



# SUPERVISORY BOARD REPORT

Dear Shareholders, Ladies and Gentlemen:

Please allow me to present to you, on behalf of the Supervisory Board of ČEZ, a. s., the report on its activities since the last Annual General Meeting, which took place on June 21 last year.

In accordance with the Company's Articles of Association, the Supervisory Board has 12 members, two-thirds of whom (8 members) are elected and removed by the General Meeting and one-third (4 members) are elected and removed by Company employees. The following personnel changes occurred during the period from the last Annual General Meeting held on June 21, 2017, to May 17, 2018 (when this report was debated by the Supervisory Board):

- Václav Pačes was reelected as Chairman of the Supervisory Board in June 2017
- The process of mandatory codetermination (direct representation of employees in the Company's Supervisory Board) was completed in this January (in relation to the amendment to the Articles of Association made at the last General Meeting and in relation to elections of Supervisory Board members by Company employees) with the abolishment (on January 22, 2018) of the positions of Supervisory Board members elected by the General Meeting from among Company employees ("indirect employee representatives"), namely Jitka Čermáková, Vladimír Hronek, Lubomír Kosík, and Josef Suchánek, with the aforementioned starting their term as Supervisory Board members elected by employees, that is, direct employee representatives in the Supervisory Board, with effect from January 23, 2018
- In this context, Vladimír Hronek's service as the Vice-Chairman of the Supervisory Board was also terminated on January 22, 2018

As at May 17, 2018, when this report was debated by the Supervisory Board, the Supervisory Board had the following members:

- Václav Pačes—Chairman of the Supervisory Board
- Ondřej Landa—Vice-Chairman of the Supervisory Board
- Vladimír Hronek, Zdeněk Černý, Jitka Čermáková, Lubomír Klosík, Vladimír Kohout, Petr Polák, Josef Suchánek, Robert Šťastný, František Vágner, and Šárka Vinklerová—members of the Supervisory Board

The Supervisory Board had a total of 10 ordinary meetings and 1 extraordinary meeting in the past period (that is, from the last Annual General Meeting to May 17, 2018, when the Supervisory Board debated this report).

Supervisory Board meetings were regularly attended by the Chairman of the Board of Directors. Depending on the contents and importance of the agenda, competent members of the Board of Directors and Company employees or external consultants were invited to meetings.

As part of its inspection activities, the Supervisory Board also collaborated with the Internal Audit function and the Audit Committee of ČEZ, a. s.

The Supervisory Board has 2 advisory boards:

1. The Personnel Committee of the Supervisory Board (which held 9 meetings in the past period) having the following members:
  - Vladimír Hronek—Committee Chairman
  - Zdeněk Černý—Committee Vice-Chairman
  - Robert Šťastný, Vladimír Kohout and Josef Suchánek—Committee members

2. The Strategic Committee of the Supervisory Board (which held 10 meetings in the past period) having the following members:

- Petr Polák—Committee Chairman
- Šárka Vinklerová—Committee Vice-Chairman
- Václav Pačes, František Vágner and Lubomír Klosík—Committee members

Pursuant to the Company's Articles of Association, the Company's Board of Directors should have seven members.

The following personnel changes occurred in the Board of Directors of ČEZ, a. s., in the period concerned:

- The Supervisory Board elected Ladislav Štěpánek and Tomáš Pleskač as members of the Board of Directors for their subsequent term of office in June 2017.

The Supervisory Board:

- Continuously monitored the activities of ČEZ, a. s. and key decisions made by its Board of Directors and management
- Dealt with suggestions made by its members, shareholders, or Company customers and civic associations
- Visited (whether collectively or its individual members), for example, the coal-fired power plant and CCGT plant at Počeradý as well as a RES project from the "Julia" portfolio and the Cloud&Heat and Sunfire startups in Germany in the past period
- Held a number of workshops where it discussed in detail, for example, the following topics: CEZ Group development in ESCO energy services; priorities and starting points for the determination of annual tasks for 2018, including assumptions for the business plan for 2018–2022 and the annual budget for 2018; alternatives in structural changes to CEZ Group; maintenance outlook for conventional power facilities; information on the audit of the 2017 financial statements; maintenance outlook for the nuclear energy division and weld quality management; employment changes at CEZ Group in 2008–2017; Company strategy in approach to the unification of its subsidiaries' articles of association and rules of procedure

Within the scope of its powers and beyond the scope of its obligations as specified by the Company's Articles of Association, the Supervisory Board requested and debated the following information:

- About any obligations arising for the Company from shareholders' suggestions and protests debated at the last Annual General Meeting and about the status of their implementation
- About developments in significant legal disputes concerning CEZ Group
- About CEZ Group's approach to the end-customer market
- About the risk management system, risk overview, and risk provisions
- About CEZ Group's debt capacity
- About significant transactions involving ownership interests in CEZ Group companies
- About the condition of domestic and foreign shareholdings of ČEZ, a. s., including selected financial results in the periods concerned
- About trends and developments in CEZ Group's market share
- About the activities of the investment fund Inven Capital, a.s. (formerly ČEZ Nová energetika, a.s.)
- About the approval of the Election Rules for the election of Supervisory Board members elected by Company employees and about the calling of an election of Supervisory Board members and substitute Supervisory Board members elected by employees
- About detailed process-related aspects associated with the elections of Supervisory Board members elected by employees (codetermination of Supervisory Board members)

- About possible variants for potential modifications to the Company's stock option plan or the service contract template
- About plans for CEZ Group's advertising and marketing activities, including a debate on their assessment
- About the operations and grant programs of the CEZ Foundation
- About support for Třípól, an Internet magazine aimed to promote interest in science and technology
- About the ČEZ Ombudsman's activities in 2009–2017

The Supervisory Board also requested detailed information and the Board of Directors' position on some issues that attracted publicity in the media—for example, in connection with the former acquisition in Albania, the sale of residential property in Písnice, or internal investigation into a leak of information concerning the divestment of Bulgarian assets.

At its meetings, the Supervisory Board regularly dealt with:

- The current state of and developments in the regulatory environment and legislation in the EU and Czechia, including their potential impact on CEZ Group's activities
- Information on significant events in European and global energy markets
- The current operational status of the Temelín and Dukovany nuclear power plants (including the process of licensing for the long-term operation of the Dukovany units)
- The operational status of power plants in mining regions (especially the continued implementation of the capital project for the construction of the New 660MWe Unit at the Ledvice power plant, as a prototype, including information on project acceptance), as well as the operational status of power plants outside mining regions and hydroelectric power plants and the CCGT plant, including the status of other heating facilities
- Up-to-date information from the foreign distribution segment, including the possible development of the political and regulatory environment and possible development activities in connection with CEZ Group's activities particularly in Bulgaria, Romania, Turkey, and Poland
- Information on current developments in the Czech distribution segment—on the operation of the distribution system and any emergencies, on the implementation of major construction projects, and on ongoing projects
- Information from the trading segment concerning trading, sales of commodities to end-use customers in Czechia and abroad, decentralized energy, and offerings for businesses and the public sector in Czechia or offerings for businesses abroad
- The development of potential opportunities or specific projects in ESCO services or in renewable energy sources, both abroad and in Czechia
- Up-to-date information concerning Škoda Praha's power plant deliveries and continued work on other projects
- A management report on developments in the Company's financial performance as well as a report on CEZ Group's major investment projects, that is, issues concerning the status and development of capital projects, technologies used, contractor issues, work schedules, and budget utilization

Considering the impacts of developments in the external environment on the Company's acquisition and investment priorities, the Supervisory Board gave consent to making a firm offer to buy of a 100% share in Elevion GmbH in Germany, to making a firm offer to buy a 100% share in EQOS Energie Polska sp. z o.o. and a 100% share in EQOS Energie Česko spol. s r.o., and furthermore to making a firm offer to acquire companies from the Kofler Energies group.

In compliance with the applicable Articles of Association, it furthermore granted its prior consent to the Board of Directors to implement decisions:

- On making an additional noncash contribution to the equity of CEZ Poland Distribution B.V. outside its registered capital by capitalizing claims arising out of contracts with indirectly controlled companies ECO-Wind Construction S.A. and Baltic Green Construction sp. z o.o.

- On reducing the registered capital of ČEZ OZ uzavřený investiční fond a.s. by reducing the nominal value of its shares and on transferring the amount of reduction to the company's additional paid-in capital
- On approving a merger by acquisition between ČEZ Distribuční služby, s.r.o., as the acquired company, and ČEZ Distribuce, a. s., as the acquiring company
- On a transformation/merger by acquisition between ČEZ Inženýring, s.r.o., as the acquired company, and ČEZ, a. s., as the acquiring company
- On the sale of a 100% stake in TEC Varna EAD to Bulgarian company SIGDA OOD
- On the sale of a 48% stake in Osvětlení a energetické systémy a.s. (formerly CITELUM, a.s.) to ELTODO, a. s.
- On implementing the “DeNOx SCR” capital project at CEZ Skawina S.A.
- On approving the design of the D149 “Temelín NPP–České Budějovice Heat Supply Line” project
- On reducing the registered capital of Inven Capital, with the amount by which the existing registered capital is reduced remaining part of the capital of Inven Capital and allocated to the value of investment shares
- On approving the design of the project for Prunéřov Power Plant (EPR) 0488 “Northern Quarry II—Space for Coal Combustion Product (CCP) Utilization—Stage 1”
- On granting consent to Elektrárna Temelín II, a. s., for the implementation of an investment project under Revision 1 to the Business Plan for the “New Nuclear Power Plant at Temelín” Project
- On granting consent to Elektrárna Dukovany II, a. s., for the implementation of an investment project under Revision 1 to the Business Plan for the “New Nuclear Power Plant at Dukovany” Project
- On the sale of
  - 100% stake in CEZ Trade Bulgaria EAD
  - 100% stake in CEZ Bulgaria EAD
  - 67% stake in CEZ Electro Bulgaria AD
  - 67% stake in CEZ Razpredelenie Bulgaria AD
  - 100% stake of CEZ Bulgarian Investments B.V. in Free Energy Project Oreshets EAD
  - 100% stake of CEZ Bulgarian Investments B.V. in Bara Group EOOD to Inercom Bulgaria EAD, having its registered office in Sofia
- On approving Amendment 1 to the combined business plan/project outline document “Implementation of New Technical Requirements in the New Atomic Energy Act in the Dukovany NPP Physical Protection System”
- On granting consent to Elektrárna Dětmarovice, a.s., for the implementation of the capital project for “Desulfurization Renovation”
- On granting consent to Severočeské doly, a.s., for the implementation of the capital project for “Procurement of a TC2 Bucket-Wheel Excavator for the Operational Conditions of Overburden Benches 5 and 6 at the Bílina Mines”

In the context of the foregoing, the Supervisory Board furthermore debated and acknowledged:

- Monthly updates on the current status of nuclear power plants and conventional generating facilities
- Information on the intended transformation consisting in division by spin-off and merger between ČEZ Korporátní služby, s.r.o., as the divided company, and ČEZ Distribuce, a. s., as the acquiring company, under which the spun-off assets of ČEZ Korporátní služby, s.r.o., are to be acquired by ČEZ Distribuce, a. s. (concerning a vehicle fleet transfer)
- Information on the participation of ČEZ, a. s., in an electronic call for tenders for the conclusion of contracts for the provision of ancillary services in 2018, made by ČEPS, a. s.
- Information on the issuance and settlement of an EMTN issue
- Information on the preparation of a change in the structure of Inven Capital in connection with the EIB's coinvestment

- Information on the intended transformation of Inven Capital, investiční fond, a.s., into an investment company with variable capital (SICAV), involving an anticipated change of the company's business name to Inven Capital, SICAV, a.s., and update to the company's statute and articles of association
- Information on management techniques applied to the subsidiaries of ČEZ ESCO, a.s., and priorities for 2018
- Information on the return of capital invested of ČEZ ESCO, a.s.
- Information on making an additional contribution
  - For the creation of equity outside the registered capital of ČEZ ESCO, a.s., beyond the contribution of the shareholder ČEZ, a. s.
  - For the creation of equity outside the registered capital of ČEZ ESCO, a.s., beyond the contribution of the shareholder ČEZ, a. s., for financing the acquisition of a 100% share in KART, spol. s r.o.; acquisition of a 100% share in AirPlus, spol. s r.o.; and acquisition of a 51% share in Hormen CE a.s.
- Information on an increase in the registered capital of ČEZ ESCO, a. s., by a noncash contribution consisting in a 100% stake held by ČEZ, a. s., in ČEZ Slovensko, s.r.o.
- Information on arrangements for tendering procedures for both contemplated variants of potential projects for a new facility at Mělník, that is, the delivery of a gas-fired boiler plant and a coal-fired fluidized bed boiler, and information on the initiation of EIA preparations covering both contemplated variants
- Information on provisions for a tendering procedure for the implementation of environmental measures at Trmice consisting in the intensification of current desulfurization and the construction of a new unit for reducing NOx emissions in flue gas
- Information about changes in
  - prices of electricity supplies for households and businesses
  - Supplier Terms and Conditions
  - Gas Supplier Terms and Conditions
- Information on the intended transformation consisting in division by spin-off and merger between ČEZ Prodej, a.s., as the divided company, and ČEZ ESCO, a.s., as the acquiring company, with the spun-off assets of ČEZ Prodej transferred to ČEZ ESCO (concerning the transfer of an individually served customer business segment)
- Information on the state of preparations for a transaction/contemplated sale of the share of ČEZ, a. s., in Akcez
- Information on the provision of an additional cash contribution to the creation of equity outside the registered capital beyond the contribution of the shareholder ČEZ, a. s., at CEZ Poland Distribution B.V. (which was renamed to CEZ Holdings B.V. with effect from April 1, 2018)
- Information on reasons for contemplating the CEZ Group internal transformation
- Information on the division by spin-off and merger of a portion of assets (Business segment) between ČEZ Prodej, a.s., and ČEZ ESCO, a.s.

In the period concerned, the Supervisory Board received a notice of share in voting rights and a request by a qualified shareholder (Ing. Michal Šnobl, acting also on behalf of other shareholders acting in concert, namely J&T SECURITIES MANAGEMENT LIMITED, Tinsel Enterprises Limited, and HAMAFIN RESOURCES LIMITED) for the Supervisory Board's review of the powers of the Board of Directors in respect of (i) the provision of information to the majority shareholder in relation to the consideration of a transformation of CEZ Group and (ii) the sale of a subsidiary in Bulgaria. The Supervisory Board has not completed the review as of the closing date of this report.

Several times in the past period the Supervisory Board granted its prior consent to the Board of Directors for taking decisions on changes in the staffing and number of members of supervisory boards at companies in whose registered capital ČEZ, a. s. has a share exceeding CZK 500 million.

With regard to the Company's goals and priorities for the next period, the Supervisory Board discussed in detail the context for specifying individual tasks for 2018, including the substantial definition of criteria, for members of the Board of Directors, in collaboration with the Supervisory Board Personnel Committee. The Supervisory Board subsequently approved the assessment of the fulfillment of specific tasks of members of the Board of Directors in 2017, which is crucial for the determination of their annual royalties. The Supervisory Board debated on an ongoing basis any stock option plans to be opened or terminated.

The Supervisory Board also expressed its favorable opinion of the CEZ Group Business Plan for 2018–2022 and the Budget of ČEZ, a. s., and the budgets of CEZ Group subsidiaries for 2018.

The Supervisory Board also debated a change to the Organizational Rules of ČEZ, a. s., expressing its favorable opinion on it, and acknowledged information on the approval of a revision of the Signature Rules of ČEZ, a. s., and information on the results of collective bargaining at the Company.

The Supervisory Board regularly debated monthly, quarterly, and annual financial results at its meetings.

In compliance with Article 18(5)(c) of the Company's Articles of Association, the Supervisory Board **reviewed** the Related Parties Report for 2017 and has **no reservations** about its contents.

As for the other items on the agenda of today's General Meeting, I would like to inform you of the following opinions of the Supervisory Board:

**On the agenda item Approval of the financial statements of ČEZ, a. s. and the consolidated financial statements of CEZ Group for the year 2017:**

In compliance with Article 18(5)(c) of the Company's Articles of Association, the Supervisory Board reviewed:

- Financial Statements of ČEZ, a. s., prepared as of December 31, 2017
- Consolidated Financial Statements of CEZ Group prepared as of December 31, 2017

During this review, **it did not identify any shortcomings or errors** in the contents or the method of compilation or the process of audit of the financial statements and, on the basis of these facts and taking account of the independent auditor's reports and information from the Audit Committee of ČEZ, a. s. (on the result of the audit and findings from the monitoring of the statutory audit process), it **recommends** that the General Meeting of ČEZ, a. s. approve both sets of financial statements.

**On the agenda item Decision on the distribution of profits of ČEZ, a. s.:**

Pursuant to Article 18(5)(c) of the Company's Articles of Association, the Supervisory Board **reviewed** the presented proposal for the distribution of profits of ČEZ, a. s., including the decision on the payment of dividends and royalties, **and recommends** that the General Meeting **approve** it.

Ladies and gentlemen, dear shareholders, thank you for your attention.

**Václav Pačes,**  
Chairman of the Supervisory Board of ČEZ, a. s.