

## SECOND PARTY OPINION (SPO)

### Sustainability Quality of the Issuer and Sustainability-Linked Financing Framework

ČEZ Group  
14 March 2022

#### VERIFICATION PARAMETERS

<b>Type(s) of instruments contemplated</b>	Sustainability-Linked Instruments
	Sustainability-Linked Bond Principles (June 2020), as administered by ICMA
<b>Relevant standard(s)</b>	Sustainability-Linked Loan Principles (May 2021), as administered by the Loan Market Association (LMA)
	Climate Transition Finance Handbook (December 2020), as administered by ICMA
<b>Scope of verification</b>	ČEZ Sustainability-Linked Financing Framework (March 2022)
<b>Lifecycle</b>	Pre-issuance verification
<b>Validity</b>	As long as ČEZ's Sustainability-Linked Financing Framework and benchmarks for the Sustainability Performance target(s) remain unchanged

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## SCOPE OF WORK

ČEZ Group (“ČEZ” or “the issuer” or “the company”) commissioned ISS ESG to assist with its Sustainability-linked Financing Instruments by assessing three core elements to determine the sustainability quality of the instrument:

1. The sustainability credibility of the KPI selected and Sustainability Performance Target (SPT) calibrated – whether the KPI selected is core, relevant and material to the issuer’s business model and industry, and whether the associated target is ambitious.
2. ČEZ’s Sustainability-Linked Financing Framework (March 2022 version) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBP) and the Climate Transition Finance Handbook (CTFH), as administered by the International Capital Market Association (ICMA), against the Sustainability-Linked Loan Principles (SLLP) as administered by the Loan Market Association (LMA)
3. Sustainability-linked Financing Instrument link to ČEZ sustainability strategy – drawing on ČEZ’s overall sustainability profile and related objectives.

## ČEZ BUSINESS OVERVIEW

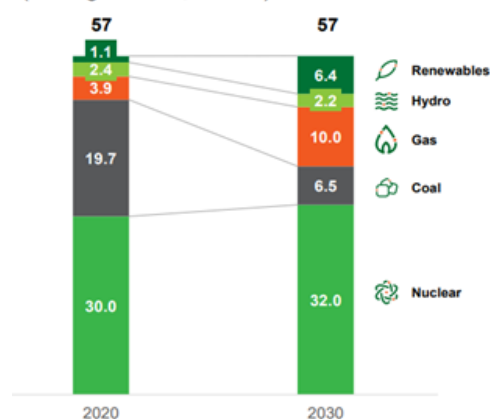
ČEZ is an electricity generation company, engaged in the production, distribution, trade, and sale of electricity and heat in Western, Central, and Southeastern Europe. It was founded in 1992 and is headquartered in Prague, the Czech Republic.

As of 31 March 2021, the company operates through four segments: generation of electricity, distribution of electricity, sales, and mining of coal<sup>1</sup>.

Directly, or through its subsidiaries, ČEZ operates: six fossil fuel power plants<sup>2</sup>, five coal-fired heating plants, thirty five hydroelectric plants, thirteen photovoltaic power plants, two wind power plants, one biogas plant, one combined cycle gas turbine plant, and two nuclear plants in the Czech Republic<sup>3</sup>.

The company, through its subsidiaries, also operates eleven wind power plants in Germany; two fossil fuel plants and one hydroelectric plant in Poland.

**Electricity generation of CEZ Group**  
(Strategic assets, in TWh)



Source: ČEZ Sustainability-Linked Financing Framework as of 2022

<sup>1</sup> Cez, May 2021, PRESENTATION ON CEZ GROUP FINANCIAL RESULTS IN Q1 2021, [https://www.cez.cz/webpublic/file/edee/ospol/fileexport-s/pro-investor/informacni-povinnost-emitenta/2021-05/en-tk-1q2021-presentation\\_h12e.pdf](https://www.cez.cz/webpublic/file/edee/ospol/fileexport-s/pro-investor/informacni-povinnost-emitenta/2021-05/en-tk-1q2021-presentation_h12e.pdf)

<sup>2</sup> Please note; Melnik III/Energotrans III coal-fired power plant was phased out in August 2021.

<sup>3</sup> Cez, December 2020, Cez 2020 Annual Report, <https://www.cez.cz/webpublic/file/edee/ospol/fileexport/investori/vz-2020/cez-group-2020-annual-report.pdf>

In addition, it is involved in quarrying and processing of construction aggregate and high-percentage limestones; and commodity trading in wholesale markets. Further, the company engages in the planning, construction, and maintenance of energy facilities.

## ISS ESG SPO ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY <sup>4</sup>
<p><b>Part 1:</b></p> <p><b>KPI selection and SPT calibration</b></p> <p><b>KPI 1: Scope 1 Greenhouse Gas Emissions intensity<sup>5</sup> (tCO<sub>2</sub>e/MWh)</b></p> <p><b>SPT 1.a: Reach 0.26 tCO<sub>2</sub>e/MWh by 2025</b></p> <p><b>SPT 1.b: Reach 0.16 TCO<sub>2</sub>e/MWh by 2030</b></p>	<p><b>KPI selection: Relevant, Core and Moderately Material to issuer’s business model and sustainability profile</b></p> <p><b>Sustainability Performance Target (SPT) calibration:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambitious against issuer’s past performance</b></li> <li>• <b>SPT1.b is ambitious against issuer’s sectorial peer group, whilst SPT1.a provides additional disclosure on the emissions trajectory for the period through to 2030</b></li> <li>• <b>Committed to be in line with the Paris Climate Agreement</b></li> </ul> <p>ISS ESG finds that the KPI selected is core and relevant to the issuer’s business model and sustainability profile. The KPI is material to the direct operations, but not to the whole Corporate Value Chain as it does not cover the company’s Scope 3 emissions, which represent 42% of the ČEZ’s total (Scope 1, 2, 3) GHG emissions. The KPI is consistent with the issuer’s sustainability strategy. The KPI is appropriately measurable, quantifiable, externally verifiable, and benchmarkable.</p> <p>ISS ESG finds that the SPTs calibrated are ambitious against the company’s past performance since future annualized reductions are faster than previous annual reductions. SPT 1.b is clearly ambitious against peer companies in the Czech Republic’s neighboring countries, both in terms of annual reduction rates and overall magnitude particularly as a number of peers in the region have not set public emissions targets. SPT 1.a provides additional disclosure to the emissions trajectory through to 2030. In terms of ambition against international standards, ČEZ has submitted its targets to the SBTi for validation, which is in progress<sup>6</sup>. The submission shows the company’s commitment to the SBTi process and to set targets which are in line with the Paris Agreement. The targets have a clear timeline, are benchmarkable and supported by a long-term strategy and action plan.</p>
<p><b>Part 2.A:</b></p> <p><b>Alignment with the SLBP and SLLP and</b></p>	<p><b>Aligned with ICMA Sustainability-Linked Bond Principles and LMA Sustainability-Linked Loan Principles</b></p> <p>The Issuer has defined a formal framework for its Sustainability-linked Financing Instruments regarding the selection of KPI, calibration of Sustainability Performance Targets (SPTs), Sustainability-linked Financing Instrument characteristics, reporting and verification. The framework is in line with the Sustainability-Linked Bond Principles (SLBP) administered by the ICMA and the Sustainability-Linked Loan Principles (SLLP) administered by the LMA.</p>

<sup>4</sup> ISS ESG’s evaluation is based on the engagement conducted in February 2022, on ČEZ’s Sustainability-Linked Financing Framework (March 2022 version) and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 15/02/2022).

<sup>5</sup> KPI covering both electricity and heat generation

<sup>6</sup> The Company has communicated to ISS-ESG, targets have been submitted to the Science Based Target initiative (SBTi) which has accepted the commitment. Validation is in progress.

The financial characteristics of any security issued under this Framework, including a description of the selected KPI, SPTs, step-up margin, as applicable, will be specified in the relevant documentation of the specific transaction. The occurrence of a Trigger Event will result in a coupon step-up, accruing from the date specified in the relevant bond (or an increase of the premium, as the case may be).

**Part 2. B:**

**Alignment  
with the ICMA  
CTFH**

**Implementation of the ICMA Climate Transition Finance Handbook, except for the recommendation of external validation of the scientific basis of the emissions targets, which is pending**

The Issuer has defined a formal Climate Transition Strategy which is relevant to the environmentally material parts of its business model. The Financing Framework only covers the company's Scope 1 emissions. There is good disclosure on the various elements of the strategy, including well defined emissions targets with examples of planned investments. However, the external validation of the scientific basis of the emissions targets is currently in progress.

**Part 3:**

**Link to  
issuer's  
sustainability  
strategy**

**Consistent with issuer's sustainability strategy**

According to the ISS ESG Corporate Rating published 15.02.2022, the company currently shows a moderate sustainability performance against peers on key ESG issues faced by Electric Utilities industry and obtains a Decile Rank relative to industry group of 4, given that a decile rank of 1 indicates highest relative ESG performance out of 10. The issuer is rated 44<sup>th</sup> out of 128 companies within its industry as of 21.02.2022.

The KPI selected by the issuer is related to climate change. Climate change has been defined as one of the key priorities of the issuer in terms of sustainability strategy and ISS ESG finds that this is a material sustainability topic for the issuer. ISS ESG finds that this issuance contributes to the issuer's sustainability strategy thanks to the KPI's clear link to one of the key sustainability priorities of the issuer and due to an ambitious SPT against company's past performance and peer group.

## ISS ESG SPO ASSESSMENT

### PART 1: KPI SELECTION & SPT CALIBRATION

#### 1.1 Selection of KPI

##### KPI selected by the issuer

###### FROM ISSUER'S FRAMEWORK

- **KPI:** Direct Greenhouse Gas Emissions Intensity (Carbon emission intensity of electricity and heat generated, Scope 1) measured in tCO<sub>2</sub>e/MWh
- **SPTs:**
  - Reduce direct GHG emissions intensity from electricity and heat generation (Scope 1) from 0.38 tCO<sub>2</sub>e/MWh (0.36 tCO<sub>2</sub>/MWh) in 2019 to 0.26 tCO<sub>2</sub>e/MWh by 31 December 2025 (represents a 31.6% reduction)
  - Reduce direct GHG emissions intensity from electricity and heat generation (Scope 1) from 0.38 tCO<sub>2</sub>e/MWh (0.36 tCO<sub>2</sub>/MWh) in 2019 to 0.16 tCO<sub>2</sub>e/MWh by 31 December 2030 (represents a 57.9% reduction)

**Long-term goal:** Carbon neutrality by 2050<sup>7</sup>

**Rationale:** The 2015 Paris Agreement on Climate Change represents a commitment by the community of nations to limit global warming to below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. ČEZ fully supports the commitment of the United Nations' Paris Agreement on climate change and sees the well below 2 degrees Celsius target as an essential prerequisite if more than nine billion people are to be able to live well within the resource limits of our planet in 2050. ČEZ pursues its vision to become a carbon-neutral company by 2050 by phasing-out coal and transitioning to lower carbon technologies. ČEZ plans to decrease the use of coal significantly until 2030 and increase renewables capacity (PVs, wind, biomass) and natural gas and increase the electricity production from its current nuclear power plants. By pursuing this goal, ČEZ will make an active and committed contribution toward climate protection. ČEZ has decided to focus on carbon intensity as the main KPI because the company's exposure to risk related to carbon emissions from its operation is high, due to the nature of its operations and the source of energy used to power such operations. Since carbon intensity is a key area for ČEZ, the KPI has been chosen based on materiality and relevance to the Company and the relative sub-industry.

The carbon emission intensity of electricity and heat generated target will be met via decommissioning of coal power generation capacity and increasing new carbon emission-free installed capacity.

**Baseline:** 0.38 tCO<sub>2</sub>e/MWh

**Baseline year:** 2019

**2030 goal:** 0.16 tCO<sub>2</sub>e/MWh

**Scope:** KPI selected covers 100% of ČEZ's Scope 1 GHG emissions. In 2020, Scope 1 emissions represent c. 99% of the company's total Scope 1 and 2 emissions, or 57% of ČEZ's total Scope 1, 2, 3 emissions.

The GHG emissions from Joint Ventures for which ČEZ has a stake of less or equal to 50% and where ČEZ does not have financial/operating control, is not included in the GHG emissions computation.

<sup>7</sup> ČEZ's definition of carbon neutrality is for CO<sub>2</sub> emissions for the whole of ČEZ from fossil fuels for Scope 1 to be close to zero and for Scope 2 to reach zero. Only few CH<sub>4</sub> and N<sub>2</sub>O emissions from biomass burning will remain for Scope 1.

## Materiality and relevance

Climate change mitigation is considered as a key ESG issue faced by the Electric Utilities industry according to key ESG standards<sup>8</sup> for reporting, ISS ESG assessment and ISS ESG Industry Focus<sup>9</sup>. This is primarily due to the carbon intensity of energy generation, making the industry traditionally a highly GHG-emitting one. Furthermore, the industry is exposed to energy transition risks and opportunities, namely with the increasing costs of coal-fired energy generation and falling costs of renewables. At a national level, the Czech Republic government has released its program in 2022 which lays the ground for possible phase out of coal by 2038<sup>10</sup>. Ensuring electricity security in face of these transition risks requires drastic changes in traditional power system frameworks and greater investment in clean energy technologies<sup>11</sup>.

ISS ESG finds that climate change mitigation and the GHG emissions intensity reduction KPI selected by the issuer are:

- **Relevant** to ČEZ's business as its industry is highly GHG-emitting and exposed to climate change mitigation solutions. According to the IEA tracking report<sup>12</sup>, the sector's transformation is critical to clean energy transitions, as power generation accounts for 40% of energy-related CO<sub>2</sub> emissions and electricity is increasingly being used to meet end-use energy demand.
- **Core** to ČEZ's business as GHG emissions reduction measures affects key processes and operations that are core to the business model of the issuer (e.g. phasing out coal-based electricity and heat generation, transitioning to lower-carbon technologies).
- **Moderately material**<sup>13</sup> to ČEZ from an ESG perspective:
  - KPI selected covers 100% of ČEZ's Scope 1 GHG emissions and 99% of Scope 1 and Scope 2 GHG emissions, which meets the threshold coverage for Scope 1 and 2 emissions included in the SBTi guidance for target setting<sup>14</sup>.
  - However, the KPI represents 57% of ČEZ's total Scope 1, 2, 3 GHG emissions. ISS ESG notes that the company's biomass combustion emissions are not included in these figures, as per GHG Protocol.
  - As the selected KPI represents less than the 60% of total Scope 1, 2, 3 emissions, the KPI is considered material to the direct operations, but not to the whole Corporate Value Chain as it does not cover ČEZ's Scope 3 emissions (that represent 42% of the company's

<sup>8</sup> Key ESG Standards include SASB and TCFD, among others.

<sup>9</sup> ISS ESG, 29 July 2020, Industry Focus: Electric Utilities, [ISS ESG - Industry Focus: Electric Utilities \(issgovernance.com\)](https://www.issgovernance.com/industry-focus/electric-utilities)

<sup>10</sup> New Czech government appointed in December 2021 stated in its Policy Statement that it will create the conditions for energy transformation and development of coal regions to allow for a shift away from coal by 2033.

<sup>11</sup> IEA, April 2021, Secure energy transitions in the power sector, <https://www.iea.org/reports/secure-energy-transitions-in-the-power-sector>

<sup>12</sup> IEA, 2020, World Energy Investment 2020 Power Sector, <https://www.iea.org/reports/world-energy-investment-2020/power-sector>

<sup>13</sup> ISS ESG bases this analysis on the issuer's own emissions reporting and makes no comment on the quality or consistency of the issuer's Scope 1, 2 or 3 emissions reporting, either in relation to GHG Protocol, or to established norms for the issuer's sector. ISS ESG notes that Scope 3 reporting may be different between companies in the same sector and does not undertake any benchmarking of an issuer's reporting

<sup>14</sup> As per criteria c5 of Science-Based Target Setting Manual (October 2021), SBTs should cover at least 95% of company-wide scope 1 and 2 emissions. [SBTi-criteria.pdf \(sciencebasedtargets.org\)](https://sciencebasedtargets.org/sbti-criteria.pdf)

total GHG emissions). The SBTi general methodology<sup>15</sup> requires that for companies with Scope 3 emissions greater than 40% of its total emissions, a Scope 3 target should be set.

### Consistency with overall company's sustainability strategy

ČEZ identified climate change mitigation as one of its priority long-term goals. The definition of a GHG emission reduction KPI is consistent with ČEZ's long-standing strategy of mitigating climate change. In 2015, ČEZ committed to generating electricity with a neutral carbon footprint by 2050. Together with other European energy groups, ČEZ registered its commitments to reduce greenhouse gas emissions under the Non-State Actor Zone for Climate Action (NAZCA), formed before the Paris Climate Conference in 2015. At the same time, ČEZ committed to reducing CO<sub>2</sub> emissions per MWh of electricity generated by ČEZ in the Czech Republic by 46% by 2020 compared to 2001. This commitment has been met for 2020—a 54% reduction in the CO<sub>2</sub> emission intensity of electricity generation in the Czech Republic was achieved compared to 2001, and the production of emissions in the Czech Republic from electricity generation by more than 3.6 million tons was reduced, i.e., by more than 15% year-on-year.

In May 2021, as part of its accelerated strategy VISION 2030 "Clean Energy of Tomorrow"<sup>16</sup>, ČEZ defined strategic objectives for 2030 in order to reflect on its long-term strategic objectives, one being transforming the generation portfolio to a low-emission one and achieve carbon neutrality by 2050. Under this light, ČEZ has revised its decarbonization strategy and intends to decrease its carbon intensity from 0.38 tCO<sub>2</sub>e/MWh in 2019 to 0.16tCO<sub>2</sub>e/MWh in 2030.

ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

### Measurability

- **Scope and perimeter:** The KPI scope and perimeter is transparently defined and covers all of the company's operations. The KPI excludes emissions from joint ventures of which ČEZ owns a minority stake (less than or equal to 50% shareholding)<sup>17</sup> or are otherwise not under ČEZ's financial/operating control, as defined by the GHG Protocol.
- **Quantifiable/Externally verifiable:** The KPI selected is quantifiable and externally verifiable. GHG emission intensity per electricity and heat generated KPI is widely disclosed and standardized in the market. The issuer refers to key reporting and accounting protocols for GHG emissions such as the Greenhouse Gas Protocol and 2006 IPCC Guidelines for National Greenhouse Gas Inventories.
- **Externally verified:** As detailed in the Framework, the KPI (scope 1 GHG emissions) is comprised of several gases from different sources. The fossil fuel combustion related CO<sub>2</sub> emissions from the company's fossil fuel power generation which fall within the EU ETS scheme are externally verified as part of the EU ETS scheme. This data, which is reported as

<sup>15</sup> C17 p10 <https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf>

<sup>16</sup> Cez, May 2021, Investor Presentation: Vize 2030 clean energy of tomorrow, [clean-energy-of-tomorrow.pdf \(cez.cz\)](https://www.cez.cz/clean-energy-of-tomorrow.pdf)

<sup>17</sup> JV operates 1 CCGT power plant, 7 hydro power plants and one wind power plant. It also operates in distribution and sales. Emission intensity of the CCGT power plant is between 0,3 and 0,5 tCO<sub>2</sub>/MWh (AKENERJİ ELEKTRİK ÜRETİM A.Ş. - Climate Change 2018, <https://www.akenerji.com.tr/Dosya/Dokuman/CDP%20CC%202018.pdf>)



an intensity metric in the company's annual reports<sup>18</sup> has also received external verification as part of the annual reporting's overall verification by the company's auditor. However, the data for non CO<sub>2</sub> emissions were not previously verified externally. As the CO<sub>2</sub> emissions forms the bulk of the KPI (which is reported as CO<sub>2</sub>), an approximation is taken that the historical data is externally verified. ČEZ also commits in the Framework, to receiving external verification of the KPI starting from 2021.

- **Benchmarkable:** By referring to commonly acknowledged GHG accounting standards and protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement. Benchmarking of the SPT in relation with this KPI has been analysed in section 2.

**Opinion on KPI selection:** ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and sustainability profile. The KPI is material to the direct operations, but not to the whole Corporate Value Chain as it does not cover the company's Scope 3 emissions, which represent 42% of the ČEZ's total (Scope 1, 2, 3) GHG emissions. The KPI is consistent with the issuer's sustainability strategy. The KPI is appropriately measurable, quantifiable, externally verifiable and benchmarkable.

## 1.2 Calibration of SPT 1. a and SPT 1. b

### SPT set by issuer

#### FROM ISSUER'S FRAMEWORK

##### Sustainability Performance Targets (SPTs):

- **SPT 1. a:** Reduce direct GHG emissions intensity from electricity and heat generation (Scope 1) from 0.38 tCO<sub>2</sub>e/MWh (0.36 tCO<sub>2</sub>/MWh) in 2019 to 0.26 tCO<sub>2</sub>e/MWh by 31 December 2025 (represents a 30.8% reduction)
- **SPT 1. b:** Reduce direct GHG emissions intensity from electricity and heat generation (Scope 1) from 0.38 tCO<sub>2</sub>e/MWh (0.36 tCO<sub>2</sub>/MWh) in 2019 to 0.16 tCO<sub>2</sub>e/MWh by 31 December 2030 (represents a 57.4% reduction)

**Sustainability Performance Target Observation Date:** December 31, 2025 for SPT 1. a and December 31, 2030 for SPT 1. b

**2019 Baseline Intensity:** 0.38 tCO<sub>2</sub>e/MWh\*

\* The 2019 baseline was deliberately selected to go in line with their sustainability strategy. The company reasons that the process of VISION 2030—Clean Energy for Tomorrow was started at the end of 2020, when the last known year was 2019 which was set up as base year.

**Strategic 2030 Goal and selection of methodology for calculating the SPT:** SPT aligns with ČEZ's VISION 2030 – Clean Energy for Tomorrow strategy of reducing GHG emissions intensity in line with the Paris Agreement 'well below 2 degrees' by 2030. Methodology for calculating the SPT is in line with the GHG Protocol and IPCC Guidelines for National Greenhouse Gas Inventories.

**Factors that support the achievement of the target:**

<sup>18</sup> For example, page 126, 2020 Annual Report <https://www.cez.cz/webpublic/file/edee/ospol/fileexport/investori/vz-2020/cez-group-2020-annual-report.pdf>

- high CO2 allowance price resulting in low or zero margin generated by coal power plants
- supportive policies at the Czech Government or EU level

**Risks to the target: TBD**

- Geo-political risk threatening security of supply
- Financial risk in the market associated with RES projects

**Ambition**

**Against company's past performance**

<b>TABLE 1.</b>	<b>2017</b>	<b>2018</b>	<b>2019 (BASELINE)</b>	<b>2025 (SPT 1.A)</b>	<b>2030 (SPT 1.B)</b>
<b>GHG Scope 1 emissions (tCO<sub>2</sub>e/MWh)</b>	0.41	0.40	0.38	0.26	0.16
<b>CAGR (2017-2019)</b>	-	-	-3.73%	-	-
<b>CAGR (compared to 2019 baseline)</b>	-	-	-	-6.13%	-7.56%

ČEZ sets SPTs to reduce its GHG emissions (scope 1) intensity to 0.26 tCO<sub>2</sub>e/MWh by 2025 and 0.16 tCO<sub>2</sub>e/MWh by 2030 compared to 0.38 tCO<sub>2</sub>e/MWh in 2019 (baseline year). This equates to an estimated reduction of -31.6% by 2025 and -57.9% by 2030 compared to the 2019 baseline year.

The compound annual reduction rate (CAGR) from 2019 (baseline year) to 2025 (SPT 1.a) and to 2030 (SPT 1.b) is -6.13% and -7.56%, respectively, compared to a -3.73% annual reduction rate for the period between 2017 and 2019. This suggests that to achieve its 2025 and 2030 goals, ČEZ's targeted reduction rate is faster than its past performance between 2017 and 2019.

In this context and compared to the baseline year, the SPTs set by ČEZ are perceived by ISS ESG as ambitious against the company's past performance.

**Against company's industry peers**

ISS ESG conducted a benchmarking of the SPT set by ČEZ against 18 industry peers in Central Europe. ISS ESG selected these peers as the dominant electricity generation companies in the neighbouring countries around the Czech Republic. They are the most relevant for comparison due to their similarity with the issuer's geography, history and background.

Out of these 19 companies (including ČEZ), 8 companies have not set public GHG emissions reduction targets. Out of the 11 companies with public reduction targets, 5 companies have set intensity

emissions reduction targets (including ČEZ) and 6 companies have set absolute emissions reduction targets.

ISS ESG has compared ČEZ's emissions intensity<sup>19</sup> performance in 2019 with those of the other 4 peer companies, which have set public GHG intensity reduction targets<sup>20</sup>. ČEZ's carbon intensity in 2019 is 0.38 tCO<sub>2</sub>e/MWh, which places it as 3<sup>rd</sup> out of those 5 companies.

With regards to the ambition of the targets set, ISS ESG compared the compounded yearly reduction rates of ČEZ's SPTs with the public targets of those 4 peer companies. ČEZ's CAGR from 2019 baseline period to 2025 (SPT 1.a) and to 2030 (SPT 1.b) is 6.13% and 7.56%, respectively, which places ČEZ as 4<sup>th</sup> for its 2025 target and 1<sup>st</sup> for its 2030 target out of the 5 companies with intensity targets. When comparing the overall reduction targets among peers, ČEZ's 2030 target ranks 2<sup>nd</sup> out of the 5 companies, which have 2030 targets. There are limitations to directly comparing ČEZ's 2025 overall target because only one another company has set targets for 2025. 2030 appears to be the key focus for target setting within this group. Instead, the inclusion of a 2025 target provides additional disclosure for the company's trajectory in the period through to 2030.

ISS ESG concludes that SPT 1 a. (2025 target) provides additional disclosure, whilst SPT 1 b. (2030 target) is ambitious amongst the central Europe peer group, both in terms of the annual reduction rate, as well as overall magnitude, particular as a number of peers in the region have not set public targets at all.

### Against international targets

#### Paris Agreement

The company has committed to setting a Science-Based Targets Initiative (SBTi) validated near-term emissions reduction targets a long-term net-zero target for its Scope 1 emissions based on the SBTi general methodology, which is one of the most widely used tools at present.

ČEZ has already submitted its targets to the SBTi for validation and the targets have not yet been verified by the SBTi. Formal verification of the SBTi is useful to confirm whether the target is ambitious against international targets. ČEZ mentions that the validation is expected to be settled in due course, as decided by SBTi. According to the issuer, its 2025 and 2030 targets set will be in line with the SBTi's "well below 2-degree" scenario rather than the "1.5-degree scenario". ČEZ understands that this means more aggressive emissions reductions will need to happen after 2030, for the company to meet its net zero commitment by 2050.

Another international standard by which to compare the SPTs is the EU Taxonomy thresholds for electricity generation. Both the first Climate Delegated Act<sup>21</sup> published in June 2021 and the Complementary Climate Delegated Act<sup>22</sup> published February 2022, focus on a threshold of 100g CO<sub>2</sub>e/kWh as a threshold for ambitious and near zero electricity generation. In comparison, the SPT calls for a reduction from 380g CO<sub>2</sub>e/kWh to 260g CO<sub>2</sub>e<sup>23</sup>/ kWh by 2025 and 160g CO<sub>2</sub>e<sup>24</sup>/ kWh by 2030. Whilst the SPT is not under 100g CO<sub>2</sub>e/kWh, the SPT shows a substantial decrease towards the direction of the EU Taxonomy threshold.

<sup>19</sup> There are some approximations as two of the peers reported on CO<sub>2</sub>equivalents, ie including other non-CO<sub>2</sub> GHG emissions. As these other gases are much smaller for power generation companies, the small differences are ignored for simplicity

<sup>20</sup> to be comparable with ČEZ's baseline

<sup>21</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI\\_COM:C\(2021\)2800](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM:C(2021)2800)

<sup>22</sup> [https://ec.europa.eu/info/publications/220202-sustainable-finance-taxonomy-complementary-climate-delegated-act\\_en](https://ec.europa.eu/info/publications/220202-sustainable-finance-taxonomy-complementary-climate-delegated-act_en)

<sup>23</sup> With the inclusion of non CO<sub>2</sub> gases

<sup>24</sup> With the inclusion of non CO<sub>2</sub> gases

In the absence of formal SBTi validation, there is currently limited information available to assess the ambition and alignment of the target with the Paris Agreement. ISS ESG notes the significance of ČEZ's submission to the SBTi for validation of its targets, which highlights its commitment to be in line with the Paris Agreement.

### Measurability & comparability

- **Historical data:** The issuer provides relevant historical data by setting the baseline year of its SPT to 2019 and provided yearly GHG emissions intensity data going back to 2 years prior to the baseline. Overall, 4 years of historical data is provided, 2 of which is before the baseline year.
- **Timeline:** The issuer provides a clear timeline for targets set. Target observation dates will be 31 December 2025 and 31 December 2030. Information will be publicly available at the latest 180 days after the target observation date, and will be published in the Annual Report.

### Supporting strategy and action plan

The reduction targets set by the company are supported by the following strategy and action plan:

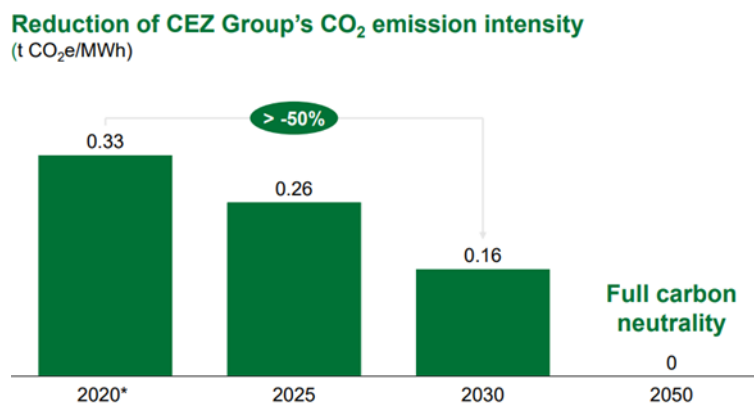
- **Carbon decommissioning:** ČEZ plans to reduce share of coal-fired electricity generation to 25% by 2025 and to 12.5% by 2030 and to transform coal locations into new lower carbon activities such as biomass and hydrogen ready gas plants. It plans to have no more coal power generation after 2038.
- **Nuclear energy generation volume increase:** ČEZ aims to increase nuclear power generation volumes of existing power plants above 32 TWh on average and achieve 60-year operating life by prolonging fuel replacement cycle and increasing capacity by up to 50MW, while optimizing maintenance<sup>25</sup>.
- **Renewable energy generation volume increase:** ČEZ plans to take several steps for increasing renewable share. Firstly, it plans to increase capacity of renewable energy technologies, mainly in the Czech Republic and with a major reliance on solar power plants, with plans to build large-scale renewable energy plants, with a capacity of up to 1,500 MW by 2025 and 6,000 MW by 2030. Secondly, it plans to introduce higher interest in electricity generation from renewable sources directly at points of consumption, building self-managing smart distribution networks, supporting digitalization and automation of energy solutions, reducing energy waste and, conversely, promoting its efficient use. Thirdly, it plans to have new energy storage technologies as part of their commercial offerings of decentralized renewable energy generation with

<sup>25</sup> Company refers to safety procedures regarding the plant operations and nuclear waste disposal in its framework.

installations of rooftop photovoltaics and heat pumps. Lastly, it plans to increase installed capacity of electricity accumulation to at least 300 MWe by 2030.

\*0.36 in 2019

Source: ČEZ Sustainability-Linked Financing Framework as of 2022



**Opinion on SPT calibration:** ISS ESG finds that the SPTs calibrated are ambitious against the company's past performance since future annualized reductions are faster than previous annual reductions. SPT 1.b is clearly ambitious against peer companies in the Czech Republic's neighbouring countries, both in terms of annual reduction rates and overall magnitude, particularly as a number of peers in the region have not set public emissions targets. SPT 1.a provides additional disclosure to the emissions trajectory through to 2030. In terms of ambition against international standards, ČEZ has submitted its targets to the SBTi for validation, which is in progress. The submission shows the company's commitment to the SBTi process and to set targets which are in line with the Paris Agreement. The targets have a clear timeline, are benchmarkable and supported by a long-term strategy and action plan.

## PART 2: ALIGNMENT WITH ICMA AND LMA PRINCIPLES

### A. SUSTAINABILITY-LINKED BOND PRINCIPLES AND LMA SUSTAINABILITY-LINKED LOAN PRINCIPLES

#### Rationale for Framework

##### FROM ISSUER'S FRAMEWORK

ČEZ's corporate strategy is connected and aligned with its sustainability ambitions. For this reason, the company is giving itself the means to align its financing and corporate strategy via Sustainability-Linked instruments. ČEZ has set ambitious targets and intends to accelerate its roadmap to carbon neutrality. The Key Performance Indicator (KPI) in this Sustainability-Linked Financing Framework (the 'Framework') are linked to its decarbonization and neutrality objectives, which are part of their updated 2030 Sustainability Strategy and are coherent to their way of doing business.

The inclusion of sustainability targets into the financing strategy is even more emphasizing their approach towards the low carbon energy transition and enhances their commitment towards the sustainability strategy.

**Opinion:** ISS ESG considers the Rationale for Issuance description provided ČEZ by as aligned with the SLBP and the SLLP. The Issuer has described the rationale to issue Sustainability-Linked Financing Instruments and its connection with the overall sustainability and business strategy.

#### 2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of KPI selection available in section 1 of this report.

**Opinion:** ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and sustainability profile. The KPI is material to the direct operations, but not to the whole Corporate Value Chain as it does not cover the company's Scope 3 emissions, which represent 42% of the ČEZ's total (Scope 1, 2, 3) GHG emissions. The KPI is consistent with the issuer's sustainability strategy. The KPI is appropriately measurable, quantifiable, externally verifiable, and benchmarkable.

#### 2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of SPT is available in section 1 of this report.

**Opinion:** ISS ESG finds that the SPTs calibrated are ambitious against the company's past performance since future annualized reductions are faster than previous annual reductions. SPT 1.b is clearly ambitious against peer companies in the Czech Republic's neighbouring countries, both in terms of annual reduction rates and overall magnitude, particularly as a number of peers in the region have not set public emissions targets. SPT 1.a provides additional disclosure to the emissions trajectory through to 2030. In terms of ambition against international standards, ČEZ has submitted its targets to the SBTi for validation, which is in progress. The submission shows the company's commitment to the SBTi process and to set targets which are in line with the Paris Agreement. The targets have a clear timeline, are benchmarkable and supported by a long-term strategy and action plan.

#### 2.3. Sustainability-Linked Securities Characteristics

## FROM ISSUER'S FRAMEWORK

Sustainability-Linked Instruments issued under this Framework are linked to ČEZ' sustainability performance, meaning their financial performance is dependent on the evolution of the KPI applicable to each Sustainability-Linked Instruments in accordance with its terms and conditions ("Terms & Conditions").

In case that the KPI does not achieve the respective SPT, a so-called Trigger Event will occur, which will result in an impact on the financial performance of the instrument. The implications on the financial performance of the Sustainability-Linked Instruments in case of a Trigger Event can occur in the following variations:

1. The KPI-Step-Up Margin applicable to the rate of interest for the following interest periods.
2. One-time KPI-Premium Payment to investors on the redemption date.

The relevant KPI, SPT, Step-Up Margin amounts or the Premium Payment amounts applicable are subject to the Terms & Conditions of the respective Sustainability-Linked Instrument.

In case of any failure in achieving the SPT, ČEZ will make the information publicly available at the latest 180 days after the target observation date. If for any reason, the performance level against the SPT cannot be calculated or observed, the increased coupon margin or premium payment (as defined) will be applicable. If for any reason, ČEZ does not publish details of its performance against the relevant SPT, the increased coupon margin or premium payment will be applicable. No more than one step-up margin shall be applied over the life of a given Sustainability-Linked Instrument.

For clarification reasons, if ČEZ has achieved the SPT(s) for the KPI applicable under the Terms & Conditions of a Sustainability-Linked Instrument, the financial characteristics of the Sustainability-Linked Instruments will not change.

### Recalculation option

The company reserves itself the right to conduct amendments to the KPI-SPT Reference Base, in case of any M&A activities or changes to the calculation methodology for the KPI, which lead to a decrease of at least [5] % of the respective KPI performance or change and the nature of the KPI. The adjustment mechanism allows for a revision of the KPI-SPT Reference Base by the ratio of the change in relative KPI ČEZ records as a result of the acquisition, merger, divestment, significant changes in data due to better data accessibility and/or changes in the calculation methodology.

In case ČEZ decides to update its Sustainable Performance Target to align it with 1.5°C science-based reduction targets within 12 months from the issuance date of the inaugural Sustainability-Linked Instrument, the SPT(s) may be updated to reflect the Issuer's increasingly ambitious approach to carbon emission reduction. Detailed information will be made available in the respective Terms & Conditions of the Instruments.

**Opinion:** ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by ČEZ as aligned with the SLBP and the SLLP. The issuer will give a detailed description of the potential variation of the financial characteristics of the securities in their respective documentations, while clearly defining the KPI and SPT and its calculation methodologies. The sustainability-linked instrument characteristics mention the possibility of significant changes in perimeters through material M&A activities or data due to better data accessibility and/or changes in the calculation methodology, which could substantially impact the calculation of the KPI, the restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope.

## 2.4. Reporting

### FROM ISSUER'S FRAMEWORK

ČEZ will provide adequate information to investors and other market participants regarding the implementation and progress on its sustainability objectives in its annually published Annual Report, Sustainability Report and/or any specific Sustainability-Linked Instrument Report. The disclosure will be made available on ČEZ' investor relations website.

The reporting will include the following information:

- The performance of the KPI, as per the relevant reporting period and when applicable, as per the Target Observation Date including the calculation methodology and baselines where relevant
- Any update in ČEZ's sustainability strategy or any recent announcements, strategic decisions and means mobilized that might impact the achievement of the SPT(s)
- Qualitatively or quantitatively explanation of the contribution of the main factors, including M&A activities, behind the evolution of the performance/KPI
- When relevant, any re-assessments of KPI and/or restatement of the SPT(s) and/or pro-forma adjustments of KPI scope information on the products range/mix as evolution drivers of the KPIs
- At its discretion, any examples of specific projects that have been implemented for the achievement of the performance against the SPT(s)

**Opinion:** ISS ESG considers the Reporting description provided by ČEZ as aligned with the SLBP and the SLLP. This will be made publicly available annually and include valuable up-to-date information, as described above.

## 2.5. Verification

### FROM ISSUER'S FRAMEWORK

ČEZ has appointed an external verifier to provide an independent Second Party Opinion ("SPO") to evaluate this Framework and its alignment with the SLBP 2020 and SLLP 2021. The SPO will be made publicly available on ČEZ' corporate website and will also be available on the website of the SPO provider.

The KPI and its progress will be disclosed in the reporting document published by ČEZ on an annual basis, for instance the Group Annual Report. ČEZ will engage an external auditor to provide at least a limited assurance regarding KPI performance information.

**Opinion:** ISS ESG considers the Verification description provided by ČEZ as aligned with the SLBP and the SLLP. The issuer has obtained a pre-issuance external review through this SPO. Besides, ČEZ plans to obtain a verification of its reporting related to the performance of its SPTs. Such verification will be published in ČEZ's non-financial reporting, in line with the market requirements.



## B. CLIMATE TRANSITION FINANCE HANDBOOK

### 1. Climate Transition Strategy and Governance

#### INFORMATION PROVIDED BY ISSUER

ČEZ has recently updated its Sustainability Strategy into VIZE 2030 Clean Strategy of tomorrow, which includes climate transition alongside social and governance considerations.

The strategy consists of three pillars:

- Pillar I: Transforming the generation portfolio to a low-emission one and achieve carbon neutrality by 2050
- Pillar II: Providing the most cost-effective energy solutions and best customer experience in the market
- Pillar III: Developing ČEZ Group in a responsible and sustainable manner in accordance with ESG principles.

Particularly, ČEZ intends to reduce CO<sub>2</sub> emissions by decreasing carbon intensity from 0.38 t CO<sub>2</sub>e/MWh in 2019 to 0.16 t CO<sub>2</sub>e/MWh for its Scope 1 emissions in 2030. ČEZ has set up short and interim targets (2025 & 2030). The targets have been formulated based on the SBTi tool and have been submitted to the SBTi for validation.

**Opinion:** ISS ESG finds that the information detailed in ČEZ's Sustainability-Linked Financing Framework transparently communicates the company's overall aim of contributing to the goal of the Paris Agreement of limiting global warming to 'well below 2 degrees'. Following the methodology proposed by the Science-Based Targets Initiative (SBTi) as well as the European Commission's 2030 decarbonisation objectives, ČEZ has set up both short and interim targets (2025 & 2030), which are embedded within the company's overarching "VIZE 2030 Clean Strategy of tomorrow" that encompasses climate transition as well as social and governance considerations. With respect to the climate transition, the company intends to increase capacity in solar, wind, natural gas and nuclear energy. However, taking into account the challenges concerning the construction of nuclear energy plants on time, ISS ESG would suggest that there is additional disclosure to quantitatively lay out how the planned nuclear investments will enable the achievement of the decarbonisation trajectory in a timely manner.

With respect to the social and governance elements, the group's strategy includes an increase of the percentage of women in management and in non-technical positions by 30% by 2025, as well as considerations on the 'just transition' for employees that are affected by the coal exit. As such, there is some evidence that the company aims for a broader sustainability strategy instead of mainly focusing on the climate transition. However, citing concerns on energy security for the Czech Republic, the company recognizes that the current short and interim targets are not sufficiently ambitious enough for a 1.5° scenario and that a further acceleration of decarbonization efforts will be needed for the years 2030 to 2050. On this subject, the company states the intention to establish more ambitious targets medium- to long term, which will include further increases in installed RE capacity. In fact, the issuer has signed and submitted a SBTi Business Ambition for 1.5 degree commitment by 2050. Lastly, ISS ESG considers the company to have put in place robust governance and oversight processes. The

group's sustainability strategy has been approved by the company's board of directors and is overseen by a separate ESG Strategic Steering Committee (SSC) and implemented by the ESG Executive Steering Committee, which includes members of key company departments.

## 2. Business Model Environmental Materiality

### INFORMATION PROVIDED BY ISSUER

ČEZ's transition strategy is looking to transform all elements for its core business initially prioritising scope 1 emissions from energy generation. This is its largest impact area as in the Czech Republic, the main business of the Group is to produce and distribute electricity and heat. The production portfolio consists of nuclear, hydro, photovoltaic, wind, gas and coal sources.

**Opinion:** ISS ESG considers the issuers climate transition strategy as outlined in ČEZ's Sustainability-Linked Financing Framework as moderately relevant to the environmentally-material parts of the issuer's business model. The strategy encompasses core business activities, notably the generation of electricity and heat, which are core drivers of the issuers current and future business model and continued success. The Financing Framework excludes the company's Scope 3 emissions, which account for approximately 42% of the company's total reported GHG emissions<sup>26</sup>.

## 3. Climate transition strategy to be "science-based"

### INFORMATION PROVIDED BY ISSUER

ČEZ are quantitatively measuring and tracking scope 1, 2 and 3 absolute emissions and emissions intensity for generation assets, which is disclosed in the annual sustainability report. The company has signed a commitment letter to the SBTi's Business Ambition for 1.5 °C and has defined interim and long-term targets to reach net-zero by no later than 2050.

**Opinion:** The decarbonization strategy of ČEZ Group is based on reducing the emissions related to the generation of electricity as Scope 1, as per the GHG Protocol. It is centred around targets that have been formulated in line with the 'well below 2° scenario, using a methodology developed by the Science Based Targets Initiative. The targets are publicly disclosed in the company's Sustainability Report and are based on a scenario that has been developed in conjunction with an external consultant. However, these targets are currently pending approval from the SBTi, which limits the current assessment of their validity.

## 4. Implementation Transparency

### INFORMATION PROVIDED BY ISSUER

ČEZ Group prepared a presentation on their investment story, which outlines their expenditure to 2030 to finance the first stage of their transition and is publicly disclosed.

<sup>26</sup> Please refer to the materiality discussion of KPI1 in this SPO for further context.

**Pillar 1 of strategy:**

*Electricity generation*

ČEZ Group is projecting an annual CAPEX of 6-7 CZK billion 2021-2025 and 14-15 CZK billion 2026-2030, in renewables generation capacity. Electricity production from nuclear power plants is planned to be increased over 32TWh. Renewables (wind and solar) capacity is planned to be increased by 6GW (currently produces 1.6 TWh). Hydropower production which is currently 2TWh will remain unchanged. As a consequence, coal will be heavily reduced.

*Smart Grids*

To modernize the electricity grid, they are projecting 14-15 CZK billion annually between 2021-2030. This will support almost 7,000km of new optic fiber networks, smart meter rollout and remote measurement of transformer stations.

**Pillar 2 of strategy:**

*B2C*

Annually invest 0.2 CZK billion between 2021-2030 to digitalise all customers processes

*ESCO business*

ESCO annual investments annually of 6 CZK billion 2021-2025 and 6-7 CZK billion 2026-2030 to enable efficient decarbonization and delivery of energy savings for its customers in industry, municipalities and public administration.

The company's main research and development efforts focus on nuclear energy, emission reduction in fossil fuel sources, materials engineering, the use of smaller energy sources, digitalization and information technology, and energy storage including the development of hydrogen technologies. ČEZ Group companies' operating expenses on research and development were CZK 1,031 million in 2020.

ČEZ is also helping to ensure a just transition through reskilling or compensation for 100% of employees affected by coal exit.

**Opinion:** ISS ESG finds that the issuer provides detailed transparency on the underlying investment program on the type of investments until 2030. Projected capital expenditure is separated into two strategic pillars, encompassing various elements from energy generation to grid modernization. ISS ESG further recommends a more detailed breakdown of the relative CapEx expenditures into the different energy sources. ISS ESG welcomes ČEZ's inclusion of considerations of how its transition strategy may impact its employees. Through re-skilling or compensation, ČEZ aims to ensure a 'just transition' for all of its employees that are affected by the exit from coal.

## PART 3: LINK TO ČEZ'S SUSTAINABILITY STRATEGY

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	INDUSTRY	DECILE RANK	TRANSPARENCY LEVEL
ČEZ AS	Electric Utilities	4	Very High

This means that the company currently shows a medium sustainability performance against peers on key ESG issues faced by Electric Utilities industry and obtains a Decile Rank relative to industry group of 4, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

### ESG performance

As of 21.02.2022, this Rating places ČEZ 44<sup>th</sup> out of 128 companies rated by ISS ESG in the Electric Utilities industry.

Key Challenges faced by companies in term of sustainability management in this industry are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

### Key Issue Performance



### Sustainability Opportunities

ČEZ is engaged in the generation, distribution and trading of electricity and heat. In addition, the company provides energy-related services and runs lignite mines. ČEZ operates in the Czech Republic and several other countries in Central, Western and Southeastern Europe. The company's mining activities accounted for 2% of revenues in 2020. In the same year, ČEZ derived its gross energy generation from nuclear power (49.3%), lignite (31.7%), natural gas (6.4%), coal (3.8%), hydropower (4%), wind power (2.6%), biomass (1.9%) and solar power (0.2%). The average carbon intensity of ČEZ's total energy generation amounted to 350 gCO<sub>2e</sub>/kWh in 2020. ČEZ intends to add 1.5 GW of renewable capacity by 2025 and 6 GW by 2030. At the same time, the company aims to build a new nuclear power unit and small modular reactors with a combined capacity of over 1 GW (after 2040). The share of coal-fired electricity generation is to decrease to 25% by 2025 and 12.5% by 2030. The company seeks a complete coal exit by 2038. Lastly, ČEZ plans to build new gas-fired power plants which will also be able to burn hydrogen.

### Sustainability Risks

ČEZ has set itself several GHG emission reduction targets. The company aims to reduce the emission intensity of energy generation to 260 gCO<sub>2e</sub>/kWh by 2025 and 160 gCO<sub>2e</sub>/kWh by 2030. ČEZ is also committed to setting a science-based target. Overall, the company intends to achieve carbon neutrality by 2050. As for the company's nuclear power plants, ČEZ exhibits a sound approach to

facility safety, emergency preparedness and radioactive waste management. However, major risks still relate to the final disposal of highly radioactive waste. ČEZ provides some evidence of environmental protection measures in relation to air emission control technologies for fossil fuel power plants, mining site closures and reclamation, and the operation of wind turbines. While the company’s hydropower plants hold ISO 14001 certification, it remains unclear to what extent measures have been put in place to mitigate adverse impacts on local biodiversity, ecosystem integrity and in relation to safety. ČEZ has established health and safety management systems, some of which are certified to an international standard. However, there have been several fatal accidents in recent years. In addition, accident numbers are not disclosed in a way that allows for benchmarking and comparison with industry peers.




*Governance opinion*






None of the members of ČEZ’s supervisory board are considered independent. This also holds true for the chairman, Otakar Hora (as at June 2021). Besides, there is no evidence to suggest that the company has established fully independent board committees in charge of audit, remuneration and nomination matters. Compensation for the most highly paid members of the executive management team is publicly disclosed on an individual basis and sub-divided according to fixed amounts, variable performance-related components and long-term incentive components.

There are no indications of an independent committee at supervisory board level tasked with the supervision of the company’s sustainability strategy. Sustainability performance objectives are considered in executive remuneration schemes and relate to power plant safety, among other things. However, details are lacking. ČEZ has implemented a comprehensive code of business conduct that covers all the relevant issues, including antitrust violations, corruption and insider trading. Some procedures to ensure compliance with the code have been implemented. They include compliance trainings, risk assessments, audits, third party anti-corruption due diligence, and the facilitation of non-compliance reporting.

*Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of the ČEZ current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to evaluation of final product characteristics and does not include practices along the ČEZ’s production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
<b>energy supply to residential customers</b>	10.8%	CONTRIBUTION	
<b>energy generation based on hydropower (&gt;10MW)</b>	1.5%	CONTRIBUTION	 

<b>Nuclear energy generation</b>	17%	CONTRIBUTION		
		OBSTRUCTION		
<b>energy generation based on coal; thermal coal</b>	14.5%	OBSTRUCTION		
<b>Others</b>	N/A	NO NET IMPACT	N/A	

*Breaches of international norms and ESG controversies*

As of 18.02.2022, the company is not facing any controversy.

*Contribution of KPIs to sustainability objectives and key ESG industry challenges*

ISS ESG mapped the KPI selected by the issuer for its Sustainability-Linked financing instrument with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Electric Utilities Industry. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings industry. From this mapping, ISS ESG derived a level of contribution to the strategy of each KPI selected.

KPI SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>GHG emission reduction (Scope 1)</b>	✓	✓	Contribution to a material objective

**Opinion:** *ISS ESG finds that the KPIs are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing sustainability-linked financial instruments is clearly described by the issuer.*

## DISCLAIMER

1. Validity of the SPO: For ČEZ 's Sustainability-linked Financing Instrument issuances as long as the Sustainability-Linked Financing Framework (March 2022), SPTs benchmarks and structural securities characteristics described in this document do not change.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
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## ANNEX 1: ISS ESG Corporate Rating

The following pages contain extracts from ČEZ's 2022 ISS ESG Corporate Rating.

### Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

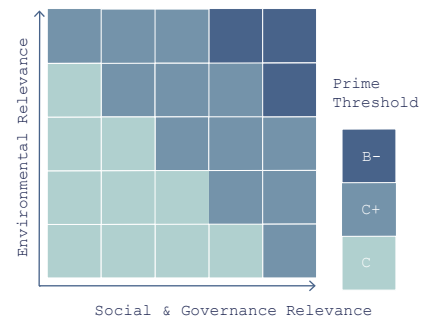
**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).



**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 2: Methodology

### ISS ESG Corporate Rating

The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from industries with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per industry, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

### Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles, as administered by ICMA

ISS ESG reviewed the Sustainability-Linked Financing Framework of ČEZ, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA and Sustainability-Linked Loan Principles administered by the LMA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond and Loan market by clarifying the approach for issuance.

ISS ESG reviewed the alignment of the concept of the ČEZ's issuance with mandatory and necessary requirements as per the Appendix II - SLB Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

### Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT. ISS ESG analysed if the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable by referring to key GHG reporting protocols and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPT against ČEZ's own past performance (according to ČEZ's reported data), against ČEZ's Electric Utilities peers (as per ČEZ's peer group list and ISS ESG data), and against international benchmarks such as the Paris agreement (based on data from the Transition Pathway Initiative). Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of ČEZ.

## ANNEX 3: Quality management processes

### SCOPE

ČEZ commissioned ISS ESG to compile a Sustainability-linked Financing Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainability-Linked Financing Framework aligns with the ICMA Sustainability-Linked Bond Principles, the ICMA Climate Transition Finance Handbook and the LMA Sustainability-Linked Loan Principles and to assess the sustainability credentials of its Sustainability-Linked Financing Instruments, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Sustainability-Linked Bond Principles
- ICMA Climate Transition Finance Handbook
- LMA Sustainability-Linked Loan Principles

### ISSUER'S RESPONSIBILITY

ČEZ's responsibility was to provide information and documentation on:

- ČEZ's Sustainability-Linked Financing Framework (March 2022 version)

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-linked Financing Instrument to be issued by ČEZ based on ISS ESG methodology and in line with the ICMA Sustainability-Linked Bond Principles and the LMA Sustainability-Linked Loan Principles..

The engagement with ČEZ took place in February - March 2022.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For information about SPO services, please contact: [SPOsales@isscorporatesolutions.com](mailto:SPOsales@isscorporatesolutions.com)

For information about this specific Sustainability-linked Financing Instruments SPO, please contact: [SPOOperations@iss-esg.com](mailto:SPOOperations@iss-esg.com)

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