

CEZ GROUP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF SEPTEMBER 30, 2020

**CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2020**

In CZK Millions

	Note	September 30, 2020	December 31, 2019
ASSETS:			
Plant in service		875,834	865,106
Less accumulated depreciation and impairment		(491,544)	(469,476)
Net plant in service		384,290	395,630
Nuclear fuel, at amortized cost		13,061	14,250
Construction work in progress, net		24,075	18,208
Total property, plant and equipment		421,426	428,088
Investments in associates and joint-ventures		4,263	3,283
Restricted financial assets, net		22,032	20,732
Other non-current financial assets, net		12,072	10,923
Intangible assets, net		29,222	37,429
Deferred tax assets		1,400	1,481
Total other non-current assets		68,989	73,848
Total non-current assets		490,415	501,936
Cash and cash equivalents, net		6,269	9,755
Trade receivables, net		58,881	65,030
Income tax receivable		2,366	707
Materials and supplies, net		11,247	8,889
Fossil fuel stocks		1,557	1,764
Emission rights		29,826	27,029
Other current financial assets, net		41,182	61,114
Other current assets, net		12,544	11,070
Assets classified as held for sale	5	18,508	17,280
Total current assets		182,380	202,638
Total assets		672,795	704,574

**CEZ GROUP
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2020**

Continued

	Note	September 30, 2020	December 31, 2019
EQUITY AND LIABILITIES:			
Stated capital		53,799	53,799
Treasury shares		(2,845)	(2,885)
Retained earnings and other reserves		193,866	199,847
Total equity attributable to equity holders of the parent		244,820	250,761
Non-controlling interests		5,130	4,603
Total equity		249,950	255,364
Long-term debt, net of current portion	7	152,833	142,570
Provisions		89,845	89,512
Other long-term financial liabilities		9,096	9,700
Deferred tax liability		23,070	20,626
Other long-term liabilities		41	31
Total non-current liabilities		274,885	262,439
Short-term loans	8	7,757	4,260
Current portion of long-term debt	7	9,110	25,063
Trade payables		53,945	66,244
Income tax payable		90	628
Provisions		13,857	14,253
Other short-term financial liabilities		47,284	63,187
Other short-term liabilities		10,615	7,544
Liabilities associated with assets classified as held for sale	5	5,302	5,592
Total current liabilities		147,960	186,771
Total equity and liabilities		672,795	704,574

CEZ GROUP
CONSOLIDATED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

In CZK Millions

	Note	1-9/2020	1-9/2019	7-9/2020	7-9/2019
Sales of electricity, heat, gas and coal		100,784	94,313	31,490	29,738
Sales of services and other revenues		51,842	50,879	16,914	17,457
Other operating income		2,924	2,863	893	833
Total revenues and other operating income	8	155,550	148,055	49,297	48,028
Gains and losses from commodity derivative trading		6,119	5,476	155	557
Purchase of electricity, gas and other energies		(42,546)	(41,745)	(14,154)	(13,934)
Fuel and emission rights		(16,254)	(15,090)	(5,049)	(5,279)
Services		(20,432)	(20,887)	(7,191)	(7,870)
Salaries and wages		(21,789)	(20,341)	(7,388)	(7,077)
Material and supplies		(7,720)	(7,329)	(2,759)	(2,906)
Capitalization of expenses to the cost of assets and change in own inventories		2,727	2,680	1,031	1,092
Depreciation and amortization		(22,083)	(21,432)	(7,205)	(7,219)
Impairment of property, plant and equipment and intangible assets	10	(5,743)	(1,234)	(3,842)	(408)
Impairment of trade and other receivables		(197)	(117)	(62)	(16)
Other operating expenses		(4,470)	(5,952)	(1,631)	(2,725)
Income before other income (expenses) and income taxes		23,162	22,084	1,202	2,243
Interest on debt		(3,993)	(4,057)	(1,183)	(1,359)
Interest on provisions		(1,468)	(1,402)	(489)	(469)
Interest income		321	304	100	94
Share of profit (loss) from associates and joint-ventures		(88)	187	40	275
Impairment of financial assets		(188)	(225)	(154)	(256)
Other financial expenses		(1,319)	(630)	(496)	(242)
Other financial income		1,043	466	201	65
Total other income (expenses)		(5,692)	(5,357)	(1,981)	(1,892)
Income before income taxes		17,470	16,727	(779)	351
Income taxes		(3,884)	(3,122)	(336)	(187)
Net income		13,586	13,605	(1,115)	164
Net income attributable to:					
Equity holders of the parent		13,261	13,438	(1,176)	85
Non-controlling interests		325	167	61	79
Net income per share attributable to equity holders of the parent (CZK per share):					
Basic		24.8	25.1	(2.2)	0.2
Diluted		24.8	25.1	(2.2)	0.2

CEZ GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

In CZK Millions

	Note	1-9/2020	1-9/2019	7-9/2020	7-9/2019
Net income		13,586	13,605	(1,115)	164
Change in fair value of cash flow hedges		(5,598)	4,009	(2,799)	(909)
Cash flow hedges reclassified to statement of income		674	5,486	1,270	1,221
Change in fair value of debt instruments		744	650	14	250
Disposal of debt instruments		-	1	-	-
Translation differences – subsidiaries		2,618	(515)	577	449
Translation differences – associates and joint-ventures		339	37	128	17
Share on other equity movements of associates and joint-ventures		(25)	(5)	(12)	(9)
Deferred tax related to other comprehensive income	11	796	(1,926)	288	(106)
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		(452)	7,737	(534)	913
Re-measurement gains (losses) on defined benefit plans		-	2	-	-
Change in fair value of equity instruments		4	-	4	-
Net other comprehensive income not to be reclassified from equity in subsequent periods		4	2	4	-
Total other comprehensive income, net of tax		(448)	7,739	(530)	913
Total comprehensive income, net of tax		13,138	21,344	(1,645)	1,077
Total comprehensive income attributable to:					
Equity holders of the parent		12,545	21,166	(1,777)	946
Non-controlling interests		593	178	132	131

CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

In CZK Millions

	Note	Attributable to equity holders of the parent									
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at January 1, 2019		53,799	(3,534)	(11,565)	(18,337)	388	113	213,857	234,721	4,560	239,281
Net income		-	-	-	-	-	-	13,438	13,438	167	13,605
Other comprehensive income		-	-	(488)	7,691	529	-	(4)	7,728	11	7,739
Total comprehensive income		-	-	(488)	7,691	529	-	13,434	21,166	178	21,344
Dividends		-	-	-	-	-	-	(12,806)	(12,806)	(25)	(12,831)
Sale of treasury shares		-	649	-	-	-	-	(400)	249	-	249
Share options		-	-	-	-	-	23	-	23	-	23
Exercised and forfeited share options		-	-	-	-	-	(24)	24	-	-	-
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	2	2
Acquisition of non-controlling interests		-	-	(2)	-	-	-	(93)	(95)	29	(66)
Put options held by non-controlling interests		-	-	(1)	-	-	-	124	123	(11)	112
Balance as at September 30, 2019		<u>53,799</u>	<u>(2,885)</u>	<u>(12,056)</u>	<u>(10,646)</u>	<u>917</u>	<u>112</u>	<u>214,140</u>	<u>243,381</u>	<u>4,733</u>	<u>248,114</u>

**CEZ GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

Continued

	Note	Attributable to equity holders of the parent									
		Stated capital	Treasury shares	Translation difference	Cash flow hedge reserve	Debt instruments	Equity instruments and other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at January 1, 2020		53,799	(2,885)	(12,837)	(2,831)	648	(160)	215,027	250,761	4,603	255,364
Net income		-	-	-	-	-	-	13,261	13,261	325	13,586
Other comprehensive income		-	-	2,688	(3,988)	605	4	(25)	(716)	268	(448)
Total comprehensive income		-	-	2,688	(3,988)	605	4	13,236	12,545	593	13,138
Dividends	6	-	-	-	-	-	-	(18,206)	(18,206)	(46)	(18,252)
Sale of treasury shares		-	40	-	-	-	-	(25)	15	-	15
Exercised and forfeited share options		-	-	-	-	-	(15)	15	-	-	-
Contribution from owners of non-controlling interests		-	-	-	-	-	-	-	-	13	13
Acquisition of non-controlling interests	4.3	-	-	-	-	-	-	(302)	(302)	(766)	(1,068)
Put options held by non-controlling interests		-	-	12	-	-	-	(5)	7	733	740
Balance as at September 30, 2020		<u>53,799</u>	<u>(2,845)</u>	<u>(10,137)</u>	<u>(6,819)</u>	<u>1,253</u>	<u>(171)</u>	<u>209,740</u>	<u>244,820</u>	<u>5,130</u>	<u>249,950</u>

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

In CZK Millions

	Note	1-9/2020	1-9/2019
OPERATING ACTIVITIES:			
Income before income taxes		17,470	16,727
Adjustments of income before income taxes to cash generated from operations:			
Depreciation and amortization		22,083	21,432
Amortization of nuclear fuel		3,051	2,982
(Gains) and losses on non-current asset retirements		(108)	(83)
Foreign exchange rate loss (gain)		(697)	328
Interest expense, interest income and dividend income		3,659	3,628
Change in provisions		(254)	161
Impairment of property, plant and equipment and intangible assets		5,743	1,234
Valuation allowances and other non-cash expenses and income		(2,528)	7,581
Share of (profit) loss from associates and joint-ventures		88	(187)
Changes in assets and liabilities:			
Receivables and contract assets		5,735	460
Materials, supplies and fossil fuel stocks		(2,199)	(1,498)
Receivables and payables from derivatives		6,779	527
Other assets		7,265	(3,600)
Trade payables		(10,934)	(5,820)
Other liabilities		3,049	2,798
Cash generated from operations		58,202	46,670
Income taxes paid		(2,703)	(2,886)
Interest paid, net of capitalized interest		(3,764)	(3,695)
Interest received		296	306
Dividends received		13	134
Net cash provided by operating activities		52,044	40,529
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, associates and joint-ventures, net of cash acquired	4	(1,215)	(3,552)
Disposal of subsidiaries, associates and joint-ventures, net of cash disposed of		252	188
Additions to non-current assets, including capitalized interest		(20,741)	(19,923)
Proceeds from sale of non-current assets		389	2,414
Loans made		(1,008)	(166)
Repayment of loans		32	31
Change in restricted financial assets		(544)	(1,589)
Total cash used in investing activities		(22,835)	(22,597)

CEZ GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020

Continued

	Note	1-9/2020	1-9/2019
FINANCING ACTIVITIES:			
Proceeds from borrowings		119,402	125,165
Payments of borrowings		(132,000)	(128,703)
Lease payments		(612)	(520)
Proceeds from other long-term liabilities		180	49
Payments of other long-term liabilities		(52)	(59)
Dividends paid to Company's shareholders		(18,064)	(12,771)
(Dividends paid to) contributions received from non-controlling interests, net		(8)	(25)
Sale of treasury shares		15	249
Acquisition of non-controlling interests		(1,090)	(15)
Total cash used in financing activities		(32,229)	(16,630)
Net effect of currency translation and allowances in cash		726	30
Net increase (decrease) in cash and cash equivalents		(2,294)	1,332
Cash and cash equivalents at beginning of period *		11,906	9,245
Cash and cash equivalents at end of period *		9,612	10,577

Supplementary cash flow information:

Total cash paid for interest	3,962	3,870
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* Presented values of cash and cash equivalents contain also cash and cash equivalents included on the balance sheet on the line Assets classified as held for sale.

CEZ GROUP

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2020

1. The Company

ČEZ, a. s. (“ČEZ” or “the Company”) is a Czech joint-stock company, owned 69.8% (70.1% of voting rights) at September 30, 2020 by the Czech Republic represented by the Ministry of Finance. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

The Company is a parent company of the CEZ Group (“the Group”). Main business of the Group is the production, distribution, trade and sale of electricity and heat, trade and sale of natural gas, coal mining and providing energy services.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The interim consolidated financial statements for the nine months ended September 30, 2020 have been prepared in accordance with IAS 34 and have not been audited by an independent auditor. The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with [the Group's annual financial statement as of December 31, 2019](#).

2.2. Changes in Accounting Policies

2.2.1. Adoption of New IFRS Standards in 2020

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of [the Group's annual financial statement as of December 31, 2019](#).

As of January 1, 2020, the Group did not adopt any new International Financial Reporting Standard that would have a significant impact on Group's interim consolidated financial statements.

2.2.2. Change of Reported Data in the First Nine Months of 2019

The Group adjusted a final recognition of the acquisition of the 76% share in the company Euroklimat sp. z o.o., specifying the fair values of the identifiable assets, liabilities and costs of the acquisition as at the acquisition date of August 30, 2019.

Quantification of the relevant effects on reported amounts for I.–III. quarter of 2019 is provided by the following table (in CZK millions):

	1-9/2019 adjustment of Euroklimat's acquisition
CONSOLIDATED STATEMENT OF INCOME:	
Depreciation and amortization	(13)
Income before other income (expenses) and income taxes	(13)
Income before income taxes	(12)
Income taxes	2
Net income	(10)
Net income attributable to equity holders of the parent	(10)

3. Seasonality of Operations

The seasonality within the segments Generation – Traditional Energy, Generation – New Energy, Distribution and Sales usually takes effect in such a way that the revenues and operating profits of these segments for the 1st and 4th quarters of a calendar year are slightly higher than the revenues and operating profits achieved in the remaining period.

4. Changes in the Group Structure

The following table summarizes the cash flows related to acquisitions in first nine months of 2020 (in CZK millions):

Cash outflow on acquisition of the subsidiaries	116
Cash outflow on investment in joint-ventures	791
Cash contributions to joint-ventures	1
Payments of payables from acquisitions of previous periods	307
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Total cash outflows on acquisition	1,215
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4.1. Acquisitions of Subsidiaries in the First Nine Months of 2020

On April 9, 2020 the Group acquired a 100% interest in Austrian company Moser & Partner Ingenieurbüro GmbH, which focuses on building engineering services and energy saving projects.

The fair values of acquired identifiable assets and liabilities and the purchase considerations have been stated provisionally and could be adjusted in the subsequent period. The following table presents the current best estimate of fair values of acquired identifiable assets and liabilities as of the date of acquisition (in CZK millions):

	<u>Moser</u>
Share of the Group being acquired	100%
Property, plant and equipment, net	46
Intangible assets, net	57
Another non-current assets	1
Cash and cash equivalents	-
Trade receivables, net	10
Contractual assets	12
Long-term debt, net of current portion	(37)
Deferred tax liability	(12)
Current portion of long-term debt	(3)
Income tax payable	(6)
Current provisions	(8)
Another current liabilities	(3)
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Total net assets	57
Share of net assets acquired	57
Goodwill	97
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Total purchase consideration	154
Liabilities from acquisition of the subsidiary	(38)
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Cash outflow on acquisition of the subsidiary in 2020	116
Less: Cash and cash equivalents in the subsidiary acquired	-
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Cash outflow in 2020, net	<u>116</u>

If the combinations had taken place at the beginning of the year 2020, net income for CEZ Group as of September 30, 2020 would have been CZK 13,599 million and the revenues and other operating income would have been CZK 155,559 million. The amount of goodwill recognized as a result of the business combination comprises the fair value of expected synergies arising from the acquisition.

From the acquisition date, the newly acquired subsidiary has contributed the following balances to the Group's statement of income (in CZK millions):

	<u>Moser</u>
Revenues and other operating income	77
Income before other income (expense) and income taxes	22
Net income	20
Net income attributable to:	
Equity holders of the parent	20
Non-controlling interests	-

4.2. Acquisitions of Joint-ventures in the First Nine Months of 2020

On April 27, 2020, the Group acquired a 51% interest in the company GEOMET s.r.o. The intention of the joint-venture, in which the second partner is the company European Metals Holdings Limited, is to develop a project for potential lithium mining in Cínovec. Based on the analysis of the relevant agreements, competencies of the partners in the decision making processes and the relevant activities, the Group assessed the current relationship as a joint control.

The following table provides an overview of the basic financial information associated with this transaction (in CZK millions):

	<u>GEOMET</u>
Share acquired in 2020	51%
Total net assets	799
Share of net assets acquired	408
Goodwill	<u>383</u>
Total purchase consideration	<u><u>791</u></u>

The fair values of identifiable assets and liabilities of the joint-venture have been stated provisionally and could be adjusted in the subsequent period.

4.3. Acquisitions of Non-controlling in the First Nine Months of 2020

On June 4, 2020, the Group acquired a part of the non-controlling interest representing a 26.68% interest in the company OEM Energy sp. z o.o., which increased Group's interest to 77.68%. The original owners held an option to sell the non-controlling interest to the Group. In such a case, as long as the option is in force, the non-controlling interest is derecognized at the end of the reporting period and the liability is recognized at the present value of the amount payable on exercise. This option partially expired and therefore the relevant part of the liability was derecognized and the non-controlling interest was accounted for (recognized), however, at the same time it was immediately derecognized due to the purchase of the non-controlling interest.

On June 30, 2020, the Group acquired the remaining non-controlling 49.90% interest in ČEZ Energo, s.r.o. Also in this case there was a put option held by the original partner, which ceased to exist.

The following table provides an overview of the basic financial information associated with these transactions (in CZK millions):

	<u>OEM Energy</u>	<u>ČEZ Energo</u>	<u>Total</u>
Share acquired in 2020	26.68%	49.90%	
Option liability derecognized from the balance sheet	20	733	753
Direct impact on equity from recognition of non-controlling interest after the expiration of the put options	<u>35</u>	<u>(22)</u>	<u>13</u>
Acquired share of net assets derecognized from non-controlling interests	55	711	766
Amount directly recognized in equity caused by acquisition of non-controlling interest	<u>13</u>	<u>289</u>	<u>302</u>
Total purchase consideration	<u><u>68</u></u>	<u><u>1,000</u></u>	<u><u>1,068</u></u>

5. Assets and Associated Liabilities Classified as Held for Sale

As of September 30, 2020 the Group performed an impairment test for any potential impairment loss related to assets and associated liabilities held for sale in the Bulgarian companies CEZ Razpredelenie Bulgaria AD, CEZ ICT Bulgaria EAD, CEZ Trade Bulgaria EAD, CEZ Bulgaria EAD, CEZ Elektro Bulgaria AD, Free Energy Project Oreshets EAD and Bara Group EOOD. The result of this test, reflecting the contractual sales price of EUR 335 million, was a reversal of a part of previously recognized impairment of assets in the amount of CZK 985 million, which was presented in the statement of income on the line Impairment of property, plant and equipment and intangible assets (see Note 0).

If the intention to sell should be abandoned in the future, or the sale should no longer be highly probable in the next twelve months respectively (see Note 14.3), CEZ Group does not expect material effect on net income caused by the reclassification from assets held for sale.

The assets classified as held for sale and associated liabilities at September 30, 2020 and December 31, 2019 are as follows (in CZK millions):

	September 30, 2020	December 31, 2019
	Bulgarian companies	Bulgarian companies
Property, plant and equipment, net	11,069	10,539
Intangible assets, net	504	461
Other non-current assets	186	145
Cash and cash equivalents	3,343	2,151
Trade receivables, net	2,743	2,875
Other current assets	663	1,109
Assets classified as held for sale	18,508	17,280
Long-term debt, net of current portion	1,448	1,357
Non-current provisions	193	183
Other long-term financial liabilities	179	247
Deferred tax liability	368	247
Short-term loans	383	170
Current portion of long-term debt	117	251
Trade payables	1,704	2,498
Current provisions	526	432
Other current liabilities	384	207
Liabilities associated with assets classified as held for sale	5,302	5,592

The assets and results associated with the assets classified as held for sale are reported in the operating segments Generation – New Energy, Distribution and Sales.

6. Equity

On June 29, 2020 the Annual Shareholders Meeting of ČEZ, a. s. approved the dividends per share before tax of CZK 34.0. The total amount of dividend approved for distribution to shareholders net of treasury shares amounts to CZK 18,206 million.

7. Long-term Debt

Long-term debt at September 30, 2020 and December 31, 2019 is as follows (in CZK millions):

	September 30, 2020	December 31, 2019
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,634	2,516
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,758	1,679
5.000% Eurobonds, due 2021 (EUR 750 million)	21,363	19,228
4.875% Eurobonds, due 2025 (EUR 750 million)	20,823	19,671
4.500% Eurobonds, due 2020 (EUR 750 million)	-	19,478
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,535	2,416
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,273	1,287
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) ¹⁾	2,755	2,602
4.102% Eurobonds, due 2021 (EUR 50 million)	1,406	1,273
4.375% Eurobonds, due 2042 (EUR 50 million)	1,347	1,271
4.500% Eurobonds, due 2047 (EUR 50 million)	1,345	1,269
4.383% Eurobonds, due 2047 (EUR 80 million)	2,184	2,062
3.000% Eurobonds, due 2028 (EUR 725 million)	20,302	19,133
0.875% Eurobonds, due 2022 (EUR 500 million)	13,673	12,675
0.875% Eurobonds, due 2026 (EUR 750 million)	20,341	18,847
4.250% U.S. bonds, due 2022 (USD 289 million)	6,835	6,578
5.625% U.S. bonds, due 2042 (USD 300 million)	7,104	6,817
4.500% Registered bonds, due 2030 (EUR 40 million)	1,115	1,006
4.750% Registered bonds, due 2023 (EUR 40 million)	1,119	1,056
4.700% Registered bonds, due 2032 (EUR 40 million)	1,109	1,048
4.270% Registered bonds, due 2047 (EUR 61 million)	1,693	1,531
3.550% Registered bonds, due 2038 (EUR 30 million)	828	780
Total bonds and debentures	133,542	144,223
Less: Current portion	(5,228)	(21,163)
Bonds and debentures, net of current portion	128,314	123,060
Long-term bank loans and lease liabilities:	28,401	23,410
Less: Current portion	(3,882)	(3,900)
Long-term bank loans and lease payables, net of current portion	24,519	19,510
Total long-term debt	161,943	167,633
Less: Current portion	(9,110)	(25,063)
Total long-term debt, net of current portion	152,833	142,570

¹⁾ The interest rate is based on inflation realized in Eurozone Countries (Harmonized Index of Consumer Prices – HICP) and is fixed through the closed swap to the rate 4.553% p. a.

8. Short-term Loans

Short-term loans at September 30, 2020 and December 31, 2019 are as follows (in CZK millions):

	September 30, 2020	December 31, 2019
Short-term bank and other loans	7,736	4,253
Bank overdrafts	21	7
Total	7,757	4,260

9. Revenues and Other Operating Income

The composition of revenues and other operating income for the first nine months ended September 30, 2020 and 2019 is as follows (in CZK millions):

	1-9/2020	1-9/2019
Sales of electricity:		
Sales of electricity to end customers	36,953	35,542
Sales of electricity through energy exchange	1,645	600
Sales of electricity to traders	28,473	29,367
Sales to distribution and transmission companies	466	211
Other sales of electricity	21,195	20,911
Effect of hedging – presales of electricity	(1,514)	(7,598)
Effect of hedging – currency risk hedging	365	1,219
Total sales of electricity	87,583	80,252
Sales of gas, coal and heat:		
Sales of gas	4,958	5,622
Sales of coal	2,785	3,197
Sales of heat	5,458	5,242
Total sales of gas, coal and heat	13,201	14,061
Total sales of electricity, heat, gas and coal	100,784	94,313
Sales of services and other revenues:		
Distribution services	32,630	32,665
Other services	17,788	16,393
Rental income	150	145
Revenues from goods sold	666	854
Other revenues	608	822
Total sales of services and other revenues	51,842	50,879
Other operating income:		
Granted green and similar certificates	981	841
Contractual fines and interest fees for delays	266	365
Gain on sale of property, plant and equipment	83	79
Gain on sale of material	105	105
Other	1,489	1,473
Total other operating income	2,924	2,863
Total revenues and other operating income	155,550	148,055

Revenues from contracts with customers for the years ended September 30, 2020 and 2019 were CZK 153,625 million and CZK 151,426 million, respectively, and can be linked to the above figures as follows:

	1-9/2020	1-9/2019
Sales of electricity, heat, gas and coal	100,784	94,313
Sales of services and other revenues	51,842	50,879
Total revenues	152,626	145,192
Adjustments:		
Effect of hedging – presales of electricity	1,514	7,598
Effect of hedging – currency risk hedging	(365)	(1,219)
Rental income	(150)	(145)
Revenues from contracts with customers	153,625	151,426

10. Impairment of Property, Plant and Equipment and Intangible assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired or that previously recognized impairment loss, excluding goodwill, is no longer justified or should be reduced. The result of the analysis updated as at September 30, 2020 was the conclusion that selected assets of the Group could be impaired. In such a case, the Group reviews that the recoverable amount of these property, plant and equipment and intangible assets is not lower than their carrying amounts, and if so, the Group recognizes an impairment loss in profit or loss on the line Impairment of property, plant and equipment and intangible assets.

Based on an updated estimate of recoverable amounts, the Group recognized a total impairment loss of CZK 5,743 million for the period 1-9/2020.

The decrease in the carrying amount of assets in the amount of CZK 1,651 million relates to the property, plant and equipment and intangible assets of the cash-generating unit CEZ Chorzów S.A., out of which CZK 948 million is impairment of goodwill. The decrease in value of assets occurred mainly due to a decrease in the expected gross margin from electricity and heat production due to the change in expected market prices of emission rights and electricity and due to reduced expected useful life of the resource with respect to the government's coal mine closure schedule. The decrease in the carrying amount of assets of CZK 985 million relates to the assets of the cash-generating unit Bulgarian distribution, whose assets are classified as held for sale (see Note 0). The decrease in the carrying amount of assets in the amount of CZK 821 million relates to the property, plant and equipment and intangible assets of the cash-generating unit Severočeské doly a.s., out of which CZK 292 million is impairment of goodwill. The decrease in the carrying amount of assets here was mainly due to the growth of expected market prices of emission rights, which negatively affects the volume of electricity generation from coal and thus the demand for coal. The decrease in the carrying amount of assets in the amount of CZK 807 million relates to the property, plant and equipment and intangible assets of the cash-generating unit Romanian distribution, out of which CZK 802 million is impairment of goodwill. The decrease in the carrying amount of assets was mainly due to an increase in the risk of the impact of regulation on the next regulatory period. The decrease in the carrying amount of assets in the amount of CZK 798 million relates to the property, plant and equipment of the cash-generating unit of the Romanian wind farms. The decrease in value occurred mainly due to the expected decrease in electricity prices on the market in future compared to the previous long-term assumptions following the decrease in electricity prices. The decrease in the carrying amount of assets in the amount of CZK 394 million relates to the property, plant and equipment of the cash-generating unit CEZ Skawina S.A. The decrease in value occurred mainly due to a decrease in the expected gross margin from electricity and heat production due to the change in expected market prices of emission rights. The decrease in the carrying amount of assets in the amount of CZK 295 million relates to the property, plant and equipment of the cash-generating unit Elektrárna Dětmarovice, a.s. The decrease in the carrying amount of assets related to investments made due to the renewal of equipment after the fire in 2017 financed by income from property insurance, and also with regard to decrease in the outlook for expected profitability of the generation source over its useful life in the region especially due to increase in market prices of emission rights.

Information on the effects of the COVID-19 pandemic on the Group's financial performance is provided in Note 13.

The segment information is provided in Note 12.

11. Income Taxes

Tax effects relating to each component of other comprehensive income are the following (in CZK millions):

	1-9/2020			1-9/2019		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Change in fair value of cash flow hedges	(5,598)	1,063	(4,535)	4,009	(762)	3,247
Cash flow hedges reclassified to statement of income	674	(128)	546	5,486	(1,042)	4,444
Change in fair value of debt instruments	744	(139)	605	650	(122)	528
Disposal of debt instruments	-	-	-	1	-	1
Translation differences – subsidiaries	2,618	-	2,618	(515)	-	(515)
Translation differences – associates and joint-ventures	339	-	339	37	-	37
Share on other equity movements of associates and joint-ventures	(25)	-	(25)	(5)	-	(5)
Re-measurement gains (losses) on defined benefit plans	-	-	-	2	-	2
Change in fair value of equity instruments	4	-	4	-	-	-
Total	<u>(1,244)</u>	<u>796</u>	<u>(448)</u>	<u>9,665</u>	<u>(1,926)</u>	<u>7,739</u>

12. Segment Information

The Group reports its result using six reportable operating segments:

- Generation – Traditional Energy
- Generation – New Energy
- Distribution
- Sales
- Mining
- Support Services

The segments are defined across the countries that CEZ Group operates. Segment is a functionally autonomous part of CEZ Group that serves a single part of the value chain in the energy sector and is within the purview of individual members of the ČEZ, a. s. Board of Directors.

The Group accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices or where the regulation applies at regulated prices.

In segment reporting, IFRS 16 is applied to external leases from the Group's perspective, but it is not applied to leases between individual operating segments, although in some cases the asset is leased to another segment internally.

The Group evaluates the performance of its segments based on earnings before interest, taxes, depreciation and amortization (EBITDA). The reconciliation of EBITDA to income before other income (expenses) and income taxes summarizes the following table (in CZK millions):

	<u>1-9/2020</u>	<u>1-9/2019</u>
Income before other income (expenses) and income taxes (EBIT)	23,162	22,084
Depreciation and amortization	22,083	21,432
Impairment of property, plant and equipment and intangible assets	5,743	1,234
Gains and losses on sale of property, plant and equipment, net *	<u>(82)</u>	<u>(75)</u>
EBITDA	<u><u>50,906</u></u>	<u><u>44,675</u></u>

* Gains on sale of property, plant and equipment are presented in the statement of income as part of the line item Other operating income. Losses on sale of property, plant and equipment are presented in the statement of income as part of the line item Other operating expenses.

The following tables summarize segment information by operating segments for the nine months ended September 30, 2020 and 2019 and at December 31, 2019 (in CZK millions):

September 30, 2020:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Support Services	Combined	Elimination	Consoli- dated
Revenues and other operating income – other than intersegment	47,676	4,689	32,295	67,124	2,995	771	155,550	-	155,550
Revenues and other operating income – intersegment	25,111	910	409	4,978	3,247	3,068	37,723	(37,723)	-
Total revenues and other operating income	72,787	5,599	32,704	72,102	6,242	3,839	193,273	(37,723)	155,550
EBITDA	23,991	3,845	15,995	3,637	2,381	1,054	50,903	3	50,906
Depreciation and amortization	(11,414)	(1,356)	(5,300)	(1,068)	(2,041)	(904)	(22,083)	-	(22,083)
Impairment of property, plant and equipment and intangible assets	(2,340)	(802)	(1,792)	-	(821)	12	(5,743)	-	(5,743)
EBIT	10,251	1,688	8,928	2,577	(471)	186	23,159	3	23,162
Interest on debt and provisions	(5,002)	(187)	(614)	(264)	(154)	(41)	(6,262)	801	(5,461)
Interest income	718	139	56	65	41	103	1,122	(801)	321
Share of profit (loss) from associates and joint-ventures	(15)	-	(194)	124	(3)	-	(88)	-	(88)
Income taxes	(1,420)	(335)	(1,672)	(475)	27	(9)	(3,884)	-	(3,884)
Net income	13,811	1,406	6,459	1,942	(471)	549	23,696	(10,110)	13,586
Identifiable assets	240,200	26,761	120,708	6,837	21,535	5,413	421,454	(28)	421,426
Investment in associates and joint- ventures	2,757	253	-	290	963	-	4,263	-	4,263
Unallocated assets									247,106
Total assets									<u>672,795</u>
Capital expenditure	6,047	341	9,960	722	1,534	469	19,073	(125)	18,948

September 30, 2019:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Support Services	Combined	Elimination	Consoli- dated
Revenues and other operating income – other than intersegment	43,592	4,866	31,348	62,094	3,428	2,727	148,055	-	148,055
Revenues and other operating income – intersegment	26,606	237	486	4,995	4,396	3,595	40,315	(40,315)	-
Total revenues and other operating income	70,198	5,103	31,834	67,089	7,824	6,322	188,370	(40,315)	148,055
EBITDA	19,408	3,235	15,301	1,813	3,789	1,134	44,680	(5)	44,675
Depreciation and amortization	(11,354)	(1,355)	(4,951)	(795)	(2,123)	(854)	(21,432)	-	(21,432)
Impairment of property, plant and equipment and intangible assets	(17)	(11)	(1,222)	-	16	-	(1,234)	-	(1,234)
EBIT	8,055	1,869	9,143	1,020	1,698	304	22,089	(5)	22,084
Interest on debt and provisions	(5,053)	(169)	(579)	(230)	(161)	(106)	(6,298)	839	(5,459)
Interest income	567	129	138	121	82	106	1,143	(839)	304
Share of profit (loss) from associates and joint-ventures	(20)	(1)	99	104	5	-	187	-	187
Income taxes	(641)	(145)	(1,684)	(203)	(343)	(106)	(3,122)	-	(3,122)
Net income	14,056	1,761	6,865	775	1,372	719	25,548	(11,943)	13,605
Capital expenditure	5,952	598	9,199	798	1,592	566	18,705	(126)	18,579
December 31, 2019:	Gene- ration – Traditional Energy	Gene- ration – New Energy	Distribu- tion	Sales	Mining	Support Services	Combined	Elimination	Consoli- dated
Identifiable assets	249,324	27,712	116,132	6,616	22,612	5,692	428,088	-	428,088
Investment in associates and joint- ventures	2,589	235	-	280	179	-	3,283	-	3,283
Unallocated assets									273,203
Total assets									<u>704,574</u>

13. COVID-19 Pandemic

According to the current evaluation of the impacts of the COVID-19 pandemic on the Group, the existence of no Group company is endangered and, in general, the pandemic has a relatively limited impact on the Group. However, the reliability of the estimate of the long-term effects of the COVID-19 pandemic on the Group is considerably limited due to the uncertainty of the extent of the effects of the pandemic itself and of countries' countermeasures on economic growth, unemployment and debt growth in relevant European countries.

The negative impact on the Group's operations is expected to a relatively limited extent in the order of percentage units on EBITDA in 2020. The Group expects the greatest negative impact of the pandemic on the Sales segment, where we expect a significant reduction in the margin on the sale of services, a reduction in the margin on the sale of commodities to corporate customers and a potential deterioration in customers' solvency. In the Distribution segment, we expect the overall impact of the pandemic with regard to regulation to a relatively limited extent, however, in 2020 we expect a decrease in the volume of electricity distributed, and thus in the overall profit of distribution companies. The pandemics have a negative effect on the Generation – Traditional Energy and Mining segments, especially as a factor causing a decline in consumption, and thus in market electricity prices. On the other hand, there has been a significant increase in market prices for emission rights due to increased ambitions to reduce CO2 emissions within the EU, which has led to an increase in market prices for electricity. Therefore, the pandemic has a negative effect on the lower use of coal-based generation sources, and thus on the decline in demand for coal and on the margin of mining companies. From the point of view of the medium-term economic outlook of the Generation – Traditional Energy segment, the negative impact of the pandemic is limited due to the high level of cash flow hedging. For 2020, almost all expected production has already been contracted, for 2021 approximately 77% of expected production revenues have been contracted and for 2022 approximately 50% has been contracted.

The COVID-19 pandemic is considered an indicator of a possible impairment of the Group's assets, and therefore recoverable value tests have been updated using the best estimates available. In the fourth quarter of 2020, all relevant assets will be tested based on updated business plans of individual segments. The impact of the pandemic in the coming years will depend mainly on the measures taken in individual countries and their impact on the overall development of the economy in Europe.

The Group has taken adequate measures to eliminate the risks and impacts of the COVID-19 pandemic on key operations and employee health.

14. Events after the Balance Sheet Date

14.1. Sale of Romanian Companies

On October 22, 2020, a share purchase agreement was concluded for the sale of the interests in Romanian companies Distribuție Energie Oltenia S.A., CEZ Vanzare S.A., CEZ Romania S.A. (including its interest in TMK Hydroenergy Power S.R.L.), Tomis Team S.A. (including its interest in M.W. Team Invest S.R.L.) and Ovidiu Development S.R.L. The sellers for CEZ Group are ČEZ, a. s. and CEZ Holdings B.V. The buyer is the international infrastructure investor Macquarie Infrastructure and Real Assets. Total selling price for the respective interests in the companies is stated in EUR as of December 31, 2019 (so called "locked-box date"), it bears interest 2% p. a. and is due on the closing date.

Closing of the transaction is subject to receiving approval from European anti-trust authorities (Directorate-General for Competition) and the Romanian Supreme Council of National Defence (Consiliul Suprem de Apărare a Țării). The requirements of standard IFRS 5 to classify the assets as held for sale were met by granting prior consent to the transaction by the supervisory board of ČEZ, a. s. which took place on October 22, 2020. As a result of this reclassification, a test for potential impairment of assets being sold has been performed. An impairment will be recognized as of the date of classification for assets held for sale. The current assumption of the amount of the impairment loss is CZK 8.1 billion.

The following table presents balance sheet amounts at September 30, 2020 as if the Romanian assets being sold constituted a reportable segment of the Group (in CZK billions):

Property, plant and equipment	24.5
Other non-current assets	4.9
Current assets	10.1
Non-current liabilities	(5.1)
Current liabilities	<u>(6.4)</u>
Total equity	<u>28.0</u>
Equity attributable to:	
Equity holders of the parent	28.0
Out of which: Cumulative loss from translation differences	(5.5)
Non-controlling interests	-

The cost of disposal from consolidation for the assets as at September 30, 2020 (i.e. before the classification as held for sale) would be CZK 33.5 billion.

14.2. Sale of 100% interest in the subsidiary Elektrárna Počerady

On October 22, 2020, a share purchase agreement was signed for the sale of 100% interest in the subsidiary Elektrárna Počerady, a.s. (hereinafter also „EPC“). The buyer is the company Vršanská uhelná a.s. and assumed closing date is December 31, 2020. This will (assuming the closing of the newly concluded agreement) cancel the previous agreement for the sale of a 100% interest in EPC, which is already concluded between the parties with the closing date of January 2, 2024 for a purchase price of CZK 2.0 billion. According to the new agreement of the contracting parties, the initial purchase price amounts to CZK 2.5 billion and is due on November 30, 2023. The initial purchase price will be further adjusted by the value of cash, more precisely total current assets less current liabilities. The present value of the initial purchase price (as of September 30, 2020) is CZK 2.3 billion (discounted value of CZK 2.5 billion due in 2023). The value of the adjustment / increase in the purchase price (as at September 30, 2020) is approximately CZK +6.8 billion and this part of the total purchase price is payable within 3 months from the closing date (assumption of realization as at December 31, 2020) and will be settled by offsetting part of the EPC receivable from ČEZ, coming from deposit of EPC cash in ČEZ cash pooling accounts.

The transaction includes an agreement between the parties to terminate the existing contract for the purchase of coal from Vršanská uhelná a.s., under which ČEZ, a. s. was obliged to purchase 5 million tons of coal annually by the end of 2023, and to conclude a new PPA contract to purchase 5 TWh of electricity annually by ČEZ, a.s. from a subsidiary of the Vršanská uhelná Group for the period from January 1, 2021 to December 31, 2023 for a fixed price of CZK 700 / MWh increased by the cost of the emission allowance required for the supply of 1 MWh of electricity. Closing of the transaction is subject to receiving approval from Czech anti-trust authority. In the event that the sale of a 100% interest in EPC is not realized, neither the contract for existing coal supplies is terminated nor the new PPA contract for electricity supply is put in force and the current contract for the sale of 100% interest in EPC with closing on January 2, 2024, remains in force.

The requirements of standard IFRS 5 to classify the assets as held for sale were met by granting prior consent to the transaction by the supervisory board of ČEZ, a. s. which took place on October 22, 2020. As a result of this reclassification, a test for potential impairment of assets being sold has been performed. Such impairment was not identified.

The total impact of the transaction on net income of CEZ Group for 2020 according to the expected proceeds from the sale of a 100% interest in EPC and according to the valuation of related commodity contracts as of September 30, 2020, is expected to be positive. These are contracts for the sale of electricity and the purchase of emission allowances concluded in the past to hedge cash flows from EPC operations (future sales of electricity from CEZ Group's own resources are no longer probable, and therefore the corresponding hedging will be charged from comprehensive income to the income statement and the

previously concluded relevant contracts will be reclassified as derivatives) and it is also the above-mentioned new PPA contract for the purchase of electricity. The current contract for the supply of coal from Vršanská uhelná a.s. (originally a contract intended to be physically delivered to the Group and therefore not considered a financial instrument in accordance with IFRS 9) is terminated prematurely and settled financially and the current fair value of the contract will be recognized in the income statement.

The following table presents balance sheet amounts at September 30, 2020 as if the assets being sold constituted a reportable segment of the Group (in CZK billions):

Property, plant and equipment	0.9
Other non-current assets	0.3
Current assets	8.7
Non-current liabilities	(0.2)
Current liabilities	<u>(2.0)</u>
Total equity	<u><u>7.7</u></u>
Equity attributable to:	
Equity holders of the parent	7.7
Out of which: Cumulative loss from translation differences	-
Non-controlling interests	-

14.3. Sale of Bulgarian Companies

On October 29, 2020, the Bulgarian anti-trust authority has given its consent to the transaction of the sale of the Bulgarian assets held for sale (see Note 0) to Eurohold. The transaction is now subject to approval by the Bulgarian Energy Regulatory Office.