



CLEAN  
ENERGY OF  
TOMORROW

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

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and Chief Executive Officer, ČEZ, a. s.

## Dear Shareholders, Ladies and Gentlemen:

Let me present to you now selected events and results of CEZ Group's operations in 2023 and the performance outlook for 2024. This report has been prepared with reference to facts known as at May 13, 2024.

The year of 2023 was fundamentally affected by the pan-European energy crisis and the geopolitical events of 2022, which resulted in reduced availability of suppliers, increasing costs, growing regulatory and state interventions and, in particular, growing overall instability in Europe.

**See Figure 1 "Over the last year, there was a significant stabilization of commodity prices and electricity prices fell to the 2021 price level" in Annex No. 1 to "Presentation for the Board of Directors' Report on the Company's Business Activities" (hereinafter the "Annex")**

Commodity prices stabilized to a great extent in the course of 2023, yet the price of electricity was at first three times and later more than twice as high as the prices we were used to before the crisis. At the end of the year, the price of electricity was almost EUR 100 per MWh. The value was and is significantly influenced by the price of emission allowances, which are the main economic instrument of the European Union's climate ambitions. By contrast, their price was growing during the year, temporarily even exceeding the record-high level of EUR 100 per ton. At the end of the year, it amounted to EUR 80 per ton of CO<sub>2</sub>. Market stabilization is also evidenced by the fact that this year we paid off the last installment of EUR 1 billion from a specific loan agreement with the state. In 2022, the Czech Republic granted us a loan in the total amount of EUR 3 billion to cover extraordinary claims for margining, i.e., the obligation to supply high amounts of money to secure transactions with energy commodities.

I am proud of our employees who demonstrated strength and responsibility in the flow of change, growing regulation and uncertainty in the energy sector. CEZ Group lived up to its obligations as a reliable energy supplier and contributed to strengthening the energy security and independence of Czechia. Electricity and gas prices for end-use customers in Czechia were determined by the price cap set by the government throughout 2023. In addition, our customers had the opportunity to use favorable fixed products and have long-term security of supply, because our sales companies purchase commodities for them gradually in advance.

Rising electricity market prices and record-high economic results in 2022 made it possible to pay the highest dividend in the Company's history in 2023. The shareholders' meeting approved a dividend of CZK 145 per share, thus paying out CZK 78 billion to shareholders.

**See Figure 2 "Overall financial results and realized prices of generation in 2023" in the Annex**

In 2023, despite the extraordinary tax burden and levies on revenues above price caps from generation, totaling over CZK 40 billion, we achieved the highest profit in the last 10 years, with the exception of the extraordinary year of 2022.

The above-average profit in 2023 was mainly caused by the safe and reliable generation in our nuclear power plants, which were able to generate more than 30 TWh for the fifth consecutive year, and the high realized prices of the electricity generated. Another key factor was the excellent commercial performance of our trading business, which achieved the second-best result in history and generated a trading margin of CZK 9.4 billion, with a growth in energy services.

Operating revenues increased by 18% year over year to CZK 340.6 billion, while earnings before interest, taxes, depreciation and amortization (EBITDA) fell 5% to CZK 124.8 billion. The CZK 6.7 billion decrease in EBITDA was due to the unrepeatable year of 2022, where commodity trading alone generated CZK 26.9 billion, CZK 17 billion more than in 2023. The year-over-year comparison was further influenced by the newly introduced levies on revenues above price caps from generation, which burdened the 2023 costs by CZK 10 billion.

Net income reached CZK 29.6 billion. Net income adjusted for extraordinary effects was CZK 34.8 billion. The adjustment mostly involved the creation of valuation allowances for the assets of Severočeské doly as a result of a significant deterioration in market conditions for future electricity generation from coal.

The future of the Czech energy sector will be based on renewable sources and safe nuclear energy. Already in 2023, 74 percent of the profit was created in emission-free activities. We are changing fast, twenty years ago coal was the main source of profit.

Investments of CEZ Group companies amounted to almost CZK 46 billion, an increase of 32% year-over-year. They were mainly directed towards strengthening the Czech distribution grid, purchase of nuclear fuel, and emission-free generation assets.

The overall adequacy of debt and the financial stability of ČEZ are appraised by major rating agencies. Standard & Poor's at A- with a stable outlook, and Moody's at Baa1 with a negative outlook.

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

### **See Figure 3 "CEZ Group's overall operating results" in the Annex**

CEZ Group generated 51.5 TWh of electricity in 2023, 5% less year over year, mainly due to the decrease in generation by emission sources. Year-over-year electricity generation from nuclear and renewable sources remained at 34 TWh. As a result of favorable climatic conditions, generation in renewable sources increased by 9%, while generation in nuclear facilities decreased by 2% due to longer planned outages of both power plants. Coal-fired electricity generation fell 12% to 15.4 TWh as market conditions for facility deployment worsened. The share of generation from coal in Czechia reached 29%, while at the beginning of the 1990s, the share of coal was over 70%.

33.8 TWh of electricity were distributed in CEZ Group's distribution systems in 2023, 4% less year over year mainly due to savings in consumption as a result of high electricity prices and due to the growth of photovoltaic power plant installations.

End-use customers were supplied with 24.0 TWh of electricity, an increase of 7% year over year, and 11.2 TWh of gas, an increase of 38% year over year, mainly thanks to an increase in the number of customers and the supplied volume.

Emission intensity of heat and power generation in CEZ Group declined by 8% year over year, sulfur dioxide emissions fell by 15% and nitrogen oxides emissions by 10%.

Let me now update you on the main developments in the implementation of our strategy, Clean Energy of Tomorrow. Pillar I of the Vision 2030 strategy is to transform our generation portfolio to low-emission and achieve climate neutrality.

### **See Figure 4 "Strategy pillar I: Transform our generation portfolio into a low-emission one and reach climate neutrality" in the Annex**

We successfully continue to reduce all emissions in accordance with the targets of the Paris Agreement and in accordance with ČEZ's declared public commitments within the framework of our strategic VISION 2030 – Clean Energy of Tomorrow.

In 2023, nuclear units produced 30.4 TWh of emission-free electricity, despite ongoing extensive upgrades. We secured supplies of nuclear fuel for Dukovany from Westinghouse, which will gradually replace the current Russian supplier TVEL from 2024. For the Temelín power plant, the supply of nuclear fuel was contracted with Westinghouse and the French company Framatome already in 2022.

We aim to end generation in coal-fired power plants by 2033 at the latest, but current market conditions indicate that it is likely that termination of all coal activities will come as early as 2030. We have the ambition to add 6,000 MW of renewable, primarily photovoltaic, sources by 2030. Our commitments to achieve climate neutrality by 2040 were validated by the SBTi global expert initiative. ČEZ became the first Czech company to receive a confirmation that its plan is ambitious enough and in line with the 1.5°C temperature increase scenario.

In cooperation with the government of the Czech Republic, we contracted a long-term annual capacity of 2 billion m<sup>3</sup> in one of the onshore LNG terminals under construction in Germany at the end of 2023. The terminal will be located near Hamburg, and the operator anticipates its launch in 2027. This will seamlessly replace supplies from the first LNG terminal in Eemshaven, the Netherlands, which we leased for five years in 2022.

The development of nuclear power is a priority, with the aim of safely generating over 32 TWh of electricity per year in the long term. Nuclear facility generation reached over 30 TWh for the fifth consecutive year. We put into operation the third longest hot water piping in Czechia, connecting the Temelín Nuclear Power Plant and the regional city of České Budějovice. Emission-free heat supplies will cover approximately one third of the city's consumption for at least 20 years.

We started the construction of new low-emission heating facilities and the implementation of the first seven photovoltaic projects in Czechia with a capacity of over 38 MW<sub>p</sub> and received decisions on the allocation of investment support of CZK 3.1 billion for projects with a total capacity of 730 MW<sub>p</sub>.

The construction of new nuclear units is a key project. The tender for the new nuclear unit in Dukovany is entering its final phase.

#### **See Figure 5 “The tender for the new nuclear unit in Dukovany is entering its final phase” in the Annex**

Bids for the construction of the fifth unit in Dukovany were submitted by three bidders on October 31, 2023: the French company EDF, the South Korean company KHNP and the US-Canadian Westinghouse. After evaluating the bids, the government of the Czech Republic decided that only two bidders would be invited to submit more detailed bids: the French EDF and the South Korean KHNP, and at the same time they would be invited to submit binding bids for three additional units at the existing nuclear sites. Both contacted bidders submitted an updated bid for the fifth unit in Dukovany and for the other three units on April 30, 2024. The government of the Czech Republic expects to make a decision on the selection of a supplier in 2024.

At the same time, the European Union approved state support for the new unit in Dukovany in April, which is regarded an important milestone in the development of nuclear energy in Czechia. Support includes three basic measures. Contracts for the purchase of electricity for 40 years, repayable financial assistance for financing from the Czech state and a contractual instrument to protect the investor against changes in the legislative and regulatory environment in Czechia.

We also intensively continue to prepare for the construction of small modular nuclear reactors. We selected two more suitable sites for them. After the first site in Temelín, others could be built in Dětmarovice and Tušimice, i.e., on the sites of current coal-fired power plants.

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

51,422 photovoltaic facilities with a capacity of 609 MW were connected to the distribution grid in Czechia. The digitalization of contacts with customers of ČEZ Distribuce exceeded 64%. More than 1.2 million contacts were processed through digital channels and the internet portal. We installed nearly 4,000 rooftop photovoltaic facilities with a total capacity of over 28 MW<sub>p</sub> in Czech households. The interest of customers in emission-free electricity with certification of origin was also record high. We sold 2 TWh of green electricity generated in 2023 from renewable sources and 0.6 TWh of electricity generated from nuclear sources. We commissioned more than 145 charging stations for electric cars, their total capacity reached almost 50 MW.

This year we managed to complete a significant strategic acquisition.

#### **See Figure 7 “ČEZ concluded a contract for the purchase of a 55% stake in the company that owns GasNet – the largest gas distributor in Czechia” in the Annex**

We concluded a contract for the purchase of a 55% stake in a Luxembourg-based company which owns Czech company GasNet s.r.o., the largest operator of gas distribution infrastructure in Czechia. This company has more than 2 million customers and an annual EBITDA of around CZK 10 billion. It operates 65,000 km of distribution gas network, of which 72% is ready for hydrogen transport. With this acquisition, CEZ Group secures a strategic position in the transformation of the Czech heating industry and its transition from coal-fired power generation to natural gas and hydrogen.

The transaction was approved by Ministry of Industry and Trade of the Czech Republic on May 9, 2024. The completion of the transaction and the takeover of the company will take place after approval by the European Commission.

We made great progress in fulfilling our strategic commitment and public pledges in all three ESG sustainability areas: Environmental, Social, and Governance.

**See Figure 8 “We fulfilled the main ESG strategic goal announced in 2021 to rank among the top 20% in 2023” in the Annex**

We met our main strategic objective, announced in 2021, to be among the top 20% in ESG rankings in 2023. According to the rating aggregator CSRHub, which evaluates almost 35,000 companies from all over the world, CEZ Group was ranked in the 84th percentile in 2023. This means that our ESG rating was better than that of 84% of the rated companies. CEZ Group’s sustainability efforts are appreciated by all major international ESG rating agencies.

ČEZ won numerous international competitions, in particular the prestigious Sustainable Company Awards 2023 of the expert portal Environmental Finance in the categories of “Sustainability Reporting of the Year in EMEA region” and „Sustainable Business Leader of the Year 2023“.

Now I would like to present CEZ Group’s financial outlook for this year 2024.

**See Figure 9 “Economic outlook for 2024” in the Annex**

We expect an EBITDA of CZK 115 to 120 billion. Net income adjusted for extraordinary effects will be in the range of CZK 25 to 30 billion. The prediction assumes a total supply of generation in Czechia in the amount of approximately 42 TWh at a realized price of EUR 130-135 per MWh. Market prices for electricity have fallen by more than 30% since the beginning of the year. This year, therefore, we are benefiting from a long-term strategy of gradually pre-selling our generation, which helps us compensate fluctuations in commodity market prices.

In conclusion, I would like to focus on the main financial goals of our strategic VISION 2030 and comment on the contemplated internal transformation of CEZ Group, which would consist in separating the generation and customer parts of the business.

**See Figure 10 “The initial financial target of VISION 2030 – increase EBITDA by 35% compared to 2021 – will be achieved despite inflationary pressures” in the Annex**

The initial financial target of VISION 2030 – increase EBITDA by 35% compared to 2021 – will be achieved despite inflationary pressures. In 2030, we expect EBITDA to be at CZK 80 to 90 billion. The decarbonization of our portfolio will take place much earlier also thanks to a significant drop in electricity market prices. Current prices indicate that already in 2025 the share of emission-free activities in EBITDA will increase to 97%, and in 2030 the generation of electricity from coal will already be fully replaced by gas.

In the last two years, we have intensively dealt with the question of how to adjust the internal structure of CEZ Group so that we ensure optimal access to financing when operating coal assets for both generation and customer areas of business. For this purpose, we developed several variants of the methods and timing of implementation. At the same time, we worked to ensure the transformation of heating activities and the development of emission-free activities. Adaptation of internal organization in order to separate generation and customer activities does not have priority now, given the above mentioned development of market conditions which implies the probable end of coal-based activities as early as 2030.

However, we must invest all the more quickly in the transformation of our generation portfolio. By 2030, we expect investments in the range of CZK 500 to 600 billion, which at today’s market prices represents significant pressure on the debt capacity of CEZ Group. Large-scale electrification can be expected in Europe, the demand for electricity will be high and the supply of new emission-free sources will be limited. Therefore, it is necessary to invest now to ensure long-term growth in value for shareholders.

In conclusion, let me wish all of us a calm and stabilized situation in Europe.

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