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CEZ Group: Commodity growth & Czech tax measures impact on 2023 guidance and on VISION 2030 financial targets

2 February 2023

Summary

- CEZ Group’s expected profitability has been influenced by increased power prices and by extraordinary taxes, which the Czech state introduced as part of measures to solve the energy crisis.
- CEZ Group is issuing 2023 guidance earlier than usual in order to give an indication of financial impacts of the approved legislative and regulatory measures to capital market participants.
- We have reflected changes in commodity prices in financial targets of VISION 2030. All strategic and operational targets of VISION 2030 are intact.

AGENDA

- CZ tax measures & CEZ guidance 2023
- VISION 2030 financial targets update

Czech government approved measures to address energy affordability and introduced taxes to fund these measures

Consumer Support

End-customer price caps for households, small and medium-sized enterprises (SMEs) and large businesses:

- **CZK 5/kWh for power**, **CZK 2.5/kWh for natural gas in 2023** (prices for commodity without taxes and distribution fees)
  - For households, small gas consumers, defined public procurers and customers connected to low voltage, the cap applies to whole consumption of electricity and gas
  - For SMEs and large businesses the cap on electricity and gas applies to 80% of the highest consumption in each month in the last 5 years
  - For large businesses (connected to high and very high voltage) cap is applicable up to the EU financial limit on maximum support
  - The cap for gas will also be applied to consumption to produce heat (Cap does not apply to consumption of gas used to produce electricity)
- **Suppliers are compensated for proven losses and a reasonable profit.**

Financing – Revenues Cap

Levy on electricity generation revenues above defined price caps (from Dec 1, 2022 - Dec 31, 2023)

- **90% levy** on revenues **above defined caps**:
  - Nuclear EUR 70/MWh
  - Lignite EUR 170/MWh for units above 140 MW, EUR 230/MWh for units bellow 140 MW
  - Merchant hydro, wind, solar EUR 180/MWh
- No caps for hard coal, gas, pump-storage, and subsidised renewables
- Total annual revenue cap based on supplied volume by generation sources within a company
- The resulting levy is defined on an annual basis (the difference between total revenue and the total cap) and advances are paid monthly
- Levy is a tax-deductible expense and reduces the company's operating profit

Financing – Windfall profit tax

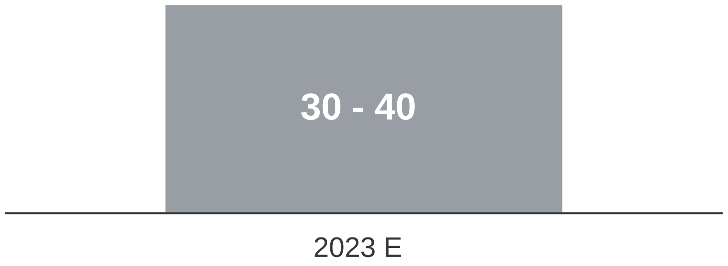
Windfall tax for the energy, petrochemical and banking sectors of 60% in 2023 – 2025

- “Excess Profit” corresponds to the difference between the tax base and the historical arithmetic average tax base of 2018–2021 plus 20%
- Reasonable Profit taxed at a rate of 19%, “Excess Profit” at a rate of 79% (60% + 19%)
- Tax imposed on selected energy companies whose main activity is primarily generation, sales and distribution of electricity, if their decisive income exceeds specified limits
- Group can aggregate the historical Reasonable Profit of individual taxable companies and pay the total tax obligation for the whole group.
- Advance tax payments for 2023 will be based on the companies‘ profit in 2022.

Financial outlook for 2023: EBITDA of CZK 105-125 bn, Adjusted net income of CZK 30-40 bn

EBITDA (CZK bn)

Adjusted net income (CZK bn)



Selected generation assumptions in Czechia:

- Electricity supply from generation **45 – 47 TWh**
- Expected average realisation price **120 – 160 EUR/MWh**
- Open position by volume **~20%**

Taxation assumption in Czechia:

- Levy on generation revenues (**CZK 7 - 33 bn**)
- Windfall income tax in addition to regular income tax (**CZK 20 - 30 bn**)
- Regular income tax (**CZK 13 - 17 bn**)

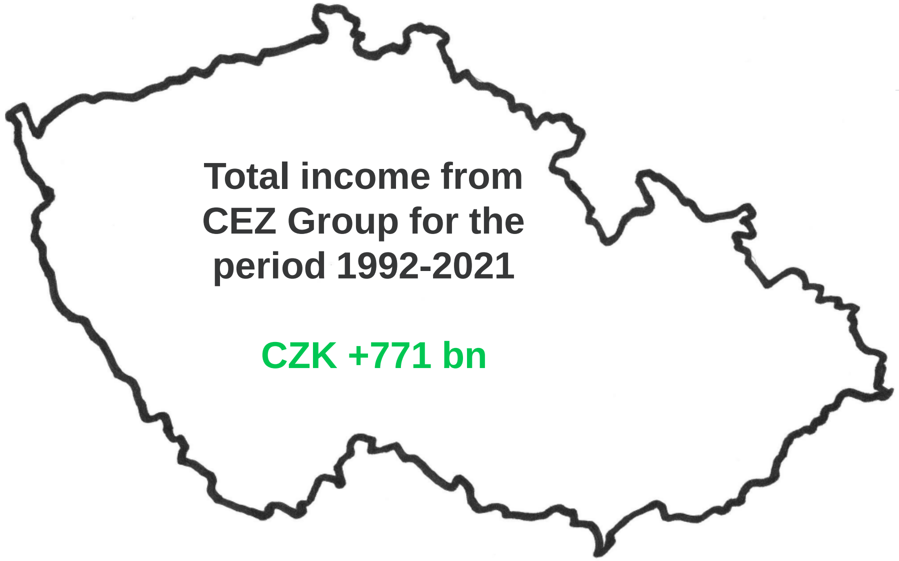
Selected Prediction Risks and Opportunities:

- Availability of generating facilities
- Realization prices of generated electricity
- Income from commodity trading

CEZ Group will pay more than CZK 100 billion to the Czech state

Indication of Czech state revenues from the CEZ Group in 2023:

- Revenue cap levies and income tax for 2023 (mainly depending on the realized prices of electricity generated): **CZK 40 to 80 billion**
- Dividend on 2022 profits + surcharge on income tax in addition to advances paid in 2022*: **more than CZK 50 billion**



Czech republic received a total of CZK 771 billion from the CEZ Group in taxes, dividends, donations and emission allowances since the incorporation of CEZ until the end of 2021.

In addition, the Czech republic received CZK 18 billion of dividends from the 2021 profits, paid in 2022.

* The results for 2022 will be published on 21 March 2023, i.e. the above indication reflects the expected adjusted net profit and dividend assumptions published on 10 November 2022.

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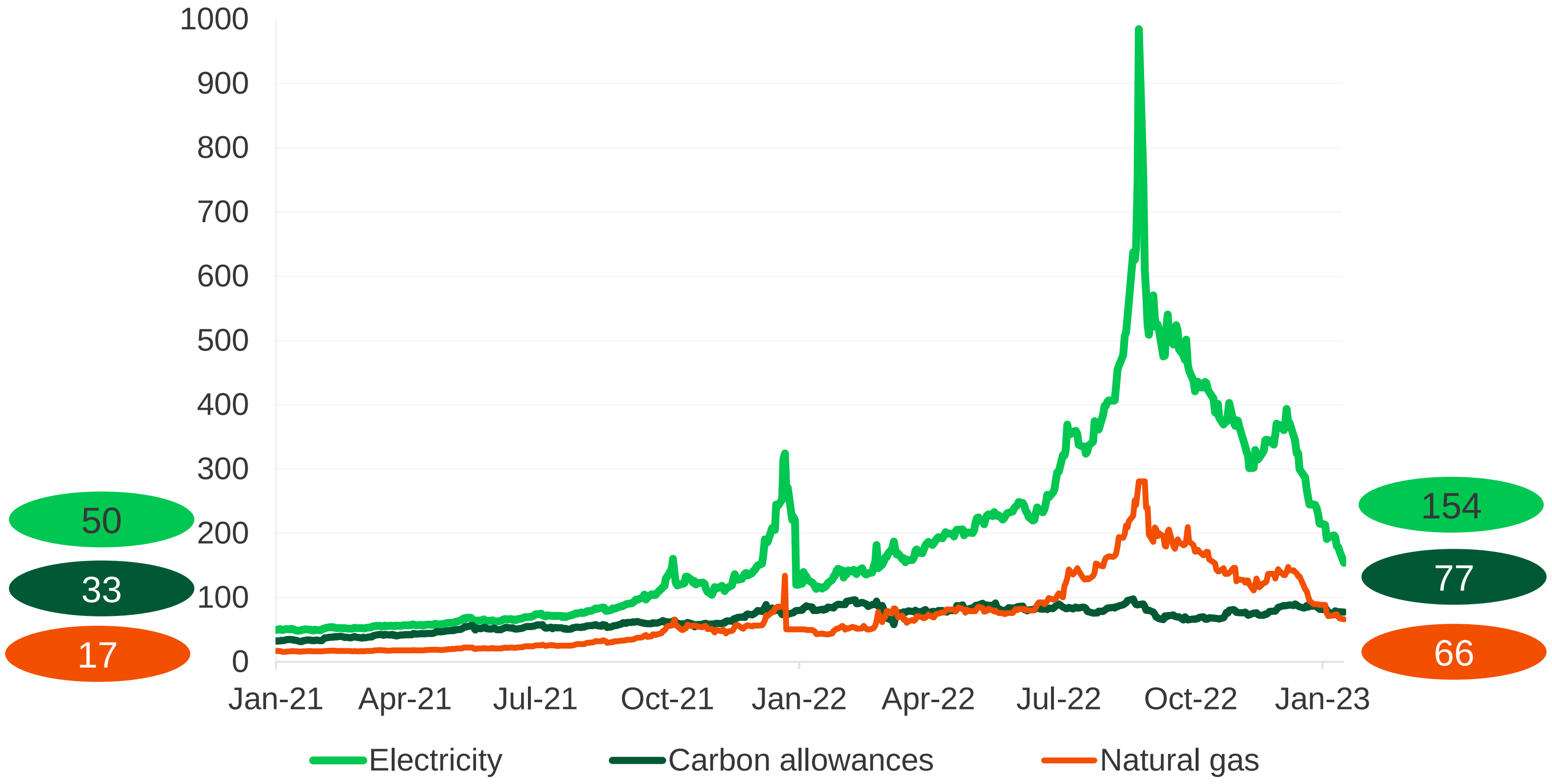
Electricity prices increased significantly since VISION 2030 was first announced, natural gas and carbon were the drivers

Development of prices of electricity price and carbon allowances

German baseload in EUR/MWh, EUR/t for carbon, TTF Y+1



Increase in power prices driven by

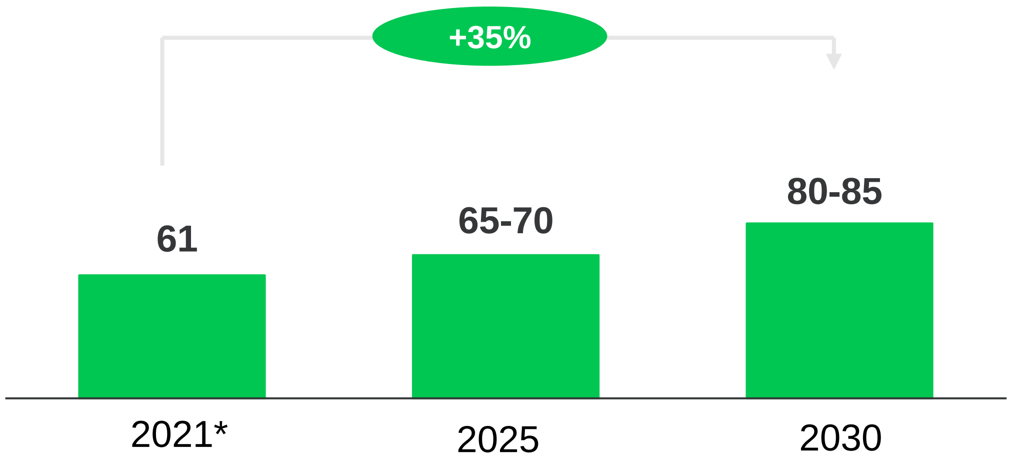
- Natural gas
- Carbon allowances
- Growing risk premium

Note: 1 EUR/t change in carbon allowance implied 0.6-0.7 EUR change in electricity price

VISION 2030 financial targets upgraded to reflect commodity development. Strategic and operational targets of are intact.

EBITDA of CEZ Group (targets from 2021)

Existing assets in CZK billion



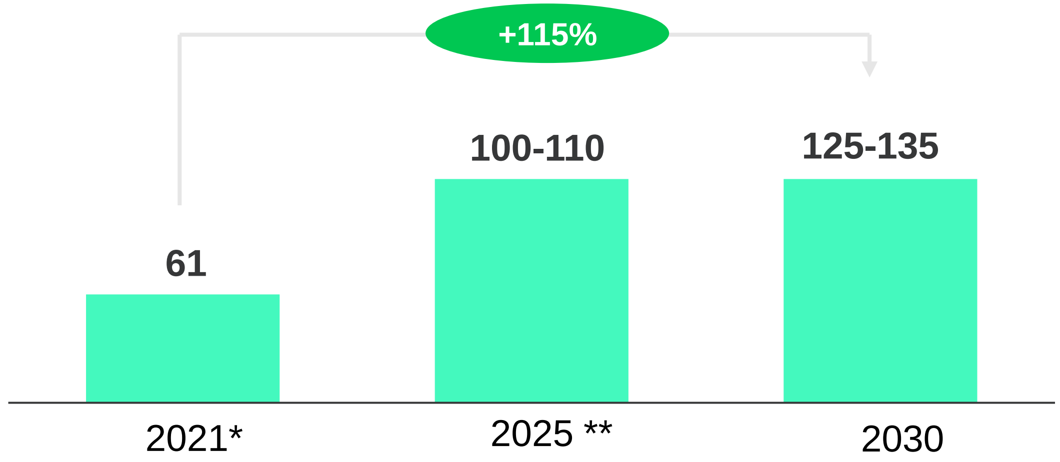
Wholesale electricity prices

EUR/MWh

2021	2025	2030
55	51	57

EBITDA of CEZ Group (current targets)

Existing assets in CZK billion



Wholesale electricity prices *

EUR/MWh

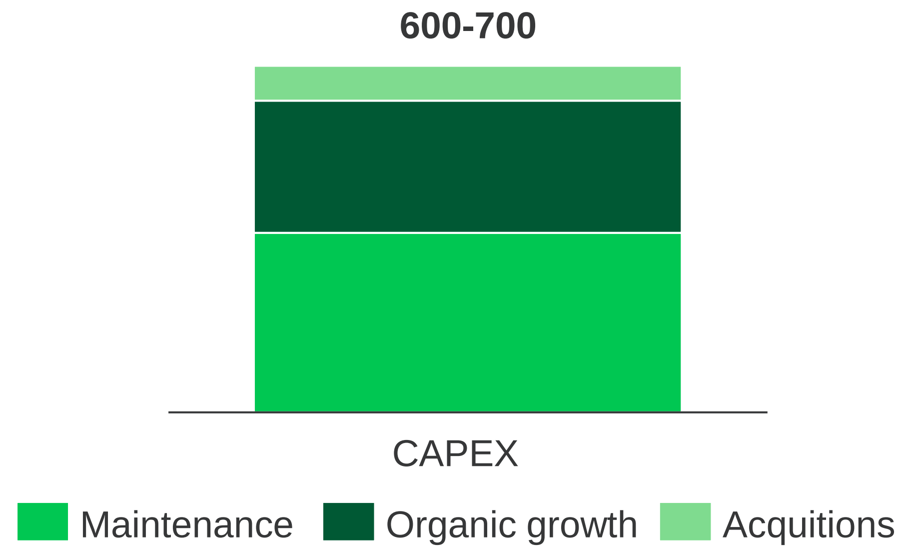
2021	2025	2030
55	165	105

* Excluding divested assets (RO, BG, PL)
** 2025 EBITDA adjusted for wind fall tax in order to better indicate operating cash flow
*** 2025 based on average forward prices in April – August 2022, 2030 based on average prices of different internal scenarios

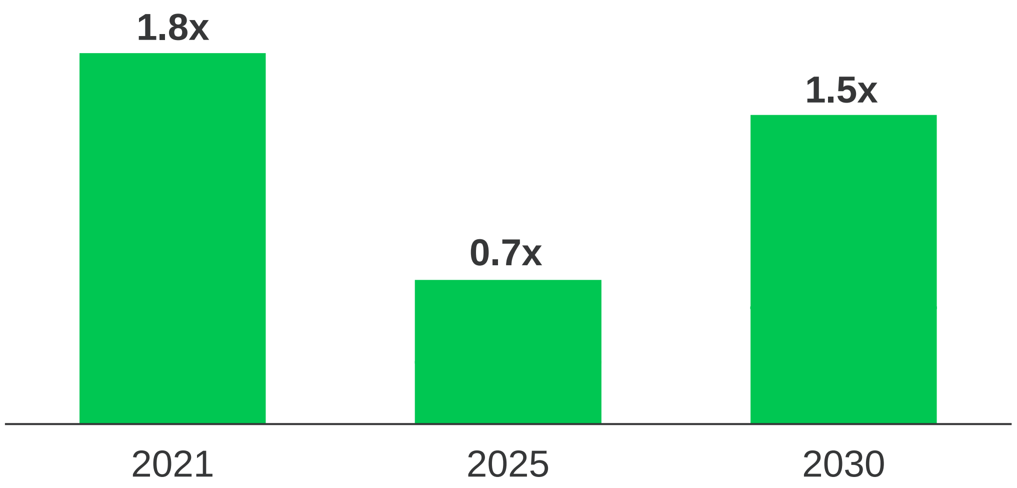
We can execute our growth strategy while keeping the leverage within our target with comfortable margin for commodity risks

Expected cumulative investments 2021-2030*

CZK billion



Net debt to EBITDA ratio**



- **We will continue to generate positive free cash flow even with the increased investments (driven mainly by updated inflation assumptions).**
- **Our leverage would stay below targeted 3.0x of EBITDA even if the electricity prices decrease by 35 % compared to current assumption**.**

* Excluding new nuclear CAPEX in 2025-2030 due to assumed 100% state financing, no CAPEX subsidies on RES nor distribution due to their uncertain amount
** Assumed electricity prices 2025: 165 EUR/MWh, 2030: 105 EUR/MWh,
Note: Organic growth = new renewables and gas capacities, expansion of distribution network, Acquisitions = mainly ESCOs abroad

Full updated CEZ Group investor presentation can be found on the following link:
https://www.cez.cz/webpublic/file/edee/ospol/fileexport/investors/investment-stories/2023-02_cez-investment-story_en.pdf