



CLEAN  
ENERGY OF  
TOMORROW

# Board of Directors' Report on the Company's Business Activities

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## Dear Shareholders, Ladies and Gentlemen,

Let me present to you selected events and results of CEZ Group's operations in 2022 and the outlook for 2023. This report has been prepared according to the facts known as at May 10, 2023.

Let me start by recalling the consequences of the Russian military invasion of Ukraine on the energy sector and on the unprecedented increase in commodity prices in Europe.

**See Figure 1 "The year 2022 was marked by an unprecedented energy crisis as a result of the Russian military invasion of Ukraine launched on February 24, 2022" in Annex 1, "Presentation to the Board of Directors' Report on the Company's Business Activities" (hereinafter referred to as the "Annex")**

The energy crisis has affected all of our lives. The war in Ukraine and the confluence of a number of other factors have resulted in energy market prices increasing to historic highs. This was mainly due to the reduction in gas supplies from Russia and the resulting leap in the cost of generating electricity from emission sources and the general uncertainty in Europe. The sanctions adopted by the European Union against Russia and Russia's reaction have subsequently led to a major reduction in Europe's trade and payment relations with Russia.

Gas supplies from Russia to Europe have decreased by 56% year-on-year, and this, amplified by the overall uncertainty, has led to an increase in the cost of generating electricity from emission sources, mainly marginal gas-fired facilities, and thus to an unprecedented increase in wholesale electricity prices.

The panic in the markets peaked in August when the price of natural gas on the main European commodity exchanges broke the EUR 300/MWh mark. Yet the collapse of a number of energy suppliers in the country due to the sharp increase in commodity prices was already occurring in the autumn of 2021, when the market price of gas increased to EUR 50/MWh. Compared to gas prices in 2020, prices were up to 20 times higher. The price of electricity on the wholesale markets followed the development of gas prices during 2022, reaching an extreme level of almost EUR 1 000/MWh in August, and was thus more than tenfold year-on-year.

Overall, gas supply prices increased by 348% year-on-year and electricity supply prices by 327%. Last year, the average price of electricity for supply in 2023 traded at almost EUR 300/MWh, while the average realization price of ČEZ generation for supply in 2022 was EUR 100/MWh.

CEZ Group has withstood the crisis, contributed to its resolution, and proved to be a reliable, socially responsible partner.

**See Figure 2 "CEZ Group has withstood the crisis, contributed to its resolution, and proven to be a reliable, socially responsible partner" in the Annex**

Within CEZ Group extraordinary measures had to be taken very quickly to protect the Company's value while helping to ensure the energy security of the Czech Republic's critical infrastructure. I am pleased that we were able to secure all nuclear fuel supplies and the necessary maintenance of all generating facilities. Also thanks to this we have achieved record generation in nuclear power plants and thus significantly contributed to limiting the negative impact of the crisis on Czech companies and residential customers.

As early as 2022 we managed to contract the supply of new non-Russian nuclear fuel for Temelín from Westinghouse and Framatome for 15 years from 2024 and acquire the engineering company ŠKODA JS, which is important for the development and maintenance of nuclear facilities. In 2023 we have also contracted fuel supplies from Westinghouse for Dukovany.

In the extraordinary situation of last year's energy crisis, our sales companies also demonstrated responsibility by meeting all their commitments and, in addition, by taking care of many new customers whose suppliers refused to extend their contracts. Thanks to their long-term strategy of purchasing commodities in advance, they have secured a reliable supply of electricity and gas.

A key step in resolving the energy crisis was to secure the Czech Republic's access to LNG, a liquefied form of natural gas, supplied to Europe by sea.

**See Figure 3 “The cornerstone for solving the energy crisis in the Czech Rep.—the first European LNG terminal launched since the invasion of Ukraine” in the Annex**

Together with the Czech state, we have managed to acquire capacity equivalent to 1/3 of the Czech Republic’s annual gas consumption. This was done through the LNG terminal in the Dutch port of Eemshaven, which was in just six months the first to come online in Europe after the Russian invasion. Gas transport routes via Germany to the Czech Republic have also been secured. In 2022, ČEZ regasified 3.6 TWh of gas at the terminal, which was used to fill Czech storage facilities and for trading on foreign markets. Securing capacity at the LNG terminal was a crucial step in dealing with last year’s crisis, reducing the Czech energy sector’s dependence on Russia, and is an important insurance policy in the event of future gas supply constraints from other sources.

Last year, CEZ Group also proved that it is a stable, strong business entity and generated record income.

**See Figure 4 “Historically highest nuclear power plant generation (31 TWh) and extraordinary trading income brought record earnings to shareholders” in the Annex**

Operating income before depreciation and amortization (EBITDA) was CZK 131.6 bn in 2022 and net income was CZK 80.7 bn. The Company’s highest income reflects the increase in realization prices of generated electricity, high operational reliability of ČEZ’s power plants, and record income from commodity trading on foreign markets. ČEZ’s trading team was able to fully utilize the high volatility on international markets and earned over CZK 18 bn, corresponding to 23% of CEZ Group’s total net income for 2022. 61% of CEZ Group’s net income was generated in generation and mining activities, and 16% in the distribution and sales segments.

However, the high volatility and increasing commodity prices on the markets have caused huge liquidity requirements for all major European generation companies, incl. ČEZ. This is due to the obligation to supply cash to exchanges and trading counter-parties to hedge the difference between the contracted and current high market price of commodity deals. During the extreme price fluctuation in August, ČEZ was forced to send almost CZK 50 bn to the exchange within hours as part of margin requirements, and total margin deposits, i.e., cash temporarily deposited as a deposit until the contract was settled, exceeded CZK 195 bn.

We were only able to cope with all these extreme situations, meet all our commitments, and thus generate record income thanks to the timely implementation of many sub-systemic measures. In addition, even in this situation, we managed to secure the payment of a high dividend of CZK 48 per share last year and continue to presell generation for future years.

Let us now take a closer look at the financial results achieved, including a year-on-year comparison.

**See Figure 5 “CEZ Group’s overall financial results” in the Annex**

CEZ Group’s operating income reached CZK 288.5 bn, an increase of 27% year-on-year. The high year-on-year EBITDA increase of 108% reflects the increase in the GENERATION segment, which was driven by an extreme increase in electricity realization prices, record nuclear power plant generation of over 31 TWh, and record income from trading on foreign markets. The year of the energy crisis, on the other hand, had a negative impact on the SALES segment. Operating income of ČEZ Prodej, which supplies electricity and gas to residential customers and small businesses in the Czech Republic, decreased by 22% year-on-year. This was mainly due to an extreme increase in the purchase prices of electricity and gas and high expenses to cover fluctuations in customer consumption.

CEZ Group’s record income achieved in 2022 allows for the highest dividend payment in the Company’s history in 2023. The basis for its payment is CEZ Group’s net income adjusted for extraordinary effects, which reached CZK 78.4 bn in accordance with the applicable dividend policy.

Investments within the existing CEZ Group companies amounted to almost CZK 35 bn, an increase of 11% year-on-year. They were mainly directed towards strengthening the Czech distribution grid and emission-free generation assets.

ČEZ’s overall debt adequacy, capital adequacy and financial stability are assessed by major rating agencies, which confirmed ČEZ’s high ratings to date. Standard & Poor’s at A- with a stable outlook, and Moody’s at Baa1 with a stable outlook.

Let me now briefly discuss the development of selected operating results.

**See Figure 6 “CEZ Group’s overall operating results” in the Annex**

CEZ Group generated a total of 54.3 TWh of electricity in 2022, a decrease of 2% year-on-year, mainly due to a decrease in generation at the Počeradý CCGT plant as a result of the extremely high gas price increase after the Russian invasion of Ukraine and lower generation from renewable sources due to weather. It is an admirable achievement that Czech nuclear power plants generated the highest ever amount of energy in 2022. The Temelín plant supplied 16 TWh and the Dukovany plant 15 TWh to the transmission grid, totaling 31 TWh of electricity, an increase of almost 300 GWh year-on-year.

CEZ Group’s distribution grids distributed 35.1 TWh of electricity in 2022, a decrease of 5% year-on-year, mainly due to the warm weather in 2022 and savings in residential customer consumption resulting from high commodity prices.

The electricity and gas supplies of CEZ Group’s sales companies increased significantly. End-use customers were supplied with 22.5 TWh of electricity, an increase of 10% year-on-year, and 8.1 TWh of gas, a year-on-year increase of 19%, mainly due to an increase in the number of CEZ Group customers.

Let me now update you on the main developments in our strategy’s implementation. At the outset, it should be pointed out that we are not changing our strategy in the context of the 2022 contingency. Our strategy is built on reducing emissions and strengthening energy security. It is only now clear that we will have to build new low-emission sources even faster.

**See Figure 7 “Strategy pillar I: Transform our generation portfolio to a low-emission one and achieve climate neutrality” in the Annex**

Pillar I of the Vision 2030 strategy is to transform our generation portfolio to low-emission and achieve climate neutrality. We intend to reduce the share of coal-fired generation in total electricity generation to 25% by 2025, and to retire coal-fired power plants by 2038 at the latest, but likely much sooner.

The development of nuclear power is a priority, with the aim of safely generating over 32 TWh per year in the long term. In 2022, the internal ambition has been surpassed and a record generation of over 31 TWh has been achieved. We have obtained a permit for the long-term operation of Temelín Unit 2. In the area of new nuclear power plants, we launched the tender for the contractor for the construction of the new nuclear power plant at Dukovany, received three valid bids and started the evaluation. We accelerated preparations for the construction of small modular reactors with the ambition to build the first one at Temelín in 2032. In renewables, intensive preparations are underway for the construction of new facilities with the aim of commissioning 6,000 MW of capacity by 2030 and supporting the construction of customer photovoltaic plants. Within the first call of the Modernization Fund we received support of CZK 1 bn for PV plant projects in the Czech Rep. with a total capacity of 173 MW<sub>p</sub>, and in the second call we received support for PV projects with a total installed capacity of 720 MW<sub>p</sub>. In Germany, we completed the construction of a photovoltaic power plant with a capacity of 172 MW<sub>p</sub>.

CEZ Group is meeting its emission reduction commitments in line with the Paris Agreement targets. The average emission intensity of CEZ Group’s electricity and heat generation in 2022 reached 0.29 t CO<sub>2</sub>e/MWh, which is 83% of the emission intensity of new CCGT plants, and decreased by 1% year-on-year despite the energy crisis and the maximum deployment of all emission sources. SO<sub>2</sub> emissions decreased by 19% year-on-year and NO<sub>x</sub> emissions decreased by 9%.

Our strategy pillar II focuses on reducing emissions and on customer efficiency, with the ambition to deliver the most cost-effective energy solutions and the best customer experience in the market.

**See Figure 8 “Strategy pillar II: Provide the best energy solutions and the best customer experience on the market” in the Annex**

In order to meet the renewable energy targets, ČEZ Distribuce’s distribution grid needs to be modernized to be ready for the connection of a large number of new renewable energy sources. CEZ Group was supported in this by the European Investment Bank with a record loan of EUR 790 m, i.e., more than CZK 18 bn. This will contribute to the Czech Republic’s energy independence by enabling the connection of new renewables with a capacity of approx. 2.2 GW.

Interest in renewables has significantly increased in the wake of the energy crisis. Both ČEZ Prodej and ČEZ ESCO have recorded a high increase in demand. I am pleased that both our companies are the right

choice for our customers and that thousands of people are confidently approaching them for installation. For reference, ČEZ Prodej installed a total of 4,102 rooftop photovoltaic power plants for Czech residential customers in 2022, compared to 1,514 photovoltaic power plants in 2021. The total capacity of household solar power plants increased approximately fourfold in 2022.

In 2022 we made significant progress in fulfilling our strategic commitment and public pledges in all three areas of ESG's sustainability business: environmental, social and corporate governance.

**See Figure 9 “We are succeeding in improving our ESG score in line with the VISION 2030 targets. The aim is to be in the top 20 % of ESG scores” in the Annex**

The positive development in the region is confirmed by renowned international rating agencies. ČEZ has already ranked among the top quarter in ESG. ČEZ was the first company in Central and Eastern Europe to issue sustainability-linked bonds, the return on which is linked to meeting the 2025 emissions intensity reduction target. ČEZ has also publicly committed to achieving climate neutrality as early as 2040. This represents an acceleration of ten years compared to the original ambition.

In the area of corporate responsibility, we have set a long-term goal of maintaining our position as an employer of choice and a top employer. We devote great effort to employee satisfaction, treating them with the utmost respect, while at the same time striving to attract new professionals. For the third time in a row, ČEZ has maintained its position as the absolute winner of the TOP Employers 2022 poll titled “Clear Choice”, in which 12,000 students of Czech universities vote.

Let us conclude with the economic outlook for this year, including the significant impact of extraordinary legislative measures as a result of the energy crisis.

**See Figure 10 “Economic outlook for 2023: EBITDA CZK 105–115 bn, Adjusted net income CZK 33–37 bn” in the Annex**

We expect EBITDA, i.e., operating income before depreciation, amortization and certain other items, to be CZK 105 to 115 bn for CEZ Group. Net income adjusted for extraordinary effects will be in the range of CZK 33 to 37 bn.

Selected risks and prediction opportunities particularly include the availability of generating facilities, the uncertain level of income from commodity trading and the revaluation of derivatives, and the realization price of generated electricity.

The 2023 economic results will be significantly affected by major legislative measures that most EU countries have taken with the stated purpose of financing energy price reductions for consumers.

**See Figure 11 “In 2023, CEZ Group will pay CZK 30–40 bn to the Czech state in extraordinary levies and taxes” in the Annex**

Following the EU Council's emergency regulation on intervention, laws were passed in the Czech Republic imposing the obligation to transfer a significant part of the income to the state. These include levies on excess revenues from the sale of generated electricity above defined price ceilings in 2023 and, in particular, a windfall tax of 60% for the years 2023 to 2025 over and above the standard income taxes. This extraordinary tax is applied to the portion of income earned by energy companies in excess of the average income for 2018–2021, increased by 20%.

As a result of these extraordinary measures, CEZ Group will pay CZK 30–40 bn to the Czech state in 2023. In addition, CZK 26–30 bn from ordinary income taxes and, furthermore, through the dividend from the 2022 income, the Czech state as the majority shareholder will receive an amount of CZK 44 bn in case the dividend is approved according to the Board of Directors' proposal. In total, CEZ Group will pay more than CZK 100 bn to the Czech state in dividends, income taxes and generation sales taxes in 2023.

I believe that the situation both on and influencing the energy markets will gradually begin to calm down and stabilize, and that we will successfully continue to meet the goals of “VISION 2030—Clean Energy for Tomorrow”. I can assure you that CEZ Group will do its utmost to build on a successful year 2022 and continue to be a reliable supplier for its customers, an attractive employer, and deliver maximum shareholder value in 2023.

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