ČEZ, a. s.

SEPARATE FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2021

(Translation of Separate Financial Statements Originally Issued in Czech)

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2021

In CZK Millions

	Note	2021	2020
ASSETS:			
Plant in service		489,211	474,973
Less accumulated depreciation and impairment		(275,015)	(257,008)
Net plant in service		214,196	217,965
Nuclear fuel, at amortized cost		13,021	13,592
Construction work in progress, net		11,478	10,052
Total property, plant and equipment	3	238,695	241,609
Restricted financial assets, net	4	15,040	15,221
Other non-current financial assets, net	5	147,580	159,180
Intangible assets, net	6	1,047	3,367
Investment properties, net	7	406	-
Deferred tax assets	33	6,843	-
Total other non-current assets		170,916	177,768
Total non-current assets		409,611	419,377
Cash and cash equivalents, net	8	20,804	1,009
Trade receivables, net	9	136,039	58,501
Income tax receivable		-	305
Materials and supplies, net		10,415	7,682
Fossil fuel stocks		200	223
Emission rights	10	14,192	34,323
Other current financial assets, net	5	515,488	76,976
Other current assets, net	11	4,141	2,787
Assets classified as held for sale, net	12	-	31,209
Total current assets		701,279	213,015
Total assets		1,110,890	632,392

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

ČEZ, a. s.
BALANCE SHEET
AS OF DECEMBER 31, 2021

continued

	Note	2021	2020
EQUITY AND LIABILITIES:			
Stated capital		53,799	53,799
Treasury shares		(1,423)	(2,845)
Retained earnings and other reserves		64,052	150,491
Total equity	13	116,428	201,445
Long-term debt, net of current portion	14	89,189	113,929
Provisions	17	97,707	91,125
Other long-term financial liabilities	18	34,173	8,728
Deferred tax liability	33	-	8,235
Total non-current liabilities		221,069	222,017
Short-term loans	19	25,115	800
Current portion of long-term debt	14	14,999	27,514
Trade payables		76,950	63,093
Income tax payable		1,696	-
Provisions	17	11,095	9,096
Other short-term financial liabilities	18	641,849	107,583
Other short-term liabilities	20	1,689	844
Total current liabilities		773,393	208,930
Total equity and liabilities		1,110,890	632,392

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

ČEZ, a. s.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

In CZK Millions

	Note	2021	2020
Sales of electricity, heat and gas		114,896	84,374
Sales of services and other revenues		5,801	4,973
Other operating income		1,318	1,152
Total revenues and other operating income	22	122,015	90,499
Gains and losses from commodity derivative trading	23	(4,449)	6,313
Purchase of electricity, gas and other energies	24	(46,973)	(31,515)
Fuel and emission rights	25	(20,319)	(16,723)
Services	26	(10,106)	(9,462)
Salaries and wages	27	(8,418)	(7,642)
Materials and supplies		(1,867)	(1,646)
Capitalization of expenses to the cost of assets and change in own inventories		120	43
Depreciation and amortization	3, 6, 7	(17,869)	(13,641)
Impairment of property, plant and equipment and intangible assets		(52)	(27)
Impairment of trade and other receivables		(16)	(9)
Other operating expenses	28	(2,422)	(1,697)
Income before other income (expenses) and income taxes		9,644	14,493
Interest on debt, net of capitalized interest		(4,258)	(5,250)
Interest on provisions	17	(1,786)	(1,702)
Interest income	29	1,477	1,297
Impairment of financial assets	30	(12,816)	(5,129)
Other financial expenses	31	(387)	(666)
Other financial income	32	13,854	19,538
Total other income (expenses)		(3,916)	8,088
Income before income taxes		5,728	22,581
Income taxes	33	(1,321)	(1,504)
Net income		4,407	21,077
Net income per share (CZK per share):	36		
Basic		8.2	39.4
Diluted		8.2	39.4

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

ČEZ, a. s.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

In CZK Millions

	Note	2021	2020
Net income		4,407	21,077
Change in fair value of cash flow hedges		(85,679)	(8,198)
Cash flow hedges reclassified to statement of income		11,479	2,916
Change in fair value of debt financial instruments		(1,349)	202
Deferred tax related to other comprehensive income	33	14,354	965
Net other comprehensive income that may be reclassified to statement of income or to assets in subsequent periods		(61,195)	(4,115)
Change in fair value of equity instruments		(795)	(1,050)
Deferred tax related to other comprehensive income	33	151	199
Net other comprehensive income not to be reclassified from equity		(644)	(851)
Total other comprehensive income, net of tax		(61,839)	(4,966)
Total comprehensive income, net of tax		(57,432)	16,111

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, 2021

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, 2020	53,799	(2,885)	(2,867)	277	(156)	155,311	203,479
Net income	-	-	-	-	-	21,077	21,077
Other comprehensive income	-	-	(4,279)	164	(851)	-	(4,966)
Total comprehensive income	-	-	(4,279)	164	(851)	21,077	16,111
Effect of business combination	-	-	-	-	3	-	3
Dividends	-	-	-	-	-	(18,163)	(18,163)
Sale of treasury shares	-	40	-	-	-	(25)	15
Exercised and forfeited share options	-	-	-	-	(14)	14	-
Balance as at December 31, 2020	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	53,799	(1,423)	(67,248)	(652)	(1,687)	133,639	116,428

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

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

In CZK Millions

	Note	2021	2020
OPERATING ACTIVITIES:			
Income before income taxes		5,728	22,581
Adjustments of income before income taxes to cash generated from operations:			
Depreciation and amortization	3, 6, 7	17,869	13,641
Amortization of nuclear fuel	3	4,079	4,168
(Gains) and losses on non-current asset retirements		(2,386)	(5,795)
Foreign exchange rate loss (gain)		(923)	(1,221)
Interest expense, interest income and dividend income		(4,829)	(6,939)
Provisions		2,223	563
Impairment of property, plant and equipment and intangible assets		52	27
Other impairment and other non-cash expenses and income		(25,682)	(5,861)
Changes in assets and liabilities:			
Receivables and contract assets		(81,417)	(4,318)
Materials, supplies and fossil fuel stocks		(2,775)	(1,039)
Receivables and payables from derivatives		23,406	13,092
Other assets		73,712	5,934
Trade payables		18,960	5,172
Other liabilities		830	11
Cash generated from operations		28,847	40,016
Income taxes paid		(23)	(935)
Interest paid, net of capitalized interest		(4,417)	(5,733)
Interest received		1,430	1,250
Dividends received	5, 32	7,605	10,869
Net cash provided by operating activities		33,442	45,467
INVESTING ACTIVITIES:			
Acquisition of subsidiaries, associates and joint-ventures		(5,054)	(4,126)
Proceeds from disposal of subsidiaries, associates and joint-ventures and original investments repayments	12	36,207	719
Additions to non-current assets, including capitalized interest		(11,813)	(8,816)
Proceeds from sale of non-current assets		183	977
Loans made		(491)	(10,309)
Repayment of loans		3,850	2,206
Change in restricted financial assets		(1,013)	(723)
Net cash flow from investing activities		21,869	(20,072)

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

ČEZ, a. s.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

continued

	Note	2021	2020
FINANCING ACTIVITIES:			
Proceeds from borrowings		310,770	157,340
Payments of borrowings		(317,330)	(176,909)
Payments of lease liabilities	21	(178)	(1,378)
Change in payables/receivables from Group cashpooling		(1,183)	10,860
Dividends paid		(27,813)	(18,116)
Sale of treasury shares		660	15
Net cash flow from financing activities		(35,074)	(28,188)
Net effect of currency translation and allowances in cash		(442)	286
Net increase (decrease) in cash and cash equivalents		19,795	(2,507)
Cash and cash equivalents at beginning of period		1,009	3,516
Cash and cash equivalents at end of period	8	20,804	1,009

Supplementary cash flow information:			
Total cash paid for interest		4,707	6,032

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

ČEZ, a. s.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021

CONTENT:

ČEZ, a. s.
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021

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, production and distribution of thermal energy, trade in gas and other commodities. ČEZ is an energy company that generated approximately 58% of electricity produced in Czech Republic in 2021.

The average full-time equivalent number of employees was 5,704 and 5,489 in 2021 and 2020, 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, 2021. The majority shareholder's share in voting rights was 69.9% at the same date.

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.

<u>Explanation Added for Translation into English</u>

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 2021

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, 2021:

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)
In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The application of the reform did not have significant impact to the Company's financial statements.

IFRS 4: Insurance Contracts (Amendment)
The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023. The application of the amendment 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, 2022 or later.

IFRS 17: Insurance Contracts
The standard is effective for annual periods beginning on or after January 1, 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts will replace IFRS 4 Insurance Contracts and establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance, and cash flows of an entity. This standard is not expected to have a material effect on the Company's financial statements.

IFRS 17: Insurance Contracts (Amendment)
The amendment to IFRS 17 is effective, retrospectively, for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendment aims at helping companies implement the standard. In particular, the amendment is designed to reduce costs by simplifying some requirements in the standard, make financial performance easier to explain and ease transition by deferring the effective date of the standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. This amendment is not expected to have a material effect on the Company's financial statements.

IFRS 17: Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendment)
The amendment is effective for annual reporting periods beginning on or after January 1, 2023, with early application. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a “classification overlay”, relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. This amendment has not yet been endorsed by the EU. This amendment is not expected to have a material effect on the Company's financial statements.

Amendment 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 (Amendments)
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 this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. These 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 (Amendment)
The amendment was initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. January 1, 2023, to provide companies with more time to implement any classification changes resulting from the amendment. The amendment aims to promote consistency in applying the requirements by helping companies determine whether, in the balance sheet debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendment affects the presentation of liabilities in the balance sheet and does not change existing requirements around measurement or timing of recognition of any asset, liability, income, or expenses, nor the information that entities disclose about those items. Also, the amendment clarifies the classification requirements for debt which may be settled by the company issuing own equity instruments.

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date after the reporting period. In particular, the Board proposes narrow scope amendment to IAS 1 which effectively reverses the 2020 amendment requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after January 1, 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendment accordingly, such that entities will not be required to change current practice before the proposed amendment comes into effect. This amendment, including ED proposals, has not yet been endorsed by the EU. This amendment is not expected to have a material effect on the Company’s financial statements.

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:

- IAS 16 Property, Plant and Equipment (Amendment) prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment) specifies which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.

- 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.

These amendments have not yet been endorsed by the EU. These amendments are not expected to have a material effect on the Company's financial statements.

IFRS 16 Leases: Covid-19 Related Rent Concessions beyond June 30, 2021 (Amendment)
The amendment applies to annual reporting periods beginning on or after April 1, 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022, provided the other conditions for applying the practical expedient are met. This amendment is not expected 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 the 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. The amendments have not yet been endorsed by the EU. These 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 (Amendment)
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. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendment has not yet been endorsed by the EU. This amendment is 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 (Amendment)
The amendment is effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. 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. The amendment has not yet been endorsed by the EU. This amendment is 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 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 coal-fired 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) and incremental interest rates and lease terms to measure lease liabilities (see Notes 2.23 and 21).

In 2021, there were significant changes in some estimates in connection with the adoption of the accelerated strategy VIZE 2030, 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 coal-fired plants (see Note 2.7), the determination of the provision for demolition and dismantling of coal-fired 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 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 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. In 2020, the expected remaining useful life of the main assets of nuclear power plants was extended by 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 3–19 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 loan 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

Following the application of the IFRS 9 approach, 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 40 million and CZK 45 million at December 31, 2021 and 2020, 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, 2021 and 2020, 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 and future years 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 recognized regardless of when the temporary difference is likely to be reversed. 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 0.3% and 0.4% per annum as at December 31, 2021 and 2020, 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 2.0% and 1.5% as at December 31, 2021 and 2020, 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 Coal-fired Plants

The Company has recognized provision for demolition and dismantling of coal-fired plants (see Note 17.2). The provision was created in 2021 in connection with the deepening of decarbonization targets at the EU level and in connection with the updating of the Company’s strategy and signing up to accelerate the decarbonization of the generation portfolio, including setting a commitment to decommission all coal-fired plants by 2038 at the latest and achieve carbon neutrality by 2050. The provision created correspond 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 (0.4)% per annum as at December 31, 2021, 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 2.0% as at December 31, 2021.

Although the Company has made the best estimate of the amount of provision for demolition and dismantling of coal-fired 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	4–21
Buildings	8–12
Vehicles, machinery and equipment	3–42
Inventory and other tangible assets	10–17

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. 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.

2.25. 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, 2021 and 2020:

	2021	2020
CZK per 1 EUR	24.860	26.245
CZK per 1 USD	21.951	21.387
CZK per 1 PLN	5.408	5.755
CZK per 1 BGN	12.711	13.417
CZK per 1 RON	5.023	5.391
CZK per 100 JPY	19.069	20.747
CZK per 1 TRY	1.631	2.880
CZK per 1 GBP	29.585	29.190
CZK per 100 HUF	6.734	7.211

2.26. 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, 2021 and 2020 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, 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.

	Buildings	Plant and equipment	Land and other	Plant in service total	Nuclear fuel	Construction work in progress	Total
Cost at January 1, 2020	117,209	357,419	1,252	475,880	23,547	9,524	508,951
Additions	76	71	17	164	-	8,233	8,397
Disposals	(5,454)	(759)	(7)	(6,220)	(4,180)	(1,188)	(11,588)
Bring into use	456	2,805	4	3,265	3,173	(6,438)	-
Change in capitalized part of the provision	18	15,400	-	15,418	-	-	15,418
Non-monetary contribution and other	(4,362)	(9,144)	(28)	(13,534)	-	(40)	(13,574)
Cost at December 31, 2020	107,943	365,792	1,238	474,973	22,540	10,091	507,604
Accumulated depreciation and impairment at January 1, 2020	(54,349)	(204,384)	(89)	(258,822)	(9,356)	(1,222)	(269,400)
Depreciation and amortization of nuclear fuel [1)]	(3,611)	(9,895)	(11)	(13,517)	(3,772)	-	(17,289)
Net book value of assets disposed	(3,351)	(43)	-	(3,394)	-	-	(3,394)
Disposals	5,454	759	4	6,217	4,180	1,183	11,580
Non-monetary contribution	3,631	8,877	1	12,509	-	-	12,509
Impairment losses recognized	(1)	-	-	(1)	-	-	(1)
Accumulated depreciation and impairment at December 31, 2020	(52,227)	(204,686)	(95)	(257,008)	(8,948)	(39)	(265,995)
Total property, plant and equipment at December 31, 2020	55,716	161,106	1,143	217,965	13,592	10,052	241,609

1) The amortization of nuclear fuel as at December 31, 2020 also includes the creation of a provision for temporary storage of spent nuclear fuel in the amount of CZK 396 million.

In 2021 and 2020, a composite depreciation rate of Plant in service was 3.7% and 2.8%, respectively.

In 2021 and 2020, capitalized interest costs amounted to CZK 280 million and CZK 273 million, respectively, and the interest capitalization rate was 3.3% and 3.4%, respectively.

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

The Company drew in 2021 and 2020 grants related to the property, plant and equipment in amount CZK 41 million and CZK 411 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 of 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

The following table shows selected information as of December 31, 2020 and for the year ended 2020, respectively, relating to rights-of-use assets according to the classes of leased tangible fixed assets (in CZK millions):

	2020			
	Buildings	Plant and equipment	Land and other	Total plant in service
Additions of right-of-use assets	76	71	17	164
Depreciation charge for right-of-use assets	(3,389)	(44)	(3)	(3,436)
Carrying amounts as at December 31	813	381	79	1,273

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, 2021	2,148	233	428	2,809
Carrying amount as at December 31, 2020	583	-	278	861

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 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 Czech Republic and its neighboring countries, macroeconomic developments in the region of Central Europe, and energy sector regulation in the EU and Germany (fundamental impacts of the premature decommissioning of nuclear plants in Germany 2022, the EU’s approved climate and energy targets for 2030). 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 wholesale electricity price contracts, are traded in public liquid markets. In addition, there have been structural changes in the electricity market (“Market Design”) and substantial sector regulation, so it is really possible that market mechanisms for electricity pricing will be abandoned completely and alternative, centrally regulated payments for the availability and deliveries of generating facilities will be introduced within the lifetime of generating facilities.

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. These are, 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.

In determining the ČEZ value, estimates of the impacts of covid-19 were taken into account, which in 2021 was considered an indicator of a possible impairment of the Company’s assets. All future cash flows reflect all factors, including covid-19. However, the reliability of the estimate of the long-term effects of the covid-19 on the Company is considerably limited due to the uncertainty of the extent of the effects of the pandemic itself and of countries’ countermeasures on economic growth, unemployment and debt growth in relevant European countries.

The impact of covid-19 alone cannot be reliably quantified, as overall aggregate demand and supply and economies in general are affected by many more important macroeconomic factors, such as world commodity prices, national GDP developments and regulation at EU level.

From the point of view of the medium-term perspective, the negative impact of covid-19 is limited also with regard to the high level of cash flow hedging. As of December 31, 2021, approximately 88% of expected generation for 2022 has been contracted, for 2023 approximately 60% has been contracted and for 2024 approximately 28%. Along with these presales of electricity, the emission rights for emission sources have been contracted.

The impact of the covid-19 in the coming years will depend mainly on the measures taken in individual countries and their impact on the overall development of the economy in Europe.

The 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, 2021.

The test is based on the business plan of ČEZ for 2022–2026 and on the assumptions of long-term development of relevant electricity prices. The business plan was prepared in the fourth quarter of 2021 based on market parameters from October 2021 (electricity prices on the EEX energy exchange in Germany, prices on the PXE energy exchange in 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 the interconnectedness of the German and Czech transmission grids makes them a fundamental market indicator for EE prices in Czech Republic. For the purposes of the sensitivity analysis, the input EE prices, emission rights prices and foreign exchange rates were applied to the relevant opened positions of ČEZ.

The Company did not recognize any impairment losses on generation assets in 2021 and 2020. A change in the assumed EE prices according to models by 1%, while other parameters remain unchanged, has an impact of approximately CZK 10.2 billion on the ČEZ value test result. Future cash flows were discounted at a rate of 4.7%. A change of 0.1 percentage point in the discount factor, while other parameters remain unchanged, would change the ČEZ value by approximately CZK 7.8 billion. A 1% change in the CZK/EUR exchange rate, while other parameters remain unchanged, would result in a change of approximately CZK 9 billion in the ČEZ value. Such changes in ČEZ value would not lead to an impairment.

4. Restricted Financial Assets, Net

The overview of restricted financial assets, net at December 31, 2021 and 2020 was as follows (in CZK millions):

	2021	2020
Czech government bonds	12,922	13,737
Cash in banks, net	2,118	1,484
Total restricted financial assets, net	15,040	15,221

The Czech government bonds are measured at fair value through other comprehensive income. At December 31, 2021 and 2020, the most significant restricted financial assets are the financial assets to cover the costs of nuclear decommissioning totaled CZK 14,826 million and CZK 15,005 million, respectively, and financial assets to cover the costs for waste storage reclamation totaled CZK 160 million and CZK 158 million, respectively.

5. Other Financial Assets, Net

The overview of other financial assets, net at December 31, 2021 and 2020 was as follows (in CZK millions):

	2021			2020		
	Non-current assets	Current assets	Total	Non-current assets	Current assets	Total
Loans granted	25,026	8,418	33,444	26,444	12,332	38,776
Receivables from Group cashpooling	-	5,044	5,044	-	2,085	2,085
Term deposits	-	-	-	-	2,755	2,755
Receivables from the sale of subsidiaries	2,410	-	2,410	2,360	2,415	4,775
Sublease receivables	132	38	170	-	-	-
Other financial receivables	783	38	821	582	66	648
Total financial assets at amortized costs	28,351	13,538	41,889	29,386	19,653	49,039
Equity financial assets (Inven Capital, SICAV, a.s., ČEZ sub-fund)	4,187	-	4,187	2,511	-	2,511
Commodity and other derivatives	240	500,568	500,808	208	57,039	57,247
Total financial assets at fair value through profit or loss	4,427	500,568	504,995	2,719	57,039	59,758
Equity financial assets (Veolia Energie ČR, a.s.)	599	-	599	1,394	-	1,394
Fair value of cash flow hedge derivatives	3,347	883	4,230	2,864	284	3,148
Debt financial assets	-	499	499	-	-	-
Total financial assets at fair value through other comprehensive income	3,946	1,382	5,328	4,258	284	4,542
Financial assets at cost – share on subsidiaries, associates and joint-ventures	110,856	-	110,856	122,817	-	122,817
Total	147,580	515,488	663,068	159,180	76,976	236,156

Derivatives balance comprises mainly positive fair value of commodity trading contracts. The increase of short-term receivables from commodity derivatives in 2021 is mainly due to an increase in the market prices of emission rights, electricity and gas. Related increase of short-term liabilities from commodity derivatives is disclosed in Note 18.

The Company concluded two put option agreements with Vršanská uhelná a.s. in March 2013. Under these contracts, the Company has the right to transfer 100% of the shares of its subsidiary Elektrárna Počerady, a.s., to Vršanská uhelná a.s. First option for the year 2016 was not exercised, second option could be exercised in 2024 for cash consideration of CZK 2 billion. The option agreement could have been inactivated until December 31, 2019, which the Company did not apply. These contracts represented derivatives that would be settled by the delivery of unquoted equity instrument. Elektrárna Počerady, a.s., is not quoted on any market. There was significant variability in the range of reasonable fair values for this equity instrument (there is no similar power plant in the Czech Republic for sale and also no similar transaction has taken place) and thus it was difficult to reasonably assess the probabilities of various estimates. As a result, the fair value could not be reliably measured. Consequently, the put option is measured at cost. No option premium was paid when the contracts were concluded and therefore the cost of these instruments is zero. The second put option expired on the exercise of the sale on December 31, 2020.

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

	2021	2020
Balance at January 1	(20,337)	(34,312)
Additions (see Note 30)	(12,703)	(5,138)
Reversals (see Note 30)	491	3
Derecognition of financial assets	843	2,417
Reclassification	-	(125)
Transfer to assets classified as held for sale	-	16,818
Balance at December 31	(31,706)	(20,337)

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

In 2020, the provision for obligation in case of claim from guarantee for Akcez group loans was reclassified to impairment provision following the cash contribution to the company Akcez Enerji Yatirimlari Sanayi ve Ticaret A.Ş. in the amount of CZK 125 million.

In 2020, an impairment loss of CZK 1,567 million was derecognized in connection with the sale of the share in ŠKODA PRAHA a.s. In addition, an impairment loss of CZK 850 million was derecognized in connection with the decrease in the share capital of the company Elektrárna Dětmarovice, a.s.

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	Other financial receivables
Due in 2022	8,418	5,044	-	38	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	821

The contractual maturity of loans granted and other financial assets, net at December 31, 2020 is shown in the following table (in CZK millions):

	Loans granted	Receivables from Group cashpooling	Term deposits	Receivables from the sale of subsidiaries	Other financial receivables
Due in 2021	12,332	2,085	2,755	2,415	66
Due in 2022	1,418	-	-	11	574
Due in 2023	1,424	-	-	2,349	2
Due in 2024	1,424	-	-	-	2
Due in 2025	1,285	-	-	-	4
Thereafter	20,893	-	-	-	-
Total	38,776	2,085	2,755	4,775	648

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	Subleas receivables	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	-
From 3.00% to 3.99%	17,285	-	-	2	149
Total	33,444	5,044	2,410	170	821

The structure of provided loans and other financial assets, net, according to effective interest rates as at December 31, 2020 is shown the following table (in CZK millions):

	Loans granted	Receivables from Group cashpooling	Term deposits	Receivables from the sale of subsidiaries	Other financial receivables
Less than 2.00%	10,194	2,085	2,755	2,426	648
From 2.00% to 2.99%	11,322	-	-	2,349	-
From 3.00% to 3.99%	17,260	-	-	-	-
Total	38,776	2,085	2,755	4,775	648

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	Subleas receivables	Other financial receivables
CZK	26,489	1,246	2,410	53	800
EUR	6,955	2,088	-	117	21
PLN	-	1,710	-	-	-
Total	33,444	5,044	2,410	170	821

The structure of provided loans and other financial assets, net, by currency as at December 31, 2020 is shown in the following overview (in CZK millions):

	Loans granted	Receivables from Group cashpooling	Term deposits	Receivables from the sale of subsidiaries	Other financial receivables
CZK	27,983	1,537	-	4,770	645
EUR	10,793	355	2,755	5	3
PLN	-	193	-	-	-
Total	38,776	2,085	2,755	4,775	648

The investments in subsidiaries, associates and joint-ventures and other ownership interests at December 31, 2021 and 2020 are shown in the following overview:

Company	Country	% Interest[1)]	2021 Interest, net in CZK millions	2021 Dividends in CZK millions	2020 Interest, net in CZK millions	2020 Dividends in CZK millions
ČEZ Distribuce, a. s.	CZ	100.00	32,742	4,083	32,742	4,345
CEZ Holdings B.V.	NL	100.00	17,844	-	19,955	-
Energotrans, a.s.	CZ	100.00	13,370	-	17,731	810
Severočeské doly a.s.	CZ	100.00	11,770	-	14,343	1,707
ČEZ OZ uzavřený investiční fond a.s.	CZ	99.57	10,942	534	11,816	898
ČEZ ESCO, a.s.	CZ	100.00	7,066	-	6,041	-
ČEZ ICT Services, a. s.	CZ	100.00	4,454	60	3,849	201
ČEZ Bohunice a.s.	CZ	100.00	2,726	-	2,809	-
ČEZ Teplárenská, a.s.	CZ	100.00	2,527	20	2,527	-
Elektrárna Temelín II, a. s.	CZ	100.00	1,986	-	1,989	-
Elektrárna Dukovany II, a. s.	CZ	100.00	1,683	-	1,344	-
ČEZ Prodej, a.s.	CZ	100.00	1,396	2,371	1,396	1,100
CEZ Bulgarian Investments B.V.	NL	100.00	827	-	589	-
CEZ MH B.V.	NL	100.00	251	-	145	-
Energetické centrum s.r.o.	CZ	100.00	250	20	250	25
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	4
CEZ Deutschland GmbH	DE	100.00	119	-	167	-
ČEZ Obnovitelné zdroje, s.r.o.	CZ	100.00	78	-	78	-
CEZ Hungary Ltd.	HU	100.00	61	-	-	-
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	CZ	41.87	55	-	55	-
OSC, a.s.	CZ	93.25	54	-	13	-
ČEZ Korporátní služby, s.r.o. [2)]	CZ	-	-	-	3,931	-
Elektrárna Dětmarovice, a.s.	CZ	100.00	-	-	400	-
Other			89	522	81	1,802
Total financial assets at cost			110,856	7,610	122,817	10,892
Inven Capital, SICAV, a.s., ČEZ sub-fund	CZ	99.81	4,187	-	2,511	-
Veolia Energie ČR, a.s.	CZ	15.00	599	-	1,394	-
Total financial assets at fair value			4,786	-	3,905	-
Total			115,642	7,610	126,722	10,892

1) Equity interest is equal to voting rights as at December 31, 2021.

2) The company ČEZ Korporátní služby, s.r.o., merged with the succession company ČEZ, a. s., with the legal effective date of January 1, 2021.

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 2021 and 2020 were as follows (in CZK millions):

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	5,064
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	(4,807)
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	(12,218)
Net investments at December 31, 2021	110,856

Net investments at January 1, 2020	149,883
Additions – newly acquired companies:	
Ústav aplikované mechaniky Brno, s.r.o.	248
Additions – cash and non-monetary contributions to equity:	
CEZ Holdings B.V.	1,986
ČEZ ESCO, a.s.	1,548
Energotrans, a.s.	1,106
Elektrárna Dukovany II, a. s.	316
Other	275
Total additions	5,479
Decreases – decrease of equity with payment:	
ČEZ OZ uzavřený investiční fond a.s.	(511)
LOMY MOŘINA spol. s r.o.	(36)
Decreases – sale:	
Elektrárna Počerady, a.s.	(1,280)
ŠKODA PRAHA a.s.	(808)
Decreases – non-monetary contribution of the investment in subsidiary:	
ČEZ Asset Holding, a. s.	(9)
Decreases – reclassification to assets held for sale:	
Shares in Romanian companies	(26,514)
CEZ Towarowy Dom Maklerski sp. z o.o.	(41)
Total decreases	(29,199)
Impairment provisions – additions (see Note 30):	
Energotrans, a.s.	(1,361)
Tomis Team S.A.	(756)
Distributie Energie Oltenia S.A.	(537)
Elektrárna Dětmarovice, a.s.	(371)
Other	(196)
Impairment provisions – reclassification:	
Akcez Enerji Yatirimlari Sanayi ve Ticaret A.Ş.	(125)
Total impairment provisions	(3,346)
Net investments at December 31, 2020	122,817

Sale of 100% Share in Subsidiary Elektrárna Počerady in 2020

On October 22, 2020, a share purchase agreement was signed for the sale of 100% share in subsidiary Elektrárna Počerady, a.s., (hereinafter EPC) to the company Vršanská uhelná a.s. The closing date of the transaction was on December 31, 2020 after the prior approval of Office for the Protection of the Competition. At the same time this canceled the previous arrangement for the sale of a 100% share in EPC, which has already been concluded between the parties with the date of realization of January 2, 2024 for a purchase price CZK 2.0 billion. According to the new agreement the initial purchase price amounts to CZK 2.5 billion and is due on November 30, 2023.

The transaction includes an agreement between the parties to terminate the existing contract for the purchase of coal from the company Vršanská uhelná a.s., under which the company ČEZ, a. s., was obliged to purchase 5 million tons of coal per year by the end of 2023, and conclusion of a new contract for the purchase of 5 TWh of electricity per year by ČEZ, a. s., from subsidiary of the Vršanská uhelná group for the period from January 1, 2021 to December 31, 2023 for a fixed price of CZK 700/MWh plus the cost for the emission right required for the supply of 1 MWh of electricity.

The present value of the total contractual transaction price including adjustments to take into account the amount of working capital as at the closing date is CZK 8,861 million. The part of the transaction price attributable to the sale of shares is CZK 7,056 million, the remaining value of CZK 1,805 million corresponds to the fair value of the terminated contract for the purchase of coal and the new contract for the purchase of electricity. Part of the total transaction price in the amount of CZK 4,500 million was settled as of the closing date of the transaction by offsetting part of receivables from the sale and liabilities arising from Group's cashpooling.

In connection with the realization of this transaction, the contracts for the sale of electricity and purchase of emission rights, concluded in the past as cash-flow hedge for EPC operations for years 2021 to 2023 (so-called "own-use" contracts and hedging contracts abroad), were reclassified to derivatives, respectively hedge accounting was terminated, because future sales of electricity from the Company's own generation is no longer probable. The corresponding amounts of the hedge accounting were transferred from the other comprehensive income to the income statement. The current contracts for the supply of coal from the company Vršanská uhelná a.s., (originally an "own-use" contract where the physical delivery for the needs of the Company was assumed, therefore such a contract was not within the scope of IFRS 9) was prematurely terminated by this transaction with financial settlement included in the total transaction price and for this reason the fair value of this contract was recognized in the income statement.

The total impact of the transaction on the income statement is given in the following table (in CZK million):

Statement of income line	Description	Impact in 2020
Gains and losses from commodity derivative trading	Termination of hedging including reclassification of own-use into derivatives	1,274
Gains and losses from commodity derivative trading	Reclassification of a contract for the purchase of coal into derivatives	(1,760)
Income before other income (expenses) and income taxes		(486)
Other financial income	Revenue from sale of shares	7,056
Other financial income	Cost of derecognition from consolidation	(1,280)
Income before income taxes		5,290
Income taxes		435
Net income		5,725

6. Intangible Assets, Net

Intangible assets, net, at December 31, 2021 and 2020 is as follows (in CZK millions):

	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

	Software	Rights and other	Intangibles in progress	Emission rights	Total
Cost at January 1, 2020	2,239	1,260	365	8,332	12,196
Additions	-	459	157	451	1,067
Disposals	(32)	(2)	(25)	-	(59)
Bring to use	53	27	(80)	-	-
Reclassification and other	(12)	(41)	-	(6,524)	(6,577)
Cost at December 31, 2020	2,248	1,703	417	2,259	6,627
Accumulated amortization at January 1, 2020	(2,005)	(1,177)	-	-	(3,182)
Amortization	(106)	(18)	-	-	(124)
Disposals	32	2	-	-	34
Non-monetary contribution	12	-	-	-	12
Accumulated amortization at December 31, 2020	(2,067)	(1,193)	-	-	(3,260)
Net intangible assets at December 31, 2020	181	510	417	2,259	3,367

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 314 million and CZK 320 million in 2021 and 2020, respectively.

7. Investment Properties, Net

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

	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

In December 2021, 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, 2021 is CZK 88 million higher compared to their book value. Therefore, the best estimate of the fair value of investment property is CZK 494 million as at December 31, 2021.

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):

	2021
Rental income from investment properties	53
Direct operating expenses (including repairs and maintenance) related to investment properties generating rental	(34)
Total profit arising from investment properties	19

8. Cash and Cash Equivalents, Net

The overview of cash and cash equivalents, net at December 31, 2021 and 2020 was as follows (in CZK millions):

	2021	2020
Cash on hand and current accounts with banks	20,807	1,009
Allowance	(3)	-
Total	20,804	1,009

At December 31, 2021 and 2020, cash and cash equivalents included balances in foreign currencies in the amount of CZK 20,009 million and CZK 780 million, respectively.

For the years 2021 and 2020, the weighted average interest rate was 0.4% and 0.5%, respectively.

9. Trade Receivables, Net

The overview of trade receivables, net at December 31, 2021 and 2020 was as follows (in CZK millions):

	2021	2020
Trade receivables	136,212	58,657
Allowance	(173)	(156)
Total	136,039	58,501

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

At December 31, 2021 and 2020, the ageing analysis of trade receivables, net was as follows (in CZK millions):

	2021	2020
Not past due	135,987	58,407
Past due:		
less than 3 months	48	79
3–6 months	1	7
6–12 months	3	8
Total	136,039	58,501

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):

	2021	2020
Balance at January 1	(156)	(166)
Additions	(75)	(43)
Reversals	63	39
Derecognition of impaired receivables	-	13
Non-monetary contribution and merger	(7)	3
Currency translation difference	2	(2)
Balance at December 31	(173)	(156)

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 2021 and 2020 (in CZK millions):

	2021		2020	
	in thousands tons	in CZK millions	in thousands tons	in CZK millions
Emission rights for own use:				
Emission rights for own use at January 1	25,867	11,736	47,503	18,650
Emission rights granted	130	-	1,749	-
Settlement with register	(11,482)	(4,586)	(19,568)	(5,155)
Return of part of the grant for 2020	(18)	(7)	-	-
Emission rights purchased	1,812	1,160	8,718	3,211
Emission rights sold	-	-	(8,493)	(2,911)
Emission rights reclassification [1]	-	-	(2,977)	(1,657)
Non-monetary contribution in Energotrans, a.s.	-	-	(1,065)	(402)
Emission rights for own use at December 31	16,309	8,303	25,867	11,736
Thereof:				
Long-term	501	160	4,553	2,259
Short-term	15,808	8,143	21,314	9,477
Emission rights and credits held for trading:				
Emission rights and credits held for trading at January 1	29,069	24,846	22,496	14,008
Emission rights purchased	141,665	178,309	152,835	98,810
Aviation emission rights purchased	479	668	-	-
Emission rights reclassification [1]	-	-	2,977	1,657
Emission rights sold	(168,314)	(246,927)	(149,408)	(102,742)
Emission credits purchased	162	2	231	13
Emission credits sold and disposed	(16)	-	(62)	(12)
Fair value adjustment	-	49,151	-	13,112
Emission rights and credits held for trading at December 31	3,045	6,049	29,069	24,846

[1] The reclassification is related to the sale of the investment in the company Elektrárna Počerady, a.s.

At December 31, 2021 and 2020 emission rights for own use and held for trading amounted to CZK 14,192 million and CZK 34,323 million, respectively and are presented in current assets in the line Emission rights. Non-current emission rights for own use are presented as part of the intangible assets (see Note 6).

In 2021 and 2020, total emissions of greenhouse gases made by the Company amounted to an equivalent of 12,521 thousand tons and 13,081 thousand tons of CO_2, respectively. At December 31, 2021 and 2020, the Company recognized a provision for CO_2 emissions in total amount of CZK 5,448 million and CZK 4,592 million, respectively (see Notes 2.11 and 17). As at October 1, 2020, part of the business unit “Elektrárna Mělník” was invested in equity of Enegotrans, a.s. The business unit part “Elektrárna Mělník” emitted 1,065 thousand tons for the period 1–9/2020, the subject of the non-monetary contribution were the emission rights corresponding to the emitted emissions.

11. Other Current Assets, Net

Other current assets, net at December 31, 2021 and 2020 were as follows (in CZK millions):

	2021	2020
Prepayments	618	457
Taxes and fees, except income tax	929	748
Advances paid	865	995
Accruals	1,729	587
Total	4,141	2,787

12. Assets Classified as Held for Sale, Net

On June 20, 2019, an agreement was signed with Eurohold Bulgaria AD on the sale of shares in the Bulgarian companies CEZ Razpredelenie Bulgaria AD (including its share in CEZ ICT Bulgaria EAD), CEZ Trade Bulgaria EAD, CEZ Bulgaria EAD, CEZ Elektro Bulgaria AD, Free Energy Project Oreshets EAD and Bara Group EOOD. The sellers for CEZ Group are ČEZ, a. s., and CEZ Bulgarian Investments B.V. On October 29, 2020, the Bulgarian anti-trust authority approved the transaction for the sale of Bulgarian assets held for sale to Eurohold Bulgaria AD. The Bulgarian Energy Regulatory Authority approved the transaction on January 19, 2021. On July 27, 2021, a transaction of sale of Bulgarian assets was settled between the Group and Eurohold Bulgaria AD. The sale price for all the Group’s shares in Bulgarian companies in the amount of EUR 335 million was repaid and the Group transferred control of the sold subsidiaries. As part of the transaction, the Group’s outstanding loans provided to the sold Bulgarian companies were transferred.

On October 22, 2020, a share purchase agreement was concluded for the sale of the interests in Romanian companies Distributie Energie Oltenia S.A., CEZ Vanzare S.A., CEZ Romania S.A. (including its interest in TMK Hydroenergy Power S.R.L.), Tomis Team S.A. (including its interest in M.W. Team Invest S.R.L.) and Ovidiu Development S.A. The sellers for CEZ Group are ČEZ, a. s., and CEZ Holdings B.V. On December 23, 2020, the buyer received the approval of the transaction granted by the European anti-trust authorities (Directorate-General for Competition) and on January 5, 2021, the transaction was also approved by the Romanian Supreme Council of National Defence (Consiliul Suprem de Apărare a Ţării). Total selling price for the respective interests in the companies is stated in EUR as of December 31, 2019 (so called “locked-box date”) and it bore interest 2% p. a. The transaction was settled on March 31, 2021. The total sale price for the shares in the Romanian companies was paid in full and the Group transferred control of the sold subsidiaries.

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, 2021 and 2020 (in CZK millions):

	2021	2020
Cash received from sale of shares in Romanian companies	24,641	-
Cash received from sale of shares in Bulgarian companies and from the transffer of loans provided	9,526	-
Cash received from sale of share in company Elektrárna Počerady, a.s. (see Note 5)	672	-
Cash received from other sales	454	142
Repayments of original investments	914	577
Total cash flow	36,207	719

The Company does not report any assets held for sale at December 31, 2021. The assets classified as held for sale, net for the comparable period at December 31, 2020 are as follows (in CZK millions):

	2020
CEZ Razpredelenie Bulgaria AD	6,529
Other Bulgarian companies	11
Shares in Bulgarian companies	6,540
Distributie Energie Oltenia S.A.	10,027
Tomis Team S.A.	8,265
Ovidiu Development S.A.	5,492
CEZ Vanzare S.A.	759
CEZ Romania S.A.	85
Shares in Romanian companies	24,628
Other	41
Assets classified as held for sale	31,209

13. Equity

The Company's stated capital registered in the Commercial Register is CZK 53,798,975,900 as at December 31, 2021 and 2020. 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 2021 and 2020 (in pieces):

	2021	2020
Number of treasury shares at beginning of period	2,516,240	2,551,240
Sales of treasury shares	(1,257,891)	(35,000)
Number of treasury shares at end of period	1,258,349	2,516,240

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

The payment of dividends of CZK 52 and CZK 34 per share, before tax, was approved in 2021 and 2020, respectively. Dividends for 2021 will be approved at the Company's shareholders' meeting that will be held in the first half of 2022.

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):

	2021	2020
Total long-term debt	112,571	150,843
Total short-term loans	25,310	984
Total long-term debt associated with assets held for sale	-	4,683
Total short-term loans associated with assets held for sale	-	37
Total debt	137,881	156,547
Less:		
Cash and cash equivalents	(26,640)	(6,064)
Cash and cash equivalents classified as held for sale	-	(4,105)
Highly liquid financial assets:		
Current debt financial assets	(499)	(111)
Non-current debt financial assets	-	-
Current term deposits	-	(2,755)
Total net debt	110,742	143,512
Income before income taxes and other income (expenses)	16,098	12,585
Depreciation and amortization	31,628	28,284
Impairment of property, plant and equipment and intangible assets	15,799	24,062
Gains and losses on sale of property, plant and equipment	(285)	(148)
EBITDA	63,240	64,783
Total equity attributable to equity holders of the parent	161,098	233,871
Total debt	137,881	156,547
Total capital	298,979	390,418
Net debt to EBITDA ratio	1.75	2.22
Total debt to total capital ratio	46.1%	40.1%

14. Long-term Debt

The overview of long-term debt at December 31, 2021 and 2020 was as follows (in CZK millions):

	2021	2020
3.005% Eurobonds, due 2038 (JPY 12,000 million)	2,302	2,505
2.845% Eurobonds, due 2039 (JPY 8,000 million)	1,536	1,671
5.000% Eurobonds, due 2021 (EUR 541 million) [1)]	-	19,872
4.875% Eurobonds, due 2025 (EUR 750 million)	19,263	20,328
2.160% Eurobonds, due in 2023 (JPY 11,500 million)	2,210	2,405
4.600% Eurobonds, due in 2023 (CZK 1,250 million)	1,288	1,288
2.150%*IR CPI Eurobonds, due 2021 (EUR 100 million) [2)]	-	2,688
4.102% Eurobonds, due 2021 (EUR 50 million)	-	1,315
4.375% Eurobonds, due 2042 (EUR 50 million)	1,246	1,314
4.500% Eurobonds, due 2047 (EUR 50 million)	1,243	1,312
4.383% Eurobonds, due 2047 (EUR 80 million)	2,017	2,130
3.000% Eurobonds, due 2028 (EUR 725 million)	18,627	19,713
0.875% Eurobonds, due 2022 (EUR 269 million) [3)]	6,692	13,106
0.875% Eurobonds, due 2026 (EUR 750 million)	18,502	19,499
4.250% U.S. bonds, due 2022 (USD 266 million) [4)]	5,897	6,226
5.625% U.S. bonds, due 2042 (USD 300 million)	6,621	6,448
4.500% Registered bonds, due 2030 (EUR 40 million)	987	1,040
4.750% Registered bonds, due 2023 (EUR 40 million)	1,036	1,092
4.700% Registered bonds, due 2032 (EUR 40 million)	1,026	1,083
4.270% Registered bonds, due 2047 (EUR 61 million)	1,500	1,583
3.550% Registered bonds, due 2038 (EUR 30 million)	764	806
Total bonds and debentures	92,757	127,424
Less: Current portion	(13,911)	(25,339)
Bonds and debentures, net of current portion	78,846	102,085
Long-term bank loans and lease liabilities:		
Less than 2% p. a.	10,600	13,383
2.00 to 2.99% p. a.	748	409
3.00 to 3.99% p. a.	59	174
4.00 to 4.99% p. a.	24	42
5.00 to 5.99% p. a.	-	11
Total long-term bank loans and lease liabilities	11,431	14,019
Less: Current portion	(1,088)	(2,175)
Long-term bank loans and lease liabilities, net of current portion	10,343	11,844
Total long-term debt	104,188	141,443
Less: Current portion	(14,999)	(27,514)
Total long-term debt, net of current portion	89,189	113,929

[1)] In April 2021, the original nominal value of the issue (EUR 750 million) was reduced by bond buyback in a nominal value of EUR 209 million. The remaining value of the issue (EUR 541 million) was repaid on the expiration date in October 2021.

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

[3)] 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.

[4)] 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.

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):

	2021	2020
Current portion	14,999	27,514
Between 1 year and 2 years	5,456	20,763
Between 2 and 3 years	1,569	6,109
Between 3 and 4 years	20,104	2,000
Between 4 and 5 years	19,800	21,176
Thereafter	42,260	63,881
Total long-term debt	104,188	141,443

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

	2021		2020	
	Foreign currency	CZK	Foreign currency	CZK
EUR	3,382	84,066	4,582	120,267
USD	570	12,518	593	12,674
JPY	31,722	6,048	31,719	6,581
CZK		1,556		1,921
Total long-term debt		104,188		141,443

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, 2021 and 2020, without considering interest rate hedging (in CZK millions):

	2021	2020
Floating rate long-term debt with interest rate fixed from 3 months to 1 year	4,719	6,693
Fixed rate long-term debt	99,469	134,750
Total long-term debt	104,188	141,443

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 2021 and 2020 (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, 2019	162,727	8,216	99,954	(75,602)	
Less: Liabilities / assets from other than financing activities	-	8,110	67,013	(72,030)	
Liabilities / assets from financing activities at January 1, 2020	162,727	106	32,941	(3,572)	192,202
Cash flows	(20,946)	-	(8,711)	1,454	(28,203)
Additions of leases	164	-	-	-	164
Foreign exchange movement	(1,182)	-	73	-	(1,109)
Changes in fair values	5,106	-	-	-	5,106
Early termination of lease liabilities [1]	(3,277)	-	-	-	(3,277)
Declared dividends	-	-	18,163	-	18,163
Reclassification	-	(55)	55	-	-
Other [2]	(349)	-	(91)	3	(437)
Liabilities / assets from financing at December 31, 2020	142,243	51	42,430	(2,115)	182,609
Liabilities / assets arising from other than financing activities	-	8,677	65,153	(74,861)	
Total amount on balance sheet 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 arising 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 early termination	139	-	-	-	139
Foreign exchange movement	(1,222)	(1)	(185)	-	(1,408)
Changes in fair values	(4,615)	-	-	-	(4,615)
Effect of merger	(211)	9	(594)	-	(796)
Declared dividends	-	-	27,873	-	27,873
Reclassification [3]	-	(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	

1) In 2020, the energy rework contract with the company Elektrárna Počerady, a.s., was terminated (following the signing of an agreement on the sale of investment in the company Elektrárna Počerady, a.s.), which corresponds to a reduction in leasing liabilities in the amount of CZK (3,225) million.

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

3) 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.

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:

<u>Cash, Cash Equivalents and Short-term Investments</u>

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

<u>Securities Held for Trading</u>

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

<u>Non-current Debt and Equity Financial Assets</u>

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.

<u>Short-Term Receivables and Payables</u>

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

<u>Short-Term Borrowings</u>

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

<u>Long-term Debt</u>

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.

<u>Derivatives</u>

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, 2021 and 2020 is as follows (in CZK millions):

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current assets at amortized cost:				
Loans granted	25,026	24,037	26,444	26,941
Receivables from the sale of subsidiaries	2,410	2,410	2,360	2,360
Other financial receivables	915	915	582	582
Non-current assets at fair value through other comprehensive income:				
Restricted debt securities	12,922	12,922	13,737	13,737
Equity financial assets	599	599	1,394	1,394
Non-current assets at fair value through profit or loss:				
Equity financial assets	4,187	4,187	2,511	2,511
Current assets at fair value through other comprehensive income:				
Debt financial assets	499	499	-	-
Current assets at amortized cost:				
Loans granted	8,418	8,418	12,332	12,332
Term deposits	-	-	2,755	2,755
Receivables from the sale of subsidiaries	-	-	2,415	2,415
Other financial receivables	5,120	5,120	2,151	2,151

The overview of carrying amounts and the estimated fair values of financial liabilities (except for derivatives) at December 31, 2021 and 2020 is as follows (in CZK millions):

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	(104,188)	(115,036)	(141,443)	(154,579)
Other long-term financial liabilities	(314)	(314)	(63)	(63)
Short-term loans	(25,115)	(25,115)	(800)	(800)
Other short-term financial liabilities	(36,053)	(36,053)	(34,936)	(34,936)

The overview of carrying amounts and the estimated fair values of derivatives at December 31, 2021 and 2020 is as follows (in CZK millions):

	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash flow hedges:				
Short-term receivables	883	883	284	284
Long-term receivables	3,347	3,347	2,864	2,864
Short-term liabilities	(49,287)	(49,287)	(292)	(292)
Long-term liabilities	(33,253)	(33,253)	(7,776)	(7,776)
Commodity derivatives:				
Short-term receivables	499,982	499,982	56,203	56,203
Short-term liabilities	(556,026)	(556,026)	(71,766)	(71,766)
Other derivatives:				
Short-term receivables	586	586	836	836
Long-term receivables	240	240	208	208
Short-term liabilities	(483)	(483)	(589)	(589)
Long-term liabilities	(606)	(606)	(889)	(889)

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.

There were no transfers between levels of financial instruments measured at fair value in 2021 and 2020.

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 financial assets at fair value through other comprehensive income	499	499	-	-
Equity financial assets at fair value through other comprehensive income	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	-
Term deposits	-	-	-	-
Receivables from the sale of subsidiaries	2,410	-	2,410	-
Other financial receivables	6,035	-	6,035	-
Long-term debt	(115,036)	(98,088)	(16,948)	-
Short-term loans	(25,115)	-	(25,115)	-
Other financial liabilities	(36,367)	-	(36,367)	-

As at December 31, 2020, the fair value hierarchy was the following (in CZK millions):

Assets measured at fair value:

	Total	Level 1	Level 2	Level 3
Commodity derivatives	56,203	3,813	52,390	-
Cash flow hedges	3,148	38	3,110	-
Other derivatives	1,044	-	1,044	-
Restricted debt securities	13,737	13,737	-	-
Equity financial assets at fair value through other comprehensive income	1,394	-	-	1,394
Equity financial assets at fair value through profit or loss	2,511	-	-	2,511

Liabilities measured at fair value:

	Total	Level 1	Level 2	Level 3
Commodity derivatives	(71,766)	(4,116)	(67,650)	-
Cash flow hedges	(8,068)	(1,272)	(6,796)	-
Other derivatives	(1,478)	-	(1,478)	-

Assets and liabilities for which fair value is disclosed:

	Total	Level 1	Level 2	Level 3
Loans granted	39,273	-	39,273	-
Term deposits	2,755	-	2,755	-
Receivables from the sale of subsidiaries	4,775	-	4,775	-
Other financial receivables	2,733	-	2,733	-
Long-term debt	(154,579)	(114,370)	(40,209)	-
Short-term loans	(800)	-	(800)	-
Other financial liabilities	(34,999)	-	(34,999)	-

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, 2021 and 2020 (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, 2020	3,327	2,444	-
Disposals	(961)	-	-
Revaluation	145	(1,050)	-
Balance at December 31, 2020	2,511	1,394	-
Additions	1,000	-	-
Disposals	-	-	(1,604)
Revaluation	676	(795)	4,731
Balance at December 31, 2021	4,187	599	3,127

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, 2021 and 2020 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, 2021 and 2020 was determined using 7 EBITDA multiple, 8 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 fund at Inven Capital, SICAV, a.s. (see Note 5). The fair value of the investment at December 31, 2021 and 2020 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"). 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.

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 of December 31, 2021 and 2020 (in CZK millions):

	2021		2020	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Derivatives	505,038	(639,655)	60,395	(81,312)
Other financial instruments [1]	63,036	(65,965)	47,377	(43,332)
Collaterals paid (received) [2]	28,840	(9,352)	1,919	(2,452)
Gross financial assets / liabilities	596,914	(714,972)	109,691	(127,096)
Assets / liabilities set off under IAS 32	-	-	-	-
Amounts presented in the balance sheet	596,914	(714,972)	109,691	(127,096)
Effect of master netting agreements	(499,644)	499,644	(100,191)	100,191
Net amount after master netting agreements	97,270	(215,328)	9,500	(26,905)

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).

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.

Company's maximum exposure to credit risk to receivables and other financial instruments as at December 31, 2021 and 2020 is the carrying value of each class of financial assets except for financial guarantees.

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.

<u>Liquidity Risks</u>

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.

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

<u>Commodity Risks</u>

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):

	2021	2020
Monthly VaR (95%) – impact of changes in commodity prices	11,320	5,635

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, 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):

	2021	2020
Monthly currency VaR (95% confidence)	437	231

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):

	2021	2020
IR sensitivity* to parallel yield curve shift (+10bp)	1	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):

	2021	2020
Guarantees provided to subsidiaries not recorded on balance sheet	8,059	3,767
Guarantees provided to joint-ventures not recorded on balance sheet	-	959
Total	8,059	4,726

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, 2021 and 2020, the latest deadline for making a warranty claim is October 2053 and December 2030, respectively.

Liquidity Risk

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

Maturity profile of financial liabilities based on contractual undiscounted payments as at December 31, 2020 (in CZK millions):

	Bonds and debentures	Loans	Derivatives [1]	Other financial liabilities	Trade payables	Guarantees issued [2]
Due in 2021	27,892	2,212	543,714	34,937	63,093	5,993
Due in 2022	22,249	1,542	103,314	58	-	-
Due in 2023	7,402	1,458	33,551	7	-	-
Due in 2024	2,587	2,026	104,843	-	-	-
Due in 2025	22,234	1,549	850	-	-	-
Thereafter	74,721	5,444	27,856	-	-	-
Total	157,085	14,231	814,128	35,002	63,093	5,993

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, 2021 and 2020 amounted to CZK 15.2 billion and CZK 35.3 billion, respectively. In addition, in November and December 2021, the Company signed committed loan facility agreements with the European Investment Bank to support financing of the distribution grid renewal and further development program in the Czech Republic up to a total of EUR 400 million, which were not drawn as at December 31, 2021.

16.3. Hedge Accounting

The Company 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 2022–2026. The relevant hedging instruments as at December 31, 2021 and 2020 are the EUR denominated liabilities from the issued Eurobonds and bank loans in the total amount of EUR 3.3 billion and currency forward contracts and swaps. The fair value of these hedging derivatives was CZK (325) million and CZK (896) million at December 31, 2021 and 2020, respectively.

In addition, the Company hedges cash flows arising from highly probable future sales of electricity in Czech Republic, which will occur in 2022–2027. The relevant hedging instrument is futures and forward contracts for electricity sales in Germany. The fair value of these hedging derivatives was CZK (77,985) million and CZK (4,023) million at December 31, 2021 and 2020, respectively. The result of this hedging strategy as at December 31, 2021 is that for 2022 approximately 88% of expected production in the Czech Republic was hedged at an average price EUR 68.3 per MWh, for 2023 approximately 60% production at an average price EUR 61.5 per MWh, for 2024 approximately 28% of expected production at an average price EUR 61.8 per MWh and for 2025 approximately 6% at an average price EUR 64.6 per MWh.

In 2021 and 2020, 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 and in the balance sheet in non-current Intangible assets, net, and Emission rights. CZK 284 million and CZK 371 million was recognized in profit or loss in 2021 and 2020, respectively, due to ineffectiveness of cash flow hedging. In 2021 and 2020, the ineffectiveness was primarily caused by the fact that the hedged future cash flows were no longer highly probable.

17. Provisions

The following is a summary of the provisions at December 31, 2021 and 2020 (in CZK millions):

	2021			2020		
	Long-term	Short-term	Total	Long-term	Short-term	Total
Nuclear provisions	91,102	2,073	93,175	88,928	2,368	91,296
Provision for demolition and dismantling of coal-fired plants	4,014	516	4,530	-	-	-
Provision for waste storage reclamation	497	15	512	480	22	502
Provision for CO_2 emissions (see Note 10)	-	5,448	5,448	-	4,592	4,592
Provision for employee benefits	2,094	149	2,243	1,717	103	1,820
Provision for legal and commercial disputes	-	530	530	-	511	511
Provision for obligation in case of claim from guarantee for Akcez group loans	-	1,907	1,907	-	1,267	1,267
Other provisions	-	457	457	-	233	233
Total	97,707	11,095	108,802	91,125	9,096	100,221

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 costs of decommissioning of these power plants will reach in the amount CZK 26.5 billion and CZK 21.0 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 55 CZK per MWh produced at nuclear power plants. In 2021 and 2020, the payments to the nuclear account amounted to CZK 1,690 million and CZK 1,652 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, 2021 and 2020 (in CZK millions):

	Accumulated provision			
	Nuclear decommis-sioning	Spent fuel storage		Total
		Interim	Long-term	
Balance at January 1, 2020	34,499	8,657	32,237	75,393
Discount accretion and effect of inflation	758	191	709	1,658
Provision charged in profit or loss	-	618	-	618
Effect of change in estimate recognized in profit or loss	-	253	-	253
Effect of change in estimate added to fixed assets	3,344	-	12,056	15,400
Current cash expenditures	-	(374)	(1,652)	(2,026)
Balance at December 31, 2020	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

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 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.

In 2020, 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 due to the update of the expert decommissioning studies for Dukovany Nuclear Power Plant and for Temelín Nuclear Power Plant and change in discount rate and the change in long-term spent fuel storage in connection with the extension of the expected production time of the nuclear power plants by 10 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 Coal-fired Plants, Waste Storage Reclamation and Employee Benefits

The following table shows the movements of the provisions for the years ended December 31, 2021 and 2020 (in CZK millions):

	Accumulated provision		
	Demolition and dismantling of coal-fired plants	Waste storage reclamation	Employee benefits
Balance at January 1, 2020	-	666	1,622
Discount accretion and effect of inflation	-	14	-
Provision charged in profit or loss	-	-	294
Change in estimate added to fixed assets	-	18	-
Non-monetary contribution		(165)	
Current cash expenditures	-	(31)	(96)
Balance at December 31, 2020	-	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

18. Other Financial Liabilities

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

Other financial liabilities at December 31, 2020 were as follows (in CZK millions):

	2020		
	Long-term liabilities	Short-term liabilities	Total
Payables from Group cashpooling	-	34,549	34,549
Other	63	387	450
Financial liabilities at amortized costs	63	34,936	34,999
Cash flow hedge derivatives	7,776	292	8,068
Commodity and other derivatives	889	72,355	73,244
Financial liabilities at fair value	8,665	72,647	81,312
Total	8,728	107,583	116,311

The increase of short-term liabilities from commodity derivatives in 2021 is mainly due to an increase in market price of emission rights, electricity and gas. Related increase of short-term receivables from commodity derivatives is disclosed in Note 5.

19. Short-term Loans

Short-term loans as at December 31, 2021 and 2020 were as follows (in CZK millions):

	2021	2020
Short-term bank loans	25,115	787
Bank overdrafts	-	13
Total	25,115	800

Short-term loans bear interest at variable interest rates. The weighted average interest rate was 0.02% and 0.01% at December 31, 2021 and 2020, respectively. For the years 2021 and 2020, the weighted average interest rate was 0.3% and 0.2%, respectively.

20. Other Short-term Liabilities

Other short-term liabilities as at December 31, 2021 and 2020 were as follows (in CZK millions):

	2021	2020
Taxes and fees, except income tax	1,148	692
Deferred income	234	16
Advances received	307	136
Total	1,689	844

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. The entire production factory was also leased until 2020. Leases of vehicles generally have lease terms between 3–4 years, while buildings and lands between 4–21 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):

	2021	2020
Payments of principal	178	1,378
Payments of interests	22	130
Lease payments not included in valuation of lease liability	47	3,743
Total cash outflow for leases	247	5,251

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

	2021	2020
Expense relating to short-term leases	72	181
Expense relating to low-value assets	1	3
Variable lease payments	47	3,743
Depreciation charge for right-of-use assets	143	1,214
Interest expenses	22	130

The most significant part of variable lease payments in 2020 are costs related with energy rework contract with the company Elektrárna Počerady, a.s.

Next year, the Company expects to pay lease payments that are not included in valuation of lease liability to be similar to the year 2021.

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):

	2021
Up to 1 year	39
Between 1 year and 2 years	39
Between 2 and 3 years	37
Between 3 and 4 years	35
Between 4 and 5 years	5
Thereafter	21
Total undiscounted investment in finance lease	176
Unearned finance income	(6)
Net investment in the lease	170

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

Operating Lease

Rental income recognized by the Company during 2021 and 2020 was CZK 619 million and CZK 109 million, respectively. Investment property rental income are disclosed in the Note 7. In the following years, the Company expects rental income to be similar to the year 2021.

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, 2021 and 2020 is as follows (in CZK millions):

	2021	2020
Sale of electricity, heat and gas:		
Electricity sales – domestic:		
OTE, a.s.	49,836	11,414
ČEZ Prodej, a.s.	28,390	24,281
Slovenské elektrárne, a.s.	5,636	4,098
E.ON Energie, a.s.	4,307	2,792
Entauri trading s.r.o.	2,395	-
Pražská energetika, a.s.	2,284	1,346
innogy Energie, s.r.o.	1,821	1,121
POWER EXCHANGE CENTRAL EUROPE, a.s.	1,654	2,220
Lumius, spol. s r.o.	1,198	671
Pražská plynárenská, a.s.	1,053	409
Veolia Energie ČR, a.s.	944	615
MND a.s.	631	503
Uniper Global Commodities SE	595	485
RWE Supply & Trading GmbH	579	1,085
ALPIQ ENERGY SE	509	894
CARBOUNION BOHEMIA,spol. s r.o.	441	290
ZSE Energia, a.s.	403	1,271
MVM Partner Zrt.	386	15
BOHEMIA ENERGY entity s.r.o.	368	119
Axpo Solutions AG	337	368
EDF Trading Limited	334	771
CENTROPOL ENERGY, a.s.	317	137
SSE CZ, s.r.o.	307	124
Energie ČS, a.s.	269	698
Other customers	5,285	10,323
Total sales of electricity – domestic	110,279	66,050
Sales of electricity – foreign	6,753	12,755
Effect of hedging – presales of electricity (Note 16.3)	(12,926)	(2,396)
Effect of hedging – currency risk hedging (Note 16.3)	1,422	277
Total sales of electricity	105,528	76,686
Sales of gas	7,433	5,610
Sales of heat	1,935	2,078
Total sales of electricity, heat and gas	114,896	84,374
Sale of services and other income:		
Distribution services	50	26
Sales of ancillary and other services	4,923	4,702
Rental income	672	109
Other revenues	156	136
Total sales of services and other revenues	5,801	4,973
Other operating income	1,318	1,152
Total revenues and other operating income	122,015	90,499

Revenues from contracts with customers for the years ended December 31, 2021 and 2020 were CZK 131,529 million and CZK 91,357 million, respectively, and can be linked to the figures in the previous table as follows:

	2021	2020
Sales of electricity, gas and heat	114,896	84,374
Sales of services and other revenues	5,801	4,973
Total revenues	120,697	89,347
Adjustments:		
Effect of hedging – presales of electricity	12,926	2,396
Effect of hedging – currency risk hedging	(1,422)	(277)
Rental income	(672)	(109)
Revenues from contracts with customers	131,529	91,357

23. Gains and Losses from Commodity Derivative Trading

The overview of gains and losses from commodity derivative trading for the years ended December 31, 2021 and 2020 is as follows (in CZK millions):

	2021	2020
Electricity trading:		
Sales – domestic	14,088	14,429
Sales – foreign	254,493	252,266
Purchases – domestic	(15,369)	(10,370)
Purchases – foreign	(296,451)	(246,106)
Purchases and sales of cross-border capacities [1)]	1,604	-
Changes in fair value of derivatives	15,514	(6,558)
Gain (loss) from electricity derivative trading, net	(26,121)	3,661
Other commodity trading:		
Gain from gas derivative trading	8,392	1,092
Gain (loss) from oil derivative trading	(21)	7
Gain (loss) from coal derivative trading	430	(1,894)
Gain from emission rights derivative trading	12,871	3,447
Total gains and losses from commodity derivative trading	(4,449)	6,313

1) Purchases of cross-border capacities were not considered commodity derivatives until June 30, 2021 and were part of the line Purchase of electricity, gas and other energies. Any sales of cross-border capacities were reported on the line Sales of services and other revenues. From July 1, 2021, these contracts are considered as commodity derivatives in accordance with business strategy.

24. Purchase of Electricity, Gas and Other Energies

The overview of cost for the purchase of electricity, gas and other energies at December 31, 2021 and 2020 is as follows (in CZK millions):

	2021	2020
Purchase of electricity for resale	(36,411)	(19,962)
Purchase of gas for resale	(9,175)	(5,595)
Purchase of other energies	(1,387)	(2,231)
Energy rework contract [1)]	-	(3,727)
Total purchase of electricity, gas and other energies	(46,973)	(31,515)

[1)] The year-on-year decrease is due to the sale of Elektrárna Počerady, a.s., in 2020.

25. Fuel and Emission Rights

The overview of fuel cost and emission rights for production as at December 31, 2021 and 2020 was as follows (in CZK millions):

	2021	2020
Fossil fuel and biomass Consumption	(5,332)	(5,400)
Amortization of nuclear fuel	(4,080)	(4,168)
Gas Consumption	(4,914)	(1,904)
Emission rights for production	(5,993)	(5,251)
Total fuel and emission rights	(20,319)	(16,723)

26. Services

The overview of services as at December 31, 2021 and 2020 was as follows (in CZK millions):

	2021	2020
Repairs and maintenance	(4,336)	(3,737)
Technology and operation support services	(1,166)	(1,019)
Rental, property management and security	(725)	(686)
IT related services	(969)	(799)
Equipment operation services	(501)	(731)
Other services	(2,409)	(2,490)
Total services	(10,106)	(9,462)

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, 2021 and 2020 was as follows (in CZK millions):

	2021		2020	
	Total	Key management [1]	Total	Key management [1]
Salaries and wages including remuneration of board members	(5,803)	(136)	(5,328)	(134)
Social and health security	(1,798)	(30)	(1,674)	(21)
Other personal expenses	(817)	(13)	(640)	(15)
Total	(8,418)	(179)	(7,642)	(170)

[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 are described in the Remuneration Policy of ČEZ, a. s., approved by the Company's shareholders' meeting on June 29, 2020.

At December 31, 2021 and 2020, the aggregate number of share options granted to members of Board of Directors and selected managers was 118 thousand and 1,421 thousand, respectively.

Members of the Board of Directors and selected managers were entitled until December 31, 2019 to receive share options based on the conditions stipulated in the share option agreement. Members of the Board of Directors and selected managers were granted certain quantity of share options each year of their tenure according to rules of the share option plan until the share option plan was terminated as of December 31, 2019. The exercise price for the granted options was based on the average quoted market price of the shares on the regulated exchange in the Czech Republic during one-month period preceding the grant date each year.

Beginning on January 1, 2020, the new program of long-term performance bonus has been started, replacing the options program. New options were no longer in 2020 be granted and the existing granted options as at December 31, 2019 in the number of 1,651 thousand were preserved, i.e. after a proportional reduction of the original annual allocations in 2019. 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 stocks 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 stock price at the end of the holding period and the amount of dividends distributed during the holding period.

The following table shows changes during 2021 and 2020 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options			
	Board of Directors 000s	Selected managers 000s	Total 000s	Weighted average exercise price (CZK per share)
Share options at January 1, 2020	1,279	372	1,651	513.02
Options exercised [1]	-	(35)	(35)	421.50
Options forfeited	(180)	(15)	(195)	442.83
Share options at December 31, 2020 [2]	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

1) In 2021 and 2020, the weighted average share price at the date of the exercise for the options exercised was CZK 621.63 and CZK 508.00, respectively.

2) At December 31, 2021 and 2020, the number of exercisable options was 118 thousand and 1,421 thousand, respectively. The weighted average exercise price of the exercisable options was CZK 535.53 per share and CZK 524.90 per share at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, the exercise prices of outstanding options (in thousands pieces) were in the following ranges:

	2021	2020
CZK 400–500 per share	-	310
CZK 500–600 per share	118	1,111
Total	118	1,421

The options granted which were outstanding as at December 31, 2021 and 2020 had an average remaining contractual life of 0.9 years and 1.1 years, respectively.

28. Other Operating Expenses

Other operating expenses as at December 31, 2021 and 2020 were as follows (in CZK millions):

	2021	2020
Change in provisions	1,574	1,965
Taxes and fees	(2,078)	(2,042)
Costs related to trading of commodities	(482)	(460)
Insurance	(488)	(349)
Gifts	(107)	(139)
Other	(841)	(672)
Total	(2,422)	(1,697)

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, 2021 and 2020 was as follows (in CZK millions):

	2021	2020
CEZ Group cashpooling	228	227
Loans, receivables and other debt financial assets at amortized cost	1,005	819
Debt financial assets at fair value through other comprehensive income	193	215
Finance lease	2	-
Bank accounts	49	36
Total	1,477	1,297

30. Impairment of Financial Assets

Additions and reversals of impairment of financial assets for each category for the years ended December 31, 2021 and 2020 were as follows (in CZK millions):

	2021	2020
Shares in subsidiaries, associates and joint-ventures (see Note 5)		
Additions	(12,697)	(3,221)
Reversals	479	-
Additions – shares in subsidiaries classified as assets held for sale	14	(1,886)
Loans granted	8	(21)
Financial guarantee for Akcez group loans	(616)	-
Other	(4)	(1)
Total	(12,816)	(5,129)

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 82.7 million and TRY 55.4 million as of December 31, 2021. Based on calculation of recoverable amount from future cash flows, a provision in the amount of CZK 1,907 million and CZK 1,267 million was recognized as of December 31, 2021 and 2020, respectively.

31. Other Financial Expenses

Other financial expenses for the years ended December 31, 2021 and 2020 were as follows (in CZK millions):

	2021	2020
Foreign exchange rate loss	-	(589)
Loss on sale of debt financial assets	(4)	-
Loss from revaluation of financial assets	(10)	-
Creation and settlement of provisions	(19)	(21)
Bond buyback costs	(254)	-
Other	(100)	(56)
Total	(387)	(666)

32. Other Financial Income

Other financial income as at December 31, 2021 and 2020 was as follows (in CZK millions):

	2021	2020
Dividends received (see Note 5)	7,610	10,892
Gain on disposal of subsidiaries:		
Shares in Bulgarian companies (see Note 12)	2,065	-
Shares in Romanian companies (see Note 12)	5	-
Elektrárna Počerady, a.s. (see Note 5)	-	5,776
Other	12	(10)
Interest related to the refunded overpayment of gift tax on emission rights	1,499	1,463
Foreign exchange rate gain	923	1,221
Gain on revaluation of financial assets	679	145
Gain on sale of debt restricted financial assets	160	15
Derivative gains	872	-
Other	29	36
Total	13,854	19,538

33. Income Taxes

The Company calculated corporate income tax in accordance with the Czech tax regulations at the rate of 19% in 2021 and 2020.

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):

	2021	2020
Current income tax charge	(2,044)	(149)
Deferred income taxes	723	(1,355)
Total	(1,321)	(1,504)

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):

	2021	2020
Income before income taxes	5,728	22,581
Statutory income tax rate	19%	19%
"Expected" income tax expense	(1,088)	(4,290)
Adjustments:		
Non-deductible provisions, net	(2,257)	(975)
Non-tax gains/losses associated with changes in shareholding interest	396	1,473
Non-taxable income from dividends	1,446	2,070
Non-deductible provision	(117)	-
Tax incentives, tax discounts	1	1
Interest related to the refunded overpayment of gift tax on emission rights	285	278
Other non-deductible items, net	13	(61)
Income tax	(1,321)	(1,504)
Effective tax rate	23%	7%

Deferred income tax asset (liability), net at December 31, 2021 and 2020 was calculated as follows (in CZK millions):

	2021	2020
Nuclear provisions	15,453	15,253
Other provisions	2,509	1,361
Allowances	120	213
Revaluation of financial instruments	16,333	1,931
Lease liabilities	190	246
Other temporary differences	360	354
Total deferred tax assets	34,965	19,358
Tax depreciation in excess of financial statement depreciation	(26,499)	(25,408)
Revaluation of financial instruments	(129)	(131)
Right-of-use assets	(158)	(239)
Other temporary differences	(1,336)	(1,815)
Total deferred tax liability	(28,122)	(27,593)
Total deferred tax asset (liability), net	6,843	(8,235)

Movements in net deferred tax asset (liability) in 2021 and 2020 were as follows (in CZK millions):

	2021	2020
Balance at January 1	(8,235)	(8,044)
Merger and contribution of a part of a business	(150)	7
Deferred tax recognized in profit or loss	723	(1,362)
Deferred tax recognized in other comprehensive income	14,505	1,164
Balance at December 31	6,843	(8,235)

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

	2021			2020		
	Before tax amount	Tax effect	Net of tax amount	Before tax amount	Tax effect	Net of tax amount
Change in fair value of cash flow hedges	(85,679)	16,279	(69,400)	(8,198)	1,558	(6,640)
Cash flow hedges reclassified to statement of income	11,479	(2,181)	9,298	2,916	(554)	2,362
Change in fair value of debt instruments	(1,349)	256	(1,093)	202	(39)	163
Change in fair value of equity instruments	(795)	151	(644)	(1,050)	199	(851)
Total	(76,344)	14,505	(61,839)	(6,130)	1,164	(4,966)

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, 2021 and 2020 (in CZK million):

	Receivables		Payables	
	2021	2020	2021	2020
CEZ Bulgarian Investments B.V.	-	-	511	239
CEZ Deutschland GmbH	-	-	104	150
CEZ Erneubare Energien Beteiligung GmbH	251	194	-	-
CEZ ESCO II GmbH	-	60	-	-
CEZ Holdings B.V.	6,666	7,048	296	324
CEZ Hungary Ltd.	968	319	291	45
CEZ Chorzów S.A.	426	424	775	78
CEZ MH B.V.	151	25	-	-
CEZ Polska sp. z o.o.	1,574	108	32	315
CEZ Razpredelenie Bulgaria AD [1)]	-	817	-	-
CEZ RES International B.V.	-	-	608	656
CEZ Romania S.A. [1)]	-	7	-	1,916
CEZ Skawina S.A.	662	292	1,586	75
CEZ Trade Bulgaria EAD [1)]	-	121	-	131
CEZ Vanzare S.A. [1)]	-	71	-	-
ČEZ Bohunice a.s.	-	-	158	171
ČEZ Distribuce, a. s.	26,750	28,037	7,143	10,177
ČEZ Energetické produkty, s.r.o.	498	305	379	320
ČEZ Energetické služby, s.r.o.	110	222	34	1
ČEZ Energo, s.r.o.	-	-	371	94
ČEZ ENERGOSERVIS spol. s r.o.	76	65	391	406
ČEZ ESCO, a.s.	96	96	1,485	1,220
ČEZ ICT Services, a. s.	61	3	419	361
ČEZ Korporátní služby, s.r.o. [2)]	-	-	-	1,789
ČEZ LDS s.r.o.	-	-	48	53
ČEZ Obnovitelné zdroje, s.r.o.	19	13	312	423
ČEZ OZ uzavřený investiční fond a.s.	-	-	863	907
ČEZ Prodej, a.s.	7,027	3,969	13,104	11,912
ČEZ Teplárenská, a.s.	223	173	589	310
Elektrárna Dětmarovice, a.s.	1,782	1,017	2,127	340
Elektrárna Dukovany II, a. s.	11	14	115	38
Elevion GmbH	1	1,930	-	-
Elevion Group B.V.	1,723	100	-	-
Energotrans, a.s.	1,931	1,427	3,946	2,313
ENESA a.s.	105	320	20	22
Inven Capital, SICAV, a.s.	-	-	1,225	706
MARTIA a.s.	174	127	177	102
SD - Kolejová doprava, a.s.	1	1	158	64
Severočeské doly a.s.	73	97	4,491	3,370
Solární servis, s.r.o.	54	61	-	-
Telco Infrastructure, s.r.o.	149	31	-	-
Telco Pro Services, a. s.	142	2	29	52
TENAUR, s.r.o.	114	-	4	38
Tomis Team S.A. [1)]	-	-	-	52
ÚJV Řež, a. s.	14	415	354	321
Ústav aplikované mechaniky Brno, s.r.o.	-	-	75	58
VESER, s. r. o. "v likvidácii" [3)]	-	181	76	20
Other	125	219	267	434
Total	51,957	48,311	42,563	40,003

The following table provides the total amount of transactions (sales and purchases), which were entered into with related parties in 2021 and 2020 (in CZK millions):

	Sales to related parties		Purchases from related parties	
	2021	2020	2021	2020
Akenerji Elektrik Enerjisi Ithalat Ihracat ve Toptan Ticaret A.S.	-	4	67	25
CEZ Holdings B.V.	68	72	-	-
CEZ Hungary Ltd.	3,140	2,051	289	155
CEZ Chorzów S.A.	422	427	-	-
CEZ Polska sp. z o.o.	359	1,075	173	400
CEZ Skawina S.A.	661	292	30	52
CEZ Srbija d.o.o.	106	9	63	13
CEZ Trade Bulgaria EAD 1)	581	892	618	784
CEZ Vanzare S.A. 1)	236	731	-	5
ČEZ Distribuce, a. s.	1,704	1,085	119	59
ČEZ Energetické produkty, s.r.o.	51	34	1,081	1,139
ČEZ ENERGOSERVIS spol. s r.o.	43	28	1,339	1,355
ČEZ ESCO, a.s. 4)	14,904	12,012	4,804	4,418
ČEZ ICT Services, a. s.	105	63	1,177	1,041
ČEZ Korporátní služby, s.r.o. 2)	-	56	-	191
ČEZ Obnovitelné zdroje, s.r.o.	38	16	401	427
ČEZ Prodej, a.s. 4)	21,784	17,829	2,009	765
ČEZ Teplárenská, a.s.	1,802	1,732	180	166
Distributie Energie Oltenia S.A. 1)	184	283	-	-
Elektrárna Dětmarovice, a.s.	2,973	1,077	3,648	1,184
Elektrárna Dukovany II, a. s.	38	106	-	-
Elektrárna Počerady, a.s.	-	5,706	-	4,240
Energotrans, a.s.	2,642	2,336	2,594	1,975
LOMY MOŘINA spol. s r.o.	-	-	274	219
MARTIA a.s.	10	8	620	604
OSC, a.s.	-	-	122	92
Ovidiu Development S.R.L. 1)	-	1	60	252
SD - Kolejová doprava, a.s.	12	11	298	435
Severočeské doly a.s.	753	764	4,391	3,760
ŠKODA PRAHA a.s.	12	14	35	144
Telco Pro Services, a. s.	53	18	-	-
TMK Hydroenergy Power S.R.L.	-	-	15	72
Tomis Team S.A. 1)	-	1	118	383
ÚJV Řež, a. s.	11	1	823	674
Ústav aplikované mechaniky Brno, s.r.o.	-	-	132	104
VESER, s. r. o. "v likvidácii" 3)	170	1,844	12	403
Other	197	192	103	54
Total	53,059	50,770	25,595	25,590

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

2) The company ČEZ Korporátní služby, s.r.o., merged with the succession company ČEZ, a. s., with the legal effective date of January 1, 2021.

3) The name of ČEZ Slovensko, s.r.o., to VESER, s.r.o. “v likvidácii” was changed in 2021.

4) Due to re-invoicing in the company ČEZ Prodej, a.s., in 2021 and 2020, the relevant part of sales was transferred to the company ČEZ ESCO, a.s., in the amount of CZK 13,089 million and CZK 10,875 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. The vast majority of the Company's activities takes place in the markets of the European Union. The Company did not identify other separate operating segments.

36. Net Income per Share

	2021	2020
Numerator (in CZK millions)		
Basic and diluted:		
Net income	4,407	21,077
Denominator (in thousands shares)		
Basic:		
Weighted average shares outstanding	536,280	535,470
Dilutive effect of share options	118	13
Diluted:		
Adjusted weighted average shares	536,398	535,483
Net income per share (CZK per share)		
Basic	8.2	39.4
Diluted	8.2	39.4

37. Commitments and Contingencies

Investment Plans

Capital expenditures for the next five years as at December 31, 2021 are estimated as follows (in CZK billion):

2022	14.5
2023	20.2
2024	28.1
2025	28.0
2026	30.8
Total	121.6

The above 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, 2021 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.

38. Events after the Balance Sheet Date

In connection with the conclusion of an agreement, issue and repurchase of investment shares for the newly created sub-fund on January 3, 2022 with Inven Capital, SICAV, a.s., the issue price of the subscribed investment shares was paid in the amount of CZK 1 billion.

Since February 24, 2022, there has been a military conflict in Ukraine. The Company intensively evaluates the potential impacts, including the effects of the consequent sanctions, that have been imposed on the Russian Federation. The Company does not expect the immediate effects to be significant. In the short term, due to increased volatility in commodity markets, there is an increased liquidity need for so-called margin calls arising from counterparty requirements related to derivative contracts. The impacts on the Company in the medium term will depend on the further development of the conflict in Ukraine, on the specific form and duration of sanctions against the Russian Federation and their consequences for European and Czech energy sector. As the main risks for the Company are considered the potential impacts on securing supplies of nuclear fuel, ensuring the maintenance of generation facilities, securing gas purchases for end customers, and the risk that Russian companies will not be able to fulfill other concluded contracts or make financial settlements according to previously concluded contracts and agreed financial instruments. The Company has the highest credit exposure from the concluded commodity contracts for the purchase of electricity and gas from the company Gazprom Marketing & Trading with the seat in the United Kingdom, when, as at December 31, 2021, the fair value of commodity derivatives for the purchase of electricity was CZK 3,307 million and for the gas purchase was CZK 2,582 million. The Company also has a significant credit exposure from commodity gas contracts from Gazprom Export with the seat in the Russian Federation, when, as at December 31, 2021, the fair value of commodity derivatives for gas purchase was CZK 2,149 million. Up to the approval of these separate financial statements for issue, the obligations of these companies have been fulfilled, as have been the obligations arising from business contracts for the supply of goods and services by the suppliers from Russian Federation.

On March 14, 2022, the Company’s Board of Directors approved a dividend proposal for 2021 in the amount of CZK 44 per share before tax.

These separate financial statements have been authorized for issue on March 14, 2022.

Daniel Beneš	Martin Novák
Chairman of Board of Directors	Member of Board of Directors