

A statement on compliance of ČEZ, a. s., with the corporate governance principles contained in the Best Practice for GPW Listed Companies 2017

| | Principles | Company statement |
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| I. | Disclosure Policy, Investor Communications | |
| I.Z.1. | A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: | Comply |
| I.Z.1.1. | basic corporate documents, in particular the company's articles of association; | Comply |
| I.Z.1.2. | the full names of the members of its management board and supervisory board and the professional CVs of the members of these bodies including information on the fulfilment of the criteria of independence by members of the supervisory board | Comply |
| I.Z.1.3. | a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1; | Comply |
| I.Z.1.4. | the current structure of shareholders indicating those shareholders that hold at least 5% of the total vote in the company according to information provided to the company by shareholders under the applicable legislation; | Comply |
| I.Z.1.5. | current and periodic reports, prospectuses and information memoranda with annexes, published by the company at least in the last 5 years; | Comply |
| I.Z.1.6. | information on the dates of corporate events leading to the acquisition or limitation of rights of a shareholder, information on the dates of publication of financial reports and other events relevant to investors, within a timeframe enabling investors to make investment decisions; | Comply |
| I.Z.1.7. | information materials published by the company concerning the company's strategy and its financial results; | Comply |
| I.Z.1.8. | selected financial data of the company for the last 5 years of business in a format enabling the recipient to process such data; | Comply |

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| I.Z.1.9. | information about the planned dividend and the dividend paid out by the company in the last 5 financial years, including the dividend record date, the dividend payment date and the dividend amount, in aggregate and per share; | Comply |
| I.Z.1.10. | financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation; | Comply |
| I.Z.1.11. | information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule; | There are no internal rules governing this issue. We feel that provisions of Act No. 93/2009 Coll. on audit are sufficient. |
| I.Z.1.12. | a statement on compliance with the corporate governance principles contained in the last published annual report; | Comply |
| I.Z.1.13. | a statement on the company's compliance with the corporate governance recommendations and principles contained herein, consistent with the information that the company should report under the applicable legislation; | Comply |
| I.Z.1.14. | materials provided to the general meeting, including assessments, reports and positions referred to in principle II.Z.10, tabled to the general meeting by the supervisory board; | Comply |
| I.Z.1.15. | information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website; | The company has not yet developed a diversity policy applicable to its upper management and governing bodies as required by GPW code. Fact that the diversity policy consisting of equal representation of elements such as gender, age or education is not applied helps the company to acquire and retain talented employees and to make full use of their professional potential. However any direct or indirect discrimination is prohibited. The recruitment process is determined by the education, professional skills, qualifications and competences of each candidate. The core value that CEZ Group honours is fair and equal approach to all employees irrespective of their race, ethnic origin, nationality, gender, sexual orientation, age, state of health or religion, or other criteria prohibited to take into account by applicable legislation, not only during recruitment process, but also in the area of appraisal, personal growth and / or career development. |

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| | | <p>In case of governing bodies, composition and appointment of management board and audit committee is in the hands of supervisory board and general meeting respectively. This is also valid for two thirds of supervisory board. In relation to remaining third of supervisory board members, which are elected by employees, the valid electoral code emphasizes provision of equal opportunities and promotion of diversity, taking into account differences between people. In this context, the electoral code emphasizes that equal opportunities and diversity is the matter of whole management, unions and each individual in the CEZ Group and this approach is also respected in relation to election of supervisory board members. The company however does not have any means of influencing composition of this part of supervisory board in terms of diversity policy.</p> |
| I.Z.1.16. | information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting; | Comply |
| I.Z.1.17. | justification of draft resolutions of the general meeting concerning issues and determinations which are relevant to or may give rise to doubts of shareholders, within a timeframe enabling participants of the general meeting to review them and pass the resolution with adequate understanding; | Comply |
| I.Z.1.18. | information about the reasons for cancellation of a general meeting, change of its date or agenda, and information about breaks in a general meeting and the grounds of those breaks; | Comply |
| I.Z.1.19. | shareholders' questions asked to the management board pursuant to Article 428 § 1 or § 6 of the Commercial Companies Code together with answers of the management board to those questions, or a detailed explanation of the reasons why no answer is provided, pursuant to principle IV.Z.13; | Company does not publish such information on the website. It is however part of the minutes from the shareholder meeting, which are available to shareholders upon request. |
| I.Z.1.20. | an audio or video recording of a general meeting; | Company does not publish audio nor video recording of the general meeting (GM). Detailed minutes of the GM are available to shareholders upon their request. We believe that this procedure is sufficient. |
| I.Z.1.21. | Contact details of the company's investor relations officers including the full name and e-mail address or telephone number. | Comply |

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| I.Z.2. | A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity. | Comply |
| II. | Management Board, Supervisory Board | |
| II.Z.1. | The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website. | Comply |
| II.Z.2. | A company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board. | According to the applicable legislation the company's management board members may not sit on the management board of companies with the same or similar scope of business. Furthermore, the company's management board members have notification obligation towards other board members, a controlling body, or a GM in case of conflict of interest. |
| II.Z.3. | At least two members of the supervisory board should meet the criteria of being independent referred to in principle II.Z.4. | The company does not have any tool to ensure the independence of at least 2 supervisory board (SB) members because two thirds are elected by the GM of the company and candidates are proposed by the shareholders. The remaining third is in line with valid legislation elected by employees from their ranks. |
| II.Z.4. | Annex II to the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board applies to the independence criteria of supervisory board members. Irrespective of the provisions of point 1(b) of the said Annex, a person who is an employee of the company or its subsidiary or affiliate or has entered into a similar agreement with any of them cannot be deemed to meet the independence criteria. In addition, a relationship with a shareholder precluding the independence of a member of the supervisory board as understood in this principle is an actual and significant relationship with any | |

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| | shareholder who holds at least 5% of the total vote in the company. | |
| II.Z.5. | Each supervisory board member should provide the other members of the supervisory board as well as the company's management board with a statement of meeting the independence criteria referred to in principle II.Z.4. | Company does not have any internal procedure to ensure fulfilment of this principle however company has measures in place to eliminate conflicts of interest. In the event of conflict of interest members of supervisory board have duty to notify other members of supervisory board and general meeting in accordance with relevant legislation. |
| II.Z.6. | The supervisory board should identify any relationships or circumstances which may affect a supervisory board member's fulfilment of the independence criteria. An assessment of supervisory board members' fulfilment of the independence criteria should be presented by the supervisory board according to principle II.Z.10.2. | The company acts in compliance with applicable legislation, i.e. the SB members have notification obligation in case of conflict of interest. |
| II.Z.7. | Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly. | Comply |
| II.Z.8. | The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4. | In accordance with valid legislation and company's articles of association the chair of audit committee must be independent. Company adheres to these rules in practise. |
| II.Z.9. | To enable the supervisory board to perform its duties, the company's management board should give the supervisory board access to information on matters concerning the company. | Comply |
| II.Z.10. | In addition to its responsibilities laid down in the legislation, the supervisory board should prepare and present to the ordinary general meeting once per year the following: | |
| II.Z.10.1. | an assessment of the company's standing including an assessment of the internal control, risk management and compliance systems and the internal audit function; such assessment should cover all significant controls, in particular financial reporting and operational controls; | In accordance with valid legislation such assessment is performed by audit committee, which informs both supervisory board and general meeting on this assessment. Thus supervisory board is informed on internal control systems. Report presented by the SB to the GM is in compliance with applicable legislation. The company finds this sufficient. |
| II.Z.10.2. | a report on the activity of the supervisory board containing at least the | We comply with exception of information on self-assessment and |

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| | <p>following information:</p> <ul style="list-style-type: none"> - full names of the members of the supervisory board and its committees; - supervisory board members' fulfilment of the independence criteria; - number of meetings of the supervisory board and its committees in the reporting period; - self-assessment of the supervisory board; | fulfilment of the independence criteria. |
| II.Z.10.3. | an assessment of the company's compliance with the disclosure obligations concerning compliance with the corporate governance principles defined in the Exchange Rules and the regulations on current and periodic reports published by issuers of securities; | The report of SB to GM does not include this information. The GM is informed on compliance with the corporate governance principles by management board. |
| II.Z.10.4. | an assessment of the rationality of the company's policy referred to in recommendation I.R.2 or information about the absence of such policy. | SB is informed about this policy but does not refer in detail to the GM. |
| II.Z.11. | The supervisory board should review and issue opinions on matters to be decided in resolutions of the general meeting. | Comply |
| III. | Internal Systems and Functions | |
| III.Z.1. | The company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit function. | Comply |
| III.Z.2. | Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee. | Comply |
| III.Z.3. | The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks. | Comply |
| III.Z.4. | The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in | Comply |

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| | principle III.Z.1 and table a relevant report. | |
| III.Z.5. | The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions. | In accordance with valid legislation this assessment is performed by the audit committee, which informs supervisory board about its findings. Supervisory board is informed about internal control systems. The report of supervisory board to general meeting is in accordance with valid legislation. Company considers this sufficient. |
| III.Z.6. | Where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated. | Not applicable (we have internal audit function) |
| IV. | General Meeting, Shareholders relations | |
| IV.Z.1. | Companies should set the place and date of a general meeting so as to enable the participation of the highest possible number of shareholders. | Comply |
| IV.Z.2. | If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings. | The company's policy is in accordance with relevant legislation based on the fact that GM can be attended by shareholders only (in person or through representative) and additionally by persons for whom it is expedient to comment on particular items of the agenda, such as auditors or advisers to the company and persons ensuring the course of the General meeting. |
| IV.Z.3. | Presence of representatives of the media should be allowed at general meetings. | Media (if they are not shareholders) can be present at the GM subject to the approval of the GM. |
| IV.Z.4. | If the management board becomes aware a general meeting being convened pursuant to Article 399 § 2 – 4 of the Commercial Companies Code, the management board should immediately take steps which it is required to take in order to organise and conduct the | Comply |

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| | general meeting. The foregoing applies also where a general meeting is convened under authority granted by the registration court according to Article 400 § 3 of the Commercial Companies Code. | |
| IV.Z.5. | The rules of general meetings and the method of conducting the meeting and adopting resolutions must not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules of the general meeting should take effect at the earliest as of the next general meeting. | Comply |
| IV.Z.6. | Companies should strive to ensure that the cancellation of a general meeting, change of its date or break in its proceedings do not prevent or limit the exercising of the shareholders' rights to participate in the general meeting. | Comply |
| IV.Z.7. | A break in the proceedings of the general meeting may only take place in special cases, defined at each time in the justification of the resolution announcing the break, drafted on the basis of reasons provided by the shareholder requesting the break. | Comply |
| IV.Z.8. | A resolution of the general meeting announcing a break should clearly set the date and time when the proceedings recommence, and such date and time must not be a barrier for most shareholders, including minority shareholders, to participate in the continuation of the proceedings. | Comply |
| IV.Z.9. | Companies should strive to ensure that draft resolutions of the general meeting contain a justification, if it helps shareholders to pass a resolution with adequate understanding. If a matter is put on the agenda of the general meeting at the request of a shareholder or shareholders, the management board or the chair of the general meeting should request presentation of the justification of the proposed resolution. In important matters and matters which may give rise to any doubt of shareholders, the company should provide a justification, unless it otherwise provides the shareholders with information necessary to pass a resolution with adequate understanding. | Comply |

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| IV.Z.10. | Any exercise of the rights of shareholders or the way in which they exercise their rights must not hinder the proper functioning of the governing bodies of the company. | Comply |
| IV.Z.11. | Members of the management board and the supervisory board should participate in a general meeting as necessary to answer questions asked at the general meeting. | Comply |
| IV.Z.12. | The management board should present to participants of an ordinary general meeting the financial results of the company and other relevant information contained in the financial statements to be approved by the general meeting. | Comply |
| IV.Z.13. | If a shareholder requests information about the company, the management board of the company should provide an answer to the shareholder's request within 30 days or inform the shareholder of its refusal to provide such information where the management board has made such decision pursuant to Article 428 § 2 or § 3 of the Commercial Companies Code | Comply |
| IV.Z.14. | Resolutions of the general meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of determination of the rights of shareholders pursuant to such events. | Comply |
| IV.Z.15. | A resolution of the general meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting the price or authorise the competent governing body to set the price prior to the subscription right record date within the timeframe necessary for investors to make decisions. | Comply |
| IV.Z.16. | The dividend record date and the dividend payment date should be set so as to ensure that the period between them is no longer than 15 business days. A longer period between these dates requires a justification. | Company deals with it on one-time basis, general meeting decides of the dividend payments. Due to technical reasons related to the processing of dividend payment the period between record and payment date is longer than 15 days. |

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| IV.Z.17. | A resolution of the general meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment takes place before the dividend record date. | Comply |
| IV.Z.18. | A resolution of the general meeting to split the nominal value of shares should not set the new nominal value of the shares below PLN 0.50, which could result in a very low unit market value of the shares, and which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange. | Comply |
| V. | Conflict of Interest, Related Party Transactions | |
| V.Z.1. | No shareholder should have preference over other shareholders in transactions concluded by the company with shareholders or their related parties. | Comply |
| V.Z.2. | Members of the management board or the supervisory board should notify the management board or the supervisory board, respectively, of any conflict of interest which has arisen or may arise, and should refrain from voting on a resolution on the issue which may give rise to such a conflict of interest in their case. | Comply |
| V.Z.3. | Members of the management board or the supervisory board must not accept any benefits which might affect their impartiality and objectivism in making decisions or reflect unfavourably on the assessment of the independence of their opinions or judgements. | Comply |
| V.Z.4. | Where a member of the management board or the supervisory board concludes that a decision of the management board or the supervisory board, respectively, is in conflict with the interest of the company, he or she may request that the minutes of the management board or the supervisory board meeting show his or her position. | Comply |
| V.Z.5. | Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing | The SB reviews the Related Parties Report which includes the overview of mutual contracts with related parties, including majority shareholder. |

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| | <p>does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group.</p> <p>If the decision concerning the company's significant agreement with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.</p> | |
| V.Z.6. | <p>In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.</p> | Comply |
| VI. | Remuneration | |
| VI.Z.1. | <p>Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.</p> | Comply |
| VI.Z.2. | <p>To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.</p> | Comply |
| VI.Z.3. | <p>The remuneration of members of the supervisory board should not be linked to options or other derivatives or any other variable components, and neither should it be linked to the company's results.</p> | Comply |
| VI.Z.4. | <p>In this activity report, the company should report on the remuneration policy</p> | Company issues information about remuneration of management board |

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| | <p>including at least the following:</p> <p>1) general information about the company's remuneration system;</p> <p>2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;</p> <p>3) information about non-financial remuneration components due to each management board member and key manager;</p> <p>4) significant amendments of the remuneration policy in the last financial year or information about their absence;</p> <p>5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.</p> | <p>(and its significant amendments) that is in compliance with applicable legislation in the Annual Report. The company finds this sufficient.</p> |
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