



# ANNEX 1:

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

JUNE 28, 2021

CLEAN  
ENERGY OF  
TOMORROW...



# A YEAR WITH COVID-19: PROTECTION OF OPERATIONS AND EMPLOYEES



**The limitations caused  
by COVID-19 were  
handled excellently by  
the nuclear plants**

**Petr Šůkal,**  
Primary Circuit Operator, ČEZ,  
Dukovany Nuclear Power Plant

“Operating a nuclear reactor is a great responsibility and a professional honor for me and my colleagues. Like the rest of the world, our activities have been significantly affected by the COVID-19 pandemic. We have adopted very strict measures and thanks to them we are successfully managing all its pitfalls.”



# A YEAR WITH COVID-19: HELPING OTHERS



## We're helping to trace COVID-19-positive people

**Andrea Gejdošová,**  
Call Center Operator,  
ČEZ Prodej, Plzeň

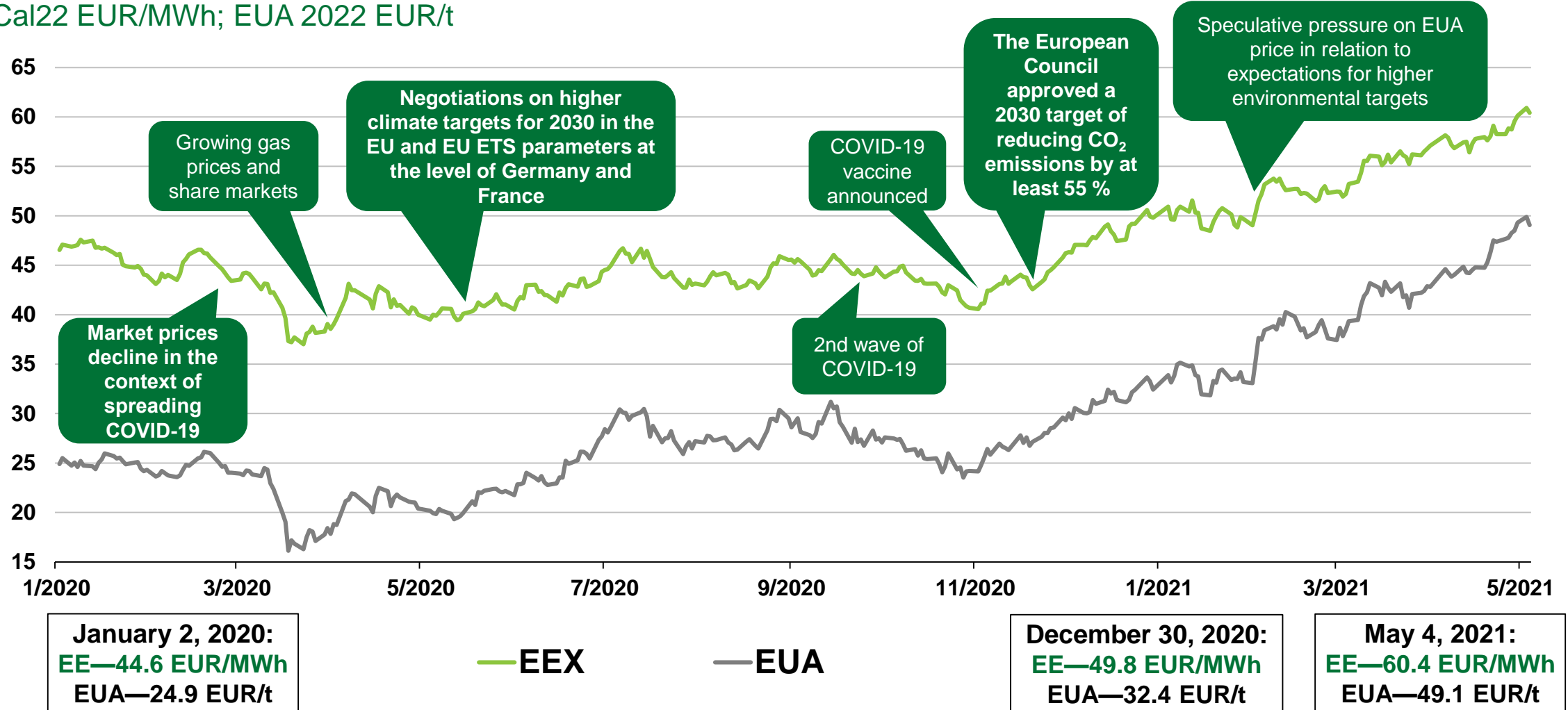
"I am ecstatic about possibility to help people. It was a pretty short notice, but when the offer came to get involved in helping the state to trace people positive for COVID-19, I did not hesitate. It is also a lot about psychology and empathy—you need to empathize with the feelings of the people calling. To reassure an elderly lady who fears a more severe course of the disease. Understand the situation of someone unemployed. And at the same time not to succumb to depression, but to keep a positive mindset."

# CHANGES IN THE MARKET PRICES OF ELECTRICITY AND EMISSION ALLOWANCES IN 2020 WERE DETERMINED BY DEVELOPMENTS IN EU REGULATIONS AND IMPACTS OF COVID-19



## Prices of Electricity and Emission Allowances in Germany (January 1, 2020–May 4, 2021)

Cal22 EUR/MWh; EUA 2022 EUR/t

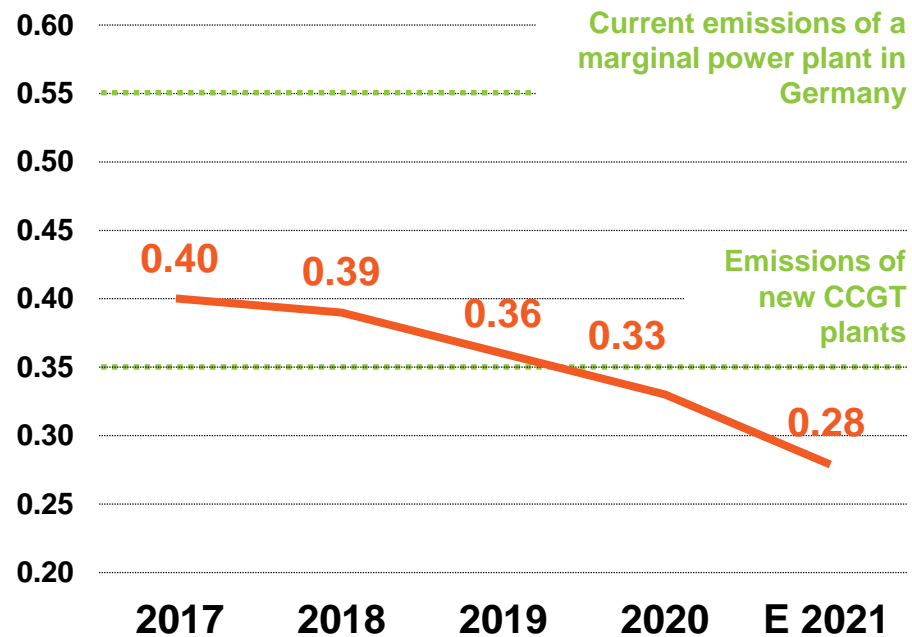


EE—electrical energy; EUA—European Union Allowances

# CEZ GROUP'S EMISSION INTENSITY IN 2020 IS LOWER THAN THE CO<sub>2</sub> EMISSIONS OF NEW CCGT UNITS



**CEZ Group's emission intensity  
(t CO<sub>2</sub>/MWh of generated electricity)**



## **CEZ Group's emission intensity per electricity generated in 2020 (emissions of 0.33 t CO<sub>2</sub>/MWh<sub>e</sub>):**

- Decreased by more than 10% year-on-year
- The value reached in 2020 is already below the emission intensity of a new CCGT plant (0.35 t CO<sub>2</sub>/MWh<sub>e</sub>)
- We expect another decrease of more than 15% in 2021, to 0.28 t CO<sub>2</sub>/MWh<sub>e</sub>, which is a value corresponding to 50% of emissions produced by a marginal power plant, determining current market prices in Germany

# 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



- 1) GENERAL AGREEMENT, not binding legally, covers overall cooperation in NNPP construction**
- 2) IMPLEMENTING AGREEMENT FOR STAGE 1 OF THE CONSTRUCTION OF A NEW NUCLEAR POWER PLANT IN DUKOVANY**

## **Selected obligations of ČEZ during Stage 1:**

- Ensure the issuance of a land use permit and a nuclear facility siting permit (application filed with SÚJB on March 25, 2021) and the necessary rights to the real estate and land
- Select a contractor and enable the state to control the choice of contractor with regard to Czechia's security interests
- Keep to the schedule and budget for Stage 1 and allow the Czech state to monitor performance
- Hand over fully functional company Elektrárna Dukovany II if the company is to be bought by the Czech state

## **Selected rights of ČEZ during Stage 1 if no agreement is reached on the next stage (e.g., due to regulatory conditions):**

- Sell off Elektrárna Dukovany II to the Czech state
- Get compensation from the Czech state in the amount of costs incurred

# DIVESTMENTS OF SELECTED FOREIGN ASSETS CONTRIBUTE TO STRENGTHENING THE GROUP'S FINANCIAL STABILITY



- **The objective of the 2019 strategy** was to divest part of the assets in selected countries, thereby **improving CEZ Group's risk profile**. CEZ Group is now focusing on **decarbonizing its generation portfolio, developing renewables and modern energy services** in Czechia and in European countries with a stable business environment.
- The sales provide **CEZ Group with significant funds**, which will:
  - **Help decrease its debt**
  - **Be used for development investments in Czechia and stable countries**
  - **Allow for a higher dividend for shareholders**
- The development investments under consideration include in particular **converting generation and heating towards emission-free technologies** and **developing modern energy services focused on savings**.



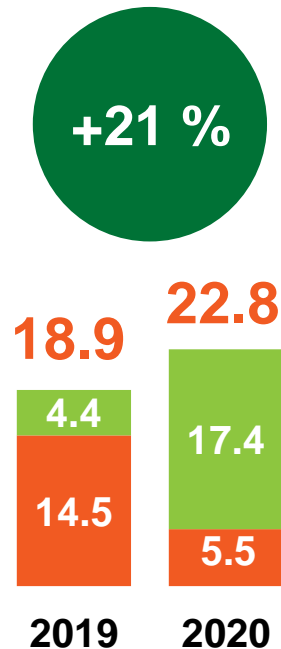
# 2020 FINANCIAL PERFORMANCE: EBITDA OF CZK 64.8 BN, NET INCOME OF CZK 5.5 BN, ADJUSTED NET INCOME OF CZK 22.8 BN



EBITDA (CZK bn)



ADJUSTED NET INCOME (CZK bn)



 Effect of adjustment for extraordinary effects

## Selected year-on-year effects (at EBITDA level):

- ⊕ Higher realization prices of electricity incl. hedging effects in Czechia
- ⊖ Higher expenses on emission allowances for generation in Czechia
- ⊖ Lower operation of emission sources and lower sales of coal in Czechia

We estimate the negative effect of COVID-19 on fulfilling the initial ambitions for 2020 at EBITDA level at over CZK 3 bn.

Nevertheless, we almost managed to meet the initial EBITDA ambition (CZK 65 bn) and offset the entire impact of COVID-19 with other benefits (mainly additional profits from commodity trading and savings on part of the planned costs).

## Net income adjustment for extraordinary effects

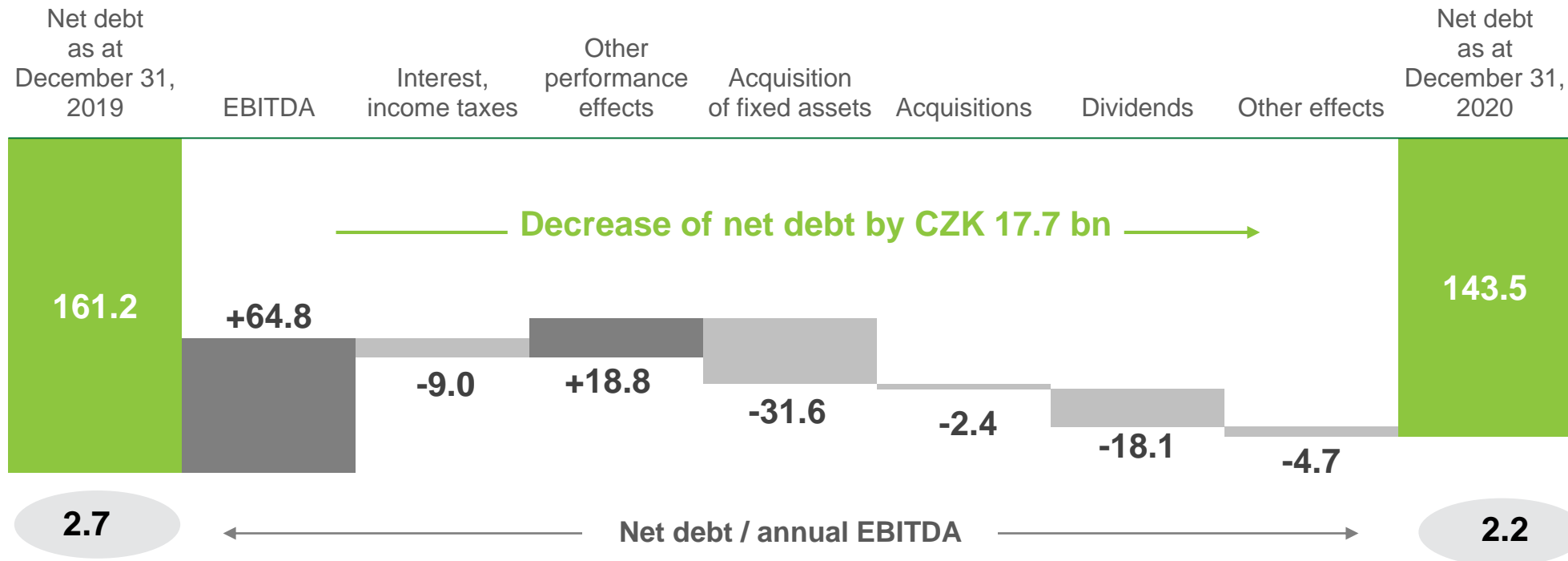
The year-on-year increase in the adjustment of CZK 13.0 bn was due to higher provisioning of fixed assets, mainly reflecting the concluded agreement on the sale of Romanian assets and the deterioration of conditions for coal-fired power as a result of the European Green Deal.



Totals and subtotals can differ from the sum of partial values due to rounding.



# CEZ GROUP'S NET DEBT DECREASED BY ALMOST CZK 18 BN IN 2020



- **Interest, income taxes (CZK -9.0 bn):** interest paid (CZK -5.6 bn), income taxes paid (CZK -3.7 bn), interest received (CZK +0.3 bn)
- **Other performance effects (CZK +18.8 bn):** mainly a change in working capital
- **Acquisition of fixed assets (CZK -31.6 bn):** acquisition of fixed assets (CAPEX) for the period (CZK -31.2 bn)
- **Acquisition (CZK -2.4 bn):** purchase of shares in ČEZ Energo (CZK -1.0 bn), Geomet (CZK -0.8 bn), Euroklimat, and OEM (CZK -0.2 bn)
- **Dividends (CZK -18.1 bn):** paid to shareholders on the basis of a resolution of the General Meeting in 2020
- **Other effects (CZK -4.7 bn):** in particular changes in the fair value of bonds



Totals and subtotals can differ from the sum of partial values due to rounding.

# FINANCIAL PERFORMANCE AND RATING OF ČEZ, A. S.



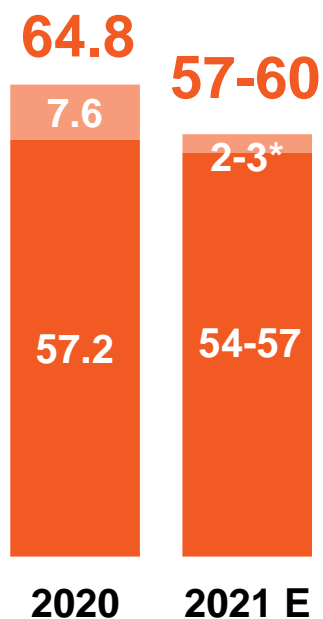
- **ČEZ EBITDA** increased by 20% to **CZK 28.1 bn.**
- **Net profit of ČEZ** increased by 21% to **CZK 21.1 bn.**
- **Market capitalization of ČEZ** as at December 31, 2020 amounted to **CZK 276 bn.**
- ČEZ has paid **dividends amounting to CZK 315 bn** to its shareholders throughout its existence.
- **S&P's international credit rating of A-** was reaffirmed in 2020.

	Unit	Year 2019	Year 2020	Change (%)
Operating revenues	CZK bn	88.3	90.5	2.5 %
EBITDA	CZK bn	23.4	28.1	20.2 %
EBIT	CZK bn	8.8	14.5	65.1 %
Net income	CZK bn	17.4	21.1	21.2 %
Total assets	CZK bn	622.1	632.4	1.7 %
Equity	CZK bn	203.5	201.4	-1.0 %
Dividends awarded	CZK bn	12.8	18.2	41.8 %
Market capitalization	CZK bn	272.8	275.8	1.1 %
ROE	%	9.0	10.4	x

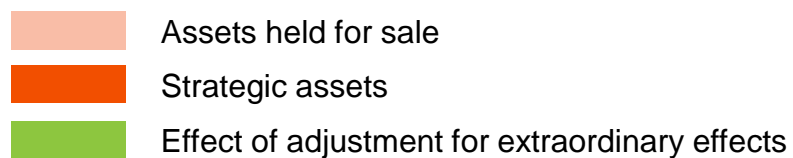
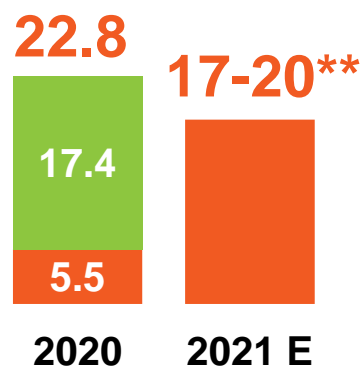
# CEZ GROUP'S FINANCIAL FORECAST FOR 2021: WE EXPECT EBITDA AT CZK 57–60 BN, NET INCOME ADJUSTED AT CZK 17–20 BN



**EBITDA (CZK bn)**



**ADJUSTED NET INCOME (CZK bn)**



## Main year-on-year effects (2021 vs. 2020):

- Sale of Romanian and Bulgarian assets
- Higher expenses on emission allowances for generation
- Lower revenue from ancillary services
- Effect of a new regulatory period on ČEZ Distribuce
- / + Uncertain amount of gain from commodity trading
- + Higher realization prices of electricity
- + Higher generation at nuclear plants
- + Stabilization of the SALES segment after the impact of COVID-19 on corporate customers

## Selected prediction risks and opportunities:

- Availability of generating facilities
- Realization prices of generated electricity
- Gain from commodity trading and revaluation of derivatives
- Effects of COVID-19

\* The contribution of assets held for sale to CEZ Group EBITDA will depend on the date settling the Bulgarian assets.

\*\* We estimate the contribution of assets held for sale to the 2021 consolidated net income at nearly zero, especially in view of concluded agreements for the sale of foreign assets, under which any profit of 2021 belongs to the buyers.

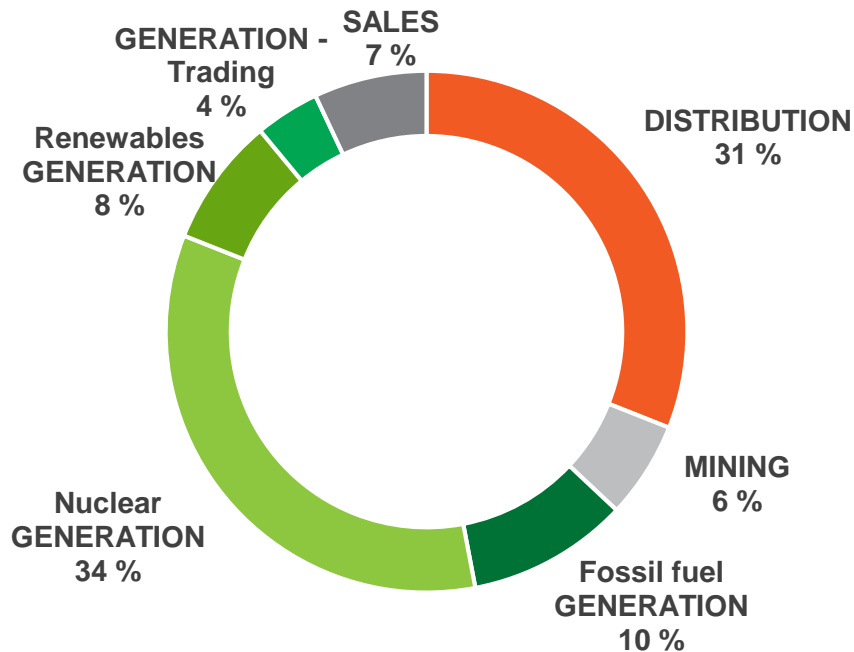


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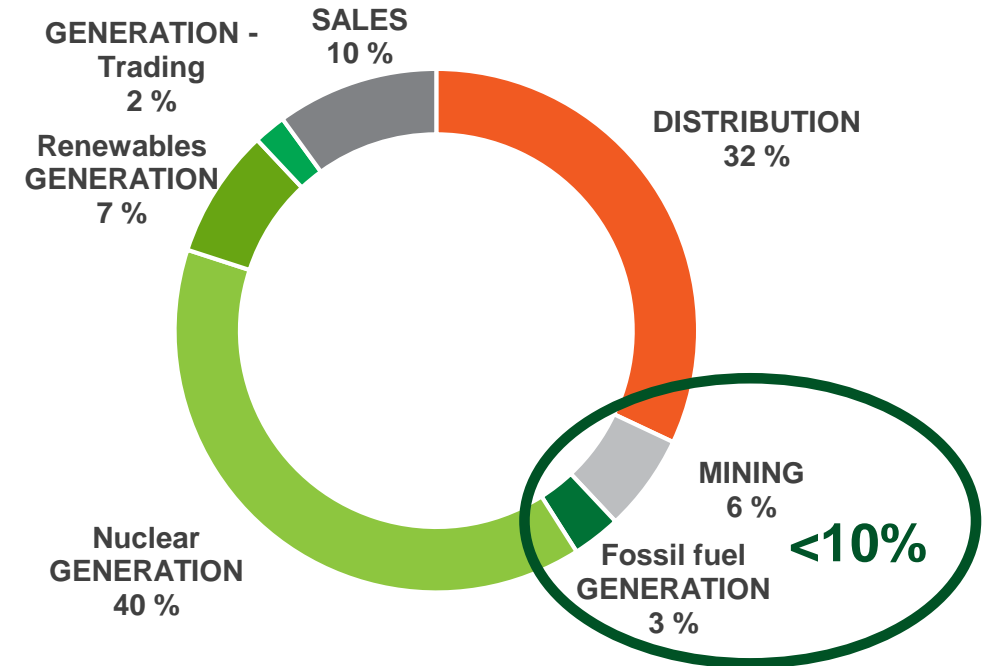
# IN 2021, WE EXPECT THE TOTAL SHARE OF EMISSIONS GENERATION AND MINING IN EBITDA OF STRATEGIC ASSETS TO DECREASE BELOW 10%



**2020 EBITDA—Strategic Assets**  
(CEZ Group excluding assets held for sale)



**2021 EBITDA—Strategic Assets**  
(CEZ Group excluding assets held for sale)



# INITIAL STRATEGIC PRIORITIES FOR 2021



## GENERATION & MINING

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- Increasing generation at nuclear power plants to over 30.5 TWh
- Starting the construction of new RES facilities in Czechia
- Fulfilling the decarbonization strategy, incl. outage of Unit 3 of the Mělník power plant (500 MW)
- Preparing the transition of heat generation to low-emission sources
- NNPP—obtaining authorization and land use permit and starting the contractor selection procedure

## DISTRIBUTION

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- Digitizing end-to-end distribution processes in customer service, asset management, and support services at over 25%
- Fulfilling the capital program and operational efficiency objectives of ČEZ Distribuce

## SALES

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- Digitizing sales processes, increasing the portfolio of end-use customers
- Stabilizing the ESCO business after COVID-19 impacts and restarting growth
- Reinforcing positions in ESCO markets in Italy and Slovakia

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## DIVESTMENT STRATEGY

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- Completing the sale of foreign assets in Romania, Bulgaria, and Poland
- Protecting CEZ Group's interests in international arbitration in Bulgaria

