



## REPORT OF THE AUDIT COMMITTEE OF ČEZ, a. s. ON THE RESULTS OF ACTIVITIES

Dear Shareholders, Ladies and Gentlemen,

Please allow me to report on behalf of the Audit Committee of ČEZ, a. s. on the results of its activities.

Following the General Meeting in 2012, the Audit Committee of ČEZ, a. s. worked with an incomplete number of members, whereupon a further member of the Committee (Jiřina Vorlová) was elected by the extraordinary General Meeting on December 18th 2012. On the other hand, its management structure as set out by the Committee's Statutes was provided for throughout most of 2012; the Chairman of the Committee (Ján Dzvoník) and the Vice-chairman of the Committee (Lubomír Klosík) were elected at the Audit Committee meeting on March 8th 2012.

Even with a limited number of members, the Audit Committee was able to perform all its functions.

During 2012, a total of 5 Audit Committee meetings were held, in 2013, prior to the date of this General Meeting, 4 Audit Committee meetings had been held.

In these meetings, the Audit Committee primarily dealt with the following issues:

- presentation of the external auditor regarding the auditing of the final accounts,
- assessment of the external auditor,
- suggestions as to the selection of the external auditor,
- AC report for the General Meeting of shareholders,
- implementation of the plan of the department of Internal Audit (IA), including any adopted changes,
- overall information on significant audit results,
- measures arising from the inspection of the quality of Internal Audit's operation,
- setting the medium-term strategy of Internal Audit,
- information on the impact of the financial crisis on the ČEZ Group,
- plan of activities of the department of Internal Audit of ČEZ for 2013.

With regard to the issue under discussion, the following persons are regularly invited to participate in Audit Committee meetings:

- external auditor team,
- director of the finance division,
- directors of the departments of internal audit, risk management and accounting,

and, where appropriate, other senior employees of the company responsible for the activities on the Audit Committee's agenda.

In relation to the presentation given by the external auditor, the Audit Committee evaluates in particular the procedure followed in preparing the financial statements of ČEZ and the consolidated financial statements of the ČEZ Group, it verifies the effectiveness of the internal audit system from the external auditor's point of view, and monitors the impact of significant changes in accounting standards on the results of the company or the ČEZ Group.

On the basis of the decision made by the General Meeting on June 26th 2012, an external audit was carried out in the ČEZ Group by Ernst & Young Audit s.r.o. The critical subject areas of the audit for the year 2012 comprised the following:

- ČEZ, a. s. financial statements
- other outputs at ČEZ, a. s.
- work linked to the issuing of bonds

The audit performed for the year 2012 mainly focused on 18 significant processes; these were important in terms of preparing the information that would enter the financial statements.

At its meeting dated March 8th 2013, the Audit Committee reviewed the preparation process of the financial statements and consolidated financial statements for 2012, as well as the process of the mandatory audit. At this meeting, the Audit Committee also considered the statement of the statutory auditor and the auditing company on their independence of the audited entity and did not find any faults in this matter.

Committee members are respondents of the regular evaluation of the external auditor's activity (along with a team of senior employees of the company and the ČEZ Group), and the Committee consequently discusses the results of this evaluation, including its outputs vis-à-vis the external auditor. Such an assessment includes a statement regarding the independence of the external auditor towards the company's activities in terms of other services provided by the external auditor's company to ČEZ, a.s.

For those items relating to the internal audit activities of ČEZ, a.s., the Committee monitors the preparation of the annual plan of internal audits, its implementation and any reasons for conducting operational changes to the plan. On a quarterly basis, it discusses the outcomes, i.e. the most important findings from the audits performed (in the case of subsidiaries this is based on the approval of their statutory bodies) as well as the results of subsequent audits focused on fulfilment of the corrective measures. The Committee is thereby kept informed not only of the deficiencies found, but also of the remedial process, especially in terms of the effectiveness internal control mechanisms.

At its meeting on April 10th 2013 and in compliance with its competence under Section 44 Subsection 4 of Act No. 93/2009 Coll., on auditors, and Article 22(1)(e) of the Company Articles of Association, the Audit Committee has discussed and recommended to the General Meeting the proposal for the appointment of Ernst & Young Audit s.r.o. as the external auditor to carry out the statutory audit for 2013.

The Audit Committee is also tasked with monitoring the quality of the performance of the internal audit of ČEZ. Although at the end of 2011 the external assessor certified the compliance of the internal audit of ČEZ with IIA Standards, it also proposed many suggestions for its further improvement. At the beginning of 2012, therefore, the Committee discussed the corrective measures adopted according to these suggestions, and subsequently also monitored their progressive fulfilment.

At the end of 2012, the Audit Committee discussed the medium-term strategy of the internal audit within the ČEZ Group. One of the pillars of this strategy is the systematic coverage of all management areas or processes present within the ČEZ Group with respect to verifying the effectiveness of their internal control elements. This approach, which is based on expert assessment of the degree of risk of individual processes, makes it possible to verify control mechanisms in the most high-risk areas in a three-year cycle, and over a longer time frame in areas with a lower degree of risk. This advances one of the most significant tasks of the Audit Committee, i.e. assessing the performance of the internal audit system, to a qualitatively higher level - corresponding with best practice.

The Audit Committee is periodically informed about the implications and consequences of the global financial crisis on the company's finances, both in terms of the prices of relevant commodities (oil, gas, electricity) and the development of electricity demand, as well as in terms of the impacts on company financing (especially the debt capacity of the ČEZ Group). Developments in the Company's various Balkan acquisitions was also an important topic; here, the Committee focused on the work of the Board of Directors to reduce the impacts of this negative development, especially in Albania and more recently in Bulgaria, on the results and value of ČEZ.

The audit committee regularly informs the Supervisory Board about its meetings and conclusions and provides it with recommendations concerning points discussed at Audit Committee meetings.

In conclusion, the Audit Committee is able to state that in terms of its main activities, entrusted to it by the Articles of Association and by law (i.e. the preparation of financial statements, including consolidated financial statements, evaluation of the effectiveness of the internal audit system, and the evaluation of the independence of the external auditor), it did not encounter any substantial facts in these Company activities during the course of 2012, nor in 2013 (prior to this General Meeting), about which the General Meeting of shareholders should have been informed. Potential minor inadequacies in control mechanisms, primarily arising from the findings of the internal auditor, are continuously being eliminated by applying corrective measures.

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

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