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TOMORROW

# Audit Committee Report on the Results of Its Activities



## Dear Shareholders, Ladies and Gentlemen:

Please allow me to present to you, on behalf of the Audit Committee of ČEZ, a. s., the report on the results of Committee activities in the period between the General Meetings in 2022 and 2023.

### Introduction

Pursuant to the Company's Articles of Association, the Audit Committee of ČEZ, a. s. ("Committee") has five members. Last year's General Meeting, which commenced on June 28, 2022, decided to make the following changes to the membership of the Committee on June 29, 2022:

- Jan Vaněček was removed from the Committee,
- Andrea Lukášková was re-elected as a Committee member for another term,
- Petr Šobotník was elected as a new Committee member.

The Committee worked fully staffed in compliance with applicable law, the Articles of Association of ČEZ, a. s., and the Committee's Rules of Procedure. In view of the above personnel changes, the Committee members further elected their new Committee Chairman and Vice-Chairman. As of the date of considering this report by the Committee, i.e. April 17, 2023, the composition of the Committee was as follows:

- Otakar Hora, Committee Chairman,
- Jiří Pelák, Committee Vice-Chairman,
- Andrea Lukášková, Committee member,
- Tomáš Vyhnánek, Committee member,
- Petr Šobotník, Committee member.

A total of five Committee meetings were held in the period from the June 2022 General Meeting to the date of this General Meeting (three in 2022 and two in 2023).

#### **At its meetings, the Audit Committee dealt with the following in particular:**

- Continuous monitoring of the procedure of preparing the financial statements of ČEZ, a. s., and the consolidated financial statements of CEZ Group for 2022,
- Continuous monitoring of the process of the statutory audit of the financial statements of ČEZ, a. s., and the consolidated financial statements of CEZ Group for 2022,
- Continuous monitoring of the preparation process of the final financial statements of the company Elektrárna Dětmarovice, a.s., prepared as of December 31, 2022, and the process of the statutory audit of these statements,
- Preparation of the Audit Committee information "Consolidated financial statements of CEZ Group, financial Statements of ČEZ, a. s., and final financial statements of the company Elektrárna Dětmarovice, a.s., as of December 31, 2022 and the process of the statutory audit" for the Supervisory Board,
- Approval of the statutory auditor's non-audit contracts and assessment of the independent auditor's independence,
- Discussion on the evaluation of CEZ Group's external auditor, i.e. Ernst & Young Audit, s.r.o., for 2021,
- Monitoring of the effectiveness of internal audit and its functional independence, effective internal control, and risk management system within CEZ Group,
- Fulfillment of Internal Audit's plan for 2022 (including adopted amendments and a review of the adequacy of Internal Audit's resources),

- Debate on the results of conducted internal audits (key findings and recommendations),
- Monitoring of implementation of corrective measures from conducted internal audits,
- Approval of Internal Audit's plan of activities for 2023,
- Information about the impacts of the external environment on CEZ Group,
- Debate on CEZ Group Risk Management Reports,
- Informing the Supervisory Board of ČEZ on how the statutory audit contributed to ensuring integrity of accounting and financial reporting systems,
- Monitoring of the progress of the ERP+ project in the context of the SAP information system generational renewal,
- Preparation of the Committee's report for the General Meeting of Shareholders.

**In view of the issues debated, Committee meetings are regularly attended by:**

- Representatives of the statutory auditor,
- Head of the Finance Division,
- Heads of Audit and Compliance, Risk Management, and Accounting.

## Financial Statements and Statutory Audit Thereof

At its meetings (there had been five meetings by the date of the financial statements), the Committee focused on monitoring the procedure of preparing the financial statements, and on the accounting treatment of major transactions.

Based on the General Meeting decision of June 28, 2021, the statutory (external) audit was conducted by Ernst & Young Audit, s.r.o. At its meetings, the Committee was continually informed by the auditor about the audit schedule, about its crucial stages, as well as about major findings of the audit. The Committee meetings focused on selected key audit areas in regard to their importance and information entering the financial statements. The March 8, 2023, Committee meeting concerning financial statements was also attended by members of the Company's Supervisory Board. Among the significant areas of the audit and financial statements of ČEZ, a. s., the consolidated financial statements of CEZ Group, and the final financial statements of the company Elektrárna Dětmarovice, a.s., for the year 2022 mainly the following were discussed:

- Derivative transactions and commodity contracts, including value measurement and hedge accounting application,
- Testing of goodwill and other assets for impairment, or reversal of impairment losses, especially for Severočeské doly a. s.,
- Unbilled revenue from delivered electricity and its distribution,
- Nuclear provisions,
- Provision for demolition and dismantling of coal-fired facilities,
- Windfall tax and duties on excess revenues of electricity generators.

The focus of the statutory audit and the Committee's activities on these important areas helps ensure the integrity of the financial statements and that the financial statements as a whole truly and fairly present the assets, liabilities, equity, profit or loss, and financial position of ČEZ, a. s., CEZ Group, and Elektrárna Dětmarovice, a. s.

The Committee also reviewed the statutory auditor's and the audit firm's declaration of their independence from the audited entity and approved, on a running basis, the provision of additional non-audit services. The Committee did not find any flaws in these respects.

Finally, the Audit Committee reviewed the process of preparing the financial statements of ČEZ, a. s., the consolidated financial statements of CEZ Group, and the final financial statements of the company Elektrárna Dětmarovice, a.s., for 2022, as well as the process of conducting the statutory audit of these statements. The Committee also took note of the independent auditor's opinion on the financial statements of ČEZ, a. s., the consolidated financial statements of CEZ Group, and the final financial statements of the company Elektrárna Dětmarovice, a.s., prepared as of December 31, 2022, stating that the independent auditor had audited the financial statements and that in their opinion they give a true and fair view of the financial position as at December 31, 2022, and the financial performance and cash flows for the year ended on December 31, 2022, in accordance with International Financial Reporting Standards as adopted in European Union legislation.

**The Committee informed the Supervisory Board of the above-mentioned facts at the Supervisory Board's meeting held on March 30, 2023.**

On June 28, 2021, the General Meeting of ČEZ, a. s., appointed Deloitte Audit s.r.o., as the auditor to perform the statutory audit for the accounting period of calendar years 2023 and 2024. During the past period, the Committee was continuously informed about the preparation of the audit takeover by a new auditor, both by ČEZ, a. s., and by the auditing company Deloitte Audit s.r.o. The Committee was also informed by the new statutory auditor of its independence from the auditee and in several cases approved the provision of additional non-audit services. The Committee did not find any flaws in these respects.

## Internal Audit and Internal Control System

The Committee monitors the effectiveness of internal audit at ČEZ, a. s., and reviews its functional independence. As part of this, it approves the annual plan for internal audits and monitors its fulfillment. It debates on a quarterly basis the results of audit activities, in particular, the key findings and recommendations of conducted audits. Likewise, it debates reports on the implementation of corrective measures from conducted audits. This ensures that the Committee stays informed of not only identified shortcomings but also the progress of correction, especially in terms of the effectiveness of internal controls.

In 2022, 34 audit investigations were carried out, 12 of which at ČEZ, a. s., and 22 at subsidiaries (including 4 audits of foreign holdings). The results of those audits allow us to say that the internal control system at CEZ Group is effective. Likewise, the external statutory auditor did not identify any serious shortcomings in CEZ Group's system of internal financial control during their review of the financial statements of ČEZ, a. s., the consolidated financial statements of CEZ Group, and the final financial statements of the company Elektrárna Dětmarovice, a.s., for 2022.

The Audit Committee approved the plan of activities of the internal audit function of ČEZ, a. s., for 2023, based on the medium-term strategy for internal audit at CEZ Group. The strategy is based on systematic assessment of the level of risk involved in all key activities/processes at CEZ Group. The systematic approach allows periodically reviewing control mechanisms in individual areas depending on their level of risk, and thus performing one of the Committee's main functions, namely to monitor the effectiveness of the internal control system of ČEZ, a. s. / CEZ Group.

## Risk Management and Impacts of the External Environment

The Committee also regularly debated interim reports on CEZ Group's risk management at its meetings. The Committee is regularly informed about the impacts of the external environment, including the war in Ukraine, on the Company's financial performance in respect of the prices of relevant commodities (crude oil, gas, electricity) and trends in demand for electricity as well as in respect of impacts on Company financing (especially CEZ Group's debt capacity).

## Conclusion

In conclusion, the Committee can state that it has not identified any substantial facts that the General Meeting of Shareholders should be informed of concerning the Company's principal activities that the Committee is entrusted with by the Company's Articles of Association and general legislation (that is, monitoring of the process of preparation of financial statements, including consolidated financial statements, the process of execution of the statutory audit, assessment of the effectiveness of the internal control system, internal audit, and risk management, and assessment of the external auditor's independence) during 2022 or during the part of 2023 elapsed until the date of this General Meeting.

Ladies and gentlemen, dear shareholders, thank you for your attention.

Otakar Hora

Chairman of the Audit Committee of ČEZ, a. s.