



REPORT OF THE SUPERVISORY BOARD ON THE RESULTS OF INSPECTION ACTIVITIES

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 regular General Meeting, which took place on June 27 last year.

In accordance with the Articles of Association of ČEZ, a. s., the Supervisory Board has 12 members who are elected and removed by the General Meeting, with 4 members of the Supervisory Board elected by the General Meeting from among employees.

Due to personnel changes, the Supervisory Board currently has 1 member who was co-opted by the Supervisory Board. The following personnel changes occurred during the period from the last regular General Meeting held on June 27, 2014 to May 11, 2015 (when this report was debated by the Supervisory Board):

- In September 2014, Mr. Petr Blažek resigned from the Supervisory Board (with effect from September 29, 2014);
- In the same month of September, the Supervisory Board co-opted (with effect from September 29, 2014) Mr. Robert Šťastný as a new member for the period until the next General Meeting;
- With effect from October 1, 2014, a new term of office started for Supervisory Board members Mr. Vladimír Hronek and Mr. Drahošlav Šimek based on the General Meeting's decision of June 27, 2014 (both were elected from among Company employees);
- After the General Meeting, Mr. Václav Pačes was elected as Chairman of the Supervisory Board and Mr. Jiří Borovec as Vice-Chairman of the Supervisory Board; in connection with the renewal of his term of office, Mr. Vladimír Hronek was subsequently re-elected as Vice-Chairman of the Supervisory Board.

The Supervisory Board had a total of 10 ordinary meetings in the past period (i.e. from the last General Meeting to May 11, 2015 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 representatives of consulting firms were invited to meetings.

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

The Supervisory Board has 2 advisory boards:

1. The Personnel Committee of the Supervisory Board (which had 8 meetings in the past period)
2. The Strategy Committee of the Supervisory Board (which had 3 meetings in the past period)

Pursuant to the Articles of Association of ČEZ, a. s., the Company's Board of Directors should have 7 members. There were no changes in the staffing of the Company's Board of Directors in the period in question—no member of the Board of Directors was removed or elected by the Supervisory Board and no Board of Directors member's terms expired.

The Supervisory Board:

- Continuously monitored the activities of ČEZ, a. s. and key decisions made by the Board of Directors and management
- Dealt with not only suggestions made by its members but also submissions from shareholders or Company customers, submissions from Company labor unions and citizens associations, as well as journalists' questions
- Visited the Pruněřov II Power Plant several times as part of site meetings with contractor CEOs; also visited the Počerady Power Plant and the Vranovská Ves Photovoltaic Power Plant
- Held several workshops concerning, for instance, the European energy sector and ČEZ's strategy, financial derivatives, the updated State Energy Policy, corporate governance, and law and its aspects in the work of an administrative body member.

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 ČEZ's activities in education in and public awareness of nuclear energy and the energy sector in general
- About any obligations arising for the Company from shareholders' suggestions debated at the last regular General Meeting
- About developments in litigation concerning motions seeking nullification of resolutions of the Company General Meeting held on June 27, 2014
- About the sale of an administrative building in Seifertova Street and about options and preparations for the sale of residential properties in Prague
- About the handled disaster (ice accretion) declared on December 2–5, 2014
- About the project for GPS monitoring of vehicles in CEZ Group
- About the organization of legal services in CEZ Group and the status of a public contract for legal services
- About the course of the tendering procedure for the execution of the public contract "Replacement of the Cerberus Fire Detection System at the Power Island, Including the Add-On System" for the Dukovany Nuclear Power Plant
- About CEZ Group's approach to the end-customer market in the residential and small and medium-sized business segments
- About the complex issues of investments in the Trmice heating plant and its profitability in line with the long-term Heating Plant Operation Strategy
- About recent developments in the Comprehensive Renovation of the Prunéřov II Power Plant project and the New Facility at the Ledvice Power Plant project
- About the course of optimization of the Company's investment and engineering activities—the CEZ Group Engineering Capacities Consolidation project
- About the revaluation of selected capital expenditure projects
- About the issuance of debt securities, including an overview of issued and outstanding bonds
- About the role of nuclear energy in the Czech Republic's energy mix and the need for replacing aging facilities in connection with the cancellation of the award procedure for Temelín units 3 & 4 (on April 10, 2014), incl. information concerning projects for new nuclear units in the Czech Republic—the "Completion of the Temelín Nuclear Power Plant" project and the "Expansion of the Dukovany Nuclear Power Plant" project
- About the preservation of key competences and positions in the Nuclear Plant Construction department
- About CEZ Group's collaboration with Datasys Services (based on a broadcasted episode of the "Reportéři ČT" TV program)
- About the approval, acquisition, commissioning, specifications, and price of the Vranovská Ves Photovoltaic Power Plant—a project executed in 2010
- About allegedly counterfeit panels at the Vranovská Ves Photovoltaic Power Plant (based on a broadcasted episode of the "Reportéři ČT" TV program)
- About the selection of the external auditor and the price of audit services for CEZ Group in 2015 and beyond
- About plans for CEZ Group's advertising and marketing activities, including a debate on their assessment, and the operations and grant programs of the CEZ Foundation.

In addition, individual members of the Supervisory Board made use of their authorization to carry out individual inspection activities pursuant to the second sentence of Article 18(2) of the Articles of Association of ČEZ, a. s., i.e. without the Supervisory Board's decision. When using this authorization, requested documents were presented to them in a study room at the Company headquarters.

At its meetings, the Supervisory Board dealt with developments in the regulatory environment and legislation in the EU ("European Commission Communication on the 2030 Climate and Energy Framework," including the activities of European energy companies) and in the Czech Republic (creation of the "Contract Register," development of the "National Action Plan for the Development of Nuclear Energy in the Czech Republic," the "Updated State Energy Policy," an amendment to the "Energy Act and the Act on Support for Renewable Energy Sources," the "Raw Material Policy and Coal Limits," the "Payments from the Extraction of Mined Minerals in the Czech Republic," the "Simplification of Licensing Procedure") as well as with developments in the regulatory environment for foreign acquisitions and the impacts of the external environment on CEZ Group—especially in Albania, Bulgaria, Romania, and Bosnia and Herzegovina:

- The Supervisory Board monitored the untoward developments concerning the investment of ČEZ, a. s. in a distribution company in Albania and the attempts to resolve them by international investment arbitration and concurrent negotiations on possible out-of-court settlement between the parties; in the end, the negotiations were concluded with a settlement agreement, in particular, involving a number of conditions precedent about the fulfillment of which by the Republic of Albania the Supervisory Board was kept informed by the Board of Directors; all the conditions precedent were met in October 2014 and the settlement agreement thus entered into effect;
- The Supervisory Board regularly monitored the developments concerning CEZ Group's operations in the Bulgarian energy market and repeated attempts to revoke ČEZ's electricity trading license by the Bulgarian regulatory authority—the proceedings have not been finished yet due to ongoing personnel changes at the regulatory authority;
- The Supervisory Board acknowledged the shut-down of the Varna power plant as at December 31, 2014 due to unprofitable, costly investments in environmental upgrades to meet the criteria imposed by the EU since January 1, 2015;
- The Supervisory Board was kept informed about developments in the legislative process concerning changes to the system of support for renewable sources and the postponement of green certificate allocation in Romania;
- The Supervisory Board was informed about ČEZ's success in the international arbitration initiated in 2009 in connection with a breach of the terms and conditions of the NERS project in Bosnia and Herzegovina.

The Supervisory Board regularly debated impacts of developments in the external environment on the Company's acquisition and investment priorities and granted its prior authorization to decisions on, for example:

- Concluding the Settlement Agreement between ČEZ and its subsidiaries in Albania (Shared Services Albania Sh.A. and CEZ Trade Albania Sh.p.k.) on the one part and the Republic of Albania, successor companies (Korporata Elektroenergjitike Shqiptare Sh.A., Operatori i Sistemit të Transmetimit Sh.A., Operatori i Shpërndarjes së Energjisë Elektrike Sh.A.) of the former company CEZ Shpërndarje Sh.A., and the Albanian Energy Regulator on the other part
- Executing Amendment 3 to the "Comprehensive Renovation of Prunéřov II Power Plant" Construction Project, extending the deadline for project completion, commissioning, and use by 8.5 months, with an increase in the price of the work not exceeding CZK 1.635bn
- Increasing the registered capital of the subsidiary ŠKODA PRAHA, a.s. by the subscription of new shares
- Establishing the wholly-owned subsidiary ČEZ ESCO, a.s. having its registered office in Prague
- Increasing the registered capital of the Romanian subsidiary Ovidiu Development S.R.L. by monetary contribution
- Concluding Amendment 9 to the joint venture agreement between ČEZ and MOL to streamline the management of the joint venture.

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

- Information about the course and development of an opportunity for the acquisition of Slovenské elektrárne, including information on valuation and a summary of due diligence findings
- Information about a potential opportunity to invest in Vattenfall in Germany
- Information about taking over, together with the partner company Akkök, a newly built CCGT plant at Egemer in southeastern Turkey from the contractor (in August 2014) and putting the plant into operation, including recent information on the current developments in plant operation
- Information about key business transactions in progress, business plan fulfillment, and crucial transformation activities at the subsidiary ŠKODA PRAHA, a.s.;
- Information about the sale of four shares of ČEZ Nová energetika, a. s. to ČEZ Teplárenská, a. s. in connection with activities undertaken to obtain a license for a self-administered investment fund ("qualifying investor fund") from the Czech National Bank
- Information about the establishment of a new wholly-owned joint-stock company in relation to plans to spin off the Vítkovice Heating Plant into a subsidiary by the contribution of a part of the enterprise of ČEZ, a. s.;
- And finally, information about the investment strategy of ČEZ Nová energetika, a. s.

Several times in the past period the Supervisory Board granted its approval to the Board of Directors 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 stake exceeding CZK 500m.

The Supervisory Board also expressed its favorable opinion of the CEZ Group Business Plan for 2015–2019 and the Budget of ČEZ, a. s. and the budgets of CEZ Group subsidiaries for 2015.

The Supervisory Board also debated a revision of the Signature Rules of ČEZ, a. s., of which it expressed its favorable opinion, and acknowledged information on the results of collective bargaining at the Company. The Supervisory Board discussed in detail the specification of individual tasks for members of the Board of Directors in 2015 in collaboration with the Supervisory Board Personnel Committee, which debated the matter at two of its meetings. The Supervisory Board adjusted some criteria in the specific tasks of individual members of the Board of Directors with regard to the Company's goals and priorities for the next period. The Supervisory Board subsequently approved the assessment of the fulfillment of specific tasks of members of the Board of Directors in 2014, which is crucial for the determination of their annual bonuses. The Supervisory Board debated any stock option plans to be opened or terminated for selected managers on an ongoing basis.

The Supervisory Board also debated the condition of domestic and foreign shareholdings of ČEZ, a. s. (including selected financial results in the periods in question), the condition and development of CEZ Group's debt capacity, CEZ Group's risk management system and hedging, the issuance of debt securities, trends and developments in CEZ Group's market share, and the conclusion of long-term electricity sales contracts, including:

- The conclusion of a contract for the utilization of electric power capacity with Vrřanská uhelná, a.s.;
- The conclusion of a new long-term contract for gas deliveries for the Počerady CCGT plant with RWE Energie, s.r.o. and RWE Supply&Trading CZ, a.s.;
- The assignment of an individual long-term contract for electricity sales with a total capacity of 100 MW made with Deutsche Bank Energy Commodities Ltd. to EDF Trading Limited.

In addition to regular information on the current condition of any events at nuclear power plants, as well as regular information on the course of comprehensive power plant renovation projects and new plant construction projects, the Supervisory Board also debated regular reports on CEZ Group's major investment projects, in particular projects concerning the Ledvice power plant, Počerady CCGT plant, and Prunéřov power plant and projects for new units at the nuclear power plants in Temelín (Temelín 3 & 4) and Dukovany (Dukovany 5), as well as joint-venture projects including the preparation of a new nuclear unit for the Bohunice Power Plant. In those reports, the Supervisory Board was informed about the status and course of capital projects, technologies used, contractors, work schedules, and budget utilization.

The Supervisory Board regularly debated monthly, quarterly, and annual financial results at its meetings. **On behalf of the Supervisory Board, I can state that the financial results of ČEZ, a. s. achieved in 2014**—in relation to the developments and influences on the European energy market, in particular the unfavorable developments especially in Bulgaria and Romania, and in view of the effects of the competitive environment in the Czech energy market—**are considered very good beyond expectations.**

In compliance with Article 18(5)(c) of the Articles of Association of ČEZ, a. s., the Supervisory Board **reviewed** the Related Parties Report for 2014 **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:

For item 4:

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

the financial statements of ČEZ, a. s. as at December 31, 2014, including the auditor's opinion (dated March 2, 2015),

the consolidated financial statements of CEZ Group as at December 31, 2014, including the auditor's opinion (dated March 2, 2015)

and during this review, it **did not find any shortcomings or errors** in the contents or the method of compilation or the process of audit of the financial statements and, taking account of the auditor's opinions, it **recommends** to the General Meeting of ČEZ, a. s. to approve both sets of financial statements.

For item 5:

Pursuant to Article 18(5)(c) of the Articles of Association of ČEZ, a. s., the Supervisory Board **reviewed** the presented proposal for the distribution of profit of ČEZ, a. s. for 2014, including the decision on the payment of dividends and bonuses, **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.