CLEAN ENERGY OF TOMORROW

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 present to you selected events and results of CEZ Group's operations in 2021 and the outlook for 2022 as well. This report has been prepared according to the facts known as of May 9, 2022.

First, allow me to recall the record growth of ČEZ's market capitalization in 2021, which confirmed the correctness of our long-term strategy aimed at developing emission-free generation sources and providing quality and reliable services.

See Figure 1 "Development of ČEZ's shareholder value in 2021" in Annex 1 "Board of Directors' Report on the Company's Business Activities" (hereinafter referred to as the Annex)

The value of ČEZ's shareholders' assets almost doubled in the past year. Market capitalization increased from CZK 276 billion to CZK 444 billion in 2021. In addition, we paid our shareholders the second highest dividend in the company's history in the amount of CZK 52 per share. The total shareholders return for the year, i.e., the change in share value plus the dividend paid in the year, was over 70% and was the highest among all European energy companies included in the STOXX Europe 600 Utilities stock index.

One of the main factors behind the extraordinary increase in ČEZ's market value was the record increase in energy market prices in H2, when Europe experienced a price crisis due to a combination of many factors and wholesale electricity, emission allowance, and gas prices soared to all-time highs.

See Figure 2 "Market prices for electricity, emission allowances, and gas surpass long-standing historical highs in 2021" in the Annex

Electricity prices for supply in 2022 more than quadrupled over the whole year, the main reason being the extremely rising cost of generating electricity from carbon-based sources. Prices for CO_2 emission allowances for delivery in 2022 increased by almost 150% during 2021, mainly due to the strengthening of the European Union's decarbonization ambitions. Gas prices for delivery in 2022 have increased by almost 400%, mainly due to tight gas supply in world markets following COVID-19 and uncertainty of supplies from Russia. In Czechia, the record increase in energy prices has caused existential problems for a number of suppliers, who did not have enough purchased electricity and gas for their customers and were forced to announce their closure. Almost one million customers were transferred to locally competent suppliers of last resort in accordance with the legislation. These customers were forced to start paying current market prices for their energy supplies, which were many times higher than the contract prices of their original suppliers. Our subsidiary ČEZ Prodej, as one of the suppliers of last resort, had to immediately take care of electricity supplies for more than 370,000 clients. These problems did not affect existing customers of CEZ Group, i.e., customers of ČEZ Prodej and ČEZ ESCO, which apply a reliable approach and responsible hedging strategy, thanks to which the increase in market prices of commodities is reflected in the end price of customers with a delay and eliminates extreme price fluctuations.

European regulation and the European Union's climate targets are an increasingly important factor for the development of wholesale commodity prices and for the development of the European energy sector.

See Figure 3 "European Commission substantially increased the 2030 climate and decarbonization targets—'FIT FOR 55' package" in the Annex

Decarbonization has been the number one issue in the energy sector for many years. The drive to reduce CO_2 emissions has become a truly global objective in 2021. The European Commission further specified the parameters of the "European Green Deal". It has also specified ambitious targets for reducing CO_2 emissions, building renewables and increasing energy efficiency, and backed them up with further regulatory interventions and measures. It also defined the reallocation of significant financial resources of European countries to support the achievement of climate goals and established a way of classifying the sustainability of different types of generating facilities within the framework of the so-called taxonomy.

ČEZ, as the largest generator and supplier of electricity in Czechia and a major producer in the region, has long been committed to decarbonization and intends to play a leading role in the overall transformation of the region's energy sector. In 2021, we have therefore decided to make our long-standing strategy of transitioning to carbon neutrality more tangible and to significantly accelerate the overall reduction of emissions.

See Figure 4 "In response to energy challenges we have accelerated the CEZ Group strategy 'VISION 2030—Clean Energy of Tomorrow'" in the Annex

In the accelerated strategy VISION 2030—Clean Energy of Tomorrow, CEZ Group has defined the following two strategic priorities: 1) We will transform our generating portfolio to low-carbon by 2030 in line with the Paris Agreement and achieve carbon neutrality by 2050. 2) We will provide the most cost-effective energy solutions and the best customer experience in the market. At the same time, CEZ Group is committed to fulfilling precise targets and public pledges in the three ESG areas of sustainable business, which are the environmental, social, and corporate governance areas. We have the ambition to become one of the top-rated energy companies in Europe in terms of ESG rating, i.e., in the area of sustainable business, and we expect that the implementation of the updated strategy will contribute to a 40% increase in EBITDA by 2030, beyond the impact of market electricity prices.

Accelerated decarbonization is a key ambition of the updated strategy. This means, in particular, an earlier phase-out of coal-fired generation and a major conversion of the generation portfolio to low-carbon. We intend to reduce the share of coal-fired generation in total electricity generation to 25% by 2025 and to 12.5% by 2030. By 2030, we will completely phase out coal-fired heat generation. Coal-fired power generation in Czechia is likely to be terminated by 2033 at the latest, taking into account the government's priorities, while current market conditions imply that CEZ Group's coal-fired power plants will cease operation by 2030 at the latest. In line with these commitments, we shut down one of the largest coal-fired units in Czechia, the Energotrans 3 power plant with an installed capacity of 500 MW, in 2021. CEZ Group's emission intensity in electricity and heat generation reached 0.29 t CO_2e/MWh in 2021, thus decreasing by 13% year-on-year. Pollutant emissions from electricity generation decreased by 45% year-on-year in the case of sulfur dioxide and by 26% in the case of nitrogen oxides. CEZ Group is therefore meeting its emission reduction commitments in line with the Paris Agreement targets.

In the area of emission-free development, we have an ambition to increase the installed capacity of renewables by a total of 6 GW by 2030, primarily photovoltaic sources. We intend to build approximately 1.5 GW of this by 2025. By continuing to optimize the operation of the Temelín and Dukovany power plants, we aim to gradually increase emission-free nuclear generation above 32 TWh while maintaining maximum stability and operational safety. In 2021, our nuclear power plants reached the second highest generation in their history—30.7 TWh.

Our emphasis on social aspects has led us to commit to providing all employees affected by the shift away from coal with the opportunity to relocate, retrain, or be compensated. We want to remain among the most attractive employers in Czechia. Our goal is to provide good working conditions for women and to increase their share in management positions. We intend to be the most reliable supplier of energy commodities and services in the region and to develop professional company management. In 2021, we obtained the prestigious ISO 37001:2016 anti-corruption certification. ČEZ is the first company listed on the Prague Stock Exchange and the first energy company in Central Europe to boast compliance with this international standard.

See Figure 5 "CEZ Group's financial and operating results" in the Appendix

I am pleased that we were able to meet our baseline earnings expectations even in 2021. CEZ Group generated an operating income before depreciation, amortization, interest, and taxes of CZK 63.2 billion, exceeding its baseline estimate by more than CZK 3 billion. This was despite lower contribution of divested Romanian and Bulgarian assets due to faster sales completion and therefore shorter consolidation period of their income into the CEZ Group consolidated results. We managed to increase EBITDA from existing assets by CZK 2.7 billion year-on-year, not only due to the reliable operation of the entire generation portfolio, but also due to exceptional additional gains from commodity trading, where we profited from the increased volatility in foreign commodity markets.

By selling Romanian and Bulgarian assets, ČEZ gained more than EUR 1 billion and the proceeds contributed to debt reduction, higher dividends for shareholders, and will be used for development investments in line with the updated strategy. CEZ Group's total net debt decreased by CZK 32.8 billion to CZK 110.7 billion during 2021, mainly due to the sale of foreign assets and the reduction of emission allowances.

CEZ Group's financial strength and stability were demonstrated during a specific liquidity crisis at the end of 2021, which arose due to the extreme increase in commodity prices and the resulting obligation to deliver hundreds of millions of EUR per day in cash to commodity exchanges and trading partners to secure already concluded sales contracts. All the large electricity generators in Europe with significant volumes of pre-sold electricity faced a similar situation. Unlike several major foreign energy companies, ČEZ did not have to apply for state guarantees and managed the situation within the framework of a prudent financial policy and risk management tools.

CEZ Group has also demonstrated its reliability and trustworthiness in dealing with the impacts of COVID-19 and all related state and multinational measures. We have ensured the smooth operation of all generation and distribution facilities throughout 2021. I am proud of our employees, who have managed to achieve excellent availability of generating facilities in these conditions and thus avoid even higher electricity price increases for end customers, and who have been able to contribute to an excellent result in all business segments.

See Figure 6 "ČEZ, a. s., Financial Performance and Rating" in the Annex

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

The Company's EBITDA reached CZK 27.4 billion in 2021, a year-on-year decrease of 3%. Net profit amounted to CZK 4.4 billion, a 79% year-on-year decrease. The decrease was mainly due to provisioning for the financial investment in Severočeské doly, reflecting the deterioration of market, and regulatory conditions for the long-term operation of coal-fired facilities. ČEZ's overall debt adequacy and financial stability are appreciated by major rating agencies, which confirmed ČEZ's high ratings to date. Standard & Poor's has reaffirmed ČEZ's "A-" rating and Moody's has reaffirmed its Baa1 rating.

Let me now inform you about update on the Company's dividend policy.

See Figure 7 "We have updated the Dividend Policy: Payout ratio of 60–80% of CEZ Group's adjusted net income" in the Annex

Effective 2017, ČEZ temporarily extended the upper limit of the payout ratio range up to 100% until the development strategy was clarified. It was considerably above average payout ratio of comparable energy companies in Europe (currently around 60%). After five years, we are returning ČEZ's dividend policy to the level of 60–80%, which is sustainable in the long term and customary in the energy sector. This update will be reflected for the first time in the proposed dividend on 2022 earnings.

I will now briefly mention the development of the most important strategic project—the new nuclear power plant at Dukovany.

See Figure 8 "Tender for the contractor for constructing the new nuclear power plant in Dukovany was launched" in the Annex

Preparatory work continued intensively during the year. We received the approval of the State Office for Nuclear Safety for the siting of two nuclear units at the location for a maximum capacity of 2 x 1,200 MW and submitted an application for a zoning permit. In March 2022, Elektrárna Dukovany II, which is part of CEZ Group, launched a tender for a contractor to construct a new nuclear power plant, and among the qualified bidders are American Westinghouse, French EdF, and Korean 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 tenderers.

Now, I shall turn to information on the outlook for 2022.

See Figure 9 "Financial ambitions for 2022: EBITDA of CZK 95–99 bn, net income of CZK 45–49 bn" in the Annex

As of May 10, we expected to achieve consolidated EBITDA for the full year 2022 of CZK 95 to 99 billion, a year-on-year increase of more than 50%, and consolidated net income adjusted for extraordinary effects for the full year 2022 of CZK 45 to 49 billion, a year-on-year increase of more than 100%.

The dominant positive year-on-year impact is the significantly higher realized prices of electricity generated as a result of the extraordinary increase in market commodity prices in 2021 and 2022. The year-on-year comparison is also positively impacted by the provisioning of fixed assets of Severočeské doly in 2021. Conversely, the year-on-year comparison is negatively impacted mainly by the sale of the Romanian and Bulgarian assets in 2021 and the higher cost of emission allowances for generation.

See Figure 10 "CEZ Group is taking adequate measures to minimize the negative impact of the conflict in Ukraine" in the Annex

Finally, I must also mention the war conflict in Ukraine, which escalated in February 2022. CEZ Group has taken security measures as a critical infrastructure entity of the Czech Republic and is taking adequate measures to minimize the negative impacts, including potential risks arising from this unprecedented conflict and the subsequent economic sanctions against Russia.

Let me assure you that we will do our utmost to build on an exceptionally successful year 2021 even in these difficult conditions. I am confident that we will be able to further increase the Company's value for our shareholders, maximize our customers' satisfaction, and meet the other objectives of VISION 2030—Clean Energy of Tomorrow.

Thank you for your attention and for your interest in what is happening at ČEZ.