



# 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 2019 and 2020.

## 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. As at the date on which this report was debated by the Committee, that is, March 12, 2020, the Committee had the following members:

- Jan Vaněček, Committee Chairman
- Otakar Hora, Committee Vice-Chairman
- Andrea Lukášíková, Committee member
- Tomáš Vyhnánek, Committee member
- Jiří Pelák, Committee member

A total of five Committee meetings were held in the period from the June 2019 General Meeting to the date of this General Meeting (three in 2019 and two in 2020).

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 2019
- 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 2019
- Approval of the independent auditor's nonaudit contracts and assessment of the auditor's independence
- Monitoring of the effectiveness and functional independence of internal audit, the effectiveness of internal controls, and the risk management system within CEZ Group
- Recommendation on the appointment of an independent auditor to perform the statutory audit in 2020
- Fulfillment of Internal Audit's plan for 2019 (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 2020
- Approval of a change to the Statutes of Internal Audit
- 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
- The course of the award procedure—public contract for independent auditor services
- 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
- Chief Financial Officer
- Heads of Audit and Compliance, Risk Management, and Accounting

### **Financial Statements and Statutory Audit Thereof**

At its meetings (there had been four meetings by the date of the financial statements), the Committee focused on monitoring the procedure of preparing 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 26, 2019, 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, its crucial stages, as well as major findings of the audit. The Committee meetings focused on selected key audit areas in regard to their importance and information entering financial statements. The March 12, 2020, Committee meeting concerning financial statements was also attended by members of the Company's Supervisory Board. Debated important areas of the audit and of the financial statements of ČEZ, a. s., and the consolidated financial statements of CEZ Group for 2019 included the following items in particular:

- Derivative transactions and commodity contracts, including value measurement and the application of hedge accounting
- Testing of goodwill and other assets for impairment and any reversal of impairment, where appropriate, especially for Romanian wind parks (Tomis Team S.A. and Ovidiu Development S.R.L.) and Romanian distribution (Distributie Energie Oltenia S.A.), the Dutch company holding investments in Western Europe (CEZ Holdings B.V.), and ČEZ Teplárenská, a.s.
- Assets held for sale in the case of Bulgarian companies
- Potential assets held for sale in the case of Romanian companies
- Unbilled revenue from delivered electricity and its distribution
- Implementation of the IFRS 16 accounting standard

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 nonaudit 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 2019, 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 for the year ended December 31, 2019, stating that the independent auditor had audited the financial statements and that in their opinion they gave a true and fair view of the financial position as at December 31, 2019, and the financial performance and cash flows for the year ended December 31, 2019, 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 26, 2020.

At its meeting held on December 11, 2019, the Audit Committee, in accordance with its powers pursuant to Section 44a of Act No. 93/2009 Sb., on auditors, as amended, debated and made a recommendation that the Supervisory Board of ČEZ, a. s., propose to the General Meeting the appointment of Ernst & Young Audit, s.r.o., as the auditor to conduct the statutory audit for 2019.

### **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 37 audit inquiries were conducted in 2019: 15 at ČEZ and 22 at subsidiaries (including 7 audits in foreign shareholdings). 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 and consolidated financial statements for 2019.

At the end of 2019, the Audit Committee approved the plan of activities of the internal audit function of ČEZ, a. s., for 2020, 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., and/or 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 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 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 2019 or during the part of 2020 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.