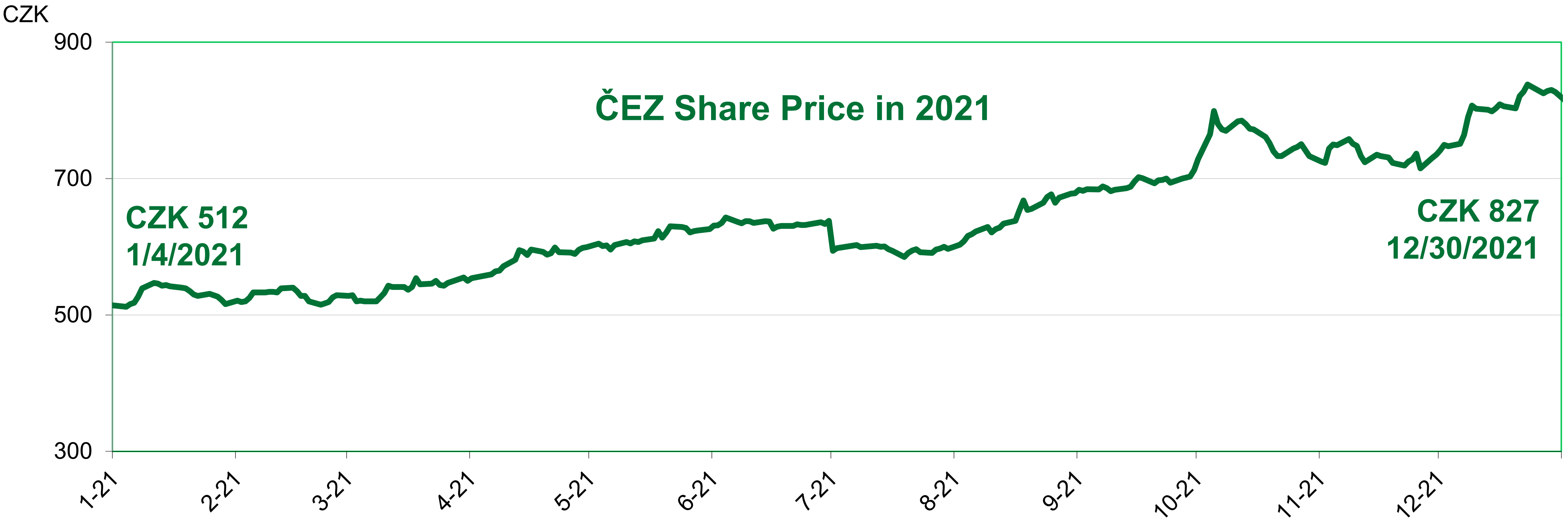
CLEAN
ENERGY OF
TOMORROW

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

6/28/2022

Development of ČEZ‘s shareholder value in 2021

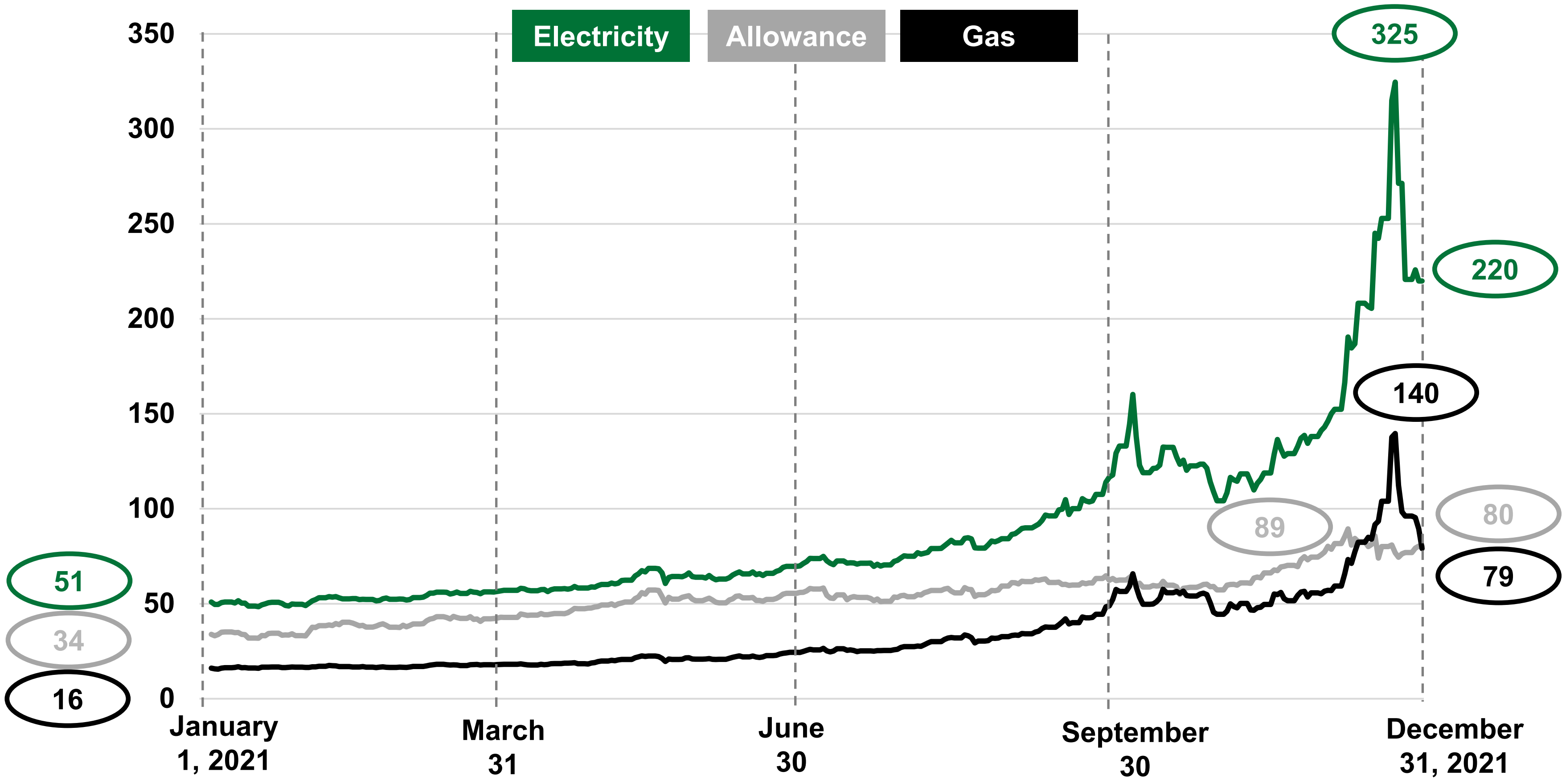
- **Market capitalization** increased from 276 to CZK 444 bn, i.e., by 61%.
- The second highest **dividend** in the Company’s history, CZK 52 per share, was paid.
- **The total annual shareholder return “TSR”**, reflecting the share price development and the dividend in the year, exceeded 70% and was the highest among all European energy companies included in the STOXX Europe 600 Utilities stock index.



Market prices for electricity, emission allowances, and gas surpass long-standing historical highs in 2021

Evolution of market prices for electricity, emission allowances, and natural gas

EEX Cal22 BL (EUR/MWh); EUA with delivery 12/2022 (EUR/t); Gas TTF Cal22 (EUR/MWh)



The evolution of electricity prices in H1 was mainly caused by increased emission allowance prices due to the increase in the EU climate targets. The increase in electricity prices to record levels in H2 was mainly attributable to the increasing price of natural gas.

The gas price increased due to several largely global factors:

- High demand due to economic growth following the reduction of COVID-19 restrictions.
- Low stored gas reserves in Europe after a long winter and the slow recovery of supply following the COVID-19 curtailment of gas generation and extraction.
- The uncertain launch date of the Nord Stream 2 pipeline from Russia and increasing market uncertainty in the context of the Ukraine crisis.

EUA—European Union Allowances (emission allowances)

European Commission substantially increased the 2030 climate and decarbonization targets—“Fit for 55” package

	2030 targets (current values)	2030 targets (EC’s current proposal)
Reduction of greenhouse gas emissions from 1990 levels	**min. 40%** ▪ Binding EU-wide target ▪ Reduce EU ETS emissions **by 43%** by 2030 compared to 2005	**min. 55%** ▪ Binding EU-wide target ▪ Reduce EU ETS emissions **by 61%** by 2030 compared to 2005
RES share in total final energy consumption	**min. 32%** ▪ Binding EU-wide target ▪ Estimated share of RES in electricity consumption of **55%**	**min. 40%** ▪ Binding EU-wide target ▪ Estimated share of RES in electricity consumption of almost **65%**
Energy savings (EED) as compared to 2007 predictions	**min. 32.5%** ▪ Indicative EU-wide target ▪ Target for the decrease in **primary energy consumption** (target for the decrease in **final energy consumption** of **32.5%**) ▪ Binding national implementation of final energy consumption savings of **0.8% per year**	**min. 39% primary and min. 36% final** ▪ Binding EU-wide target **End-use savings of 0.8% per year until 2023 and 1.5% per year from 2024** ▪ Binding target at the **national level**

In response to energy challenges we have accelerated the CEZ Group strategy “VISION 2030—Clean Energy of Tomorrow”

The main objectives of the accelerated strategy—VISION 2030

- We will develop CEZ Group in a responsible and sustainable manner **in accordance with ESG**.
- We will accelerate the implementation of the current strategy:
    - **We will transform our generation portfolio to low-emission** in line with the Paris Agreement by 2030 and achieve **carbon neutrality** by 2050.
    - We will provide **the most cost-effective energy solutions and the best customer experience** on the market**.**
- We aim to **reduce emissions intensity** by more than 50% by 2030, **increase EBITDA** by 40% by 2030, and be in the **TOP 20% of European energy companies in ESG ratings by 2023.**
- We can deliver our growth strategy until 2030 while maintaining our debt target below 3.0x EBITDA.
- We will adapt the CEZ Group’s structure to meet the demands of investors, financing banks, and employees.

The initial detailed presentation on VISION 2030, published on July 22, 2021, is available at: www.cez.cz/cs/pro-investory/prezentace-pro-investory

ESG = Environmental, Social, and Governance (ESG) criteria for sustainable financing

CEZ Group‘s financial and operating results

		2020	2021	Difference	%
Operating revenues	CZK billions	213.7	227.8	+14.1	+7%
EBITDA	CZK billions	64.8	63.2	-1.5	-2%
of which: Current assets*	CZK billions	57.9	60.6	+2.7	+5%
EBIT	CZK billions	12.6	16.1	+3.5	+28%
Net income	CZK billions	5.5	9.9	+4.4	+81%
Adjusted net income**	CZK billions	22.8	22.3	-0.6	-3%
Operating cash flow	CZK billions	72.2	59.2	-13.0	-18%
CAPEX	CZK billions	31.2	32.5	+1.4	+4%
Net debt	CZK billions	143.5	110.7	-32.8	-23%

The significant year-on-year decline in operating cash flow is due to temporary effects resulting from significant fluctuations in market prices and commodity trading. This is mainly the effect of margin deposits in commodity futures and the effect of timing arbitrage in emission allowances.

		2020	2021	Difference	%
Installed capacity***	GW	12.9	11.8	-1.1	-9%
Electricity generation	TWh	60.9	56.0	-5.0	-8%
Electricity distributed to end-use customers	TWh	50.6	43.3	-7.2	-14%
Sales of electricity to end-use customers	TWh	33.3	26.8	-6.4	-19%
Sales of gas to end-use customers	TWh	9.3	7.3	-2.1	-22%
Sales of heat	thousands TJ	24.6	26.4	+1.8	+7%
Workforce headcount***	thousands persons	32.6	28.0	-4.5	-14%

* without divested assets. Romanian companies sold on March 31, 2021, and Bulgarian companies on July 27, 2021.
** Adjusted net income = Net income adjusted for extraordinary effects that are generally unrelated to ordinary financial performance in a given period (such as fixed asset impairments and goodwill write-off)
*** As of the last date of the period

ČEZ, a. s., Financial Performance and Rating

- **Operating revenues: CZK 122.0 billion**
- **EBITDA: CZK 27.4 billion**
- **Net income: CZK 4.4 billion**

- **The international S&P rating of A- in 2021 and Moody's rating of Baa1 were reaffirmed.**

		2020	2021	Difference	%
Operating revenues	CZK billions	90.5	122.0	+31.5	+35%
EBITDA	CZK billions	28.1	27.4	-0.7	-3%
EBIT	CZK billions	14.5	9.6	-4.8	-33%
Net income	CZK billions	21.1	4.4	-16.7	-79%
Total assets	CZK billions	632.4	1,110.9	+478.5	+76%
of which: non-current assets	CZK billions	419.4	409.6	-9.8	-2%
of which: current assets	CZK billions	213.0	701.3	+488.3	+229%
Total equity and liabilities	CZK billions	632.4	1,110.9	+478.5	+76%
of which: equity	CZK billions	201.4	116.4	-85.0	-42%
of which: non-current liabilities	CZK billions	222.0	221.1	-0.9	-0%
of which: current liabilities	CZK billions	208.9	773.4	+564.5	+270%

We have updated the Dividend Policy: Payout ratio of 60–80% of CEZ Group‘s adjusted net income

Updating the payout ratio to 60–80% (from the current 80–100%):

- Setting a long-term sustainable dividend policy in line with the best practice approach in the energy sector
- The policy update also reflects the updated VISION 2030 strategy aimed at a fundamental transformation of the generation portfolio, dynamic increase in energy services and distribution network development, and sustainable development of CEZ Group in line with ESG principles

Company	Dividend Policy*
ČEZ	**60–80% of CEZ Group’s income adjusted for extraordinary effects**
Market average	**approx. 60% of adjusted income**
EdF	**45–50%** of adjusted income
EDP	**75–85%** of income, but at least EUR 0.19
EnBW	**40–60%** of adjusted income
Engie	**65–75%** of recurring net income, but not less than EUR 0.65
Enel	**Strategic plan** to increase the dividend from EUR 0.36 in 2020 (**70%** of income) to EUR 0.43 in 2023
E.ON	**Annual dividend increase of up to 5%** until 2026, dividend of EUR 0.49 in 2022 (**75% of adjusted EPS in 2020)**
Fortum	Stable, sustainable, and over time increasing dividend. EUR 1.14 for 2021 (**57%** of 2021 income). Previously constant at EUR 1.1 for several years.
Iberdrola	**65–75%** of adjusted EPS; at least EUR 0.4
RWE	**50–60%** of adjusted income; at least EUR 0.9
Uniper	Dividend EUR 0.07 per share for 2021; **3% of adjusted income.** No fixed policy.
Verbund	**45–55% outlook** for adjusted income in 2021

* Most of these companies define the base as net income adjusted for extraordinary effects. Dividends shown are either proposed by management or approved by the Shareholders’ Meeting.

Tender for the contractor for constructing the new nuclear power plant in Dukovany was launched

On March 17, Elektrárna Dukovany II launched a tender for the construction contractor

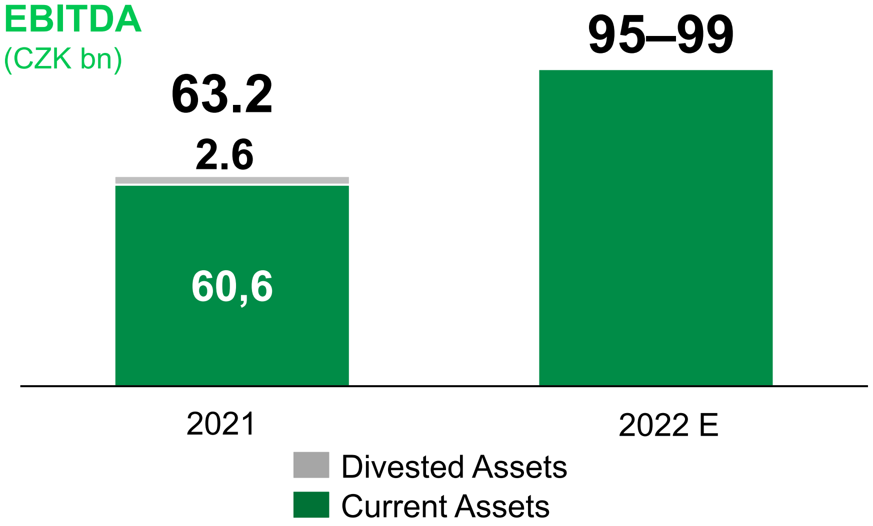
- Qualified bidders include the American company Westinghouse, the French company EdF, and the Korean company KHNP.
- The Ministry of Industry and Trade of the Czech Republic gave its prior approval for the move after Czechia assessed the incorporation of safety requirements into the tender documentation and completed safety assessments of all three bidders.
- On the occasion of the tender announcement, the Prime Minister of the Czech Republic Petr Fiala, the Minister of Finance of the Czech Republic Zbyněk Stanjura, and the Minister of Industry and Trade of the Czech Republic Jozef Síkela visited the Dukovany power plant on March 17.

Selected anticipated milestones of the tender process

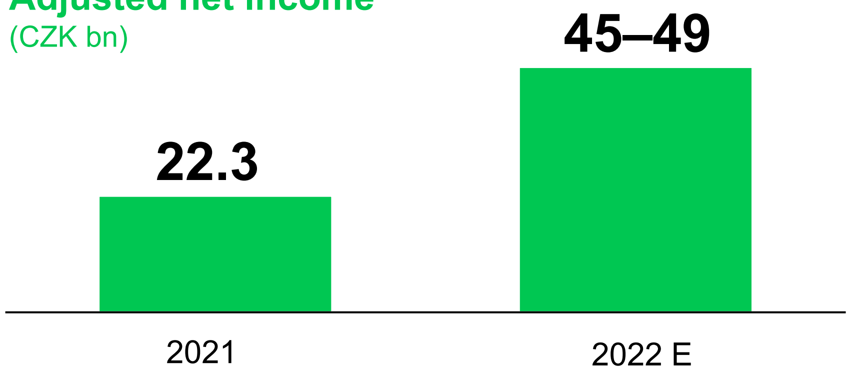
- Initial bids by November 30, 2022
- Final bids in Q4 2023
- State’s comments on the tender evaluation notice in Q1 2024
- Finalization and signing of contracts with the selected contractor at the end of 2024

Financial ambitions for 2022: EBITDA of CZK 95–99 bn, net income of CZK 45–49 bn

EBITDA
(CZK bn)



Adjusted net income
(CZK bn)



Key year-on-year effects:

- (+) Significantly higher realization prices of electricity
- (+) Growth ambitions in ESCO services
- (−) Sale of Romanian and Bulgarian assets
- (−) Higher expenses on emission allowances for generation

Selected prediction risks and opportunities:

- Realization prices of generated electricity
- Availability of generating facilities
- The cost of acquiring emission allowances and natural gas for generation
- Gain from commodity trading and revaluation of derivatives
- The impact of economic sanctions against Russia imposed in connection with the conflict in Ukraine

CEZ Group is taking adequate measures to minimize the negative impact of the conflict in Ukraine

CEZ Group has taken all security measures as a critical infrastructure entity and cooperates with the Czech authorities.

CEZ Group is intensively assessing the potential impacts of the conflict on an ongoing basis, including the consequences of the ensuing sanctions imposed on Russia, which may negatively affect the European energy industry, including CEZ Group’s operation.

The main potential risks for CEZ Group are the impact of the situation and the sanctions imposed on:

- Securing the supply of nuclear fuel
- Maintenance of generating facilities
- Securing gas purchases for end customers
- Meeting the obligations of trading companies under commodity agreements

All liabilities of the external entities associated with the above risks have been fulfilled to date.