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CREDIT OPINION
5 April 2024

Update

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RATINGS

CEZ, a.s.

Domicile	Prague, Czech Republic
Long Term Rating	Baa1
Type	Senior Unsecured - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CEZ, a.s.

Update following change in outlook to negative

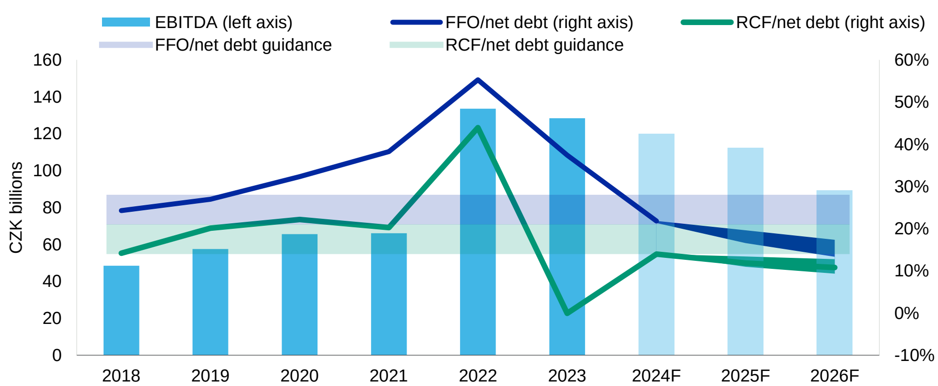
Summary

On 26 March 2024, we affirmed the Baa1 ratings of CEZ, a.s. (Baa1 negative) and changed its outlook to negative following the company's announcement that it would acquire a 55.21% stake in GasNet for €846.5 million. While the acquisition will increase the share of regulated earnings in CEZ's business mix, the acquisition comes with a substantial debt burden because GasNet is heavily indebted. Without any credit enhancing measures, we expect the company to display weak credit metrics from 2025 onwards.

CEZ's credit quality is supported by its leading position in the Czech electricity market and well-balanced vertical integration; the low-cost nature of its nuclear and lignite power generation fleet; and the relatively stable and predictable cash flow generated by its electricity distribution activities in the Czech Republic.

These positives are counterbalanced by the company's relatively high exposure to merchant power generation, which, together with the mining segment, accounted for 82% of EBITDA in 2023 given recent high wholesale prices, and volatility in commodity prices; its limited geographical diversification; its exposure to decarbonisation policies because of its centralised and carbon-intensive (lignite and coal) power generation; and the risks associated with its large investment plan, which encompasses new solar, gas and nuclear capacity in the Czech Republic, as well as continued large investments into its distribution network.

Exhibit 1
The acquisition of GasNet will pressure credit metrics from 2025 onwards



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings

CEZ's credit quality is supported by the Government of the Czech Republic's (Aa3 stable) 70% ownership in the company.

Credit strengths

- Status as a major power generator in the Czech Republic, with more than 60% of output based on low-cost nuclear and renewable power generation
- Stable cash flow, supported by regulated network distribution activities
- Ownership by the Czech government

Credit challenges

- Weakened credit metrics following acquisition of a majority stake in GasNet
- Large exposure to lignite and coal-fired generation in the Czech Republic, resulting in an exposure to decarbonisation policies
- Uncertainty surrounding new nuclear plant development with regard to construction, as well as the balance of risks and potential for support, despite having completed key legislative steps in 2021
- Risks associated with a large investment programme, driven by a new strategy focused on new renewable, gas and nuclear capacities

Rating outlook

The negative outlook reflects our expectations that CEZ will display weakening credit metrics from 2025 onwards, which will not be commensurate with its current Baa1 rating. However, we continue to take comfort from CEZ's adherence to its internal financial policies. The company has shown a strong track record over the years whereby its reported net leverage has remained below or within the 2.5x-3.0x leverage target that CEZ seeks to operate within and there is scope for credit enhancing measures to be put in place that could buffer the impact of the acquisition of the majority stake in GasNet.

Factors that could lead to an upgrade

In view of the negative outlook, upward pressure is currently unlikely. Over time, upward pressure could build if the government continues to provide strong support and the company's fundamental strength remains commensurate with at least its current BCA of baa2. In addition, CEZ would have to implement adequate measures to mitigate risks arising from the development of new nuclear plants.

Factors that could lead to a downgrade

We could downgrade CEZ's rating if the company fails to maintain a financial profile commensurate with the revised guidance of funds from operations (FFO)/net debt above 22% and retained cash flow (RCF)/net debt above 15%. Downward pressure could also build if the company's business risks increase because of, for example, its involvement in new nuclear development projects without any support mechanism; or the government support assumption currently incorporated into our assessment weakens. Any rating downgrade would take into consideration the Czech government's credit quality and the likelihood of extraordinary support.

Key indicators

Exhibit 2

CEZ, a.s.

(in CZK millions)	2019	2020	2021	2022	2023	2024F	2025F	2026F
(CFO Pre-W/C + Interest) / Interest Expense	8.7x	10.4x	11.8x	15.5x	9.4x	8x - 10x	6.5x - 8.5x	5x - 7x
(CFO Pre-W/C) / Net Debt	27.0%	32.4%	38.3%	55.3%	37.4%	21% - 23%	17% - 19%	14% - 17%
RCF / Net Debt	20.1%	22.2%	20.2%	43.9%	-0.1%	13% - 15%	11%- 13%	10% - 12%

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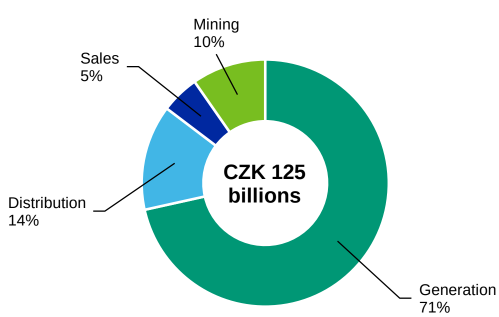
Profile

CEZ, a.s. is one of the largest electric utility companies in Central and Eastern Europe, with 11.9 gigawatts (GW) of installed power generation capacity as of December 2023. After the decommissioning of the Melnik III plant (500 megawatts [MW]) in August 2021, CEZ's energy mix consists mainly of nuclear (36%), and coal and lignite (37%) plants based in Czechia, generating 61% of the national output. After the disposal of its Romanian and Bulgarian assets, the group's primary areas of operation include the Czech Republic (97% of EBITDA in 2023), Germany (1.6%) and Poland (1%). It has a limited presence in France, Slovakia, Italy, Austria, and Turkiye as well.

CEZ's core businesses are power generation, which includes traditional energy and renewables; regulated electricity and gas distribution; sales, including supply activities; and mining and other activities, which complement the core business segments.

Exhibit 3

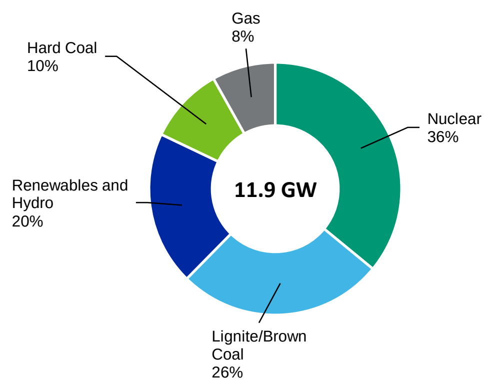
Power generation accounts for the bulk of CEZ's EBITDA
EBITDA breakdown by segment (2023)



Sources: Company and Moody's Ratings

Exhibit 4

CEZ's installed capacity is dominated by nuclear and coal
Breakdown of installed capacity (2023)



Sources: Company and Moody's Ratings

CEZ is around 70% owned by the Czech government, while the remaining shares are listed on the Prague and Warzaw Stock Exchanges. As of the end of March 2024, CEZ had a market capitalisation of around CZK450 billion (€18 billion).

Detailed credit considerations

Locked-in high power prices will continue to support generation earnings in 2024

CEZ is the largest power generator in the Czech Republic. In 2023, the company produced 51.5 terawatt-hour (TWh) or more than 60% of all the electricity in the country. This position is further supported by its vertical integration because the company owns mines covering its lignite needs and had a 45% market share based on number of connections in the electricity supply business as of December 2022.

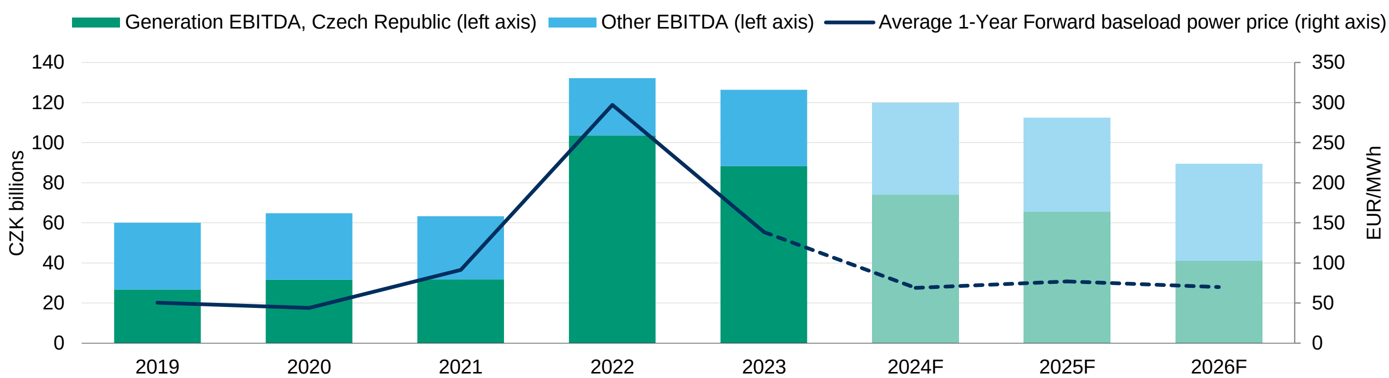
CEZ's generation fleet is stable and predominantly not exposed to growing fuel prices, with 90% of total generation output represented by nuclear (61%) and coal and lignite (29%) in 2023. The nuclear output reached 30.4 TWh on average over 2019-23, with a load factor well above 80%. Nuclear fuel costs were low at €8/megawatt-hour (MWh), including payment for burnt fuel storage.

Lignite (27% of installed capacity in 2023) is sourced from the company's own mines at fixed costs. However, the generation is exposed to carbon price risk. In 2023, the European carbon futures traded around the €85/tonne mark on average, after reaching an all-time high of more than €100/tonne in February 2023. CEZ expects the average achieved cost for carbon to continue to grow gradually until 2025. Assuming 42% efficiency, a €1/tonne increase would translate into a roughly €85 cents/MWh increase in marginal costs, weighing on the profitability of unhedged production of lignite-fired plants should carbon prices follow this trajectory. However, carbon prices have been on a downward trend over the past 12 months and are currently trading at around €65/tonne.

Exhibit 5

CEZ's EBITDA is traditionally sensitive to power prices; revenue caps on inframarginal rents have affected 2023 financial performance

EBITDA in CZK billions and power price in €/MWh



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Source: Moody's Ratings

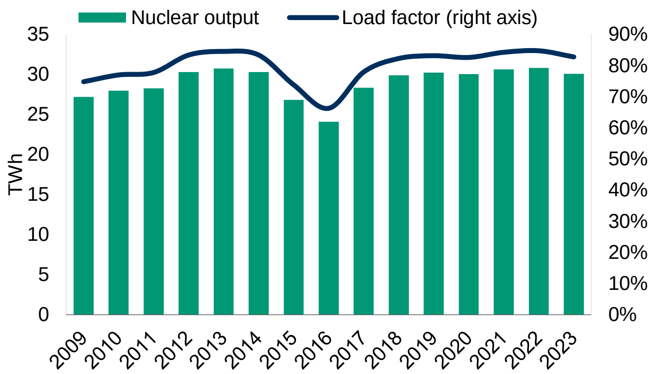
Czech power prices are closely linked to those in Germany[1], given the interconnections between the two countries. Current power prices in the Czech Republic are almost at the same level as that in Germany; this differential had been narrowing for a few years, and we expect this trajectory to continue over the next few years, as also suggested by the current forward curve (see Exhibit 7). However, the markets will remain volatile as the output of renewables grows and nuclear plants have been shut down in Germany. In this regard, the difference in the evolution of wholesale power prices in the Czech Republic and Germany will be driven by the implementation of the countries' plan to phase out coal. In that respect, the new Czech government appointed in December 2021 accelerated the target to shift away from coal to 2033 from the previous 2038 recommended by the coal commission, compared with Germany's 2030 goal.

Over the course of 2023 and into 2024, power prices have decreased significantly, with power prices in Czechia currently trading at around €65/MWh, which represents a decline of 40% compared with the price levels seen a year earlier. The declining power prices will have an impact on CEZ's EBITDA arising from its power generation; however, CEZ will continue to benefit from hedges put in place at higher price levels. As of year-end 2023, CEZ had hedged 94% of its output at €129/MWh for 2024, 65% of its output at €125/MWh for 2025 and 29% of its output at €107/MWh for 2026. In addition to power prices, CEZ hedges its exposure to carbon prices. The company has hedged a substantial share of its emission allowances' needs at €78/tonne for 2024, but much less for the two subsequent years (at €96/tonne for 2025 and €97/tonne for 2026, respectively). As such, the hedges are currently out of the money because the carbon price is currently trading at around €65/tonne as of March 2024 and one-year forwards at around €58/tonne.

In November 2022, the Czech government introduced a cap on electricity tariffs to protect households from high power prices, similar to many other governments across Europe. This measure was funded with higher dividends paid by state-owned companies to support the government's budget; a revenue cap on inframarginal rents, affecting nuclear and lignite plants, which returned 90% of revenue exceeding €70/MWh and €180/MWh, respectively, from December 2022 to year-end 2023. Although these inframarginal rents will cease in 2024, a 60% windfall tax is implemented for the 2023-2025 period, applied to the income exceeding the historical average from 2018-21 by 20%. We nonetheless expect the introduction of the windfall tax to be temporary. CEZ expects the amount of windfall tax in 2024 to reach CZK20 billion-CZK30 billion (windfall tax in 2023 was CZK30.1 billion).

Exhibit 6

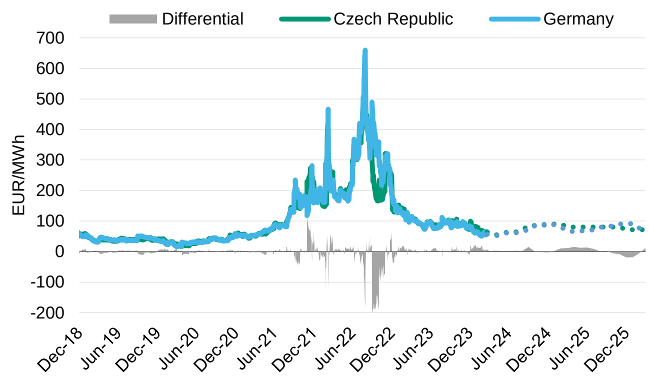
Stable nuclear production, with a high load factor and low operating costs, will support CEZ's generation profit



Sources: Company and Moody's Ratings

Exhibit 7

Electricity prices are likely to remain higher than the historical average despite a sharp decline since the 2022 highs



Dotted lines represent futures prices for yearly contracts.

Sources: FactSet and Moody's Ratings

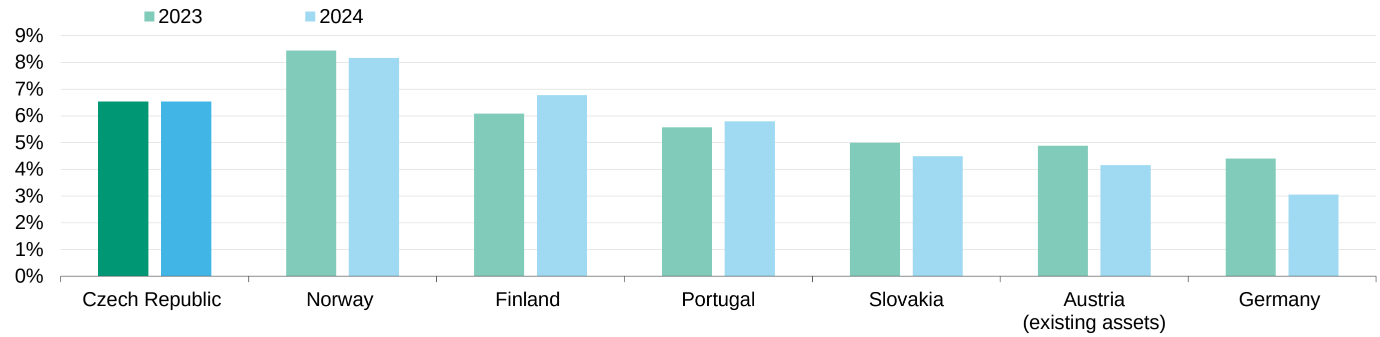
The addition of GasNet will increase the share of regulated earnings, which supports cash flow stability

In 2023, CEZ derived around 11% of EBITDA from regulated electricity distribution network activities, down from 14% in 2022. The decline is driven by the higher proportion of generation in CEZ's earnings mix on the back of the high power price environment in the beginning of 2023. Following the divestment of assets in Bulgaria and Romania, the regulated electricity distribution activities are now derived from the Czech Republic only, where the company owns five of the eight distribution grids, representing an aggregate regulated asset base (RAB) of CZK142 billion and accounting for around 66% of Czech electricity distributed.

Through the acquisition of a 55.21% stake in GasNet, CEZ also enters into gas distribution. The acquisition of a majority stake in GasNet makes strategic sense as it allows for CEZ to further consolidate its foothold in the domestic Czech energy market, although in a new a business line for CEZ. Furthermore, there could be benefits in the future of controlling both electricity and gas networks when capital spending is to be deployed for the development of hydrogen. GasNet displays a low-risk business profile, underpinned by a predominant position in gas distribution in the Czech Republic with a high market share; transparent, predictable and supportive regulation benefiting from a long track record; asset remuneration that is supported by a high pretax allowed return (WACC) in comparison with other European regulated networks; and modest investment requirements in comparison with CEZ's own electricity distribution networks.

The regulatory framework for electricity distribution networks in the Czech Republic is well defined, providing adequate and fair remuneration for operating expenditure and investments, and is generally supportive of CEZ's credit quality. The fifth five-year regulatory period came into force on 1 January 2021. It retains key building blocks of the last regulatory framework, with minor changes reflecting evolutionary enhancements in some areas and developments in the wider energy policy landscape, for example, the European Commission's Clean Energy Package. Even though the WACC decreased to 6.54% from 7.951% in the new regulatory period, allowed revenue is still one of the highest among European peers we rate. CEZ projects its RAB will grow by 6% per year in this decade to reach close to CZK200 billion by 2030.

Exhibit 8
Nominal, pretax allowed returns for select electricity distribution regulations in Europe



Allowed pretax return in 2023 and 2024 are estimated for Norway and Portugal; while that in 2024 is estimated for Finland. See Regulated Electric & Gas Networks Outlook 2024 for details of calculation.
Source: Moody's Ratings

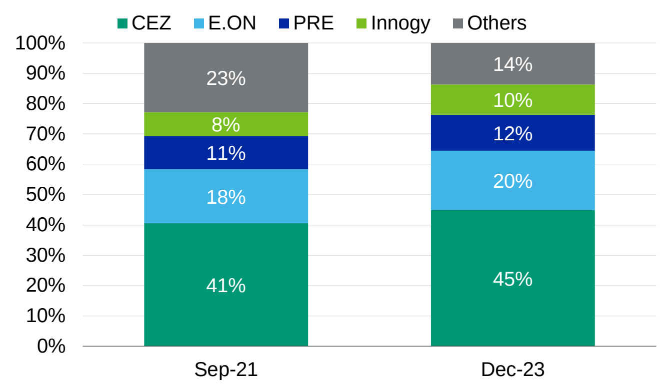
Supply in the Czech Republic is growing, underpinned by a stronger market share and tariff increase

As of December 2023, CEZ was the largest supplier of electricity in the Czech Republic, with a 45% market share. Evolution of market shares has been stable over the last 12 months.

In line with the higher electricity prices during the last quarter of 2021 and over 2022, CEZ gradually increased its market share. The sudden increase in wholesale electricity and gas prices resulted in the collapse of several suppliers, which led to the subsequent switch of almost one million customers to suppliers of last resort (SoLR). These developments led to market consolidation and reduced competition for the remaining suppliers. CEZ is, by law, the SoLR for almost 65% of customers in the Czech Republic. Because the price set by CEZ as a SoLR reflects current market electricity prices, administrative costs and a low profit margin, the short-term credit implication of this development for the company has been neutral. CEZ's electricity customers increased by more than 300,000. We positively consider the increase in the group's supply market share, enabling economies of scale for this low-margin business.

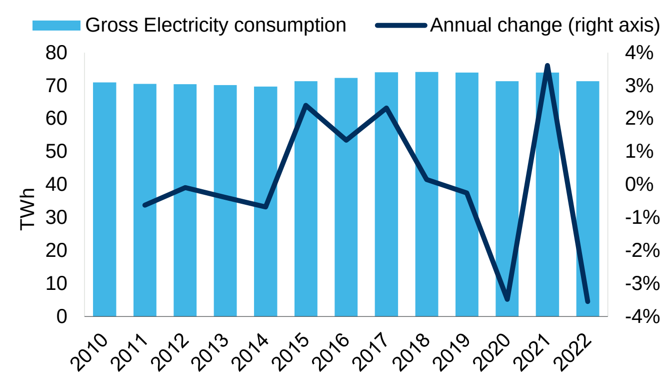
Following a gradual decline over 2015-20, electricity consumption in the Czech Republic strongly recovered in 2021, as a result of favourable macroeconomic conditions that boosted demand from industrial and commercial customers. By contrast, in 2022, there was a 3.5% contraction in consumption following the successive tariff hikes led by skyrocketing power prices. We expect electricity consumption to start increasing in the coming years, supported by domestic economic growth and an increase in electrification in the economy, including transportation and industries.

Exhibit 9
CEZ gained a significant portion of the domestic supply market, following defaults of electricity suppliers in H2 2021



Suppliers' market shares based on connection points
Sources: Czech electricity and gas market operator (OTE) and Moody's Ratings

Exhibit 10
Electricity consumption in the Czech Republic has been volatile because of the pandemic and the significant surge in power prices



Sources: Czech Statistical Office, Czech Energy regulator (ERO) and Moody's Ratings

The 2030 strategic plan focuses on the domestic market, renewables and nuclear generation, as well as customers, increasing capital requirements

In May 2021, CEZ presented a new strategic plan, Vision 2030 - Clean Energy of Tomorrow. The group's long-term strategy aims to decarbonise the group's generation and reach carbon neutrality by 2040; and focus on customers by developing new energy solutions. The plan was enhanced in 2022 to address the structural changes in Europe's gas procurement resulting from the Russia-Ukraine conflict.

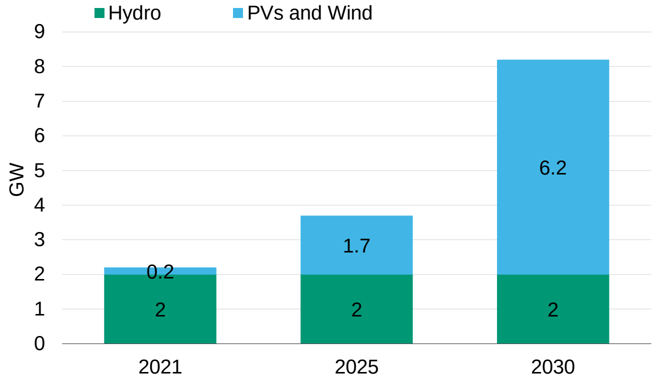
New renewables capacity will drive decarbonisation while preserving the nuclear fleet's efficiency. CEZ plans to build 1.5 GW of new photovoltaic (PV) capacity by 2025, partly subsidised under the Modernisation Fund, and an additional 4.5 GW by 2030, in the Czech Republic. Approved by the Czech Parliament in December 2019, the Modernisation Fund aims to support renewable projects in the Czech Republic over 2021-30, providing CZK150 billion in the form of subsidies. The actual amount of subsidies will be determined through auctions handled by the Czech Ministry of Environment and grants will fund no more than 50% of construction costs, or CZK6.2 million-CZK7.3 million per megawatt installed, provided the projects are implemented within 60 months following the granting. The electricity generated will be sold at market prices. Over 2023-27, CEZ will invest CZK43 billion in new renewable capacities, and expects to receive roughly CZK16 billion of subsidies from the Modernisation Fund. In the first auction that took place in Q1 2022, 17 of CEZ's projects involving 173 MW installed capacity were granted CZK1.0 billion in subsidies. Another 728 MW of capacity were granted CZK3.1 billion of subsidies in the second quarter of 2023.

CEZ also plans to increase the production of its existing nuclear plants to more than 32 TWh per year from 30 TWh in 2020, backed by optimised maintenance outages and the extension of the fuel replacement cycle. In addition, CEZ will remain actively involved in the development of new nuclear capacity in the Czech Republic, with the first large power plant scheduled to be commissioned in 2036-38 and the construction of small modular reactors (SMRs) that will gradually start operating in 2030-35 (see the “New nuclear projects would entail significant risks” section).

In parallel, CEZ plans to gradually reduce its coal capacity from 4.3GW (as of year-end 2023) to 2.2GW by 2030, and then to entirely exit coal by 2033 — in line with the deadline suggested by the National Energy and Climate Plan approved by the Czech Government in October 2023. During the process, it will also seek to terminate burning coal for heating purposes by 2030. CEZ projects its share of coal-fuelled generation to be around 25% in 2025, and then to decrease to around 12.5% in 2030 (against a share of 28% as of the end of December 2023). CEZ supplies its coal from its own mines. Current extraction amounts to around 16 million tons, out of which 30% is sold externally. Extracted coal volume is projected to decline to 8 million tons by 2030, in line with closure of the company's coal capacity, before ultimate closure occurs by 2033. Supporting the transition, the Czech Republic will receive €1.64 billion in EU grants per the Just Transition Fund (JTF) Programme adopted by the EU Commission in September 2022.

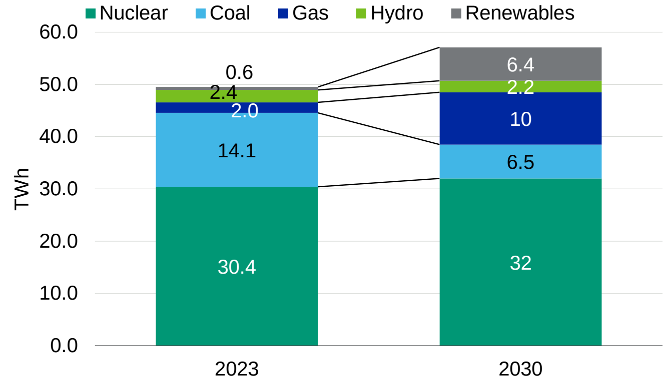
Finally, to preserve security of energy supply in the Czech Republic, following the sharp reduction in Russian gas flows, CEZ secured an annual quantity of 3 billion cubic meters of gas (equivalent to one-third of the Czech Republic's annual gas consumption) from the new Dutch floating liquefied natural gas terminal operated by N.V. Nederlandse Gasunie (A1 stable) over 2022-27. This contract is neutral to CEZ's credit quality, given the absence of exposure to prices (simultaneous purchases and sales on spot markets, with a payment that occurs 10 days after re-gasification) and volumes because CEZ has options to sell capacity to the Czech government if necessary.

Exhibit 11
CEZ plans to quadruple its renewables installed capacity by 2030, mainly driven by new PV capacity



Sources: Company and Moody's Ratings

Exhibit 12
Renewables and gas will replace coal generation, while nuclear will remain predominant, leading to lower carbon intensity



Sources: Company and Moody's Ratings

In parallel, Vision 2030 aims to reinforce the services provided to customers through the development of digital solutions in the Czech Republic, including the rollout of digital grids and smart meters, which will improve network reliability and efficiency. CEZ also plans to ramp up the ESCO division, which is specialised in energy services in the Czech Republic, as well as in Germany, Northern Italy and Poland.

Over the next decade, CEZ will keep focusing on its domestic market, after having exited from segments and countries where the group saw limited potential for growth or increased competitive strain on returns. In 2021, CEZ closed the disposal of its Romanian and Bulgarian assets to Macquarie Infrastructure and Real Assets (MIRA) and Eurohold Bulgaria, respectively, for a total consideration of roughly €1.3 billion. Furthermore, in December 2023, CEZ completed the sale of its share in AKCEZ, Turkiye, to Torunlar Group. The company has recently restarted the sales process of its main Polish operations.

New nuclear projects would entail significant risks

In July 2019, the Czech government approved a framework plan for the development of a new nuclear plant at the Dukovany site, which will allow the country to remain self-sufficient in power generation after domestic coal runs out and the existing nuclear plants reach the end of their operational life. The framework plan assumes that CEZ will invest in new nuclear capacity based on a contract with the government.

Per the government's plan, the project will be developed as a dedicated special-purpose vehicle (SPV) held by CEZ. The contract with the government includes put and call options at various stages of the development of the project, with an obligation for the government to buy the SPV for a price principally corresponding to the cumulative project costs to date in case there is no agreement on the then next phase of the project. In July 2020, a framework agreement to regulate general terms and conditions for the preparation of construction, and an implementation contract for the first phase were signed. During the first phase of the project, CEZ has the option to sell the SPV to the government with a compensation for the cost incurred of up to CZK4.5 billion. The framework is still subject to approval by the European Commission from a state aid rules perspective.

In September 2021, the government promulgated the required legislative framework for the project under the Low-carbon Energy law. The latter defines inter alia the terms of the power purchase agreement (PPA) for the new nuclear source and the funding in the form of a repayable financing assistance (RFA) with 0% interest during construction and at least 2% during the first 30 years of operations.

In March 2022, CEZ launched a tender for an EPC contractor for the new unit after the Ministry of Industry and Trade's approval. Three groups — Electricite de France (Baa1 stable), Westinghouse and Korea Hydro & Nuclear Power Co., Ltd. (Aa2 stable) — submitted their initial bids in November 2022. Westinghouse was subsequently not retained and in January 2024, the Czech government asked the two remaining suppliers to complete additional bids by 15 April 2024. However, the government is now asking the bidders submit binding bids for up to four reactors, which is more than what CEZ initially agreed to. The contracts are likely to be finalised in 2024, and the construction will start in 2029.

In parallel, CEZ will develop SMRs, allocating space at the Temelin site. SMRs are advanced nuclear reactors with a power capacity of up to 300 MW per unit, which is roughly one-third of the generating capacity of traditional nuclear power reactors. The group will select the technology to be adopted by year-end 2024, and expects the commissioning of the first unit in the first half of the next decade.

Overall, the potential new nuclear plant development by CEZ is credit negative. The precise effect of the projects will depend on the balance of risks between the company and the government. The Czech government appears very committed to supporting new nuclear plant development in terms of energy transition towards a low-carbon-generation mix. This is particularly relevant in the context of the significant execution risks in nuclear plant construction — long lead time, high costs and complex engineering — as shown by the long delays and cost overruns for the ongoing projects in other European countries.

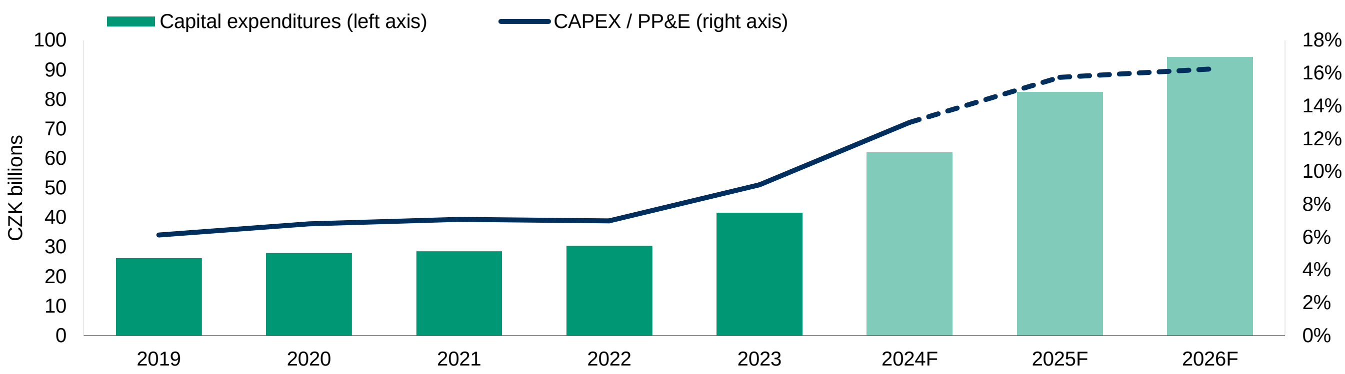
Acquisition of GasNet stake weakens credit metrics; long-term credit metrics will be subject to the evolution of investments and dividend policy

CEZ will consolidate GasNet in its reporting upon closing of the acquisition. As of the end of June 2023, GasNet had close to CZK70 billion of debt outstanding (including a CZK14 billion shareholder loan). As of year-end 2022, the company reported net leverage of 5.78x and net debt/RAB 88% (net debt calculation excludes the shareholder loans). Because GasNet operates with substantially higher leverage than CEZ, the consolidation will hurt CEZ's credit metrics.

Moreover, given the shift towards low-carbon capacity to offset the decline in coal power plants' output, CEZ will embark on a significant increase in its capital spending programme, which will total CZK600 billion-CZK700 billion over 2021-30, excluding the investment in the new nuclear capacities, as well as the partial funding of new renewable capacity through the Modernisation Fund. Capital spending will be equally split between maintenance and growth. During the first six months of 2023, GasNet reported around CZK1.3 billion of capital spending, and we expect future investment requirements to be overall modest in comparison with the standalone investments that CEZ will have to undertake.

Exhibit 13

Capital spending will increase because of the company's ambitious capital programme



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Source: Moody's Ratings

In 2022, the company updated its dividend policy, lowering the targeted payout to 60%-80% of consolidated adjusted net income from 80%-100% over 2019-21, although the actual payout exceeded the range over the last three years, at 122% of the adjusted net income reported in 2020, 116% in 2021 and 100% in 2022.

CEZ did not announce any credit enhancing measures together with the announcement of the GasNet transaction. However, the future level of dividend payments and scale of capital spending will be important drivers of CEZ's credit quality over the next few years.

The consolidation of GasNet will increase structural subordination

The consolidation of GasNet will give rise to increased structural subordination in CEZ's capital structure in view of the fairly substantial amount of debt that will remain at the level of GasNet. However, the structural subordination does not lead to any notching of CEZ's own debt instruments because CEZ only has an immaterial amount of other priority debt sitting at other subsidiaries and because of our expectation that the level of priority debt will — as a proportion of total debt — diminish over the next three years, in line with increased debt issuance at CEZ to finance upcoming capital spending. However, there is limited room for further issuance of priority debt — as a portion of total debt — in CEZ's capital structure at the current rating level.

Government ownership supports credit quality

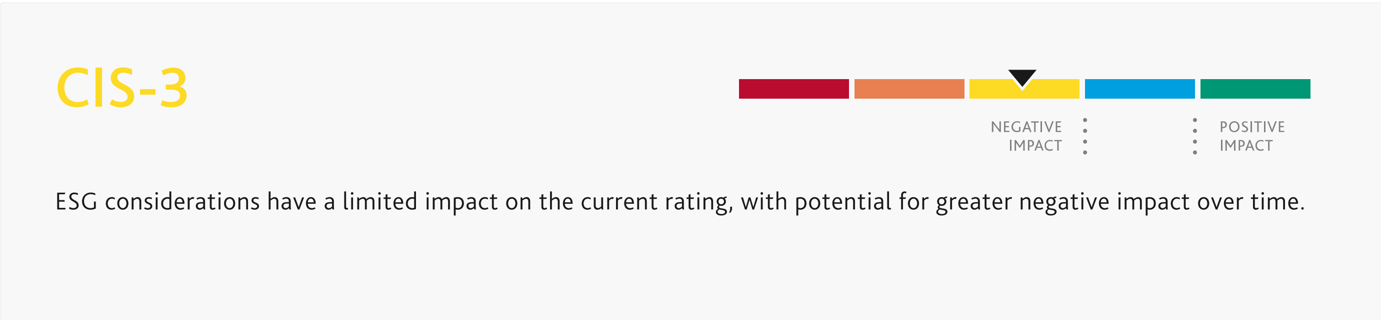
CEZ is 70% owned by the Czech government, and we expect the state to continue to hold a majority stake in the company. The company plays a critical role within the Czech energy sector and has a high strategic importance to the overall Czech economy because it is one of the largest employers and contributors to the state budget.

In 2022, the Czech government announced its intention to increase its control over energy sources in the Czech Republic, including a transformation of CEZ. In that context, plans have been put forward to potentially split CEZ. However, there currently are no concrete proposals being discussed.

ESG considerations

CEZ, a.s.'s ESG credit impact score is CIS-3

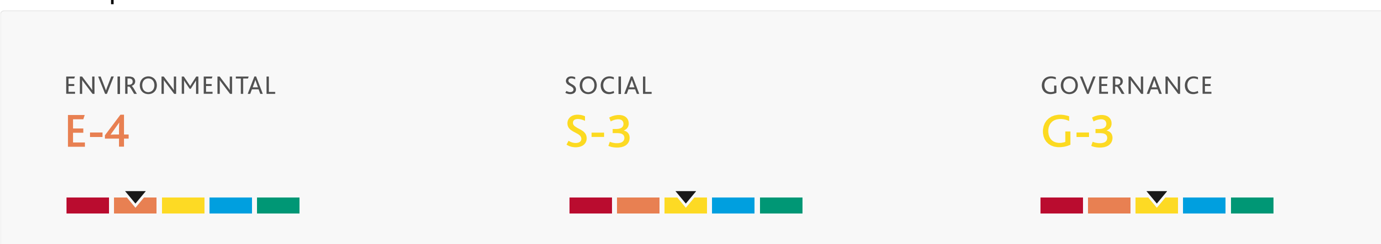
Exhibit 14
ESG credit impact score



Source: Moody's Ratings

CEZ's Credit Impact Score is **CIS-3**, reflecting highly negative environmental risks, and moderate social and governance risks.

Exhibit 15
ESG issuer profile scores



Source: Moody's Ratings

Environmental

CEZ's **E-4** issuer profile score reflects risks associated with the company's exposure to waste and pollution resulting from its significant involvement in mining (53% market share in Czech Republic, or 17.8m tons of coal) as well as the risks associated with nuclear decommissioning. The group faces a moderately negative risk from the carbon transition, given its reliance on fossil fuels, including coal, lignite and natural gas (45% of 2022 installed capacity).

Social

The **S-3** issuer profile score reflects the fundamental utility risk that demographics and societal trends could include social pressures or public concern around affordability, utility reputational or environmental concerns. In turn, these pressures could result in adverse political intervention into utility operations. The group is also exposed to moderate health and safety risks associated with its mining business (c. 16% of workforce).

Governance

CEZ's **G-3** issuer profile reflects a concentrated ownership structure, a dividend policy that has seen a pay out ratio above 100% over the past three years, and a sizeable capital expenditure to 2030 which will result in a leverage increase (to 3x EBITDA in 2030 from 2.0x in 2022). The governance profile is however supported by low to neutral scores on financial strategy and risk management, management credibility and track record, organizational structure, compliance and reporting.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

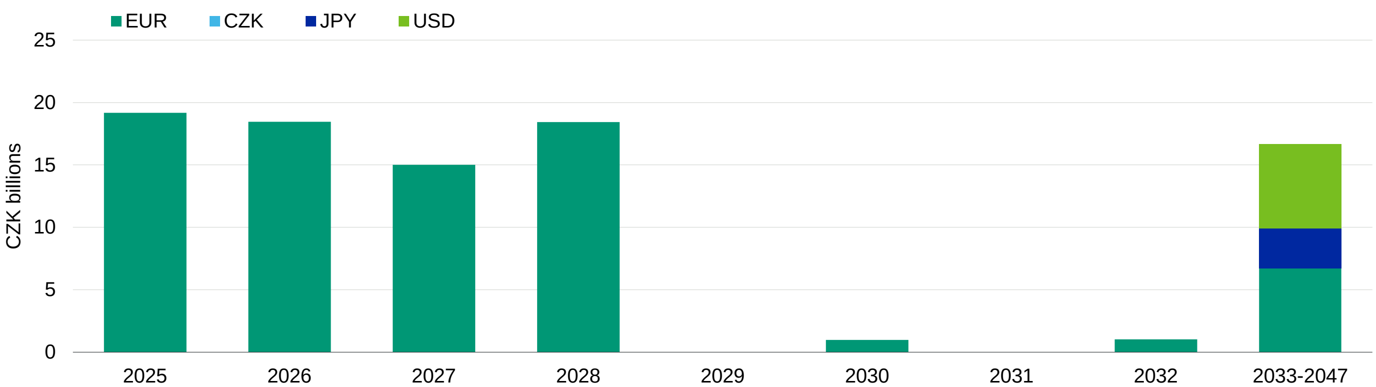
Liquidity analysis

As of the end of December 2023, CEZ's liquidity was supported by CZK11 billion (around €0.4 billion) of cash and cash equivalents and CZK67 billion (around €2.7 billion) of undrawn committed facilities. CEZ announced it had put in place an additional bridge financing to fund the acquisition of the GasNet stake

We expect CEZ to maintain sound liquidity over the next 12 months. However, its own cash flow is unlikely to be sufficient to cover all of the company's sizeable capital spending and dividend payments. As a result, we expect CEZ to draw more frequently on its committed facilities over the next two to three years.

Exhibit 16

Bond maturity profile as of the end of December 2023
In CZK billions



Source: Moody's Ratings

Methodology and scorecard

We rate CEZ in accordance with our Unregulated Utilities and Unregulated Power Companies rating methodology. The company's BCA is one notch lower than the scorecard-indicated outcome of Baa1.

Given its 70% ownership by the Czech government, CEZ is considered a government-related Issuer (GRI) under our Government-Related Issuers rating methodology. Accordingly and based on our estimate of strong support from and moderate dependence on the government, the Baa1 rating factors in one notch of uplift from the company's BCA of baa2.

Exhibit 17

Rating factors

CEZ, a.s.

Unregulated Utilities and Unregulated Power Companies Industry Scorecard	Current FY Dec-23		Moody's 12-18 month forward view	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (USD Billion)	A	A	A	A
Factor 2 : Business Profile (40%)				
a) Market Diversification	Ba	Ba	Ba	Ba
b) Hedging and Integration Impact on Cash Flow Predictability	Baa	Baa	Baa	Baa
c) Market Framework & Positioning	Ba	Ba	Ba	Ba
d) Capital Requirements and Operational Performance	Baa	Baa	Baa	Baa
e) Business Mix Impact on Cash Flow Predictability	Aa	Aa	Aa	Aa
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (40%)				
a) (CFO Pre-W/C + Interest) / Interest (3 Year Avg)	12.2x	A	8x - 9x	A
b) (CFO Pre-W/C) / Net Debt (3 Year Avg)	44.5%	A	19% - 21%	Ba / Baa
c) RCF / Net Debt (3 Year Avg)	22.2%	Baa	12% - 14%	Ba
b) (CFO Pre-W/C) / Debt (3 Year Avg)		NA		
c) RCF / Debt (3 Year Avg)		NA		
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa2
b) Actual Rating Assigned				Baa1
Government-Related Issuer	**Factor**			
a) Baseline Credit Assessment	baa2			
b) Government Local Currency Rating	Aa3			
c) Default Dependence	Moderate			
d) Support	Strong			
e) Actual Rating Assigned	Baa1			

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Adjustments for Non-Financial Corporations.
LTM = Last 12 months.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings

Appendix

Exhibit 18
Peer comparison
CEZ, a.s.

	CEZ, a.s. Baa1 Negative			Vattenfall AB A3 Stable			EnBW Energie Baden-Wuerttemberg AG (P)Baa1 Stable			Fortum Oyj (P)Baa2 Stable		
(in $ millions)	FY Dec-21	FY Dec-22	FY Dec-23	FY Dec-21	FY Dec-22	LTM Sep-23	FY Dec-21	FY Dec-22	LTM Sep-23	FY Dec-21	FY Dec-22	FY Dec-23
Revenue	10,166	13,827	15,860	21,007	23,789	27,835	38,036	59,023	54,650	7,598	8,193	7,257
EBITDA	3,048	5,730	5,787	6,815	2,570	1,910	3,561	4,086	5,753	2,634	3,454	2,392
Total Assets	53,449	48,248	36,116	86,412	75,974	55,926	81,052	74,178	66,207	171,424	26,506	21,967
Total Debt	8,312	11,606	9,732	21,732	23,958	16,311	25,882	23,722	25,331	22,591	9,600	7,825
Net Debt	7,092	9,989	9,245	3,040	7,521	10,068	12,368	12,227	14,701	14,299	5,683	3,204
FFO / Net Debt	38.3%	55.3%	37.4%	169.4%	50.4%	29.4%	24.1%	27.7%	22.6%	12.2%	32.3%	54.7%
RCF / Net Debt	20.2%	43.9%	-0.1%	147.1%	15.2%	22.4%	20.5%	24.0%	19.5%	4.2%	12.9%	26.5%
(FFO + Interest Expense) / Interest Expense	11.8x	15.5x	9.4x	10.6x	5.4x	4.4x	6.4x	5.0x	5.0x	8.8x	7.8x	6.5x
Debt / Book Capitalization	46.3%	46.0%	38.3%	44.9%	62.3%	50.3%	66.9%	59.8%	57.5%	57.8%	53.3%	44.3%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 19
Moody's-adjusted debt reconciliation
CEZ, a.s.

(in CZK millions)	2019	2020	2021	2022	2023
As reported debt	**171,893.0**	**151,827.0**	**137,890.0**	**202,146.0**	**168,910.0**
Non-Standard Adjustments	29,301.0	32,187.0	43,734.0	60,528.0	48,605.0
Moody's-adjusted debt	**201,194.0**	**184,014.0**	**181,624.0**	**262,674.0**	**217,515.0**

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Source: Moody's Financial Metrics™

Exhibit 20

Overview on selected historical Moody's-adjusted financial data

CEZ, a.s.

(in CZK millions)	2019	2020	2021	2022	2023
INCOME STATEMENT					
Revenue	209,391	215,644	220,354	322,203	351,888
EBITDA	57,566	65,521	66,074	133,519	128,408
EBIT	28,550	37,237	34,296	100,755	93,034
Interest Expense	6,631	6,149	5,510	8,606	9,232
Net income	17,508	24,757	22,233	74,732	33,401
BALANCE SHEET					
Net Property Plant and Equipment	427,827	410,095	402,803	434,781	451,655
Total Assets	690,255	687,176	1,167,966	1,091,942	807,185
Total Debt	201,194	184,014	181,624	262,674	217,515
Cash & Cash Equivalents	12,312	6,064	26,640	36,609	10,892
Net Debt	188,882	177,950	154,984	226,065	206,623
Total Liabilities	407,675	409,010	971,960	799,248	501,609
CASH FLOW					
Funds from Operations (FFO)	50,904	57,592	59,315	124,987	77,245
Cash Flow From Operations (CFO)	38,574	67,683	54,757	847	133,435
Dividends	12,861	18,139	27,963	25,649	77,408
Retained Cash Flow (RCF)	38,043	39,453	31,352	99,338	(163)
Capital Expenditures	(26,232)	(27,936)	(28,519)	(30,412)	(41,516)
Free Cash Flow (FCF)	(519)	21,608	(1,725)	(55,214)	14,511
INTEREST COVERAGE					
(FFO + Interest Expense) / Interest Expense	8.7x	10.4x	11.8x	15.5x	9.4x
LEVERAGE					
FFO / Net Debt	27.0%	32.4%	38.3%	55.3%	37.4%
RCF / Net Debt	20.1%	22.2%	20.2%	43.9%	-0.1%
Debt / EBITDA	3.5x	2.8x	2.7x	2.0x	1.7x
Net Debt / EBITDA	3.3x	2.7x	2.3x	1.7x	1.6x

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Periods are financial year-end unless indicated.
Source: Moody's Financial Metrics™

Ratings

Exhibit 21

Category	Moody's Rating
CEZ, A.S.	
Outlook	Negative
Senior Unsecured	Baa1

Source: Moody's Ratings

Endnotes

1 For further information, please see Electricity Markets – Europe: Supply-demand imbalance to ease, but prices to remain above historical levels, published on 5 December 2023.

REPORT NUMBER 1402212

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