

Update of the Business Policy of CEZ Group and ČEZ, a. s.



Draft resolution:

The General Meeting of ČEZ, a. s., approves the update to the Business Policy of CEZ Group and ČEZ, a. s., as presented to the General Meeting by the Board of Directors.

Rationale:

In accordance with Art. 8(1)(p) of the Articles of Incorporation of ČEZ, a. s., a proposed updated business policy of CEZ Group and ČEZ, a. s. shall be presented to the General Meeting for approval. The proposed updated business policy of CEZ Group and ČEZ, a. s. reflects the current trends in the energy sector and considers CEZ Group's current situation and expected future developments including potential opportunities and risks.

The text of the updated version of the Business Policy of CEZ Group and ČEZ, a. s., is included in this material.

Business Policy of CEZ Group and ČEZ, a.s.

1. Introduction

The purpose of this business policy is to define, in accordance with the Articles of Incorporation, the framework of business activities to be pursued by CEZ Group as well as the parent company, ČEZ, a. s.

The policy fundamentally defines a direction of CEZ Group's business activities, formulates its business vision and mission, and sets forth specific strategies for each of the business areas. In doing so, the policy reflects CEZ Group's current condition, situation in the relevant markets, and expected future developments including potential opportunities and risks.

The situation in the electricity market is marked with significant uncertainty, in particular as to the future developments in the European energy sector. While the first decade of the 21st century was characterized by a clear trend towards liberalization, integration, and deregulation of markets and strong support for the decarbonization of the energy sector, the second decade witnessed the opposite trends in the market area, in particular the fragmentation of markets and the increasing influence of energy regulation at EU and national level, including an emphasis on energy security and the diversification of energy raw material sources. Conversely, the push for rapid decarbonization and ESG themes has continued and there has been a further tightening of EU emission targets. These developments have brought additional risks and uncertainty, particularly in the area of long-term investments.

Therefore, CEZ Group's business policy has been increasing its emphasis on renewable and decentralized energy sources in addition to traditional energy activities since 2014. Geographically, CEZ Group's development strategy focused more on the Czech Republic and other stable markets in Central and Western Europe, in particular on Germany.

CEZ Group expects that the third decade will be symbolized by increasing social responsibility and energy self-sufficiency and security. Emphasis will be placed on further development of renewable sources and decentralized energy, both enhanced by rapid technological development, and efforts to diversify sources and suppliers of energy raw materials, primarily natural gas.

The European Commission has set a further set of ambitious targets for 2030 in reducing CO₂ emissions, increasing the share of renewable generation, and energy savings (the "Fit for 55"). The military conflict in Ukraine has exposed the risk of significant dependence of (Central and Eastern) Europe on Russian gas, oil, and coal. In response, the EU has set the goal of eliminating Europe's dependence on Russian gas (as well as oil and coal) by 2027 as part of the "REPowerEU" ambition, while maintaining the increase in climate targets under the "Fit for 55", including strengthening the long-term drive towards energy sustainability and energy savings.

These EU ambitions will have significant implications for the Czech energy sector and for the main strategic ambitions of the Czech Republic, i.e. to make energy in the Czech Republic affordable, independent of Russia, and emission-free.

The EU ambitions will lead to accelerating the implementation of the Czech climate and energy plan and to strengthening the goal of energy self-sufficiency. In terms of decentralized energy generation, one common attribute is more active involvement of customers in energy management, complemented with the digitalization of specific areas of the energy sector and a rising degree of electrification (i.e. the share of electricity) in transport, heating, and industrial production. At the same time, there is a growing emphasis on energy security and therefore a need to maintain and renew the traditional generating portfolio for a transitional period. For this purpose, various countries have been introducing new legislative models—capacity markets, strategic reserves, electricity feed-in contracts etc.

Decarbonization has been the number one issue in the energy sector for many years. At the beginning of the third decade, efforts to reduce CO₂ emissions became a truly global objective. The European Commission further specified the parameters of the "European Green Deal". It has also supported ambitious targets for reducing CO₂ emissions, building renewables, and increasing energy efficiency, and backed them up with further regulatory interventions and measures. In particular, it 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 the Czech Republic 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. Therefore, in 2021, CEZ Group decided to refine its longstanding strategy of transitioning to carbon neutrality and to significantly accelerate the overall reduction of emissions. In the accelerated VISION 2030 strategy—Clean Energy of Tomorrow—CEZ Group commits to meeting precise targets and public commitments in three ESG sustainability areas by 2025 and 2030: Environmental, Social, and Governance.

Societal trends are increasing the pressure for responsible business in line with ESG principles and in accordance with the taxonomic requirements of the European Union. Coupled with high volatility in commodity markets and significant political and geographic uncertainty, there is an increasing differentiation of the focus of energy groups into two areas—generation and customer—including the adaptation of company structure to maximize value for all shareholders.

CEZ Group and ČEZ, a. s., are responding to these trends by updating their business policy.

This updated policy replaces in its entirety the business policy of CEZ Group and ČEZ, a. s., which was approved by the General Meeting of ČEZ, a. s., commenced on June 26, 2019 and concluded on June 27, 2019.

2. Main points of the business policy

a) CEZ Group's Mission and Vision

CEZ Group's Mission:

We supply safe, reliable and positive energy to our customers and the entire society.

CEZ Group's Vision:

We bring innovation to solve energy needs and contribute to a better quality of life.

b) CEZ Group's Business Activity, Business Vision, and Strategic Priorities

The primary business consists of generation, distribution, trade, and sale of electricity and heat, including coal mining, distribution, trade and sale of natural gas, provision of comprehensive energy services, and development of new opportunities in the energy sector.

CEZ Group sees its main opportunities in improving the energy security of the Czech Republic, upgrading the Czech energy sector, and fulfilling the Czech Republic's climate and energy plan, which reflects the EU's objectives, and in the ongoing interconnection of Czech industry and trade with the neighboring countries. These opportunities are reflected in CEZ Group's strategy—VISION 2030 Clean Energy of Tomorrow—which is based on the following strategic priorities:

Pillar 1: Transform our Generation Portfolio to a Low-Emission One and Achieve Carbon Neutrality

■ **Nuclear power and heat generation**

- Increase generation from existing nuclear facilities safely and reliably and achieve long-term viability;
- Create the conditions for constructing new nuclear units;
- Prepare for the construction of small modular reactors (SMRs).

■ **Electricity generation from renewable sources**

- Dynamically and efficiently build new renewable energy capacities and use the acquired know-how in the gradual transformation of the Czech energy sector towards long-term sustainable and emission-free;
- Increase the installed capacity for electricity storage.

■ **Traditional power and heat generation and coal mining**

- Reduce the share of electricity generation from coal;
- Time the gradual shift away from coal according to the current energy sector developments;
- Decarbonize the heating industry and prepare our coal facilities for new activities after the coal phase-out;
- Build new low-emission, mainly gas-fired, generation sources that are ready for hydrogen combustion.

Pillar 2: Providing the Best Energy Solutions and the Best Customer Experience on the Market

■ **Distribution and storage of electricity and gas**

- Provide electricity and gas distribution services to all consumers with the required reliability and security of supply, ensuring high customer satisfaction, at reasonable costs, and in accordance with the regulatory framework;
- Extend our services to include electricity and gas storage;
- Digitize customer processes;
- Invest in Smart grids and decentralization to further develop a stable and digital electricity and gas distribution system, including the development of fiber optic networks and energy storage.

■ **Sale of electricity, gas and other energy management solutions**

- Sell electricity, gas, and non-commodity products and services related to the complex energy needs of our customers as efficiently as possible and in a reliable manner that prioritizes customer satisfaction;

- Digitize key customer processes;
 - Maintain one of the highest Net Promoter Scores (NPS) by increasing service quality of the major electricity and gas suppliers and grow our customer base;
 - Offer a product portfolio that enables residential customers to achieve energy savings and reduce emissions.
- **Providing energy services**
 - Provide energy services to corporate, municipal, state institution, and residential customers in line with the trend of energy decentralization and customer requirements for the provision of increasingly complex energy services;
 - Build infrastructure for electromobility;
 - Develop our role as a decarbonization leader—enabling effective emission reductions and delivering energy savings for our industrial, municipal, and government customers in line with the EU’s energy savings and decarbonization target.
- **Trading in electricity and commodities in wholesale markets**
 - Demand for power and auxiliary services is effectively covered using our own resources and, if need be, electricity is bought in the wholesale market;
 - Respond effectively to price fluctuations in commodity markets by trading in the market to create additional value and profit for the Company.
- **New opportunities in the energy sector**
 - Systemically seek and use suitable innovations in terms of technologies, new products and services, and business models related to energy;
 - Continuously identify new customer needs on the one hand and new technologies on the other, to enable the delivery of innovative solutions to energy needs;
 - Create favorable contractual and/or ownership alliances with other producers, traders, suppliers and customers as well as with research organizations, incubators and technology investment funds;
 - Focus on expanding our business into battery production, energy storage, development of electromobility, and use of hydrogen in energy-related fields;
 - Apart from the aforementioned areas, CEZ Group also focuses on developing new industries with a promising potential in the future energy system with the objective of entering these industries in the early maturity phase.

Social responsibility

Part of CEZ Group’s business activities and strategy is to promote the principles of sustainable development, fulfilling society-wide goals and social responsibility. ESG and sustainability are an integral part of CEZ Group’s management and cannot be separated from corporate strategy. CEZ Group strives to improve the quality of life of the entire society in the country, primarily by supporting publicly beneficial objectives and cooperating closely with municipalities, cities and regions.

The main ESG targets include:

- Achieving carbon neutrality;
- Reducing CO2 emissions in line with the Paris Agreement “well below 2 degrees” by 2030, i.e. reducing emissions intensity by more than 50% compared to 2019;
- Continuing to be a corporation that is a positive force in civil society and develops good relationships with communities;
- Maintaining its position as the most attractive employer for future talent and existing employees;
- Providing reassignment or retraining and reskilling or compensation for all employees affected by phasing out coal;
- Increasing the share of women in management.

3. Corporate Governance

To meet the objectives of this policy and the current corporate strategy, we will continue to optimize and adjust the ownership structure and governance of CEZ Group's existing assets. Decisions on optimizing the ownership structure and governance will take into account, in particular, the fulfillment of the strategic energy goals of the Czech Republic (i.e. achieving energy that is affordable, independent of Russia and emission-free), the requirements of the EU taxonomy, and the goals of climate neutrality. To this end, the internal structure of CEZ Group will be adjusted to enable optimal implementation of the strategic objectives in the generation area (see Pillar 1) and in the customer area (see Pillar 2), including optimal financing of these two business areas, or so that financial and banking services can be provided in an optimal manner for all CEZ Group activities. The activities and assets will therefore be realigned to match the content of Pillar 1 and Pillar 2, respectively.

CEZ Group strives to apply a highly effective management system, ensure a transparent environment on all management levels, and use leadership to create conditions for high performance, with all of that leading to long-term prosperity. CEZ Group's management tools include strategic programs, segment concepts, business plans, and annual budgets, which specify the intentions of the approved business policy. Their implementation is ensured through a remuneration system linked to the performance of targeted tasks and key performance indicators derived from CEZ Group's strategy in force.

Apart from the strategic priorities, there are other cross-sectional areas that are key for CEZ Group and that are instrumental in our effective achievement of the set goals, contributing to CEZ Group being perceived as a trustworthy, stable and successful company not only in the Czech Republic, but also in Europe. In these areas, CEZ Group pursues the following objectives in particular:

- To provide and develop a team of qualified professionals, capable and high-performing employees who identify themselves with the principles of our corporate culture. It is our priority that our employees:
 - Act in accordance with our corporate values and maintain the required level of security, performance, innovation, expertise and cooperation;
 - Are motivated to achieve the strategic objectives, mission and vision of CEZ Group;
 - Are able and willing to adapt to changes;
 - Continuously develop their expertise and are willing to share their knowledge and experience;
 - Take the courage and have the ability to make decisions in accordance with the mission and business policy of the Group.
- Be one of the most attractive employers and, in the long run, successfully secure a sufficient number of qualified job seekers from the labor market.
- Ensure optimal long-term return on invested shareholders' capital, strive for sustained growth in market capitalization, and maintain long-term financial stability while taking climate targets into account. To attain its long-term goals, CEZ Group uses the following primary tools:
 - Responsibly allocate capital in accordance with our debt capacity and the principle of business risk diversification;
 - Maintain a transparent and trustworthy dividend policy;
 - Create liquid financial reserves (in particular for the future decommissioning of nuclear facilities);
 - Use appropriate financial instruments (including instruments linked to sustainable business parameters) and business models for business development, especially in the field of decentralized energy and new products and services for customers.
- Carry out all activities with a view to financial effectiveness and considering the financial standing of all CEZ Group member companies, always ensuring a smooth cash flow and optimum capital structure in order to maintain a corresponding credit rating of the parent company.