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

On June 16, 2023, at 3:51 p.m., the Company received a counterproposal of the shareholder Petr Kalivoda (hereinafter referred to as "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:

PK's Counterproposal contains factually incorrect assumptions about the amount of profit of ČEZ, a. s., for the year 2022. ČEZ, a. s., achieved profit of CZK 63.8 billion (CZK 63,821,965,977.45) for the year 2022, while the shareholder PK incorrectly states the amount of CZK 73.7 billion (rounded) in the resolution of his counterproposal for the distribution of profit of ČEZ, a. s. Furthermore, in the resolution of his counterproposal, the shareholder PK indicates the amount of part of the Company's retained earnings from previous years in the amount of CZK 12.4 billion (rounded). At the same time, the shareholder PK proposes a total dividend (share of the profit to be distributed to shareholders) of CZK 73.7 billion and a dividend of CZK 160 per share. These two demands are mutually contradictory, since a dividend of CZK 160 per share would in fact mean a payment of CZK 86.1 billion (rounded).

In PK's Counterproposal, the record date for entitlement to the dividend right is the same as the Board of Directors' initial proposal, which was published in the Notice of General Meeting. PK's Counterproposal suggests that the dividend be paid on September 1, 2023, i.e., 1 month later than the initial proposal of the Board of Directors, and also proposes to postpone the end of the dividend payment by 1 month to August 31, 2027.

The Board of Directors, having considered PK's Counterproposal concerning Item 3 of the General Meeting agenda, has concluded that, in view of its factual incorrectness, vagueness, internal inconsistency, 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.

Notwithstanding the nonvotability of PK's Counterproposal, in addition to the above, the Board of Directors has also considered the economic aspects of a potential dividend payment of CZK 160 per share 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 the distribution of profit.

The proposal for the distribution of profit submitted by the Board of Directors to shareholders (in the amount of CZK 117 per share) (hereinafter referred to as the "dividend") 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 profit adjusted for extraordinary effects. CEZ Group's adjusted consolidated net income for the year 2022 amounted to CZK 78,372 million. The dividend proposed by the Board of Directors represents 80% of the adjusted consolidated net income for the year 2022.

The Company's Board of Directors notes that the dividend payment of CZK 160 per share would represent a payment of 110% of the consolidated net profit of CEZ Group for the year 2022, adjusted for extraordinary effects. This would correspond to a total dividend payment of CZK 86.1 billion, which is CZK 23.2 billion more than the Board of Directors' initial proposal.

CEZ Group's current liquidity situation and cash flow outlook for the next 12 months indicate that ČEZ would be able to cover the dividend payment financially only if immediate extraordinary measures are taken. Moreover, in the event of adverse developments in the financial and energy markets, securing additional funds could result in high additional costs.

Payment of a dividend of CZK 160 per share would have a highly negative impact on the available liquidity of CEZ Group and would substantially reduce the reserves to cover potential risks of CEZ Group's future cash flows. In particular, to cover the risk of commodity price increases, while such increases would lead to an obligation to immediately increase margin deposits on exchanges and with trading counterparties due to the ongoing hedging of generation positions. Last year, this risk led to the need to take specific emergency measures, including drawing on all available funds from financial institutions and accepting a loan from the Czech state of CZK 3 billion as well as the adoption of a number of exceptional commercial and financial measures, including temporary restrictions on the hedging of electricity prices from future generation.

The payment of a dividend of CZK 160 per share would negatively affect the credit rating of ČEZ, a. s., and would be very likely to result in a deterioration of the Company's rating, thereby increasing the cost of financing, increasing the risk of limiting the availability of future financing, and reducing long-term shareholder returns. Both S&P and Moody's specifically identify the inadequate dividend policy, and in particular the excess of the 100% payout ratio, i.e., a dividend payout higher than the Company's annual profit, as incompatible with a credible financial policy of the Company.

The payment of dividends out of funds that the Company has to borrow, i.e., funds that represent an overall increase in the Company's net debt, is viewed very negatively by creditors. The creditors expect for the Company's debt to increase only due to higher investments in new projects and development of the Company.

Overall, it may be concluded that the payment of a dividend of CZK 160 per share would, under current market and regulatory assumptions, pose a threat to the Company's financial stability, particularly due to the loss of credibility for creditors, and would also have a negative impact on CEZ Group's ability to make investments leading to the implementation of the VISION 2030—Clean Energy for Tomorrow strategic program.

Even assuming that the Company would have received a votable counterproposal for a dividend payment of CZK 160 per share, the Board of Directors could not recommend its approval for the above reasons.