.

In December 2014, we lodged a claim with the District Court in Sokolov against Sokolovská uhelná, právní nástupce, a.s. We claim that Sokolovská uhelná, právní nástupce, a.s. delivered in 2011 less quantity of brown coal than it was stipulated in the long-term supply contract and, therefore, it is obliged to pay us a so-called "ship-or-pay" contractual penalty. The claimed amount is approximately CZK 342 million plus approximately CZK 160 million further claimed as a contractual penalty for a default with the payment of the said ship-or-pay contractual penalty together with default interest on both amounts. The proceeding is still pending before the District Court in Sokolov.

In March 2015, we lodged a claim with the District Court in Sokolov against Sokolovská uhelná, právní nástupce, a.s. We claim damages amounting to approximately CZK 206 million plus related amounts resulting from the forced reimbursement of the brown coal delivery to Tisová power plant during the period January

2012 till December 2014, which Sokolovská uhelná, právní nástupce, a.s. is obliged to pay under the related long term purchase contract. The court proceeding is still pending.

In December 2015, we filed an action with the District Court in Sokolov against Sokolovská uhelná, právní nástupce, a.s. requesting the payment of a contractual penalty in the amount of approximately CZK 430 million for failure to comply with the “ship-or-pay” obligation relating to the supplies of brown coal in 2012. The court proceeding is still pending.

In connection with the proceedings above, we were also investigated by the Czech Office for the Protection of Competition (see below), and by the Specialized Tax Office. We filed an administrative action to the Municipal Court in Prague against decision of the Specialized Tax Office. The court proceeding is still pending.

In February 2016, Sokolovská uhelná, právní nástupce, a.s. filed a lawsuit against ČEZ claiming approximately CZK 1,054 million plus accrued appurtenances as unjust enrichment of ČEZ based on the fact that ČEZ shall have allegedly purchased coal from 2010 to 2013 for a lower price than would be arm’s length prices. Sokolovská uhelná, právní nástupce, a.s. claims reimbursement of the balance and contractual penalties. The proceedings are still pending before the District Court in Sokolov.

***Administrative Proceedings before Czech Office for Protection of Competition regarding Alleged Abuse of Dominant Position in Connection with Coal Supplies from Sokolovská uhelná, právní nástupce, a.s.***

In July 2014, the Czech Office for Protection of Competition initiated administrative proceedings against us regarding alleged abuse of our dominant position in the form of applying, from at least January 1, 2014, different contractual terms and conditions with regard to the supplies of brown coal to its customers and to Sokolovská uhelná, právní nástupce, a.s. The proceedings before Czech Office for Protection of Competition are still pending and we have not yet received a statement of objections.

***Litigation with UNIPETROL RPA, s.r.o. over Unjust Enrichment***

In August 2015, UNIPETROL RPA, s.r.o. filed an action with the District Court in Děčín against ČEZ Distribuce, a. s. alleging unjust enrichment in the amount of approximately CZK 303 million arising from alleged illegal invoicing of the price for distribution of electricity. UNIPETROL RPA, s.r.o. alleged that in the period from January 1, 2013, to October 1, 2013, the charge for electricity distribution should not have been requested and invoiced by ČEZ Distribuce, a. s. to UNIPETROL RPA, s.r.o. The proceeding is still pending.

***Litigation with ArcelorMittal Ostrava a.s. over Unjust Enrichment***

In August 2015, ArcelorMittal Ostrava a.s. filed an action with the District Court in Děčín against ČEZ Distribuce, a. s. alleging unjust enrichment in the amount of approximately CZK 394 million arising from alleged illegal invoicing of the price for distribution of electricity. ArcelorMittal Ostrava a.s. alleged that in the period from January 1, 2013, to October 1, 2013, the charge for electricity distribution should not have been requested and invoiced by ČEZ Distribuce, a. s. to ArcelorMittal Ostrava a.s.. The proceeding is still pending.

***Insolvency Proceedings of Lignit Hodonín***

In the insolvency proceedings against Lignit Hodonín, s.r.o., a producer and supplier of brown coal, we have registered claims in an amount exceeding CZK 115 million. This amount includes CZK 23 million corresponding to supplied and unpaid electricity under contracts, while the rest relates to penalties resulting from the contracts. A special review hearing took place in May 2010, at which our claim was recognized in full. The business enterprise of Lignit Hodonín was sold in September 2010. In March 2013, the court issued a resolution based on which only the priority claims were satisfied and our claims were not satisfied at all. In addition, the insolvency administrator filed a suit against us for damages amounting to CZK 196.2 million, allegedly resulting from our abuse of a dominant position in determining the purchase price of brown coal deliveries under a sales contract entered into with Lignit Hodonín, a.s. as the supplier. We deny the claim in its entirety. The disputed receivables have been transferred several times. Currently, the claimant is FORMOSANA LIMITED.

***Litigation Proceedings against SZDC***

In June 2010, we filed with the Municipal Court in Prague a claim against Railway Infrastructure Administration, state organization (“SZDC”) for damages in the total amount of CZK 805 million. Our claim arose out of a breach of the agreement on electricity supply by SZDC, which did not off-take the contracted amount of electricity in 2010. The Municipal Court in Prague dismissed our claim due to circumstances that exclude liability of SZDC. We appealed the judgment of the Municipal Court in Prague. The appellate court (The High Court in Prague) canceled the judgment of The Municipal Court in March 2015 and admitted the claim in the full amount and accessories.

In January 2013, we filed with the Municipal Court in Prague another claim against SZDC for damages in the total amount of CZK 857 million. Our claim arose out of the breach by SZDC of the agreement on electricity supply, where SZDC did not off-take its contracted amount of electricity in 2011. The proceeding is pending before the Municipal Court in Prague.

In June 2015, a court awarded ČEZ Prodej, s.r.o. a total of CZK 1.1 billion from Správa železniční dopravní cesty (Railway Infrastructure Administration) in relation to court proceedings concerning a 2010 electricity supply contract.

***Squeeze-Out Proceedings***

In the Czech Republic, we are a party to the following pending proceedings in connection with the squeeze-out of former minority shareholders in our subsidiaries:

- Action against Severočeské doly a.s. for review of consideration and stipulation of further consideration in connection with the squeeze-out in Severočeské doly a.s. the proceedings are currently pending in the first instance. If the claimants prevailed in the proceedings, the aggregate further consideration might amount to up to CZK 1,800 million.
- Action against ČEZ Teplárenská, a.s. for review of consideration and stipulation of further consideration in connection with squeeze-out in United Energy, a.s. the proceedings are currently pending in the first instance. The possible impact of the action to ČEZ Teplárenská, a.s. or ČEZ cannot be estimated at this stage.
- Action against ČEZ Teplárenská, a.s. for declaration of the invalidity of the squeeze-out General Meeting resolution - the claim was finally dismissed by the court.

As of the date of this Base Prospectus, it is not possible to predict the outcome of the above mentioned proceedings concerning the squeeze-out of former minority shareholders in our subsidiaries.

***Litigation with Lesy České republiky over Compensation of Damage***

We face 21 lawsuits initiated by the same plaintiff, Lesy České republiky s.p., a state-owned company. All of the suits have the same grounds, namely a claim for compensation of damage caused by our operations to forest crops between 1997 and 2013. The oldest suit is from 1999; the latest one is from 2015. The total amount claimed is CZK 282 million plus interest and other related amounts.

***Litigation with VÍTKOVICE, a.s.***

In March 2012, ČEZ filed a petition against VÍTKOVICE, a.s. with the Regional Court in Ostrava in which ČEZ is seeking damages in the amount of CZK 385 million due to a breach of an electricity supply contract by VÍTKOVICE, a.s. ČEZ also claims an additional CZK 10 million for unpaid supply of electricity. This claim is still pending.



***Litigation between ČEZ Distribuce and OTE, a.s.***

On March 18, 2016, ČEZ Distribuce filed a lawsuit on the grounds of unjust enrichment in the amount of approximately CZK 1.9 billion (including appurtenances) against OTE, a. s. due to the incorrectly invoiced costs related to promotion of electricity in connection with the local (own) electricity consumption from January to October 2013. The lawsuit is a consequence of vague legislation in this area, because the respective legislation did not provide clearly for whether ČEZ Distribuce should collect this fee from its customers and transfer them further to OTE, a.s. The lawsuit prevents the claim to be time-barred. The proceeding is pending before the District Court of Prague 8.

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

ČEZ has been contacted by the police of the Czech Republic in several cases that are subject to investigation. All cases are still at their preliminary stage. At that stage (which typically lasts for several months and sometimes a year or longer) police collect and verify information in order to decide whether there are justifiable reasons for starting criminal prosecutions.

In April 2016, ČEZ Obnovitelné zdroje, s.r.o., an operator of the solar power plant Vranovská Ves with installed capacity of 16.033 MW received a resolution of the police of the Czech Republic on seizure of a part of funds which ČEZ Obnovitelné zdroje, s.r.o. is in the future entitled to receive under the settlement agreement between ČEZ Obnovitelné zdroje, s.r.o. and OTE, a.s. The funds to be seized by the Czech police equals the difference between the portion of subsidies paid to the solar power plant Vranovská Ves and the portion of subsidies that would be paid to the solar power plant Vranovská Ves should it have been put into operation in 2011 when the subsidies decreased. We believe that the solar power plant Vranovská Ves received the subsidies in compliance with applicable law which was confirmed by several inspections conducted by the ERO. Therefore, ČEZ Obnovitelné zdroje, s.r.o. filed a complaint against the resolution of the police of the Czech Republic, and there was neither a provision, nor an impairment loss accounted in this respect.

ČEZ fully cooperates with the investigators and provides them with all requested documentation and information.

***POLAND******Proceedings Relating to Our Polish Wind Farms Developer***

Agrowind Kończewo sp. z o.o. (“Agrowind”) filed a lawsuit against Eco-Wind Construction S.A., our Polish wind farms developer (“EWC”) and six other defendants (including Eco-Wind sp. z o.o. (“EW”)) claiming damages amounting to PLN 22,653,583 and appurtenances (on a joint and several basis). The damage was allegedly caused by a lease of certain lands by EWC and EW which had been allegedly leased by the owners thereof also to Agrowind. On December 4, 2012, the plaintiff expanded its claim to a total of PLN 112,712,952 and appurtenances (approximately CZK 734 million). On March 19, 2012, the Regional Court in Słupsk issued a temporary injunction to secure the plaintiff’s claim against the EWC and EW and temporarily seized the stocks and shares of several companies owned by EWC and EW for the duration of the proceedings. The ruling of the Regional Court in Słupsk dated September 11, 2014 concerning the dismissal of EWC’s request for termination of the temporary injunction was upheld by the Court of Appeals in Gdańsk on November 24, 2014. On September 11, 2014, the Regional Court dismissed the plaintiff’s application to increase the temporary injunction already in place. Both parties to the dispute had an expert opinion prepared in the matter at question. The case is currently pending. The court proceeding is expected to last several years.

***BULGARIA******Proceedings with the Bulgarian Energy and Water Regulatory Commission (KEVR) and related disputes***

CEZ Razpredelenie Bulgaria AD, CEZ Elektro Bulgaria AD and TEC Varna EAD filed an appeal against numerous decisions of the KEVR relating to electricity prices, prices for access to the distribution grid by producers generating electricity from renewables and to compensation of costs incurred by electricity suppliers

in connection with the obligation to purchase electricity from renewables and highly effective combined heat and power generation for a preferential price. The court proceedings are pending.

CEZ Razpredelenie Bulgaria AD and CEZ Elektro Bulgaria AD appealed the Ordinance No. 1 of KEVR of April 5, 2013, providing for regulated electricity prices, as amended by the decree providing for electricity prices applicable from February 28, 2014. The decree, as amended, changed the method of invoicing the reactive power surcharge on active power paid by electricity distributors and prescribed that costs arising from energy trade balancing (deviation balancing) shall not be recognized for the purposes of price regulation. In accordance with the claims of the companies, the court abolished a part of Article 10 of the Ordinance No. 1. The court decision was appealed by the regulator. By decision dated February 23, 2016, the Supreme Administrative court finally abolished Article 10, par. 2, points 2 and 6 of the Ordinance No. 1 which regulated the electricity prices related to the lack of recognition of the expenses for balancing and for reactive energy in the electricity prices. The decision of the court has been promulgated in the Official Gazette on March 15, 2016, and is in force.

The hearing for proceedings for the alleged breach of competition law and article 101 and 102 of the Treaty on Functioning of the European Union which was initiated by the Commission for the Protection of Competition (CPC) in 2013 against all three electricity distribution companies operating in Bulgaria (CEZ Group, ENERGO - PRO and EVN) in connection with alleged joint actions of the above listed companies on the electricity market was held on October 22, 2014 and in July 2015. CPC requested additional documents and information from CEZ Razpredelenie Bulgaria and CEZ Trade Bulgaria EAD. No other action has been undertaken so far. A few other minor competition proceedings have been initiated against CEZ Razpredelenie Bulgaria AD in 2014 and 2015.

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

An audit by KEVR was conducted on CEZ Razpredelenie Bulgaria AD to control the compliance by CEZ Razpredelenie Bulgaria AD with terms and conditions of its electricity distribution license in the period from July 1, 2008 to November 30, 2013. CEZ Razpredelenie Bulgaria AD received 981 administrative decisions on alleged individual breaches. Appeals and objections were filed against all these administrative decisions. Following the appeals, CEZ Razpredelenie Bulgaria AD received 206 administrative acts on imposition of penalty decrees in the amount of BGN 20,000 (approx. CZK 300,000) for each breach of the terms and conditions of the distribution license. CEZ Razpredelenie Bulgaria AD has appealed all 206 administrative acts. As of the date of this Prospectus, 116 first instance judicial decisions were issued – 46 of them have repealed the penalty decrees and 70 of them have approved the penalty decrees. The latter first instance judicial decisions were appealed. As of March 31, 2016, 49 decisions of the court of appeals have entered into force, 30 of which have approved the penalty decrees which have been paid. The other 19 decisions of the court of appeals have definitively repealed the penalty decrees. Remaining proceedings are pending.

#### ***Litigation in Bulgaria with NEK***

In March 2014, NEK, a Bulgarian producer of electricity, notified CEZ Elektro Bulgaria AD of the commencement of arbitration proceedings before the Bulgarian Chamber of Commerce and Industry (BCCI). NEK claims payment for electricity supplies in 2011 and 2012 in the amount of BGN 10 million (approximately CZK 140 million). CEZ Elektro Bulgaria AD refuses this claim. On February 16, 2015, another hearing took place and new expert opinion was requested by the BCCI. Final hearing took place on May 18, 2016. The tribunal should issue the award within two months as of the final hearing..

In March 2014, NEK also filed a petition with the Sofia City Court against CEZ Razpredelenie Bulgaria AD. NEK claims payment for electricity supplies in 2011 and 2012 in the amount of BGN 5.9 million (approximately CZK 84 million). On April 2, 2014, CEZ Razpredelenie Bulgaria AD filed written objections. In a closed hearing held on June 1, 2015, the court summoned ESO EAD (electricity transmission system operator) as the plaintiff instead of NEK. The proceeding is pending.

On September 17, 2015, NEK filed an action against CEZ Electro Bulgaria AD and claimed payment of BGN 6.4 million (CZK 88.4 million) for allegedly unpaid electricity supplies. CEZ Electro Bulgaria AD refused all claims and argued that these receivables were offset against the receivable of CEZ Electro Bulgaria towards NEK. The proceeding is still pending

#### ***Insolvency Proceedings against CEZ Elektro Bulgaria AD***

On April 1, 2014 the company FM Sol EOOD filed an insolvency petition with the Sofia City Court against CEZ Elektro Bulgaria AD. FM Sol EOOD argued that, according to the news, CEZ Elektro Bulgaria AD has financial difficulties. In a judgement dated June 17, 2015, the court rejected the insolvency petition filed by FM Sol EOOD. The judgment was not appealed by FM Sol EOOD and entered into effect as of July 7, 2015.

#### ***Arbitration Proceedings in Bulgaria***

On November 19, 2015, ČEZ officially informed the State of Bulgaria of its intention to initiate international investment arbitration proceedings on the grounds of Bulgaria's failure to protect its investment in the energy sector, unless the current situation is quickly remedied and the damage caused duly compensated. In addition to ČEZ, EVN and Energo-Pro, other large international companies owning distribution facilities in Bulgaria, have also initiated such international investment arbitration proceedings. ČEZ decided to send a Notice of Dispute to the State of Bulgaria after a series of submissions to Bulgarian state bodies that negatively influenced the business operations of ČEZ companies in Bulgaria. The Notice of Dispute followed only after preceding negotiations with the Ministry of Finance of the Republic of Bulgaria which failed to reach a remedy, and after exhaustion of available national (Bulgarian) remedies. The Notice of Dispute is the first formal step in initiating international investment arbitration under the Agreement for the Promotion and Reciprocal Protection of Investments, entered into between the Czech Republic and the Republic of Bulgaria, and under the Energy Charter Treaty.

### ***ROMANIA***

#### ***Electrica S.A. Arbitration***

In 2015, we were involved in arbitration commenced by the Romanian company Electrica S.A. as the claimant, by request for arbitration of October 8, 2012 under the Rules of Arbitration of the International Chamber of Commerce. The seat of arbitration was in Paris, France, the substantive governing law was Romanian and the dispute was decided by the sole arbitrator. Electrica S.A. requested the payment of the contractual penalty of EUR 18,799,579 for the alleged breach of obligations by ČEZ under the Privatization Agreement dated April 5, 2005, by which we acquired a 51% stake in Electrica Oltenia S.A., Electrica's subsidiary. We responded to the request for arbitration on December 21, 2012, rejecting all claims asserted by the claimant as groundless and without merit and reserving rights to assert a counterclaim against the claimant. The sole arbitrator was appointed by the International Chamber of Commerce on January 24, 2013. In its Statement of Claim of July 1, 2013, Electrica S.A. amended its claims and, in addition to the contractual penalties, also requested damages, bringing the total amount of claims in this arbitration against us to EUR 81.6 million. The International Court of Arbitration of the International Chamber of Commerce in Paris admitted this extension in September 2013. ČEZ denied the claim as unsubstantiated and proposed that the court should dismiss the action and order the claimant to reimburse ČEZ for the cost of the proceedings. As of June 12, 2014, Electrica S.A. was replaced by Societatea de Administrare a Participatiilor in Energie S.A. as the claimant in this arbitration, on the basis of privatization agreements and spin off implemented by Electrica S.A. In April 2015, we won the arbitration and the arbitrator rejected the vast majority of claims of Societatea de Administrare a Participatiilor in Energie S.A. (formerly Electrica S.A.). The arbitrator upheld only a very small amount of claims of Societatea de Administrare a Participatiilor in Energie S.A. (formerly Electrica S.A.) that is immaterial.

#### ***Complaint of the CEZ Group to E.U. Commission concerning reduction of support of renewable energy by Romanian government***

In 2013, the Romanian government reduced support of renewable energy sources (including our Romanian wind

power plants) in a manner that interferes with investors' legitimate expectations and violates the Treaty on the Functioning of the E.U. (concerning the freedom of establishment and free movement of capital) and other principles of E.U. law. ČEZ submitted a complaint and initiative to the E.U. Commission and requested the E.U. Commission to investigate whether the new renewable energy support scheme is in compliance with E.U. law. The E.U. is currently reviewing our complaint and initiative.

Until 2013, our wind farms had been authorized by the Romanian government to receive two green certificates per MWh of electricity generated. On June 4, 2013, the Romanian government approved a decree on promotion of renewable energy sources and the support of renewable energy sources was reduced and tradability of one of the two green certificates to be received by our Romanian wind power plants was postponed until 2018. Since 2013, ANRE, the Romanian regulatory authority, has been including new power plants in the renewables support scheme only up to a volume to be approved by the Romanian government in the National Action Plan for each calendar year. Pursuant to this decree, green certificates are no longer granted to photovoltaic power plants built on farmland and to renewable energy power plants with installed capacity exceeding 10 MW (5 MW in the case of photovoltaic power plants) in respect of electricity creating imbalance in the power grid. Suppliers of electricity to end customers, who are required by law to purchase green certificates, since 2013 may no longer include a penalty for insufficient purchases in their customers' bills. The above described law has significant adverse impact on the production of electricity by our wind farms in Romania.

On October 31, 2013, the temporary two-year accreditation for allocation of green certificates to Fantanale Vest, a part of the Fantanele wind farm comprising 105 wind turbines with total installed capacity of 262.5 MW, expired. Under Romanian law, each renewable energy provider is required to notify the E.U. Commission of each electricity production facility with capacity exceeding 125 MW which has applied for accreditation for allocation of green certificates. The notification is submitted to the Romanian government which in turn notifies the E.U. Commission. We prepared such notification and ancillary materials and submitted them to the Romanian government within the statutory deadline in January 2012. However, during this process, the Romanian government modified the scheme for support of renewable energy sources which has not been approved by the E.U. Commission. Until the E.U. Commission reaches a conclusion on the new Romanian law relating to the support of renewable energy sources, the E.U. Commission will not consider the notifications for allocation of green certificates, including the notification with respect to our Romanian wind power plants.

According to the amendment to Romanian law on support of renewable energy sources (which entered into effect on June 3, 2015), ANRE issued an implementing regulation on July 1, 2015. On September 2, 2015, ANRE approved temporary accreditation for allocation of green certificates to the Cogeaalac and Fantanele Vest wind farms on the basis of this implementing regulation. The temporary accreditation entitles each wind farm to receive one green certificate per MWh of electricity produced and is valid for 12 months. The temporary accreditation may be extended should the E.U. Commission's examination of the individual notification of the respective wind farm still be pending. On January 18, 2016, we filed an application to ANRE for extension of the temporary accreditation for an additional 12 months. The accreditation and allocation of the second certificate to our wind farms remains suspended until the period from 2018 to 2020.

Please see also "*Description of the Issuer— Electricity Generation — South East Europe—Wind power generation.*"

## **TURKEY**

### ***Turkish Administrative Court Proceedings with Respect to Regulatory Tariffs***

Both Sakarya Elektrik Dagitim A.S. (SEDAS – Turkish distributor of electricity operated by our joint venture with Akkok Group) from 2011 and Sakarya Elektrik Perakende Satis A.S. (SEPAS - Turkish seller of electricity operated by our joint venture with Akkok Group) from 2013 appealed against five administrative decisions of the Turkish energy market regulatory authority ("EPDK") that reduced a portion of operating costs that are to be automatically recognized in regulated electricity tariffs. On December 18, 2012, one of the disputes was resolved by the administrative court in Ankara in favor of SEDAS. EPDK appealed against the first instance decision to the Supreme Administrative Court of Turkey and no decision on the appeal has been taken yet.

***Court Proceedings in Turkey relating to the Grid Losses***

In Turkey, there are some pending proceedings against companies distributing and selling electricity relating to returning reimbursed costs of technical and commercial grid losses paid by the end-consumers. However, in the case of Sakarya Elektrik Dagitim A.S. (SEDAS – Turkish distributor of electricity operated by our joint venture with Akkok Group since 2011) and in case of Sakarya Elektrik Perakende Satis A.S. (SEPAS - Turkish seller of electricity operated by our joint venture with Akkok Group), the total amount claimed in the proceedings is low. The Ministry of Energy and Natural Resources of Turkey is currently preparing an amendment of the energy law intended to ensure that no additional liabilities arise for the distribution and selling companies from potential disputes over the invoicing of technical and non-technical losses.

## MANAGEMENT

### General Overview

We have a two-tier board system consisting of a Board of Directors and a Supervisory Board. Our Board of Directors represents us in all matters and is responsible for our management, while our Supervisory Board is an independent body that oversees our Board of Directors and our Division Heads. The Board of Directors and Division Heads manage our day-to-day operations. Under the Czech Companies Act and our Articles of Association, the Supervisory Board may not make management decisions and such decisions are reserved for the Board of Directors. However, the Supervisory Board's approval is needed for certain key management decisions, such as those relating to our entry into specific transactions with a value greater than CZK 500 million, or for the disposal of real estate, or our entry into long-term loans. In addition to the statutorily required Audit Committee, our Supervisory Board has formed a Strategy Committee and a Personnel Committee.

Our Board of Directors is a statutory body, which manages our operations and acts on our behalf. The powers and responsibilities of our Board of Directors are set forth in detail in our Articles of Association. For information on the availability of our Articles of Association, please see “*General Information—Documents Available.*”

### Supervisory Board

As of the date of this Base Prospectus and in accordance with our Articles of Association, our Supervisory Board comprises 12 members, with eight being nominated by the Czech Ministry of Finance, as our majority shareholder, and four being nominated by our employees. Pursuant to the Czech Companies Act and our Articles of Association, all members of the Supervisory Board are elected by the General Meeting of the shareholders; however, our employees may nominate four members of the Supervisory Board. The Supervisory Board may in a meeting appoint substitute members.

Our Supervisory Board's powers include, among other powers, the power to:

- elect and remove members of our Board of Directors;
- approve the management contracts and remuneration of the members of our Board of Directors, the Chief Executive Officer and the Division Heads, unless they are members of our Board of Directors;
- inspect all documents and records relating to our business and to inquire into our financial matters;
- supervise our Board of Directors' exercise of its powers and responsibilities;
- review our annual, extraordinary, consolidated, interim financial statements and income distribution proposals, including power to stipulate the amount and manner of payment of bonuses to members of our Board of Directors, dividends and loss settlement proposals; and
- discuss our quarterly financial results, half-year and yearly reports.

Generally, our Supervisory Board makes decisions by a simple majority of all its members. Under our Articles of Association, our Supervisory Board makes decisions by a majority of two thirds of its members in certain circumstances, such as decisions to adopt procedural rules of the Supervisory of Directors. The quorum for a meeting of our Supervisory Board is a simple majority of its members. Each Supervisory Board member has one vote. When necessary in matters of urgency, a decision may be made by our Supervisory Board without holding a meeting (such decisions are referred to as *per rollam*). At its discretion, our Supervisory Board may invite members of our other governing bodies, our employees, or other persons to its meetings.

In accordance with our Articles of Association, our Supervisory Board meets once a month. In 2015, there were 11 regular and 2 extraordinary meetings. The Chairman of our Board of Directors regularly attends the meetings. The business address of each member of our Supervisory Board is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Supervisory Board to us and to their private interests or other duties.

Set out below are the members of our Supervisory Board as of the date of this Base Prospectus

<b>Name</b>	<b>Born</b>	<b>Position</b>	<b>Date of appointment</b>
Václav Pačes	1942	Chairman of the Supervisory Board	June 27, 2014
Vladimír Hronek	1964	Vice Chairman of the Supervisory Board	February 27, 2015
Petr Blažek	1976	Vice Chairman of the Supervisory Board	June 26, 2015
Radek Mucha	1961	Member of the Supervisory Board	April 11, 2013
Jiří Novotný	1952	Member of the Supervisory Board	April 11, 2013
Drahošlav Šimek	1953	Member of the Supervisory Board	October 1, 2014
Jiří Tyc	1961	Member of the Supervisory Board	June 27, 2014
Jan Sixta	1978	Member of the Supervisory Board	June 12, 2015
Zdeněk Černý	1953	Member of the Supervisory Board	June 27, 2014
Lukáš Wagenknecht	1978	Member of the Supervisory Board	June 27, 2014
Petr Polák	1973	Member of the Supervisory Board	February 25, 2016
Robert Šťastný	1974	Member of the Supervisory Board	September 29, 2014

*Václav Pačes.* Mr. Pačes has been a Chairman of our Supervisory Board since June 27, 2014. He is a professor of Biochemistry. Graduate from the Faculty of Science of the Charles University in Prague, Mr. Pačes wrote his dissertation at the Institute of Organic Chemistry and Biochemistry of the Academy of Sciences of the Czech Republic. Mr. Pačes obtained his managerial and professional knowledge especially in the positions of the chairman of the Academy of Sciences of the Czech Republic, the Director of the Institute of Molecular Genetics of the Academy of Sciences of the Czech Republic and the President of the government Independent Energy Commission.

*Vladimír Hronek.* Mr. Hronek has been a member of our Supervisory Board elected by our employees since September 30, 2010, a member of the Personal Committee of our Supervisory Board since December 2, 2010, Vice-Chairman of the Personal Committee since April 30, 2013 and a member of the Strategy Committee of our Supervisory Board since February 24, 2012. On March 19, 2013, the Supervisory Board elected Mr. Vladimír Hronek as Vice-Chairman of the Supervisory Board. He gained his managerial and professional knowledge as a member and vice chairman of our European Works Council during the years 2011 – 2015. He has worked as an inspection electrician at the Temelín nuclear power plant and since 2006 he has been the full time chairman of labor organization of the Temelín nuclear power plant. Mr. Hronek graduated from the Secondary School of Electrical Engineering in Prague.

*Petr Blažek.* Mr. Blažek has been a member of our Supervisory Board since June 12, 2015 and on June 26, 2015, the Supervisory Board elected Mr. Blažek as Vice-Chairman of the Supervisory Board. He gained his managerial and professional knowledge as a deputy technical director in the Faculty Hospital of Královské Vinohrady, Business Development Manager of Česká Pošta, s.p. and director of Strategic Investments & Incentives department of Ministry of Finance of the Czech Republic.

*Radek Mucha.* Mr. Mucha has been a member of our Supervisory Board elected by our employees since April 11, 2013. He has been working in the energy sector since 1979 in various electrical engineering positions. Since 1999, Mr. Mucha has been a chairman of the labor organization of Dlouhé Stráně power plant. He also gained professional experience as a member of our European Work Council. Mr. Mucha graduated from a secondary electro technical school

*Jiří Novotný.* Mr. Novotný has been a member of our Supervisory Board elected by our employees since April 11, 2013. He has a 33-years' experience in the energy sector where he worked in various technical positions. Mr. Novotný gained experience as a chairman of the labor organization of Tušimice power plant and as a consulting member of the collective bargaining agreement negotiation team. Mr. Novotný is a member of our European

Work Council. Mr. Novotný graduated from a secondary technical school specializing in mechanical engineering.

*Drahošlav Šimek.* Mr. Šimek has been a member of our Supervisory Board elected by our employees since June 29, 2006, re-elected by our employees in 2010. He was also a member of our Audit Committee from 2009 to 2013. Mr. Šimek joined us in 1974 and worked at the Dukovany nuclear power plant as a mechanical technician on the main generating unit till May 2012 when he became a full time chairman of the labor organization at Dukovany nuclear power plant. He was a vice-chairman of the Confederation of Labor Unions of Energy Sector Workers and the Labor Union of Shift Workers at Dukovany nuclear power plant from 1995 to 2012 and has been a chairman of the Confederation of Labor Unions of Energy Sector Workers and the Labor Union of Shift Workers at Dukovany nuclear power plant since 2012. Mr. Šimek graduated from the Secondary Vocational School in Domažlice in electro mechanics and from the Secondary Vocational School in Chomutov in operational metalwork.

*Jiří Tyc.* Mr. Tyc has been a member of our Supervisory Board since June 27, 2014. Mr. Tyc has been a director in ČEZ ENERGOSERVIS spol. s r. o. since 2010. Between 2007 and 2010, he worked for ČEZ as a Head of Maintenance Dept. at the Temelín nuclear power plant. Between 1995 and 2007, he was a shift manager at the Temelín nuclear power plant. Between 1986 and 1995, he was a reactor operator and head of unit at the Dukovany nuclear power plant. Mr. Tyc graduated from the Czech Technical University in Prague.

*Jan Sixta.* Mr. Sixta has been a member of our Supervisory Board since June 12, 2015. Mr. Sixta graduated from the Faculty of Law of the Charles University in Prague. He has gained his managerial and professional experience in various positions in public administration, such as director of legislation & legal department and deputy of public investments & legislation department at the Ministry for Regional Development. Further, he was the first deputy of the internal security section at the Ministry of the Interior and director of the cabinet management department at the Ministry of Finance. He has been a state secretary at the Ministry of Finance of the Czech Republic since 2015.

*Zdeněk Černý.* Mr. Černý has been a member of our Supervisory Board since June 27, 2014. Mr. Černý has been a chairman of the trade union - Odborový svaz ECHO since 2004. He has been a chairman of supervisory board of Česká Rafinérská, a. s., since 2011, a member of the supervisory board of UNIPETROL, a. s., since 2013 and a member of the supervisory board of ČEZ Energetické služby, s.r.o. since 2010. Between 1997 and 2004, he was a chairman of the trade union – Odborový svaz chemie ČR and between 1990 and 1997, he worked on several positions of Odborový svaz chemie ČR. Mr. Černý graduated from the Faculty of Law of the Charles University, Prague, and obtained a MBA from Ústav práva a právní vědy o.p.s. in Prague.

*Lukáš Wagenknecht.* Mr. Wagenknecht has been a member of our Supervisory Board since June 27, 2014 and a member of our Audit Committee since June 27, 2014. Mr. Wagenknecht has been the First Deputy Minister of Finance since February 2014. In 2013, he was a head of internal audit in Dopravní podnik hl. města Prahy, akciová společnost. Between 2009 and 2013, he worked as a manager in Deloitte. Between 2007 and 2009, he was a head of internal audit in Regionální rada regionu soudržnosti Střední Čechy. Between 2006 and 2007, he was an audit specialist in FOXCONN CZ s.r.o. From 2002 to 2006, he was an internal auditor in the Ministry of the Interior of the Czech Republic. Mr. Wagenknecht graduated from University of Pardubice.

*Petr Polák.* Mr. Polák has been a member of our Supervisory Board since February 25, 2016. Mr. Polák has gained his managerial and professional knowledge as chief executive officer at IT company EKO-KOM, a.s., and member of the supervisory boards of Český Telecom, a.s. and Česká pošta, s.p. Mr. Polák graduated from the Nottingham Trent University (B.I.B.S.) in Great Britain.

*Robert Šťastný.* Mr. Šťastný has been a member of our Supervisory Board since September 29, 2014. He gained managerial and professional experience mainly as a manager of BESIP – Road Safety Department of the Ministry of Transport of the Czech Republic and in various positions in the mechanical engineering sector. Mr. Šťastný graduated from Faculty of Law of Masaryk University in Brno.



### ***Committees of our Supervisory Board***

Our Supervisory Board has the power to establish committees and to elect and remove their members. Our Supervisory Board has established the Strategy Committee and the Personnel Committee. Only members of our Supervisory Board are eligible to be members of the Strategy and Personnel Committee. The term of office of committee members is identical to their term of office on our Supervisory Board. Committees of our Supervisory Board meet as needed, but no less than once every three months. Committees of our Supervisory Board make a decision by a simple majority of the votes of all members of the committee.

In accordance with Czech statutory requirements, we have also established an Audit Committee. The Audit Committee is comprised of members of our Supervisory Board and third parties. Please see “*Audit Committee*” below.

#### *Strategy Committee*

The Strategy Committee of our Supervisory Board was established to improve our Supervisory Board’s decision-making in matters concerning our strategic development. The committee’s activities include evaluating proposals for major business activities such as capital expenditure, acquisition, and divestiture projects (in particular, purchases and sales of material assets or ownership participations in the Czech Republic and abroad), proposals for establishing or winding up our subsidiaries, construction of new generating plants and the phasing out, sale, or renewal of production plant and equipment.

In 2015, the Strategy Committee held 9 meetings. As of the date of this Base Prospectus, the members of the Strategy Committee are Mr. Jiří Tyc (vice-chairman), Mr. Václav Pačes, Mr. Jiří Novotný, Mr. Petr Blažek and Mr. Petr Polák.

#### *Personnel Committee*

The Personnel Committee of our Supervisory Board, was established to make proposals for our Supervisory Board regarding its personnel policies for members of our Board of Directors, to present its opinion on proposals to elect and remove members of our Board of Directors, to present nominations of candidates for membership of our Board of Directors to our Supervisory Board for approval, to make recommendations to our Supervisory Board regarding issuance of opinions in matters relating to the appointment and manner of remuneration of our Chief Executive Officer and members of our Board of Directors, and to give to our Supervisory Board its recommendations concerning candidates proposed by our Board of Directors for nomination to the supervisory boards of companies in which we hold a stake in the registered capital exceeding CZK 500 million. More specifically, the contracts and remuneration of members of our Board of Directors is approved by the Supervisory Board and the contracts and remuneration of Chief Executive Officer and our Division Heads are subject to the prior approval of the Supervisory Board. In addition, remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of the shareholders. Please see “*Compensation*.”

In 2015, the Personnel Committee held 12 meetings. As of the date of this Base Prospectus, the members of the Personnel Committee are Mr. Vladimír Hronek (chairman), Mr. Zdeněk Černý (vice-chairman), Mr. Jan Sixta, Mr. Robert Šťastný and Mr. Radek Mucha.

#### *Audit Committee*

The powers and responsibilities and decision making process of our Audit Committee are stipulated by our Articles of Association and Czech Act No. 93/2009 Coll., on auditors, as amended and include:

- monitoring the process of compiling our financial statements and consolidated financial statements;
- evaluating the effectiveness of our internal controls, internal audit, and risk management systems;

- monitoring the process of the mandatory audit of our financial statements and consolidated financial statements;
- evaluating the independence of our statutory auditor and audit firm, and, in particular, provision of supplementary services by that company; and
- recommending an auditor to perform the statutory audit our financial statements and consolidated financial statements.

The Audit Committee has five members, which are elected and removed by the General Meeting from among members of our Supervisory Board or third parties. Members of our Board of Directors and our procura holders are not eligible to be members of our Audit Committee. The majority of the Audit Committee members (including the Chairman) must be independent and professionally qualified, and at least one of the professionally qualified members must be an independent individual qualified in the area of audit and/or accounting. Members of our Audit Committee serve a four-year term. Members of our Audit Committee attend our General Meeting and are required to report to our General Meeting on the results of their activities. Our Audit Committee held four meetings in 2015. Our Audit Committee makes decisions by a simple majority of the votes of all its members.

The business address of each member of our Audit Committee is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of the members of our Audit Committee to us and to their private interests or other duties.

Set out below are the members of our Audit Committee as of the date of this Base Prospectus.

<b>Name</b>	<b>Born</b>	<b>Position</b>	<b>Date of appointment</b>
Jan Vaněček	1967	Chairman of the Audit Committee	September 25, 2015
Andrea Káňová	1980	Member of the Audit Committee	June 27, 2014
Radek Neužil	1970	Member of the Audit Committee	June 19, 2013
Ivan Pilip	1963	Member of the Audit Committee	June 12, 2015
Lukáš Wagenknecht	1978	Vice Chairman of the Audit Committee	July 10, 2014

*Jan Vaněček.* Mr. Vaněček has been a member of our Audit Committee since June 6, 2015 and was elected as chairman of the Audit Committee on September 25, 2015. He has gained his managerial and professional experience as senior auditor in Arthur Andersen and as chief financial officer for Czech Republic in Cinergy corp. Mr. Vaněček graduated from the Faculty of Electrical Engineering of the Czech Technical University in Prague.

*Andrea Káňová.* Mrs. Káňová has been a member of our Audit Committee since June 27, 2014. She gained managerial and professional experience as a manager in risk management department of Deloitte Audit s.r.o. and in the Department for European Affairs of the Office of the Senate of the Parliament of the Czech Republic. Mrs. Káňová has been a member of an audit committee of Český Aeroholding, a.s. since July 2014 and of Česká exportní banka, a.s. since November 2014. She was also a member of Board of Český institute interních auditorů, z. s. (Czech Institute of Internal Auditors) between 2013 and 2014. Mrs. Káňová graduated from the Faculty of International Relations at the University of Economics in Prague.

*Radek Neužil.* Mr. Neužil has been a member of our Audit Committee since June 19, 2013. He gained managerial and professional experience as Secretary of the Chamber of Tax Advisers, the Chairman of the Supervisory Board and executive director of Daňová akademie s.r.o. Mr. Neužil has been a member of Presidium at the Audit Public Oversight Council since 2009 and Chief Executive at the Chamber of Tax Advisers of the Czech Republic since 1993. He has been a member of the executive committee of the Charles University in Prague since 2011, chairman of the Pasku Club since 1994 and associate of the Pasku Club since 1995, and a chairman of Eláán since 2002. Since 2010, Mr. Neužil has been executive of KDP – DATEV. Mr. Neužil graduated from the Law Faculty of Masaryk University Brno/ Nottingham Trent University and the Faculty of Engineering of Masaryk University Brno.

*Ivan Pilip.* Mr. Pilip has been a member of our Audit Committee since June 12, 2015. He gained managerial and professional experience as minister of finance and a Member of Parliament of the Czech Republic, member of the financial & budget committee and chairman of the banking committee of the Parliament of the Czech Republic and vice-president of European Investment Bank. Mr. Pilip graduated from the Faculty of International Relations of University of Economics in Prague.

*Lukáš Wagenknecht.* Please see “Supervisory Board” above.

### **Board of Directors**

Our Supervisory Board elects members of our Board of Directors. Members of our Board of Directors serve four-year terms and may be re-elected. The business address of each member of our Board of Directors is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

Responsibilities of our Board of Directors include:

- managing our operations, including keeping of proper accounts;
- convening and organizing the General Meeting and submitting to the General Meeting certain information, including: draft amendments to our Articles of Association; proposals to increase/decrease our share capital; annual, extraordinary, consolidated, and interim financial statements; income distribution proposals including stipulation of dividend amount, manner of payout, and due date, participation in our profit sharing by members of our Board of Directors, and amounts to be allocated to reserves or the manner of settling any losses; yearly report on our business operations and the state of our assets;
- carrying out General Meeting resolutions;
- removing our Division Heads; and
- deciding on entering into agreements relating to the formation of business companies or acquisition of our ownership stakes in other legal entities, as well as winding up of business companies or disposing of our ownership stakes in other legal entities.

Our Board of Directors makes decisions by a simple majority of the votes of all its members. A quorum is present when a simple majority of members of our Board of Directors is present at a meeting. Each member of our Board of Directors has one vote. When necessary in matters of urgency, a decision may be made by our Board of Directors without holding a meeting. Our Board of Directors has discretion to invite to its meetings members of our other governing bodies, our employees, or other persons.

In accordance with our Articles of Association, certain decisions of our Board of Directors require the prior consent of our Supervisory Board before they can be implemented, and our Board of Directors is required to submit such decisions to our Supervisory Board for discussion and request its opinion.

Our Articles of Association provide that our Board of Directors shall comprise seven members. Our Board of Directors is obliged to meet at least once a month. In practice, however, meetings are held almost weekly and a total of 36 meetings took place in 2015.

There are no conflicts of interest between the duties of the members of our Board of Directors to us and to their private interests or other duties.

Set out below are members of our Board of Directors as of the date of this Base Prospectus.

<b>Name</b>	<b>Born</b>	<b>Position</b>	<b>Date of appointment</b>
Daniel Beneš	1970	Chairman of the Board of Directors	December 17, 2013
Martin Novák	1971	Vice Chairman of the Board of Directors	May 23, 2016
Michaela Chaloupková	1975	Member of the Board of Directors	October 21, 2015
Pavel Cyrani	1976	Member of the Board of Directors	October 21, 2015

Tomáš Pleskač	1966	Member of the Board of Directors	January 28, 2014
Ladislav Štěpánek	1957	Member of the Board of Directors	June 27, 2013
Ivo Hlaváč	1976	Member of the Board of Directors	December 19, 2013

*Daniel Beneš.* Mr. Beneš has been a member of our Board of Directors since December 15, 2005 and Chairman of our Board of Directors and our Chief Executive Officer since September 15, 2011. He was previously our Chief Operating Officer until September, 2011 and Vice Chairman of our Board of Directors from May 2006 until September 2011. He has been a member of the executive committees of the Technical University of Ostrava since 2009 and the South Bohemian University of České Budějovice since 2011, a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since January 2009 (and vice chairman since September 2009), chairman of the board of trustees of ČEZ Foundation since 2007, member of the supervisory board of Severočeské doly a.s. since February 2010 (and vice-chairman since February 2012). Mr. Beneš was a member of the supervisory board of Coal Energy, a.s., v likvidaci, from April 2006 until December 2009, chairman of the supervisory board of ČEZ Bohunice a.s. from April 2010 until January 2013 and vice chairman of the supervisory board of Jadrová energetická společnost Slovenska, a. s. between 2009 and 2013. Mr. Beneš graduated from the Mechanical Engineering Faculty, the Technical University of Ostrava and obtained a MBA from Brno International Business School - Nottingham Trent University.

*Martin Novák.* Mr. Novák has been our Chief Finance Officer since January 1, 2008 and has been the Vice Chairman of our Board of Directors since October 20, 2011 (re-elected May 22, 2012) and a member of our Board of Directors since May 22, 2008. Since January 2014 he also heads our M&A department. He has been a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since October 2009, a member of the supervisory board of ČEZ ICT Services, a.s. since May 2007 (and a vice-chairman since May 2012), a member of the supervisory board of ČEZ OZ uzavřený investiční fond, a.s. since September 2011 and a member of the supervisory board of ČEZ Korporátní služby, s.r.o. since 2007 (and chairman since March 2014). Mr. Novák was a member of the supervisory board of ČEZ Bohunice from February 2012 until January 2013. Mr. Novák joined us as our Accounting Section Director in 2006. From 2001 to 2006, Mr. Novák worked for ConocoPhillips in Houston, Texas and in its regional headquarters in London, acting as Financial Director for Central and Eastern Europe between 2005 and 2006. From 1996 to 2001, Mr. Novák worked for Česká rafinérská, where he became Controller-Deputy Finance Director. Mr. Novák began his career as a tax advisor at PriceWaterhouseCoopers. Mr. Novák undertook the Executive MBA program at the University of Pittsburgh in 2007 and graduated from the University of Economics in Prague.

*Michaela Chaloupková.* Ms. Chaloupková has been a member of our Board of Directors since October 20, 2011. Ms. Chaloupková has been our Chief Administration Officer since January 1, 2012 and our Chief Personnel Officer since January 1, 2014. Ms. Chaloupková joined us in 2003 and holds the position of Purchasing Department Manager. She was the Executive Purchasing Manager between January 1, 2007 and January 1, 2012. Ms. Chaloupková has been chairman of the supervisory board of ČEZ Logistika, s.r.o. since July 2007 (and chairman since July 2012) and a member of the supervisory board of ČEZ Obnovitelné zdroje, s.r.o. since November 2011. Ms. Chaloupková was a member of the supervisory board of ŠKODA PRAHA Invest, s.r.o. from December 2008 until April 2010, a member of the supervisory board of ČEZ Distribuce, a.s. from November 2010 until September 2011 and a member of the supervisory board of ČEZ ICT Services, a.s. from March 2006 until March 2011. Ms. Chaloupková has been a member and vice-chairman of ČEZ Korporátní služby, s.r.o. since 2014 and a member of the supervisory board of ÚJV Řež, a.s. Ms. Chaloupková graduated from the West Bohemian University Law Faculty in Plzeň in 1999 and obtained a MBA from KATZ School of Business, University of Pittsburgh in 2007.

*Pavel Cyrani.* Mr. Cyrani has been our Chief Strategy Officer and a member of our Board of Directors since October 1, 2011 and our Chief Sales Officer since May 1, 2014. Mr. Cyrani has been a member of the board of CM European Power International B.V. since November 2011. Mr. Cyrani was a vice chairman of the board of directors of Loyalty Management CZ, a.s. from 2003 until 2009, an executive office and shareholder of Loyalty Consulting, s.r.o. between 2003 and 2012 and a member of the supervisory board of Dalkia Česká republika, a.s. from 2010 until 2012. Mr. Cyrani joined us in 2005 and has managed our Asset Management Department as well as the Finance Division of our Controlling Department. Before joining us, he worked as a management consultant for McKinsey & Company, where he specialized in the energy industry. Mr. Cyrani obtained a MBA

in finance from the Kellogg School of Management in Evanston, United States and graduated from the Faculty of International Trade, University of Economics, Prague.

*Tomáš Pleskač.* Mr. Pleskač was our Chief Distribution and Foreign Assets Officer from April 1, 2012 to April 30, 2014 and has been our Chief Foreign Assets Officer since May 1, 2014 has been a member of our Board of Directors since January 26, 2006 (re-elected January 28, 2014). Mr. Pleskač was Vice Chairman of our Board of Directors from February 11, 2008 to June 29, 2010. Mr. Pleskač has been the chairman of the supervisory board of ČEZ Distribuce a.s. since January 2012, a member of the supervisory board of ČEZ OZ uzavřený investiční fond a.s. since November 2011, a member of the board of directors of Akenerji Elektrik Üretim A.S. since May 2009, a Vice Chairman of the board of directors of Akenerji Elektrik Üretim A.S. since June 2012, a member of the board of directors of CM European Power International B.V. since July 2008 and vice chairman since August 2011, a member of the supervisory board of CEZ Bulgaria EAD since June 2006 and a member of the supervisory board of CEZ Razpredelenie Bulgaria AD since June 2006 and chairman since September 2006. Mr. Pleskač was chairman of the supervisory board of NERS d.o.o. from May 2007 until October 2009 and a member of the supervisory board of Mitteldeutsche Braunkohlengesellschaft mbH between 2009 and 2012. Mr. Pleskač obtained a MBA from the Prague International Business School and graduated from the Faculty of Business and Economics, University of Agriculture, Brno.

*Ladislav Štěpánek.* Mr. Štěpánek has been commissioned to manage our Production Division since February 1, 2013. He has been our Chief Investment Officer since July 1, 2014. He gained professional and managerial experience mainly as our Chief Executive Officer and member of our Board of Directors, and as the director of our fuel cycle department. Mr. Štěpánek has been a member of the supervisory board of TPP Varna EAD since February 2006 (re-elected February 18, 2011), member of the supervisory board of ÚJV Řež, a.s. since 2013, member of the supervisory board of ČEZ Teplárenská, a.s. since March 2014 and a member of the supervisory board of ČEZ Inženýring, s.r.o. since February 2014. Mr. Štěpánek graduated from the Czech Technical University in Prague.

*Ivo Hlaváč.* Mr. Hlaváč has been a member of our Board of Directors since December 19, 2013 and our Chief External Relations and Distribution Officer since May 1, 2014. He gained professional and managerial experience mainly as a manager of the Deloitte Energy Department, Deputy Minister of the Environment, Deputy Minister of Agriculture, Deputy Minister of Regional Development and as the Director of the Public Affairs Department of ČEZ.

#### **Chief Executive Officer and Division Heads**

At the executive employees' level, we are managed by the Chief Executive Officer and the Division Heads. The business address of our Chief Executive Officer and Division Heads is Duhová 2/1444, 140 53 Prague 4, Czech Republic.

There are no conflicts of interest between the duties of our Chief Executive Officer and our Division Heads to us and to their private interests or other duties.

Set out below are our Division Heads as of the date of this Base Prospectus.

<b>Name</b>	<b>Born</b>	<b>Position</b>	<b>Date of appointment</b>
Daniel Beneš	1970	Chief Executive Officer	September 16, 2011
Michaela Chaloupková	1975	Chief Administration and Personnel Officer	January 1, 2012
Pavel Cyrani	1976	Chief Strategy and Sales Officer	October 1, 2011
Ladislav Štěpánek	1957	Chief Production and Investment Officer	February 1, 2013
Martin Novák	1971	Chief Finance and Operations Officer	January 1, 2016
Tomáš Pleskač	1966	Chief Renewables and Development Officer	January 1, 2016
Ivo Hlaváč	1976	Chief External Relations and Distribution Officer	May 1, 2014

*Daniel Beneš.* Mr. Beneš has been our Chief Executive Officer since September 16, 2011. For more information on Mr. Beneš, please see “*Board of Directors*” above.

*Michaela Chaloupková.* Ms. Chaloupková has been our Chief Administration Officer (formerly Chief Purchasing Officer) since January 1, 2012 and our Chief Personnel Officer since January 1, 2014. For more information on Ms. Chaloupková, please see “*Board of Directors*” above.

*Pavel Cyrani,* Mr. Cyrani has been our Chief Strategy Officer since January 1, 2011 and our Chief Sales Officer since May 1, 2014. For more information on Mr. Cyrani, please see “*Board of Directors*” above.

*Ladislav Štěpánek.* Mr. Štěpánek has been our Chief Production Officer since January 1, 2011 and our Chief Investment Officer since July 1, 2014. For more information on Mr. Štěpánek, please see “*Board of Directors*” above.

*Martin Novák.* Mr. Novák has been our Chief Finance Officer since January 1, 2008 and appointed Chief Finance and Operations Officer on January 1, 2016. For more information on Mr. Novák, please see “*Board of Directors*” above.

*Tomáš Pleskač.* Mr. Pleskač was our Chief Distribution and Foreign Assets Officer from April 1, 2012 to April 30, 2014, has been our Chief Foreign Assets Officer since May 1, 2014 and has been appointed a Chief Renewables and Development Officer on January 1, 2016. For more information on Mr. Pleskač, please see “*Board of Directors*” above.

*Ivo Hlaváč.* Mr. Hlaváč has been our Chief External Relations and Distribution Officer since May 1, 2014. For more information on Mr. Hlaváč, please see “*Board of Directors*” above.

### ***Team Operations and Team Renewables & Development***

In 2015, in accordance with Art. 17, sub. 1 of the Articles of Association, we established the operations team (“*Team Operations*”) and development team (“*Team Renewables & Development*”). The Vice-Chairman and the Chief Finance Officer has been appointed the leader of Team Operations, and became the Chief Finance and Operations Officer. The former Chief Foreign Assets Officer was appointed the Leader of the Team Renewables & Development on January 1, 2016.

Team Operations consists of the Chief Finance & Operations Officer, Chief Administration Officer and Chief Production Officer and focuses on management of mining, electricity production, heat production and distribution, finance, personal resources and procurement.

Team Renewables & Development consists of the Chief Renewables and Development Officer, Chief Sales Officer and Chief External Relations and Distribution Officer and focuses on management of sales, customer solutions, innovations, distribution and regulation, public affairs, foreign country management units, mergers & acquisitions and renewable resources.

### **Compensation**

The remuneration of the members of the Board of Directors, the Supervisory Board, the Audit Committee, Chief Executive Officer and our Division Heads and selected managers of departments with group field activity decreased to CZK 308 million in 2015 compared with CZK 413 million in 2014.

Remuneration of members of our Supervisory Board and Audit Committee, including all benefits, is approved by the General Meeting of our shareholders. In accordance with resolutions passed by our General Meeting, we enter into a membership contract with each member of these bodies. Remuneration of members of our Board of Directors, including all benefits, is approved by the Supervisory Board. In accordance with resolutions passed by our Supervisory Board, we enter into a membership contract with members of our Board of Directors. The contracts and remuneration of the Chief Executive Officer and our Division Heads are subject to the prior approval of the Supervisory Board, unless they are members of the Board of Directors.

Remuneration and benefits received by members of our governing bodies include:

- fixed remuneration;
- annual bonus in addition to the base monthly wage; the amount of the bonus depends on fulfilment of criteria stipulated in advance;
- target remuneration based on fulfilment of specific tasks assigned by our General Meeting. Members of our Board of Directors may receive target remuneration up to six times the amount of his or her monthly remuneration;
- participation in our profit sharing by members of our Board of Directors and Supervisory Board by a decision of our General Meeting;
- stock options for members of our Board of Directors, but not for Members of our Supervisory Board or our Audit Committee;
- endowment life insurance;
- severance pay for members of our Board of Directors should their contract be terminated before it is due to expire. The severance pay amount is the aggregate total remuneration that would otherwise have been paid for the months remaining until the end of the term of their contract;
- cash settlement on compliance with a ban on competition on termination of employment for our Board of Directors; and
- passenger car, increased travel expenses and employee benefits according to the collective bargaining agreement.

Remuneration of our Chief Executive Officer and our Division Heads is subject to the prior consent of our Supervisory Board, unless they are members of our Board of Directors. Remuneration and benefits of our Chief Executive Officer and our Division Heads include:

- base monthly wage paid for the amount of time worked;
- annual bonus in addition to the base monthly wage. The bonus amount depends on fulfilment of criteria stipulated in advance;
- strategic bonuses tied to fulfilment of specific, long-term tasks in the areas of plant construction and renewal, and acquisition activities;
- stock options subject to a decision of our Board of Directors and the consent of our Supervisory Board;
- endowment life insurance;
- severance pay and cash settlement on termination of employment; and
- passenger car, increased travel expenses and employee benefits according to the collective bargaining agreement.

### **Share Options of Senior Management**

As of December 31, 2015, members of our Board of Directors, our Division Heads and certain departmental managers held a total of 2,391 thousand options to acquire shares of ČEZ. For information on the number of

share options granted to and exercised and forfeited by our senior management in the year ended December 31, 2015, please see Note 26 of our audited consolidated financial statements for the year ended December 31, 2015.

### Corporate Governance

Our corporate governance is based on the recommendations of the Czech 2004 Corporate Governance Codex compiled by the former Czech Securities Commission. For information on our governing bodies, a description of how they are established, their current composition, a description of how their members are remunerated, and a summary of Supervisory Board committees, please see “*Supervisory Board - Board of Directors - Chief Executive Officer and Division Heads - Audit Committee and Compensation*” above.

In addition, we comply with all Czech Companies Act provisions regarding shareholder rights, convening our General Meetings and ensuring equal treatment of our shareholders.

Further, as an issuer of securities accepted for trading on the Warsaw Stock Exchange, we also comply with the corporate governance requirements of the Warsaw Stock Exchange.

### PRINCIPAL SHAREHOLDERS

As of December 31, 2015, the registered capital of ČEZ as recorded in the Commercial Register was CZK 53,798,975,900, comprising 537,989,759 shares, each with a nominal value of CZK 100. The issue price of all shares had been fully paid up and all of the shares were booked to owner and listed.

The registered capital of ČEZ is comprised exclusively of common shares, with no special rights attached. All of the shares of ČEZ are accepted for trading on the Prague Stock Exchange and the Warsaw Stock Exchange and are freely transferable without any restrictions. No other securities issued by ČEZ are limited in their transferability, nor are any special rights attached thereto.

In accordance with Section 309 of the Czech Companies Act, the voting rights attached to treasury shares acquired by ČEZ on the basis of a General Meeting resolution are not exercised by ČEZ. As of December 31, 2015, ČEZ held 3,755,021 treasury shares.

The following table sets forth the shareholdings of the Czech Republic as of December 31, 2015.

Shareholder	As of December 31, 2015		
	Number of shares	% of share capital	% of voting rights
Ministry of Finance of the Czech Republic .....	375,410,896	69.8	70.3

The Czech Republic, through the Ministry of Finance, owns approximately 69.8% of the share capital of ČEZ, a. s., the parent company of the CEZ Group. As our controlling shareholder, the Ministry of Finance of the Czech Republic exercises shareholder rights provided for in our Articles of Association and applicable laws (including the Czech Companies Act and the Capital Market Act), which include the power to elect all members of our Supervisory Board, who in turn appoint all members of our Board of Directors. There are no mechanisms in place to prevent abuse of control over the CEZ Group by the Ministry of Finance of the Czech Republic except for provisions contained in our Articles of Association and applicable laws (including the Czech Companies Act and the Capital Market Act). For information on certain Czech statutory mechanisms which are currently in effect and preventing abuse of control by the Ministry of Finance of the Czech Republic, please see “*Related Party Transactions*”).

As of December 31, 2015, besides the Ministry of Finance of the Czech Republic there were 4 shareholders holding more than 1% of the share capital or of the voting rights of the shares of ČEZ. The following table sets forth their shareholdings.



Shareholder	As of December 31, 2015	
	% of share capital	% of voting rights
Clearstream Banking S.A.....	2.99	3.01
Nortrust Nominees Limited.....	1.84	1.85
State Street Bank and Trust Co. ....	1.44	1.45
Chase Nominees Limited .....	1.29	1.30

Data in the table above is based on the information provided by the Czech Central Securities Depository. The shareholders holding more than 1% of the share capital or of the voting rights of the shares of ČEZ mentioned in the table above might hold the shares of ČEZ on behalf of other entities or individuals.

To the best of our knowledge, as of the date of this Base Prospectus, no agreements exist that could change the control structure of the Issuer at any date.

### RELATED PARTY TRANSACTIONS

The relationships between us and our related parties, identified according to the principles of International Accounting Standard 24 (“IAS 24”), primarily consist of business transactions relating to the sale and purchase of products, goods and services. They fall within the activities carried out by us in the ordinary course of our business. Please see Note 32 of our audited consolidated financial statements as of and for the year ended December 31, 2015, incorporated by reference into this Base Prospectus, for information on our related party transactions.

Our transactions with the related parties are regulated by the Czech Companies Act, which provides for comprehensive regulation of rules concerning related party transactions and conflicts of interest between a company and members of its board of directors or supervisory board (and persons close to such members). The Companies Act provides the following rules for joint stock companies (such as ČEZ):

- if the value of the assets to be acquired by a joint stock company, within two years of its incorporation, from its shareholder or founder exceeds one tenth of company’s registered capital, the price for the transferred assets shall not exceed the value determined by an independent expert and the transfer shall be approved by a general meeting, unless such transaction is entered into in the ordinary course of company’s business or on a regulated market or supervised by a state authority;
- members of a board of directors and a supervisory board and a procurist are obliged to notify the supervisory board or the general meeting that such members (or persons close to them) have or could have a conflict of interest; the notification obligation also exists if the joint stock company is to secure or affirm debts, or to become a co-debtor in relation to a member of the board of directors or the supervisory board or a procurist (or a person close to such member);
- the supervisory board (or the general meeting) is entitled, depending on the circumstances, to either suspend the execution of the post of the relevant member of the board of directors or the supervisory board or procurist prohibit the legal steps (such as the conclusion of an agreement or the provision of security) in connection with which the conflict of interest occurred or threatens to occur; and
- a failure to notify a potential conflict of interest, or conduct that is in conflict with a supervisory board or general meeting decision on a suspension of the execution of a post or a prohibition of carrying out legal steps, constitutes a breach of due managerial care and the relevant member of the board of directors or the supervisory board or procurist would be liable to the joint stock company for such breach.

## Our Related Party Transactions

We conduct transactions with the following related parties:

- our joint ventures;
- our affiliates;
- the Ministry of Finance and companies controlled by it; and
- certain members of our senior management or with certain companies over which we or our senior management may have a significant influence.

We believe that we conduct our business with these companies and individuals in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in us, if we did not have equity holdings in them, if they were not members of our senior management, or if we or our senior management did not have significant influence over them, as the case may be. With the exception of transactions with our joint ventures and other affiliates, none of these transactions is or was material to us or, to our knowledge, to the other party.

In our opinion, all agreements with related parties are conducted on an arm's length basis and we believe that all of the transactions between us and related parties take place at market prices.

### Transactions with Joint Ventures and Other Affiliates

We enter into transactions with joint ventures and affiliates. The profits from such transactions are eliminated in proportion to the share that we have in such joint ventures and affiliated companies. We believe that all of these transactions take place at arm's length. For a list of our joint ventures, please see Note 9 of our audited consolidated financial statements for the year ended December 31, 2015.

The following table summarizes the sales to and purchases from related parties for the years 2014 and 2015.

	Sales to Related Parties for the year ended December 31,		Purchases from Related Parties for the year ended December 31,	
	2014	2015	2014	2015
	(CZK in millions)			
<b>Joint-ventures and other affiliates:</b>				
Akcez Enerji A.S.....	42	41	-	-
Akernerji Elektrik Üterim A.S.....	44	39	-	-
ČEZ Energo, s.r.o.....	297	384	29	293
in PROJEKT LOUNY ENGINEERING s.r.o.....	33	22	23	16
LOMY MOŘINA spol. s r.o.....	26	11	187	169
OSC, a.s.....	-	-	128	129
Teplo Klášterec s.r.o.....	54	55	-	-
Výzkumný a zkušební ústav Plzeň s.r.o.....	7	70	4	8
Others.....	97	112	158	78
	Receivables as of December 31,		Payables as of December 31,	
	2014	2015	2014	2015
	(CZK in millions)			
<b>Joint-ventures and other affiliates:</b>				
Akcez Enerji A.S.....	119	10	-	-
CM European Power International B.V.....	199	86	-	-
CM European Power Slovakia s.r.o.....	507	494	-	-
ČEZ Energo, s.r.o.....	89	127	12	35
LOMY MOŘINA spol. s r.o.....	-	-	21	21
Ústav aplikované mechaniky Brno, s.r.o.....	1	1	9	24
Výzkumný a zkušební ústav Plzeň s.r.o.....	-	58	6	3
Others.....	56	30	67	57
<b>Total.....</b>	<b>971</b>	<b>806</b>	<b>115</b>	<b>140</b>
<b>Total.....</b>	<b>600</b>	<b>734</b>	<b>529</b>	<b>693</b>

The following table summarizes the receivables from, and payables to related parties as of December 31, 2014 and 2015.

As of December 31, 2014 and 2015, guarantees provided to joint-ventures amounted to CZK 3,073 million and CZK 2,998 million, respectively (see Note 18.2 of our audited consolidated financial statements for the year ended December 31, 2014 and 2015).

#### **Transactions with the Ministry of Finance of the Czech Republic and the companies controlled by it**

The Czech Republic, through the Ministry of Finance, owns approximately 69.8% of the share capital of ČEZ. For detailed information on the interest held by the Czech Republic in our share capital, please see “*Principal Shareholders*”.

In the ordinary course of business, we enter into transactions with the Ministry of Finance of the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises. Due to the large number of such entities and of transactions carried out by them, the limitations of the reporting system adopted by the CEZ Group and the immateriality of such transactions to our results, we believe that the presentation of such transactions is not necessary for an accurate view of the financial situation of the CEZ Group. However, we believe that all of the transactions between us and the Ministry of Finance of the Czech Republic or its subsidiaries or commercial companies and state-owned enterprises take place on an arm’s length basis.

For example, in 2014 and 2015, in connection with our dividend policy, we paid dividends to the Ministry of Finance of the Czech Republic in the amount of CZK 15,016 million and CZK 15,016 million, respectively. ČEZ and its fully consolidated subsidiaries in the Czech Republic are taxpayers and pay taxes to the Ministry of Finance of the Czech Republic. The terms and regulations applicable to the CEZ Group in this respect are identical to those applicable to other commercial entities in the Czech Republic. On June 25, 2010, an agreement was entered into between ČEZ, and ČEPRO, a.s. (the Ministry of Finance of the Czech Republic is the sole shareholder of ČEPRO, a.s.) for the storage, purchase and sale of fuel from July 1, 2011 to June 30, 2019. The intention of this agreement was to secure the storage, stocking, filing and release of diesel fuel owned by ČEPRO, a.s. in tanks located in buildings of the Dukovany Nuclear Power Plant and Temelín Nuclear Power Plant. In 2015, ČEZ concluded three agreements with ČEPRO, a.s. for delivery of TOLEX in December 2015 and five agreements for the delivery of gasoline. In addition, in 2014 and 2015 ČEZ was a party to three agreements with Kongresové centrum Praha, a.s. (the Ministry of Finance of the Czech Republic is 69.45% shareholder of Kongresové centrum Praha, a.s. and the City of Prague is 30.55% shareholder of Kongresové centrum Praha, a.s.) on lease of commercial premises for the purpose of organising ČEZ’s general meetings in 2014 and 2015 in those premises and for providing some related support services (e.g. catering).. All of these agreements were entered into at arm’s length and the consideration provided complied with customary business terms.

#### **DESCRIPTION OF OTHER INDEBTEDNESS**

*The following summary of certain provisions of our material other indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. Please also see Notes 16, 17, 18 and 21 of our audited consolidated financial statements for the year ended December 31, 2015, which are incorporated by reference into this Base Prospectus.*

##### ***Our Indebtedness***

Our indebtedness mainly consists of borrowings from financial institutions (including the European Investment Bank) and funding from capital markets. We maintain a flexible funding strategy and monitor domestic and foreign financial market conditions as part of our financing activities.

**As of December 31, 2015**

	(CZK in millions)	(% of total)
Funding from capital markets .....	134,701	85.5
Borrowings from financial institutions .....	22,793	14.5
Total .....	157,494	100.0

***Borrowings from Financial Institutions***

We have signed a variety of loan facilities, including with the European Investment Bank. These facilities have been used for general corporate purposes, but have also been used as funding for particular projects such as investments in reinforcing and developing the distribution grid in the Czech Republic, and financing for the Fantanele Wind Park. As of December 31, 2014 and 2015, borrowings from financial institutions amounted to CZK 26,349 million and CZK 22,793 million, respectively.

***Funding from Capital Markets***

We regularly issue bonds domestically and internationally as part of our strategy to diversify our funding sources and maintain longer liability maturities. As of December 31, 2014 and 2015, the balance of bonds issued by CEZ Group was CZK 157,785 million and CZK 134,701 million, respectively. We issue bonds in a variety of currencies including Euro, Czech crowns, Japanese Yen and U.S. dollars. However, we generally enter into cross-currency swaps with respect to principal and interest payable in order to keep our exposure in Euro. The majority of our bonds are issued on a fixed interest rate basis.

We proactively managed our bond maturities via a combined cash tender and exchange offer in 2010, cash tender offer in 2012, in 2014 and in November and December 2015. In November 2015, we offered to purchase for cash USD 700 million 4.250% Notes due 2022 issued in a private placement to qualified institutional buyers, pursuant to Rule 144A under the United States Securities Act of 1933, as amended, and outside the United States to certain non-U.S. persons pursuant to Regulation S under the Securities Act, and EUR 750 million 4,500% Notes due 2020 issued under the EMTN Programme. As a result of this offer, we repurchased 2022 notes in the nominal amount of USD 411,406,000. Bearing in mind the fact that the maximum amount of offers had almost been reached, we did not accept any offers of outstanding EUR 750,000,000 4.500% Notes due 2020. In December 2015 we purchased for cash the nominal amount of EUR 6 million zero-coupon Notes due 2038 issued as private placement under the EMTN Programme. We plan to continue to issue bonds in a balanced manner to institutional and individual investors both inside and outside of the Czech Republic in line with our strategy of maintaining longer maturities and diversified funding sources.

On February 4, 2014, we issued, through our Dutch subsidiary CEZ MH B.V., EUR 470.2 million guaranteed exchangeable bonds due 2017 and, subject to our cash election right, exchangeable for 7% of existing ordinary shares in MOL ( MOL Magyar Olaj- és Gázipari Nyilvánosan Működő Részvénytársaság). The bonds are guaranteed by ČEZ.

***Short-Term Indebtedness***

We have issued short-term debt as set forth in the table below.

**As of December 31, 2015**

	(CZK in millions)
Short-term bank loans .....	40
Bank overdrafts .....	183
Total short-term loans .....	223
Current portion of long-term debt .....	11,696
Short-term debt, total .....	11,919

Total short-term debt (without current portion of long-term debt) as of December 31, 2015 was CZK 223 million, representing 0.1% of our total debt as of December 31, 2015.

### **Long-Term Indebtedness**

We have issued long-term debt as set forth in the table below.

	<b>As of December 31, 2015</b>
	<b>(CZK in millions)</b>
Long-term bank loans .....	22,570
of which current portion.....	2,520
Bonds .....	134,701
of which current portion.....	9,176
Long-term debt, total.....	<u>157,271</u>

Total long-term debt as of December 31, 2015 was CZK 157,271 million, representing 99.9% of the total amount of our total debt as of December 31, 2015. Long-term borrowings from financial institutions comprised 14.4% of the long-term debt as of December 31, 2015.

Our long-term debt has both floating and fixed rates of interest which can expose us to interest rate risk and risks of changes in fair value of these financial instruments. As of December 31, 2015, our long-term debt comprised 84% of fixed rate debt, with the remainder being floating rate debt based mainly on EURIBOR, LIBOR, PRIBOR or CPI. For information regarding the repayment schedule of our long-term debt and interest rates for short and long-term debt, please see Notes 16, 17, 18 and 21 of our audited consolidated financial statements for the year ended December 31, 2015.

We have entered into interest rate swaps and other derivative contracts to manage risk associated with fluctuations in interest rates. For information with respect to derivative financial instruments and hedging, please see Note 18 of our audited consolidated financial statements for the year ended December 31, 2015.

## **REGULATION**

*Below is a brief summary of the rules and regulations applicable to the CEZ Group in the Czech Republic as our principal market. With the accession of the Czech Republic to the European Union on May 1, 2004, the Czech Republic adopted the customs, rules and regulations of the European Union, and therefore we have also included a description of the European Union Legislation as applicable to the CEZ Group. The following summary does not purport to be complete and is subject to the regulations of jurisdictions referred to below.*

### **European Union Legislation**

#### ***History of Energy Regulation***

By virtue of its membership in the European Union, the Czech Republic is required to adhere to E.U. energy legislation which has continuously developed in order to establish a competitive, secure and environmentally sustainable electricity market.

The E.U. Commission began regulating the E.U. energy market by enacting the “*First Energy Package*” in 1996 and 1998 which comprised of Directive 96/92/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. First Electricity Directive*”) and Directive 98/30/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. First Gas Directive*”). The E.U. First Electricity Directive and the E.U. First Gas Directive were designed to open access to the internal electricity and gas markets of E.U. member states and to allow for better competition in these markets. In June 2003, the E.U. Energy Council repealed the E.U. First Electricity Directive and the E.U. First Gas Directive by adopting the “*Second Energy Package*”

comprising of Directive 2003/54/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. Second Electricity Directive*”) and Directive 2003/55/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. Second Gas Directive*”).

The E.U. Second Electricity Directive required each E.U. member state to allow for full competition within its internal commercial and residential electricity markets by July 1, 2004 and July 1, 2007, respectively. The E.U. Second Electricity Directive also set forth general rules for the organization of the E.U. electricity market, such as the option of the member states to impose certain public service obligations, customer protection measures and provisions for monitoring the security of electricity supply in the European Union; the establishment of a regulatory body, independent from any interests of the electricity and gas industries, which would be in charge of ensuring non-discriminatory network access, monitoring effective competition and ensuring the efficient functioning of the electricity generation, distribution, and trade market; and the implementation of so-called “legal unbundling” meaning that each transmission and distribution system operator had to be separated, at least in terms of legal form, organization and decision-making, from other activities in the energy sector not relating to transmission or distribution.

The E.U. Second Electricity Directive further focused on enhancing customer rights by granting household customers the right to be supplied with electricity of a specified quality at reasonable, easily and clearly comparable and transparent prices. Moreover, it required electricity suppliers to provide their end-users with information on the energy sources and kinds of fuel used in the production of supplied electricity and on the environmental impact of the supplier’s activities, including the amount of carbon dioxides and radioactive waste produced.

Similar to the E.U. Second Electricity Directive, the E.U. Second Gas Directive, adopted on June 26, 2003, required each member state to allow for full competition within its internal commercial and residential gas market by July 1, 2004 and July 1, 2007, respectively. With regard to the independent regulatory authority and legal unbundling, the E.U. Second Gas Directive sets forth similar rules as the E.U. Second Electricity Directive.

The Czech Republic implemented these directives in 2003 and 2004.

### ***Current E.U. Energy Regulation***

#### *E.U. Energy and Climate Change Legislation*

The E.U. Commission published the first paper on “An Energy Policy for the European Union” in December 1995 with the main focus on the market integration. In 2006, it was followed by a green paper on “A European Strategy for Sustainable, Competitive and Secure Energy”. This was revised in two communication “packages” in 2007 and 2008. The European Council adopted in March 2007 an Action Plan and the E.U. Commission started to propose concrete legislation from September 2007.

In 2007, the E.U. Commission published a proposal for the establishment of a new energy policy and strategy for a more integrated and competitive energy market within the European Union. Designed to ensure a stable energy supply and combat climate change, such “E.U. Energy and Climate Change Legislation” set certain targets (known as “20-20-20” goal), including:

- further liberalization of electricity markets;
- a reduction of at least 20% in greenhouse gas emissions by 2020;
- 20% share of renewable energies in E.U. energy consumption by 2020; and
- 20% energy savings by 2020 compared to 2020 projections (1853 Mtoe) made in 2007.

Subsequently, in 2009 the European Union adopted the E.U. Energy and Climate Change Legislation “*Third Energy Package*” which includes (besides climate change related legislation described below), but is not limited to, the Directive 2009/72/EC Concerning Common Rules for the Internal Market in Electricity (the “*E.U. Third Electricity Directive*”), Directive 2009/73/EC Concerning Common Rules for the Internal Market in Natural Gas (the “*E.U. Third Gas Directive*”) and Regulation (EC) No. 713/2009 Establishing an Agency for the Cooperation

of Energy Regulators, Regulation (EC) No. 714/2009 on Conditions for Access to the Network for Cross-border Exchanges in Electricity (the “*E.U. Regulation on Cross-Border Exchanges*”) and Regulation (EC) No. 715/2009 on Conditions for Access to the Natural Gas Transmission Networks (the “*E.U. Natural Gas Transmission Regulation*”). These directives and regulations were designed to complete the liberalization of the electricity and gas markets within the European Union. In particular, such energy legislation contemplates the further separation of supply and production activities from transmission network operations. To achieve this goal, member states are able to choose, subject to the respective conditions set forth in the E.U. Third Electricity Directive and the E.U. Third Gas Directive, between the following three options:

- Full ownership unbundling. This option entails vertically integrated undertakings selling their gas and electricity grids to an independent operator, which will carry out all network operations. This option applies to new undertakings.
- Independent System Operator (“ISO”). Under this option, vertically integrated undertakings maintain the ownership of the gas and electricity grids, but they are obliged to designate an independent operator for the management of all network operations. This option may apply to existing undertakings.
- Independent Transmission Operator (“ITO”). This option is a modification of the ISO option whereby vertically integrated undertakings do not have to designate an ISO, but need to abide by strict rules ensuring separation between supply and transmission. This option may apply to existing undertakings.

As further described below, the Czech Republic has opted for the full ownership unbundling with regard to electricity, and for ITO-unbundling option with regard to gas, although the Czech gas sector is currently, in fact, fully unbundled.

The E.U. energy legislation, as aforesaid, also enhanced consumers’ rights by establishing the right to (i) change electricity or gas supplier (the process of switching must be completed within three weeks), and receive the final closure statement at the latest six weeks after the switch; (ii) obtain compensation if quality targets are not met; (iii) receive information on supply terms through bills and company websites; and (iv) see complaints dealt with in an efficient and independent manner.

Finally, the E.U. Energy and Climate Change Legislation provides for the creation of an agency within the European Union for the coordination of national energy regulators, which will issue non-binding framework guidelines for national agencies. It is expected that this will result in a more harmonized energy regulation across the European Union. The Czech Republic implemented the respective E.U. energy legislation.

#### *2030 E.U. Framework for Climate and Energy Policy*

In October 2014, the E.U. Energy Council enacted new targets and the architecture for the E.U. framework for climate and energy in the period from 2020 to 2030. The new targets are:

- a reduction of at least 40% in greenhouse gas emissions by 2030, compared to 1990 levels (the total greenhouse gas emissions cap will be reduced by 2.2% each year from 2021, compared with the 1.74% annual reduction in the period from 2013 to 2020);
- 27% share of renewable energies in E.U. energy consumption by 2030 (resulting in up to 47% share of renewable energy sources in electricity generation); and
- increase in E.U. wide energy efficiency to 27% (this target is still indicative); and
- achieving 10% electricity interconnection by 2020.

In July 2015, the E.U. Commission proposed to revise the E.U. Emission Trading Scheme (“*E.U. ETS*”) for the period following 2020. An Innovation Fund and Modernization Fund will be established to help the power sector meet the innovation and investment challenges of the transition to a low-carbon economy. Free allowances will continue to be available to modernize the power sector in lower-income Member States. In addition, the

legislative proposal on a market stability reserve was approved in October 2015. The placing of allowances in the reserve shall operate from 1 January 2019. For more information, please see “*Regulation—Czech Republic—Current Carbon Compliance—2030 E.U. Framework for Climate and Energy Policy—Reform of E.U. ETS.*”.

### ***Cross-Border Trading of Electricity***

Besides focusing on liberalizing internal energy markets in every member state, European energy regulation is also designed to improve cross-border trade of electricity. Accordingly, the European Union has also implemented Regulation (EC) No. 1228/2003 on Conditions for Access to the Network for Cross-Border Exchanges in Electricity. This regulation required the establishment of a committee of national experts chaired by the E.U. Commission, which adopted guidelines on (i) inter-transmission system operator compensation for electricity transit flows; (ii) the harmonization of national transmission charges; and (iii) network congestion management. This Regulation established a fund mechanism to cover costs resulting from cross-border trades, whereby transmission system operators contribute into a fund according to their net physical import and export flows. The distribution of the accumulated funds then depends on transit volume.

Although Regulation (EC) No. 1228/2003 was partially successful, the E.U. Commission adopted the E.U. Regulation on Cross-Border Exchanges. The E.U. Regulation on Cross-Border Exchanges repealed Regulation (EC) No. 1228/2003 and established rules designed to alleviate cross-border exchange difficulties, with a view to improving competition and harmonization in the internal electricity market.

The E.U. Regulation on Cross-Border Exchanges created the European Network of Transmission System Operators (the “*ENTSO for Electricity*”), composed of designated transmission network operators from all member states which have a duty to put in place information exchange mechanisms in order to ensure the security of networks in the context of congestion management.

The costs related to the activities of the ENTSO for Electricity are borne by the transmission system operators which receive compensation for costs incurred as a result of hosting cross-border flows of electricity on their networks. Compensation is paid by the operators of national transmission systems from which cross-border flows originate. Charges for access to networks are also applied by operators.

Legislative proposals to implement the new market design are planned for 2016. The key objectives of the legislation are to have better linked wholesale and retail markets, strengthened regional cooperation and increased cross-border trade, and developing short-term and long-term markets to send the right investment signals for modern technologies to both producers and consumers of electricity.

### ***Energy Infrastructure***

#### *Gas Infrastructure Legislation*

In November 2005, the E.U. Commission adopted Regulation (EC) No. 1775/2005 on Conditions for Access to Natural Gas Transmission Networks, which covered access to all transmission networks in the European Union and addressed a number of issues such as access charges (which had to reflect the actual costs incurred), third party access services, capacity allocation mechanisms, congestion management, balancing and imbalance charges, secondary markets and information and confidentiality provisions. Regulation (EC) No. 1775/2005 established a committee of national energy experts, which has the authority to revise the rules annexed to the Regulation. In July 2009, it was replaced by the E.U. Natural Gas Transmission Regulation which was adopted as a part of the E.U. Energy and Climate Change Legislation.

The E.U. Natural Gas Transmission Regulation complements the E.U. Third Gas Directive and stipulates rules for natural gas transmission networks, gas storage and liquefied natural gas facilities. It concerns access to infrastructures, particularly by determining the establishment of tariffs (solely for access to networks), services to be offered, allocation of capacity, transparency and balancing of the network. It provides for access to maximum network capacity as well as storage and liquefied natural gas facilities for all market participants. Infrastructure operators have a duty to implement and publish non-discriminatory and transparent congestion-management procedures.



Like the E.U. Regulation on Electricity Cross-Border Exchanges, it creates the European Network of Transmission System Operators for Gas (“*ENTSO for Gas*”), composed of gas transmission network operators from all member states.

On April 30, 2015, in order to further encourage and facilitate efficient gas trading and transmission across gas transmission systems within the European Union, and thereby to move towards greater internal market integration, the E.U. Commission issued Commission Regulation (E.U.) 2015/703 Establishing a Network Code on Interoperability and Data Exchange Rules.

#### *Security of Electricity Supply*

In 2006, the European Union adopted Directive 2005/89/EC Concerning Measures to Safeguard Security of Electricity Supply and Infrastructure Investment (the “*E.U. Electricity Security of Supply Directive*”), which requires E.U. member states to ensure a high level of security of electricity supply by taking necessary measures to facilitate a stable investment climate. The E.U. Electricity Security of Supply Directive stipulates that transmission system operators set minimum operational rules and obligations for network security, which may then require approval by the relevant authority. Member states must also prepare, in close cooperation with the transmission system operators, a system adequacy report according to E.U. reporting requirements. Member states were required to transpose the E.U. Electricity Security of Supply Directive into national law by February 24, 2008. The Czech Republic transposed the E.U. Electricity Security of Supply Directive into national law in 2009.

By the end of 2016, the E.U. Commission intends to introduce a new legal instrument on security of electricity supply, designed to enhance transparency, ensure a common approach and better address cross-border solutions to security of electricity supply. This instrument is planned to be fully integrated with the redesign of the electricity market.

#### *Security of Gas Supply*

Following the Russian-Ukrainian gas crisis of January 2009, Regulation (E.U.) No. 994/2010 Concerning Measures to Safeguard Security of Gas Supply (the “*E.U. Gas Supply Directive*”) was adopted in order to strengthen the prevention and crisis response mechanisms.

The E.U. Gas Supply Directive imposed a number of new rules designed to prevent and mitigate potential disruptions to gas supplies, such as risk assessment mechanisms, preventive action plans and emergency plans, duty to ensure gas supplies to households for at least 30 days under severe conditions or enhancing flexibility of the gas infrastructure, including enabling bi-directional physical capacity on cross-border interconnections.

On February 16, 2016, the E.U. Commission submitted to the European Parliament a proposal for a Regulation of the European Parliament and of the Council concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010. This draft regulation proposes stronger regional coordination, with certain principles and standards being set at EU level. The approach proposed is that Member States should cooperate closely within their regions when conducting regional risk assessments. To ensure EU-wide consistency, regional risk assessments shall be conducted on the basis of an EU-wide simulation, with common standards and a specific scenario. Risks identified through regional risk assessments will be addressed in regional preventative action plans and emergency plans, to be peer-reviewed and approved by the E.U. Commission. To ensure that risk assessments and plans are comprehensive and consistent with one another, the draft regulation sets out mandatory templates listing aspects that must be taken into account when conducting a risk assessment and drawing up the plans. The draft regulation also improves the application of the supply standard to protected customers (mainly households) and the infrastructure standard (the possibility of supplying gas even if the largest infrastructure is not available). Finally, it enables permanent bi-directional capacity and proposes the introduction of additional transparency measures concerning gas supply contracts.

#### *Proposed Changes for Energy Infrastructure*

In 2011, the E.U. Commission launched a proposal for a Regulation on Guidelines for trans-European energy

infrastructure which would ensure completion of strategic energy networks and storage facilities by 2020. The general objective of this initiative is to ensure sufficient and timely development of energy infrastructures across the European Union and neighboring countries in order to facilitate continuous and unrestricted cross-border energy flow.

To this end, the Commission has identified 12 priority corridors and areas covering electricity, gas, oil and CO<sub>2</sub> transport networks. The territory of the Czech Republic is included in the project of Central/South Eastern Electricity Connections and in the project of North-South Gas Interconnections and Oil Supply which indicates the possibility of significant future investments with E.U. support into the Czech energy infrastructure in the next decade. In October 2013, on the basis of the Regulation (EU) No. 347/2013, effective from June 2013, the Commission approved the list of approximately 250 key projects in the field of energy infrastructure – the “projects of common interest”. These key projects will benefit from a more expedient permit-granting process, better regulatory conditions and access to financial assistance from the Connecting Europe Facility, with the aim of speeding-up the realization of such projects and increasing their attractiveness to investors.

### ***Renewable Energy Sources***

The European Union made commitments to reduce greenhouse gas emissions under the Kyoto protocol for reducing greenhouse gas emissions (the “*Kyoto Protocol*”). Under the Kyoto Protocol, promotion of electricity from renewable energy sources, meaning electricity produced from non-fossil renewable energy sources such as wind, solar, geothermal, wave, tidal, hydroelectric, biomass and biogas energies, became a priority of the European Union. To this end, E.U. institutions adopted Directive 2009/28/EC on the promotion of the use of energy from renewable sources (and amending and subsequently repealing earlier Directives 2001/77/EC and 2003/30/EC) (the “*E.U. Renewable Energy Directive*”) in 2009 as a part of the E.U. Energy and Climate Change Legislation.

The E.U. Renewable Energy Directive establishes a target for each member state reflecting their different starting points and potential for increasing renewables production based on the contribution of renewable energy to gross final consumption for 2020. This target is in line with the overall “20-20-20” goal for the E.U. The Czech Republic must increase the share of renewable sources (composed of renewable energy for heat, renewable energy for electricity and the use of biofuels in transport) in the total gross energy consumption from 6.1% (the share in 2005) to 13% by 2020.

The E.U. Commission is expected to present the proposal of new E.U. Renewable Energy Directive and the bioenergy sustainability policy for 2030, which should provide the framework to achieve the binding EU-level target of at least 27% renewable energy by 2030.

### ***E.U. Emissions Trading Scheme (E.U. ETS)***

The E.U. ETS is the key tool for cutting industrial greenhouse gas emissions most cost-effectively. For more information, please see “*Regulation—Czech Republic—Current Carbon compliance—Phase III*” and “*Allocation of emission allowances during phase III*”.

### ***Energy efficiency Directive***

On October 25, 2012, the E.U. adopted the Directive 2012/27/EU on Energy Efficiency building on the previous Energy Efficiency Plan 2011. This Directive establishes a common framework of measures for the promotion of energy efficiency within the E.U. in order to ensure the achievement of the E.U. 2020 20% target on energy efficiency and to pave the way for further energy efficiency improvements beyond that date. It lays down rules designed to remove barriers in the energy market and overcome market failures that impede efficiency in the supply and use of energy, and provides for the establishment of indicative national energy efficiency targets for 2020.

### ***Transparency of wholesale electricity, gas and emission allowances trading***

Wholesale gas and electricity prices are highly sensitive to available production and transmission capabilities.

Prices may be influenced by (i) spreading false information on the availability of these capabilities or (ii) reducing production. To prevent and detect these electricity and gas wholesale market manipulations, the European Union enacted Regulation (EC) No. 1227/2011 on Wholesale Energy Market Integrity and Transparency (the “REMIT”), which, *inter alia*:

- Prohibit the use of inside information when buying or selling on wholesale energy markets.
- Prohibit manipulative transactions and spreading of incorrect information that give false or misleading signals about supply, demand, or prices.
- Oblige energy traders to report their transaction data to the ACER. These data include the price, volumes, date and time of the transaction, the name of the seller, the name of the buyer, and any other beneficiaries.
- Make ACER responsible for the independent monitoring of all wholesale energy trades. If market abuse is suspected, ACER will request national regulators investigate. It will also coordinate cross-border investigations.

The European Union enacted Regulation (EC) No. 596/2014 on Market Abuse (the “MAR”) to prevent and detect the market manipulations and insider dealings also on markets with emission allowances (including, public markets and auctions of emission allowances; for more information please see “Czech Republic—Electricity Energy Sector—Carbon Compliance (Emission Allowances)”). The MAR introduces following tools to prevent the aforesaid practices with respect to the emission allowances:

- Obligation of market participants to publish inside information relating to emission allowances.
- Obligation of market participants to prepare insiders lists.
- Obligation of market participants to disclose managers’ transactions.
- Obligation of market operators and investment firms (banks, brokers) to report suspicious transactions with emission allowances.
- Prohibition of the use of inside information when buying or selling emission allowances in auction or on public markets.
- Prohibition of manipulative transactions and spreading of incorrect information that give false or misleading signals about supply, demand, or prices.

The obligation to publish inside information, prepare insiders lists and disclose managers’ transactions will apply solely to emission allowances market participants being above thresholds of (i) aggregate year CO<sub>2</sub> emissions or (ii) rated thermal input. These thresholds will be set out by the E.U. Commission.

The E.U. Commission is preparing for publication in 2016 of a new energy prices and costs report to provide an overview of the cost of energy, taxes, levies and subsidies. This should contribute to a more informed discussion on different energy price levels in Member States, the different components of energy prices, their influence on the competitiveness of European industry and investment in Europe and their ability to influence consumer behaviour. As a first step, the E.U. Commission presented on November 18, 2015, a proposal for a Regulation of the European Parliament and of the Council on European Statistics on Natural Gas and Electricity Prices and Repealing Directive 2008/92/EC of the European Parliament and of the Council Concerning a Community Procedure to Improve the Transparency of Gas and Electricity Prices Charged to Industrial End-users.

## Czech Republic

### General Overview

The Czech energy sector is governed by a wide range of laws and regulations which also implement the European legislation described above. The key law focusing solely on the energy sector is Act No. 458/2000 Coll., on conducting business and governmental oversight in the energy sectors, as amended (the “*Czech Energy Act*”) which provides the legal basis for conducting business in the energy sector and obtaining the necessary licenses for the production, distribution, transmission, storage and sale of electricity, gas and heat.

The Czech Energy Act was enacted in 2000 and broadly amended in August 2011 (as a means of implementing the E.U. Third Electricity Directive and the E.U. Third Gas Directive) and in January 2016 (as a means of implementing the Directive 2012/27/EU on Energy Efficiency, the REMIT and Regulation (EU) No. 347/2013 on guidelines for trans-European energy infrastructure), and contains provisions in compliance with applicable E.U. legislation. Main principles of the Czech Energy Act are: (i) to conduct business in the electric energy sector only with licenses or certificates issued by the Energy Regulatory Office (“*ERO*”); (ii) the unbundling of transmission and distribution system operators; (iii) the liberalization of the market by allowing competition in the energy sector; (iv) the establishment of a strong and independent regulatory authority (i.e. the *ERO*); and (v) the protection of end-consumers.

Principal changes brought about by Act no. 131/2015 Coll. (amending the Czech Energy Act and Czech Promoted Energy Sources Act with effect from January 1, 2016) are:

- The *ERO* controls the compliance by electricity market participants with legislation concerning promoted (renewable) energy sources, instead of the State Energy Inspectorate.
- Licenses for electricity transmission, gas transportation, electricity or gas distribution, gas storage, heat distribution and for the market operator are now issued for indefinite periods of time (subject to the right of the *ERO* to revoke these licenses in case of a material breach of a license by a license holder). Licenses issued by the *ERO* prior to January 1, 2016 for a definite period of time are to be considered as issued for an indefinite period of time.
- The license for electricity generation in power plants installed in the customer connection points is not required.
- A company is obliged to obtain an authorization from the Czech Ministry of Industry if it plans to construct a power plant with an installed electrical output of more than 1 MW (previously 100 kW).
- With effect from August 1, 2017, the *ERO* shall be headed by board of directors having five members, instead of the general manager who currently heads the *ERO*.

Other laws related to the energy sector include, but are not limited to:

- Act No. 406/2000 Coll., on energy management, as amended (the “*Czech Energy Management Act*”);
- Act No. 201/2012 Coll., on protection of the air, as amended (the “*Czech Air Protection Act*”);
- Act No. 383/2012 Coll., on conditions for trading with emission allowances, as amended (the “*Czech Emission Allowances Act*”);
- Act No. 18/1997 Coll., the nuclear act, as amended (the “*Czech Nuclear Act*”);
- Act No. 165/2012 Coll., on promoted energy sources, as amended (“*Czech Promoted Energy Sources Act*”);
- Act No. 44/1988 Coll., on Protection and Exploitation of Minerals, as amended (the “*Czech Mining Act*”); and
- Act No. 76/2002 Coll. on integrated pollution prevention and control, as amended, (the “*Czech*

*IPPC Act*”).

### **Regulatory Authorities**

The main state authorities supervising the energy sector are:

- The Energy Regulatory Office, designated as the main supervisory independent authority in the energy sector which is entitled, among other things, to:
  - issue licenses;
  - provide the method of the energy sector regulation and procedures for price regulation;
  - fix selected regulated prices;
  - adopt rules implementing energy legislation;
  - issue or revoke the certificate of transmission system operator (“TSO”);
  - approve the grid development plans;
  - decide disputes defined by the Czech Energy Act;
  - execute the supervision over the compliance with the Czech Energy Act, the Czech Promoted Energy Sources Act, Act. No. 634/1992 Coll., on consumer protection, as amended, Act. No. 526/1990 Coll., on Prices, as amended, and the E.U. regulation including the E.U. Regulation on Cross-Border Exchanges, the E.U. Natural Gas Transmission Regulation, the REMIT, the E.U. Gas Supply Directive and directly applicable regulation issued by virtue of these regulations or its implementation and obligations arising out of the E.U. Commission or the Agency for the Cooperation of Energy Regulators (“ACER”) decisions;
  - communication and cooperation with ACER;
  - impose fines if applicable regulations under the Czech Energy Act are breached (e.g. if unbundling rules are breached, the ERO is entitled to impose fines up to CZK 50 million or 1% of the relevant company’s turnover, and in the case of transmission network operators, fines of up to CZK 100 million or 10% of the relevant company’s turnover. In respect of vertically integrated companies, a fine of up to CZK 50 million or 1% of company’s turnover may be imposed on the controlling company for giving instructions to its subsidiaries in breach of the applicable distribution unbundling legislation. In addition, the ERO may also require entities that breach applicable regulations to perform specific remedial measures).
- The Ministry of Industry and Trade of the Czech Republic (the “*Czech Ministry of Industry*”), responsible for, among other things, preparation of the state energy conception, preparation of the national action plan for renewable sources of energy and the national action plan for smart grids, granting authorization to construct power plants and communication with the E.U. Commission;
- The Ministry of Environmental Matters of the Czech Republic (the “*Czech Ministry of Environmental Matters*”), which primarily administers matters in connection with emission allowances and air pollution.

## ***Electric Energy Sector***

### *Licensing Regime*

Under the Czech Energy Act, participants in the electricity market must obtain a license issued by the ERO for their activities. Licenses for electricity or gas trading granted in other E.U. member states are also recognized. An applicant is entitled to request a decision from the ERO on license recognition if such applicant already possesses a similar license issued by the competent authority in another E.U. member state; however, such license holder must establish a business entity or a branch office in the Czech Republic. In order to avoid the possibility of the ERO making discriminatory decisions, the ERO is obliged to issue the license if the applicant meets certain statutory requirements.

The ERO may renew or extend a license if the same requirements for the issuance of a new license are met. However, there is no assurance that a license will be issued, renewed or extended. The licenses for electricity generation, gas production and heat generation are issued up to a maximum of 25 years. The licenses for electricity transmission, gas transportation, electricity or gas distribution, gas storage, heat distribution and for the market operator are issued for indefinite period of time (subject to the right of the ERO to revoke a license in case of a material breach of a license by a license holder). The licenses for electricity or gas trading are issued for a set period of 5 years. The list of license owners is published in a bulletin issued by the ERO and the information about the license holders is published on the ERO website.

### *Electricity Generation*

#### *Authorization to construct power plants*

If a company wishes to construct a power plant with an installed electrical output of more than 1 MW, it must obtain an authorization from the Czech Ministry of Industry. The issuance of such authorization is discretionary; however, certain factors must be taken into account, including, but not limited to, compliance with the state energy conception (which is a resolution of the Czech Government defining its strategic goals in the energy sector, including, among other things, its 30 year outlook), the national action plan for renewable sources of energy, the state raw materials conception and the zoning documentation.

#### *Coal-fired power plants*

The operation of a coal-fired power plant requires possession of a power generation license, as well as various other licenses and authorizations, including construction-law and environmental-law permits. The statutes enumerated below regarding air pollution and carbon compliance materially impact the operation of coal-fired power plants.

#### *Sector tax*

In 2014, the Czech Government in the *Policy Statement of the Government of the Czech Republic* expressed its intention to consider the introduction of new *sector tax* to be imposed upon participants in Czech regulated industry sectors (including the energy sector). Neither proposal of any law introducing the sector tax nor any information on proposed parameters of this tax has been published.

### *Czech Air Protection Act*

#### *Emission Charges*

Coal-fired power plants must comply with several regulations under the Czech Air Protection Act. For example, the company operating a coal-fired power plant is subject to the “polluter pays” principle under which it must pay emission charges to the State Environmental Fund (from 2017, the emission charges proceeds shall be distributed as follows: 65 % to the State Environmental Fund, 25 % to the regional budget, 10% to the state budget) for emissions of specified volumes of air pollutants such as solid particle pollutants (dust), sulfur dioxide (“SO<sub>2</sub>”), mono-nitrogen oxides (“NO<sub>x</sub>”) and volatile organic compounds (“VOC”).

From 2017, the emission charges will significantly increase; however:

- If the polluters produce emissions below the limits stipulated by law or permit, then its emission charges will be reduced in the following manner:
  - if the reached emission limits fall within 50 to 60% of the maximum emission limits, the emission charge shall be reduced by 80%,
  - if the reached emission limits fall within 60 to 70% of the maximum emission limits, the emission charge shall be reduced by 60%,
  - if the reached emission limits fall within 70 to 80% of the maximum set up emission limits, the emission charge shall be reduced by 40%,
  - if the reached emission limits fall within 80 to 90% of the maximum set up emission limits, the emission charge shall be reduced by 20%, and
  - if the reached emission limits are higher than 90%, the emission charge will not be reduced.
- If the polluters undertake to reconstruct or modernize their installations resulting in lower annual emissions of pollutants by at least 30%, sulfur oxides expressed as sulfur dioxide by at least 55%, nitrogen oxides expressed as mono-nitrogen oxides by at least 55% or VOC by at least 30% compared with 2010 within the entire emission charges period, no emission charges will be paid.
- If the polluters produce emissions below the 50% of the maximum limits set for the best available techniques (“BAT”), no emission charges will be paid.

#### *Emission limits*

The Czech Air Protection Act implements the E.U. Directive 2010/75/EC on Industrial Emissions (on Integrated Pollution Prevention and Control), which entered into force on January 6, 2011 (the “*Industrial Emissions Directive*”), which requires the E.U. member states to impose more stringent NO<sub>x</sub>, sulfur dioxide and dust emission limits on combustion plants. The specific value of such emission limits depends on various factors, including total rated thermal input, type of fuel used by the combustion plant or the date on which such plant was put into operation (or has been granted a permit). Combustion plants put into operation after January 7, 2014 will be required to comply with the most stringent emission limits.

The Industrial Emissions Directive also provides for ongoing tightening of the emission limits on the basis of the BAT development, as well as, for application of these stringent limits to both new and existing combustion plants. In order to determine what are the BAT, the E.U. Commission periodically (at least every 6 to 8 years) organizes a review process. The review process is to be concluded by adoption of E.U. Commission’s implementing decision. The requirements stipulated in this decision must be incorporated into the integrated permits within four years after adoption thereof. It is expected that this decision will be adopted in the middle of 2016.

Binding emission limits on the concentration of emitted air pollutants in the Czech Republic are stipulated in (i) the Decree No. 415/2012 Coll., as amended, and (ii) the permit issued to a power plant (specific emission limits). The permit issued to a power plant may also set up specific restrictions for the power plant if overall air pollution limits in the respective area of the Czech Republic (where the power plant is located) are exceeded, even if the given power plant does not exceed the applicable limits.

The Czech Air Protection Act empowers the Czech Environmental Inspection Agency to order that any pollution source repeatedly exceeding emission limits is shut down.

The aggregate emission ceilings for the Czech Republic are set in the “National Emission Reduction Program”

approved by the Czech Government. The Czech Ministry of Environmental Matters may set up emission limits for a territory of the Czech Republic (“zones” and “agglomerations”) if certain limits are exceeded (the “Better Quality Air Programs”).

The Czech Air Protection Act empowers the regional authorities (i) not to allow any new source of pollution in the region if the level of air pollution would be exceeded, or (ii) to allow a new pollution source and stipulate conditions for its operation to ensure that the relevant level of air pollution is not exceeded (the “Compensatory Measures”).

In December 2013, the E.U. Commission introduced the “*Clean Air Policy Package*” to reduce emissions and air pollution within the E.U. The package, *inter alia*, includes proposals of directives on (i) the reduction of national emissions of certain air pollutants through stipulating stricter national emission ceilings in the period from 2020 to 2030 provided that the E.U. member states will be obliged to propose measure to meet these ceilings (the proposal of this directive was withdrawn by the E.U. Commission in December 2014); and (ii) the limitation of emissions of certain air pollutants emitted by medium combustion plants as a supplement to the E.U. Directive 2010/75/EC on Industrial Emissions. The first proposal is still in the legislative process, since it was returned by the European Parliament to the committee responsible for the proposal for reconsideration, and the second proposal has been enacted as E.U. Directive 2015/2093 and is to be implemented by Member States by December 19, 2017.

#### *Exceptions to the emission limits*

The Czech Air Protection Act allows for three exemptions from the stringent emissions limits described above:

- Operators of combustion plants with an installed capacity equal to or higher than 50 MW, which obtained the operation permit prior to November 27, 2002 and were put into operation prior to November 27, 2003, may have applied for participation in transitional national plan, valid for the period from January 1, 2016 to June 30, 2020, under which the relevant combustion plants will be permitted to emit pollutants (i) up to their emission limits (ceilings) according to their permit valid to December 31, 2015 (except for certain emission limits regarding NOx) and (ii) up to additional aggregate emissions ceilings provided for by the transitional national plan, which will be decreased on a linear basis until 2020 (operators of combustion plants are allowed to exchange their emission limits between each other);
- Operators of combustion plants with an installed capacity equal to or higher than 50 MW may have applied for participation in transitional regime, valid for the period from January 1, 2016 to December 31, 2023, provided that such plants will end their operations no later than by December 31, 2023. The relevant combustion plants (i) were permitted to retain their original emission limits according to their permit valid until December 31, 2015 (except for certain emission limits regarding NOx) and (ii) shall operate, the maximum of 17,500 operating hours;
- Operators of combustion plants with an installed capacity of 50 MW to 200 MW which (i) received the operation permit prior to November 27, 2002 and were put into operation prior to November 27, 2003, and (ii) deliver at least 50% of the useful heat production of the plant (calculated as a rolling average over a period of 5 years) in the form of steam or hot water to a public network for district heating, may have applied for a transitional regime valid during the period from January 1, 2016 to December 31, 2022. Such combustion plants are permitted to retain their original emission limits according to their permit valid until December 31, 2015.

Combustion plants of the CEZ Group, which are not modernized, are included in the transitional national plan. This provides for greater flexibility and efficiency in emission reduction in the operation of the CEZ Group's portfolio, thus enabling us to adapt more easily to the future situation on the energy market. The Czech national transitional plan was adopted by the E.U. Commission in April 2015.



## *Carbon Compliance (Emission Allowances)*

### *History of Carbon Compliance - Phase II*

Legislation adopted by the European Union as a result of the E.U. commitments made under Kyoto Protocol has been fully transposed into Czech law. The legislation aims to combat climate change and establish a carbon emission allowances market within the European Union. Currently, the E.U. ETS for greenhouse gases emission allowances including emission allowances for CO<sub>2</sub>, is in Phase III, running from 2013 to 2020.

Phase II, running from 2008 to December 31, 2012, allowed for offsets from Joint Implementation and Clean Development Mechanism projects to be used in place of emission allowances. In addition, under Phase II, each European Union member state was obliged to submit a national allocation plan of carbon allowances to the E.U. Commission for its approval. This plan determined both the total amount of carbon allowances allocated to the respective European Union member state for the entire five year period of Phase II and the annual amount of emission allowances allocated to certain identified installations producing CO<sub>2</sub>.

During Phase II, the Czech Republic assigned the emission allowances, which had been allocated under the Act No. 695/2004 Coll., as amended, for free, to certain CO<sub>2</sub> producing installations. In the event that such installations reduced their CO<sub>2</sub> emissions, they were permitted to sell the assigned and unused emission allowances on the market for a profit. Conversely, in the event that such installations required more emission allowances, they had to buy the emission allowances on the market and, as a result, incurred additional expenses.

### *Emission Allowances Taxation*

Due to certain economic and political events in 2010, in particular, the increase in the number of solar power plants which caused increase in electricity prices and in order to finance this increase from the state budget, the Czech Government imposed a tax on emission allowances allocated to electricity producers for free in 2011 and 2012. The tax amounted to 32% of the average market value of the emission allowances allocated for free in a given year (where the market value was determined by the Czech Ministry of Environmental Matters). Certain emission allowances obtained for the purpose of combined production of heat and electricity were exempt from the tax. In February 2015, the European Court of Justice ruled that imposition of the tax on allocation of emission allowances is incompatible with the E.U. law. In July 2015 the Czech Supreme Administrative Court followed the decision of the European Court of Justice and ruled that imposition of the tax on allocation of emission allowances is incompatible with E.U. law, if such tax is imposed on more than 10% of emission allowances distributed for free within five years since 2008. According to decision of the Appellate Tax Directorate, the Czech Government was obliged to return a portion of the gift tax paid by the CEZ Group on emission allowances in 2011 and 2012 in the amount of CZK 3.8 billion. The amount has already been paid to CEZ Group in 2015.

Since 2013 the emission allowances allocated for free are not subject to the taxation in the Czech Republic, as described above. In 2013, the Ministry of Finance of the Czech Republic proposed an amendment to the Act. No. 353/2003 Coll., as amended and Act. No. 261/2007 Coll., as amended, which aimed, among other things, to change the scope and increase the tax rate of taxes on the carbon content fuels (“*carbon tax*”). Impact of the carbon tax on CEZ Group could be mitigated by participation in the E.U. ETS. Following the change of the Czech government in 2013, the proposed law has remained pending in the legislative procedure and has not yet been submitted to the Czech Parliament.

### *Current Carbon compliance - Phase III*

Directive 2009/29/EC dated April 23, 2009, set out a basis for Phase III of the E.U. ETS, which began on January 1, 2013. Phase III introduced significant changes of the E.U. ETS, including (i) auctioning as a default method for allocation of emission allowances, (ii) a longer trading period (8 years, compared to 5 years under Phase II) and (iii) a greater harmonization of rules relating to emission allowances allocation. In addition, E.U. member states do no longer submit their national allocation plans for approval. In their place, the E.U. Commission set a single E.U. wide cap for available emission allowances. The cap for the year 2013 was 2.08

billion per annum; from 2013 until 2020, the cap is decreased each year by 1.74% of the average annual total quantity of emission allowances issued by the member states between 2008 and 2012, which, in absolute numbers, is an annual reduction of approximately 38.3 million emission allowances.

#### *Allocation of emission allowances during Phase III*

With effect from January 1, 2013, Phase III rules prohibit the allocation of emission allowances for free to electricity producers. In general, the electricity producers have to buy emission allowances in auctions or on the E.U. ETS market. From 2013, more than 40% of the emission allowances are sold through auctions and this proportion will progressively increase in the following years.

There is an option for 10 E.U. member states, including the Czech Republic, to provide electricity producers with transitional allocation of emission allowances for free, if conditions under Article 10c of the E.U. Directive 2003/87/EC, Establishing a Scheme for Greenhouse Gas Emission Allowance Trading within the Community (the “E.U. Directive 2003/87/EC”) are satisfied (the “*Derogation*”). The E.U. legislation requires electricity producers, which benefit from this exemption, to invest in modernization of their power plants. The value of these investments must mirror at least the value of the allocation of emission allowances allocated for free. The transitional period expires on December 31, 2019. The E.U. Council communicated that it will consider further transitional allocation of emission allowances until 2030.

To strengthen the functioning of the emission allowances market in the period from 2013 to 2020, the E.U. Commission has a power to amend the timetable of emission allowances auctions (the “*back-loading of emission allowances*”). To mitigate negative impacts of an imbalance between supply of and demand for emission allowances on the E.U. ETS market, the E.U. Commission decided, in February 2014, to decrease the amount of the emission allowance to be auctioned in 2014, 2015 and 2016 by 400, 300 and 200 million of the emission allowances, respectively. According to decision of the European Parliament and of the Council of October 2015, allowances which have not been or will not be auctioned in 2014, 2015 and 2016 will be transferred to a market stability reserve that shall operate from January 2019. The reserve should address both the surplus of emission allowances and improve the system's resilience to major shocks by adjusting the supply of allowances to be auctioned. The effectiveness of the market stability reserve will depend on contents of a compromise to be reached among the E.U. Parliament, the E.U. Council and the E.U. Commission.

#### *Czech Emission Allowances Act*

The Czech Emission Allowances Act, implementing E.U. Directive 2003/87/EC, requires that specified installations producing CO<sub>2</sub> emissions, including coal-fired power plants, obtain a special environmental permit issued by the Czech Ministry of Environmental Matters permitting their operation and certifying that they are capable of complying with various requirements.

With effect January 1, 2013, the Czech Emission Allowances Act significantly modifies the rules relating to emission allowances allocation (compared to the repealed Act No. 695/2004 Coll., as amended – please see “*History of Carbon Compliance—phase II*” above). The emission allowances shall be auctioned, except principally for:

- Emission allowances allocated without charge to incumbent installations for the period from January 1, 2013 to December 31, 2020 and approved by the Czech Ministry of Environment (on the basis of ex-ante benchmarks determined by the E.U. Commission Decision 2011/278/EU);
- Emission allowances allocated without charge to new market participants and approved by the Czech Ministry of Environment; and
- Emission allowances allocated without charge as a consequence of a significant change of installation which may require an update in the emissions allowances allocated to such installation, such as any extension or significant reduction of its capacity etc., and approved by the Czech Ministry of Environment.

The above exemptions do not apply to electricity producers and from January 1, 2013 no emission allowances shall be allocated without charge in respect of any electricity production, except for emission allowances allocated without charge in accordance with the “National plan for investments in retrofitting and upgrading the infrastructure and clean technologies in the energy sector”, approved by the E.U. Commission on July 6, 2012, providing that emission allowances will be allocated without charge to the electricity producers who will invest in upgrading of the electricity infrastructure and clean technologies between June 25, 2009 and December 31, 2019 (the above mentioned Derogation).

Given the foregoing, the CEZ Group is eligible to obtain approximately 70.2 million CO<sub>2</sub> emission allowances in the period from 2013 to 2019, the total market value of which, in current prices (EUR 5.07/EUA), is EUR 356.1 million. In addition, the production of heat shall be partially supported by allocation of emission allowances for free in the period from 2013 to 2020, amounting in total to 6.7 million, the total market value of which, in current prices EUR 5.07/EUA, is EUR 33.8 million.

#### *Nuclear Energy Power Plants*

Under Czech legislation, nuclear power plant operators are required to obtain special nuclear permits, including permission from the Ministry of Environmental Matters and the Ministry of Industry and a license issued by the Czech Republic State Office for Nuclear Safety (“SONS”). Nuclear permits are renewed or extended if the requirements for the issuance of such a permit are satisfied. However, there is no assurance that nuclear permits will be issued, renewed or extended.

#### *Nuclear incident liability*

On June 24, 1994, the Czech Republic became a party to the Vienna Convention on Civil Liability for Nuclear Damage (the “Vienna Convention”). On the basis of the principles of the Vienna Convention, the Czech Parliament enacted the Czech Nuclear Act in July 1997. The Czech Nuclear Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and that the operator’s liability for such damage is limited to CZK 8 billion per incident. The Czech Nuclear Act also provides that operators of nuclear facilities are obliged to acquire insurance covering potential liabilities for damages resulting from the operation of nuclear facilities for a minimum of CZK 2 billion and for a minimum of CZK 300 million in connection with other activities (such as transportation of nuclear materials).

#### *Nuclear fuel and nuclear waste*

Nuclear fuel materials and services (i.e. uranium, conversion and enrichment) are procured pursuant to medium- and long-term contractual arrangements. These procurement activities are under the supervision of the European Supply Agency (the “ESA”), which endorses and co-signs all new supply contracts, in full compliance with the ESA supply policy and related limitations.

The Czech Republic guarantees the safe disposal of nuclear waste. Pursuant to requirements of the Czech Nuclear Act, the Czech Repository Authority, which was established on June 1, 1997, carries out particular activities associated with disposal of nuclear waste, including responsibility for all final disposal facilities and deposition of nuclear waste transferred to the Czech Repository Authority.

The Czech Repository Authority is funded by the Czech Nuclear Account. All nuclear waste generators have a duty to contribute cash to the Czech Nuclear Account on a monthly basis. The contribution is determined based on the estimated total costs of management and liquidation carried out by the Czech Repository Authority, and on the share of the respective waste generator.

#### *Maintenance contributions to SONS*

Since January 1, 2012, all operators of nuclear facilities and applicants for permits to operate nuclear facilities must pay contributions to fund the operation and maintenance of SONS. The contribution consists of: (i) a lump sum of between CZK 30 million and CZK 150 million, payable with an application for permission to commence

operation of a nuclear facility; and (ii) a maintenance contribution which must not exceed CZK 4 million per month, payable by current holders of a permit to operate a nuclear facility. The amounts of maintenance contributions are determined by governmental decree and depend on the extent of operational risk of the relevant nuclear facility. The maintenance contribution is determined on a monthly basis and due annually.

#### *Decommissioning of nuclear power plants*

The Czech Nuclear Act requires a contribution from every nuclear plant operator to special escrow accounts for future decommissioning of its facilities.

#### *Other international regulation related to nuclear energy*

The Czech Republic is a member of the International Atomic Energy Agency (the “IAEA”) and, as a result, our nuclear power plants have been subject to a number of on-site IAEA assessments. For more information, please see “*Description of the Issuer—Safety and Quality Management—IAEA*”.

#### *Revision of EURATOM framework for nuclear safety*

According to the 2014 revision of EURATOM framework governing nuclear safety, which must be implemented into Czech law by August 15, 2017, the Czech Republic will be required to give highest priority to nuclear safety at all stages of the life of a nuclear power plant. This includes carrying out safety assessments before the construction of new nuclear power plants and ensuring significant safety enhancements for old reactors. In particular, the Czech Republic will be required to:

- Create a system of peer reviews and to choose a common nuclear safety topic every six years and organize a national safety assessment on it (the assessment will have to be made public and provided to other member states for review);
- Require a safety re-evaluation for all nuclear power plants to be conducted at least once every 10 years; and
- Increase transparency by requiring operators of nuclear power plants to release information to the public, both in times of normal operation and in case of incidents.
- Organize periodic self-assessments of the national framework at least every ten years.
- Request an international peer review of the relevant segments of the national framework.

#### *Renewable Energy Sources*

##### *History of Renewable Energy Sources*

On January 10, 2007, the E.U. Commission launched its climate and energy package for the European Union to achieve a 20% reduction in greenhouse gas emissions by 2020. Under this plan, the Czech Republic must increase the share of renewable sources (composed of renewable energy for heat, renewable energy for electricity and the use of biofuels in transport) in the total gross energy consumption from 6.1% (the share in 2005) to 13% by 2020.

In 2005, the Czech Parliament enacted Act No. 180/2005 Coll., on the promotion of production of electricity from renewable energy resources (“*Czech Renewable Energy Act*”), as a means of implementing the first renewable energy directive, 2001/77/EC. Under the provisions of this statute, total energy consumption must comprise of at least 8% renewable energy by 2010. This statute also allowed support for power plant operators, consisting of

- Priority access to the distribution grid; and

- Financial support by means of either (x) fixed feed-in tariffs (meaning a guaranteed minimum purchase price for generated electricity), or (y) “green bonuses” representing a certain amount in excess of the market price of electricity.

A high number of new solar power plants have been built on agricultural land in the Czech Republic. The legal obligation to support the owners of these solar power plants caused an increase in total electricity prices for end-consumers. As a result, in 2010 the Czech Parliament approved significant changes to the rules on support of solar power plants, including:

- Significant limits on eligibility of new solar power plants (e.g. support was only provided for small solar power plants on rooftops of buildings);
- In relation to facilities put into operation on or after January 1, 2011, the authority of the ERO to decrease fixed feed-in tariffs by more than 5%, provided that the investment repayment period is shorter than 11 years;
- Withholding tax imposed on operators of solar facilities put into operation between January 1, 2009 and December 31, 2010, in the amount of (i) 26% of the income corresponding to the feed-in tariff or (ii) 28% of the income corresponding to the “green bonus,” as applicable. This tax has been amended and prolonged with effect from January 1, 2014 (see below “—*Current Legislation—The Czech Promoted Energy Sources Act*”);
- Abolition of the exemption from income tax;
- Increased fee for solar facilities being built on agricultural land; and
- State subsidies introduced as financial support for renewable energy (as other means of financial support).

#### *Current Legislation - The Czech Promoted Energy Sources Act*

The Czech Promoted Energy Sources Act, implementing the E.U. Directive 2009/28/EC, repealed the Czech Renewable Energy Act. The Czech Promoted Energy Sources Act only applies to new power plant constructions and power plants, which commenced operation prior to January 1, 2013, are subject to the former regime described above.

The Czech Promoted Energy Sources Act regulates:

- Support for electricity, heat and bio methane from renewable energy sources, secondary energy sources, high-efficiency co-generation of electricity and heat and decentralized generation (an amendment to the Czech Promoted Energy Sources Act adopted in October 2013 stopped the support for (a) bio methane and electricity from bio liquids with effect from January 1, 2014 and (b) electricity from renewable energy sources set into operation on or after January 1, 2014, with the exception of (i) plants up to 10 MW of installed capacity producing energy from water and (ii) plants using the energy of wind, water, biomass or geothermal energy set into operation until December 31, 2015, for which the operator obtained the relevant permits before said amendment);
- Financing of the above mentioned support;
- The “National Action Plan” (which mirrors the targets set by the E.U. Commission relating to the share of renewable resources in total energy consumption and the reduction of greenhouse gas emissions. The National Action Plan will require different types of renewable energy sources to contribute different shares of total consumption);

- Guarantee of origin of electricity generated from renewable energy sources;
- Certificates of origin of electricity generated from high-efficiency co-generation of electricity and heat or secondary energy sources;
- Withholding tax imposed on operators of solar facilities.

The Czech Promoted Energy Sources Act differs from previous legislation in that only some renewable energy sources are eligible for support and the support of new power plants depends on compliance with the National Action Plan. The Czech Promoted Energy Sources Act provides, among other things, that:

- The subsidies paid to the power plant operators (including subsidies to the co-generation of electricity and heat) are predominantly in the form of green bonuses. The option to sell the electricity under feed-in tariffs is granted only to an extremely limited group of very small producers of renewable energy sources.
- The investment repayment period is 15 years.

Act No. 131/2015 Coll., amending, *inter alia*, the Czech Promoted Energy Sources Act, became effective on January 1, 2016. Under the amended Czech Promoted Energy Sources Act, *inter alia*:

- Bio Methane and electricity decentralized generation are not further promoted.
- The ERO is empowered to decrease fixed feed-in tariffs for the following year by more than 5%.

Producers of electricity from renewable sources are obliged to install new output meters as a result of which the ERO's controlling mechanism will be strengthened.

For the sake of completeness, promotion of new solar power plants was terminated in 2014. As for other renewables, only some of them are now promoted (e.g. wind or geothermal power plants) and only under specific conditions. Finally, according to the ERO, renewables promotion payments for 2016 may be required to be returned, unless they are approved by the E.U. Commission. As of the date of this Prospectus, renewables promotion payments for 2016 have not been approved by the E.U. Commission.

### ***Transmission and Distribution of Electric Energy***

#### *History*

Until 1990, one single state owned conglomerate operated the whole electricity system. In 1990, regional distribution companies were separated from the state enterprise and in 1994, they were transformed into joint stock companies (the "REAS"), and offered to the public as part of the privatization process in 1995. The Czech Republic, through the National Property Fund, retained a controlling stake of approximately 48% of shares in each of the REAS. The CEZ Group was initially 100% state owned but as part of the privatization process, a 33.2% stake in the Group was offered to the public (with the Czech Republic retaining a 67.8% majority stake). In addition to the privatization of the REAS, local electricity producers have been partially privatized. ČEPS, a.s., a company controlled by the Czech Ministry of Industry, was established in October 1998. By 2003, the CEZ Group had transferred the entire transmission grid to ČEPS, a.s.

#### *Current Structure*

Currently, following implementation of applicable E.U. legislation, the Czech electricity transmission and distribution system is structured as follows:

- The transmission system is owned by ČEPS, a.s.;

- The distribution system is predominantly owned by three companies being successors of the REAS: ČEZ Distribuce, a.s., E.ON Distribuce, a.s. and PREdistribuce, a.s.;
- Ownership unbundling has been implemented in relation to the transmission system;
- Management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- As a result of unbundling legislation, any applicant must be provided with full access to the transmission and distribution networks and to transmit or distribute electricity through these networks, to the extent technically practicable; and
- Since January 1, 2006 the electricity market has been fully liberalized and all end-consumers are considered eligible customers who may freely choose their supplier of electricity based on current market conditions (instead of being considered as protected customers with the price of electricity being determined by the ERO).

The market operator (“OTE”) is a joint stock company owned by the Czech Republic, which administers and reports upon the regular electricity and gas market and (in cooperation with ČEPS, a.s. and NET4GAS, s. r. o.) administers accounting in respect of the energy balancing market.

#### *Participants*

Based on the above, the following categories of electricity market participants exist in the Czech Republic: (i) generators (producers); (ii) the transmission grid operator (ČEPS, a.s.); (iii) distribution grids operators; (iv) OTE; (v) electricity traders; and (vi) end-consumers.

#### *Price of Electricity*

The final price of electricity on the Czech market for end-consumers consists of two components:

- Non-regulated – the market price of electricity as a commodity that is freely negotiable between contracting parties; and
- Regulated – calculated pursuant to applicable legislation and the ERO pricing regulations and consists of the following items, the prices of which are set by the ERO:
  - transmission and distribution of electricity,
  - system services,
  - additional costs of energy generation from renewable sources and co-generation of heat and electricity, and
  - the costs of operation of OTE and partly the ERO.

The ERO bases regulated prices of electricity transmission and distribution on allowed revenues fixed tariff related to the reserve capacity/fusion and allowed losses (variable distribution tariff related to the distributed volume). The allowed revenues are calculated as the sum of the following main components:

- Allowed operating expenses based on historical data, which are yearly escalated (taking into account the inflation and the price index of market services and sector efficiency factor);
- Depreciation;
- Allowed profit which is a product of weighted average costs of capital (WACC) and regulatory assets base. WACC is set for the entire fourth Regulatory period (2016 – 2018) and is based on

weighted average costs of own and loan capital which are based on the risk free rate, costs of debt, market risk premium related to the Czech Republic and tax rate; and

- Market factor, which represents expenses unforeseen or unavoidable that would otherwise not be recognised as allowed expenses.

Act No. 131/2015 Coll., amending, *inter alia*, the Czech Energy Act, became effective on January 1, 2016. Under the amended Czech Energy Act, *inter alia*:

- The contribution for decentralized electricity generation is not included in the regulated part of the electricity price since the decentralized electricity generation is not promoted.
- For purposes of the calculation of the allowed revenues to be included in the electricity transmission and distribution price, the expenses for development of more efficient distribution and transmission grids are taken into account.

### *Trading*

As well as trading on the electricity spot market which is organized by OTE, trading on the electricity futures market is offered by the Power Exchange Central Europe (“PXE”). The spot market is also accessible through the PXE. Currently, the PXE offers power trading with standardized products for Czech, Slovak, Polish, Romanian and Hungarian power on an anonymous basis and with secure settlement. The PXE is a subsidiary of the Prague Stock Exchange.

### **Heating Energy Sector**

#### *Heat Generation and Prices*

Under the Czech Energy Act, heat generators and distributors must have a license from the ERO. The price of heating supply is calculated pursuant to applicable legislation and the ERO pricing regulations for the relevant calendar year. The ERO bases regulated prices on economically justifiable expenses, a profit margin and value added tax.

Act No. 131/2015 Coll., amending, *inter alia*, the Czech Energy Act, that became effective on January 1, 2016, established a “limited price of heat” whereas the price regulation undertaken by the ERO shall not be applied to drive the heat price under the limited price. The limited price of heat is set by the ERO.

#### *Co-Generation of Heat and Electricity*

Co-generation of heat and electricity is regulated by the Czech Promoted Energy Sources Act (please see “*Renewable Energy Sources—The Czech Promoted Energy Sources Act*”).

### **Gas Sector**

The E.U. First Gas Directive, the E.U. Second Gas Directive and the E.U. Third Gas Directive apply to the gas markets within the European Union, which are designed to liberalize such markets. The development of legislation in the Czech gas sector on the background of E.U. legislation is described above in “*—European Union Legislation—History of Energy Regulation.*”

#### *Licensing Regime*

Participants in the gas sector must obtain licenses from the ERO for generation, transportation, distribution, trading and storage, as the case may be (please see “*Electric Energy Sector – Licensing Regime*”).

#### *Transmission and Distribution of Gas History*

The gas infrastructure in the Czech Republic was privatized between 2001 and 2003 by the sale of the company



Transgas, a.s. and the regional gas distribution companies to the German based RWE Gas AG. In the gas sector, the CEZ Group focuses predominantly on trading of gas. Trading is performed by ČEZ and its two subsidiaries ČEZ Prodej, s.r.o. and ČEZ Energetické služby, s.r.o.

#### *Current structure*

Currently, following implementation of applicable E.U. legislation, including the E.U. Third Gas Directive, the Czech gas transmission and distribution system is structured as follows:

- The transmission system is owned predominantly by NET4GAS, s.r.o.;
- Independent Transmission Operator unbundling regarding the transmission network has been implemented in relation to vertically integrated undertakings. Full ownership unbundling has been implemented in relation to transmission network operators which are not part of vertically integrated companies;
- NET4GAS, s.r.o., previously being part of a vertically integrated undertaking in the Czech Republic, has been recently sold by RWE to Allianz and Borealis Infrastructure and is therefore fully unbundled;
- Any applicant must be provided full access to the transmission and distribution networks and must be able to transmit or distribute gas through the respective networks to the extent technically practicable;
- The distribution system is predominantly owned by: (i) the RWE AG Group through its subsidiary RWE GasNet, s.r.o.; (ii) the E.ON Group through its subsidiary E.ON Distribuce, a.s.; and (iii) Pražská plynárenská Distribuce, a.s.;
- Management, accounting and legal unbundling has been implemented in relation to the distribution systems;
- Since January 1, 2007 the gas market has been fully liberalized and all end-consumers are considered as eligible customers who may freely choose their supplier of gas based on current market conditions (instead of being considered as protected customers with the price of gas being determined by the ERO); and
- Legal ownership unbundling has been implemented in relation to gas storage facilities.

#### *Price of gas*

On the Czech liberalized market, the final price of gas for end-consumers consists of two components and its structure is the same as the structure on the electricity market (please see “*Transmission and Distribution of Electric Energy—Price of Electricity*”):

- Non-regulated – the market price of (x) gas as a commodity and (y) storage of gas that is freely negotiable between contracting parties; and
- Regulated – calculated pursuant to applicable legislation and the ERO pricing regulations and consists of the following items, the prices of which are set by the ERO:
  - transportation of gas through the transmission network;
  - transportation of gas through the distribution systems; and
  - the costs of operation of OTE and partly the costs of operation of ERO.

The prices of the services outlined above are regulated by the ERO through revenue limits and, as with electricity, the revenues are calculated as the sum of operating expenses, depreciation, losses, allowed profit and market factor. As of the date of this Base Prospectus, we are in the 4th Regulatory period (2016-2018).

Act No. 131/2015 Coll., amending, inter alia, the Czech Energy Act, became effective on January 1, 2016. Under the amended Czech Energy Act, inter alia, the expenses for development of more efficient distribution and transmission grids are taken into account for purposes of the calculation of the allowed revenues to be included in the gas transmission and distribution price.

## ***Coal Mining***

### *Regulation of Mining*

Mining is regulated by various statutes, but predominantly by (i) the Czech Mining Act, Act No. 61/1988 Coll., on Mining Activities, Explosives, as amended; and (ii) Czech Mining Office, Act No. 157/2009 Coll., on Disposing of Mining Waste. The authority overseeing mining activities in the Czech Republic and issuing decisions and permits necessary for commencing mining activities is the Czech Mining Office and local mining authorities.

Generally, opening a mine and conducting mining activities requires a number of approvals, decisions and permits, including, but not limited to a decision from the Czech Ministry of Environmental Matters on designation of the potential mining area and a permit for exploration and assessment, an environmental impact assessment (the “EIA”) and a mining permit and mining authorization from the competent mining authority.

### *Coal Prices*

Coal prices are liberalized and are determined on a contractual basis depending on market conditions. Coal “catalogue” price lists are regularly published by all coal-mining companies but the final purchase prices are subject to negotiation between suppliers and purchasers with regard to the individual business relationship, quantities and duration of the contract.

### *Coal Mining Limits*

Even though there are substantial coal reserves in the Czech Republic, coal mining has been restricted in order to protect health and property interests of people living in the brown coal regions, primarily in Northern Bohemia. In 1991, the Czech Government set down mining limits that represent an obstacle to the extension of mining in certain areas. Political discussions are currently being held with respect to the extension of the mining limits. In October 2015, the Czech Government approved the lifting of coal mining limits at the Bílina coal mine owned by the CEZ Group. The new available reserves are estimated to be 100 – 150 million tons of coal.

### *Reclamation of Mines and Redevelopment of Waste Dumps*

Coal mine operators are responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. To cover the costs of reclamation of mines and mining damages, coal mine operators are required by law to contribute to a special escrow account. Coal mine operators are also required by law to set aside funds to cover the costs of reclamation and redevelopment of waste dumps by keeping certain amounts as restricted funds.

### *Final Disposal of Coal Waste*

Act No. 185/2001 Coll. on waste, as amended, effective from January 1, 2002 (the “Czech Waste Act”) emphasizes waste prevention, defines the hierarchy of waste handling, and promotes the fundamental principles of environmental and health protection in waste handling. Coal mine operators have a duty to dispose of coal ash which is considered waste under the Czech Waste Act, unless used for other purposes (e.g. construction or recultivation).

## ***Material Environmental and Other Related Regulation***

### *Integrated Pollution Prevention and Control (including the Integrated Pollutant Register)*

The Czech IPPC Act has fully implemented IPPC Directive 2008/1/ES into the Czech legal system. The Czech IPPC Act is designed to limit industrial and other pollution according to the best available techniques. The users of certain installations must obtain an integrated permit prior to operation and comply with the conditions set out in applicable specific legislation. Unless specific reasons require otherwise, the conditions set in the integrated permit must reflect the best available techniques. In addition, the users of substances registered under the Czech IPPC Act must notify the appropriate administrative authority if the emissions of certain substances exceed regulatory limits, which are then registered in the publicly accessible Integrated Pollutant Register.

In November 2010, the European Union adopted Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control) (the “Industrial Emissions Directive”). The Industrial Emissions Directive, among other things, provides that the member states shall set up a system of environmental inspections of the installations concerned and emphasizes the role of the best available techniques. The member states were required to transpose the Industrial Emissions Directive into national law by January 7, 2013. An amendment to the Czech IPPC Act which, among other things, implemented certain parts of the Industrial Emissions Directive was adopted by the Czech Parliament and took effect as of March 19, 2013.

### *Water Act 2001*

Under Act No. 254/2001 Coll., as amended, (the “Czech Water Act”), disposal of surface and underground water is subject to a permit with the exception of certain listed activities in the public interest. Off-take of more than 6,000 cubic meters of underground water per year is subject to a fee determined pursuant to the relevant provisions of the Czech Water Act. The release of effluent into water is governed by the best available techniques principle and must comply with the water treatment adequate agricultural practice. The Czech Water Act is based on the “user pays” and “polluter pays” principles.

### *Waste Act 2001*

The Czech Waste Act regulates all aspects of waste generation, storage, transfer handling and disposal and requires permits for certain waste usage, disposal, collection or sale activities. An entity dealing with more than 100 tons of hazardous waste per year for two consecutive years has a duty to designate a waste manager. Certain types of waste and equipment are subject to a notification and record duty. A new waste act is currently in preparation and is expected to come into effect in 2018.

### *Environmental Impact Assessment Act 2001 (Act No. 100/2001 Coll., as amended)*

The Czech Environmental Impact Assessment Act requires certain parties to conduct an EIA prior to the approval of a new investment project by the relevant authorities. The Czech Environmental Impact Assessment Act distinguishes projects which always fall within the scope of the EIA, projects which are always excluded and, finally, projects in which the state authorities decide, on an ad hoc basis, whether the EIA is to be performed or not. Members of the public are allowed to participate in the EIA process subject to conditions stipulated in the Czech Environmental Impact Assessment Act.

### *General Liability*

Potential liability can arise under criminal, administrative, civil law and environmental law. The Czech Republic has the ability to enforce environmental rules and regulations pursuant to administrative and criminal law whereas individuals may enforce environmental rules and regulations under civil law. There has been little development in environmental case law to date in the Czech Republic; it is not binding and can only be used as a guide.

### *The “Polluter Pays” Principle*

The “polluter pays” principle applies under administrative, criminal and civil law in the Czech Republic. The person responsible for environmental damage (the “Polluter”) must pay administrative fines, is subject to criminal sanctions and must compensate any affected third party, irrespective of whether the Polluter operates their own property or whether a third party operates the property. Polluters are liable for their own damages. A current lessee cannot be held liable for damages caused by former lessees or the owner.

### *Criminal Liability Towards the State*

The Act No. 418/2011 Coll. on criminal liability of legal entities and proceedings against them (the “*Czech Legal Entity Criminal Act*”), now in force, has introduced a concept of corporate criminal liability for selected criminal offences, including various business and environmental law related offences. Claims for damages under the Civil Code may be made separately.

The Czech Legal Entity Criminal Act does not apply to natural persons. Under Czech criminal law, criminal acts of natural persons can be committed both intentionally and negligently and can result in fines or imprisonment.

### *Administrative Liability Towards the State*

Administrative liability for environmental and other administrative offences is primarily governed by the Czech Water Act, the Czech Waste Act, Act No. 289/1995 Coll., as amended, the Czech IPPC Act, the Czech Nuclear Act, the Czech Air Protection Act and the Czech Emission Allowances Act.

These statutes contain environmental and other offences, which carry strict liability. The Czech Nuclear Act provides that the relevant administrative body is entitled to penalize the individual or entity with a fine of up to CZK 100 million in the event of utilization of nuclear energy for purposes that are not peaceful. Breach of the various statutes can result in fines ranging from CZK 5 thousand up to CZK 100 million. Generally, the relevant administrative body has the power to impose these penalties within one year of gaining knowledge of the offence and not later than three years from the occurrence of the offence. These penalties do not affect the liability to pay damages under the Civil Code, which may be claimed separately.

### *Remedial Measures Imposed by Administrative Authorities*

Act No. 17/1992 Coll., the Environment Act, as amended (the “*Czech Environment Act*”) has introduced into the Czech legal system a new concept of “Environmental Damage (Loss)” in order to ensure that damage caused to the environment is repaired regardless of whether a private claim for damages has been brought against the Polluter. The competent administrative body is authorized to order the Polluter to restore the natural functions of the impaired ecosystem.

Special statutes, e.g. the Czech Water Act and the Czech Waste Act, include provisions for remedial measures to be taken by administrative authorities in order to ensure the repair of environmental damage. In certain cases, the respective administrative authority is also entitled to shut down the business operations which are the source of environmental damage and to require the execution of specific remedial measures.

In addition, the Act No. 167/2008 Coll., on Prevention of Ecological Losses, as amended (the “*Czech Ecological Losses Prevention Act*”) authorizes the competent authorities to impose on Polluters preventive measures for impending ecological loss as well as all remedial measures necessary to restore an ecosystem. A polluter can be fined up to CZK 5 million for failure to perform preventive or remedial measures. The Czech Ecological Losses Prevention Act further broadens the scope of environmental laws as it focuses on the occurrence of an ecological loss, irrespective of which segment of the environment was damaged.

Holders of licenses relating to the electricity, gas or heating energy markets pursuant to the Czech Energy Act are also liable for administrative offences committed thereunder.

*Civil Liability Towards a Third Party*

As well as general liability for damages, the New Czech Civil Code imposes, in certain circumstances, a “quasi strict liability” for most environmental damage cases. Such quasi strict liability is applied if the individual or legal entity causes damage to a third party in the course of the operation of its business. The individual or legal entity is only exempt from such liability if it can prove that it has exercised all reasonable care to avoid the damage. Compensation under civil law includes compensation for current and future damage, including lost profit.

The court is empowered to reduce damages due to a special cause, provided that the damage was not caused deliberately, e.g. by acting without due professional diligence. The statute of limitations generally applicable under Czech law applies to quasi-strict liability.

## TAXATION AND FOREIGN EXCHANGE REGULATION IN CZECH REPUBLIC

*This chapter summarizes certain tax aspects of Czech laws regarding the acquisition, ownership, disposition and retirement of the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds, whether in the relevant countries or elsewhere. This summary does not take into account or discuss the tax laws of any country other than the Czech Republic nor does it take into account specific double taxation treaties, the individual circumstances, status and financial situation or investment objectives of an investor. The tax position of certain categories of holders of the Bonds (“Holders”) who are subject to special rules such as, for example, dealers in securities, insurance companies and collective investment schemes, and Holders who have (or are deemed to have) acquired their Bonds by virtue of an office or employment, is not considered. This summary does not specifically comment on or take into account the impact of the U.S. Foreign Account Tax Compliance Act (“FATCA”) or any of its aspects. This summary is based upon the tax laws of the Czech Republic as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. It is recommended that parties interested in acquiring the Bonds consult their legal and tax advisors with regard to the tax, foreign exchange and legal consequences of acquiring, holding and disposing of the Bonds and receiving payments under the tax and foreign exchange legislation in effect in the Czech Republic and the countries where such parties reside, as well as countries in which proceeds from holding or selling the Bonds could be taxed.*

### Taxation in the Czech Republic

#### Interest Income

For Czech tax purposes, interest income includes income from interest or other income from holding the Bonds and, in respect to individual taxpayers, specifically also the difference between the nominal value of the Bond and the value at which it is issued, payable upon the Bond’s maturity.

Interest income paid to a Holder who is (a) an individual, or (b) a corporate Holder not resident in the Czech Republic for tax purposes (“Non-Czech Individual Holder” and “Non-Czech Corporate Holder”, together “Non-Czech Holders”) and not holding the Bonds through a permanent establishment in the Czech Republic, is generally subject to a withholding tax of 15% to be withheld and paid to the tax authorities by the Issuer. The tax rate of 15% may be under certain circumstances decreased by an applicable double taxation treaty as further described below. However, if the Non-Czech Holder, not holding the Bonds through a permanent establishment in the Czech Republic, is not a tax resident in an European Union or European Economic Area member state or a state with which the Czech Republic has an effective double taxation treaty or treaty on exchange of information, then the interest income is subject to a withholding tax of 35%. Interest income from the Bonds realized by an individual resident in the Czech Republic for tax purposes (“Czech Individual Holder”) or by a Non-Czech Individual Holder holding the Bonds through a permanent establishment in the Czech Republic is subject to final withholding tax of 15%.

Interest income from the Bonds realized by a corporate Holder resident in the Czech Republic for tax purposes (“Czech Corporate Holder”) or by a Non-Czech Corporate Holder holding the bonds through a permanent establishment in the Czech Republic is not subject to Czech withholding tax. However, such Corporate Holder is generally obliged to declare such income in its Czech annual tax return on a self-assessment basis and Czech corporate income tax rate (in general of 19%) will apply. Unless such Non-Czech Corporate Holder is a tax resident in a European Union or European Economic Area member state, the interest is generally subject to withholding of tax securement at the rate of 10% to be withheld and paid to the tax authorities by the Issuer, unless such obligation is waived pursuant to a prior decision of Czech tax authorities. This tax securement could be, subsequently, credited against the final Czech tax liability of the Non-Czech Corporate Holder.

A double taxation treaty between the Czech Republic and the state of which the Non-Czech Holder is resident for tax purposes may decrease or eliminate the tax imposed on interest in the Czech Republic. The entitlement to such benefit under a double taxation treaty may be conditional upon meeting conditions set forth in the respective double taxation treaty, e.g., evidence of the Non-Czech Holder's tax residence in the other state and of beneficial ownership of the income by the Non-Czech Holder may have to be presented. Similarly, the Issuer or payment intermediary may also require the Non-Czech Holder to provide information under the European Union Savings Directive.

### Capital Gains incurred from the sale of Bonds

Income realized by a Czech Holder and Non-Czech Holder from the sale of the Bonds is generally subject to Czech corporate income tax of 19% or personal income tax of 15%, unless such income is exempt or otherwise reduced or excluded from taxation in the Czech Republic in accordance with the Czech tax law or provisions of the relevant double taxation treaty. Czech Holders and Non-Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis. In the specific case of a Czech Individual Holder who holds the Bonds as part of their business property, income in excess of 48-times the average wage wage (CZK 1,296,288 for 2016) is additionally subject to a solidarity surcharge tax of 7% and also to other social security and health insurance levies.

If income realized by a Non-Czech Holder from the sale of the Bonds is paid by a Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder such income, if taxable, will be subject to tax securement of 1% on a gross basis, unless the Non-Czech Holder is tax resident in a European Union or European Economic Area member state, or unless such obligation is waived pursuant to a prior decision of Czech tax authorities. This tax securement could be, subsequently, credited against the final Czech tax liability of the Non-Czech Holder.

Income realized by a Czech Individual Holder or a Non-Czech Individual Holder from the sale of the Bonds acquired on or after January 1, 2014 is exempt from Czech personal income tax provided that the holding period of the Bonds exceeded three years and the Bonds have not been held as part of business property of such individual, or, if so, the Bonds will not be sold prior to the expiry of a three year period following the termination of that individual's business activities. Furthermore, income from the sale of the Bonds realized by individuals is exempt from taxation, if the annual (worldwide) income of that individual from the sale of all securities (including the Bonds) does not exceed the amount of CZK 100,000.

### **EU Savings Directive**

Under Directive 2003/48/EC (the "Savings Directive"), Member States (including the Czech Republic which implemented the Savings Directive into Section 38fa of the Czech Income Tax Act) are required to provide to the tax authorities of another Member State details of payments of interest (as defined in the Savings Directive) made by a paying agent (as defined in the Savings Directive) within its jurisdiction to an individual resident in that other Member State (or to certain limited types of entities established in that other Member State).

However, during a transitional period, Austria and Luxembourg (Belgium previously also operated a transitional withholding system but has now opted to provide details of payments of interest in accordance with the Savings Directive) are required to apply a withholding tax on interest payments instead of providing details of payments of interest to the tax authorities of other Member States. The Holders have an option to provide information on their savings held abroad to their Member States, or to permit disclosure of their income to their Member States as an alternative to the withholding tax. The rate of withholding tax is 35 per cent. for the remainder of the transitional period. The end of this transitional period is dependent upon the conclusion of certain other agreements relating to tax information exchange with certain other countries, or, in respect of Austria and Luxembourg, upon their election to provide details of payments of interest to the tax authorities of other Member States.

A number of third countries and associated territories have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to (or collected by such a person for) an individual resident in a member state or to certain limited types of entities established in a member state. In addition, the member states have entered into provision of information or transitional withholding arrangements with certain dependent or associated territories in relation to payments made by a person in a member state to (or collected by such a person for) an individual resident in one of those territories or to certain limited types of entities established in one of those territories.

The European Commission has proposed certain amendments to the Savings Directive, which if implemented may amend or broaden the scope of the requirements described above. Specifically, the amendment to the Savings Directive has been adopted by the European Commission on March 24, 2014. Although this amendment has not been published in the Official Journal of the European Union yet (at that moment it becomes effective), it is expected to apply as of January 1, 2017. Furthermore, there are attempts to renegotiate tax agreements between the EU and third countries.

**Foreign Exchange Regulation in the Czech Republic**

The Bonds are not foreign securities for the purposes of the Foreign Exchange Act. Therefore, their issue and acquisition is not subject to foreign exchange regulation in the Czech Republic.

The Bonds are deemed to be inland securities within the meaning of the Foreign Exchange Act and their issue and acquisition is subject to foreign exchange regulations in the Czech Republic to limited extent only. At a time of emergency in the foreign exchange economy, when the internal monetary stability of the Czech Republic is immediately and seriously jeopardized, it is forbidden, inter alia, to sell inland securities to foreigners, unless a foreign exchange authority has granted a special permit. The Czech government may declare a state of emergency in the foreign exchange economy when the balance of payments develops unfavorably, and directly and seriously jeopardizes the ability to make payments to other countries or the internal monetary balance of the Czech Republic. The state of emergency in the foreign exchange economy shall terminate no later than three months following the date of its announcement in the media

Under the Czech Foreign Exchange Act, no foreign exchange license/permit is required for individual purchases or sales of inland securities by Czech nationals or foreigners, nor for inland securities trading as a business activity. However, transactions with inland securities can be subject to a reporting obligation or limited as stated below. In case the respective investment treaty for protection of foreign investments concluded between the Czech Republic and the country of which the recipient of income is resident does not state otherwise, or does not provide for more beneficial treatment, the Non-Czech Holders of the Bonds may under certain circumstances purchase foreign currency for Czech currency without any foreign exchange regulation and as such transfer their income from the Bonds (e.g. payments paid by the Issuer in relation to the exercise of the Holder's right to early redemption of the Bonds or paid nominal value of the Bonds) from the Czech Republic in foreign currency.



**ENFORCEMENT OF PRIVATE LAW OBLIGATIONS AGAINST ISSUER**

*The information set forth in this section is solely presented as general information characterizing the legal situation, and was obtained from public documents. Neither the Issuer nor its advisers are making any representation with regard to the accuracy or completeness of the information set forth herein. Potential purchasers of the Bonds should not rely on the information presented herein, and are advised to consult with their legal advisors on any issues relating to the enforcement of private law obligations against the Issuer in each applicable country.*

To the extent that the Bond acquirers were to initiate any proceedings and obtain foreign court judgments against the Issuer, the rules on the recognition and enforcement of foreign judgments applicable in the Czech Republic would have to be applied.

Based on EC Regulation No. 44/2001 of December 22, 2000 on the jurisdiction, recognition and enforcement of court judgments in civil and commercial matters ("EC Regulation No. 44/2001"), which is directly applicable in the Czech Republic, foreign judgments issued by court bodies in EU member states with regard to civil and commercial matters are generally enforceable in the Czech Republic, and *vice versa*, court rulings issued by court bodies in the Czech Republic with regard to civil and commercial matters are now enforceable in EU member states.

In the event that court judgments against the Issuer are issued by court bodies of non-EU member states, the following rules shall apply:

In cases where the Czech Republic concluded a treaty with a specific country on the recognition and enforcement of court rulings, the enforcement of court rulings issued in such country is ensured in accordance with the provisions of the applicable international treaty. If no such treaty exists, then the rulings of foreign courts shall be recognized and enforced in the Czech Republic in accordance with the Czech Act No. 91/2012 Coll., as amended, on Private International Law, and other relevant legislation. In the event of a foreign ruling against a Czech individual or legal entity, such a foreign ruling shall be recognized and enforced if, among other things, actual reciprocity has been established regarding the recognition and enforcement of judgments rendered by Czech courts in the relevant country. The Czech Ministry of Justice may, upon agreement with the Czech Ministry of Foreign Affairs and other ministries, declare that reciprocity has been established with respect to a particular foreign country. Such declaration is binding on Czech courts and other state authorities. If such declaration of reciprocity has not been issued with regard to a particular country, however, this does not automatically mean that reciprocity cannot be established in a given case. In such cases, the recognition of reciprocity would be assessed as part of the proceedings by the Czech court based on the actual situation in a given country with regard to the recognition of judgments of Czech authorities.

On the other hand, even if reciprocity has been established and declared by the Ministry of Justice with respect to judgments issued by judicial bodies of a particular foreign country, such judgments may not be recognized and enforced under applicable provisions of Czech law if, for example: (i) the matter falls within the exclusive jurisdiction of the courts of the Czech Republic, or in the event that the proceedings on recognition and enforcement could not have been conducted by any authority of a foreign state, should the provisions on the jurisdiction of Czech courts be applied for considering the jurisdiction of the foreign authority; (ii) a Czech court has issued or recognized a final judgment in the same matter, or proceedings regarding the same matter are pending before a Czech court; or (iii) the foreign authority deprived the party to the proceedings against whom the judgment was made of the opportunity to properly participate in the proceedings (i.e., in particular, if such party had not been duly served for the purposes of the initiation of the proceedings); or (iv) the recognition of a foreign judgment would be contrary to the public policy in the Czech Republic.

## GENERAL INFORMATION

### Internal Approval

The Bond Program was approved by way of a resolution by the Issuer's Board of Directors dated October 12, 2009. For this purpose, the Issuer's Supervisory Board granted its prior consent to the Bond Program on October 23, 2009.

### Approval of Base Prospectus

The Base Prospectus was approved by CNB Decision Ref. No. 2016/065847/CNB/570,S-Sp-2016/00027/CNB/572, dated June 7, 2016, which became effective on June 10, 2016.

### Governing Law

The Bonds are governed by Czech law, in particular, by Czech Act No. 190/2004 Coll., on Bonds, as amended. The offering and listing of the Bonds is governed, in particular, by Czech Act No. 256/2004 Coll., on Doing Business on Capital Markets, as amended, Commission Regulation (EC) No. 809/2004, implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses, as well as the format, incorporation by reference, and publication of such prospectuses and the dissemination of advertisements, and the regulations applicable to the individual regulated markets on which the respective Bonds are to be listed.

### Trading on the Regulated Market

On July 7, 2011, the Listing Committee of the Prague Stock Exchange admitted the Bond Program to the regulated or non-regulated market. If Bonds of a particular Issue are to qualify as listed securities, the Issuer will apply for their admission to trading in the regulated or non-regulated market of the Prague Stock Exchange.

### No Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries since December 31, 2015 and there has been no material adverse change in the financial position or prospects of the Issuer and its subsidiaries since December 31, 2015.

### Litigation

Except as described in this Base Prospectus neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or any of its subsidiaries.

### Auditors

The auditors of the Issuer are Ernst & Young Audit, s.r.o., a member of the Chamber of Auditors of the Czech Republic, who have audited the Issuer's consolidated as well as non-consolidated financial statements, without qualification, in accordance with International Standards on Auditing for each of the two financial years ended on December 31, 2014 and December 31, 2015, respectively. The auditors of the Issuer have no material interest in the Issuer.

### Interest of Persons Involved in Issuance and Offering of Bonds

Certain of the Arrangers, Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

### Documents on Display

For as long as any of the Issues under the Bond Program remain outstanding, the Base Prospectus, its supplements (if any), the Issue Supplements, the Issuer's most recent complete financial statements, the historical financial information of the Issuer and its subsidiary undertakings for each of the two financial years preceding the publication of the Base Prospectus, and the Issuer's Articles of Association will be available on the Issuer's website [www.cez.cz](http://www.cez.cz).

### **Third Party Information**

Where information included in the Base Prospectus has been sourced from a third party, such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Rating of the Issuer**

As of the date of this Base Prospectus, ČEZ has a credit rating of A- with a stable outlook by Standard & Poor's Credit Market Services Europe Limited and Baa1 with a stable outlook by Moody's Investors Service Ltd. Standard & Poor's Credit Market Services Europe Limited (domiciled in the United Kingdom) and Moody's Investors Service Ltd. (domiciled in the United Kingdom) are both established in the European Union and are included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009, as amended by Regulation (EU) No 513/2011, which is available on the ESMA website ([www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs)). **Date of Base Prospectus**

This Base Prospectus was prepared as of May 25, 2016.

## LIST OF DEFINITIONS, TERMS AND ABBREVIATIONS USED

“**Arrangers**” means KB, ČS and ČSOB;

“**Base Prospectus**”, or “**base prospectus**” (according to its context in this document) means this document;

“**Bonds Act**” means Czech Act No. 190/2004 Coll., on Bonds, as amended;

“**Capital Markets Act**” means Czech Act No. 256/2004 Coll., on Conducting Business on Capital Market, as amended;

“**CDCP**” means the Central Securities Depository - Centrální depozitář cenných papírů, a.s., with its registered seat at Rybná 14, Prague 1, Postal Code 110 00, Czech Republic, Identification Number: 25081489, registered in the Commercial Register maintained by the Municipal Court in Prague, File No. B 4308;

“**Civil Code**” means Czech Act No. 89/2012 Coll., Civil Code, as amended;

“**CNB**” or “**Czech National Bank**” means a legal entity established by Act No. 6/1993 Coll., on the Czech National Bank, as amended, or as the case may be, any legal successor thereof in accordance with the laws of the Czech Republic;

“**Commercial Code**” means the obsolete Czech Act No. 513/1991 Coll. replaced by the Companies Act;

“**Companies Act**” means Czech Act No. 90/2012 Coll., act on companies, as amended;

“**CZK**” means Czech crowns, the lawful currency of the Czech Republic;

“**CEZ Group**” or “**Group**” means ČEZ, a. s. and its inland or foreign subsidiaries directly or indirectly controlled by ČEZ a. s.;

“**ČS**” means Česká spořitelna, a.s. with its registered seat at Olbrachtova 1929/62, Prague 4, Postal Code 140 00, Czech Republic, Identification Number 45244782, registered in the Commercial Register maintained by the Prague Municipal Court, File No. B 1171;

“**ČSOB**” means Československá obchodní banka, a.s. with its registered seat at Radlická 333/150, Prague 5, Postal Code 150 57, Czech Republic, Identification Number 000 01 350, registered in the Commercial Register maintained by the Prague Municipal Court, File No. BXXXVI 46;

“**ESMA**” means the European Securities and Markets Authority;

“**EUR**” or “**euro**” means the single currency of the European Union;

“**Foreign Exchange Act**” means Czech Act No. 219/1995 Coll., the Foreign Exchange Act, as amended;

“**IFRS**” means the International Financial Reporting Standards set up in accordance with the standards and interpellations adopted by the International Accounting Standards Board, in the past referred to as the International Accounting Standards (IAS);

“**Issuer**”, or “**issuer**” (according to its context in this document) means ČEZ, a. s., with its registered seat at Duhová 2/1444, Prague 4, Postal Code 140 53, Czech Republic, Identification Number 452 74 649, registered in the Commercial Register maintained by the Prague Municipal Court, File No. B 1581;

“**ITA**” means Czech Act No. 586/1992 Coll., on Income Taxes, as amended;

“**KB**” means Komerční banka, a.s. with its registered seat at Na Příkopě 33/969, Prague 1, Postal Code 114 07, Czech Republic, Identification Number 453 17 054, registered in the Commercial Register maintained by the Prague Municipal Court, File No. B 1360;

“**MiFID**” means Directive 2004/39/EC, on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, as amended;

“**NSV**” means Namensschuldverschreibung securities;

“**Prague Stock Exchange**” or “**PSE**” means Burza cenných papírů Praha, a.s., with its registered seat at Rybná 14/682, Prague 1, Postal Code 110 00, Czech Republic, Identification No. 47115629, registered in the Commercial Register maintained by the Prague Municipal Court, File No. B 1773;

“**PD Regulation**” means Commission Regulation (EC) No. 809/2004, implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements;

“**Prospectus Directive**” means Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements and amending Directive 2001/34/EC, as amended by Directive 2010/73/EU;

“**VAT**” means value-added tax pursuant to Act No. 588/1992 Coll. or Act No. 235/2004 Coll. (depending on which legal enactment is relevant in the given context), on value-added tax, as amended.

## TECHNICAL TERMS AND PRESENTATION OF OTHER DATA

The technical abbreviations and expressions used in this Base Prospectus have the following meanings:

<b>ANRE</b>	Romanian Energy Regulatory Authority
<b>CCGT</b>	Combined Cycle Gas Turbine.
<b>CCS</b>	Carbon Capture and Storage.
<b>CDM</b>	Clean Development Mechanism.
<b>CHP</b>	Combined Heat and Power
<b>CISFSF</b>	Central Interim Spent Nuclear Fuel Storage Facility.
<b>CER/ERU</b>	Kyoto credits (Certified Emission Reductions/Emission Reduction Units).
<b>CH<sub>4</sub></b>	Methane.
<b>CO<sub>2</sub></b>	Carbon dioxide.
<b>Demand</b>	Consumption of the final consumer not including transmission and distribution losses and self consumption by ČEZ (including electricity used in pump storage facilities) and other electricity generators and distributors.
<b>EBITDA</b>	Income before other expenses, income taxes and depreciation and amortisation.
<b>ECJ</b>	European Court of Justice in Luxembourg.
<b>EEX</b>	European Energy Exchange in Germany.
<b>EIA</b>	Environmental impact assessment.
<b>EPC</b>	Engineering, Procurement and Construction.
<b>ERO</b>	Energy Regulatory Office.
<b>ESA</b>	European Supply Agency.
<b>ETS</b>	European Trading System for CO <sub>2</sub> emission credits.
<b>EUAs, EU Allowances</b>	European Union Allowances.
<b>EU ETS</b>	European Union Emission Trading Scheme.
<b>EXC</b>	European Climate Exchange.
<b>HFCs</b>	Hydrofluorocarbons.
<b>HTSO</b>	Hellenic Transmission System.
<b>HUPX</b>	<b><i>Hungarian Power Exchange.</i></b>
<b>FBB</b>	Fluidised-bed boiler, a kind of boiler which reduces the content of sulphur dioxide emissions in the flue gases during the combustion process.
<b>FGD</b>	Flue-Gas Desulphurisation, a flue stack technology for reducing sulphur dioxide content in power plant emissions.
<b>GW; GWh</b>	One gigawatt equals 1,000 MW; one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1 GW.
<b>I&amp;C</b>	Instrumentation and control system for a nuclear power plant.
<b>IAEA</b>	International Atomic Energy Agency.
<b>INES</b>	International Nuclear Events Scale
<b>Installed capacity</b>	The highest constant level of generation of electricity which a power

	plant is designed to be capable of maintaining.
<b>ISFSF</b>	Interim Spent Nuclear Fuel Storage Facility.
<b>JI</b>	Joint Implementation.
<b>kW; kWh</b>	A kilowatt is a unit of power, representing the rate at which energy is produced; one kilowatt-hour represents one hour of electricity consumption at a constant rate of 1kW.
<b>LCP</b>	Large Combustion Plants
<b>LTO EDU</b>	Long Term Operation of Dukovany nuclear power plant.
<b>m<sup>3</sup></b>	Cubic metre.
<b>MIT</b>	Ministry of Industry and Trade of the Czech Republic.
<b>MoF</b>	Ministry of Finance of the Czech Republic.
<b>MoLSA</b>	Ministry of Labour and Social Affairs.
<b>MW; MWh</b>	One megawatt equals 1,000 kW; one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW.
<b>NAP</b>	National Allocation Plan.
<b>Nordpool</b>	Exchange for electrical energy.
<b>NOx</b>	Nitrogen oxides.
<b>NPF</b>	National Property Fund.
<b>NPP</b>	Nuclear power plant.
<b>OPCOM</b>	Power Market Operator in Romania.
<b>OSART</b>	Operational Safety Review Team
<b>OTE</b>	Electricity Market Operator.
<b>PFCs</b>	Perfluorocarbons.
<b>POLPX</b>	Polish Power Exchange.
<b>PWR</b>	A type of pressurised water nuclear reactor designed in the United States. This type of reactor uses water as both a moderator (the medium in the reactor core which facilitates the chain reaction) and coolant (the medium which conveys the heat generated in the reactor to a steam generator).
<b>PXE</b>	Prague Energy Exchange.
<b>R&amp;D</b>	Research and Development.
<b>RAB</b>	Regulatory assets base.
<b>REAS</b>	The original, State-owned, regional distribution companies in the Czech Republic.
<b>Repository Authority</b>	Radioactive Waste Repository Authority.
<b>RMC</b>	Risk Management Committee.
<b>SACP</b>	Stand-alone credit profile.
<b>SEWRC</b>	The Bulgarian State Energy and Water Regulatory Commission.
<b>SF<sub>6</sub></b>	Sulphur hexafluoride.
<b>sq. km</b>	Square kilometre.
<b>SO<sub>2</sub></b>	Sulphur dioxide.
<b>SONS</b>	State Office for Nuclear Safety.
<b>SZDC</b>	Railway Infrastructure Administration, state organization.

<b>Ton</b>	Metric ton.
<b>TSO</b>	Transmission System Operator.
<b>TW; TWh</b>	One terawatt equals 1,000 GW; one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW.
<b>VVER</b>	A type of PWR designed in the former Soviet Union which uses water as both a moderator and coolant.
<b>WACC</b>	Weighted Average Cost of Capital.
<b>WANO</b>	World Association of Nuclear Operators.
<b>WANO Peer Review</b>	A peer review of nuclear power plant carried out regularly by international teams of experts from various professional organizations.

Unless otherwise indicated, all figures in this Base Prospectus presenting units of generation of electricity are gross (i.e. including the electricity consumed by the power plants themselves).

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



**ISSUER**

**ČEZ, a. s.**  
Duhová 2/1444  
140 53 Prague 4  
Czech Republic

**ARRANGERS**

**Komerční banka, a.s.**  
Na Příkopě 33/969  
114 07 Prague 1  
Czech Republic

**Česká spořitelna, a.s.**  
Olbrachtova 1929/62  
140 00 Prague 4  
Czech Republic

**Československá obchodní  
banka, a.s.**  
Radlická 333/150  
150 57 Prague 5  
Czech Republic

**PROGRAM LISTING AGENT, CALCULATION AGENT, PAYING AND FISCAL AGENT**

**Komerční banka, a.s.**  
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**AUDITOR OF THE ISSUER**

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