

Internal Information

Internal Audit Examined Contracts for Škoda Pilsen

The contractual relationships between CEZ and Skoda Power have been at arm's length and set in a usual formal manner, including provisions on liquidated damages. Having examined the documentation pertaining to CEZ's contracts for Skoda Power, Internal Audit found no evidence of informal relations that would indicate any improper, unethical or corrupt conduct.

The relations between the corporation or the CEZ Group as a whole and Skoda Power were examined by Internal Audit based on a task assigned to the department by the Board of Directors in mid October 2011. The final report has been submitted to the Board of Directors of CEZ and a presentation has also been prepared for the majority owner, who has initiated the audit, as well as for all other shareholders.

The scope of contractual relations between CEZ and Skoda Power is a legacy of major historical relations, as Skoda Power has supplied nearly all turbo-sets operated in CEZ' power plants (all turbines with a capacity of 100 MW and higher with the exception of EPR II). However, those have been standard business transactions at arm's length, with their parameters comparable to contracts with other suppliers of CEZ (including the application of liquidated damages).

The documentation showed that the volume of contracts awarded to Skoda Power grew significantly after 2004, but that is consistent with the overall increase in the capital expenditures of the CEZ Group. CEZ' decisions that led to the mutual business growth (such as brown-coal power plant renewal projects or the outsourced maintenance of logic entities in the power plants) were motivated by business objectives consistent with the overall strategy of CEZ.

Internal Audit looked into a sample of 39 contracts that Skoda Power had since 2004 been awarded by either CEZ or SP Invest, with the sample accounting for more than 95% of the amounts invoiced to date.

The current value of contracts included in the sample is CZK 26.4 billion, of which CZK 15.4 billion has already been invoiced by Skoda Power and paid by companies within the CEZ Group.

Audit summary:

Decisions to award key contracts to Skoda Power were motivated by business objectives consistent with the overall strategy of CEZ.

CEZ' relations with Skoda Power have been defined in a standard and formal manner at arm's length including, for example, the application of liquidated damages.

No evidence has been found of any informal relations that might be considered incorrect, unethical or potentially perceived as pro-corrupt.

The procedures followed and the steps taken by the staff of the CEZ Group when awarding contracts were defined and sufficiently described in the management and control documentation in line with the general legislation in force.

In practice, suppliers were selected without any major deviations from the management and control documentation or from the procedures required by law.

The absence of dates in some documents (mostly internal decision-making acts of ČEZ, a. s. or ŠP Invest, s.r.o) reduces their demonstrability.

CEZ has not granted any credit or loan to Skoda Power.