



# 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 3 last year.

In accordance with the Company's Articles of Association, 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 one substitute member appointed by the Supervisory Board. The following personnel changes occurred during the period from the last Annual General Meeting held on June 3, 2016 to May 18, 2017 (when this report was debated by the Supervisory Board):

- At the first Supervisory Board meeting held after the last General Meeting, Mr. Ondřej Landa was elected as Vice-Chairman of the Supervisory Board;
- In February of this year, the Supervisory Board appointed Václav Pačes as a substitute member (with effect from March 21, 2017) for the period until the next General Meeting. Václav Pačes was also re-elected the Chairman of the Supervisory Board with effect from the same day;
- In April 2017, the term of office of the members of the Supervisory Board Radek Mucha, Jiří Novotný, Drahošlav Šimek and Vladimír Hronek expired (with effect from April 11, 2017);
- In the same month, the term of office of members of the Supervisory Board Jitka Čermáková, Vladimír Hronek, Josef Suchánek and Lubomír Klosík, who were elected by the last year's General Meeting with postponed effect, commenced (with effect from April 12, 2017);
- In April 2017, Mr. Vladimír Hronek was re-elected as Vice-Chairman of the Supervisory Board.

As at May 18, 2017, when this report was debated by the Supervisory Board, members of the Supervisory Board were as follows:

- Václav Pačes—Chairman of the Supervisory Board;
- Ondřej Landa and Vladimír Hronek—Vice-Chairmen 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 2 extraordinary meetings in the past period (i.e. from the last Annual General Meeting to May 18, 2017 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 10 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 6 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.

In the period in question, the following personnel changes took place the Board of Directors of ČEZ, a. s.: in December 2016, the Supervisory Board elected Daniel Beneš as a member of the Board of Directors for the next consecutive term of office; In February 2017, the Supervisory Board removed Ivo Hlaváč, member of the Board of Directors (with effect from March 1, 2017). At its meeting held on May 18, 2017, the Supervisory Board elected Bohdan Zronek as member of the Board of Directors. The Company's Board of Directors currently consists of the full number of 7 persons.

The Supervisory Board:

- Continuously monitored the activities of ČEZ, a. s. and key decisions made by its Board of Directors and management;
- Dealt with not only suggestions made by its members, but also submissions from the Company's employees, shareholders or customers, of civic associations, as well as submissions from the Mayor of the municipal district Prague-Písnice;
- During the previous period, visited, as a whole or through its individual members, the new facility of the Ledvice Power Station, the Dalešice Hydroelectric Power Station, the Dukovany and Temelin Nuclear Power Plants, the Nuclear Research Institute in Řež near Prague;
- Organized a number of workshops, for example: CEZ Group's strategy—its pillars and specific steps of implementation, ensuring stabilization of financial results and maintaining positions in the European energy sector, including the effect of reduced electricity prices on individual coal-fired units of ČEZ Nuclear Energy (workshop with the participation of Ján Štuller, the Government Representative for nuclear energy)—the role of nuclear energy in the future energy mix of Czechia, the issue of construction of new nuclear facilities including the attitude of other countries focusing on the production of electric energy from the nuclear facilities, development of the project of construction of new nuclear facilities, staffing of company bodies of Elektrárna Temelín II, a. s. and Elektrárna Dukovany II, a. s., including the management methods and current activities of the mentioned subsidiaries Systemic measures related to maintenance at nuclear power plants—specific steps leading to systemic change Evaluation of the performance of the coal-fired portfolio—basic inputs and contributions by individual facilities/locations to EBITDA according to the business plan for 2017—2020 and prospects for further operation Updates on the “welds” issue—evaluation of X-ray inspections and assessment of state of welds in nuclear power plants, analysis of causes, system/organizational/technical measures Determination of annual tasks of the members of the Board of Directors for 2017—contexts and attitude to the determination of annual tasks and their interconnection with the preparation of the annual budget ČEZ Distribuce—management system from the viewpoint of the parent company, basic principles of regulation, investments, maintenance and key distribution projects Issue of sale of the residential property in Prague—announcement of a public tender, deadlines for submitting bids, communication with tenants and their requirements, possibilities of involvement of the municipal district Prague-Libuš and the City of Prague in

a public tender (unsolicited bid) and possible further proceedings in this issue Economic situation of CEZ Group—within the context of the horizon of the business plan, profitability of generating facilities, strategy towards end-customers and other related topics Tools in the field of the Company's human resources—supporting the long-term provision of qualified staff and managing the generation change The involvement of CEZ Group in the areas of science, research and innovation

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 debated at the last regular General Meeting and about the status of its implementation
- On the development of significant litigations within CEZ Group (as a whole) and on the details of certain specific litigations—e.g. the litigation brought against Eco-Wind Construction S.A. (developer of wind farms in Poland and 100% subsidiary of a subsidiary of ČEZ, a. s.)
- About CEZ Group's approach to the end-customer market
- About recent developments in the Comprehensive Renovation of the Prunéřov II Power Plant project and the New Ledvice Power Plant Unit project
- 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 suppliers (marketing, promotional and any consulting services) with a value exceeding CZK 10 million for the entire CEZ Group for 2013
- About assumptions and bases of the business plan for 2017—2021
- About the issue of mining activities of the subsidiary Severočeské doly, a.s. (Nástup Mine and Bílina Mine) with regard to the repeated submissions of the shareholder Věra Ježková
- About contracts with the top providers of legal services within Czechia and for abroad
- About coal supplies for ČEZ—the Heating Plants OU (organizational unit) in Trmice
- About verification of facts relating to the purchase price of certain specific spare parts for nuclear power plants
- About sensitivity analysis related to the proposed dispute resolution with Sokolovská uhelná, právní nástupce, a. s.
- Activities of the ČEZ Ombudsman for the period of 2009—2016, his mission and competencies, methods of work and the principles governing his work
- About the current development in debates concerning the winter package at the level of the EU and Czechia, about the specific position of CEZ Group on individual points of the winter package, including an estimate of possible financial impacts

Individual authorized members of the Supervisory Board participated, together with the Company management, in solving some issues, for example those related to:

- Negotiations with the tenants of the residential property of ČEZ in Písnice or with the mayor of the municipal district Prague 4-Libuš in connection with the sale of the residential property in Prague
- Information on the state of measures aiming at the improvement of the maintenance system, especially in relation to the repair of welds at nuclear power plants

At its meetings, the Supervisory Board regularly dealt with:

- Current state and developments of the regulatory environment and legislation in the EU—developments in the area of activities related to Energy Union and activities related to the individual legislative packages of the European Commission (Energy Efficiency Package, New Market Design Package, Renewable Energy Package, Retail Package, Revision of the Nuclear Investment Notification Regulation, etc.) Capacity

Remuneration Mechanisms (CRM) Reform of the European Union's Emissions Trading Scheme (EU ETS), exclusion of the retail sale of electricity and gas from the Directive and the Act on Public Procurement Revision of the Nuclear Projects Notification Regulation

- Current state and developments of the regulatory environment and legislation in Czechia—establishment of the Register of Contracts Development of the National Action Plan for the Development of Nuclear Energy in Czechia Amendment to the Constitution of Czechia extending the scope of the SAO Tariff system in the power sector Support and notification of combined production of electricity and heat (CHP) Control of ERO over commodity prices for households (the so-called indicative prices) ERO Trader Code Amendment to the Business Corporations Act concerning the representation of employees in supervisory boards Amendment to the Building Act and the EIA Act Issue of support for supported energy resources and notifications Issues of the Fifth Regulatory Period (Principles and Rules for the Regulatory Period)

At its meetings, the Supervisory Board regularly debated on the CEZ Group Development Report, which dealt with up-to-date information from the foreign distribution segment, including the possible development of the political and regulatory environment and possible development activities, particularly in Bulgaria, Romania, Turkey and Poland, as well as information about the current development in the Czech distribution segment, the business segment and the segment of renewable energy sources:

- The Supervisory Board regularly monitored the development of the situation related to CEZ Group's activities on the Bulgarian energy market; concerning the international investment arbitration against the Republic of Bulgaria—an agreement with the counterparty on the method of appointment of the tribunal was concluded, the extended period for the selection of one member of the arbitration tribunal is now underway, subsequently the venue of litigation and the proceedings timetable shall be set out In the case of a favorable offer, ČEZ is ready to sell its Bulgarian assets—evaluation and assessment of non-binding offers are underway
- The Supervisory Board was kept informed about the development of legislative changes in Poland, which will most likely affect CEZ Group's business In this context, a number of contemplated projects in Poland were discontinued The development of the potential acquisition of assets of French EDF and the announcement of ČEZ dated October 3, 2016 on its decision not to place a binding bid for the purchase of these assets
- The Supervisory Board was kept informed about developments in the area of support for renewable energy sources—green certificate allocation in Romania
- The Supervisory Board was kept informed about the security, internal political and economic instability in Turkey Successful implementation of re-financing of the existing conditions of the AKCEZ privatization loan and the ongoing project of prospective sale of the AKCEZ group
- The Supervisory Board was also informed about the operation and the economic results of foreign assets belonging to CEZ Group, and about the current developments related to potential opportunities or specific projects in the field of ESCO services or in the area of renewable energy sources
- The Supervisory Board was also informed about the technical problems related to the change of the customer system in Czechia—separation of the sales and distribution systems.

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

- Transfer of the (24.5%) stake in CM European Power Slovakia, s.r.o. (subsidiary operating the CHP plant in Bratislava) to SLOVNAFT, a. s. and to the determination of the further steps concerning CM European Power International B.V. (Joint venture of ČEZ and MOL established for the purpose of constructing steam power plants within the premises of refinery in Hungary) related to the cancellation and liquidation of the company
- Increase in the share capital of the Romanian subsidiaries Tomis Team S.A. and Ovidiu Development S.R.L., the owners and operators of the Fantanele and Cogeaalac wind farms
- Conclusion of an agreement with Sokolovská uhelná, právní nástupce, a.s., in order to stabilize future business relations, including an agreement on modifications to the coal contract, agreement on the sale of a 100% stake in Elektrárna Tisová, a.s. and an agreement to terminate existing litigations

- Approval of the revision 1 of the merged document with a business plan / project outline for the D405 project “Recovery of the control system of non-block operational units of Temelín NPP—2nd stage”
- Conclusion of the purchase contract, based on which the decision of the Board of Directors on the sale of the residential property in Písnice will be made (including parts and accessories and receivables) to Kennial a. s. for the price offered in a public selection procedure of the most favorable bid for the subject of purchase; Or—if this company does not conclude the purchase contract in contravention of the tender conditions—to Office Rent Prachatice s.r.o.
- Approval of the updated dividend policy of ČEZ, a. s., extending the payout ratio to 60—100% of the consolidated net profit of CEZ Group, adjusted for extraordinary influences, and approval of the proposed dividend for 2016 at CZK 33 per share that will be included in the proposal for the distribution of the company’s profits
- Approval of the merger of the acquired company ČEZ Zákaznické služby, s.r.o. and the successor company ČEZ Prodej, s.r.o., with the simultaneous change of its legal form to a joint stock company
- Conclusion of an amendment to the Plan for Project Construction of “New 660MWe Unit at the Ledvice Power Plant”, whose subject matter is postponement of the expected date of completion and an increase in the budget costs of the project.

At several of its meetings, the Supervisory Board also dealt with the proposal for the sale of the Počerady Power Plant with the conclusion that CEZ Group will keep the power plant as its asset. The reason is, in particular, an uncertain situation in the segment of brown coal energy in Europe.

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

- Monthly updates on the current status of nuclear power plants
- Information on the increase in the registered capital of Elektrárna Dukovany II, a. s. and Elektrárna Temelín II, a. s.
- Information on the approval of the Business Plan for the project “New Nuclear Facility in Temelín Power Plant” and the approval of the Business Plan for the project “New Nuclear Facility in Dukovany Power Plant” that provide a comprehensive set of technical and economic information for further steps in the preparation and implementation of Temelín NNPP and Dukovany NNPP
- Monthly updates on the continuation of implementation and related problems of the investment project “New 660 MWe facility in the Ledvice Power Plant” as a prototype, including a postponement of the expected date of the handover of the work
- Information on the contractual provision of maintenance for the Fantanele—Cogealac wind farm in Romania for the period of 2017—2018
- Information on the provision of a monetary contribution in addition to the registered capital to the subsidiary Škoda Praha Invest s.r.o. for the creation of equity outside the registered capital above the amount of the shareholder’s contribution of ČEZ, a. s.
- Information on the purchase of the “Julia” project—eight wind farms in Germany with a total capacity of 85.25 MW
- Information about the winning bids submitted in the tender for the most favorable bid for the subject of the purchase in connection with the sale of:
  - Residential property Vršovice by AIDA Praha, a.s.
  - OC Písnice by STN Invest s.r.o.
- Information on the provision of a non-monetary contribution the form of stakes in ŠKO-ENERGO, s.r.o. and ŠKO-ENERGO FIN, s.r.o. for the creation of equity outside the registered capital of ČEZ ESCO, a.s.
- Information on the development of ČEZ ESCO (Energy Service Company) in the primary markets, i.e. in Czechia and Slovakia, as well as information on the penetration and possible development of ESCO services or ongoing analyzes of ESCO potential in Poland, Germany, Romania, Bulgaria, the Netherlands
- Information about key business transactions in progress and crucial transformation activities at the subsidiary ŠKODA PRAHA, a.s.

- Information on the investment strategy of Inven Capital, investiční fond, a.s. (Formerly ČEZ Nová energetika, a. s.), through which ČEZ intends to participate in the fast-growing market of the “New Energy” in the European region (e.g. acquisition of stakes in Sonnenbatterie, Sunfire, tado°, AZ Klima and investments in ETF 2 fund)
- Information on the current state of the stake in MOL Hungarian Oil and Gas Plc (MOL) held through the 100% subsidiary CEZ MH B.V. and information on the intention, progress and outcome of the purchase of bonds that can be exchanged for MOL shares by CEZ MH B.V. with the subsequent block sale of the corresponding amount of MOL shares on the capital market, including information on the related agreements with Barclays Bank PLC, Deutsche Bank AG and Citigroup Global Markets Limited as transaction managers
- Information on obligations arising from Directive 2014/57/EU of the European Parliament and of the Council on criminal sanctions for market abuse and Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse (related to insiders with internal information, who are prohibited to manipulate the market or to attempt to do so and to trade on the basis of inside information)
- Information on the intention to transform by a merger of ČEZ Distribuční služby s.r.o., the acquired company, and ČEZ Distribuce, a.s., the successor company, pursuant to the provisions of Act No. 125/2008 Coll., on the transformation of companies and cooperatives, as amended, according to which the assets of ČEZ Distribuční služby, s.r.o. are transferred to ČEZ Distribuce, a.s. and ČEZ Distribuce, a.s. enters into the legal status of ČEZ Distribuční služby, s.r.o., without increasing the registered capital of ČEZ Distribuce, a.s., on the record date of January 1, 2018
- And finally, also the information about the “ZEVO Mělník” project (project of a new opportunity in waste management)

In addition to the condition of domestic and foreign shareholdings of ČEZ, a. s. (including selected financial results in the periods in question), the Supervisory Board also debated trends and developments in CEZ Group's market share, the condition and development of CEZ Group's debt capacity, CEZ Group's risk management system and hedging.

Several times in the past period the Supervisory Board granted its prior consent 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 500 million.

The Supervisory Board also expressed its favorable opinion of the CEZ Group Business Plan for 2017–2021 and the Budget of ČEZ, a. s. and the budgets of CEZ Group subsidiaries for 2017.

The Supervisory Board also debated the substantial change in the organizational structure of the company effective from March 1, 2017, for which it expressed its positive opinion. Accordingly, the Supervisory Board debated changes to the Organizational Rules of ČEZ, a. s., expressing its favorable opinion on them. It also acknowledged information about the approval of a revision of the Work Rules of ČEZ, a. s. and the Signature Rules of ČEZ, a. s. as well as information on the results of collective bargaining at the Company. 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 2017, 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 2016, which is crucial for the determination of their annual royalties.

In addition to regular updates on the current state of the nuclear power plants, the Supervisory Board monitored the preparation of documents for the submission of new block license applications. On March 30, 2016, the State Office for Nuclear Safety (SÚJB) issued the “Decision approving the operation of unit 1 of Dukovany NPP after March 31, 2016”, in which the validity of the permit is not limited in time, but is related to the fulfillment of a set of conditions. In the past year, the readiness certificate of the unit 2 of the Dukovany NPP was prepared; on January 2, 2017, ČEZ submitted the application for approving the operation after July 10, 2017 when the current permit expires.

At its meetings, the Supervisory Board also debated regular reports on the development of the comprehensive renovation of Pruněrov Power Plant (“PRPP II”) and the construction of a new generating unit in Ledvice (“LEPP”) and regular reports on significant investment projects of CEZ Group, including those related to the construction of traditional generating units—LEPP and the final evaluation of the PRPP II investment, preparation of new nuclear facilities in Temelín and Dukovany, new energy projects (in particular EcoWind in Poland) and RES projects, investments within related to current conventional generating facilities, investments

within ČEZ Distribuce and selected investment projects, e.g. the purchase of 100% stake in Energie2 Prodej, s.r.o., purchase of shares corresponding to 26% stake in ENESA a.s. and purchase of 100% stake in juwi s.r.o. (now ČEZ Solární s.r.o.), purchase of a stake in tado°, investment in ETF 2 (Environmental Technologies Fund), additional investment in Sonnen, purchase of 100% of shares in AZ KLIMA a.s. and AZ KLIMA SK, s.r.o., purchase of the Flight on-shore wind farm of the capacity of 12.8 MW and eight on-shore wind farms Julia with the total capacity of 85.25 MW.

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 performance of ČEZ, a. s. in 2016**—in relation to the difficult developments in the energy sector—the fundamental influence of low electricity prices and a practically non-functioning emission allowance market, the impact of events concerning the control and repair of heterogeneous welds in Dukovany NPP and Temelín NPP, and also with regard to the competitive environment within the Czech energy market—**can be considered as corresponding to these conditions.**

In compliance with Article 18(5)(c) of the Company's Articles of Association, the Supervisory Board **reviewed** the Related Parties Report for 2016 **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 2016:**

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

- The financial statements of ČEZ, a. s. prepared as at December 31, 2016, including the auditor's opinion (dated March 20, 2017)
- The consolidated financial statements of CEZ Group prepared as at December 31, 2016, including the auditor's opinion (dated March 20, 2017)

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, on the basis of these facts and taking account of the auditor's opinions, 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 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.