CLEAN
ENERGY OF
TOMORROW

Board of Directors' Position on the Counterproposal of Shareholder Petr Kalivoda concerning Item 3 on the General Meeting Agenda

On June 14, 2024, the Company received a counterproposal of the shareholder Petr Kalivoda (hereinafter referred to as "Shareholder PK") concerning item 3 of the General Meeting agenda – Decision on the Distribution of Profit of ČEZ, a. s. (hereinafter referred to as "PK's Counterproposal"). With regard to PK's Counterproposal, the Company's Board of Directors states the following:

Shareholder PK proposes a profit share to be distributed among the shareholders in the amount of CZK 33,086,136,884.90 (of which the Company's 2023 profit in the amount of CZK 28,093,591,921.40 and part of the retained earnings of previous years in the amount of CZK 4,992,544,963.50).

At the same time, Shareholder PK proposes a dividend of CZK 61.50 per share.

The profit share to be distributed among shareholders in the amount of CZK 33,086,136,884.90 however does not correspond to and is not sufficient to pay the dividend of CZK 61.50 per share before tax.

Assuming a dividend of CZK 61.50 per share before tax, the total dividend would amount to CZK 33,086,370,178.50 (not CZK 33,086,136,884.90 as stated by Shareholder PK). In the case of part of the retained earnings of previous years, the amount would be CZK 4,992,778,257.10 (not CZK 4,992,544,963.50, as stated by Shareholder PK).

It is therefore uncertain what amount of dividend, whether CZK 61.50 per share or the total amount of CZK 33,086,136,884.90, should be voted on by the General Meeting, and if the proposed resolution is adopted, it would not be possible to pay the dividend.

PK's Counterproposal also contains an internal contradiction regarding the moment of maturity of the dividend. In the resolution, Shareholder PK proposes a dividend maturity date of August 1, 2024, but at the same time, his draft resolution contains a reference to the method of dividend payment published by the Company in 2023, which thus becomes part of the resolution. However, in the referenced method of dividend payment (which Shareholder PK also requests to present at the General Meeting), the dividend maturity is on August 1, 2023.

Another internal contradiction in the proposed resolution by Shareholder PK refers to the duration of the statute of limitations for the payment of the dividend, which is proposed in the resolution at July 31, 2028, but the method of dividend payment referred to by Shareholder PK in his proposal suggests to use July 31, 2027 (it is not clear whether the General Meeting should vote on a 4-year or 3-year dividend payment period).

The Board of Directors, having considered PK's Counterproposal concerning Item 3 of the General Meeting agenda, has concluded that, in view of its internal inconsistency, vagueness, and unenforceability, the Counterproposal is not in accordance with the law and the resolution passed on the basis of the Counterproposal would be viewed as not having been passed, and therefore will not be included for voting under Item 3 of the General Meeting agenda.

Even though it is not possible to vote on PK's Counterproposal, in addition to the above, the Company's Board of Directors has also considered the economic aspects of a potential dividend payment at the level of about 95% of the adjusted net profit of CEZ Group in 2023 and states the following:

The Board of Directors has submitted a proposal for the distribution of the profit of ČEZ, a. s. concerning Item 3 of the General Meeting agenda, which at the time of preparation of the proposal reflected all relevant facts related to profit distribution.

The proposal for the distribution of profit among the shareholders submitted by the Board of Directors (in the amount of CZK 52 per share) is based on the dividend policy in force, defining the dividend payment in the amount derived from CEZ Group's consolidated net profit for the past year. The Company's current dividend policy assumes a dividend of 60-80% of CEZ Group's consolidated net income adjusted for extraordinary effects. CEZ Group's adjusted consolidated net income for 2023 amounted to CZK 34,826 million. The dividend proposed by the Board of Directors constitutes 80% of the adjusted consolidated net income in 2023.

The Company's Board of Directors states that the presented PK's Counterproposal, whether in the amount of CZK 33,086,136,884.90 or CZK 61.50 per share, constitutes a payment of approximately CZK 5 billion more than what the initial proposal of the Board of Directors states.

It is evident that payment of the proposed dividend increase as per PK's Counterproposal would negatively affect CEZ Group's available liquidity and would reduce reserves to cover potential risks to CEZ Group's future cash flows. The Company's cash flow outlook has been very negatively affected by the decrease in electricity prices this year, and price trends continue to be volatile. At the same time, the Company intends to implement an extensive investment program in the years to come to fulfill its strategic commitments in the area of decarbonization of its generation portfolio. Following the events in Ukraine and given the overall uncertainty in Europe, the Company is exposed to inflationary pressures and the risk of reduced supplier availability, which may further increase future capital and operating costs.

Payment of the dividend increased as per PK's Counterproposal (at the level of about 95% of the adjusted net profit of CEZ Group) could especially have a negative impact on the credit rating of ČEZ, a. s. Both S&P and Moody's specifically identify an inadequate dividend policy, or a dividend payment outside the declared dividend policy, as negative for the Company's credit rating. A possible downgrade of the credit rating of ČEZ, a. s., would very negatively affect the cost of financing and thus reduce the profitability for shareholders.

In general, the payment of the dividend as per PK's Counterproposal could, under the current market and regulatory assumptions, impair the trust of creditors, increase the costs of financing, and thereby reduce the market value for shareholders. In addition, it could negatively affect CEZ Group's ability to implement timely investments leading to the fulfillment of the VISION 2030 – Clean Energy of Tomorrow strategic program and CEZ Group's climate commitments.

The Company's Board of Directors would not therefore recommend supporting the payment of a dividend in the amount of approximately 95% of CEZ Group's adjusted net profit for 2023, even in the case of a counterproposal that could be subject to voting.