

ČEZ, a. s.

SEPARATE FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2022

(Translation of Separate Financial Statements Originally Issued in Czech)

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2022

In CZK Millions

| | Note | 2022 | 2021 |
|--|------|------------------|------------------|
| ASSETS: | | | |
| Plant in service | | 514,654 | 489,211 |
| Less accumulated depreciation and impairment | | (287,171) | (275,015) |
| Net plant in service | | 227,483 | 214,196 |
| Nuclear fuel, at amortized cost | | 11,873 | 13,021 |
| Construction work in progress, net | | 13,473 | 11,478 |
| Total property, plant and equipment | 3 | 252,829 | 238,695 |
| Restricted financial assets, net | 4 | 15,215 | 15,040 |
| Other non-current financial assets, net | 5 | 157,686 | 147,580 |
| Intangible assets, net | 6 | 1,143 | 1,047 |
| Investment properties, net | 7 | 437 | 406 |
| Deferred tax assets | 33 | 47,885 | 6,843 |
| Total other non-current assets | | 222,366 | 170,916 |
| Total non-current assets | | 475,195 | 409,611 |
| Cash and cash equivalents, net | 8 | 33,012 | 20,804 |
| Trade receivables, net | 9 | 169,773 | 136,039 |
| Materials and supplies, net | | 16,028 | 10,415 |
| Fossil fuel stocks | | 300 | 200 |
| Emission rights | 10 | 21,216 | 14,192 |
| Other current financial assets, net | 5 | 304,894 | 515,488 |
| Other current assets, net | 11 | 8,582 | 4,141 |
| Total current assets | | 553,805 | 701,279 |
| Total assets | | 1,029,000 | 1,110,890 |

The accompanying notes are an integral part of these financial statements.

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2022

continued

| | Note | 2022 | 2021 |
|--|------|-----------|-----------|
| EQUITY AND LIABILITIES: | | | |
| Stated capital | | 53,799 | 53,799 |
| Treasury shares | | (1,334) | (1,423) |
| Retained earnings and other reserves | | 145,975 | 64,052 |
| Total equity | 13 | 198,440 | 116,428 |
| Long-term debt, net of current portion | 14 | 132,739 | 89,189 |
| Provisions | 17 | 122,067 | 97,707 |
| Other long-term financial liabilities | 18 | 38,659 | 34,173 |
| Total non-current liabilities | | 293,465 | 221,069 |
| Short-term loans | 18 | 52,933 | 25,115 |
| Current portion of long-term debt | 14 | 8,034 | 14,999 |
| Trade payables | | 76,525 | 76,950 |
| Income tax payable | | 15,117 | 1,696 |
| Provisions | 17 | 21,515 | 11,095 |
| Other short-term financial liabilities | 18 | 358,311 | 641,849 |
| Other short-term liabilities | 20 | 4,660 | 1,689 |
| Total current liabilities | | 537,095 | 773,393 |
| Total equity and liabilities | | 1,029,000 | 1,110,890 |

The accompanying notes are an integral part of these financial statements.

ČEZ, a. s.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022

In CZK Millions

| | Note | 2022 | 2021 |
|--|---------|---------------|--------------|
| Sales of electricity, heat and gas | | 183,634 | 114,896 |
| Sales of services and other revenues | | 10,946 | 5,801 |
| Other operating income | | 5,611 | 1,318 |
| Total revenues and other operating income | 22 | 200,191 | 122,015 |
| Gains and losses from commodity derivative trading | 23 | 44,262 | (4,449) |
| Purchase of electricity, gas and other energies | 24 | (85,498) | (46,973) |
| Fuel and emission rights | 25 | (37,665) | (20,319) |
| Services | 26 | (11,090) | (10,106) |
| Salaries and wages | 27 | (10,694) | (8,418) |
| Materials and supplies | | (2,127) | (1,867) |
| Capitalization of expenses to the cost of assets and change in own inventories | | 150 | 120 |
| Depreciation and amortization | 3, 6, 7 | (18,021) | (17,869) |
| Impairment of property, plant and equipment and intangible assets | | 65 | (52) |
| Impairment of trade and other receivables | | (167) | (16) |
| Other operating expenses | 28 | (4,035) | (2,422) |
| Income before other income (expenses) and income taxes | | 75,371 | 9,644 |
| Interest on debt, net of capitalized interest | | (6,806) | (4,258) |
| Interest on provisions | 17 | (2,390) | (1,786) |
| Interest income | 29 | 4,998 | 1,477 |
| Impairment of financial assets | 30 | (562) | (12,816) |
| Other financial expenses | 31 | (4,595) | (387) |
| Other financial income | 32 | 11,665 | 13,854 |
| Total other income (expenses) | | 2,310 | (3,916) |
| Income before income taxes | | 77,681 | 5,728 |
| Income taxes | 33 | (13,859) | (1,321) |
| Net income | | <u>63,822</u> | <u>4,407</u> |
| Net income per share (CZK per share): | 36 | | |
| Basic | | 118.9 | 8.2 |
| Diluted | | 118.9 | 8.2 |

The accompanying notes are an integral part of these financial statements.

ČEZ, a. s.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022

In CZK Millions

| | Note | 2022 | 2021 |
|--|------|----------|----------|
| Net income | | 63,822 | 4,407 |
| Change in fair value of cash flow hedges | | (82,332) | (85,679) |
| Cash flow hedges reclassified to statement of income | | 87,843 | 11,479 |
| Cash flow hedges reclassified to assets | | 403 | - |
| Change in fair value of debt financial instruments | | (887) | (1,349) |
| Deferred tax related to other comprehensive income | 33 | 39,144 | 14,354 |
| Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods | | 44,171 | (61,195) |
| Change in fair value of equity instruments | | 109 | (795) |
| Deferred tax related to other comprehensive income | 33 | (405) | 151 |
| Net other comprehensive income not to be reclassified from equity | | (296) | (644) |
| Total other comprehensive income, net of tax | | 43,875 | (61,839) |
| Total comprehensive income, net of tax | | 107,697 | (57,432) |

The accompanying notes are an integral part of these financial statements.

ČEZ, a. s.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

In CZK Millions

| | Stated capital | Treasury shares | Cash flow hedge reserve | Debt financial instruments | Equity financial instruments and other reserves | Retained earnings | Total equity |
|--|----------------|-----------------|-------------------------|----------------------------|---|-------------------|----------------|
| Balance as at January 1, 2021 | 53,799 | (2,845) | (7,146) | 441 | (1,018) | 158,214 | 201,445 |
| Net income | - | - | - | - | - | 4,407 | 4,407 |
| Other comprehensive income | - | - | (60,102) | (1,093) | (644) | - | (61,839) |
| Total comprehensive income | - | - | (60,102) | (1,093) | (644) | 4,407 | (57,432) |
| Effect of merger | - | - | - | - | 30 | (402) | (372) |
| Dividends | - | - | - | - | - | (27,873) | (27,873) |
| Sale of treasury shares | - | 1,422 | - | - | - | (762) | 660 |
| Exercised and forfeited share options | - | - | - | - | (55) | 55 | - |
| Balance as at December 31, 2021 | <u>53,799</u> | <u>(1,423)</u> | <u>(67,248)</u> | <u>(652)</u> | <u>(1,687)</u> | <u>133,639</u> | <u>116,428</u> |
| Net income | - | - | - | - | - | 63,822 | 63,822 |
| Other comprehensive income | - | - | 44,819 | (648) | (296) | - | 43,875 |
| Total comprehensive income | - | - | 44,819 | (648) | (296) | 63,822 | 107,697 |
| Dividends | - | - | - | - | - | (25,727) | (25,727) |
| Sale of treasury shares | - | 89 | - | - | - | (47) | 42 |
| Exercised and forfeited share options | - | - | - | - | (4) | 4 | - |
| Balance as at December 31, 2022 | <u>53,799</u> | <u>(1,334)</u> | <u>(22,429)</u> | <u>(1,300)</u> | <u>(1,987)</u> | <u>171,691</u> | <u>198,440</u> |

The accompanying notes are an integral part of these financial statements.

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

In CZK Millions

| | Note | 2022 | 2021 |
|---|---------|-----------|----------|
| OPERATING ACTIVITIES: | | | |
| Income before income taxes | | 77,681 | 5,728 |
| Adjustments of income before income taxes to cash generated from operations: | | | |
| Depreciation and amortization | 3, 6, 7 | 18,021 | 17,869 |
| Amortization of nuclear fuel | 3 | 3,980 | 4,079 |
| (Gains) and losses on non-current asset retirements | | 19 | (2,386) |
| Foreign exchange rate loss (gain) | | 4,180 | (923) |
| Interest expense, interest income and dividend income | | (5,638) | (4,829) |
| Provisions | | 9,807 | 2,223 |
| Impairment of property, plant and equipment and intangible assets | | (65) | 52 |
| Other non-cash expenses and income | | 86,256 | (25,682) |
| Changes in assets and liabilities: | | | |
| Receivables and contract assets | | (43,481) | (81,417) |
| Materials, supplies and fossil fuel stocks | | (5,760) | (2,775) |
| Receivables and payables from derivatives | | (167,272) | 23,406 |
| Other assets | | (12,446) | 73,712 |
| Trade payables | | (686) | 18,960 |
| Other liabilities | | 2,970 | 830 |
| Cash from operations | | (32,434) | 28,847 |
| Income taxes paid | | (2,742) | (23) |
| Interest paid, net of capitalized interest | | (5,779) | (4,417) |
| Interest received | | 4,851 | 1,430 |
| Dividends received | 5, 32 | 7,446 | 7,605 |
| Net cash flow from operating activities | | (28,658) | 33,442 |
| INVESTING ACTIVITIES: | | | |
| Acquisition of subsidiaries, associates and joint-ventures | | (4,145) | (5,054) |
| Proceeds from disposal of subsidiaries, associates and joint-ventures and original investments repayments | 12 | 909 | 36,207 |
| Additions to non-current assets, including capitalized interest | | (11,529) | (11,813) |
| Proceeds from sale of non-current assets | | 477 | 183 |
| Loans made | | (5,000) | (491) |
| Repayment of loans | | 2,232 | 3,850 |
| Change in restricted financial assets | | (1,228) | (1,013) |
| Net cash flow from investing activities | | (18,284) | 21,869 |

The accompanying notes are an integral part of these financial statements.

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

continued

| | Note | 2022 | 2021 |
|---|------|----------------------|----------------------|
| FINANCING ACTIVITIES: | | | |
| Proceeds from borrowings | | 300,171 | 310,770 |
| Payments of borrowings | | (230,889) | (317,330) |
| Payments of lease liabilities | 21 | (194) | (178) |
| Proceeds from other long-term liabilities | | 17 | - |
| Payment of other long-term liabilities | | (4) | - |
| Change in payables/receivables from Group cashpooling | | 16,580 | (1,183) |
| Dividends paid | | (25,626) | (27,813) |
| Sale of treasury shares | | 42 | 660 |
| Net cash flow from financing activities | | <u>60,097</u> | <u>(35,074)</u> |
| Net effect of currency translation and allowances in cash | | (947) | (442) |
| Net increase in cash and cash equivalents | | 12,208 | 19,795 |
| Cash and cash equivalents at beginning of period | | <u>20,804</u> | <u>1,009</u> |
| Cash and cash equivalents at end of period | 8 | <u><u>33,012</u></u> | <u><u>20,804</u></u> |
| Supplementary cash flow information: | | | |
| Total cash paid for interest | | 6,043 | 4,707 |

The accompanying notes are an integral part of these financial statements.

ČEZ, a. s.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2022

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ČEZ, a. s.

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

1. Description of the Company

ČEZ, a. s. (ČEZ or the Company), company reg. No. 45274649, is a joint-stock company that came into existence by registration in the Commercial Register maintained by the Municipal Court in Prague (section B, file 1581) on May 6, 1992, and has its registered office at Duhová 2/1444, Praha 4, Czech Republic.

The main subject of the Company's business is the production of electricity, trade in electricity, gas and other commodities and production and distribution of thermal energy. ČEZ is an energy company that generated approximately 57% of electricity produced in the Czech Republic in 2022. ČEZ is a parent company of the CEZ Group, which is one of the largest economical entities in Central Europe.

The average full-time equivalent number of employees was 5,876 and 5,704 in 2022 and 2021, respectively.

The majority stake in the Company is owned by the Czech Republic, represented by the Ministry of Finance of the Czech Republic. The Czech Republic held a 69.8% share in the Company's stated capital at December 31, 2022. The majority shareholder's share in voting rights was 69.9% at the same date.

The Company's business environment is significantly affected by regulation and legislation at the level of the European Union and in the Czech Republic. Responsibility for public administration in the energy sector is exercised by the Ministry of Industry and Trade, the Energy Regulatory Office and the State Energy Inspection Board.

The "VISION 2030 – Clean Energy of Tomorrow" strategy is focused on dynamic transformation of the generation portfolio to low-emission one and achievement of full climate neutrality already by 2040. The strategy includes a commitment to end the production of heat from coal and fundamentally limit the production of electricity from coal by 2030. In areas of distribution and sales, the basic goal is to provide the most advantageous energy solutions and the best customer experience on the market.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The financial statements are based on a historical cost approach, except where IFRS require a different measurement basis as disclosed in the description of accounting policies below.

Due to the economic substance of transactions and the environment in which the Company operates, the Czech crowns (CZK) is used as the functional currency and reporting currency.

The Company has also prepared CEZ Group's consolidated financial statements in accordance with IFRS for the same period.

Explanation Added for Translation into English

These financial statements represent a translation of financial statements originally issued in Czech.

2.2. Changes in Accounting Policies

2.2.1. Adoption of New IFRS Standards in 2022

The accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Company has adopted the following new or amended standards and interpretations endorsed by EU as of January 1, 2022:

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018–2020 (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2022, with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 from the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced by this asset before it is put into use. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify that it is necessary to evaluate full costs directly attributable to the fulfilling of onerous contracts (not incremental costs).
- Annual Improvements 2018–2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

The application of those amendments did not have significant impact to the Company's financial statements.

2.2.2. New IFRS Standards and IFRIC Interpretations either not yet Effective or not yet Adopted by the EU

The Company is currently assessing the potential impacts of the new and revised standards and interpretations that will be effective or adopted by the EU from January 1, 2023, or later.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued as well as to certain guarantees and financial instruments with discretionary participation contracts. The Company does not conclude contracts under the IFRS 17 and therefore the Company does not expect this standard to have a material effect on the Company's financial statements.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Those amendments are not expected to have a material effect on the Company's financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. Those amendments are not expected to have a material effect on the Company's financial statements.

IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. If the payments that settle the liability are deductible for tax purposes, it depends on the assessment of the relevant tax legislation whether they will be attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. Those amendments are not expected to have a material effect on the Company's financial statements.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement and defines the requirement for this right to exist at the end of the reporting period. The amendments also specify that management's intention or counterparty's option do not affect current or non-current classification of the liability, which would result in the settlement by the transfer of the entity's own equity instruments. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. Those amendments are not expected to have a material effect on the Company's financial statements.

IFRS 16 Leases: Lease Liability in a Sale and Leaseback (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in a such way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognizing, in profit or loss, any gain or loss related to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being this the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU. Those amendments are not expected to have a material effect on the Company's financial statements.

Amendments in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint-ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint-venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate

or joint-venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of these amendments indefinitely pending the outcome of its research project on the equity method of accounting. These amendments have not yet been endorsed by the EU. Those amendments are not expected to have a material effect on the Company's financial statements.

The Company does not expect early adoption of any of the above-mentioned standards, improvements or amendments.

2.3. Estimates

The preparation of financial statements in accordance with IFRS requires Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date, the disclosure of information on contingent assets and contingent liabilities, and the amounts of revenues and expenses reported for a reporting period. Actual results may differ from such estimates. A description of key assumptions for significant estimates is included in the relevant sections of the Notes.

The Company makes significant estimates when determining the recoverable amounts of property, plant and equipment and non-current financial assets (see Notes 3 and 5), for nuclear provisions (see Notes 2.21 and 17.1), provision for demolition and dismantling of fossil-fuel power plants (see Notes 2.22 and 17.2) for provision for waste storage restoration (see Note 17.2), and when determining the fair value of commodity contracts (see Notes 2.14 and 15) and financial derivatives (see Notes 2.13 and 15), incremental interest rates and lease terms to measure lease liabilities (see Notes 2.23 and 21) and deferred tax calculation (see Notes 2.19 and 33).

The most significant changes in estimates in 2022 related to the provision for nuclear decommissioning and provision for demolition and dismantling of fossil-fuel power plants due to updating the amount and scope of decommissioning costs. The other significant changes relate to determining the recoverable amount of financial assets and estimation of expected income tax rate during the years 2023-2025 due to windfall tax.

In 2021, there were significant changes in some estimates in connection with the adoption of the accelerated strategy VISION 2030 – Clean Energy of Tomorrow, which takes into account the EU's decarbonization vision and sets out specific ambitions in the area of social responsibility and sustainable development. The most significant changes in estimates in 2021 concerned a shortening of the expected remaining useful life of generating coal-fired plants (see Note 2.7), the determination of the provision for demolition and dismantling of fossil-fuel power plants and determining the recoverable amount of non-current financial assets.

2.4. Revenues and Other Income

Revenue is recognized, when the Company has satisfied a performance obligation and the amount of revenue can be reliably measured. The Company recognizes revenue at the amount of estimated consideration (less estimated discounts) that it expects to receive for goods transferred or services provided to the customer.

To apply this basic principle, the Company uses a five-level model:

1. Identify the contract(s) with a customer,
2. Identify the performance obligations arising from the contract,
3. Determine the transaction price,
4. Allocate the transaction price to the performance obligations arising from the contract,
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company recognizes revenue from sales of electricity, heat and gas based on contract terms. Any differences between contracted amounts and actual supplies are settled through the market operator.

Sales are recognized net of value added tax.

Revenue from the sale of assets is recognized as soon as the delivery takes place and risks and associated benefits, as applicable, are transferred to the buyer.

Dividend income is recognized when the Company is awarded the right to the payment of the dividend.

Government and similar grants related to income are recognized in the income statement in the period in which the Company recognizes related expenses to be offset by the grant and is presented in the line Other operating income.

2.5. Fuel Costs

Fuel is recognized as costs when it is consumed. Fuel costs include the depreciation of nuclear fuel (see Note 2.8).

2.6. Interest

The Company capitalizes, as the cost of non-current assets, all interest associated with its investing activities that it would not have incurred if it did not pursue such investing activities. Interest is only capitalized for assets constructed or acquired over a substantial period of time.

2.7. Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairments. The cost of property, plant and equipment comprises the purchase price and the related cost of materials and labor and the cost of debt financing used in the construction. The cost also includes the estimated cost of dismantling and removing a tangible asset to the extent specified by IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Government grants and similar subsidies received for the acquisition of property, plant and equipment decrease the cost.

Self-constructed property, plant and equipment are measured at the cost of constructing them. Expenditures on the repair, maintenance and replacement of minor asset items are recognized as repair and maintenance expenses in the period when such repair is carried out. Improvements are capitalized. When an item of property, plant and equipment or a part thereof is sold or disposed of, its cost, relevant accumulated depreciation and any impairments are derecognized in the balance sheet. Any gains or losses arising from the sale or disposal of property, plant and equipment are included in profit or loss.

At each reporting date, the Company assesses whether there are any indicators that an asset may have been impaired. Where there are such indicators of impairment, the Company checks whether the recoverable amount of the item of property, plant and equipment is less than its depreciated cost. The recoverable amount is the higher of the fair value less costs to sell and the value in use. Any impairment of property, plant and equipment is recognized in profit or loss and presented in the line item Impairments of property, plant and equipment and intangible assets.

At each reporting date, the Company assesses whether there are any indicators that previously recognized impairments of assets are no longer justified or should be decreased. If there are such indicators, the Company determines the recoverable amount of non-current assets. A previously recognized impairment is recognized as an expense only if there has been a change in the assumptions used to estimate the non-current asset's recoverable amount since the last recognition of the impairment. If that is the case, the depreciated cost of the asset including the impairment is increased to the new recoverable amount. The new depreciated cost may not exceed the current carrying amount, less accumulated depreciation, that would be determined had no impairment been recognized in the past. A reversal of previously recognized impairment is recognized in profit or loss and presented in the line item Impairments of property, plant and equipment and intangible assets.

The Company depreciates the cost of property, plant and equipment less their residual value using the straight-line method over their estimated useful life. Each part of an item of property, plant and equipment that is significant in relation to the total amount of the asset is recognized and depreciated separately.

The estimated useful life of property, plant and equipment as at December 31, 2022, is determined as follows:

| | Useful lives (years) |
|--------------------------|-------------------------|
| Buildings and structures | 13–60 |
| Machinery and equipment | 4–36 |
| Vehicles | 4–34 |
| Furniture and fixtures | 4–15 |

The average depreciation period depending on useful life as at December 31, 2022, is determined as follows:

| | Average life (years) |
|--------------------------|-------------------------|
| Hydro plants | |
| Buildings and structures | 48 |
| Machinery and equipment | 17 |
| Fossil fuel plants | |
| Buildings and structures | 29 |
| Machinery and equipment | 17 |
| Nuclear power plant | |
| Buildings and structures | 51 |
| Machinery and equipment | 38 |

Depreciation periods, residual values and depreciation methods are annually reviewed and adjusted as appropriate. In 2021, the expected remaining useful life of the assets of coal-fired plants was reduced by 7–10 years.

2.8. Nuclear Fuel

The Company recognizes nuclear fuel as part of property, plant and equipment because the period for which it is used for electricity generation exceeds 1 year. Nuclear fuel is measured at cost less accumulated depreciation and, if applicable, impairments. Nuclear fuel includes a capitalized portion of the provision for interim storage of spent nuclear fuel. The depreciation of nuclear fuel in a reactor is determined on the basis of the amount of energy generated and presented in the statement of income in the line item Fuel and emission rights. The depreciation of nuclear fuel includes additions to the provision for interim storage of spent nuclear fuel.

2.9. Intangible Assets

Intangible assets are measured at costs, including the purchase price and related expenses. Non-current intangible assets are amortized using the straight-line method over their estimated useful life, which ranges from 3–28 years. Amortization periods, residual values and amortization methods are annually reviewed and adjusted as appropriate. Improvements are capitalized.

At each reporting date, the Company assesses whether there are any indicators that a non-current intangible asset may have been impaired. Non-current intangible assets under development are tested for possible impairment annually regardless of whether there are indicators of possible impairment. Any impairment of non-current intangible assets is recognized in profit or loss and presented in the line item Impairments of property, plant and equipment and intangible assets.

At each reporting date, the Company assesses whether there are any indicators that previously recognized impairments of assets are no longer justified or should be decreased. If there are such indicators, the Company determines the recoverable amount of non-current assets. A previously recognized impairment is recognized as an expense only if there has been a change in the assumptions used to estimate the non-current asset's recoverable amount since the last recognition of the impairment. If that is the case, the amortized cost of the asset including the impairment is increased to the new recoverable amount. The new amortized cost may not exceed the current carrying amount, less accumulated amortization, that would be determined had no impairment been recognized in the past. A reversal of previously recognized impairment is recognized in profit or loss and presented in the line item Impairments of property, plant and equipment and intangible assets.

2.10. Investment Property

Investment property is a property held to earn rentals or for capital appreciation, or both, rather than use for ordinary course of business. If the property is also used for ordinary business, it is an investment in property only if the owner-occupied portion is non-material.

Investment property is initially measured at cost, which consists of the purchase cost and any directly attributable transaction costs. Investment property should be recognized as an asset, when it is probable that the future economic benefits that are associated with the property will flow to the entity and the cost of the property can be reliably measured. After initial recognition, investment property is recognized in accordance with the cost model. The Company depreciates the cost of investment property less their residual value using the straight-line method over its estimated useful life. The average depreciation period based on useful life is 49 years.

2.11. Emission Rights

The greenhouse gas emission right (hereinafter the emission right) represents the right of the operator of a facility that generates greenhouse gas emissions by its operation to emit the equivalent of a ton of carbon dioxide into the atmosphere in a given calendar year. The Company is obliged to determine and report the amount of greenhouse gas emissions from the facilities for each calendar year and this amount must be to be audited by an accredited person. The Company was allocated a certain amount of emission rights on the basis of the National Allocation Plan.

The Company is required to remit the number of emission rights corresponding to its actual amount of greenhouse gas emissions in the previous calendar year by no later than April 30 of the next calendar year.

Allocated emission rights are measured at nominal, i.e., zero value in financial statements. Purchased emission rights are measured at cost (except for emission rights held for trading). The Company makes a provision for covering released emissions corresponding to the difference between the actually released amount of emissions and its inventory of allocated emission rights. The provision is measured primarily at the cost of emission rights that were purchased with the intention of covering greenhouse gas emissions in the reporting period. The provision for released emissions exceeding such rights is measured at the market price effective at the end of the reporting period. Emission rights purchased for use in the next year are recognized as current assets in the line item Emission rights. Emission rights with a later planned time of use are recognized as part of non-current intangible assets.

The Company also purchases emission rights for the purpose of trading. The portfolio of emission rights held for trading is measured at fair value at the end of the reporting period, with any changes in fair value recognized in profit or loss and presented in the line item Gains and losses from commodity derivative trading. Emission rights purchased for the purpose of trading are recognized as current assets in the line item Emission rights.

At each reporting date, the Company assesses whether there are any indicators that emission allowances may have been impaired. Where there are such indicators, the Company checks whether the recoverable amount of cash-generating units that the emission rights were allocated to is less than their depreciated cost. Any impairment of emission rights is recognized in profit or loss and presented in the line item Other operating expenses.

Sale and repurchase agreements concerning emission rights are accounted for as collateralized loans.

2.12. Classification of Financial Instruments

Financial assets comprise primarily cash, equity instruments of another entity, or a contractual right to receive cash or another financial asset.

Financial liabilities are primarily contractual obligations to deliver cash or another financial asset.

Financial liabilities and assets are presented as current or non-current. Financial assets are classified as current if the Company intends to realize them within 12 months of the end of the reporting period or if there is not reasonable assurance that the Company will hold the financial assets for more than 12 months after the end of the reporting period.

Financial liabilities are presented as current if they are payable within 12 months of the end of the reporting period. Assets and liabilities held for trade are also presented as current assets and liabilities.

Financial assets and financial liabilities are offset and the resulting net amount is presented in the balance sheet if there is a legally enforceable right to set off the recognized amounts and the Company intends to settle on a net basis or to realize the financial assets and settle the financial liabilities simultaneously.

2.12.1. Financial Assets

Financial assets are classified into the categories of at amortized cost, at fair value depending on whether the financial assets are held for sale or whether they are held under a business model whose objective is to hold the assets to collect contractual cash flows and at cost.

The Company classifies assets into the following categories:

- a) Financial asset measurement at amortized cost
This category comprises financial assets for which the Company's strategy is to hold them to collect contractual cash flows, consisting of both principal and interest. Examples of such financial assets include loans, securities held to maturity, trade receivables.

Expected credit losses, exchange differences and interest revenue are recognized in profit or loss.

- b) Financial asset measurement at fair value through other comprehensive income
This category comprises financial assets where the Company's strategy is both to collect contractual cash flows and to sell the financial assets. This model differentiates between two types of accounting treatment:

- Without future transfer to profit or loss—used for equity financial assets
Impairments are neither calculated nor recognized. Changes in fair value are recognized in other comprehensive income. When a financial asset is sold, no gain or loss is recognized in profit or loss, so it never affects profit or loss. If an equity financial asset is sold, the accumulated revaluation amount is transferred to retained earnings. Exchange differences are recognized in other comprehensive income as part of the revaluation amount. Dividends on such financial assets are recognized in profit or loss provided that the payment of such dividends does not reduce the value of the investment.
- With future transfer to profit or loss—used for debt financial assets
Additions to impairment are recognized in profit or loss. Changes in fair value are recognized in other comprehensive income. On the disposal of a financial asset, the gain or loss is recognized in profit or loss (the gain/loss is transferred from other comprehensive income to profit or loss). Exchange differences in relation to revaluation

surplus are recognized in other comprehensive income. Exchange differences in relation to impairment are recognized in profit or loss. Interest revenue is recognized in profit or loss.

- c) Financial asset measurement at fair value through profit or loss
A category of financial assets for which the Company's strategy is to actively trade the asset. The collection of contractual cash flows is not the main objective of the strategy. Examples of such financial assets are securities held for trading and non-hedging derivatives. Impairments are neither calculated nor recognized. Changes in fair value and exchange differences are recognized in profit or loss.

Changes in the fair value of financial investments at fair value through profit or loss are recognized in Other financial expenses or Other financial income.

- d) Financial asset measurement at cost
This category of financial assets comprises investments in subsidiaries, associates and joint-ventures. Additions to impairment are recognized in profit or loss.

2.12.2. Financial Liabilities

Financial liabilities are classified into two core categories of at amortized cost and at fair value through profit or loss. Classification into those categories is determined analogously to financial assets.

For fair value option financial liabilities, i.e., those measured at fair value through profit or loss, a change in fair value that is attributable to changes in credit risk is presented in other comprehensive income; the remaining amount is presented in profit or loss. However, if the treatment of changes in fair value that are attributable to credit risk created or enlarged an accounting mismatch in profit or loss, the entity would present all gains or losses on such a liability in profit or loss.

2.12.3. Derivatives

Derivatives are a special category of financial assets and liabilities. The manner of recognizing gains or losses from the revaluation of derivatives to fair value depends on whether a derivative is classified as a hedging instrument and on the nature of the item being hedged. More information on the reporting of derivatives can be found in Note 2.13.

2.12.4. Impairment of Financial Assets

The impairment of financial assets is based on a model of expected credit losses (ECL), which applies to the following financial assets:

- a) debt assets at amortized cost (trade receivables, loans, debt securities),
- b) debt assets at fair value through other comprehensive income,
- c) lease receivables,
- d) financial guarantee contracts,
- e) bank accounts and term deposits.

The Company accounts for either 12-month expected credit losses or lifetime expected credit losses depending on whether there has been a significant increase in credit risk since initial recognition (or since the commitment was made or the guarantee was provided). The Company has used a simplified approach for some receivables, under which lifetime expected credit losses are always accounted for.

The portfolio of financial assets is broken down into 3 categories for the purposes of ECL calculation. At the date of initial recognition, financial assets are included in Category 1 with the lowest impairment, which is determined as a percentage of historically unpaid receivables. They are subsequently reclassified as Category 2 and 3 as the debtor's credit risk increases. If a financial asset is bearing interest, interest revenue in Category 3 is calculated from the net amount of the asset.

2.13. Derivatives

The Company uses financial derivatives, such as interest rate swaps and foreign exchange contracts, to hedge risks associated with interest rate and exchange rate fluctuations. Derivatives are measured at fair value. They are recognized as part of non-current and current other financial assets and liabilities in the balance sheet.

The manner of recognizing gains or losses from the revaluation of derivatives to fair value depends on whether a derivative is classified as a hedging instrument and on the nature of the item being hedged.

For hedge accounting purposes, hedging transactions are classified either as fair value hedges where the risk of change in the fair value of a balance sheet asset or liability is hedged or as cash flow hedges where the Company is hedged against the risk of changes in cash flows attributable to a balance sheet asset or liability or to a highly probable forecast transaction.

At the inception of a hedge, the Company prepares documents identifying the hedged item and the hedging instrument used and documenting the risk management objectives and strategy for various hedging transactions. At the inception and throughout the duration of a hedge, the Company documents whether the hedging instruments used are highly effective in relation to changes in the fair values or cash flows of hedged items.

2.13.1. Fair Value Hedging Derivatives

Changes in the fair values of fair value hedging derivatives are recognized in expenses or income, as appropriate, together with the relevant change in the fair value of the hedged asset or liability that is related to the hedged risk. Where an adjustment to the carrying amount of a hedged item is made for a debt financial instrument, the adjustment is amortized in profit or loss over time until the maturity of such a financial instrument.

2.13.2. Cash Flow Hedging Derivatives

Changes in the fair values of derivatives hedging expected cash flows are initially recognized in other comprehensive income. The gain or loss attributable to the ineffective portion is presented in the statement of income in the item Other financial expenses or Other financial income.

Amounts accumulated in equity are recognized in profit or loss in the period when the expenses or income associated with the hedged items are accounted for.

When a hedging instrument expires or a derivative is sold or it no longer meets the criteria for hedge accounting, the cumulative gain or loss recognized in equity remains in equity until the forecast transaction is closed and then recognized in the statement of income. If a forecast transaction is no longer likely to occur, the cumulative gain or loss, originally recognized in other comprehensive income, is transferred to profit or loss.

2.13.3. Other Derivatives

Some derivatives are not intended for hedge accounting. A change in the fair value of such derivatives is recognized directly in profit or loss.

2.14. Commodity Contracts

According to IFRS 9, certain commodity contracts are considered to be financial instruments and accounted for in accordance with the standard. Most commodity purchases and sales carried out by the Company assume physical delivery of the commodity in amounts intended for use or sale in the course of the Company's ordinary activities. Therefore, such contracts (so-called "own use" contracts) are not within the scope of IFRS 9.

Forward purchases and sales with physical delivery of energy are not within the scope of IFRS 9 as long as the contract is made in the course of the Company's ordinary activities. This is true if all of the following conditions are met:

- Physical delivery of the commodity takes place under the contract;
- The amount of the commodity purchased or sold under the contract corresponds to the Company's operating requirements;
- The contract does not represent a sold option as defined by IFRS 9. In the specific case of electricity sales contracts, the contracts are substantially equivalent to firm forward sales or can be considered sales of generation capacity.

The Company considers transactions entered into with the aim of balancing electricity amounts purchased and sold to be part of an integrated energy group's ordinary activities; therefore, such contracts are not within the scope of IFRS 9.

Commodity contracts that are within the scope of IFRS 9 and that do not hedge cash flow are revalued to fair value, with changes in fair value recognized in profit or loss. The Company presents revenue and expenses related to trading in electricity and other commodities in the statement of income item Gains and losses from commodity derivative trading.

Changes in the fair values of commodity contracts that are within the scope of IFRS 9 and that hedge expected cash flows are initially recognized in other comprehensive income. The gain or loss attributable to the ineffective portion is presented in the statement of income in the item Gains and losses from commodity derivative trading.

Subsequently, in accordance with the description in Note 2.13.2, amounts accumulated in equity are recognized in profit or loss in the period when the expenses or income associated with the hedged items are accounted for.

When a hedging instrument expires or a commodity contract is sold or it no longer meets the criteria for hedge accounting, the cumulative gain or loss recognized in equity remains in equity until the expected transaction is closed and then recognized in the statement of income. If the expected transaction is no longer likely to occur, the cumulative gain or loss, originally recognized in other comprehensive income, is transferred to profit or loss.

2.15. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, current accounts with banks and short-term financial deposits with maturity of no more than 6 months. Foreign currency cash and cash equivalents are translated to the Czech koruna at the exchange rate applicable at the end of the reporting period.

2.16. Restricted Financial Assets

Cash and other financial assets that are recognized as restricted funds (see Note 4) are intended for the funding of nuclear decommissioning, for the waste storage reclamation and rehabilitation of waste dumps, or are cash guarantees given to counterparties. Such funds are classified as non-current assets due to the time at which they are expected to be released for the Company's purposes.

2.17. Materials and Supplies

Purchased inventories are measured at actual cost, using the weighted average cost method. The costs of purchased inventories include all costs of purchase, including transport costs. Upon use, they are recognized in expenses or capitalized as non-current assets. Work in progress is measured at actual cost. The costs include, primarily, direct material and labor costs. Obsolete inventories are written down using impairments recognized in expenses. Impairments of inventories amounted to CZK 22 million and CZK 40 million at December 31, 2022 and 2021, respectively.

2.18. Fossil Fuel Stocks

Inventories of fossil fuels are measured at actual cost, determined on a weighted average cost basis.

2.19. Income Taxes

The amount of income taxes is determined in compliance with Czech tax laws and is based on the Company's profit or loss determined in accordance with Czech accounting regulations and adjusted for permanently or temporarily nondeductible expenses and untaxed income (e.g., a difference in the depreciation and amortization of non-current assets for tax and accounting purposes). The current income tax at December 31, 2022 and 2021, respectively, was calculated from income before tax in accordance with Czech accounting regulations, adjusted for some items that are nondeductible or nontaxable for tax purposes, using a rate of 19%. The applicable tax rate for 2022 is 19%. The Company will be burdened by an increased tax rate, so called windfall tax, in the period of 2023–2025 (see Note 33). During this period, the taxable income of the Company (above the tax base derived from average tax base from years 2018–2021 increased by 20%) will be taxed by 60%. Expected tax rate from 2026 is 19%.

Deferred tax is calculated on the basis of the liability method based on a balance sheet approach. Deferred tax is calculated from temporary differences between accounting measurement and measurement for the purposes of determining the income tax base. Deferred tax is determined using rates and laws that have been enacted by the end of the reporting period and are expected to apply when the deferred tax asset is realized, or the deferred tax liability is settled.

A deferred tax asset or liability is not discounted. A deferred tax asset is recognized when it is probable that the Company will generate sufficient taxable profit in the future against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized. A deferred tax liability is recognized for all taxable temporary differences.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and, if necessary, the carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

If the current and deferred tax relate to items that are charged or credited directly to equity in the same or a different tax period, the tax is also recognized directly in equity.

Changes in the deferred tax due to a change in tax rates is recognized in profit or loss, except for items charged or credited directly to equity in the same or a different tax period, for which such a change is also recognized directly in equity.

2.20. Long-term Debt

Debt is initially measured at the amount of proceeds from the issue of the debt, less transaction costs. It is then carried at amortized cost, which is determined using the effective interest rate. The difference between the nominal amount and the initial measurement of debt is recognized in profit or loss as interest expense over the period of debt.

Transaction costs comprise commission paid to advisers, agents and brokers and levies by regulatory agencies and securities exchanges.

For long-term debt that is hedged with derivatives hedging against changes in fair value, the measurement of hedged debt is adjusted for changes in fair value. Changes in the fair value of such debt are recognized in profit or loss and reported in the statement of income in Other financial expenses or Other financial income. The adjustment to the carrying amount of hedged long-term debt is subsequently recognized in profit or loss using the effective interest rate.

2.21. Nuclear Provisions

The Company makes a provision for nuclear decommissioning, a provision for interim storage of spent nuclear fuel and other radioactive waste and a provision for the funding of subsequent permanent disposal of spent nuclear fuel and irradiated reactor components (see Note 17.1).

The provisions made correspond to the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The estimate, expressed at the price level at the date of estimate, is discounted using an estimated long-term real interest rate of 2.0% and 0.3% per annum as at December 31, 2022 and 2021, respectively, so as to take into account the timing of expenditure. Initial discounted costs are capitalized as part of property, plant and equipment and then amortized for the duration of time for which nuclear power plants will generate electricity. The provision is increased by the estimated inflation and real interest rate annually. Such expenses are recognized in the statement of income in the line-item Interest on provisions. The effect of the expected rate of inflation is estimated at 2.8% and 2.0% as at December 31, 2022 and 2021, respectively.

The process of nuclear power plant decommissioning is estimated to continue for approximately 50 years after the termination of electricity generation. It is assumed that a permanent repository for spent nuclear fuel will commence operation in 2065 and the disposing of stored spent nuclear fuel at the repository will continue until approximately 2090. Although the Company has made the best estimate of the amount of nuclear provisions, potential changes in technology, changes in safety and environmental requirements and changes in the duration of such activities may result in actual costs varying considerably from the Company's current estimates.

Changes in estimates concerning the provisions for nuclear decommissioning and permanent disposal of spent nuclear fuel resulting from new estimates of the amount or timing of cash flows required to settle these obligations or from a change in the discount rate are added to, or deducted from, the amount recognized as an asset in the balance sheet. Should the amount of the asset be negative, i.e., should the deducted amount exceed the amount of the asset, the difference is recognized directly in profit or loss.

2.22. Provision for Demolition and Dismantling of Fossil-fuel Power Plants

The Company has recognized provision for demolition and dismantling of fossil-fuel power plants (see Note 17.2) after their decommissioning. The provision was created in 2021 in connection with the deepening of decarbonization targets at the EU level and in connection with updating the Group's strategy and signing up to accelerate the decarbonization of the generation portfolio within the "VISION 2030 – Clean Energy of Tomorrow". The provision created corresponds to the best estimate of the expenditures required to settle the present obligation at the balance sheet date. The estimate, expressed at the price level at the date of estimate, is discounted using an estimated real interest rate of 0.8% and (0.4)% per annum as at December 31, 2022 and 2021, respectively, in order to take into account the timing of expenditure. Initial discounted costs are capitalized as part of property, plant and equipment and then depreciated over the period during which coal power plants will generate electricity. The provision is updated annually with regard to the estimated inflation and real interest rate. These expenses are recognized in the statement of income in the line item Interest on provisions. The effect of the expected rate of inflation is estimated at 4.0% and 2.0% as at December 31, 2022 and 2021, respectively.

Although the Company has made the best estimate of the amount of provision for demolition and dismantling of fossil-fuel power plants, potential changes in technology, changes in safety and environmental requirements and changes in the duration of such activities may result in actual costs varying considerably from the Company's current estimates.

Changes in estimates concerning the provision resulting from new estimates of the amount or timing of cash flows required to settle these obligations or from a change in the discount rate are added to, or deducted from, the amount recognized as an asset in the balance sheet. Should the amount of the asset be negative, i.e., should the deducted amount exceed the amount of the asset, the difference is recognized directly in profit or loss.

2.23. Leases

Determining whether a contract is, or contains, a lease is based on the economic substance of the transaction and requires an assessment of whether the fulfillment of the contractual obligation is dependent on the use of a specific asset or assets and whether the contract conveys a right to use the asset.

The Company does not apply IFRS 16 to leases of intangible assets.

2.23.1. Company as a Lessee

The Company uses a consistent approach to the reporting and measurement of all leases, except for short-term leases and leases of low-value assets. The Company accounts for future lease payments as lease liabilities and recognizes right-of-use assets, which represent a right to use the underlying assets. Lease payments for short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

a) Lease Liability

At the commencement date of a lease, the Company recognizes lease liabilities measured at the present value of the lease payments that are to be made over the lease term. Lease payments comprise fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be payable under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers those payments occurs.

When calculating the present value of lease payments, the Company uses an incremental interest rate at the commencement date of the lease because the interest rate implicit in the lease cannot be readily determined. After the commencement date, the amount of lease liabilities is increased by accrued interest and decreased by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a lease modification, i.e., a change in the lease term, a change in lease payments (e.g., changes in future payments resulting from a change in an index or a rate used to determine the amount of the lease payment), or a change in the assessment of the option to purchase the underlying asset.

The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company estimates the incremental interest rate using observable inputs, such as market interest rates.

The Company uses judgment to determine the expected lease term for contracts made for an indefinite time.

b) Right-of-Use Assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date when the underlying assets are available for use). Right-of-use assets are measured at cost less accumulated amortization and impairment losses and adjusted for any reassessment of lease liabilities. The cost of right-of-use assets comprises the amount of recognized lease liabilities, initial direct costs and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortized using the straight-line method over the lease term or the estimated life of the assets as follows:

| | Depreciation period (years) |
|-------------------------------------|-----------------------------------|
| Lands | 4–22 |
| Buildings | 8–13 |
| Vehicles, machinery and equipment | 3–42 |
| Inventory and other tangible assets | 6–12 |

2.23.2. Company as a Lessor

The Company leases out its tangible assets including own tangibles and right-of-use assets. The Company has classified the leases as financial or operating leases. Operating lease is a lease whereby the Company does not transfer substantially all the risks and rewards incidental to the ownership of assets.

Lease income from operating leases is recognized on a straight-line basis over the lease term and included as income in profit or loss due to their operating nature.

For the leases classified as finance leases, the Company recognizes a net investment in the lease measured at the present value of lease payments to be made over the lease term, increased by any unguaranteed residual value of the leased asset at the end of the lease, which is not conditioned by future cash flow. In calculating the present value of net investment in the lease, the Company uses the interest rate implicit in the lease. In the case of a sublease, if the interest rate implicit in the sublease is not readily determined, the Company uses the discount rate used for the head lease.

2.24. Share-based Payments

Members of the Board of Directors and selected managers are in the new long-term bonus program since January 1, 2020 (Note 27). The amount of the bonus is partially based on the value of the Company's shares and it is settled in cash. The expense and related liability are recognized when the services are provided to the Company and in the fair value of the expected cash-settled transactions. The liability is subsequently revalued at fair value for each reporting period and at the settlement date, with any changes in fair value being reported in the relevant period in the statement of income in the line Salaries and wages.

2.25. Treasury Shares

Treasury shares are reported in the balance sheet as an item reducing equity. The acquisition of treasury shares is recognized in the statement of changes in equity as a deduction from equity. No gain or loss is recognized in the statement of income on the sale, issue, or cancellation of treasury shares. Consideration received is recognized in financial statements as a direct increase in equity.

2.26. Foreign Currency Transactions

Assets and liabilities in foreign currencies are translated into the Czech currency at the exchange rate applicable at the date of the accounting transaction as published by the Czech National Bank for that date. In annual financial statements, such monetary assets and liabilities are translated at the exchange rate applicable at December 31. Exchange differences arising on the settlement of such transactions and from the translation of monetary assets and liabilities in foreign currencies are recognized in profit or loss, except when exchange differences arise in connection with a liability that is classified as an effective hedge of cash flows. Such exchange differences are recognized directly in equity.

Exchange differences on financial assets are described in Note 2.12.1.

The Company used the following exchange rates to translate assets and liabilities in foreign currencies at December 31, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|-----------------|-------------|-------------|
| CZK per 1 EUR | 24.115 | 24.860 |
| CZK per 1 USD | 22.616 | 21.951 |
| CZK per 1 PLN | 5.152 | 5.408 |
| CZK per 1 BGN | 12.330 | 12.711 |
| CZK per 1 RON | 4.873 | 5.023 |
| CZK per 100 JPY | 17.152 | 19.069 |
| CZK per 1 TRY | 1.208 | 1.631 |
| CZK per 1 GBP | 27.200 | 29.585 |
| CZK per 100 HUF | 6.015 | 6.734 |

2.27. Assets Classified as Held for Sale

Assets and disposal groups of assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets and groups of assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is considered met only if the sale is highly probable and the asset or group of assets is available for immediate sale in its present condition. Company management must take steps toward the sale of the asset or group of assets so as to complete the sale within one year from the date of the classification of the assets or group of assets as held for sale.

Property, plant and equipment and non-current intangible assets classified as held for sale are not depreciated or amortized.

3. Property, Plant and Equipment

The overview of property, plant and equipment, net at December 31, 2022 and 2021 was as follows (in CZK millions):

| | Buildings | Plant and equipment | Land and other | Total plant in service | Nuclear fuel | Construction work in progress | Total |
|--|-----------|---------------------|----------------|------------------------|--------------|-------------------------------|-----------|
| Cost at January 1, 2022 | 116,634 | 371,033 | 1,544 | 489,211 | 22,119 | 11,542 | 522,872 |
| Additions | 15 | 70 | 8 | 93 | - | 11,211 | 11,304 |
| Disposals | (477) | (5,431) | (6) | (5,914) | (4,060) | (3) | (9,977) |
| Bring into use | 1,894 | 4,888 | 37 | 6,819 | 2,408 | (9,227) | - |
| Change in capitalized part of the provision | 14,813 | 9,701 | - | 24,514 | - | - | 24,514 |
| Other | (68) | - | (1) | (69) | - | (11) | (80) |
| Cost at December 31, 2022 | 132,811 | 380,261 | 1,582 | 514,654 | 20,467 | 13,512 | 548,633 |
| Accumulated depreciation and impairment at January 1, 2022 | (58,276) | (216,593) | (146) | (275,015) | (9,098) | (64) | (284,177) |
| Depreciation and amortization of nuclear fuel ¹⁾ | (4,778) | (13,141) | (18) | (17,937) | (3,556) | - | (21,493) |
| Net book value of assets disposed | (18) | (183) | (3) | (204) | - | - | (204) |
| Disposals | 477 | 5,431 | 2 | 5,910 | 4,060 | - | 9,970 |
| Other | 49 | - | 1 | 50 | - | - | 50 |
| Impairment losses recognized | - | (2) | - | (2) | - | - | (2) |
| Impairment losses reversed | 27 | (1) | 1 | 27 | - | 25 | 52 |
| Accumulated depreciation and impairment at December 31, 2022 | (62,519) | (224,489) | (163) | (287,171) | (8,594) | (39) | (295,804) |
| Total property, plant and equipment at December 31, 2022 | 70,292 | 155,772 | 1,419 | 227,483 | 11,873 | 13,473 | 252,829 |

¹⁾ The amortization of nuclear fuel as at December 31, 2022, also includes the creation of a provision for temporary storage of spent nuclear fuel in the amount of CZK 424 million.

| | Buildings | Plant and equipment | Land and other | Plant in service total | Nuclear fuel | Construction work in progress | Total |
|--|-----------|---------------------|----------------|------------------------|--------------|-------------------------------|-----------|
| Cost at January 1, 2021 | 107,943 | 365,792 | 1,238 | 474,973 | 22,540 | 10,091 | 507,604 |
| Additions | 47 | 37 | 37 | 121 | - | 10,763 | 10,884 |
| Disposals | (294) | (2,310) | (66) | (2,670) | (3,559) | (11) | (6,240) |
| Bring into use | 1,552 | 4,611 | 17 | 6,180 | 3,138 | (9,318) | - |
| Change in capitalized part of the provision | 4,056 | 1,868 | - | 5,924 | - | - | 5,924 |
| Effect of merger and other | 3,330 | 1,035 | 318 | 4,683 | - | 17 | 4,700 |
| Cost at December 31, 2021 | 116,634 | 371,033 | 1,544 | 489,211 | 22,119 | 11,542 | 522,872 |
| Accumulated depreciation and impairment at January 1, 2021 | (52,227) | (204,686) | (95) | (257,008) | (8,948) | (39) | (265,995) |
| Depreciation and amortization of nuclear fuel ¹⁾ | (4,653) | (13,128) | (14) | (17,795) | (3,709) | - | (21,504) |
| Net book value of assets disposed | (122) | (277) | (46) | (445) | - | - | (445) |
| Disposals | 294 | 2,310 | 54 | 2,658 | 3,559 | - | 6,217 |
| Effect of merger and other | (1,527) | (812) | (45) | (2,384) | - | - | (2,384) |
| Impairment losses recognized | (53) | - | (2) | (55) | - | (25) | (80) |
| Impairment losses reversed | 12 | - | 2 | 14 | - | - | 14 |
| Accumulated depreciation and impairment at December 31, 2021 | (58,276) | (216,593) | (146) | (275,015) | (9,098) | (64) | (284,177) |
| Total property, plant and equipment at December 31, 2021 | 58,358 | 154,440 | 1,398 | 214,196 | 13,021 | 11,478 | 238,695 |

¹⁾ The amortization of nuclear fuel as at December 31, 2021 also includes the creation of a provision for temporary storage of spent nuclear fuel in the amount of CZK 371 million.

In 2022 and 2021, a composite depreciation rate of plant in service was 3.6% and 3.7%, respectively.

In 2022 and 2021, capitalized interest costs amounted to CZK 311 million and CZK 280 million, respectively, and the interest capitalization rate was 3.1% and 3.3%, respectively.

Construction work in progress contains mainly investments related to the acquisition of nuclear fuel and refurbishments performed on Temelín, Dukovany and Prunéřov power plants.

The Company drew in 2022 and 2021 grants related to the property, plant and equipment in amount CZK 47 million and CZK 41 million, respectively. In 2021, the Company recognized a reversal of a previous draw of grant in the amount of CZK 375 million.

Company as a Lessee

The following table shows selected information as at December 31, 2022, and for the year ended 2022, respectively, relating to rights-of-use assets according to the classes of leased tangible fixed assets (in CZK millions):

| | 2022 | | | |
|---|-----------|---------------------|----------------|------------------------|
| | Buildings | Plant and equipment | Land and other | Total plant in service |
| Additions of right-of-use assets | 15 | 70 | 8 | 93 |
| Depreciation charge for right-of-use assets | (124) | (15) | (15) | (154) |
| Carrying amounts as at December 31 | 568 | 117 | 98 | 783 |

The following table shows selected information as at December 31, 2021 and for the year ended 2021, respectively, relating to rights-of-use assets according to the classes of leased tangible fixed assets (in CZK millions):

| | 2021 | | | |
|---|-----------|---------------------|----------------|------------------------|
| | Buildings | Plant and equipment | Land and other | Total plant in service |
| Additions of right-of-use assets | 46 | 38 | 37 | 121 |
| Depreciation charge for right-of-use assets | (122) | (9) | (12) | (143) |
| Carrying amounts as at December 31 | 679 | 67 | 106 | 852 |

Company as a Lessor

The carrying amounts of property, plant and equipment that are subject to an operating lease (in CZK millions):

| | Buildings | Vehicles | Land and other | Total plant in service |
|---|-----------|----------|----------------|------------------------|
| Carrying amount as at December 31, 2022 | 2,154 | 162 | 436 | 2,752 |
| Carrying amount as at December 31, 2021 | 2,148 | 233 | 428 | 2,809 |

Testing Assets for Impairment

The Company's generation assets are tested for potential impairment as a single cash-generating unit except for specific assets such as the CCGT plant at Počerady. The cash-generating unit of the Company's generation assets is characterized by portfolio management in the deployment of generating facilities, in their maintenance and in the cash flows arising from this activity.

Testing of the recoverable amount of non-current assets of the ČEZ, a. s., cash-generating unit (hereinafter the ČEZ value) included an analysis of the sensitivity of test results to change in selected significant parameters of the model used – change in wholesale electricity prices (hereinafter the EE prices), the discount rate used in calculating the present value of future cash flows, and the CZK/EUR exchange rate.

A key assumption of the ČEZ value model is developments in commodity prices and, most importantly, developments in the wholesale price of electricity in Germany, which has a profound impact on developments in wholesale electricity prices in the Czech Republic. Developments in wholesale prices are determined primarily by the EU's political decisions, developments in global commodity demand and supply, and technological progress.

Developments in EE prices are affected by a number of external factors, in particular changes in the structure and availability of generating facilities in the Czech Republic and its neighboring countries, macroeconomic developments in the region of Central Europe, and energy sector regulation in the EU and Germany. The model is built for a period matching the operating life of generating facilities, which means that its time frame greatly exceeds the period for which commodities, including electricity, are traded in public liquid markets. In addition, there are discussion being held about structural changes in the electricity market ("Market Design") and about substantial sector regulation. So it is very possible that market mechanisms for electricity pricing will be abandoned completely within the lifetime of generating facilities. And centrally regulated payments for the availability and deliveries of generating facilities will be introduced alternatively.

Due to the long-term nature of the model, the sensitivity of the ČEZ value to developments in electricity prices is also affected by internal factors and assumptions. It relates, in particular, generation portfolio deployment varying with different changes in the prices of electricity, emission rights, and variable generation costs and, in the longer term, also with respect to changes in fixed costs reflecting changes in the gross margin of generating facilities.

The result of the sensitivity test shown below reflects an expert estimation of the status and changes of the abovementioned factors within the modeled period time frame and the status of price and currency hedges for future generation as at December 31, 2022.

The test is based on the business plan of ČEZ for 2023–2027 and on the assumptions of long-term development of relevant electricity prices. The business plan was prepared in the fourth quarter of 2022 based on market parameters from October 2022 (electricity prices on the EEX energy exchange in Germany, prices on the PXE energy exchange in the Czech Republic, prices of emission rights, foreign exchange rates, interest rates, etc.). Electricity contracts traded on EEX are liquid for the whole period covering the business plan time frame and considering the interconnectedness of the German and Czech transmission grids makes them a fundamental market indicator for EE prices in the Czech Republic. As part of the sensitivity analysis, the risk scenario of the EE price was defined, and this test confirmed the valuation of assets of the Company. For the purpose of sensitivity analysis, the input EE prices, emission rights prices and foreign exchange rates were applied to the relevant opened positions of ČEZ. As part of all tests, it was considered the impact of levy on revenues above price caps of electricity producers, as well as impact of windfall tax for years 2023–2025.

The Company did not recognize any impairment losses on generation assets in 2022 and 2021. A change in the assumed EE prices according to models by 1%, while other parameters remain unchanged, has an impact of approximately CZK 9.7 billion on the ČEZ value test result. Future cash flows were discounted at a rate of 6.3%. A change of 0.1 percentage point in the discount factor, while other parameters remain unchanged, would change the ČEZ value by approximately CZK 7.9 billion. A 1% change in the CZK/EUR exchange rate, while other parameters remain unchanged, would result in a change of approximately CZK 9.3 billion in the ČEZ value. Above-mentioned changes in ČEZ value would not lead to an impairment of assets.

4. Restricted Financial Assets, Net

The overview of restricted financial assets, net at December 31, 2022 and 2021 was as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| Czech government bonds | 13,918 | 12,922 |
| Cash in banks, net | <u>1,297</u> | <u>2,118</u> |
| Total restricted financial assets, net | <u><u>15,215</u></u> | <u><u>15,040</u></u> |

The Czech government bonds are measured at fair value through other comprehensive income. At December 31, 2022 and 2021, the most significant restricted financial assets are the financial assets to cover the costs of nuclear decommissioning totaling CZK 15,100 million and CZK 14,826 million, respectively, and financial assets to cover the costs for waste storage reclamation totaling CZK 62 million and CZK 160 million, respectively.

5. Other Financial Assets, Net

The overview of other financial assets, net at December 31, 2022 and 2021 was as follows (in CZK millions):

| | 2022 | | | 2021 | | |
|--|--------------------|----------------|----------------|--------------------|----------------|----------------|
| | Non-current assets | Current assets | Total | Non-current assets | Current assets | Total |
| Loans granted | 27,845 | 8,287 | 36,132 | 25,026 | 8,418 | 33,444 |
| Receivables from Group cashpooling | - | 4,910 | 4,910 | - | 5,044 | 5,044 |
| Receivables from the sale of subsidiaries | 11 | 2,451 | 2,462 | 2,410 | - | 2,410 |
| Sublease receivables | 203 | 65 | 268 | 132 | 38 | 170 |
| Other financial receivables | 1,300 | 19 | 1,319 | 783 | 38 | 821 |
| Total financial assets at amortized costs | 29,359 | 15,732 | 45,091 | 28,351 | 13,538 | 41,889 |
| Equity financial assets (Inven Capital, SICAV, a.s., ČEZ sub-funds) | 5,360 | - | 5,360 | 4,187 | - | 4,187 |
| Commodity and other derivatives | 456 | 275,701 | 276,157 | 240 | 500,568 | 500,808 |
| Total financial assets at fair value through profit or loss | 5,816 | 275,701 | 281,517 | 4,427 | 500,568 | 504,995 |
| Equity financial assets (Veolia Energie ČR, a.s.) | 709 | - | 709 | 599 | - | 599 |
| Fair value of cash flow hedge derivatives | 8,605 | 3,709 | 12,314 | 3,347 | 883 | 4,230 |
| Debt financial assets | - | 9,752 | 9,752 | - | 499 | 499 |
| Total financial assets at fair value through other comprehensive income | 9,314 | 13,461 | 22,775 | 3,946 | 1,382 | 5,328 |
| Financial assets at cost – share on subsidiaries, associates and joint-ventures | 113,197 | - | 113,197 | 110,856 | - | 110,856 |
| Total | 157,686 | 304,894 | 462,580 | 147,580 | 515,488 | 663,068 |

The following table analyses the value of receivables from commodity derivatives by the period of delivery as at December 31, 2022 and 2021 and the year to year development (in CZK millions):

| | 2022 | 2021 | Year to year change |
|--|----------------|----------------|------------------------|
| Delivery in 2021 | - | 5,484 | (5,484) |
| Delivery in 2022 | 3,072 | 427,772 | (424,700) |
| Delivery in 2023 | 213,495 | 61,023 | 152,472 |
| Delivery in 2024 | 51,737 | 6,032 | 45,705 |
| Delivery in 2025 and thereafter | 7,853 | 497 | 7,356 |
| Total commodity and other derivatives | 276,157 | 500,808 | (224,651) |

The balance of derivatives comprises mainly the positive fair values of commodity trading contracts. The decrease of receivables from commodity and other derivatives in 2022 is caused mainly due to physical delivery of the commodity or by financial settlement. Year to year decrease is also influenced by volatility of the market prices of electricity, gas, emission rights and other commodities. Related decrease of liabilities from commodity and other derivatives is disclosed in Note 18.

Movements in impairment provisions of financial assets at amortized costs were as follows (in CZK millions):

| | 2022 | 2021 |
|-----------------------------------|-----------------|-----------------|
| Balance at January 1 | (31,706) | (20,337) |
| Additions (see Note 30) | (5,939) | (12,703) |
| Reversals (see Note 30) | 5,054 | 491 |
| Derecognition of financial assets | 525 | 843 |
| Balance at December 31 | (32,066) | (31,706) |

In 2022, an impairment loss was derecognized in the amount of CZK 429 million due to non-monetary contribution of Energetické centrum s.r.o. into the company ČEZ Teplárenská, a.s., and CZK 64 million due non-monetary contribution of CEZ Deutschland GmbH into the company CEZ RES International B.V. Further impairment loss was derecognized due to liquidation of the company Elektrárna Mělník III, a. s. v likvidaci, and the company CEZ Trade Romania S.R.L. in the amount of CZK 19 million and CZK 13 million, respectively.

In 2021, an impairment loss of CZK 843 million was derecognized due to the merger of ČEZ Korporátní služby, s.r.o., with ČEZ, a. s.

The contractual maturity of loans granted and other financial assets, net at December 31, 2022, is shown in the following table (in CZK millions):

| | Loans granted | Receivables from Group cashpooling | Receivables from the sale of subsidiaries | Sublease receivables | Debt financial assets | Other financial receivables |
|--------------|---------------|------------------------------------|---|----------------------|-----------------------|-----------------------------|
| Due in 2023 | 8,287 | 4,910 | 2,451 | 65 | 9,752 | 19 |
| Due in 2024 | 1,924 | - | - | 65 | - | 96 |
| Due in 2025 | 1,785 | - | 11 | 64 | - | 60 |
| Due in 2026 | 1,366 | - | - | 54 | - | 49 |
| Due in 2027 | 1,366 | - | - | 4 | - | 1,067 |
| Thereafter | 21,404 | - | - | 16 | - | 28 |
| Total | 36,132 | 4,910 | 2,462 | 268 | 9,752 | 1,319 |

The contractual maturity of loans granted and other financial assets, net at December 31, 2021 is shown in the following table (in CZK millions):

| | Loans granted | Receivables from Group cashpooling | Receivables from the sale of subsidiaries | Sublease receivables | Debt financial assets | Other financial receivables |
|--------------|---------------|------------------------------------|---|----------------------|-----------------------|-----------------------------|
| Due in 2022 | 8,418 | 5,044 | - | 38 | 499 | 38 |
| Due in 2023 | 1,424 | - | 2,399 | 38 | - | 589 |
| Due in 2024 | 1,424 | - | - | 36 | - | 88 |
| Due in 2025 | 1,285 | - | 11 | 34 | - | 26 |
| Due in 2026 | 866 | - | - | 4 | - | 27 |
| Thereafter | 20,027 | - | - | 20 | - | 53 |
| Total | 33,444 | 5,044 | 2,410 | 170 | 499 | 821 |

The structure of provided loans and other financial assets, net, according to effective interest rates as at December 31, 2022, is shown the following table (in CZK millions):

| | Loans granted | Receivables from Group cashpooling | Receivables from the sale of subsidiaries | Sublease receivables | Debt financial assets | Other financial receivables |
|---------------------|---------------|------------------------------------|---|----------------------|-----------------------|-----------------------------|
| Less than 2.00% | 6,514 | 1,011 | 12 | 145 | - | 1,163 |
| From 2.00% to 2.99% | 8,063 | - | 2,450 | 30 | - | - |
| From 3.00% to 3.99% | 17,043 | - | - | 1 | - | 126 |
| From 4.00% to 4.99% | 4,512 | - | - | 92 | - | - |
| From 5.00% to 5.99% | - | - | - | - | - | 20 |
| From 6.00% to 6.99% | - | 3,899 | - | - | 3,261 | 10 |
| From 7.00% to 7.99% | - | - | - | - | 6,491 | - |
| Total | 36,132 | 4,910 | 2,462 | 268 | 9,752 | 1,319 |

The structure of provided loans and other financial assets, net, according to effective interest rates as at December 31, 2021 is shown the following table (in CZK millions):

| | Loans granted | Receivables from Group cashpooling | Receivables from the sale of subsidiaries | Sublease receivables | Debt financial assets | Other financial receivables |
|---------------------|---------------|------------------------------------|---|----------------------|-----------------------|-----------------------------|
| Less than 2.00% | 6,666 | 5,044 | 11 | 131 | - | 672 |
| From 2.00% to 2.99% | 9,493 | - | 2,399 | 37 | 499 | - |
| From 3.00% to 3.99% | 17,285 | - | - | 2 | - | 149 |
| Total | <u>33,444</u> | <u>5,044</u> | <u>2,410</u> | <u>170</u> | <u>499</u> | <u>821</u> |

The structure of provided loans and other financial assets, net, by currency as at December 31, 2022, is shown in the following overview (in CZK millions):

| | Loans granted | Receivables from Group cashpooling | Receivables from the sale of subsidiaries | Sublease receivables | Debt financial assets | Other financial receivables |
|-------|---------------|------------------------------------|---|----------------------|-----------------------|-----------------------------|
| CZK | 29,618 | 3,899 | 2,462 | 133 | 9,752 | 1,309 |
| EUR | 6,514 | 916 | - | 135 | - | 10 |
| USD | - | 95 | - | - | - | - |
| Total | <u>36,132</u> | <u>4,910</u> | <u>2,462</u> | <u>268</u> | <u>9,752</u> | <u>1,319</u> |

The structure of provided loans and other financial assets, net, by currency as at December 31, 2021 is shown in the following overview (in CZK millions):

| | Loans granted | Receivables from Group cashpooling | Receivables from the sale of subsidiaries | Sublease receivables | Debt financial assets | Other financial receivables |
|-------|---------------|------------------------------------|---|----------------------|-----------------------|-----------------------------|
| CZK | 26,489 | 1,246 | 2,410 | 53 | 499 | 800 |
| EUR | 6,955 | 2,088 | - | 117 | - | 21 |
| PLN | - | 1,710 | - | - | - | - |
| Total | <u>33,444</u> | <u>5,044</u> | <u>2,410</u> | <u>170</u> | <u>499</u> | <u>821</u> |

The investments in subsidiaries, associates and joint-ventures and other ownership interests at December 31, 2022 and 2021 are shown in the following overview:

| Company | Country | % Interest ²⁾ | 2022 | | 2021 | |
|--|---------|--------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|
| | | | Interest, net in CZK millions | Dividends in CZK millions | Interest, net in CZK millions | Dividends in CZK millions |
| ČEZ Distribuce, a. s. | CZ | 100.00 | 32,742 | 3,935 | 32,742 | 4,083 |
| Severočeské doly a.s. | CZ | 100.00 | 14,344 | - | 11,770 | - |
| Energotrans, a.s. | CZ | 100.00 | 13,370 | - | 13,370 | - |
| CEZ Holdings B.V. | NL | 100.00 | 12,933 | - | 17,844 | - |
| ČEZ OZ uzavřený investiční fond a.s. | CZ | 99.57 | 10,545 | 1,014 | 10,942 | 534 |
| ČEZ ESCO, a.s. | CZ | 100.00 | 7,066 | - | 7,066 | - |
| ČEZ ICT Services, a. s. | CZ | 100.00 | 5,430 | - | 4,454 | 60 |
| ČEZ Teplárenská, a.s. | CZ | 100.00 | 3,190 | - | 2,527 | 20 |
| ČEZ Bohunice a.s. ¹⁾ | CZ | 100.00 | 2,598 | - | 2,726 | - |
| Elektrárna Dětmárovice, a.s | CZ | 100.00 | 2,046 | - | - | - |
| Elektrárna Dukovany II, a. s. | CZ | 100.00 | 2,023 | - | 1,683 | - |
| Elektrárna Temelín II, a. s. | CZ | 100.00 | 2,008 | - | 1,986 | - |
| ČEZ Prodej, a.s. | CZ | 100.00 | 1,396 | 2,486 | 1,396 | 2,371 |
| ŠKODA JS a.s. | CZ | 100.00 | 925 | - | - | - |
| Middle Estates, s.r.o. | CZ | 100.00 | 678 | - | - | - |
| ČEZ Energetické produkty, s.r.o. | CZ | 100.00 | 472 | - | 22 | - |
| CEZ Bulgarian Investments B.V. | NL | 100.00 | 292 | - | 827 | - |
| CEZ MH B.V. | NL | 100.00 | 251 | - | 251 | - |
| Ústav aplikované mechaniky Brno, s.r.o. | CZ | 100.00 | 248 | - | 248 | - |
| ÚJV Řež, a. s. | CZ | 52.46 | 185 | - | 185 | - |
| LOMY MOŘINA spol. s r.o. | CZ | 51.05 | 133 | - | 133 | - |
| ČEZ Obnovitelné zdroje, s.r.o. | CZ | 100.00 | 78 | - | 78 | - |
| MARTIA a.s. | CZ | 100.00 | 73 | - | - | - |
| OSC, a.s. | CZ | 100.00 | 66 | - | 54 | - |
| VLTA VOTÝNSKÁ TEPLÁRENSKÁ a.s. | CZ | 41.87 | 55 | - | 55 | - |
| Energetické centrum s.r.o. | CZ | - | - | - | 250 | 20 |
| CEZ Deutschland GmbH | DE | - | - | - | 119 | - |
| CEZ Hungary Ltd. | HU | 100.00 | - | - | 61 | - |
| Other | | | 50 | 11 | 67 | 522 |
| Total financial assets at cost | | | 113,197 | 7,446 | 110,856 | 7,610 |
| Inven Capital, SICAV, a.s., ČEZ sub-fund (A) | CZ | 99.87 | 4,469 | - | 4,187 | - |
| Inven Capital, SICAV, a.s., ČEZ sub-fund (C) | CZ | 99.90 | 891 | - | - | - |
| Veolia Energie ČR, a.s. | CZ | 15.00 | 709 | - | 599 | - |
| Total financial assets at fair value | | | 6,069 | - | 4,786 | - |
| Total | | | 119,266 | 7,446 | 115,642 | 7,610 |

¹⁾ The company name ČEZ Bohunice a.s. was changed to ČEZ Invest Slovensko, a.s., in January 2023.

²⁾ Equity interest is equal to voting rights as at December 31, 2022.

Used country shortcuts: CZ – Czech Republic, DE – Germany, HU – Hungary, NL – Netherlands.

Movements in investments in share on subsidiaries, associates and joint-ventures at amortized costs in 2022 and 2021 were as follows (in CZK millions):

| | |
|--|-----------------------|
| Net investments at January 1, 2022 | 110,856 |
| Additions – newly acquired companies: | |
| ŠKODA JS a.s. | 925 |
| Middle Estates, s.r.o. | 678 |
| MARTIA a.s. | 73 |
| South Bohemian Nuclear Park, s.r.o | 2 |
| ČEZ Recyklace, s.r.o. | 1 |
| Additions – cash and non-monetary contributions to equity: | |
| ČEZ ICT Services, a. s. | 976 |
| CEZ Holdings B.V. | 732 |
| ČEZ Energetické produkty, s.r.o. | 450 |
| Elektrárna Dukovany II, a. s. | 382 |
| ČEZ Teplárenská, a.s. | 250 |
| Other | 42 |
| Total additions | 4,511 |
| Decreases – decrease of equity with payment: | |
| CEZ Bulgarian Investments B.V. | (502) |
| ČEZ OZ uzavřený investiční fond a.s. | (397) |
| Decreases – non-monetary contribution: | |
| Energetické centrum s.r.o. | (250) |
| CEZ Deutschland GmbH | (119) |
| Decreases – liquidation: | |
| Elektrárna Mělník III, a. s. v likvidaci | (1) |
| Total decreases | (1,269) |
| Impairment provisions – additions (see Note 30): | |
| CEZ Holdings B.V. | (5,643) |
| ČEZ Bohunice a.s. | (128) |
| CEZ Hungary Ltd. | (61) |
| Elektrárna Dukovany II, a. s. | (43) |
| CEZ Bulgarian Investments B.V. | (33) |
| Other | (26) |
| Impairment provisions – reversals (see Note 30): | |
| Severočeské doly a.s. | 2,574 |
| Elektrárna Dětmarovice, a.s. | 2,046 |
| ČEZ Teplárenská, a.s. | 413 |
| Total impairment provisions | (901) |
| Net investments at December 31, 2022 | <u><u>113,197</u></u> |

| | |
|--|-----------------------|
| Net investments at January 1, 2021 | 122,817 |
| Additions – newly acquired companies: | |
| CEZ Finance B.V. | 7 |
| Additions – cash and non-monetary contributions to equity: | |
| CEZ Holdings B.V. | 2,078 |
| ČEZ ESCO, a.s. | 1,025 |
| Elektrárna Dětmarovice, a.s. | 700 |
| ČEZ ICT Services, a. s. | 450 |
| Elektrárna Dukovany II, a. s | 368 |
| Energotrans, a.s. | 287 |
| Other | 147 |
| Additions – merger: | |
| ČEZ OZ uzavřený investiční fond a.s. | 2 |
| Total additions | <u>5,064</u> |
| Decreases – decrease of equity with payment: | |
| ČEZ OZ uzavřený investiční fond a.s. | (876) |
| Decreases – merger: | |
| ČEZ Korporátní služby, s.r.o. | (3,931) |
| Total decreases | <u>(4,807)</u> |
| Impairment provisions – additions (see Note 30): | |
| Energotrans, a.s. | (4,648) |
| CEZ Holdings B.V. | (4,188) |
| Severočeské doly a.s. | (2,574) |
| Elektrárna Dětmarovice, a.s. | (1,100) |
| Other | (187) |
| Impairment provisions – reversals (see Note 30): | |
| CEZ Bulgarian Investments B.V. | 238 |
| ČEZ ICT Services, a. s. | 155 |
| Other | 86 |
| Total impairment provisions | <u>(12,218)</u> |
| Net investments at December 31, 2021 | <u><u>110,856</u></u> |

6. Intangible Assets, Net

Intangible assets, net at December 31, 2022 and 2021 are as follows (in CZK millions):

| | Software | Rights and other | Intangibles in progress | Emission rights | Total |
|---|----------|------------------|-------------------------|-----------------|---------|
| Cost at January 1, 2022 | 2,321 | 1,268 | 526 | 160 | 4,275 |
| Additions | - | - | 324 | - | 324 |
| Disposals | (9) | (6) | - | - | (15) |
| Bring to use | 68 | 464 | (532) | - | - |
| Other | 1 | - | - | (160) | (159) |
| Cost at December 31, 2022 | 2,381 | 1,726 | 318 | - | 4,425 |
| Accumulated amortization at January 1, 2022 | (2,061) | (1,167) | - | - | (3,228) |
| Amortization | (61) | (8) | - | - | (69) |
| Disposals | 9 | 6 | - | - | 15 |
| Accumulated amortization at December 31, 2022 | (2,113) | (1,169) | - | - | (3,282) |
| Net intangible assets at December 31, 2022 | 268 | 557 | 318 | - | 1,143 |
| | | | | | |
| | Software | Rights and other | Intangibles in progress | Emission rights | Total |
| Cost at January 1, 2021 | 2,248 | 1,703 | 417 | 2,259 | 6,627 |
| Additions | - | - | 256 | - | 256 |
| Disposals | (61) | (35) | - | - | (96) |
| Bring to use | 130 | 17 | (147) | - | - |
| Effect of merger and other | 4 | (417) | - | (2,099) | (2,512) |
| Cost at December 31, 2021 | 2,321 | 1,268 | 526 | 160 | 4,275 |
| Accumulated amortization at January 1, 2021 | (2,067) | (1,193) | - | - | (3,260) |
| Amortization | (51) | (9) | - | - | (60) |
| Disposals | 61 | 35 | - | - | 96 |
| Effect of merger | (4) | - | - | - | (4) |
| Accumulated amortization at December 31, 2021 | (2,061) | (1,167) | - | - | (3,228) |
| Net intangible assets at December 31, 2021 | 260 | 101 | 526 | 160 | 1,047 |

Research and development costs, net of grants and subsidies received, that are not eligible for capitalization have been expensed in the period incurred and amounted to CZK 376 million and CZK 314 million in 2022 and 2021, respectively.

7. Investment Properties, Net

Investment properties, net at December 31 2022 and 2021 are as follows (in CZK millions):

| | Buildings | Land | Construction work in progress | Total |
|--|-----------|------|-------------------------------------|-------|
| Cost at January 1, 2022 | 749 | 44 | 3 | 796 |
| Additions | - | - | 12 | 12 |
| Disposals | (3) | (1) | - | (4) |
| Bring into use | 5 | - | (5) | - |
| Reclassification | 69 | 1 | - | 70 |
| Cost at December 31, 2022 | 820 | 44 | 10 | 874 |
| Accumulated depreciation at January 1, 2022 | (388) | (2) | - | (390) |
| Depreciation | (15) | - | - | (15) |
| Net book value of asset disposed | (2) | - | - | (2) |
| Disposals | 3 | - | - | 3 |
| Reclassification | (49) | (1) | - | (50) |
| Impairment losses reversed | 16 | 1 | - | 17 |
| Accumulated depreciation at December 31, 2022 | (435) | (2) | - | (437) |
| Investment properties, net at December 31, 2022 | 385 | 42 | 10 | 437 |
| | | | | |
| | Buildings | Land | Construction work in progress | Total |
| Cost at January 1, 2021 | - | - | - | - |
| Additions | - | - | 13 | 13 |
| Disposals | (3) | - | - | (3) |
| Bring into use | 11 | - | (11) | - |
| Effect of merger | 741 | 44 | 1 | 786 |
| Cost at December 31, 2021 | 749 | 44 | 3 | 796 |
| Accumulated depreciation at January 1, 2021 | - | - | - | - |
| Depreciation | (14) | - | - | (14) |
| Net book value of asset disposed | (1) | - | - | (1) |
| Disposals | 3 | - | - | 3 |
| Effect of merger | (399) | (3) | - | (402) |
| Impairment losses recognized | (1) | - | - | (1) |
| Impairment losses reversed | 24 | 1 | - | 25 |
| Accumulated depreciation at December 31, 2021 | (388) | (2) | - | (390) |
| Investment properties, net at December 31, 2021 | 361 | 42 | 3 | 406 |

During years 2021 and 2022, the most significant investments properties were subject to an expert assessment in order to determine their fair value. Considering the current situation on the real estate market, it was determined using the income method that the fair value of the assessed investments as at December 31, 2022 and 2021 is CZK 91 million and CZK 88 million, respectively, higher compared to their book value. Therefore, the best estimate of the fair value of investment property is CZK 528 million and CZK 494 million as at December 31, 2022 and 2021, respectively.

Investment properties mainly represent investments in buildings and land, where an insignificant part is used by the Company in the ordinary course of business, whereas these assets are leased to the Group's companies.

The following are the amounts that are recognized in profit or loss (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| Rental income from investment properties | 52 | 53 |
| Direct operating expenses (including repairs and maintenance) related to investment properties generating rental | <u>(40)</u> | <u>(34)</u> |
| Total profit arising from investment properties | <u><u>12</u></u> | <u><u>19</u></u> |

8. Cash and Cash Equivalents, Net

The overview of cash and cash equivalents, net at December 31, 2022 and 2021 was as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| Cash on hand and current accounts with banks | 33,020 | 20,807 |
| Allowance | <u>(8)</u> | <u>(3)</u> |
| Total | <u><u>33,012</u></u> | <u><u>20,804</u></u> |

At December 31, 2022 and 2021, cash and cash equivalents included balances in foreign currencies in the amount of CZK 29,799 million and CZK 20,009 million, respectively.

For the years 2022 and 2021, the weighted average interest rate was 1.6% and 0.4%, respectively.

9. Trade Receivables, Net

The overview of trade receivables, net at December 31, 2022 and 2021 was as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|-------------------|-----------------------|-----------------------|
| Trade receivables | 91,926 | 69,094 |
| Margin calls | 47,508 | 38,285 |
| Collaterals | 30,661 | 28,833 |
| Allowance | <u>(322)</u> | <u>(173)</u> |
| Total | <u><u>169,773</u></u> | <u><u>136,039</u></u> |

The information about receivables from related parties is included in Note 34.

At December 31, 2022 and 2021, the ageing analysis of trade receivables, net was as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--------------------|-----------------------|-----------------------|
| Not past due | 169,121 | 135,987 |
| Past due: | | |
| less than 3 months | 611 | 48 |
| 3–6 months | 8 | 1 |
| 6–12 months | <u>33</u> | <u>3</u> |
| Total | <u><u>169,773</u></u> | <u><u>136,039</u></u> |

Receivables include impairment allowance based on the collective assessment of impairment of receivables that are not individually significant.

The overview of movements in allowance for doubtful receivables was as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--------------------------------------|---------------------|---------------------|
| Balance at January 1 | (173) | (156) |
| Additions | (223) | (75) |
| Reversals | 73 | 63 |
| Non-monetary contribution and merger | - | (7) |
| Currency translation difference | <u>1</u> | <u>2</u> |
| Balance at December 31 | <u><u>(322)</u></u> | <u><u>(173)</u></u> |

10. Emission Rights

The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights and credits held by the Company during 2022 and 2021 (in CZK millions):

| | 2022 | | 2021 | |
|---|-------------------|-----------------|-------------------|-----------------|
| | in thousands tons | in CZK millions | in thousands tons | in CZK millions |
| <u>Emission rights for own use:</u> | | | | |
| Emission rights for own use at January 1 | 16,309 | 8,303 | 25,867 | 11,736 |
| Emission rights granted | 105 | - | 130 | - |
| Settlement with register | (10,623) | (5,456) | (11,482) | (4,586) |
| Return of part of the grant for 2020 | - | - | (18) | (7) |
| Emission rights purchased | 10,561 | 13,864 | 1,812 | 1,160 |
| Emission rights sold | (3,708) | (1,922) | - | - |
| Emission rights for own use at December 31 | <u>12,644</u> | <u>14,789</u> | <u>16,309</u> | <u>8,303</u> |
| Thereof: | | | | |
| Long-term | - | - | 501 | 160 |
| Short-term | 12,644 | 14,789 | 15,808 | 8,143 |
| <u>Emission rights and credits held for trading:</u> | | | | |
| Emission rights and credits held for trading at January 1 | 3,045 | 6,049 | 29,069 | 24,846 |
| Emission rights purchased | 52,131 | 100,855 | 142,144 | 178,977 |
| Emission rights sold | (51,885) | (105,796) | (168,314) | (246,927) |
| Emission credits purchased | - | - | 162 | 2 |
| Emission credits sold and disposed | - | - | (16) | - |
| Fair value adjustment | - | 5,307 | - | 49,151 |
| Emission rights held for trading at December 31 | <u>3,291</u> | <u>6,415</u> | <u>3,045</u> | <u>6,049</u> |

The composition of guarantees of origin and green and similar certificates at December 31, 2022 and 2021 (in CZK millions):

| | 2022 | 2021 |
|--------------------------------|-----------|----------|
| Guarantees of origin | 11 | - |
| Green and similar certificates | 1 | - |
| Total | <u>12</u> | <u>-</u> |

At December 31, 2022 and 2021, emission rights for own use and held for trading amounted to CZK 21,216 million and CZK 14,192 million, respectively, and are presented in current assets in the line item Emission rights. Non-current emission rights for own use are presented as part of the intangible assets (see Note 6).

In 2022 and 2021, total emissions of greenhouse gases made by the Company amounted to an equivalent of 11,853 thousand tons and 12,537 thousand tons of CO₂, respectively. At December 31, 2022 and 2021, the Company recognized a provision for CO₂ emissions in total amount of CZK 14,796 million and CZK 5,448 million, respectively (see Notes 2.11 and 17).

11. Other Current Assets, Net

Other current assets, net at December 31, 2022 and 2021 were as follows (in CZK millions):

| | 2022 | 2021 |
|-----------------------------------|--------------|--------------|
| Prepayments | 1,715 | 618 |
| Taxes and fees, except income tax | 1,108 | 929 |
| Advances paid | 1,624 | 865 |
| Accruals | 4,135 | 1,729 |
| Total | <u>8,582</u> | <u>4,141</u> |

12. Proceeds from Disposal of Subsidiaries, Associates and Joint-ventures and Original Investments Repayments

The following table summarizes total cash flows related to the proceeds from the sale of subsidiaries, associates and joint-ventures and the repayments of original investments at December 31, 2022 and 2021 (in CZK millions):

| | 2022 | 2021 |
|--|------------|---------------|
| Cash received from sale of shares in Romanian companies | - | 24,641 |
| Cash received from sale of shares in Bulgarian companies and from the transfer of loans provided | - | 9,526 |
| Cash received from sale of share in company Elektrárna Počerady, a.s. | - | 672 |
| Cash received from other sales | 1 | 454 |
| Repayments of original investments | 908 | 914 |
| Total cash flow | <u>909</u> | <u>36,207</u> |

13. Equity

The Company's stated capital registered in the Commercial Register is CZK 53,798,975,900 as at December 31, 2022 and 2021. It consists of 537,989,759 shares with a par value of CZK 100. All shares are fully paid; they are dematerialized, bearer, quoted shares. They are common shares to which no special rights are attached.

Movements of treasury shares in 2022 and 2021 (in pieces):

| | 2022 | 2021 |
|--|------------------|--------------------|
| Number of treasury shares at beginning of period | 1,258,349 | 2,516,240 |
| Sales of treasury shares | <u>(78,837)</u> | <u>(1,257,891)</u> |
| Number of treasury shares at end of period | <u>1,179,512</u> | <u>1,258,349</u> |

Treasury shares are recognized at cost in the balance sheet as an item reducing equity.

The payment of dividends of CZK 48 and CZK 52 per share, before tax, was approved in 2022 and 2021, respectively. Dividends for 2022 will be approved at the Company's General Meeting that will be held in the first half of 2023.

Capital Structure Management

The primary objective of the Company's capital structure management is to maintain its credit rating at an investment grade and a level that is standard in the sector and to maintain a healthy ratio of equity to borrowed capital to support the Group's business and maximize value for shareholders. The Company monitors its capital structure and makes adjustments to it with a view to changes in the business environment.

The Company primarily monitors its capital structure using the net debt to EBITDA ratio. Considering the current structure and stability of its cash flows and its development strategy, the Group aims to keep the ratio at 2.5–3.0. The Company also monitors its capital structure using the total debt to total capital ratio. The Company aims to keep the ratio below 50% in the long term.

EBITDA comprises earnings before taxes and other expenses and revenues plus depreciation and amortization and impairment of property, plant, and equipment and intangible assets less gain (or plus loss) from sales of property, plant, and equipment. Total debt comprises long-term debt including the current portion and short-term borrowings. Net debt represents total debt less cash and cash equivalents and highly liquid financial assets. For the purposes of capital structure management, highly liquid financial assets comprise short-term and long-term debt financial assets and short-term and long-term deposits. Total capital is equity attributable to parent company shareholders plus total debt. These calculations always include items relating to assets held for sale, which are reported separately in the balance sheet.

The calculation and evaluation of the ratios is done using consolidated figures (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---|----------------|----------------|
| Total long-term debt | 149,090 | 112,580 |
| Total short-term loans | <u>53,056</u> | <u>25,310</u> |
| Total debt | 202,146 | 137,890 |
| Less: | | |
| Cash and cash equivalents | (36,609) | (26,640) |
| Highly liquid financial assets: | | |
| Current debt financial assets | (9,752) | (499) |
| Current term deposits | <u>(100)</u> | <u>-</u> |
| Total net debt | 155,685 | 110,751 |
| Income before income taxes and other income (expenses) | 101,927 | 16,098 |
| Depreciation and amortization | 32,757 | 31,628 |
| Impairment of property, plant and equipment and intangible assets | (2,864) | 15,799 |
| Gains and losses on sale of property, plant and equipment | <u>(252)</u> | <u>(285)</u> |
| EBITDA | 131,568 | 63,240 |
| Total equity attributable to equity holders of the parent | 258,886 | 161,098 |
| Total debt | <u>202,146</u> | <u>137,890</u> |
| Total capital | 461,032 | 298,988 |
| Net debt to EBITDA ratio | <u>1.18</u> | <u>1.75</u> |
| Total debt to total capital ratio | <u>43.8%</u> | <u>46.1%</u> |

14. Long-term Debt

The overview of long-term debt at December 31, 2022 and 2021 was as follows (in CZK millions):

| | 2022 | 2021 |
|---|---------|----------|
| 3.005% Eurobonds, due 2038 (JPY 12,000 million) | 2,071 | 2,302 |
| 2.845% Eurobonds, due 2039 (JPY 8,000 million) | 1,382 | 1,536 |
| 4.875% Eurobonds, due 2025 (EUR 750 million) | 18,694 | 19,263 |
| 2.160% Eurobonds, due in 2023 (JPY 11,500 million) | 1,988 | 2,210 |
| 4.600% Eurobonds, due in 2023 (CZK 1,250 million) | 1,288 | 1,288 |
| 4.375% Eurobonds, due 2042 (EUR 50 million) | 1,209 | 1,246 |
| 4.500% Eurobonds, due 2047 (EUR 50 million) | 1,207 | 1,243 |
| 4.383% Eurobonds, due 2047 (EUR 80 million) | 1,957 | 2,017 |
| 3.000% Eurobonds, due 2028 (EUR 725 million) | 18,024 | 18,627 |
| 0.875% Eurobonds, due 2022 (EUR 269 million) ¹⁾ | - | 6,692 |
| 0.875% Eurobonds, due 2026 (EUR 750 million) | 17,978 | 18,502 |
| 2.375% Eurobonds, due 2027 (EUR 600 million) | 14,628 | - |
| 4.250% U.S. bonds, due 2022 (USD 266 million) ²⁾ | - | 5,897 |
| 5.625% U.S. bonds, due 2042 (USD 300 million) | 6,824 | 6,621 |
| 4.500% Registered bonds, due 2030 (EUR 40 million) | 958 | 987 |
| 4.750% Registered bonds, due 2023 (EUR 40 million) | 1,006 | 1,036 |
| 4.700% Registered bonds, due 2032 (EUR 40 million) | 995 | 1,026 |
| 4.270% Registered bonds, due 2047 (EUR 61 million) | 1,456 | 1,500 |
| 3.550% Registered bonds, due 2038 (EUR 30 million) | 741 | 764 |
| | <hr/> | <hr/> |
| Total bonds and debentures | 92,406 | 92,757 |
| Less: Current portion | (5,725) | (13,911) |
| | <hr/> | <hr/> |
| Bonds and debentures, net of current portion | 86,681 | 78,846 |
| Long-term bank loans, other loans ³⁾ and lease liabilities: | | |
| Less than 2% p. a. | 16,133 | 10,600 |
| 2.00 to 2.99% p. a. | 3,538 | 748 |
| 3.00 to 3.99% p. a. | 24,330 | 59 |
| 4.00 to 4.99% p. a. | 4,362 | 24 |
| 5.00 to 5.99% p. a. | 4 | - |
| | <hr/> | <hr/> |
| Total long-term bank loans, other loans and lease liabilities | 48,367 | 11,431 |
| Less: Current portion | (2,309) | (1,088) |
| | <hr/> | <hr/> |
| Long-term bank loans, other loans and lease liabilities, net of current portion | 46,058 | 10,343 |
| Total long-term debt | 140,773 | 104,188 |
| Less: Current portion | (8,034) | (14,999) |
| | <hr/> | <hr/> |
| Total long-term debt, net of current portion | 132,739 | 89,189 |

¹⁾ In April 2021, the original nominal value of the issue (EUR 500 million) was reduced by bond buyback in a nominal value of EUR 231 million.

²⁾ In April and May 2021, the original nominal value of the issue (USD 289 million) was reduced bond buyback in a nominal value of USD 23 million.

³⁾ Other loans represent mainly long-term loan provided by the Ministry of Finance of the Czech Republic in the amount of EUR 1 billion to cover the liquidity risk associated to potential immediate increase of requests for extraordinary increase of margin calls on energy stock exchange and towards business counterparties.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Company.

All long-term debt is recognized in original currencies while the related hedging derivatives are recognized using the method described in Note 2.13.

Future maturities of long-term debt are as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|----------------------------|-----------------------|-----------------------|
| Current portion | 8,034 | 14,999 |
| Between 1 year and 2 years | 26,700 | 5,456 |
| Between 2 and 3 years | 22,259 | 1,569 |
| Between 3 and 4 years | 20,314 | 20,104 |
| Between 4 and 5 years | 18,988 | 19,800 |
| Thereafter | <u>44,478</u> | <u>42,260</u> |
| Total long-term debt | <u><u>140,773</u></u> | <u><u>104,188</u></u> |

The following table analyses long-term debt by currency (in millions):

| | <u>2022</u> | | <u>2021</u> | |
|----------------------|---------------------|-----------------------|---------------------|-----------------------|
| | Foreign currency | CZK | Foreign currency | CZK |
| EUR | 5,260 | 126,839 | 3,382 | 84,066 |
| USD | 302 | 6,824 | 570 | 12,518 |
| JPY | 31,724 | 5,441 | 31,722 | 6,048 |
| CZK | | <u>1,669</u> | | <u>1,556</u> |
| Total long-term debt | | <u><u>140,773</u></u> | | <u><u>104,188</u></u> |

Long-term debt exposes the Company to interest rate risk. The following table summarizes long-term debt by contractual reprising dates of interest rates at December 31, 2022 and 2021, without considering interest rate hedging (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|
| Floating rate long-term debt with interest rate fixed from 3 months to 1 year | 15,085 | 4,719 |
| Fixed rate long-term debt | <u>125,688</u> | <u>99,469</u> |
| Total long-term debt | <u><u>140,773</u></u> | <u><u>104,188</u></u> |

Fixed rate long-term debt exposes the Company to the risk of changes in fair values of these financial instruments. For related fair value information and risk management policies of all financial instruments see Notes 15 and 16.

The following table analyses changes in liabilities and receivables arising from financing activities in 2022 and 2021 (in CZK millions):

| | Debt | Other long-term financial liabilities | Other short-term financial liabilities | Other current financial assets, net | Total liabilities / assets from financing activities |
|---|---------|---------------------------------------|--|-------------------------------------|--|
| Amount at December 31, 2020 | 142,243 | 8,728 | 107,583 | (76,976) | |
| Less: Liabilities / assets from other than financing activities | - | (8,677) | (65,153) | 74,861 | |
| Liabilities / assets from financing activities at January 1, 2021 | 142,243 | 51 | 42,430 | (2,115) | 182,609 |
| Cash flows | (6,738) | - | (26,034) | (2,962) | (35,734) |
| Additions of leases and premature termination | 139 | - | - | - | 139 |
| Foreign exchange movement | (1,222) | (1) | (185) | - | (1,408) |
| Changes in fair values | (4,615) | - | - | - | (4,615) |
| Merger | (211) | 9 | (594) | - | (796) |
| Approved dividends | - | - | 27,873 | - | 27,873 |
| Reclassification ¹⁾ | - | (46) | (7,443) | - | (7,489) |
| Other ²⁾ | (293) | 301 | 6 | (5) | 9 |
| Liabilities / assets from financing at December 31, 2021 | 129,303 | 314 | 36,053, | (5,082) | 160,588 |
| Liabilities / assets arising from other than financing activities | - | 33,859 | 605,796 | (510,353) | |
| Total amount on balance sheet at December 31, 2021 | 129,303 | 34,173 | 641,849 | (515,435) | |
| Less: Liabilities / assets from other than financing activities | - | (33,859) | (605,796) | 510,353 | |
| Liabilities / assets arising from financing activities at January 1, 2022 | 129,303 | 314 | 36,053 | (5,082) | 160,588 |
| Cash flows | 69,089 | 12 | (9,240) | 194 | 60,055 |
| Additions of leases and premature termination | 234 | - | - | - | 234 |
| Foreign exchange movement | (2,840) | - | (215) | - | (3,055) |
| Changes in fair values | (2,849) | - | - | - | (2,849) |
| Approved dividends | - | - | 25,727 | - | 25,727 |
| Reclassification | - | (422) | 422 | - | - |
| Other ²⁾ | 769 | 1,345 | 1,632 | (42) | 3,704 |
| Liabilities / assets from financing at December 31, 2022 | 193,706 | 1,249 | 54,379 | (4,930) | 244,404 |
| Liabilities / assets arising from other than financing activities | - | 37,410 | 303,932 | (299,964) | |
| Total amount on balance sheet at December 31, 2022 | 193,706 | 38,659 | 358,311 | (304,894) | |

¹⁾ The item Reclassification includes the disconnection of Elektrárna Počerady, a.s., from Group cashpooling in the amount of CZK 7,495 million and subsequent set-off with the receivable from the sale of ownership interest in Elektrárna Počerady, a.s.

²⁾ The item Other includes accrued interest, transfer of interest paid on leasing to operating activities and non-cash additions and decreases of liabilities.

The column Debt consists of balance sheet items Long-term debt, net of current portion, Current portion of long-term debt and Short-term loans. In terms of financing activities, item Other long-term financial liabilities consists of long-term payables, which have the financing character, item Other short-term financial liabilities consists of dividend payables, payables from Group cashpooling and other short-term financial payables including current portion of long-term financial liability, item Other current financial assets, net consists of receivables from Group cashpooling and advanced payments to dividend administrator.

15. Fair Value of Financial Instruments

Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, which excludes a forced or liquidation sale. Fair value is determined as a quoted market price or a value obtained on the basis of discounted cash flow models or option pricing models.

The Company uses the following methods and assumptions to determine the fair value of each class of financial instruments:

Cash, Cash Equivalents and Short-term Investments

The fair value of cash and other current financial assets is deemed to be the carrying amount due to their relatively short maturity.

Securities Held for Trading

The fair value of current equity and debt securities held for trading is based on their market price.

Non-current Debt and Equity Financial Assets

The fair value of non-current debt and equity financial assets that are publicly traded in an active market is based on their quoted market price. The fair value of non-current and equity financial assets that are not publicly traded in an active market is determined using appropriate valuation techniques.

Short-term Receivables and Payables

The fair value of receivables and payables is deemed to be the carrying amount due to their relatively short maturity.

Short-term Borrowings

The fair value of these financial instruments corresponds to the carrying amount due to their short maturity.

Long-term Debt

The fair value of long-term debt is deemed to be the market value of identical or similar instruments, or the measurement is based on current interest rates on debt with the same maturity. The fair value of long-term debt with a variable interest rate is deemed to be the carrying amount.

Derivatives

The fair value of derivatives corresponds to their market value.

The overview of carrying amounts and the estimated fair values of financial assets (except for derivatives) at December 31, 2022 and 2021 is as follows (in CZK millions):

| | 2022 | | 2021 | |
|---|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Non-current assets at amortized cost:</u> | | | | |
| Loans granted | 27,845 | 24,786 | 25,026 | 24,037 |
| Receivables from the sale of subsidiaries | 11 | 11 | 2,410 | 2,410 |
| Other financial receivables | 1,503 | 1,503 | 915 | 915 |
| <u>Non-current assets at fair value through other comprehensive income:</u> | | | | |
| Restricted debt securities | 13,918 | 13,918 | 12,922 | 12,922 |
| Equity financial assets | 709 | 709 | 599 | 599 |
| <u>Non-current assets at fair value through profit or loss:</u> | | | | |
| Equity financial assets | 5,360 | 5,360 | 4,187 | 4,187 |
| <u>Current assets at fair value through other comprehensive income:</u> | | | | |
| Debt financial assets | 9,752 | 9,752 | 499 | 499 |
| <u>Current assets at amortized cost:</u> | | | | |
| Loans granted | 8,287 | 8,287 | 8,418 | 8,418 |
| Receivables from the sale of subsidiaries | 2,451 | 2,451 | - | - |
| Other financial receivables | 4,994 | 4,994 | 5,120 | 5,120 |

The overview of carrying amounts and the estimated fair values of financial liabilities (except for derivatives) at December 31, 2022 and 2021 is as follows (in CZK millions):

| | 2022 | | 2021 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Long-term debt ¹⁾ | (139,751) | (133,625) | (103,186) | (114,025) |
| Other long-term financial liabilities | (1,249) | (1,249) | (314) | (314) |
| Short-term loans | (52,933) | (52,933) | (25,115) | (25,115) |
| Other short-term financial liabilities | (54,379) | (54,379) | (36,053) | (36,053) |

¹⁾ The value of long-term debt is disclosed without lease liabilities, whose fair value is not disclosed (carrying amount of CZK (1,022) million as at December 31, 2022, and CZK (1,002) million as at December 31, 2021, respectively).

The overview of carrying amounts and the estimated fair values of derivatives at December 31, 2022 and 2021 is as follows (in CZK millions):

| | 2022 | | 2021 | |
|-------------------------------|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| <u>Cash flow hedges:</u> | | | | |
| Short-term receivables | 3,709 | 3,709 | 883 | 883 |
| Long-term receivables | 8,605 | 8,605 | 3,347 | 3,347 |
| Short-term liabilities | (45,714) | (45,714) | (49,287) | (49,287) |
| Long-term liabilities | (36,758) | (36,758) | (33,253) | (33,253) |
| <u>Commodity derivatives:</u> | | | | |
| Short-term receivables | 272,879 | 272,879 | 499,982 | 499,982 |
| Short-term liabilities | (256,848) | (256,848) | (556,026) | (556,026) |
| <u>Other derivatives:</u> | | | | |
| Short-term receivables | 2,822 | 2,822 | 586 | 586 |
| Long-term receivables | 456 | 456 | 240 | 240 |
| Short-term liabilities | (1,370) | (1,370) | (483) | (483) |
| Long-term liabilities | (652) | (652) | (606) | (606) |

15.1. Fair Value Hierarchy

The Company uses and discloses financial instruments with the following structure according to the manner in which the fair value is determined:

- Level 1: Measured at fair value using the market prices of identical assets and liabilities quoted in active markets.
- Level 2: Measured at fair value using methods under which significant inputs are directly or indirectly derived from data observable in active markets.
- Level 3: Measured at fair value using methods under which significant inputs are not derived from data observable in active markets.

For assets and liabilities that occur regularly or repeatedly in financial statements, the Company reviews categorization in levels of the fair value hierarchy (according to the lowest input level that is significant to the measurement of fair value as a whole) at the end of each reporting period to determine whether there have been any transfers between levels of the fair value hierarchy.

In 2022, the fair value of commodity contracts of gas on insufficiently active markets for the whole period of the contract was transferred from level 2 to level 3. There were no transfers between levels of financial instruments measured at fair value in 2021.

As at December 31, 2022, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value:

| | Total | Level 1 | Level 2 | Level 3 |
|--|---------|---------|---------|---------|
| Commodity derivatives | 272,879 | 60,847 | 206,418 | 5,614 |
| Cash flow hedges | 12,314 | 7,252 | 5,062 | - |
| Other derivatives | 3,278 | - | 3,278 | - |
| Restricted debt financial assets | 13,918 | 13,918 | - | - |
| Debt instruments at fair value through other comprehensive income | 9,752 | 9,752 | - | - |
| Equity financial assets at fair value through other comprehensive income | 709 | - | - | 709 |
| Equity financial assets at fair value through profit or loss | 5,360 | - | - | 5,360 |

Liabilities measured at fair value:

| | Total | Level 1 | Level 2 | Level 3 |
|-----------------------|-----------|----------|-----------|---------|
| Commodity derivatives | (256,848) | (30,740) | (221,788) | (4,320) |
| Cash flow hedges | (82,472) | (44,307) | (38,165) | - |
| Other derivatives | (2,022) | - | (2,022) | - |

Assets and liabilities for which fair value is disclosed:

| | Total | Level 1 | Level 2 | Level 3 |
|---|-----------|----------|----------|---------|
| Loans granted | 33,073 | - | 33,073 | - |
| Receivables from the sale of subsidiaries | 2,462 | - | 2,462 | - |
| Other financial receivables | 6,497 | - | 6,497 | - |
| Long-term debt | (133,625) | (81,082) | (52,543) | - |
| Short-term loans | (52,933) | - | (52,933) | - |
| Other financial liabilities | (55,628) | - | (55,628) | - |

As at December 31, 2021, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---------|---------|---------|---------|
| Commodity derivatives | 499,982 | 48,079 | 448,776 | 3,127 |
| Cash flow hedges | 4,230 | 100 | 4,130 | - |
| Other derivatives | 826 | - | 826 | - |
| Restricted debt securities | 12,922 | 12,922 | - | - |
| Debt instruments at fair value through other comprehensive income | 499 | 499 | - | - |
| Equity financial assets at fair value through profit or loss | 599 | - | - | 599 |
| Equity financial assets at fair value through profit or loss | 4,187 | - | - | 4,187 |

Liabilities measured at fair value:

| | Total | Level 1 | Level 2 | Level 3 |
|-----------------------|-----------|----------|-----------|---------|
| Commodity derivatives | (556,026) | (24,715) | (531,311) | - |
| Cash flow hedges | (82,540) | (22,744) | (59,796) | - |
| Other derivatives | (1,089) | - | (1,089) | - |

Assets and liabilities for which fair value is disclosed:

| | Total | Level 1 | Level 2 | Level 3 |
|---|-----------|----------|----------|---------|
| Loans granted | 32,455 | - | 32,455 | - |
| Receivables from the sale of subsidiaries | 2,410 | - | 2,410 | - |
| Other financial receivables | 6,035 | - | 6,035 | - |
| Long-term debt | (114,025) | (98,088) | (15,937) | - |
| Short-term loans | (25,115) | - | (25,115) | - |
| Other financial liabilities | (36,367) | - | (36,367) | - |

The Company negotiates derivative financial instruments with various counterparties, especially large groups operating in the energy sector and large financial institutions with high credit ratings. Derivatives that are measured by means of techniques using market inputs include, in particular, commodity forward and futures contracts, foreign exchange forward contracts, interest rate swaps, and options. The most frequently applied valuation methods use commodity price curves, swap models, present value calculations, and option pricing models (e.g., Black-Scholes, Black-76). The models use various inputs including the forward curves of underlying commodities, foreign exchange spot and forward rates, and interest rate curves.

The following table shows roll forward of the financial assets measured at fair value – Level 3, for the years ended December 31, 2022 and 2021 (in CZK millions):

| | Equity financial assets at fair value through profit or loss | Equity financial assets at fair value through other comprehensive income | Commodity derivatives |
|--------------------------------|--|--|-----------------------|
| Balance at January 1, 2021 | 2,511 | 1,394 | - |
| Additions | 1,000 | - | - |
| Disposals | - | - | (1,604) |
| Revaluation | 676 | (795) | 4,731 |
| Balance at December 31, 2021 | <u>4,187</u> | <u>599</u> | <u>3,127</u> |
| Reclassification ¹⁾ | - | - | 148 |
| Additions | 1,000 | - | - |
| Disposals | (329) | - | (15,610) |
| Revaluation | 502 | 110 | 13,629 |
| Balance at December 31, 2022 | <u>5,360</u> | <u>709</u> | <u>(1,294)</u> |

¹⁾ Transfer of contracts for gas on insufficiently active markets from level 2 as at January 1, 2022

The most significant investment in the portfolio of Equity financial assets at fair value through other comprehensive income is a 15% interest in company Veolia Energie ČR, a.s. (see Note 5). The company's shares are not traded in any market. The fair value at December 31, 2022 and 2021 was determined using available public information on EBITDA and usual EBITDA multiples which corresponds to the purchase price of a 100% stake in a company in transactions observed in the market in the industry in question before adjustment for the amount of debt. The fair value at December 31, 2022 and 2021 was determined using 6 EBITDA multiple and 7 EBITDA multiple, respectively, as the best estimate of the fair value.

Equity financial assets at fair value through profit or loss include an investment in ČEZ's investment funds at Inven Capital, SICAV, a.s. (see Note 5). The fair value of the investments as at December 31, 2022 and 2021 was determined by a valuation expert. The determination of fair value takes into consideration, in particular, capital contributions and other forms of funding recently provided by co-investors. In addition, the measurement takes into account future development and any subsequent significant events, such as received offers to buy a share.

Commodity derivatives measured at fair value in level 3 include cross-border electricity transmission rights (hereinafter referred to as "cross-border capacities") and gas contracts with delivery in regions where the market is not sufficiently active throughout the duration of the contract. Cross-border capacities are sold in auctions organized by auction offices covering transmission system operators or in auctions organized directly by transmission system operators. Cross-border capacities are not traded on an organized market. The fair value of cross-border capacities, which represents an estimate of the expected value of compensation for unused cross-border capacities, takes into account especially the acquisition price of purchased capacities and the forward prices of electricity in the respective countries. The fair value of contracts for the purchase and sale of gas on insufficiently active markets is derived from the nearest active market, and the location spread is determined using a valuation model that makes maximum use of available market data.

15.2. Offsetting of Financial Instruments

The following table shows the recognized financial instruments that are offset, or subject to enforceable master netting agreement or other similar agreements but not offset, as at December 31, 2022 and 2021 (in CZK millions):

| | 2022 | | 2021 | |
|--|------------------|-----------------------|------------------|-----------------------|
| | Financial assets | Financial liabilities | Financial assets | Financial liabilities |
| Derivatives | 288,471 | (341,342) | 505,038 | (639,655) |
| Other financial instruments ¹⁾ | 90,921 | (91,063) | 63,036 | (65,965) |
| Collaterals paid (received) ²⁾ | 30,661 | (1,942) | 28,833 | (9,345) |
| Gross financial assets / liabilities | 410,053 | (434,347) | 596,907 | (714,965) |
| Assets / liabilities set off under IAS 32 | - | - | - | - |
| Amounts presented in the balance sheet | 410,053 | (434,347) | 596,907 | (714,965) |
| Effect of master netting agreements | (304,383) | 304,383 | (499,637) | 499,637 |
| Net amount after master netting agreements | <u>105,670</u> | <u>(129,964)</u> | <u>97,270</u> | <u>(215,328)</u> |

¹⁾ Other financial instruments consist of invoices from derivative trading and are included in Trade receivables, net or Trade payables.

²⁾ Collaterals paid are included in Trade receivables, net and collaterals received are included in Trade payables.

The Company trades in derivatives under EFET and ISDA master agreements. The agreements allow mutual setoff of receivables and payables on early termination of contracts. The reason for early termination is the counterparty's insolvency or failure to fulfill agreed contract terms. All agreed contracts are settled financially on early termination. Their mutual setoff is either embedded in a contractual provision of the master agreements or results from the collateral provided. In addition, a CSA (Credit Support Annex) has been signed with several partners, defining the permitted limit of exposure between the partners. When the limit is exceeded, cash is transferred to reduce exposure below an agreed level. The deposited cash is also included in the final offset.

Short-term derivative assets are included in the balance sheet in Other current financial assets, net; long-term derivative assets are included in Other non-current financial assets, net; short-term derivative liabilities are included in Other current financial liabilities; and long-term derivative liabilities are included in Other non-current financial liabilities.

16. Financial Risk Management

Risk Management Approach

A risk management system is being successfully developed in order to protect the Group's value while taking the level of risk acceptable for the shareholders. In the Group, the risk is defined as a potential difference between the actual and the expected (planned) developments and is measured by means of the extent of such difference in CZK and the likelihood with which such a difference may occur.

A risk capital concept is applied within the Group. The concept allows the setting of basic cap for partial risk limits and, in particular, the unified quantification of all kinds of risks. The value of aggregate annual risk limit (Profit@Risk) is approved by the Board of Directors based on the Risk Management Committee proposal for every financial year. The proposed limit value is derived from historical volatility of profit, revenues and costs of the Group (the top-down method). The approved value in CZK is set on the basis of a 95% confidence level and expresses a maximum profit decrease, which is the Group willing to take in order to reach the planned annual profit.

The "Bottom-up" method is used for setting and updating the Risk frames. The Risk frames include the definition of risk and departments/units of the Group for which the frame is obligatory; definition of rules and responsibilities for risk management; permitted instruments and methods of risk management and actual risk limits, including a limit which expresses the share in the annual Profit@Risk limit.

The main Business Plan market risks are quantified in the Group (EBITDA@Risk based on MonteCarlo simulation in Y+1 to Y+5 horizon). The market risks are actively managed through gradual electricity sales and emission allowances' purchases in the following 6-year horizon, closed long-term contracts for electricity sale and emission allowances' purchase and the FX and IR risk hedging in medium-term horizon. In Business Plan horizon, the risk management is also based on Debt Capacity concept which enables to assess the impact of main Investment and other Activities (incl. the risk characteristics), on expected cash flow and total debt in order to maintain corporate rating. Since 2021, a new uniform Enterprise risk management scheme is adopted by the Group to be applied to all group-level significant risks. For this level of risks, the scheme integrates, across the process areas of the whole Group, all decentral risk management activities into one, uniform and centrally coordinated process of group-level significant risks management, with the use of the software tool.

Risk Management Organization

The supreme authority responsible for risk management in ČEZ, a. s., is the CFO, except for approval of the aggregate annual budget risk limit (Profit@Risk) within the competence of the ČEZ, a. s., Board of Directors. CFO decides, based on the recommendation of the Risk Management Committee, on the development of a system of risk management, on an overall allocation of risk capital to the individual risks and organizational units, he approves obligatory rules, responsibilities and limit structure for the management of partial risks.

The Risk Management Committee (advisory committee of CFO) continuously monitors an overall risk impact on the Group, including Group risk limits utilization, status of risks linked to Business Plan horizon, hedging strategies status, assessment of impact of Investment and other Activities on potential Group debt capacity and cash flow in order to maintain corporate rating. Since 2021, it also monitors overviews regarding new uniform Enterprise risk management scheme.

Overview and Methods of Risk Management

The Group applies a unified categorization of the Group's risks which reflects the specifics of a corporate, i.e., non-banking company, and focuses on primary causes of unexpected development. The risks are divided into four basic categories listed below.

| 1. Market risks | 2. Credit risks | 3. Operation risks | 4. Business risks |
|------------------------|--------------------------|---------------------------|--------------------------|
| 1.1 Financial (FX, IR) | 2.1 Counterparty default | 3.1 Operating | 4.1 Strategic |
| 1.2 Commodity | 2.2 Supplier default | 3.2 Internal change | 4.2 Political |
| 1.3 Volumetric | 2.3 Settlement | 3.3 Liquidity management | 4.3 Regulatory |
| 1.4 Market liquidity | | 3.4 Security | 4.4 Reputation |

From the view of risk management, the Group activities can be divided into two basic groups:

- activities with the unified quantification of the share of respective activity in the aggregate risk limit of the Group (i.e., using specific likelihood, it is possible to objectively determine what risk is associated with an activity/planned profit). These risks are managed by the rules and limits set by the CFO of ČEZ, a. s., based on the recommendation of the Risk Management Committee and, concurrently, in accordance with governing documents of the respective units / processes of the Group;
- activities whose share in the aggregate risk limit of the Group has not been quantified so far or for objective reasons. These risks are managed by the responsible owners of the relevant processes in accordance with internal governing documents of the respective units / processes of the Group which are newly also subject to policies defined by new uniform Enterprise risk management scheme since 2021.

For all risks quantified on a unified basis, a partial risk limit is set whose continuous utilization is evaluated on a monthly basis and is usually defined as a sum of the actually expected deviation of expected annual profit from the plan and the potential risk of loss on a 95% confidence interval. The Group's methodologies and data provide for a unified quantification of the following risks:

- market risks: financial (currency, interest and stock price) risks, commodity prices (electricity, emission allowances, coal, gas, crude oil), volume (volume of electricity produced by wind power plants);
- credit risks: financial and business counterparty risk and electricity, gas and heat end customer risk;
- operational risks: risks of nuclear and fossil power plants operation, investment risks.

The development of quantified risks is reported to the Risk Management Committee every month through 3 regular reports:

- Annual budget risks (annual Profit@Risk limit utilization);
- Business plan risks (EBITDA@Risk based on MonteCarlo simulation);
- Debt capacity (actual deviation from the optimal debt within Y+5 horizon, derived from rating agency requirements on debt indicators in order to preserve the ČEZ rating).

16.1. Qualitative Description of ČEZ, a. s., Risks Associated with Financial Instruments

Commodity Risks

The development of electricity, emission allowances, coal and gas prices is a key risk factor of the ČEZ value. The current system of commodity risk management is focused on (i) the margin from the own electricity production sales, i.e., from trades resulting in optimizing the sales of ČEZ's production and in optimizing the emission allowances position for production (the potential risk is managed on the EaR, VaR and the EBITDA@Risk bases), and (ii) the margin from the proprietary trading of commodities (the potential risk is managed on the VaR basis).

Market Financial Risks (currency and interest risks)

The development of foreign exchange rates and interest rates is a significant risk factor of the ČEZ value. The current system of financial risk management is focused mainly on (i) the future cash flows and (ii) financial trades which are realized for the purposes of an overall risk position management in accordance with the risk limits (the potential risk is managed on the basis of VaR, EBITDA@Risk and complementary position limits). Own financial instruments (i.e., active and passive financial trades and derivative trades) are realized entirely in the context of an overall expected cash flows (including operational and investment foreign currency flows).

Credit Risks

Credit exposures of individual financial partners and wholesale partners are managed in accordance with individual credit limits. The individual limits are set and continuously updated according to the

counterparty's credibility (in accordance with international rating and internal financial evaluation of counterparties with no international rating).

Company's maximum exposure to credit risk to receivables and other financial instruments as at December 31, 2022 and 2021 is the carrying value of each class of financial assets except for financial guarantees.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

In accordance with the credit risk methodology applied to the banking sector per Basel II, every month the expected and potential losses are quantified on a 95% confidence level. It means that the share of all the above credit risks in the aggregate annual Profit@Risk limit is quantified and evaluated.

Liquidity Risks

Liquidity risk is primarily perceived as an operational risk (risk of liquidity management) and a risk factor is the internal ability to effectively manage the future cash flows planning process and to secure the adequate liquidity and effective short-term financing (the risk is managed on a qualitative basis). The fundamental liquidity risk management (i.e., liquidity risk within the meaning for banking purposes) is covered by the risk management system as a whole. In any given period, the future deviations of the expected cash flows are managed in accordance with the aggregate risk limit and in the context of the actual and the targeted debt/equity ratio of ČEZ. Other tools used for liquidity risk management are the regularly evaluated Margin@Risk reports and liquidity stress scenario reports, which are mainly used to manage the liquidity risk related to the margin calls requirements. These reports also evaluate the effects of the transactions of the sliding sale of electricity and the purchase of emission rights in the horizon of the next 6 years.

16.2. Quantitative Description of ČEZ, a. s., Risks Associated with Financial Instruments

Commodity Risks

The required quantitative information on risks (i.e., a potential change of market value resulting from the effects of risk factors as at December 31) was prepared based on the assumptions given below:

- the indicator of risk associated with financial instruments is defined as the monthly parametric VaR (95% confidence) which expresses a maximum potential decrease in fair value of contracts classified as derivatives under IFRS 9 (the underlying commodities in the Company's derivative transactions are: electricity, EUA emission rights, gas, coal ARA, Richards Bay, Newcastle and crude oil and crude oil products) on the given confidence level;
- highly probable forecasted future electricity generation sales with the delivery in the CZ power grid are included in the VAR calculation to reflect the hedging character of significant portion of the existing derivative sales of electricity with delivery in Germany;
- for the calculation of volatility and correlations (between commodity prices), the SMA (Simple Moving Average) method is applied to 60 daily time series;
- the source of market data is mainly EEX, PXE and ICE;
- the indicator VaR illustrates mainly the impact of revaluation of above-mentioned financial instruments to Income Statement.

Potential impact of the above risk factors as at December 31 (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---|-------------|-------------|
| Monthly VaR (95%) – impact of changes in commodity prices | 4,914 | 11,320 |

Currency Risks

The required quantitative information on risks (i.e., a potential change of market value resulting from the effects of currency risk as at December 31) was prepared based on the assumptions given below:

- the indicator of currency risk is defined as the monthly VaR (95% confidence);
- for the calculation of VaR, which is based on volatility and internal correlations of each considered currency, the method of historical simulation VaR is applied to 90 daily historical time series;
- the relevant currency position is defined mainly as a value of foreign currency cash flows from all contracted financial instruments, from expected foreign currency operational revenues and costs in 2022 and from highly probable forecasted foreign currency revenues, costs or capital expenditures that are being hedged by financial instruments etc.;
- the relevant currency positions reflect all significant foreign-currency flows in the monitored basket of foreign currencies;
- the source of market FX and interest rate data is mainly IS Reuters and IS Bloomberg;
- the indicator VaR illustrates mainly the impact of revaluation of above-mentioned currency position to Income Statement.

Potential impact of the currency risk as at December 31 (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---------------------------------------|-------------|-------------|
| Monthly currency VaR (95% confidence) | 682 | 437 |

Interest Risks

For the quantification of the potential impact of the interest risk was chosen the sensitivity of the interest revenue and cost to the parallel shift of yield curves. The approximate quantification as at December 31 was based on these assumptions:

- parallel shift of the yield curves (+10bp) was selected as the indicator of interest risk;
- the Income Statement sensitivity is measured as an annual change of the interest revenue and cost resulting from the interest-sensitive positions as at December 31;
- the considered interest positions reflect all significant interest-sensitive positions;
- the source of market interest rates is mainly IS Reuters and IS Bloomberg.

Potential impact of the interest rate risk as at December 31 (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--|-------------|-------------|
| IR sensitivity to parallel yield curve shift (+10bp) | (5) | 1 |

Credit Exposure

The Company is exposed to credit risk on all financial assets presented in the balance sheet as well as credit risk from provided guarantees. Credit exposure from provided guarantees that are not included in the balance sheet, as at December 31 (millions of CZK):

| | <u>2022</u> | <u>2021</u> |
|---|--------------|--------------|
| Guarantees provided to subsidiaries not recorded on balance sheet | 9,756 | 8,059 |
| Guarantees provided to joint-ventures not recorded on balance sheet | - | - |
| Total | <u>9,756</u> | <u>8,059</u> |

Provided guarantees are, in particular, warranties for performed contracts and guarantees for bank loans and other liabilities of relevant companies. A beneficiary may only make a warranty claim under the conditions set out in the warranty document, usually following the nonpayment of an amount arising from the contract or on default. At present, companies whose obligations are covered by warranty meet their obligations. Warranties have various expiration dates, as at December 31, 2022 and 2021, the latest deadline for making a warranty claim is October 2053.

Liquidity Risk

Maturity profile of financial liabilities based on contractual undiscounted payments as at December 31, 2022 (in CZK millions):

| | Bonds and debentures | Loans and lease payables | Derivatives ¹⁾ | Other financial liabilities | Trade payables | Guarantees issued ²⁾ |
|--------------|----------------------|--------------------------|---------------------------|-----------------------------|----------------|---------------------------------|
| Due in 2023 | 7,071 | 3,264 | 1,124,610 | 54,379 | 76,525 | 11,334 |
| Due in 2024 | 2,760 | 27,513 | 254,766 | 720 | - | - |
| Due in 2025 | 20,828 | 4,592 | 83,194 | 323 | - | - |
| Due in 2026 | 19,843 | 2,639 | 9,120 | 191 | - | - |
| Due in 2027 | 16,094 | 4,871 | 756 | - | - | - |
| Thereafter | 48,943 | 8,504 | 24,605 | 15 | - | - |
| Total | 115,539 | 51,383 | 1,497,051 | 55,628 | 76,525 | 11,334 |

Maturity profile of financial liabilities based on contractual undiscounted payments as at December 31, 2021 (in CZK millions):

| | Bonds and debentures | Loans and lease payables | Derivatives ¹⁾ | Other financial liabilities | Trade payables | Guarantees issued ²⁾ |
|--------------|----------------------|--------------------------|---------------------------|-----------------------------|----------------|---------------------------------|
| Due in 2022 | 15,333 | 1,117 | 1,454,223 | 36,052 | 76,950 | 9,966 |
| Due in 2023 | 7,039 | 1,048 | 236,744 | 212 | - | - |
| Due in 2024 | 2,476 | 1,592 | 59,698 | 94 | - | - |
| Due in 2025 | 21,094 | 1,504 | 4,967 | 8 | - | - |
| Due in 2026 | 20,055 | 1,325 | 839 | - | - | - |
| Thereafter | 51,528 | 5,006 | 26,212 | - | - | - |
| Total | 117,525 | 11,592 | 1,782,683 | 36,366 | 76,950 | 9,966 |

¹⁾ Contractual maturities for derivatives represent contractual cash out-flows of these instruments, but at the same time the Company will receive corresponding consideration. For fair values of derivatives see Note 15.

²⁾ Maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The committed credit facilities available to the Company as at December 31, 2022 and 2021 amounted to CZK 50.3 billion and CZK 15.2 billion, respectively. In addition, in December 2022, the Company signed committed loan facility agreement with the European Investment Bank to support financing of the program of renewal and further development of the distribution grid in the Czech Republic up to a total of EUR 790 million, which was not drawn as at December 31, 2022.

16.3. Hedge Accounting

The Company hedges cash flows arising from highly probable future sales of electricity in the Czech Republic. Hedging instrument are futures and forward contracts for electricity sales in Germany. The fair value of these hedging derivatives was CZK (73,096) million and CZK (77,985) million at December 31, 2022 and 2021, respectively. The result of this hedging strategy as at December 31, 2022, is that for 2023 approximately 75% of expected production in the Czech Republic was hedged at an average price EUR 117 per MWh, for 2024 approximately 47% of expected production at an average price EUR 120 per MWh, for 2025 approximately 21% of expected production at an average price EUR 129 per MWh and for 2026 approximately 2% of expected production at an average price EUR 97 per MWh.

The Company also hedges cash flows arising from highly probable future revenue in EUR for the purposes of currency and interest risk hedging. The hedged cash flows are expected to occur in 2023–2026. The relevant hedging instruments as at December 31, 2022 and 2021 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 4 billion and EUR 3.3 billion, respectively, and currency forward contracts and swaps. The fair value of these hedging derivatives was CZK 2,938 million and CZK (325) million as at December 31, 2022 and 2021, respectively.

In 2022, the Company also hedged selected cash flow connected to purchase of emission rights, to cover its CO₂ emission for the year 2022, for the purpose of hedging the currency risk associated with the time difference between the allocation of emission rights and the payment for their purchase. The hedge was made by currency swaps. The accumulated value of change of fair value revaluation, transferred from the equity to the price of emission rights connected with the hedge for purchase of emission rights amounted to CZK 403 million.

In 2022 and 2021, cash flow hedging amounts transferred from equity were reported in the statement of income in Sales of electricity, heat, and gas, Gains and losses from derivative commodity trading, Other financial expenses and Other financial income. CZK (194) million and CZK 284 million was recognized in profit or loss in 2022 and 2021, respectively, due to ineffectiveness of cash flow hedging. In 2022 and 2021, the ineffectiveness was primarily caused by the fact that the hedged future cash flows were no longer highly probable and by the volatility of electricity price on Czech / German market and unequal price increase / decrease of the electricity on Czech and German market.

17. Provisions

The following is a summary of the provisions at December 31, 2022 and 2021 (in CZK millions):

| | 2022 | | | 2021 | | |
|--|----------------|---------------|----------------|---------------|---------------|----------------|
| | Long-term | Short-term | Total | Long-term | Short-term | Total |
| Nuclear provisions | 108,126 | 2,786 | 110,912 | 91,102 | 2,073 | 93,175 |
| Provision for demolition and dismantling of fossil-fuel power plants | 11,224 | 1,488 | 12,712 | 4,014 | 516 | 4,530 |
| Provision for waste storage reclamation | 492 | 6 | 498 | 497 | 15 | 512 |
| Provision for CO ₂ emissions (see Note 10) | - | 14,796 | 14,796 | - | 5,448 | 5,448 |
| Provision for employee benefits | 2,225 | 180 | 2,405 | 2,094 | 149 | 2,243 |
| Provision for legal and commercial disputes | - | 581 | 581 | - | 530 | 530 |
| Provision for obligation in case of claim from guarantee for Akcez group loans | - | 1,578 | 1,578 | - | 1,907 | 1,907 |
| Other provisions | - | 100 | 100 | - | 457 | 457 |
| Total | 122,067 | 21,515 | 143,582 | 97,707 | 11,095 | 108,802 |

17.1. Nuclear Provisions

The Company operates two nuclear power plants. The Dukovany Nuclear Power Plant comprises four units commissioned for continuous operation in 1985 to 1987. The Temelín Nuclear Power Plant consists of two units that were commissioned for continuous operation in 2002 and 2003. The Nuclear Energy Act sets down obligations for nuclear facility decommissioning and disposal of radioactive waste and spent nuclear fuel. In accordance with the Nuclear Energy Act, all the nuclear parts and equipment of a nuclear power plant must be disposed of after the end of operation. For the purpose of determining the amount of nuclear provisions, it is estimated that the Dukovany Nuclear Power Plant will stop generating electricity in 2047; the Temelín plant in 2062. Studies for the Dukovany Nuclear Power Plant and for the Temelín Nuclear Power Plant from 2020 assume that the total costs of decommissioning of so-called nuclear island and conventional part of these power plants will reach the amount CZK 32.2 billion and CZK 24.1 billion, respectively. The Company makes contributions to a restricted bank accounts in the amount of the nuclear provisions recorded under the Nuclear Energy Act. These funds can be invested in government bonds in accordance with legislation. These restricted financial assets are reported in the balance sheet as part of the line item Restricted financial assets, net (see Note 4).

The Ministry of Industry and Trade established the Radioactive Waste Repository Authority (SÚRAO) as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The SÚRAO operates, supervises and is responsible for disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the SÚRAO are financed through a nuclear account funded by the originators of radioactive waste. Contribution to the nuclear account is stated by Nuclear Energy Act at CZK 55 per MWh produced at nuclear power plants. In 2022 and 2021, the payments to the nuclear account amounted to CZK 1,706 million and CZK 1,690 million, respectively. The originator of radioactive waste and spent fuel directly covers all costs associated with interim storage of radioactive waste and spent fuel.

The Company has established provisions for estimated future expenses on nuclear decommissioning and interim storage and permanent disposal of spent nuclear fuel in accordance with the principles described in Note 2.21.

The following is a summary of the nuclear provisions for the years ended December 31, 2022 and 2021 (in CZK millions):

| | Nuclear decommissioning | Accumulated provision | | Total |
|--|-------------------------|-----------------------|-----------|---------|
| | | Spent fuel storage | | |
| | | Interim | Long-term | |
| Balance at January 1, 2021 | 38,601 | 9,345 | 43,350 | 91,296 |
| Discount accretion and effect of inflation | 734 | 178 | 823 | 1,735 |
| Provision charged in profit or loss | - | 546 | - | 546 |
| Effect of change in estimate recognized in profit or loss | - | 787 | - | 787 |
| Effect of change in estimate added to (deducted from) fixed assets | 2,422 | - | (1,037) | 1,385 |
| Current cash expenditures | - | (884) | (1,690) | (2,574) |
| Balance at December 31, 2021 | 41,757 | 9,972 | 41,446 | 93,175 |
| Discount accretion and effect of inflation | 961 | 226 | 953 | 2,140 |
| Provision charged in profit or loss | - | 586 | - | 586 |
| Effect of change in estimate recognized in profit or loss | - | 957 | - | 957 |
| Effect of change in estimate added to fixed assets | 16,183 | - | 275 | 16,458 |
| Current cash expenditures | - | (698) | (1,706) | (2,404) |
| Balance at December 31, 2022 | 58,901 | 11,043 | 40,968 | 110,912 |

The use of the provision for permanent disposal of spent nuclear fuel in a current year comprises payments made to the government-controlled nuclear account and the use of the provision for interim storage represents, in particular, purchases of containers for spent nuclear fuel and other related equipment for these purposes.

In 2022, the Company recorded the change in estimated provision for interim storage of spent nuclear fuel. The change relates to the change in expectations of future storage cost and change in discount rate. The change in estimated provision for nuclear decommissioning is due to the update of the amount and scope of the decommissioning costs for Dukovany Nuclear Power Plant and for Temelín Nuclear Power Plant and due to the change in discount rate. The change in estimated provision for long-term spent fuel storage is connected with the modification of the expected output of the nuclear power plants, change of expected contribution to the nuclear account per MWh in future years and change in discount rate.

In 2021, the Company recorded the change in estimate for interim storage of spent nuclear fuel in connection with the change in expectations of future storage cost and change in discount rate, the change in estimate in provision for nuclear decommissioning in connection with the change in discount rate and the change in long-term spent fuel storage in connection with the modification of the expected output of the nuclear power plants, change of expected contribution to the nuclear account per MWh in future years and change in discount rate.

The actual costs of nuclear decommissioning, interim storage, and permanent disposal of spent nuclear fuel may vary substantially from the above estimates due to changes in legislation or technology or increase in labor costs and the costs of materials and equipment, as well as due to a different timing of all activities relating to nuclear decommissioning and storage and disposal of spent nuclear fuel.

17.2. Provision for Demolition and Dismantling of Fossil-Fuel Power Plants, Waste Storage Reclamation and Employee Benefits

The following table shows the movements of the provisions for the years ended December 31, 2022 and 2021 (in CZK millions):

| | Accumulated provision | | |
|--|--|---------------------------|-------------------|
| | Demolition and dismantling of fossil-fuel power plants | Waste storage reclamation | Employee benefits |
| Balance at January 1, 2021 | - | 502 | 1,820 |
| Discount accretion and effect of inflation | 18 | 9 | - |
| Provision charged in profit or loss | - | - | 466 |
| Change in estimate and creation added to fixed assets | 4,512 | 27 | - |
| Effect of merger | - | - | 44 |
| Current cash expenditures | - | (26) | (87) |
| Balance at December 31, 2021 | 4,530 | 512 | 2,243 |
| Discount accretion and effect of inflation | 206 | 8 | 36 |
| Provision charged in profit or loss | - | - | 237 |
| Change in estimate added to (deducted from) fixed assets | 8,062 | (6) | - |
| Current cash expenditures | (86) | (16) | (111) |
| Balance at December 31, 2022 | 12,712 | 498 | 2,405 |

In 2022, the Company recorded the change in estimate in provision for demolition and dismantling of fossil-fuel power plants due to the update of the amount and scope of the decommissioning costs and due to change in discount rate.

18. Other Financial Liabilities

Other financial liabilities at December 31, 2022, were as follows (in CZK millions)

| | 2022 | | |
|--|-----------------------|------------------------|---------|
| | Long-term liabilities | Short-term liabilities | Total |
| Payables from Group cashpooling | - | 52,021 | 52,021 |
| Other | 1,249 | 2,358 | 3,607 |
| Financial liabilities at amortized costs | 1,249 | 54,379 | 55,628 |
| Cash flow hedge derivatives | 36,758 | 45,714 | 82,472 |
| Commodity and other derivatives | 652 | 258,218 | 258,870 |
| Financial liabilities at fair value | 37,410 | 303,932 | 341,342 |
| Total | 38,659 | 358,311 | 396,970 |

Other financial liabilities at December 31, 2021 were as follows (in CZK millions):

| | 2021 | | |
|--|-----------------------|------------------------|---------|
| | Long-term liabilities | Short-term liabilities | Total |
| Payables from Group cashpooling | - | 35,603 | 35,603 |
| Other | 314 | 450 | 764 |
| Financial liabilities at amortized costs | 314 | 36,053 | 36,367 |
| Cash flow hedge derivatives | 33,253 | 49,287 | 82,540 |
| Commodity and other derivatives | 606 | 556,509 | 557,115 |
| Financial liabilities at fair value | 33,859 | 605,796 | 639,655 |
| Total | 34,173 | 641,849 | 676,022 |

The following table analyses the value of liabilities from commodity and other derivatives by the period of delivery as at December 31, 2022 and 2021, respectively, and the year to year development (in CZK millions):

| | 2022 | 2021 | Year to year change |
|---------------------------------------|---------|---------|---------------------|
| Delivery in 2021 | - | 4,522 | (4,522) |
| Delivery in 2022 | 5,700 | 488,564 | (482,864) |
| Delivery in 2023 | 212,529 | 58,473 | 154,056 |
| Delivery in 2024 | 36,419 | 4,652 | 31,767 |
| Delivery in 2025 and thereafter | 4,222 | 904 | 3,318 |
| Total commodity and other derivatives | 258,870 | 557,115 | (298,245) |

The balance of derivatives comprises mainly the negative fair values of commodity trading contracts. The decrease of liabilities from commodity and other derivatives in 2022 was caused mainly due to physical delivery of the commodity or by financial settlement. Year to year decrease is also influenced by volatility of the market prices of electricity, gas, emission rights and other commodities. Related decrease of receivables from commodity and other derivatives is disclosed in Note 5.

19. Short-term Loans

Short-term loans as at December 31, 2022 and 2021 were as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---------------------------|----------------------|----------------------|
| Bank loans | 4,703 | 25,115 |
| Other loans ¹⁾ | <u>48,230</u> | <u>-</u> |
| Total | <u><u>52,933</u></u> | <u><u>25,115</u></u> |

¹⁾ Other loans represent short-term loans provided by the Ministry of Finance of the Czech Republic to cover the liquidity risk associated to potential immediate increase of requests for extraordinary increase of margin calls on energetic stock exchange and towards business counterparties.

Short-term loans bear interest at fixed interest rates. The weighted average interest rate was 5.24% and 0.02% at December 31, 2022 and 2021, respectively. For the years 2022 and 2021, the weighted average interest rate was 4.5% and 0.3%, respectively.

20. Other Short-term Liabilities

Other short-term liabilities as at December 31, 2022 and 2021 were as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|---------------------|
| Taxes and fees, except income tax | 2,208 | 1,148 |
| Liability from levy on revenues above price caps | 1,328 | - |
| Deferred income | 634 | 234 |
| Advances received | <u>490</u> | <u>307</u> |
| Total | <u><u>4,660</u></u> | <u><u>1,689</u></u> |

21. Leases

21.1. Company as a Lessee

The Company has lease contracts for various items of offices, vehicles, buildings and land used to place its own electricity and heat production facilities. Leases of vehicles generally have lease terms between 3–4 years, while buildings and lands between 4–22 years.

The Company has entered into lease contracts with fixed and variable payments. The variable payments are regularly adjusted according to the inflation index or are based on use of the underlying assets.

The Company leases buildings, machinery or equipment with lease terms of 12 months or less or with low value. In this case the Company applies recognition exemption for these leases.

The net book values of the right-of-use assets presented under Property, plant and equipment are described in the Note 3.

The amounts of lease liability are presented under Long-term debt (see Note 14).

The following table sets out total cash outflows for lease payments (in CZK millions):

| | 2022 | 2021 |
|---|------------|------------|
| Payments of principal | 194 | 178 |
| Payments of interests | 23 | 22 |
| Lease payments not included in valuation of lease liability | 51 | 47 |
| Total cash outflow for leases | <u>268</u> | <u>247</u> |

The following are the amounts that are recognized in profit or loss (in CZK millions):

| | 2022 | 2021 |
|---|------|------|
| Expense relating to short-term leases | 91 | 72 |
| Expense relating to low-value assets | 1 | 1 |
| Variable lease payments | 51 | 47 |
| Depreciation charge for right-of-use assets | 154 | 143 |
| Interest expenses | 23 | 22 |

Next year, the Company expects to pay similar lease payments that are not included in valuation of lease liability as in the year 2022.

21.2. Company as a Lessor

Finance Lease

The most significant lease under finance lease is the lease of administrative premises to the Group's companies.

The following table sets out a maturity analysis of investment in finance lease, showing the undiscounted lease payments to be received after the reporting date (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Up to 1 year | 70 | 39 |
| Between 1 year and 2 years | 69 | 39 |
| Between 2 and 3 years | 67 | 37 |
| Between 3 and 4 years | 55 | 35 |
| Between 4 and 5 years | 4 | 5 |
| Thereafter | <u>17</u> | <u>21</u> |
| Total undiscounted investment in finance lease | 282 | 176 |
| Unearned finance income | <u>(13)</u> | <u>(6)</u> |
| Net investment in the lease | <u><u>269</u></u> | <u><u>170</u></u> |

The Company recognized interest income on lease receivables of CZK 3 million and CZK 2 million at December 31, 2022 and 2021, respectively.

Operating Lease

Rental income recognized by the Company during 2022 and 2021 was CZK 613 million and CZK 619 million, respectively. Investment property rental income are disclosed in the Note 7. In the following years, the Company expects similar rental income as in the year 2022.

The net book values of the property, plant and equipment leased out under operating lease are disclosed in the Note 3.

22. Revenues and Other Operating Income

The overview of revenues and other operating income for the years ended December 31, 2022 and 2021 is as follows (in CZK millions):

| | 2022 | 2021 |
|---|----------|----------|
| <u>Sale of electricity, heat and gas:</u> | | |
| Electricity sales – domestic: | | |
| OTE, a.s. | 119,074 | 49,836 |
| ČEZ Prodej, a.s. | 64,672 | 28,390 |
| Elektrárna Dětmarovice, a.s. | 8,074 | 1,516 |
| Slovenské elektrárne, a.s. | 5,495 | 5,636 |
| E.ON Energie, a.s. | 4,645 | 4,307 |
| MVM Partner Zrt. | 3,551 | 386 |
| Pražská energetika, a.s. | 3,275 | 2,284 |
| Entauri trading s.r.o. | 2,923 | 2,395 |
| ALPIQ ENERGY SE | 2,856 | 509 |
| Severočeské doly a.s. | 1,412 | 659 |
| innogy Energie, s.r.o. | 1,076 | 1,821 |
| SSE CZ, s.r.o. | 889 | 307 |
| EDF Trading Limited | 881 | 334 |
| Pražská plynárenská, a.s. | 854 | 1,053 |
| MND a.s. | 746 | 631 |
| TAURON Czech Energy s.r.o. | 544 | 199 |
| Veolia Energie ČR, a.s. | 498 | 944 |
| ZSE Energia, a.s. | 489 | 403 |
| Českomoravský cement, a.s. | 369 | 182 |
| LAMA energy a.s. | 358 | 257 |
| CARBOUNION BOHEMIA, spol. s r.o. | 306 | 441 |
| RIGHT POWER, a.s. | 263 | 137 |
| Engie Global Markets | 248 | 291 |
| CENTROPOL ENERGY, a.s. | 178 | 317 |
| SUAS Commodities s.r.o. | 121 | 92 |
| Energi Danmark A/S | 87 | 201 |
| Uniper Global Commodities SE | 66 | 595 |
| RWE Supply & Trading GmbH | 59 | 579 |
| Slovenský plynárenský priemysel, a.s. | 44 | 17 |
| Other customers | 10,716 | 5,560 |
| Total sales of electricity – domestic | 234,769 | 110,279 |
| Sales of electricity – foreign | 6,981 | 6,753 |
| Effect of hedging – presales of electricity (Note 16.3) | (87,931) | (12,926) |
| Effect of hedging – currency risk hedging (Note 16.3) | 171 | 1,422 |
| Total sales of electricity | 153,990 | 105,528 |
| Sales of gas | 27,689 | 7,433 |
| Sales of heat | 1,955 | 1,935 |
| Total sales of electricity, heat and gas | 183,634 | 114,896 |
| <u>Sale of services and other income:</u> | | |
| Sales of ancillary and distribution services | 6,180 | 2,233 |
| Sales of other services | 3,907 | 2,740 |
| Rental income | 665 | 672 |
| Other revenues | 194 | 156 |
| Total sales of services and other revenues | 10,946 | 5,801 |
| Other operating income | 5,611 | 1,318 |
| Total revenues and other operating income | 200,191 | 122,015 |

Revenues from contracts with customers for the years ended December 31, 2022 and 2021 were CZK 281,675 million and CZK 131,529 million, respectively, and can be linked to the figures in the previous table as follows:

| | <u>2022</u> | <u>2021</u> |
|---|-----------------------|-----------------------|
| Sales of electricity, gas and heat | 183,634 | 114,896 |
| Sales of services and other revenues | <u>10,946</u> | <u>5,801</u> |
| Total revenues | 194,580 | 120,697 |
| Adjustments: | | |
| Effect of hedging – presales of electricity | 87,931 | 12,926 |
| Effect of hedging – currency risk hedging | (171) | (1,422) |
| Rental income | <u>(665)</u> | <u>(672)</u> |
| Revenues from contracts with customers | <u><u>281,675</u></u> | <u><u>131,529</u></u> |

23. Gains and Losses from Commodity Derivative Trading

The overview of gains and losses from commodity derivative trading for the years ended December 31, 2022 and 2021 is as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|-----------------------|
| Gain (loss) from electricity derivative trading, net | 27,601 | (26,121) |
| Gain from gas derivative trading | 15,523 | 8,392 |
| Gain from emission rights derivative trading | 1,150 | 12,871 |
| Loss from oil derivative trading | (11) | (21) |
| Gain (loss) from coal derivative trading | <u>(1)</u> | <u>430</u> |
| Total gains and losses from commodity derivative trading | <u><u>44,262</u></u> | <u><u>(4,449)</u></u> |

24. Purchase of Electricity, Gas and Other Energies

The overview of cost for the purchase of electricity, gas and other energies at December 31, 2022 and 2021 is as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---|-----------------|-----------------|
| Purchase of electricity for resale | (62,135) | (36,411) |
| Purchase of gas for resale | (21,671) | (9,175) |
| Purchase of other energies | (1,692) | (1,387) |
| Total purchase of electricity, gas and other energies | <u>(85,498)</u> | <u>(46,973)</u> |

25. Fuel and Emission Rights

The overview of fuel cost and emission rights for production as at December 31, 2022 and 2021 was as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---|-----------------|-----------------|
| Emission rights for generation | (14,804) | (5,993) |
| Consumption of gas | (12,697) | (4,914) |
| Consumption of fossil energy fuel and biomass | (6,184) | (5,332) |
| Amortization of nuclear fuel | (3,980) | (4,080) |
| Total fuel and emission rights | <u>(37,665)</u> | <u>(20,319)</u> |

26. Services

The overview of services as at December 31, 2022 and 2021 was as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---|-----------------|-----------------|
| Repairs and maintenance | (4,886) | (4,336) |
| Technology and operation support services | (1,172) | (1,166) |
| IT related services | (1,025) | (969) |
| Rental, property management and security | (799) | (725) |
| Equipment operation services | (406) | (501) |
| Other services | (2,802) | (2,409) |
| Total services | <u>(11,090)</u> | <u>(10,106)</u> |

Information about fees charged by independent auditor is provided in the annual report of CEZ Group.

27. Salaries and Wages

The overview of salaries and wages for the years ended December 31, 2022 and 2021 was as follows (in CZK millions):

| | 2022 | | 2021 | |
|--|-----------------|------------------------------|----------------|------------------------------|
| | Total | Key management ¹⁾ | Total | Key management ¹⁾ |
| Salaries and wages including remuneration of board members | (7,878) | (137) | (5,803) | (136) |
| Social and health security | (2,218) | (22) | (1,798) | (30) |
| Other personal expenses | (598) | (13) | (817) | (13) |
| Total | (10,694) | (172) | (8,418) | (179) |

¹⁾ Members of Supervisory Board and Board of Directors of the Company. The remuneration of former members of key management is also included in personal expenses.

The individual components of the remuneration of the members of the Board of Directors and Supervisory Board are described in the Remuneration Policy of ČEZ, a. s. The Remuneration Policy was approved by the Company's General Meeting on June 29, 2020.

Members of the Board of Directors and selected managers are in the new long-term bonus program since January 1, 2020. The program of long-term performance bonus is based on performance units that will be allocated to each beneficiary every year. The number of performance units allocated is based on the defined yearly value of a given long-term bonus and the price of share before the allocation. The Supervisory Board sets out the performance indicators for each year's allocation of the performance units. The defined performance indicators will be evaluated by the Supervisory Board and number of performance units allocated to a beneficiary will be adjusted accordingly. Then a two-year holding period will follow. The long-term performance bonus will be paid three years after the initial allocation, and the amount will be based on the adjusted number of performance units as well as on the share price at the end of the holding period and the amount of dividends distributed during the holding period.

Cost of cash-settled share-based payments related to the long-term performance bonus program for 2022 and 2021 was CZK 37 million and CZK 72 million, respectively. Liabilities from payments tied to shares as at 31 December 2022 and 2021 amounted to CZK 109 million and CZK 72 million, respectively.

The following table shows changes during 2022 and 2021 in the number of granted share options connected to the terminated option share program and the weighted average exercise price of these options:

| | Number of share options | | | Weighted average exercise price (CZK per share) |
|--|-------------------------|------------------------|------------|---|
| | Board of Directors 000s | Selected managers 000s | Total 000s | |
| Share options at January 1, 2021 | 1,099 | 322 | 1,421 | 524.90 |
| Options exercised ¹⁾ | (1,051) | (207) | (1,258) | 524.95 |
| Options forfeited | - | (45) | (45) | 495.46 |
| Share options at December 31, 2021 ²⁾ | 48 | 70 | 118 | 535.53 |
| Options exercised ¹⁾ | (48) | (31) | (79) | 528.19 |
| Options forfeited | - | (39) | (39) | 550.10 |
| Share options at December 31, 2022 | - | - | - | |

¹⁾ In 2022 and 2021, the weighted average share price at the date of the exercise for the options exercised was CZK 984.11 and CZK 621.63, respectively.

²⁾ On December 31, 2021, the number of exercisable options was 118 thousand and the weighted average exercise price of the exercisable options was CZK 535.53 per share.

28. Other Operating Expenses

Other operating expenses as at December 31, 2022 and 2021 were as follows (in CZK millions):

| | 2022 | 2021 |
|---|----------------|----------------|
| Change in provisions | 1,470 | 1,574 |
| Taxes and fees | (2,081) | (2,078) |
| Levy on revenues above price caps | (1,559) | - |
| Costs related to trading of commodities | (522) | (482) |
| Insurance | (468) | (488) |
| Gifts | (143) | (107) |
| Other | (732) | (841) |
| Total | <u>(4,035)</u> | <u>(2,422)</u> |

The taxes and fees include payment the contributions to the nuclear account (see Note 17.1). The settlement of the provision for long-term spent fuel storage is accounted for in the amount of contributions to nuclear account. Settlement of provision for long-term spent fuel storage is included in Change in provisions.

29. Interest Income

Interest income for each category of financial instruments for the years ended December 31, 2022 and 2021 was as follows (in CZK millions):

| | 2022 | 2021 |
|--|--------------|--------------|
| CEZ Group cashpooling | 483 | 228 |
| Loans, receivables and other debt financial assets at amortized cost | 1,380 | 1,005 |
| Debt financial assets at fair value through other comprehensive income | 531 | 193 |
| Finance lease | 3 | 2 |
| Bank accounts | 2,601 | 49 |
| Total | <u>4,998</u> | <u>1,477</u> |

30. Impairment of Financial Assets

Additions and reversals of impairment of financial assets for each category for the years ended December 31, 2022 and 2021 were as follows (in CZK millions):

| | 2022 | 2021 |
|---|--------------|-----------------|
| Shares in subsidiaries, associates and joint-ventures (see Note 5) | | |
| Additions | (5,934) | (12,697) |
| Reversals | 5,033 | 479 |
| Additions – shares in subsidiaries classified as assets held for sale | - | 14 |
| Loans granted | 16 | 8 |
| Financial guarantee for Akcez group loans | 329 | (616) |
| Other | (6) | (4) |
| Total | <u>(562)</u> | <u>(12,816)</u> |

The Company is a guarantor for the liabilities of companies within the joint-venture Akcez Enerji Yatirimlari Sanayi ve Ticaret A.Ş. in the amount of USD 67.4 million and TRY 44.9 million as at December 31, 2022. Based on calculation of recoverable amount from future cash flows, a provision in the amount of CZK 1,578 million and CZK 1,907 million was recognized as at December 31, 2022 and 2021, respectively.

31. Other Financial Expenses

Other financial expenses for the years ended December 31, 2022 and 2021 were as follows (in CZK millions):

| | 2022 | 2021 |
|---|----------------|--------------|
| Foreign exchange rate loss | (4,180) | - |
| Loss on sale of restricted debt instruments | (159) | - |
| Loss on sale of debt financial assets | - | (4) |
| Loss from revaluation of financial assets | (109) | (10) |
| Creation and settlement of provisions | (31) | (19) |
| Bond buyback costs | - | (254) |
| Other | (116) | (100) |
| Total | (4,595) | (387) |

32. Other Financial Income

Other financial income as at December 31, 2022 and 2021 was as follows (in CZK millions):

| | 2022 | 2021 |
|--|---------------|---------------|
| Dividends received (see Note 5) | 7,446 | 7,610 |
| Gain on disposal of subsidiaries: | | |
| Shares in Bulgarian companies | - | 2,065 |
| Shares in Romanian companies | - | 5 |
| Other | - | 12 |
| Interest related to the refunded overpayment of gift tax on emission rights | - | 1,499 |
| Foreign exchange rate gain | - | 923 |
| Gain on revaluation of financial assets | 611 | 679 |
| Gain on sale of restricted debt financial assets | - | 160 |
| Gain on sale of debt instruments | 14 | - |
| Derivative gains | 3,434 | 872 |
| Other | 160 | 29 |
| Total | 11,665 | 13,854 |

33. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2022 and 2021.

Pursuant to Act No. 366/2022 Coll. the Company's taxable income is further burdened with an increased tax rate of 60%, so-called windfall tax, starting on January 1, 2023 and lasting until December 31, 2025. It is a component of corporate income tax.

The tax base for windfall tax is the difference between the comparative tax base and the average of the comparative tax bases from years 2018–2021 increased by 20%. The Company plans to use the legal ability to move tax bases within the group of companies with windfall profits.

This increased tax rate affects the calculation of deferred income tax. Tax rates for calculating deferred tax in individual years were calculated as a share of the sum of corporate income tax and windfall tax, where the denominator is the total (compared) tax base.

The estimated effective income tax rates for the calculation of deferred tax in the future years are as follows:

| | |
|---------------------|-----|
| 2023 | 69% |
| 2024 | 74% |
| 2025 | 74% |
| 2026 and thereafter | 19% |

The Company's management believes that the tax expense was recognized in the financial statements in an appropriate amount. However, it cannot be ruled out that the relevant tax authorities may take a different view on issues allowing for different interpretations of the law, which could have an impact on the reported income.

The components of the income tax provision were as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---------------------------|------------------------|-----------------------|
| Current income tax charge | (16,162) | (2,044) |
| Deferred income taxes | <u>2,303</u> | <u>723</u> |
| Total | <u><u>(13,859)</u></u> | <u><u>(1,321)</u></u> |

The following table summarizes the differences between the income tax expense and accounting profit before taxes multiplied by the applicable tax rate (in CZK millions):

| | 2022 | 2021 |
|--|----------|---------|
| Income before income taxes | 77,681 | 5,728 |
| Statutory income tax rate | 19% | 19% |
| “Expected” income tax expense | (14,759) | (1,088) |
| Adjustments: | | |
| Non-tax-deductible allowances, net | (169) | (2,257) |
| Non-tax gains/losses associated with changes in shareholding interest | - | 396 |
| Non-taxable income from dividends | 1,415 | 1,446 |
| Reversal (creation) of non-tax-deductible provision | 62 | (117) |
| Tax incentives, tax discounts | 1 | 1 |
| Interest related to the refunded overpayment of gift tax on emission rights | - | 285 |
| Impact of different tax rate for calculation of deferred tax | (572) | - |
| Difference between financial statement value and tax value of net book value of fixed assets | (29) | - |
| Other non-tax-deductible items, net | 192 | 13 |
| Income tax | (13,859) | (1,321) |
| Effective tax rate | 18% | 23% |

Deferred income tax assets, net at December 31, 2022 and 2021 was calculated as follows (in CZK millions):

| | 2022 | 2021 |
|--|----------|----------|
| Nuclear provisions | 23,266 | 15,453 |
| Other provisions | 14,378 | 2,509 |
| Allowances | 286 | 120 |
| Revaluation of financial instruments | 55,072 | 16,333 |
| Lease liabilities | 194 | 190 |
| Other temporary differences | 6,590 | 360 |
| Total deferred tax assets | 99,786 | 34,965 |
| Difference between financial statement value and tax value of net book value of fixed assets | (41,227) | (26,499) |
| Revaluation of financial instruments | - | (129) |
| Right-of-use assets | (145) | (158) |
| Investment in finance lease - lessor | (51) | - |
| Emission rights | (10,373) | (1,293) |
| Other temporary differences | (105) | (43) |
| Total deferred tax liability | (51,901) | (28,122) |
| Total deferred tax assets, net | 47,885 | 6,843 |

Movements in deferred tax assets, net in 2022 and 2021 were as follows (in CZK millions):

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|---------------------|
| Balance at January 1 | 6,843 | (8,235) |
| Merger | - | (150) |
| Deferred tax recognized in profit or loss | 2,303 | 723 |
| Deferred tax recognized in other comprehensive income | <u>38,739</u> | <u>14,505</u> |
| Balance at December 31 | <u><u>47,885</u></u> | <u><u>6,843</u></u> |

Tax impact related to individual items of other comprehensive income was as follows (in CZK millions):

| | <u>2022</u> | | | <u>2021</u> | | |
|--|--------------------------|----------------------|--------------------------|--------------------------|----------------------|--------------------------|
| | <u>Before tax amount</u> | <u>Tax effect</u> | <u>Net of tax amount</u> | <u>Before tax amount</u> | <u>Tax effect</u> | <u>Net of tax amount</u> |
| Change in fair value of cash flow hedges | (82,332) | 55,672 | (26,660) | (85,679) | 16,279 | (69,400) |
| Cash flow hedges reclassified to statement of income | 87,843 | (16,690) | 71,153 | 11,479 | (2,181) | 9,298 |
| Cash flow hedges reclassified to assets | 403 | (77) | 326 | - | - | - |
| Change in fair value of debt instruments | (887) | 239 | (648) | (1,349) | 256 | (1,093) |
| Change in fair value of equity instruments | <u>109</u> | <u>(405)</u> | <u>(296)</u> | <u>(795)</u> | <u>151</u> | <u>(644)</u> |
| Total | <u><u>5,136</u></u> | <u><u>38,739</u></u> | <u><u>43,875</u></u> | <u><u>(76,344)</u></u> | <u><u>14,505</u></u> | <u><u>(61,839)</u></u> |

34. Related Parties

The Company purchases/sells products, goods and services from/to related parties in the ordinary course of business.

The following table shows receivables from related parties and payables to related parties as at December 31, 2022 and 2021 (in CZK million):

| | Receivables | | Payables | |
|--|---------------|---------------|---------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| AirPlus, spol. s r.o. | 42 | 11 | 1 | 2 |
| AZ KLIMA a.s. | 124 | 20 | - | 3 |
| BELECTRIC GmbH | 41 | - | 26 | - |
| CEZ Bulgarian Investments B.V. | - | - | 280 | 511 |
| CEZ Deutschland GmbH | - | - | 108 | 104 |
| CEZ Erneubare Energien Beteiligungs GmbH | 258 | 251 | - | - |
| CEZ Holdings B.V. | 6,514 | 6,666 | 334 | 296 |
| CEZ Hungary Ltd. | 2,393 | 968 | 868 | 291 |
| CEZ Chorzów S.A. | 1,195 | 426 | 222 | 775 |
| CEZ MH B.V. | 157 | 151 | - | - |
| CEZ Polska sp. z o.o. | 5 | 1,574 | 310 | 32 |
| CEZ RES International B.V. | - | - | 545 | 608 |
| CEZ Skawina S.A. | 1,297 | 662 | 90 | 1,586 |
| ČEZ Distribuce, a. s. | 30,014 | 26,750 | 7,758 | 7,143 |
| ČEZ Energetické produkty, s.r.o. | 353 | 498 | 780 | 379 |
| ČEZ Energetické služby, s.r.o. | 215 | 110 | 26 | 34 |
| ČEZ Energo, s.r.o. | 1 | - | 177 | 371 |
| ČEZ ENERGOSEKVIS spol. s r.o. | 262 | 76 | 733 | 391 |
| ČEZ ESCO, a.s. | 1,854 | 96 | 1,661 | 1,485 |
| ČEZ ICT Services, a. s. | 225 | 61 | 212 | 419 |
| ČEZ Bohunice a.s. ¹⁾ | - | - | 149 | 158 |
| ČEZ LDS s.r.o. | - | - | 34 | 48 |
| ČEZ Obnovitelné zdroje, s.r.o. | 23 | 19 | 207 | 312 |
| ČEZ OZ uzavřený investiční fond a.s. | - | - | 3,228 | 863 |
| ČEZ Prodej, a.s. | 26,405 | 7,027 | 33,374 | 13,104 |
| ČEZ Teplárenská, a.s. | 221 | 223 | 844 | 589 |
| Elektrárna Dětmarovice, a.s. | 271 | 1,782 | 2,100 | 2,127 |
| Elektrárna Dukovany II, a. s. | 10 | 11 | 142 | 115 |
| Elevion Group B.V. | 2 | 1,723 | 234 | - |
| Energetické centrum s.r.o. | - | - | 96 | 20 |
| Energotrans, a.s. | 2,635 | 1,931 | 7,154 | 3,946 |
| ENESA a.s. | 213 | 105 | 11 | 20 |
| EP Rožnov, a.s. | - | - | 154 | - |
| HORMEN CE a.s. | 49 | 8 | - | - |
| Inven Capital, SICAV, a.s. | 1 | - | 1,518 | 1,225 |
| LOMY MORINA spol. s r.o. | - | - | 39 | 42 |
| MARTIA a.s. | 200 | 174 | 189 | 177 |
| SD - Kolejová doprava, a.s. | 3 | 1 | 249 | 158 |
| Severočeské doly a.s. | 168 | 73 | 7,967 | 4,491 |
| Solární servis, s.r.o. | 60 | 54 | - | - |
| ŠKODA JS a.s. | 924 | - | 584 | - |
| ŠKODA PRAHA a.s. | 2 | 1 | 61 | 10 |
| Telco Infrastructure, s.r.o. | 1 | 149 | 61 | - |
| Telco Pro Services, a. s. | 28 | 142 | 76 | 29 |
| TENAUR, s.r.o. | 813 | 114 | 3 | 4 |
| ÚJV Řež, a. s. | 20 | 14 | 450 | 354 |
| Ústav aplikované mechaniky Brno, s.r.o. | - | - | 72 | 75 |
| Other | 238 | 86 | 249 | 266 |
| Total | 77,237 | 51,957 | 73,376 | 42,563 |

¹⁾ The company name ČEZ Bohunice a.s. was changed to ČEZ Invest Slovensko, a.s., in January 2023.

The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2022 and 2021 (in CZK millions):

| | Sales to related parties | | Purchases from related parties | |
|---|--------------------------|---------------|--------------------------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S. | - | - | 374 | 67 |
| BELECTRIC GmbH | 110 | - | 113 | - |
| CE Insurance Limited | - | - | 151 | - |
| CEZ Holdings B.V. | 65 | 68 | - | - |
| CEZ Hungary Ltd. | 12,256 | 3,140 | 6,171 | 289 |
| CEZ Chorzów S.A. | 1,171 | 422 | - | - |
| CEZ Polska sp. z o.o. | 4 | 359 | - | 173 |
| CEZ Skawina S.A. | 1,269 | 661 | 2 | 30 |
| CEZ Srbija d.o.o. – u likvidaciji | - | 106 | - | 63 |
| CEZ Trade Bulgaria EAD ¹⁾ | - | 581 | - | 618 |
| CEZ Vanzare S.A. ¹⁾ | - | 236 | - | - |
| ČEZ Distribuce, a. s. | 1,858 | 1,704 | 63 | 119 |
| ČEZ Energetické produkty, s.r.o. | 51 | 51 | 1,583 | 1,081 |
| ČEZ ENERGOSERVIS spol. s r.o. | 54 | 43 | 1,685 | 1,339 |
| ČEZ ESCO, a.s. ²⁾ | 44,598 | 14,904 | 10,306 | 4,804 |
| ČEZ ICT Services, a. s. | 114 | 105 | 1,233 | 1,177 |
| ČEZ Obnovitelné zdroje, s.r.o. | 40 | 38 | 582 | 401 |
| ČEZ Prodej, a.s. ²⁾ | 65,896 | 21,784 | 28,660 | 2,009 |
| ČEZ Teplárenská, a.s. | 1,819 | 1,802 | 52 | 180 |
| Distributie Energie Oltenia S.A. ¹⁾ | - | 184 | - | - |
| Elektrárna Dětmorovice, a.s. | 10,604 | 2,973 | 14,033 | 3,648 |
| Elektrárna Dukovany II, a. s. | 50 | 38 | - | - |
| Energotrans, a.s. | 3,497 | 2,642 | 5,308 | 2,594 |
| LOMY MOŘINA spol. s r.o. | - | - | 291 | 274 |
| MARTIA a.s. | 12 | 10 | 656 | 620 |
| OSC, a.s. | - | - | 148 | 122 |
| Ovidiu Development S.R.L. ¹⁾ | - | - | - | 60 |
| SD - Kolejová doprava, a.s. | 14 | 12 | 323 | 298 |
| Severočeské doly a.s. | 1,505 | 753 | 5,271 | 4,391 |
| ŠKODA JS a.s. | 1 | - | 538 | - |
| ŠKODA PRAHA a.s. | 9 | 12 | 81 | 35 |
| Telco Pro Services, a. s. | 55 | 53 | - | - |
| Tomis Team S.A. ¹⁾ | - | - | - | 118 |
| ÚJV Řež, a. s. | 13 | 11 | 832 | 823 |
| Ústav aplikované mechaniky Brno, s.r.o. | - | - | 109 | 132 |
| VESER, s. r. o. "v likvidácii" | - | 170 | - | 12 |
| Other | 183 | 197 | 149 | 118 |
| Total | 145,248 | 53,059 | 78,714 | 25,595 |

¹⁾ Shares in Romanian and Bulgarian companies were sold in 2021.

²⁾ Due to re-invoicing in the company ČEZ Prodej, a.s., in 2022 and 2021, the relevant part of sales was transferred to the company ČEZ ESCO, a.s., in the amount of CZK 40,940 million and CZK 13,089 million, respectively.

The Company and some of its subsidiaries are included in the cash-pool system. Receivables from subsidiaries related to cashpooling are included in other financial assets, net (see Note 5), payables to subsidiaries related to cashpooling and similar borrowings are included in other financial liabilities (see Note 18).

Information on the remuneration of key management is included in Note 27. Information about guarantees provided is included in Note 16.2.

35. Segment Information

The Company is mainly engaged in the generation of electricity and trade in electricity and other commodities, which is a separate operating segment. Most of the Company's activities take place in the markets of the European Union. The Company did not identify other separate operating segments.

36. Net Income per Share

| | <u>2022</u> | <u>2021</u> |
|--------------------------------------|----------------|----------------|
| Numerator (in CZK millions) | | |
| Basic and diluted: | | |
| Net income | <u>63,822</u> | <u>4,407</u> |
| Denominator (in thousands shares) | | |
| Basic: | | |
| Weighted average shares outstanding | 536,781 | 536,280 |
| Dilutive effect of share options | <u>26</u> | <u>118</u> |
| Diluted: | | |
| Adjusted weighted average shares | <u>536,807</u> | <u>536,398</u> |
| Net income per share (CZK per share) | | |
| Basic | 118.9 | 8.2 |
| Diluted | 118.9 | 8.2 |

37. War in Ukraine

Since February 24, 2022, a military conflict is going on in Ukraine. The Company continuously evaluates the potential impacts, including the consequences of subsequent sanctions imposed on the Russian Federation, and takes adequate measures. The impacts on the Company are significant especially regarding the fundamental effects of the war in Ukraine on the wholesale electricity and natural gas markets, on supplier relations, payments, on macroeconomic developments and on the regulatory measures of states. The biggest challenge was ensuring sufficient liquidity to cover margin calls on the stock exchanges related to the securing of negotiated trades as well as ensuring the supply of nuclear fuel for 2022 and subsequent years, and the need to replace Russian suppliers of maintenance services and of development of generation assets.

The ongoing conflict brings significant uncertainty regarding the future prediction of the Company financial results. The most significant sources of risks and opportunities for the Company business in the future include:

1. High price volatility on the wholesale electricity market, which means a significant increase in liquidity risk.
2. Limitation or cessation of supplies of natural gas transported by gas pipelines from Russia to Europe, which affects the Company mainly through impacts on the electricity market, because the Company does not purchase any gas from Russian entities.
3. Possibility of unpredictable actions by foreign states in relation to contracted capacities, stored supplies and natural gas transport ways from abroad to the Czech Republic.
4. Limitation of economic development in Europe.
5. Influence on political changes consisting in higher regulation or other specific taxation of selected areas of business.
6. Worsen possibilities and availability of ensuring the maintenance of production facilities and supplies of nuclear fuel with regard to the impact of sanctions and measures limiting the supply of services and materials from selected countries and regions.

7. Risk of declining customer payment discipline due to rising commodity prices, despite the existence of price caps on electricity and natural gas for end customers, and due to generally high inflation rate.
8. Risk of an escalation of the military conflict from Ukraine to other countries in Europe, and the associated increase in uncertainty and restrictions on the markets, including the imposition of additional sanctions and measures by the states of the European Union or Russia, which may further limit mutual trade, commodity supplies, transport routes and method of cross-border payments.

The impact of the above-mentioned risks and opportunities on the Company's business in the middle-term cannot be objectively quantified in view of other fundamental factors operating simultaneously (especially the effect of inflation, the effect of the European Green Deal initiative and EU energy sector regulation, political and economic developments in Europe and in the Czech Republic).

38. Commitments and Contingencies

Investment Plans

Capital expenditures for the next five years as at December 31, 2022, are estimated as follows (in CZK billion):

| | |
|-------|---------------------|
| 2023 | 22.2 |
| 2024 | 30.5 |
| 2025 | 38.2 |
| 2026 | 55.3 |
| 2027 | <u>57.9</u> |
| Total | <u><u>204.1</u></u> |

The above-mentioned values do not include planned acquisitions of subsidiaries, associates and joint-ventures.

The Company reviews regularly investment plan and actual construction may vary from the above estimates. At December 31, 2022, significant purchase commitments were outstanding in connection with the investment plan.

Insurance Matters

The Nuclear Energy Act sets limits for liabilities for nuclear damages so that the operator of nuclear installations is liable for up to CZK 8 billion per incident. The Nuclear Energy Act limits the liability for damage caused by other activities (such as transportation) to CZK 2 billion. The Nuclear Energy Act also requires an operator to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 2 billion and up to a minimum of CZK 300 million for other activities (such as transportation). The Company concluded the above-mentioned insurance policies with company Generali Česká pojišťovna a.s. (representing the Czech Nuclear Insurance Pool) and European Liability Insurance for the Nuclear Industry. The Company has obtained all insurance policies with minimal limits as required by the law.

The Company also maintains the insurance policies covering the assets of its coal-fired, hydroelectric, CCGT and nuclear power plants and general third-party liability insurance in connection with main operations of the Company.

39. Events after the Balance Sheet Date

As a result of the merger, the net assets of the defunct company Elektrárna Dětmarovice, a.s., were transferred to ČEZ, a. s., as the successor company on January 1, 2023.

As a result of spin-off by merger as of January 1, 2023, part of the net assets of ČEZ ICT Services, a. s., was transferred to ČEZ, a. s., as the successor company.

During January and February, the Company concluded credit agreements of the Schuldscheindarlehen type (an unsecured loan funded by private investors governed by German law) in the amount of EUR 330 million. This is the second and third part of drawing loans with two to five-year maturities in order to cover liquidity risks associated with potential peaks in requirements for temporary extraordinary increases in margin calls on energy stock exchanges and towards business trading counterparties.

On February 1, 2023, an agreement on the sale and purchase of shares of the company ÚJV Řež, a. s., representing a 17.39% stake in the company's share capital, was signed with the subsidiary ŠKODA JS a.s.

On February 8, 2023, the Company initiated arbitration proceedings against Gazprom Export LLC by filing an arbitration claim. ČEZ, a. s., claims damages in the amount of around CZK 1 billion as a result of a significant reduction in natural gas supplies in 2022 by Gazprom Export LLC.

These separate financial statements have been authorized for issue on March 20, 2023.

Daniel Beneš
chairman of the Board of Directors

Martin Novák
member of the Board of Directors