



## SUPERVISORY BOARD REPORT ON THE RESULTS OF CONTROL ACTIVITIES

Dear Shareholders, Ladies and Gentlemen,

I would like to take this opportunity to report on behalf of the Supervisory Board of ČEZ, a. s. on its activities for the period since the last annual General Meeting, which took place on June 19<sup>th</sup> last year.

In compliance with the Articles of Association of ČEZ, a. s., the Supervisory Board shall comprise 12 members, eight of whom shall be elected and recalled by the General Meeting and four of whom shall be elected by employees.

Due to personnel changes, the Supervisory Board currently comprises 5 members elected by the General Meeting, 3 members co-opted by the Supervisory Board and 4 members elected to represent the company employees. During the period since the annual General Meeting was held, i.e. from June 19<sup>th</sup>, 2013 to April 28<sup>th</sup>, 2014 (when this report was discussed by the Supervisory Board), the following personnel changes took place:

- in June 2013, Mrs. Jiřina Vorlová resigned as a member of the Supervisory Board (with effect from July 31<sup>st</sup>, 2013);
- in June 2013, a new member – Mr. Vladimír Říha – was co-opted (with effect from August 1<sup>st</sup>, 2013) by the Supervisory Board for the period until the next General Meeting;
- on August 22<sup>nd</sup>, 2013, the Supervisory Board acknowledged notice of resignation from Mr. Jan Kohout as a member of the Supervisory Board;
- as of October 25<sup>th</sup>, 2013, Mr. Martin Roman resigned as a member of the Supervisory Board;
- new members – Mr. Jan Mareš and Mr. Michal Mejstřík – were co-opted by the Supervisory Board on October 25<sup>th</sup>, 2013, and on October 26<sup>th</sup>, 2013, respectively, for the period until the next General Meeting.

During the previous period (i.e. from the last annual General Meeting to April 28<sup>th</sup>, 2014, when the Supervisory Board discussed this report), the Supervisory Board met at a total of 10 ordinary meetings.

The Supervisory Board meetings were regularly attended by the Chairman of the Board of Directors. Depending on the subject and seriousness of the issue being raised, respective members of the Board of Directors, Company employees or representatives of consulting firms were also invited to attend the meeting in their professional capacity.

As part of its control activities, the Supervisory Board also cooperated with the Internal Audit Department and the Audit Committee of ČEZ, a. s.

The Supervisory Board has set up 2 consulting committees:

1. the Personnel Committee of the Supervisory Board (8 meetings were held in the previous period)
2. the Strategic Committee of the Supervisory Board (7 meetings were held in the previous period)

In compliance with the Articles of Association of ČEZ, a. s., the Board of Directors of the Company shall comprise 7 members.

Following the resignation of Mr. Vladimír Hlavinka as a member of the Board of Directors, (as at January 31<sup>st</sup>, 2013) the Board of Directors lacked the required number of members until June 2013 when the Supervisory Board, acting within its powers, elected a new member of the Board of Directors – Mr. Ladislav Štěpánek (with effect from June 27<sup>th</sup>, 2013).

Due to the expiration of the mandate of Mr. Peter Bodnár as a member of the Board of Directors (on November 21<sup>st</sup>, 2013), the Supervisory Board elected a new member of the Board of Directors – Mr. Ivo Hlaváč (with effect from December 19<sup>th</sup>, 2013). Due to the oncoming expiration of the mandate of Mr. Tomáš Pleskač as a member of the Board of Directors (on January 27<sup>th</sup>, 2014), the Supervisory Board elected Mr. Pleskač as a member of the Board of Directors for the following term of office (with effect from January 28<sup>th</sup>, 2014).

## The Supervisory Board

- has consistently monitored the activities of ČEZ, a. s., and the key decisions taken by the Board of Directors and by the management and dealt with the suggestions of its members and shareholders as well as Company customers;
- visited and became acquainted with the operation of Dlouhé Stráně Hydroelectric Power Station, Orlík Hydroelectric Power Station, Ústav jaderného výzkumu Řež, a.s. and Mělník Power Station.

In the previous period, the Supervisory Board continuously monitored the progress of negotiations with the European Commission in relation to an investigation underway since 2009. The Company's Draft commitments to the European Commission to settle the matter of proceedings being conducted by the European Commission with ČEZ, a. s., approved by the Supervisory Board, were accepted by the European Commission; based on a subsequent decision adopted by the European Commission on July 30<sup>th</sup>, 2013, the sale of Chvaletice Power Station to Severní energetická a.s. (formerly Litvínovská uhelná, a.s.) was approved. On finalizing the sales transaction, i.e. adhering to commitments, the investigation conducted by the EC against ČEZ, a. s. was definitively closed.

Within the scope of its powers and above the scope of its obligations set out by the Articles of Association of the Company, the Supervisory Board requested and discussed the following information:

- the progress of the Extension of Dukovany Nuclear Power Station project, and the project schedule and budget;
- the conclusions of an external investigation on the divestment of I&C Energo a.s. to the MOL Group;
- the results of the system of implementation of recommendations / corrective measures proposed by the Internal Audit Department into internal documentation and the practice of the Purchasing Department;
- the development of solutions in the area of non-technical losses (NTL), current situation of the system dealing with unauthorized electric energy offtakes and matters associated with separating field measurement checks from the ČEZ Group;
- life management /decommissioning program of the Company's coal portfolio;
- updated information regarding the progress of lawsuits in the matters of petitions for declaring invalidity of the resolutions adopted by the General Meeting of the Company held on June 29<sup>th</sup>, 2010, June 26<sup>th</sup>, 2012 and December 18<sup>th</sup>, 2012;
- any Company obligations arising from the discussion on suggestions by shareholders at the previous annual General Meeting;
- implementation of Compliance programs (in managed companies) in accordance with the requirement of the Ministry of Finance of the Czech Republic;
- optimization of activities in the area of investments and Company engineering – Engineering Capacities Consolidation project;
- approval processes for the acquisition of a solar power plant in 2009-2010;
- the ongoing police investigation taking place from December 11<sup>th</sup>, 2013, in the matter of suspicion of commission of a criminal offence of fraud by a ČEZ supplier in the area of solar power plants;
- a delay in the work ordered for Ledvice Power Station within the scope of its comprehensive refurbishment and a price increase to work resulting from measures adopted resulting from a problem with T24 material (global solution of the problem);
- the progress of negotiating an agreement on settling the dispute about adequacy of the amount of consideration stated in the proposal for acquisition of SME, about the results of expert and legal opinions in the aforementioned matter, which proved that the Company acted in accordance with due managerial care, and subsequent investigation of the matter by the Police of the Czech Republic, Unit for Combating Corruption and Financial Crime, dated March 14<sup>th</sup>, 2014;
- key topics, targets and tools of internal communication of the ČEZ Group, interconnection of events organized for employees with marketing events and the sense of belonging for employees, based on their social responsibility; and
- planned advertising and marketing activities, including a discussion for evaluating these.

At its meetings, the Supervisory Board dealt with developments in the regulatory environment and legislation in the EU („Communication from the European Commission concerning the 2030 Framework on Climate and Energy”) and the Czech Republic (setting up a „Register of Contracts”), and with developments in the regulatory environment of foreign acquisitions as well as the impact the external environment on the ČEZ Group – particularly in Albania, Bulgaria, Romania and Bosnia and Herzegovina:

- the Supervisory Board discussed and acknowledged information about preparations and initiation of the international investment arbitration procedure with the Republic of Albania, about preliminary quantification of the arbitration claim and about the progress of ongoing negotiations with the Albanian party in the matter of a possible out-of-court settlement;

- the Supervisory Board regularly monitored development of the situation concerning ČEZ Group activities on the Bulgarian energy market, development and completion of the procedure (November 13<sup>th</sup>, 2013) on removing a licence from two ČEZ subsidiaries by the Bulgarian regulatory authority, and the current repetition of this threat by Bulgaria; it also evaluated risks and possible defence amounting to pressure on the Bulgarian party through the EU;
- the Supervisory Board was kept updated on legislative changes under preparation concerning support for the system of renewable sources, and on postponing allocation of green certificates in Romania and the related complaint filed by ČEZ, a. s. to the European Commission;
- the Supervisory Board was informed about the course of the international arbitration procedure relating to the NERS project in Bosnia and Herzegovina and the decision expected to be issued regarding the matter this year.

The Supervisory Board regularly discussed impacts of developments in the external environment on the area of acquisition and investment priorities of the Company and granted prior consent, for example, to making the following decisions:

- to merge Teplárna Trmice, a.s. with ČEZ, a.s.;
- to dissolve ČEZ Logistika, s.r.o. as the result of its merger into ČEZ Distribuční služby, s.r.o.;
- to abolish and liquidate ČEZ Bosnia and Herzegovina in Sarajevo which operated as a Country Management Unit in Bosnia and Herzegovina, and to abolish and liquidate ČEZ Trade Albania Sh.p.k. operating as a local commercial representation in Albania;
- to set up the subsidiary ČEZ Inženýring, s.r.o.

In the previous period, the Supervisory Board has granted its prior consent to the Board of Directors on several occasions, to execute decisions regarding changes to personnel deployment and number of members of Supervisory Boards of companies in the registered capital of which ČEZ, a. s. had capital participation exceeding CZK 500 million.

The Supervisory Board also expressed its positive standpoint concerning the ČEZ Group Business Plan for 2014–2018 and the Budget of ČEZ, a. s. as well as the budgets of subsidiaries of the ČEZ Group for 2014.

The subject matter of Supervisory Board discussions included several conceptual changes to the Company – particularly in the area of rendering services within the ČEZ Group and discussion and approval of a significant change to the organization structure of ČEZ, a. s.; the Supervisory Board also discussed revisions to the Organization Code, the Code of Practice and the Signature Code of ČEZ, a. s., to which it expressed its positive view, and acknowledged information about the results of collective bargaining in the Company. The Supervisory Board discussed the setting and assessment of specific tasks of managerial employees who are, at the same time, members of the Board of Directors and the Company's Division Directors, while also discussed initiation or termination of a stock option program for selected managers.

At its meetings, the Supervisory Board dealt with the New Vision action plan, which forms part of the strategic priorities and the main objectives of ČEZ, with the potential to significantly impact on the Company's economic results.

Furthermore, the Supervisory Board discussed the status of domestic and foreign capital participation of ČEZ, a. s., the status and development of debt capacity of the ČEZ Group, the management system and the method of hedging risks at the ČEZ Group, issuing debt securities, and entering into long-term contracts for the sale of electricity; it also discussed trends and development of ČEZ Group market share.

The Supervisory Board also dealt with the development and current status of the comprehensive refurbishment of power stations and the construction of new sources. In relation to this, the Supervisory Board discussed regular reports on important ČEZ Group investment projects, i.e. especially projects involving comprehensive refurbishment of Ledvice, Počerady and Prunéřov II Power Stations; other projects under discussion included the Fantanele and Cogeaalac Wind Farms in Romania, new source projects for the Temelín and Dukovany Nuclear Power Stations, Skawina in Poland and construction project sources as a part of joint ventures in Turkey – Kemah and Egemer. In these reports, the Supervisory Board was informed about the status and development of investment projects, used technologies, vendors, work schedule and budget spending.

The Supervisory Board was kept updated on the development of the project of completion of Temelín Nuclear Power Station 3 and 4, initiated in 2006, in the context of developments in the energy market environment and legislative factors which make it virtually impossible to pursue long-term investments into power stations which sell electricity on a free market, including new nuclear power stations. The Supervisory Board discussed and acknowledged the decision of the Board of Directors to terminate the public tender without any compensation entitlement on behalf of participants for costs associated with their participation in the procedure.

Last but not least, I would like to mention the results of the OSART Corporate 2013 mission organized by the International Atomic Energy Agency (IAEA) where experts of the international team highly valued the setting of processes and factual preparations for the audit in relation to running the Dukovany and Temelín Nuclear Power Stations.

At its meetings, the Supervisory Board regularly discussed monthly, quarterly and annual economic results. **I can state on behalf of the Supervisory Board that I consider** the economic results achieved by ČEZ, a. s. in 2013 – in light of the development and impact of the European energy market, adverse development of events particularly in Albania, Bulgaria and Romania and with regard to the effects of the competitive environment on the Czech energy market and in comparison with competitors, in particular – **to be very good.**

In compliance with Article 18 (5)(c) of the Articles of Association of ČEZ, a. s., the Supervisory Board **reviewed** the Report on Relationships Amongst Interconnected Entities for 2013 **and has no objections** to its content.

As to other items on today's agenda of the General Meeting, I would like to quote the following standpoints of the Supervisory Board:

As to Item 6:

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 of December 31<sup>st</sup>, 2013, including the auditor's statement (dated February 24<sup>th</sup>, 2014),
- the consolidated financial statements of the ČEZ Group as of December 31<sup>st</sup>, 2013, including the auditor's statement (dated February 24<sup>th</sup>, 2014)

and, when reviewing these, **did not detect any deficiencies or inaccuracies in the content of such financial statements**, or in the method of their preparation or in the process of their audit, **and**, based on these facts and with respect to the auditor's statements, it **recommends** that the General Meeting of ČEZ, a. s. approves both financial statements.

As to Item 7:

In compliance with Article 18 (5)(c) of the Articles of Association of ČEZ, a. s., the Supervisory Board **reviewed** the presented proposal for the distribution of profits of ČEZ, a. s. for 2013, including the decision on the dividend and royalty payout, **and recommends** that the General Meeting **approves** it.

Ladies and Gentlemen, Dear Shareholders, thank you for your attention.

Václav Pačes, Vice-chairman of the Supervisory Board of ČEZ, a. s.