



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 its activities.

Introduction

Pursuant to the Company's Articles of Association, the Audit Committee of ČEZ, a. s. ("Committee") has five members. 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. On September 25, 2016, Mr. Ivan Pilip's term of service on the Committee terminated based on his notice of resignation. Mr. Otakar Hora was elected as Vice-Chairman of the Committee at the Committee meeting held on September 27, 2016. As at the date on which this report was discussed by the Committee, that is, May 3, 2017, four positions were filled and the members of the Committee were:

- Jan Vaněček, Committee Chairman
- Otakar Hora, Committee Vice-Chairman
- Andrea Lukášiková, Committee member
- Radek Neužil, Committee member

The Committee held a total of 4 meetings in 2016; there has been 1 Committee meeting held in 2017 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 preparing the financial statements of ČEZ, a. s. and the consolidated financial statements of CEZ Group for 2016
- 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 2016
- Approval of the statutory auditor's non-audit contracts and assessment of the statutory auditor's independence
- Monitoring of the effectiveness of internal audit, internal control, and risk management within CEZ Group
- Recommendations on appointing the statutory auditor for 2017
- Legal assessment of the obligation to periodically change the statutory auditor for CEZ Group
- Fulfillment of Internal Audit's plan for 2016 (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 the implementation of corrective measures from conducted internal audits
- Approval of Internal Audit's plan of activities for 2017
- Approval of a change to the Statute of the Internal Audit function
- External quality assessment of ČEZ's Internal Audit function
- Information about the impacts of the external environment on CEZ Group
- Debate on CEZ Group Risk Management Reports

- Assessment of the impacts of amendments to the Auditors Act on Committee activities and of the Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities
- Schedule of activities and methodology for compliance with the Committee's obligations under new legislation ("Map of Committee Obligations")
- Change to the Committee's Rules of Procedure
- Informing the Supervisory Board of ČEZ on how the statutory audit contributed to ensuring integrity of accounting and financial reporting systems
- Issue of inconclusive welds at nuclear power plants, in particular from the viewpoint of the internal control system and implementation of systemic corrective measures
- Preparation of the Committee's report for the General Meeting of shareholders

With respect to the issues concerned, Committee meetings are regularly attended by:

- Representatives of the statutory auditor
- Chief Financial Officer
- Heads of Internal Audit, Risk Management, and Accounting

Financial Statements and Statutory Audit Thereof

At its meetings (there had been three meetings by the date of the financial statements), the Committee focused on monitoring the procedure of preparing the financial statements, particularly in areas affected by changes to accounting standards, and on the accounting treatment of major transactions.

Based on the General Meeting's decision of June 3, 2016, the statutory (external) audit is 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. Such discussed important areas of the audit and of the financial statements of ČEZ, a. s. and the consolidated financial statements of CEZ Group for 2016 included, in particular:

- Testing of goodwill and assets for devaluation (in particular, the wind parks in Romania, distribution in Bulgaria, the sales and distribution company in Turkey, and EcoWind in Poland)
- Derivative transactions and commodity contracts, including value measurement and hedge accounting
- Provisions for nuclear decommissioning
- Unbilled revenue from delivered electricity and its distribution
- Provision for litigation and contingent liabilities

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 and CEZ Group.

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 procedure of preparing the financial statements and consolidated financial statements for 2016 as well as the process of conducting the statutory audit. The Committee also took note of the independent auditor's opinion on the financial statements of ČEZ, a. s. and the consolidated financial statements of CEZ Group prepared as at December 31, 2016, stating that they 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, 2016 and the financial performance and cash flows for the year ended on December 31, 2016 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, 2017.

At its meeting held on December 20, 2016, the Audit Committee, in accordance with its powers pursuant to Section 44a of Act No. 93/2009 Sb., on Auditors, as amended, discussed and recommended that the Supervisory Board of ČEZ, a. s. propose to the General Meeting that it appoint Ernst & Young Audit, s.r.o. as the auditor to conduct the statutory audit for 2017.

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.

A total of 38 audits were conducted in 2016: 11 audits at ČEZ, 20 audits at its Czech subsidiaries, and 7 audits at ČEZ's foreign shareholdings. The results of the audits allow us to state that the internal control system in CEZ 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 very good.

At the end of 2016, the Audit Committee approved the plan of activities of the Internal Audit function of ČEZ, a. s. for 2017, 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 the 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.

The activities of the Internal Audit function of ČEZ, a. s. are carried out in full compliance with internationally accepted standards, as also confirmed by the result of an independent external assessment made in the second half of 2016.

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 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 2016 or during the part of 2017 elapsed until the date of this General Meeting.

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

Jan Vaněček

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