BOARD OF DIRECTORS' REPORT ON THE COMPANY'S BUSINESS ACTIVITIES

Daniel Beneš, Chairman of the Board of Directors and Chief Executive Officer, ČEZ, a. s.

Dear Shareholders, Ladies and Gentlemen:

Let me introduce you to selected events and financial performance in 2020, as well as CEZ Group's ambitions for 2021. This report is based on facts known as of May 10, 2021.

See Figure 1 "A Year with COVID-19: Protection of Operations and Employees" in Annex 1 "Board of Directors' Report on the Company's Business Activities" (hereinafter referred to as the Annex)

At the beginning of 2020, few could have imagined what was ahead of us. The COVID-19 pandemic crippled the European and global economy for months and profoundly affected everyone's daily lives. The unknown situation brought chaos, uncertainty and fear for our loved ones. But even in the darkest moments, the lights stayed on, the machines in hospitals ran, and so did the computer screens, which became the only link to the outside world in many places. What some take for granted has been made possible thanks to the efforts and determination of tens of thousands of energy workers, including those from CEZ Group.

We were among the first to implement strict measures to ensure that we could maintain a reliable supply of electricity and heat at all times, while protecting our employees as much as possible. This is evidenced by the fact that, even in such a difficult situation, regular outages of nuclear power plants were managed and the annual electricity production in these plants exceeded 30 TWh again. It is not just about fuel replacement, but mainly about extensive equipment inspections, installation of new parts and other technical work involving hundreds of people, including external contractors from Czechia and abroad. Of course, all protective measures against the spread of COVID-19 had to be observed while carrying out the activities. We successfully and safely managed the impact of the pandemic on our operations at a time when many other companies in the country had completely stopped production.

See Figure 2 "A Year with COVID-19: Helping Others" in the Annex

We also did not hesitate to offer a helping hand to others. In Czechia, this included, for example, postponing advances from our customers, supplying scarce disinfection to large hospitals, emergency financial assistance to municipalities, and the experience and skills of our operators in tracing the infected. In other countries where we operate, we have lived up to our reputation as a reliable partner and a good neighbor through a variety of projects aimed at mitigating the impact of COVID-19 measures. Through our actions, we have thus demonstrated that the issue of sustainable development and social responsibility has a firm place in the motivation and approach of CEZ Group employees.

See Figure 3 "Changes in the Market Prices of Electricity and Emission Allowances in 2020 Were Determined by Developments in EU Regulations and Impacts of COVID-19" in the Annex

Although COVID-19 seems to have overshadowed most other developments as the central theme of 2020, this is certainly not the case in the energy sector. The evolution of electricity prices has been determined mainly by regulatory developments and escalating decarbonization efforts in Europe. In the context of the European Green Deal, the European Commission has agreed to further increase ambitious targets for 2030 in the areas of CO_2 reduction, renewables, and energy efficiency. Czechia adopted an energy and climate plan and decided, as a priority, to phase out coal from the heating sector and subsequently from the entire energy sector. The Coal Commission of the Czech Republic, an advisory body to the government, recommended a deadline of 2038 for closing coal-fired power plants. In particular, as a result of the intensification of European climate ambition and the adoption of the European target of reducing CO_2 emissions by at least 55% by 2030, the price of emission allowances has increased by more than 30% during 2020, which, together with the negative impact of COVID-19 on electricity demand, has fundamentally worsened the economic conditions for the coal sector.

See Figure 4 "CEZ Group's Emission Intensity in 2020 is Lower than the CO_2 Emissions of New CCGT Units" in the Annex

CEZ Group anticipated this development and we are continuously working on gradually increasing the share of emission-free units in our generation portfolio and reducing our carbon footprint in general. We are succeeding in fulfilling this decarbonization strategy. We are gradually phasing out generation at coal-fired power plants—in 2020 we shut down the Prunéřov 1 power plant after more than half a century, and we expect to shut down one generation unit at the Mělník site in 2021. We are upgrading the most efficient coal-fired power plants that remain in operation to meet the most stringent European emission limits. At the same time, we are preparing intensively for constructing transitional gas-fired units, in particular to secure heat supply commitments with significantly lower CO_2 emissions, and for constructing new fully emission-free units: both renewable and nuclear. We are investing in upgrades and capacity enhancements primarily at our nuclear power plants. Total electricity generation reached 60.9 TWh, 56% of which was from emission-free units.

The average CO_2 emissions per generated electricity of the entire CEZ Group decreased by more than 10% in 2020 and we expect a further reduction of 15% in 2021, reaching a level 20% lower than the specific emissions of the new CCGT unit and at the same time a level of emissions half the level of the current marginal generating units that determine the market price of electricity in Germany.

In the area of generation portfolio development, there has been a shift in the preparation of the new nuclear unit in Dukovany.

See Figure 5 "On July 28, 2020, the Government of the Czech Republic Concluded Two Agreements with ČEZ and Elektrárna Dukovany II for the NNPP at the Dukovany Site" in the Annex

Two of the three key agreements between the Czech state and CEZ and Elektrárna Dukovany II were signed and an act on the transition of Czechia to low-carbon energy was prepared. In March 2021, the State Office for Nuclear Safety issued a permit to place a nuclear facility at the site. I consider it a great success that we have managed to negotiate the terms of cooperation in such a way that the interests of all shareholders are protected without distinction. Subsequently, the tender documentation for the contractor tender was prepared and pre-notification negotiations between the Czech state and the European Commission were initiated.

See Figure 6 "Divestments of Selected Foreign Assets Contribute to Strengthening the Group's Financial Stability" in the Annex

The year 2020 was also successful in implementing the Divestment Strategy. We sold the Počerady coal-fired power plant and disposed of our long-term commitment to buy coal from Vršanská uhelná. We concluded an agreement for the sale of Romanian assets with a renowned international investor at a good price. This transaction was settled as early as on March 31, 2021. CEZ Group has thus gained significant funds, which, in accordance with its current strategy, will contribute to debt reduction, will be used for development investments in Czechia and in stable countries, and will make a higher dividend for shareholders possible. The sale of Bulgarian assets is also nearing completion. The local antitrust authority agreed to the sale in October 2020 and the Bulgarian regulatory authority followed suit in January 2021.

Let us now, dear shareholders, take a closer look at CEZ Group's financial results for 2020.

See Figure 7 "2020 Financial Performance: EBITDA of CZK 64.8 bn, Net Income of CZK 5.5 bn, Adjusted Net Income of CZK 22.8 bn" in the Annex

I am glad that, in the difficult test of the COVID-19 pandemic, we proved that CEZ Group maintains its stable financial performance, thus giving assurance to its shareholders, trading partners and suppliers even in times of economic downturns. In spite of the negative impact of all the COVID-19 measures on the economy and the Company's performance, CEZ Group generated an operating profit before depreciation, interest, and taxes, expressed as EBITDA of CZK 64.8 bn, thus fulfilling the annual ambition announced before the COVID-19 outbreak in Europe. This represents a year-on-year increase of CZK 4.6 bn. The increase was mainly due to an increase in the realized prices of electricity produced thanks to multi-year pre-sales on the wholesale market and also due to the stable safe operation of nuclear sources. The 2020 economic performance was only partially affected by the impacts of COVID-19, mainly due to the proven hedging strategy of pre-selling electricity and purchasing emission allowances for generation three years in advance. The negative effect of COVID-19 on achieving the 2020 baseline ambition of approx. CZK 3 bn was offset mainly by extraordinary income from commodity trading and savings in part of planned costs.

CEZ Group attained a net profit of CZK 5.5 bn in 2020, a year-on-year decrease of CZK 9.0 bn. The decrease was due to higher provisions in connection with the sale of Romanian assets and worsened conditions for coal energy as a result of the European Green Deal. Net income adjusted for extraordinary effects increased by 21% year-on-year and reached CZK 22.8 billion.

Operating revenues increased year-on-year by CZK 7.5 bn to CZK 213.7 bn mainly due to higher revenues from electricity sales.

See Figure 8 “CEZ Group’s Net Debt Decreased by Almost CZK 18 bn in 2020” in the Annex

In 2020, CEZ Group’s total net debt decreased by almost CZK 18 bn and reached CZK 143.5 bn. CEZ Group generated operating cash flow of over CZK 72 billion. Almost CZK 32 bn was spent on investments, i.e., on the acquisition of fixed assets, and only CZK 2.4 bn was spent on acquisitions, due to the COVID-19 restrictions.

Over CZK 18 bn, or CZK 34 per share, was paid out to shareholders in dividends, representing 97% of consolidated net profit adjusted for extraordinary effects. This amount represented the highest dividend yield for 2020 among all European energy companies included in the STOXX Europe 600 Utilities stock index, representing 6.7% of the initial share value.

I will now acquaint you with the financial performance of the parent company, ČEZ, a. s.

See Figure 9 “Financial Performance and Rating of ČEZ, a. s.” in the Annex

The Company’s EBITDA indicator increased by more than 20% to CZK 28.1 bn in 2020 and net profit reached CZK 21.1 bn, which was 21% more year-on-year. The Company’s market capitalization increased to CZK 276 bn. In total, ČEZ has paid CZK 315 bn in dividends to its shareholders during its existence. ČEZ’s overall debt adequacy and financial stability are assessed by major rating agencies. Standard & Poor’s confirmed ČEZ’s rating at “A-”.

See Figure 10 “CEZ Group’s Financial Forecast for 2021: We Expect EBITDA at CZK 57–60 bn, Net Income Adjusted at CZK 17–20 bn” in the Annex

And what financial ambitions have we set for 2021? We expect total operating income before depreciation and amortization, EBITDA, to be in the range of CZK 57 to 60 bn. The expected year-on-year decrease is due to the sale of the Romanian and Bulgarian assets and, in particular, higher costs of emission allowances for generation, and lower expected revenues from generation ancillary services. Conversely, we expect higher realized electricity prices, higher nuclear generation, and a recovery in demand for ESCO services once the negative impact of COVID-19 on corporate customers fades.

The expected development in the individual segments is illustrated in the following chart showing the share of individual business areas in the EBITDA of strategic assets, by which we mean the assets of CEZ Group excluding the Romanian, Bulgarian, and Polish assets for sale.

See Figure 11 “In 2021, We Expect the Total Share of Emissions Generation and Mining in EBITDA of Strategic Assets to Decrease below 10%” in the Annex

Since January 1, 2021, we have been monitoring the performance of our four main business segments—SALES, DISTRIBUTION, GENERATION, and MINING. Within the largest segment, GENERATION, we have also been tracking four sub-areas—Nuclear, Renewables, Fossil Fuel, and Trading. The highest 40% share of EBITDA of strategic assets is expected in GENERATION—Nuclear. We expect a stable share of 32% in the second largest segment, DISTRIBUTION. The share of the SALES segment will increase to 10% and the share of the GENERATION—Fossil Fuel will drop from 10% to 3%.

Finally, let us summarize the initial strategic priorities for 2021.

See Figure 12 “Initial Strategic Priorities for 2021” in the Annex

For this year, we have set an ambition to increase generation in nuclear facilities above 30.5 TWh in GENERATION and MINING, to start construction of new RES facilities in Czechia, to fulfill our decarbonization strategy, including the preparation to transfer the heating industry to low-emission facilities, and to obtain a zoning permit for a new nuclear facility in Dukovany. In the DISTRIBUTION and SALES customer segments, the main objectives are to digitalize processes, to make increased investments in the renewal and development of the distribution grid in Czechia, and to stabilize the ESCO services business, and to resume acquisition growth. As far as divestment strategy is concerned, we set an objective to complete the sale of selected assets in Romania, Bulgaria, and Poland and to protect CEZ Group's interests in the international arbitration with Bulgaria.

The defined priorities are gradually being fulfilled and new priorities are being added at the same time. We want to focus on accelerating our decarbonization and sustainability strategy, and we have defined a strategic vision for 2030, "Clean Energy of Tomorrow", which is the subject of a separate item on the General Meeting's agenda.

Dear shareholders, we will do our utmost to ensure that in 2021, CEZ Group builds on its successful year 2020 and succeeds in contributing to the maximum growth of the Company's value for you, our shareholders, and thereby actively supports the socially responsible and sustainable transformation of the energy sector in Czechia and Europe. In all this, we need to build on the managed health protection of our employees in 2020.

Thank you for your attention.

Annex 1 Board of Directors' Report on the Company's Business Activities