

CEZ DISTRIBUTIE S.A.

Environmental and Social Due
Diligence of CEZ Distributie
Investment Programme 2015 -
2016

Non-Technical Summary

April 2015

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CEZ Distributie (or the “Company”) is part of CEZ Romania Group (“the Group”), operating in Romania starting 2005 when the Group took over the power distribution company Electrica Oltenia. CEZ Group in Romania comprises the companies CEZ Romania, CEZ Distributie, CEZ Vanzare, CEZ Trade Romania, TMK Hydroenergy, Tomis Team, Ovidiu Development, MW Team Invest.

CEZ Distributie, headquartered in Craiova, provides power supply in seven counties in southern Romania (Dolj, Arges, Olt, Gorj, Valcea, Mehedinti and Teleorman counties) and is the legal successor of Electrica Oltenia. CEZ Distributie owns all the power distribution assets after the 2007 unbundling of the Group’s electricity production and distribution activities in line with EU requirements.

CEZ Distributie is currently implementing an investment programme (the “investment programme”) that includes a number of separate upgrade/modernisation projects aimed at improving the energy efficiency of the existing power grid infrastructure and of its operations in general.

CEZ Distributie approached the European Bank for Reconstruction and Development (the “EBRD” or the “Bank”) to provide finance for the Investment Programme. In this context a review of the potential environmental and social impacts associated with the implementation of the projects related to the Investment Programme was conducted by an independent environmental and social consulting firm. This Non-technical Summary (“NTS”) report summarizes the results of the review performed.

In addition to this NTS, a Stakeholder Engagement Plan (“SEP”) are also available for review on the Company’s website at <http://www.cez.ro/ro/despre-noi/distributia-energiei-electrice/investitii/2015-2016.html>.

An Environmental and Social Action Plan (ESAP) have been developed and includes certain best practice measures the Company committed to implement to further improve the environmental and social performance while the SEP describes how the Company communicates with the public in relation with the investment programme implementation.

There is a mechanism in place to receive and address grievances, questions, comments and suggestions from stakeholders. Any questions, comments or concerns regarding the investment programme can be submitted as follows:

regular mail or in person: CEZ
Distributie, 2 Brestei St., Craiova, 200
581, Dolj County, Romania

phone number: +40 251 215 002

e-mail: cez_distributie@cez.ro

web portal: www.cez.ro

Presently the Company operates the following facilities:

- 9,286 km of high voltage (110 kV) transmission lines;
- 21,490 km of medium voltage (20 kV or 6 kV) transmission lines;
- 58,431 km low voltage transmission lines;
- 143 transformer stations 110/20kV;
- 10,284 distribution substations MV/LV 20/6 / 0.4kV;
- 142 MV/LV substations and switching substation;
- 1,423,452 installed power meters.

The Company identified, among others, operational efficiency and infrastructure modernization as two of their main challenges.

To address the increased pressure for energy efficiency, the Company initiated a programme of gradual implementation of new technology on the existing worn grid infrastructure. The 2015 - 2016 Investment Programme represents a continuation of this currently ongoing modernization plan initiated in the previous years.

The 2015 - 2016 Investment Programme comprises 108 projects including low and medium voltage transmission lines (overhead and underground) modernization/upgrades, electrical stations modernization or construction and transformer stations upgrades/modernization. The programme does not include any projects related to high voltage (110 kV) transmission lines.

The investment programme includes modernization of electrical stations and upgrade of existing medium and low voltage transmission lines including transformer stations. All works associated with electrical stations modernization works are performed within the premises of existing facilities.

Medium and low voltage transmission lines upgrades include replacement of insulating elements and cable supports, in certain situations electrical cable replacement, replacement of existing damaged poles, installation of transformer units/cabinets. Any new infrastructure elements (transformer units, new poles, underground transmission line sections, connection points) will be built exclusively on public land. In case the new poles replacing existing ones are to be built on new locations (limited situations), these will be located adjacently to existing, damaged poles locations.

In cases where undeveloped areas are affected, the initial conditions will be reinstated at the end of construction works.

3 *SUMMARY OF THE ENVIRONMENTAL AND SOCIAL ASPECTS OF THE INVESTMENT PROGRAMME*

3.1 *ENVIRONMENTAL AND SOCIAL APPRAISAL AND MANAGEMENT*

Company's overall environmental and social management system is robust and performing well based on an Integrated Management System for Quality, Environment, and Occupational Health and Safety accredited in line with the international standards.

Efficient procedures are in place to ensure appropriate management of environmental and social aspects, responsibilities defined at all levels, clear reporting lines and communication channels established, specific management tools developed and implemented.

The environmental and social aspects associated with CEZ Distributie activities are periodically evaluated and scored. The evaluation includes aspects associated with construction activities of the Company, air emissions, water discharges, wastes management, accidental spills, resources efficiency, and emergency situations.

CEZ Distributie operations and the implementation of the investment programme are in compliance with Romanian regulations. The appraisal of environmental and social aspects associated with the investment programme is performed in line with the national regulatory requirements. The projects developed by CEZ Distributie are subject to the screening stage of the EIA procedure. The assessment is performed on project-by-project basis and consists of a descriptive brief presentation of the works involved by the project and how these may interact with the environmental aspects.

In addition to regulatory requirements for environmental appraisal, the Company has identified the environmental aspects associated with all activities performed. The impacts and risks associated with every aspect identified are periodically assessed and scored.

The environmental aspects identified and assessed by the Company include construction activities, air emissions, discharges to natural water bodies, wastes management, fuel/oil spills, resources consumption, and emergency situations (fire, explosion, landslides, and earthquake). As per up-to-date evaluation (performed in February 2014) the Company's operations are not associated with significant impacts with respect to any of the aspects evaluated.

An assessment of environmental and social issues of past and current operations and of the proposed investment programme was performed in line with EBRD's Environmental and Social Policy to identify any potential risks, liabilities and opportunities associated with the Project. The assessment showed that the Company is managing environmental and social issues very well. Only a few opportunities for improvement were identified as an outcome of the

assessment; these were transposed into actions proposed for implementation by the Company in the frame of the ESAP.

3.2 *POLLUTION PREVENTION AND ABATEMENT*

Identification and periodical assessment of the environmental aspects associated with all Company activities is performed as part of the Company's management system. This includes main and auxiliary operations (overhead and underground transmission lines, electrical stations, transformer units, administrative activities and transportation etc.) as well as the construction activities associated with the investment programme.

The environmental aspects associated with the company activities periodically evaluated by CEZ Distribuție include air emissions, wastewater discharges, hazardous and non-hazardous wastes management, accidental spills, resources efficiency (water, energy, fuels), noise and emergency situations (fire, explosion, landslides, and earthquake). There are no major sources of air, water, noise emissions, soil and subsurface contamination associated with CEZ Distribuție operations and no relevant associated risks were identified.

To address pollution prevention aspects during Project construction stages, in addition to compliance with applicable regulatory requirements, the Company requires contractors to identify the environmental aspects, define mitigation measures and implement Environmental Management and Monitoring Plans.

Wastes generation tracking and reporting is performed in line with applicable regulations. Of the total wastes generated at CEZ Distribuție, 97.6% are non-hazardous (2014 data). Strict wastes management processes are implemented across all stages of wastes management including generation, storage and disposal. Responsibilities for wastes management are clearly allocated at all Company facilities and the staff is appropriately trained. All hazardous and non-hazardous wastes generated are disposed of through a specialised, licensed contractor.

Sulfur Hexafluoride (SF₆), a greenhouse gas, is used as dielectric and insulating material in various equipment at Company's facilities. SF₆ handling and management, and maintenance of SF₆-containing equipment are strictly monitored and there is a system of quantitative monitoring and reporting of SF₆. Losses of SF₆ are very minor.

The implementation of the investment programme will result in energy efficiency improvement by reducing the losses in the transmission system. It is estimated that the investment programme will result by the end of 2016 in a reduction of greenhouse gasses emissions of 36,585 t CO₂/year.

3.3 *COMMUNITY HEALTH SAFETY AND SECURITY*

Company's operations and the investment programme are not associated with relevant community exposure risks due to hazardous materials use, handling or storage.

A relevant aspect associated with power distribution services regarding workers and community health and safety is the radiation due to electric and magnetic fields. A study on the exposure of Electro Magnetic Fields (EMF) of Company's staff and the public due to CEZ Distributie operations was performed in 2014 by the Technical University of Bucharest based on measurements performed at a sample of CEZ Distributie electrical stations and transformer stations. The study indicates that the EMF values associated with CEZ Distributie facilities are significantly below the recommended threshold limits for both professional and public exposure.

CEZ Distributie identified the emergency situations associated with their operations at facility level. Risks identified were addressed in facility-specific Emergency Response Plans. Emergency response teams were formed at each facility. Response team members, their responsibilities and contact details are clearly defined in the Emergency Response Plans.

Equipment for fire prevention and intervention at CEZ Distributie facilities include, as applicable from case to case, alarm and fire detection systems, smoke and temperature detection systems, fire suppression installations, fire extinguishers, video surveillance equipment, firefighting water reserve and hydrants systems.

As public utility infrastructure operator, according to applicable national regulations, CEZ Distributie is part of specialised intervention taskforces for earthquake and land sliding response, together with specialised authorities including municipalities, health emergency department, police, national defence forces, etc.

3.4 *BIODIVERSITY CONSERVATION*

Investment programme implementation relates to upgrading existing infrastructure elements (electrical stations, medium and low voltage transmission lines, transformer stations) will affect mainly areas on public domain, within settlements and along existing roads. However, certain sections of the existing transmission lines subject to investment programme may be located on undeveloped areas and /or cross natural or modified habitats.

Expected associated impacts are typically temporary, limited to the construction stage and are mainly associated with disturbance due to traffic and works execution, temporary materials or excavated soil storage, temporary access ways and disturbance of unoccupied land, soil compaction etc.

Only one of the projects included in the investment programme, namely the Tension Level Improvement of Bradulet Low Tension Transformer Station,

Arges County is within the borders of a designated protected area (Valea Valsanului Natura 2000 site).

The project passed the screening stage of the EIA procedure, and the decision issued by the environmental authority concludes that no habitats and species of community interest are affected by the project.

Routine biodiversity conservation measures implemented by CEZ Distribuție include installation of nest boxes (intended for *Falco cherrug*) and insulating sheaths on power line poles. The measures are part of a programme developed in cooperation with the Romanian Ornithological Society (SOR). In 2014, four nest boxes and insulating sheaths on 477 poles were installed and the programme is intended to continue over the next years.

The Company is aware of the existing infrastructure that overlaps with Natura 2000 protected sites, but the Company has not yet prepared accurate mapping and identification of transmission lines sections crossing the protected areas.

A programme of detailed mapping of Company's high and medium voltage transmission lines is currently underway. Currently two counties of the Company's operation are being mapped and the mapping of remaining five counties will be completed by 2019 - 2020.

3.5 CULTURAL HERITAGE

Given the nature of the works involved by the investment programme implementation, the potential for interference with unknown cultural heritage objects is minimal, although cannot be excluded. Screening for potential cultural heritage impacts is performed as part of the construction permitting procedure, approvals by relevant cultural heritage authorities in relation with the projects implemented being required on case-by-case basis as applicable.

To address potential cultural heritage impacts, the construction contractors executing the investment programme works have the obligation to take all necessary precautions that any archaeological objects accidentally discovered are left in place and CEZ Distribuție is informed. In such situations the contractor has the obligation to act in line with CEZ Distribuție instructions regarding their removal and existing contractual obligations. The contractor has also the obligation to inform the relevant authorities.

3.6 STAKEHOLDER ENGAGEMENT

A strong community engagement programme is implemented at Group level under a platform named "Energy for Wellbeing". The programme includes community interaction through education, health, environment, culture and infrastructure. The platform brought CEZ Romania in 2014 the "Best Corporatist Citizen" title in the frame of a national competition called "Energy Oscars" and aimed at rewarding best practices in Romanian energy sector.

Company's stakeholder groups include the local, regional and national authorities, mass-media, NGOs, local communities and land users, other companies within CEZ Group, clients, major equipment suppliers and employees. An analysis of the stakeholder groups performed by the Company resulted in defining the engagement actions to be performed through different specific approaches including newsletters, periodical updates, newspaper articles, announcements on community boards, brochures etc.

Company's stakeholder engagement includes external and internal communication, crisis management, corporate social responsibility, grievance mechanism.

Public hearings were not organized to date for the purpose of disclosing the projects included in the 2015-2016 investment programme. Disclosure of projects is a legal requirement only for projects subject to EIA stage of the environmental permitting procedure. None of the CEZ Distributie investment projects are/will be subject to the EIA stage.

However, a Stakeholder Engagement Plan in line with good international standards and aimed at ensuring investment programme public disclosure and allowing for stakeholder feedback consideration will be implemented.

CEZ Distributie has implemented an Appeals and Complaints Handling Procedure allowing for appropriate stakeholder grievance management. The procedure addresses the process of receiving, recording, investigation, resolution, reporting and response to grievances. Any grievance received is addressed within 30 days from registration.

CONCLUSIONS

CEZ Distributie has developed and is implementing a robust system for management of environmental, health and safety and social aspects of Company's activities and investment programme implementation.

Company's operations and the investment programme implementation are performed in line with national regulations.

A review of the potential environmental and social impacts associated with the investment programme implementation was completed. The review confirmed that overall environmental and social topics are well managed and the Company's operations materially conform with EBRD Performance Requirements which reflect stringent international standards. A few additional improvement opportunities were identified and recommended for implementation as best practice measures.

To facilitate implementation of these improvement measures, the following tools will be used during implementation of the investment programme:

- an Environmental and Social Action Plan (ESAP) representing a roadmap for implementation of key environmental and social actions required for the investment programme; and
- a Stakeholder Engagement Plan (SEP) which defines the means for communication between the Company and its stakeholders including the process for consideration of public feedback during investment programme life cycle.

The key actions required in the ESAP for the Company to implement include:

- The well performing management system of the Company relies on two key staff managing important environmental and social aspects of the operations. In situations when these personnel are not available the system may be weakened. The Company is to analyse the situation to determine how to avoid vulnerabilities or disruptions and identify and implement required measures. This may include training and delegation (sharing) of responsibilities on an ongoing basis to existing staff, or by employment of additional personnel with the purpose of ensuring continuous performance levels.
- Define and implemented a set of general measures and recommendations (aimed at minimising disturbance and biodiversity impacts as well as restoration of initial conditions as applicable) on a case by case basis for any interventions, including maintenance or upgrades, performed at the infrastructure located in protected areas as well as on other natural (non-protected) areas. Considered measures may include (but not limited to) e.g. minimisation of areas affected by equipment traffic and materials lay down,

topsoil conservation and reuse, reinstatement of initial conditions (soil compaction remediation, re-vegetation using local species etc.).

- Identify existing transmission lines sections crossing natural protected areas based on existing information subject to periodic updating and refining as the GIS mapping of the distribution network becomes available. This would allow improved identification of any sensitive areas that may interfere with Company's operations and investment programme and would allow efficient management and mitigation of any potential impacts.
- Develop a guideline defining the approach to cultural heritage chance finds management providing clear indication on the obligations and due course of action in line with regulatory requirements and general good practice.
- Ensure public disclosure of the investment programme by implementing a Stakeholder Engagement Plan (SEP) allowing for stakeholder feedback consideration during investment programme implementation.

The SEP identifies key Project stakeholders and provides a framework for meaningful information disclosure and response to stakeholders' feedback. It defines the public consultation and information disclosure process, provides a mechanism for the public to convey questions, comments and grievances and also defines how these will be addressed.

