



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 General Meeting taking place on June 22 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 22, 2018, to May 20, 2019 (when this report was debated by the Supervisory Board):

- Mr. Otakar Hora was elected chairman and Mr. Zdeněk Černý was elected vice-chairman of the Supervisory Board in August 2018 at the earliest Supervisory Board meeting held after the last General Meeting.

As at May 20, 2019, when it debated this report, the Supervisory Board had the following members:

- Otakar Hora—Chairman of the Supervisory Board;
- Ondřej Landa and Zdeněk Černý—Vice-Chairmen of the Supervisory Board;
- Jitka Čermáková, Šárka Vinklerová, Vladimír Hronek, Lubomír Klosík, Vladimír Kohout, Lubomír Lízal, Josef Suchánek, Karel Tyll, and František Vágner—members of the Supervisory Board.

The Supervisory Board had a total of 10 ordinary meetings and 2 extraordinary meetings in the past period, that is, from the last Annual General Meeting to May 20, 2019, 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, Board of Directors members of relevant purview and Company employees or external consultants were invited to the meetings.

As part of its inspection activities, the Supervisory Board also collaborated with Internal Audit and the Audit Committee of ČEZ, a. s., as well as with the CEZ Group Ombudsman.

The Supervisory Board had two advisory committees—the Personnel Committee and the Strategy Committee—established in 2004. The Supervisory Board deliberated on the necessity of the committees for its activities on several occasions in recent years; in particular, it reflected on the inefficiency of the committees as nonmembers of a committee took legitimate interest in hearing comprehensive matters concerning its agenda and attending committee meetings, which resulted in doubling the amount of work for the Supervisory Board. Considering the fact that the Supervisory Board is not required to establish any advisory committees either by law or by the Company's Articles of Association, but only allowed to establish them by the Articles of Association, and because every Supervisory Board member should make decisions at their own discretion after having studied the issues in question rather than on the basis of a committee recommendation, the Supervisory Board dissolved the two advisory committees at its meeting held on November 22, 2018. The committees' function was replaced by operatively establishing work groups based on the Supervisory Board's current needs and the Supervisory Board believes that this did not violate any corporate governance codes representing general standards or impact investors' assessment of the Company. For the reasons given above, there was only one meeting of the Personnel Committee and one meeting of the Strategy Committee of the Supervisory Board held in the past period.

Pursuant to the Company's Articles of Association, the Board of Directors of ČEZ, a. s., should have seven members. No personnel changes occurred in the Board of Directors in the period in question. The Supervisory Board only commenced discussion about the possible reelection of Board of Directors members Michaela Chaloupková and Pavel Cyrani for another consecutive term and requested a number of support documents for the discussion. In May 2019, the Supervisory Board elected Pavel Cyrani as a member of the Board of Directors for another consecutive term of office.

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 and/or other entities;
- Visited (either collectively or through its individual members), for example, the Temelín Nuclear Power Plant, hydroelectric power plant control center at Štěchovice, and Orlik hydroelectric power plant;
- Held a number of workshops where it discussed in detail, for example, the following topics: CEZ Group's energy mix; dripping strategy in electricity sales; priorities and starting points for the determination of annual tasks for 2019, including assumptions for the Business Plan for 2019–2023 and the annual budget for 2019; determination of annual tasks of the members of the Board of Directors for 2019; evaluation of the sale of the Varna, Bulgaria power plant; information about the audit of the 2018 financial statements; evaluation of Board of Directors members' KPIs for 2018; change to the principles of remuneration of Board of Directors members, including a contemplated replacement of the Stock Option Plan; update to the CEZ Group Strategy and Business Policy.

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;

At the last Annual General Meeting, the Supervisory Board informed that it had received a notice of share in voting rights and a request by a group of entities having the status of a qualified shareholder (Ing. Michal Šnabr, 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. In both matters under review, the Supervisory Board, having reviewed and evaluated all source documents and information available to it, came to the conclusion that the Board of Directors had not breached its duty of care. It communicated this conclusion to the above-mentioned group of entities having the status of a qualified shareholder.

At the General Meeting held on November 30, 2018, at the initiative of the same group of entities having the status of a qualified shareholder, Mr. Šnabr delivered to the Company a written request for the Supervisory Board's review of the Board of Directors exercise of powers concerning (i) the convening of the General Meeting at the qualified shareholder's request. During his later oral statement, the shareholder articulated a second request for the Supervisory Board's review of the Board of Directors' exercise of powers concerning (ii) the sale of the Varna power plant. Subsequently, the Supervisory Board requested the shareholder representing the above-mentioned group of shareholders to evidence that they met the statutory requirement for the status of a qualified shareholder, namely the holding of at least 1% share in the registered capital of ČEZ, a. s., as at the date of submission of the requests (that is, November 30, 2018). In the interim, the Supervisory Board looked into the requests for review at several meetings and a workshop. The result of the two reviews have not yet been communicated to the group of shareholders because the group of shareholders has not evidenced, in spite of a repeated request by the Supervisory Board, that they had the status of a qualified shareholder at the date of submission of the two requests for review.

Additional information requested and/or debated by the Supervisory Board within the scope of its powers and beyond the scope of its obligations as specified by the Company's Articles of Association:

- About developments in significant legal disputes concerning CEZ Group;
- About the course, progress, and conclusions of an investigation initiated by Corporate Compliance in connection with a possible leak of confidential business information relating to the sale of Bulgarian assets;
- About the approach of ČEZ Prodej, a.s., to the retail market, and CEZ Group's approach to the B2B segment (ESCO services);
- About the handling of metering complaints at ČEZ Prodej, a.s. (about the course of a standard complaint process with a customer);
- About subsidiary ČEZ Distribuce, a.s.—intended changes and development visions;
- About subsidiary Severočeské doly, a.s.—about current happenings at the company, key investment projects, and company strategy priorities;
- About the current situation and operating issues of renovated units at the Prunéřov II Power Plant and a new unit at the Ledvice Power Plant;
- About the activities of the investment fund Inven Capital SICAV, a.s. (formerly ČEZ Nová energetika, a.s.);
- About the status of arrangements for environmental measures at the Trmice Heating Plant;
- About the risk management system, risk overview, and risk provisions;
- About CEZ Group's debt capacity;
- About the hedging of the price risk of electricity generation at selected CEZ Group facilities;
- About the condition of domestic and foreign shareholdings of ČEZ, a. s., including selected financial results in the periods concerned;
- About compliance with qualifying conditions under the award procedure for “Dukovany and Temelín NPP Security” and further developments in the procedure;
- About the development of the strategy (changes to contractual model principles) and maintenance of nuclear power plants;
- About a listing of the Company's public contracts performed since 2014;
- About plans for CEZ Group's advertising and marketing activities, including a debate on their assessment;
- About ČEZ Foundation operations and grant programs;
- About the ČEZ Ombudsman's activities in 2009–2018;
- About the assessment of potential risks in connection with a warning of the National Cyber and Information Security Agency (NCISA) of December 17, 2018;
- About aspects associated with the possible planning of overproduction at CEZ Group facilities;
- About an analysis of maintenance costs and the costs of implementation of the new Atomic Energy Act and about potential risks of compliance with a requirement arising from the implementation of the new Atomic Energy Act, concerning checks by the National Security Authority in relation to employees present on vital nuclear power plant premises;
- About the preparedness of CEZ Group's conventional energy facilities for compliance with BAT limits;
- About the backups of some nontechnology systems in ICT (with emphasis on the Disaster Recovery Plan);
- About the Compliance Management System and Security Management System at CEZ Group.

At its meetings, the Supervisory Board regularly dealt with:

- The current state of and developments in the regulatory environment and legislation in the European Union and the Czech Republic, including their potential impact on CEZ Group's activities;
- Information on significant events in European and global energy markets;
- The current operating condition of the Temelín and Dukovany nuclear power plants (including the process of licensing for the long-term operation of the Dukovany units);
- The current operating condition of conventional energy facilities, that is, power plants in and outside mining regions and hydroelectric power plants, including the CCGT plant and including the condition of other heating facilities;
- 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;
- Up-to-date information from the distribution segment abroad, including the possible development of the political and regulatory environment in connection with CEZ Group's activities, particularly in Bulgaria (including the progress of the international arbitration conducted against the Bulgarian state and progress in the sale of Bulgarian assets), Romania, Turkey, and Poland;
- Information from the trading segment concerning trading, sales of commodities to end-use customers in the Czech Republic and abroad, decentralized energy, and offerings for businesses and the public sector in the Czech Republic or offerings for businesses abroad (the Supervisory Board also continually monitors the development of a solution to utility scams);
- The development of potential opportunities or specific projects in ESCO services or in renewables, both abroad and in the Czech Republic;
- Up-to-date information concerning Škoda Praha's power plant deliveries and continued work on other projects;
- A management report on the course of the Company's financial performance as well as a report on CEZ Group's major investment projects, that is, matters concerning the status and development of capital projects, technologies used, work schedules, and/or contractor issues and budget utilization, including the drawdown of expenses in connection with the preparation of construction projects for new nuclear power plant.

In compliance with the Company's current Articles of Association, the Supervisory Board granted its prior consent to the Board of Directors to implement decisions:

- On the addition of the 10.8 MW Andelaroche project to the "Champagne" wind farm portfolio in France;
- On making a binding offer with subsequent conclusion of a purchase agreement for the purchase of 100% of shares in Germany-based companies Salvia Elektrotechnik GmbH and Salvia Elektrotechnik Südwest GmbH (this acquisition opportunity was later halted by the seller);
- On concluding a purchase agreement with Austria-based FACILITYCOMFORT Energie- und Gebäudemanagement GmbH for the purchase of a 49% share in Bytkomfort, s.r.o., having its registered office in Nové Zámky, or a 55% share in SPRAVBYTKOMFORT, a.s. Prešov, having its registered office in Prešov, and a 100% share in SERVISKOMFORT s.r.o., having its registered office in Prešov, Slovakia, through ČEZ ESCO, a.s.; in this context, the Supervisory Board also gave its consent to the making of an additional cash contribution to the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to ČEZ ESCO, a.s.;
- On the acquisition of a 100% share in Electrum sp. z o.o. in Poland through CEZ New Energy Investments B. V.; in this context, the Supervisory Board also gave its consent to the making of an additional cash contribution to the creation of equity outside the registered capital beyond the contribution of the member by ČEZ, a. s., to ČEZ Holdings B.V. for the purpose of acquisition funding by CEZ New Energy Investments B.V.;
- On the dissolution of the wholly owned subsidiary CEZ International Finance B.V.;
- On the acquisition of a 100% share in En.Plus GmbH in Germany through Elevion GmbH;
- On pledging the 37.36% share of ČEZ, a. s., in AKENERJI ELEKTRİK ÜRETİM A.Ş. ("AKENERJI") in Turkey as security for the financing bank YAPI VE KREDİ BANKASI A.Ş., based on a request by AKENERJI;

- On the execution of the “Krasin 35.2 MW” capital project by Baltic Green I in Poland;
- On transformation in the form of a merger by acquisition between ŠKODA PRAHA Invest s.r.o. (as the acquired company) and ŠKODA PRAHA a.s. (as the acquiring company), at the record date of January 1, 2019;
- On approving Amendment 1 to the D149 “Temelín NPP–České Budějovice Heat Supply Line” project brief;
- On granting a loan to Akcez Enerji Yatırımları Sanayi ve Ticaret A.Ş. for the purpose of partial loan repayment to the EBRD/IFC;
- On making a binding offer with subsequent conclusion of a purchase agreement for the purchase of a 100% share in Germany-based ECS Energieconsulting und Service GmbH and on making an additional cash contribution to the creation of equity outside the registered capital beyond the contribution of the member by ČEZ, a. s., to ČEZ Holdings B.V. for the purpose of acquisition funding (no purchase agreement was made in this case);
- On the acquisition of a 100% share in the “Bordeaux” project—a portfolio of onshore wind farms under development in France (that is, the purchase of 100% shares in eight special-purpose entities);
- On granting consent to Elektrárna Dukovany II, a. s., for the implementation of an investment project within the scope defined by Revision 2 to the Business Plan for the “New Nuclear Power Plant at Dukovany” project;
- On granting consent to Elektrárna Temelín II, a. s., for the implementation of an investment project within the scope defined by Revision 2 to the Business Plan for the “New Nuclear Power Plant at Temelín” project;
- On making an additional cash contribution to the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to Turkey-based Akcez Enerji Yatırımları Sanayi ve Ticaret A.Ş. (“AKCEZ”) by means of (i) setoff of a ČEZ, a. s., claim arising from a loan agreement with AKCEZ against AKCEZ’s claim to a cash contribution against ČEZ, a. s., and (ii) transfer of money up to the remaining amount of the cash contribution—all of that on condition that Akkök Holding A.Ş., as the other shareholder of AKCEZ, makes the same contribution outside the registered capital;
- On the acquisition of a 100% share in Hermos AG and a 100% share in Hermos Schaltanlagen GmbH in Germany through Elevion GmbH;
- On approval of Amendment 1 to the merged business plan/project outline document for project D405 “Renovation of the I&C (Instrumentation and Control) System for Temelín NPP Nonunit Plant Sections—Stage 2”;
- On a merger of CEZ Trade Polska sp. z o.o. and CEZ Towarowy Dom Maklerski sp. z o.o. by acquisition by CEZ Polska sp. z o.o. (as the acquiring company).

The Supervisory Board also debated information presented to it by the Company’s Board of Directors with respect to the divestment of Bulgarian assets with the result that it does not object to the execution of the Board of Directors’ decision on unilateral termination (by ČEZ, a. s., and CEZ Bulgarian Investments B.V.) of the SPA for the sale of ČEZ’s assets in Bulgaria, made between ČEZ, a. s., and CEZ Bulgarian Investments B.V. as the sellers and Inercom Bulgaria EAD, having its registered office in Sofia, Bulgaria, as the buyer on February 23, 2018.

Several times in the past period the Supervisory Board granted its prior consent to the Board of Directors for implementing 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.

Furthermore, the Supervisory Board debated and took note of:

- Information about the current situation at Počerady and the plan for further steps in ČEZ’s negotiations with Vršanská uhelná a.s. about possibly not taking up the second option to sell Elektrárna Počerady, a.s.;
- Information about the proposed key parameters of a prepared joint venture of ČEZ ESCO, a.s., and Slovenský plynárenský priemysel, a.s., in Slovakia and about the related launch of a process to sell the commodity portfolio of ČEZ Slovensko, s.r.o.;

- Information about intended transformation in the form of a merger by acquisition between ŠKODA PRAHA Invest s.r.o. (as the acquired company) and ŠKODA PRAHA, a.s. (as the acquiring company), at the record date of January 1, 2019;
- Information about the intent and information about the approval of transformation in the form of division by spin-off and acquisition between ČEZ Korporátní služby, s.r.o. (as the divided company) and ČEZ Distribuce, a. s. (as the recipient company) in relation to the transfer of ownership of selected fleet categories;
- Information about the establishment of ČEZ Asset Holding, a. s., as a wholly owned subsidiary of ČEZ, a. s., for the purposes of modifying the CEZ Group management system;
- Information about a project for future electricity supply from the Tušimice power plant to greenhouses owned by AGRO Kadaň s.r.o.;
- Information about a project for future electricity supply from the Ledvice power plant to subsidiary Severočeské doly a.s.;
- Information about the approval of a project for future heat supply from the Temelín Nuclear Power Plant to České Budějovice for a period of 20 years;
- Information on the intended execution of the “Sakowko 4,4 MW” capital project by Baltic Green V in Poland;
- Information about the issuance of a new issue of ČEZ, a. s., corporate bonds worth EUR 500 million under the approved EMTN program;
- Information about intent to enter into a long-term maintenance contract for the Fantanele/Cogealac wind park;
- 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 2019, made by ČEPS, a. s.;
- Information about making an additional cash contribution:
 - To the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to Elektrárna Dukovany II, a. s., for the purpose of further funding of the project for the construction of a new nuclear power plant at Dukovany;
 - To the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to ČEZ ESCO, a.s., for the purpose of funding of the acquisition of a 100% share in Domat Holding s.r.o.;
 - To the creation of equity outside the registered capital beyond the contribution of the member by ČEZ, a. s., to CEZ Towarowy Dom Maklerski Sp. z o.o.;
 - To the creation of equity outside the registered capital beyond the contribution of the member by ČEZ, a. s., to CEZ Hungary Ltd.;
 - To the creation of equity outside the registered capital beyond the contribution of the member by ČEZ, a. s., to CEZ Trade Polska Sp. z o.o.;
 - To the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to CEZ Holdings B.V. for the purpose of funding of the acquisition of a 100% share in High-Tech Clima S.A.;
 - To the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to CEZ Holdings B.V. for the purpose of funding of the acquisition of a 50% share in a joint venture— GP Joule PP1 GmbH & Co. KG;
 - To the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to CEZ Holdings B.V. for the purpose of funding of the acquisition of a 50% share in four special-purpose entities under a joint venture with BayWa r.e. Wind GmbH;
 - To the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to CEZ Holdings B.V. for the purpose of funding of the acquisition of a 50% share in a joint venture— Sokrates Windprojekt GmbH & Co. KG;
 - To the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to ČEZ ESCO, a.s., for the purpose of funding of the acquisition of a 51% share in e-Dome a.s., having its registered office in Bratislava;

- Information about making an additional noncash contribution consisting of land, including a building structure—accommodation facility—in the cadastral district of Kadaň to the creation of equity outside the registered capital of ČEZ Energetické produkty, s.r.o.;
- Information about approving the acquisition of a 50% share in joint venture GP Joule PP1 GmbH & Co. KG, newly established for the purpose of onshore wind farm portfolio development in Germany;
- Information about remuneration of Board of Directors members, heads of departments, and heads of organizational units at ČEZ, a. s.;
- Information about the current status, progress, and results of collective bargaining at the Company;
- Information about the commencement of activities by the newly staffed Standing Committee on the Construction of New Nuclear Power Sources in Czech Republic;
- Information about transformation in the form of division by spin-off and acquisition between ČEZ ICT Services, a. s. (as the divided company) and ČEZ Prodej, a.s. (as the recipient company), at the record date of January 1, 2019—this is the spin-off of a portion of assets that consist primarily of SAP application modules intended for customer relationship management;
- Information about the intent of ČEZ ESCO, a.s., to purchase a 51% share in e-Dome a.s., having its registered office in Bratislava, with a ČEZ ESCO, a.s., call option and the seller's put option for the remaining 49% share; in this context, it took note of the making of an additional cash contribution to the creation of equity outside the registered capital beyond the contribution of the shareholder by ČEZ, a. s., to ČEZ ESCO, a.s., for the purpose of funding the acquisition of the 51% share.

The Supervisory Board also debated a change to the Organizational Rules of ČEZ, a. s., expressing its favorable opinion on it, and took note of information about the approval of a revision of the Signature Rules and the Work Rules of ČEZ, a. s.

The Supervisory Board requested a legal opinion on the Supervisory Board's powers to approve remuneration of members of the Board of Directors of ČEZ, a. s., which pointed out that the Company has long implemented the "German" corporate governance model in which members of the Board of Directors are elected, and, consequently, their remuneration is approved, by the Supervisory Board.

The Supervisory Board also took note of information about an amendment to the government resolution concerning the Principles of Remuneration for senior executives and members of statutory governing bodies at companies co-owned by the state.

With regard to the Company's goals and priorities for the next period, the Supervisory Board debated in detail and/or adjusted the starting points for specifying individual tasks, including the substantial definition of criteria, for members of the Board of Directors in 2019. At its March meeting, the Supervisory Board debated and approved, with amendments, the assessment of the fulfillment of individual tasks of Board of Directors members in 2018, which is crucial for the determination of their annual remuneration.

The Supervisory Board discussed possible variants of modification to or alternatives for replacement of the Company's current stock option plan on an ongoing basis in the past period, whether as a separate topic or as part of individual service contracts.

The Supervisory Board did not identify any facts that would make it express reservations about the draft CEZ Group Business Plan for 2019–2023 and the draft annual capital and operating budgets of ČEZ, a. s., and CEZ Group for 2019.

The Supervisory Board debated monthly, quarterly, and annual financial results regularly at its meetings; in addition, it debated the consolidated CEZ Group 2018 Half-Year Report and draft CEZ Group 2018 Annual Report in compliance with the applicable provisions of the Articles of Association.

The Supervisory Board debated all source documents that are presented to this General Meeting, taking note of the documents presented to the General Meeting according to law and giving its concurring opinion to the presentation of the other documents to this General Meeting.

In compliance with Article 18(5)(c) of the Company's Articles of Association, the Supervisory Board **reviewed** the Related Parties Report for 2018 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 positions of the Supervisory Board:

On the agenda item of Approval of the Financial Statements of ČEZ, a. s., and Consolidated Financial Statements of CEZ Group for 2018:

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

- Financial statements of ČEZ, a. s., for the year ended December 31, 2018
- Consolidated financial statements of CEZ Group for the year ended December 31, 2018

During this review, **it did not identify any shortcomings or inaccuracies** 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 of Decision on the Distribution of Profit of ČEZ, a. s.:

In compliance with 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 recommends** that the General Meeting **approve** it.

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

Otakar Hora,

Chairman of the Supervisory Board of ČEZ, a. s.