



# REPORT OF THE AUDIT COMMITTEE 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 its activities.

## Introduction

Since the General Meeting held in 2014, the Audit Committee of ČEZ, a. s. ("Committee") has worked at full strength, i.e. with five members, in compliance with the Articles of Association of ČEZ, a. s. and the Committee's Rules of Procedure. Mr. Lukáš Wagenknecht was elected as Vice-Chairman of the Committee at its meeting held on July 10, 2014.

The Audit Committee held a total of five meetings in 2014; there have been two Committee meetings held in 2015 until the date of this General Meeting.

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

- Continuous monitoring of the procedure of compiling financial statements and consolidated financial statements (discussion with representatives of the management of ČEZ, a. s.)
- Continuous monitoring of the process of the statutory audit of financial statements and consolidated financial statements (the external auditor's presentation on the course of the audit of financial statements and discussion with the external auditor)
- Assessment of the external auditor (in particular, assessment of audit independence and quality)
- Recommendations on stating the auditor to perform the statutory audit for 2015
- Fulfillment of the plan of ČEZ, a. s. Internal Audit for 2014 (including adopted amendments)
- Debate on the results of conducted internal audits (key findings and recommendations)
- Monitoring of the implementation of corrective measures from conducted internal audits
- Measures from a quality check on internal audit activities
- Debate on the plan of activities of ČEZ, a. s. Internal Audit for 2015
- Information about the impacts of the external environment on ČEZ Group
- Debate on the Reports on Risk Management at ČEZ Group
- Compilation of the Committee's report for the General Meeting of shareholders

With respect to the issues concerned, the Committee regularly invites to its meetings

- the external auditor's team,
- Chief Finance Officer,
- heads of Internal Audit, Risk Management, and Accounting,

as well as other Company managers responsible for the activities discussed by the Committee.

## Financial Statements and External Audit

During the external auditor's presentations, the Committee assesses, in particular, the procedure of compiling ČEZ's financial statements and ČEZ Group's consolidated financial statements, monitors how the efficiency of the Company's internal control system is verified from the external auditor's point of view, and monitors the impacts of major changes in accounting standards on the Company's and/or ČEZ Group's results.

Based on the General Meeting's decision of June 27, 2014, external audit in ČEZ Group was conducted by Ernst & Young Audit s.r.o. The Audit Committee was continually informed at its meetings by the external auditor about the audit schedule, about its crucial stages, as well as about major facts from the audit. The Committee's agenda focused on selected important audit areas and audit processes from the perspective of the preparation of data and information entering the financial statements. The important areas of ČEZ Group audit in 2014 included, in particular:

- Testing of goodwill and assets for devaluation (especially the Romanian wind park)
- Provisions for nuclear decommissioning
- Devaluation of MOL shares
- Provision for litigation and contingent liabilities

At its meeting held on March 19, 2015, the Audit Committee then reviewed the procedure of compiling the financial statements and consolidated financial statements for 2014 as well as the process of conduct of the statutory audit. It also reviewed the statutory auditor's and the audit company's declaration of their independence from the audited entity and did not find any flaws in this respect.

The Audit Committee also acknowledged the independent auditor's opinion on the financial statements of ČEZ, a. s. and the consolidated financial statements of ČEZ Group as at December 31, 2014 saying that they audited the financial statements and in their opinion the financial statements present fairly, in all material respects, the Company's and ČEZ Group's financial position. Its financial performance and its cash flows for the year then ended are in accordance with International Financial Reporting Standards, as adopted by the EU.

Committee members are respondents of regular assessment of the external auditor's activities (together with a team of Company and ČEZ Group managers) and the Committee then debates the results of the assessment, including its outputs for the external auditor. Such assessment includes a look at the external auditor's independence from Company activities in respect of other services provided to ČEZ, a. s. by the external auditor's company.

At its meeting held on December 17, 2014, the Audit Committee, in accordance with its powers pursuant to Section 44(4) of Act No. 93/2009 Sb., on auditors, as amended, debated and recommended the Supervisory Board of ČEZ, a. s. to propose to the General Meeting that it state the external auditor to perform the statutory audit for 2015, namely Ernst & Young Audit s.r.o.

## Internal Audit and Internal Control System

As part of its agenda concerning the activities of Internal Audit (IA) of ČEZ, a. s., the Committee monitors the fulfillment of a one-year plan of internal audits and reasons for its operational amendments. It debates quarterly the results of audit activities, i.e. particularly the key findings and recommendations of conducted audits. Likewise, it debates detailed 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 efficiency of internal controls.

A total of 41 audits were conducted in ČEZ Group in 2014: 19 at ČEZ, a. s. and 22 at subsidiaries, including 8 audits in foreign shareholdings. The results of the audits allow us to state that the internal control system in ČEZ Group is effective; possible shortcomings limiting its full effectiveness in some cases are dealt with on an ongoing basis, also following on from the outputs of audit activities. The implementation of corrective measures from conducted audits is also satisfactory. The 41 audits conducted in 2014 resulted in a total of 369 corrective measures, of which only 7 (i.e. less than 2%) were not implemented by the original deadline (in particular due to dependence on other corporate processes). An alternative deadline has been set for each unimplemented corrective measure and IA keeps monitoring them. ECM IA audit software was implemented in 2014 to help improve IA's efficiency. The software is used to manage and supervise ongoing audits and to monitor the implementation of corrective measures from conducted audits. In addition, ČEZ Group's Ethical Behavior Policy was implemented in 2015 to enhance the efficiency of the internal control system.

At the end of 2014, the Audit Committee debated the plan of activities of ČEZ, a. s. Internal Audit for 2015, based on the medium-term strategy for internal audit at ČEZ Group. The strategy is based on systematic assessment of the level of risk involved in all key activities/processes at ČEZ Group. The systematic approach allows cyclically reviewing the control mechanisms in individual areas depending on their level of risk and thus performing one of the Audit Committee's main functions, namely to assess the efficiency of the internal control system of ČEZ, a. s. / ČEZ Group. The Audit Committee recommended approving the ČEZ, a. s. internal audit plan for 2015, involving a total of 40 audits: 14 at ČEZ, a. s.; 18 at Czech subsidiaries of ČEZ, a. s.; and 8 at ČEZ's foreign shareholdings.

The Audit Committee also pays attention to the quality and efficiency of performance of the ČEZ, a. s. Internal Audit, whose compliance with international performance standards for internal audits was confirmed by an external assessor in late 2011. At its meeting held on December 17, 2014, the Audit Committee was informed about the outputs of an internal quality assessment of ČEZ, a. s. Internal Audit carried out in 2014. The results of the internal assessment confirmed the compliance of IA's activities with international standards.

## Risk Management and Impacts of the External Environment

The Audit Committee also regularly debated interim reports on ČEZ Group's risk management at its meetings. At its meeting held on April 29, 2014, the Committee also debated the Summary Report on the Risk Management System, Risk Overview, and Risk Provisions.

The Audit Committee is regularly informed about the impacts of the external environment 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 ČEZ Group's debt capacity). Another major topic was the developments in the Company's Balkan acquisitions, with the Committee focusing on the Board of Directors' steps to mitigate the impacts of negative developments in Bulgaria on ČEZ's results and value as well as the preparation and progress of arbitration / settlement agreement between ČEZ Group companies and the Republic of Albania.

## Conclusion

The Audit Committee regularly provides information on its meetings and conclusions to the Company's Supervisory Board, making recommendations for debate on items that were debated by the Audit Committee.

In conclusion, the Audit Committee can state that it has not identified any significant facts that the General Meeting of shareholders should be informed of in the Company's principal activities that the Committee is entrusted with by the Articles of Association and general legislation (i.e. the compilation of financial statements, including consolidated financial statements; the process of execution of the statutory audit; assessment of the efficiency of the internal control system, internal audit, and risk management; and assessment of the external auditor's independence) during 2014 or during the elapsed part of 2015 (until the date of this General Meeting).

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

**Ján Dzvoník**

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