



CEZ´S VIRTUAL POWER PLANT AUCTION WITHIN THE FRAMEWORK OF REGIONAL POWER MARKET DEVELOPMENT

Press conference ČEZ, a. s.
Hotel Palace, 25.7.2006

Alan Svoboda, Managing Director Sales and Trading
Michal Skalka, Director Trading



AGENDA

- **Regional power markets development**
 - **Regional power balance development**
 - **Price signal from surrounding countries**

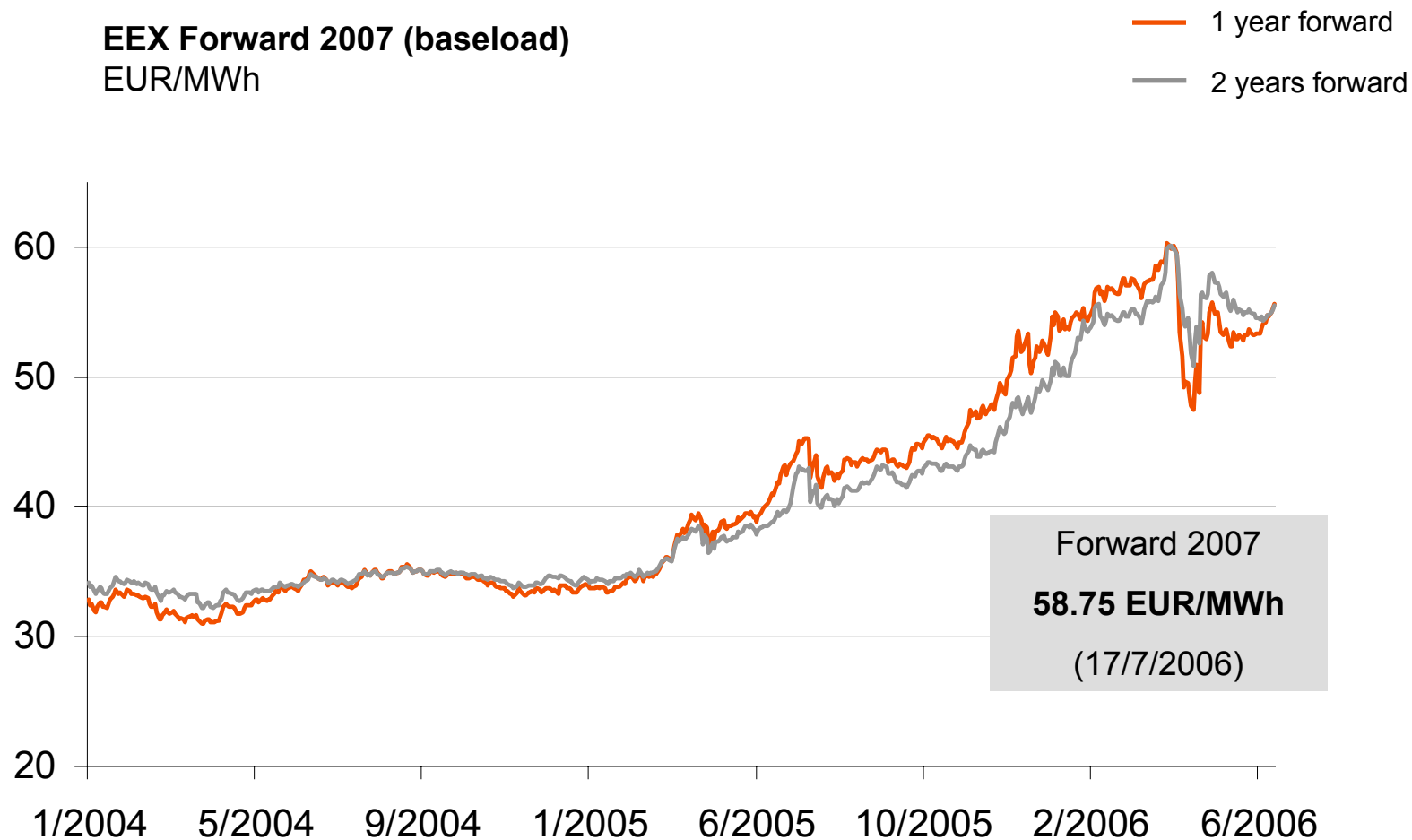
Alan Svoboda

- **Virtual Power Plant auction**
 - **Auctions in surrounding countries**
 - **Virtual Power Plant auction procedure**

Michal Skalka

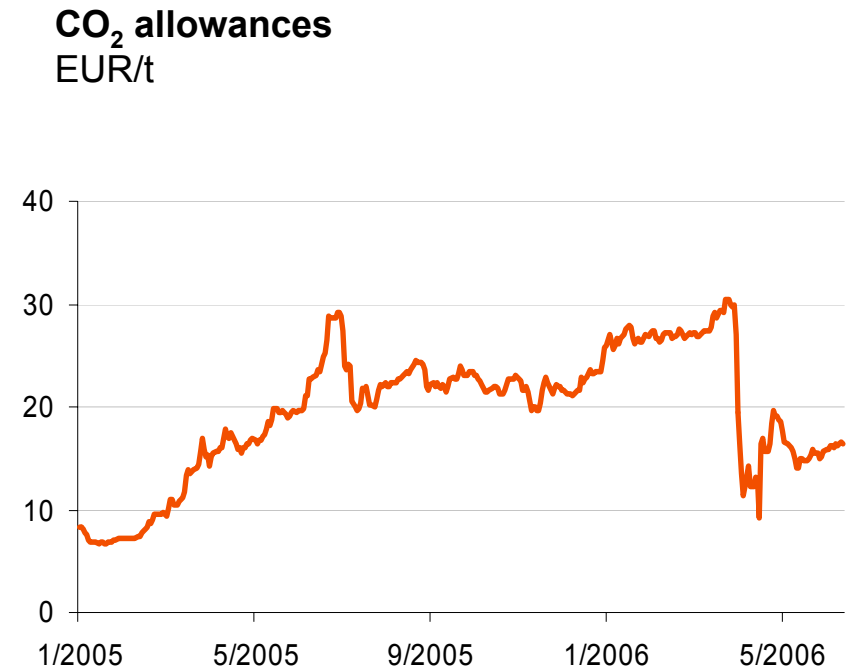
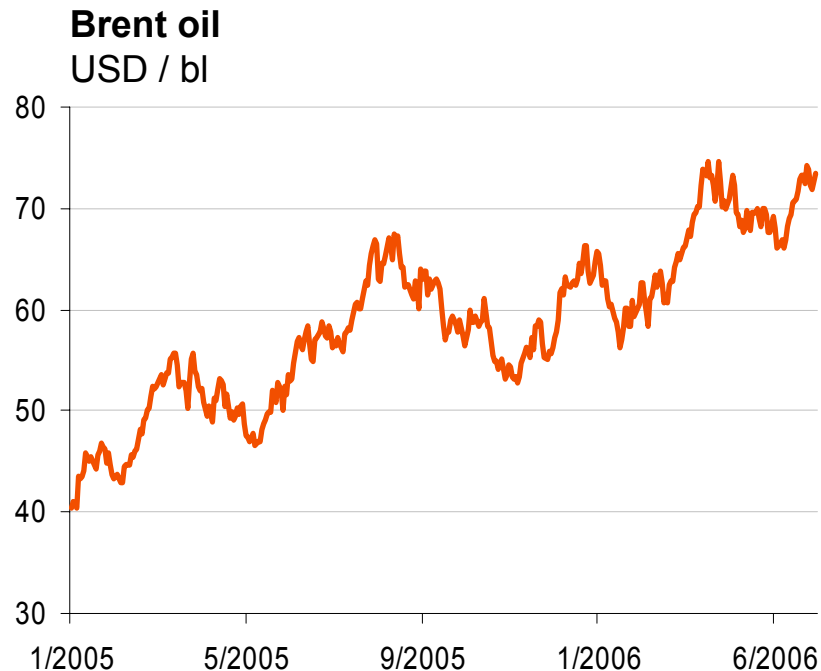


GERMAN POWER PRICES AS BENCHMARK FOR THE REGION CONTINUE INCREASING





GERMAN PRICES ARE DRIVEN BY GROWING OIL PRICES, CO₂ ALLOWANCES AND SUPPLY DEMAND SQUEEZE



Growing supply / demand squeeze

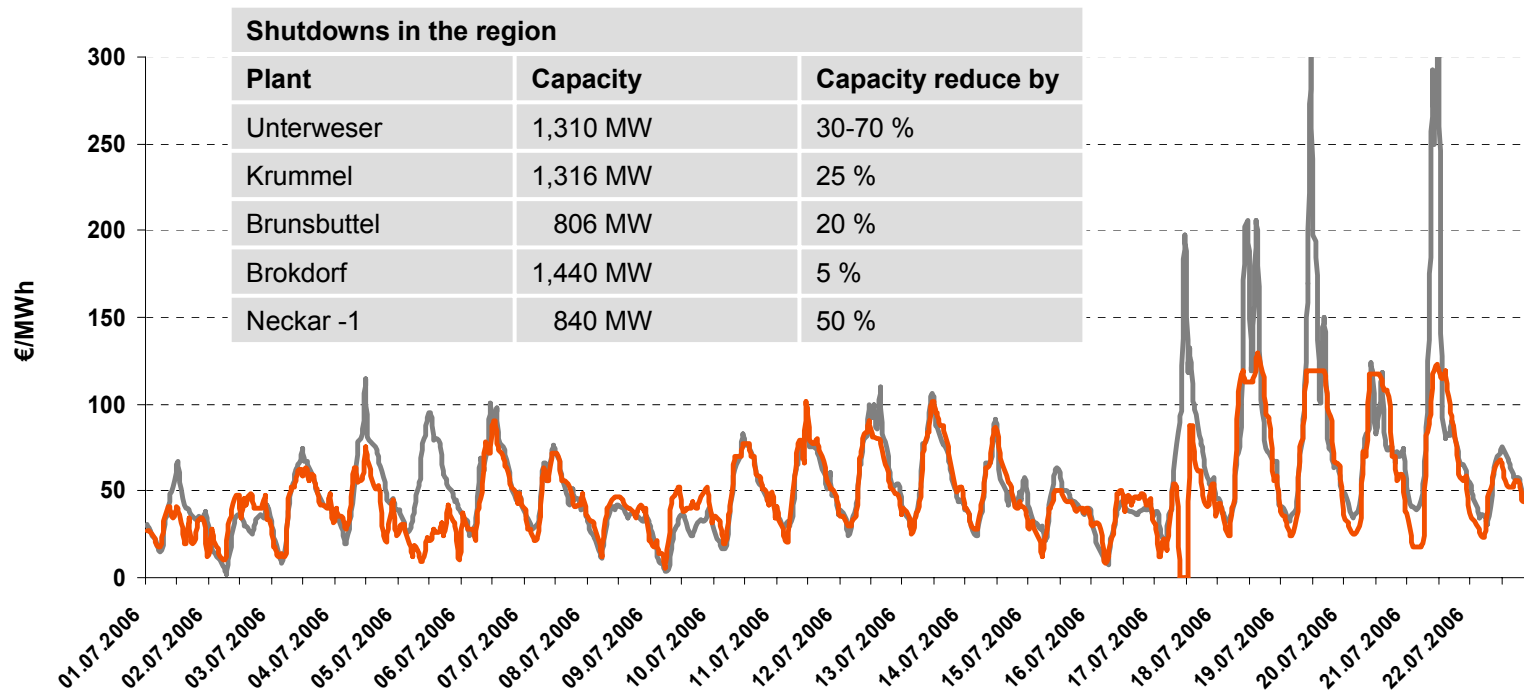
- Summer power blackouts in Europe happen regularly for several years ... Reserves (of power supply) are low. (*HN – Czech Business Daily*)
- Shutdowns of power plants in Germany and France enforced by current high temperatures reached several thousands megawatts installed capacity. (*Platts*)
- Solution to the lack of supply is often import (France – the biggest power exporter – imported approx. 1,000 MW) or initiation of expensive backup units. (*Platts,HN*)



LACK OF POWER IMPACTS THE WHOLE REGION AND SPOT PRICES IN CRITICAL MOMENTS GROW SKY HIGH

EEX and OKO* prices in July 2006
(EUR/MWh, spot)

— OKO
— EEX



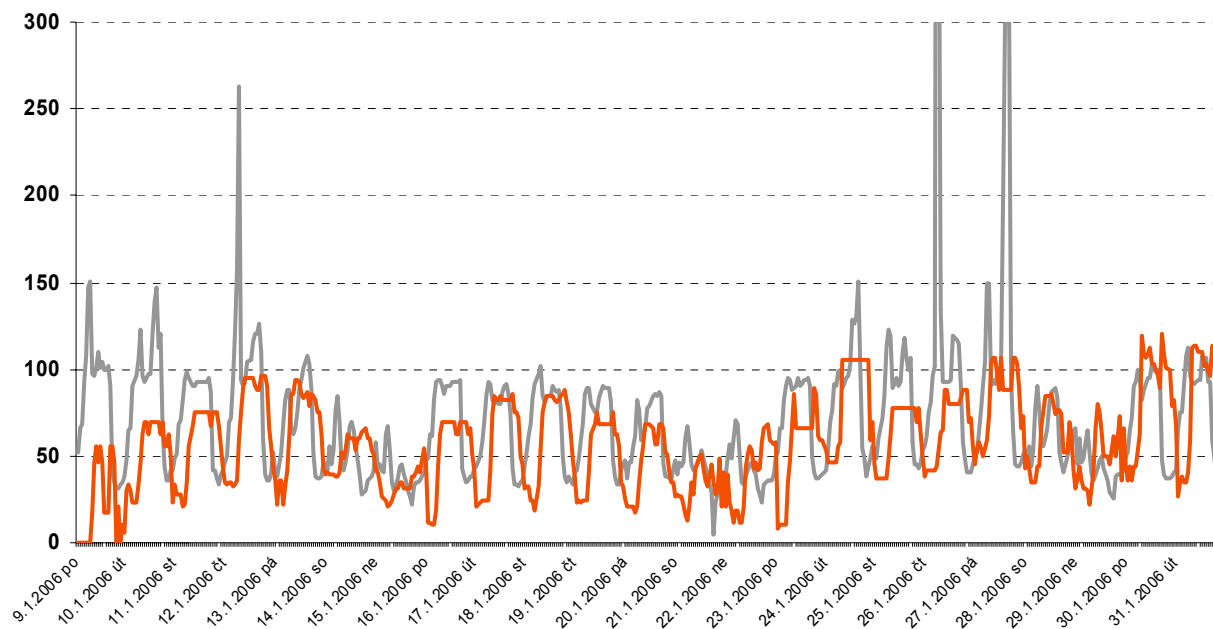
* OKO = Czech Spot Market, organized by OTE



ALSO THE REQUIREMENTS OF GRID STABILITY MANAGEMENT GROW REGARDLESS THE COSTS

EEX and OKO prices in January 2006
(EUR/MWh, spot)

— OKO
— EEX

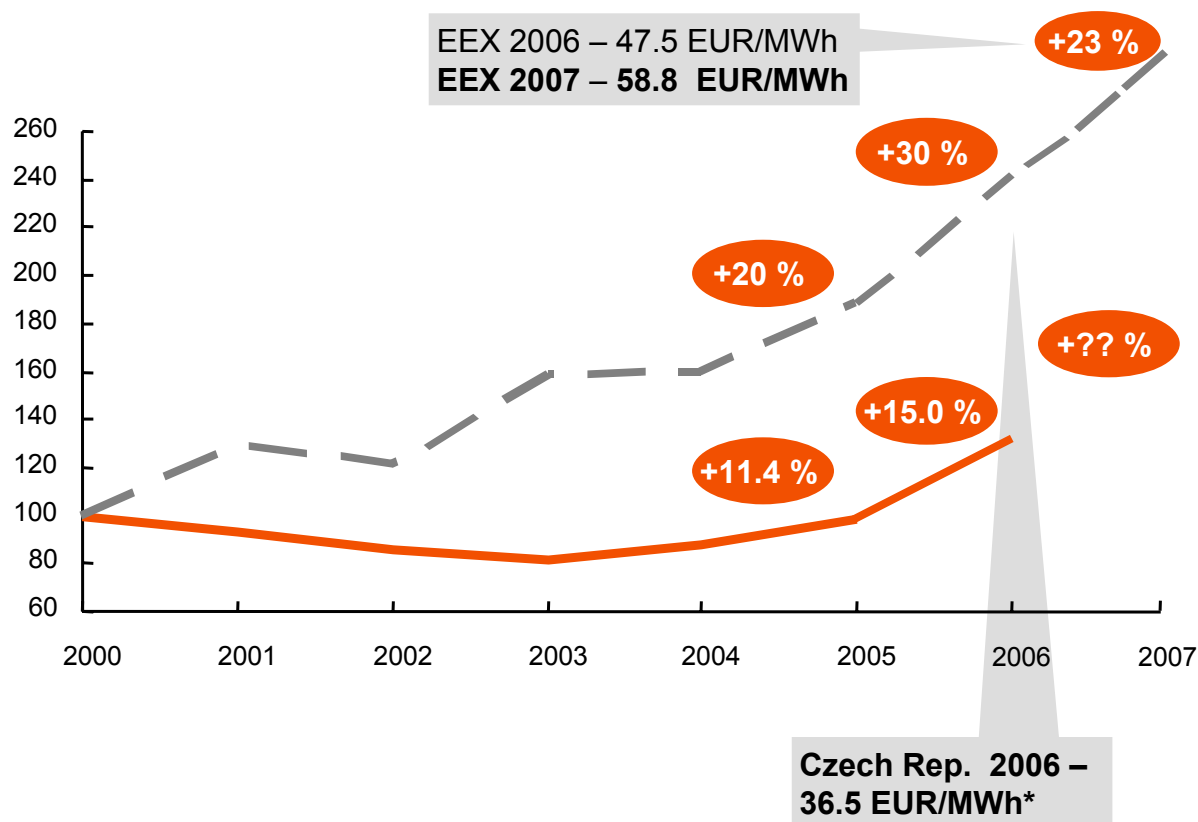


- ČEPS's actions are required more frequently to maintain stability of supplies
- Towards that it must secure enough system tools (reserve capacity)
- Imports at 5,000 to 10 000 CZK/MWh



CZECH WHOLESALE POWER PRICES ARE INFLUENCED BY GROWING SUPPLY / DEMAND SQUEEZE IN THE WHOLE REGION AND PRICES IN GERMANY

Wholesale power prices
2000 index, baseload*



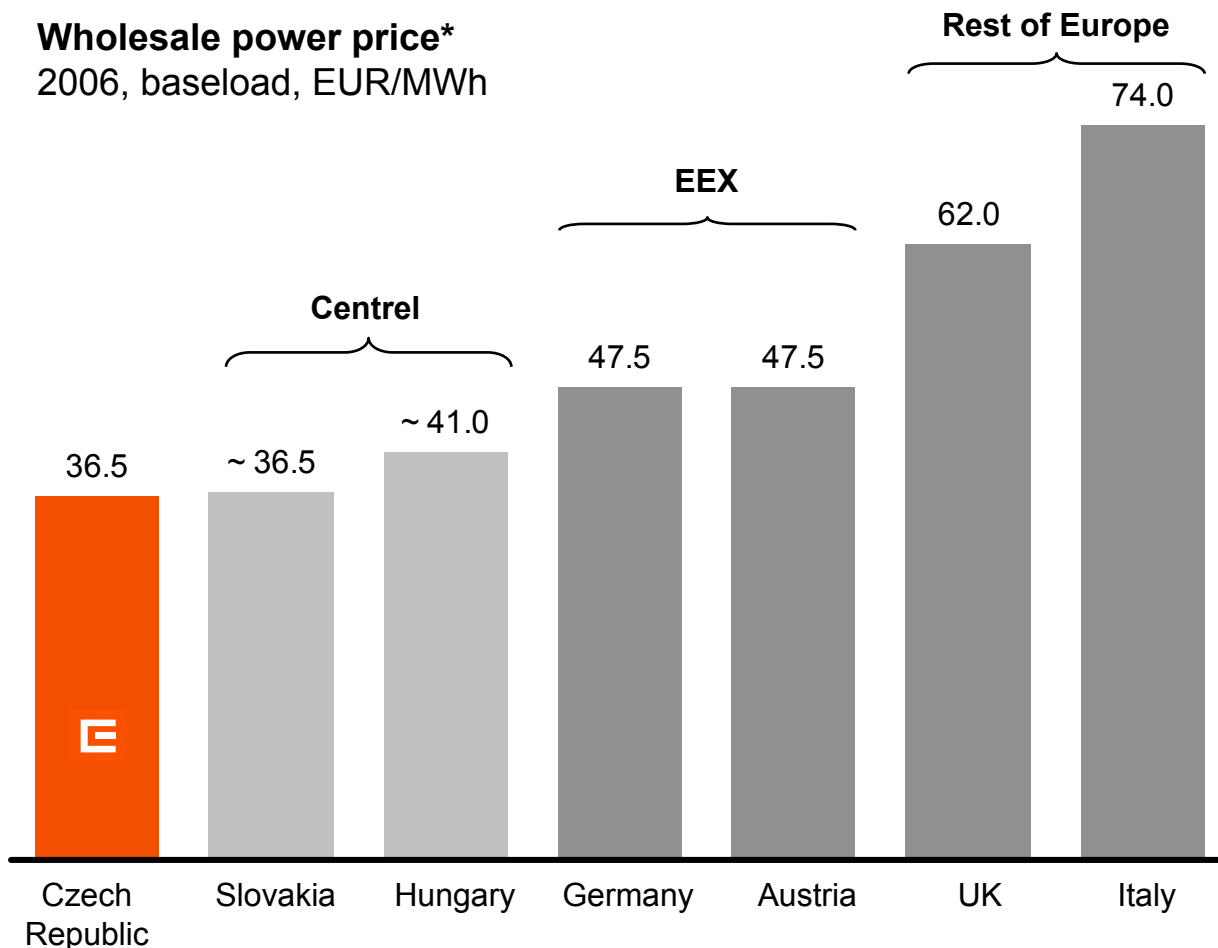
- Speed of convergence is driven by supply / demand development in the region
- Growing price in Germany (due to size of German market) sets the growth trend in the whole region

* Exchange rate: CZK / EUR 28.50



WHOLESALE PRICES IN THE CZECH REPUBLIC ARE STILL AMONG THE LOWEST IN THE REGION THANKS TO UNRESERVED CAPACITY

Wholesale power price*
2006, baseload, EUR/MWh



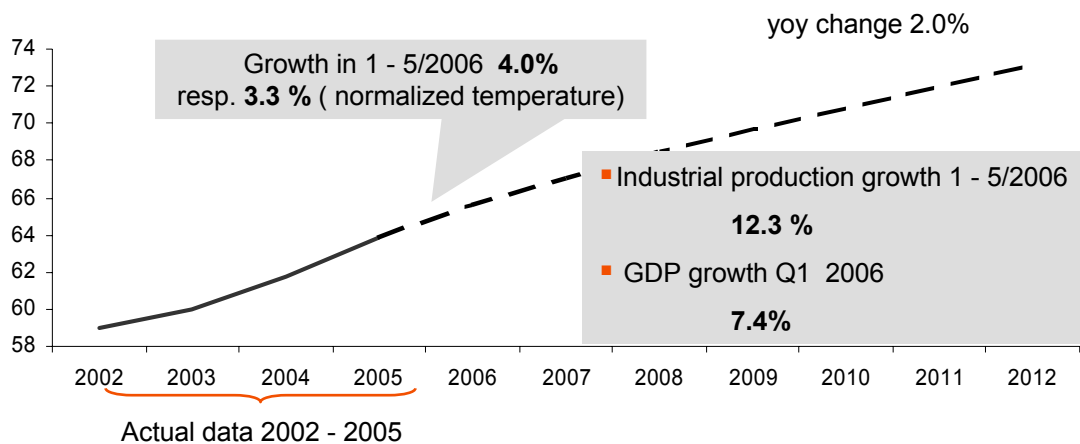
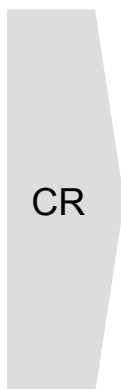
Prices in individual regions will converge over time driven by actions of traders and increasing interconnectivity

* Comparing 2006 forward price as of 2005, assuming CZK/EUR 28.50

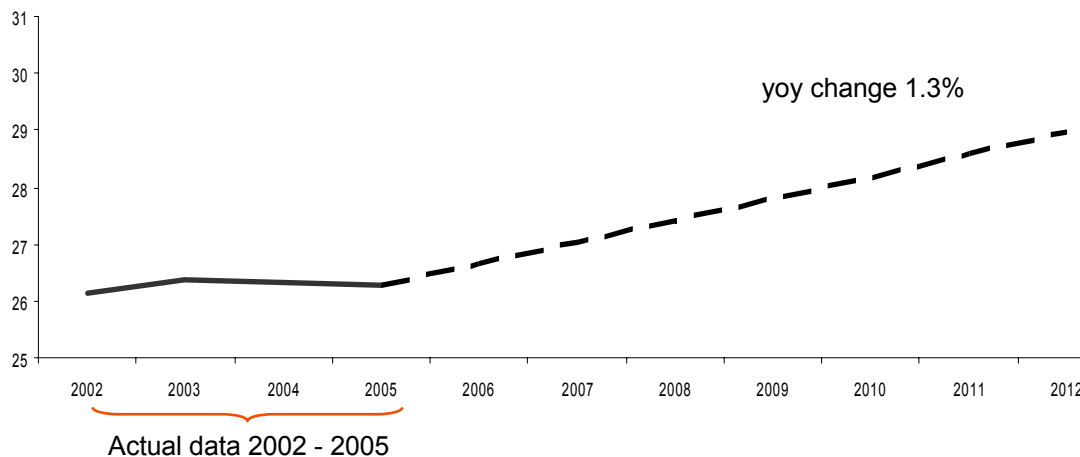


THANKS TO GROWTH OF ECONOMY POWER DEMAND IN THE CZECH AND SLOVAK REPUBLICS WILL INCREASE BY 10 TWh

Consumption in TWh



Consumption in TWh

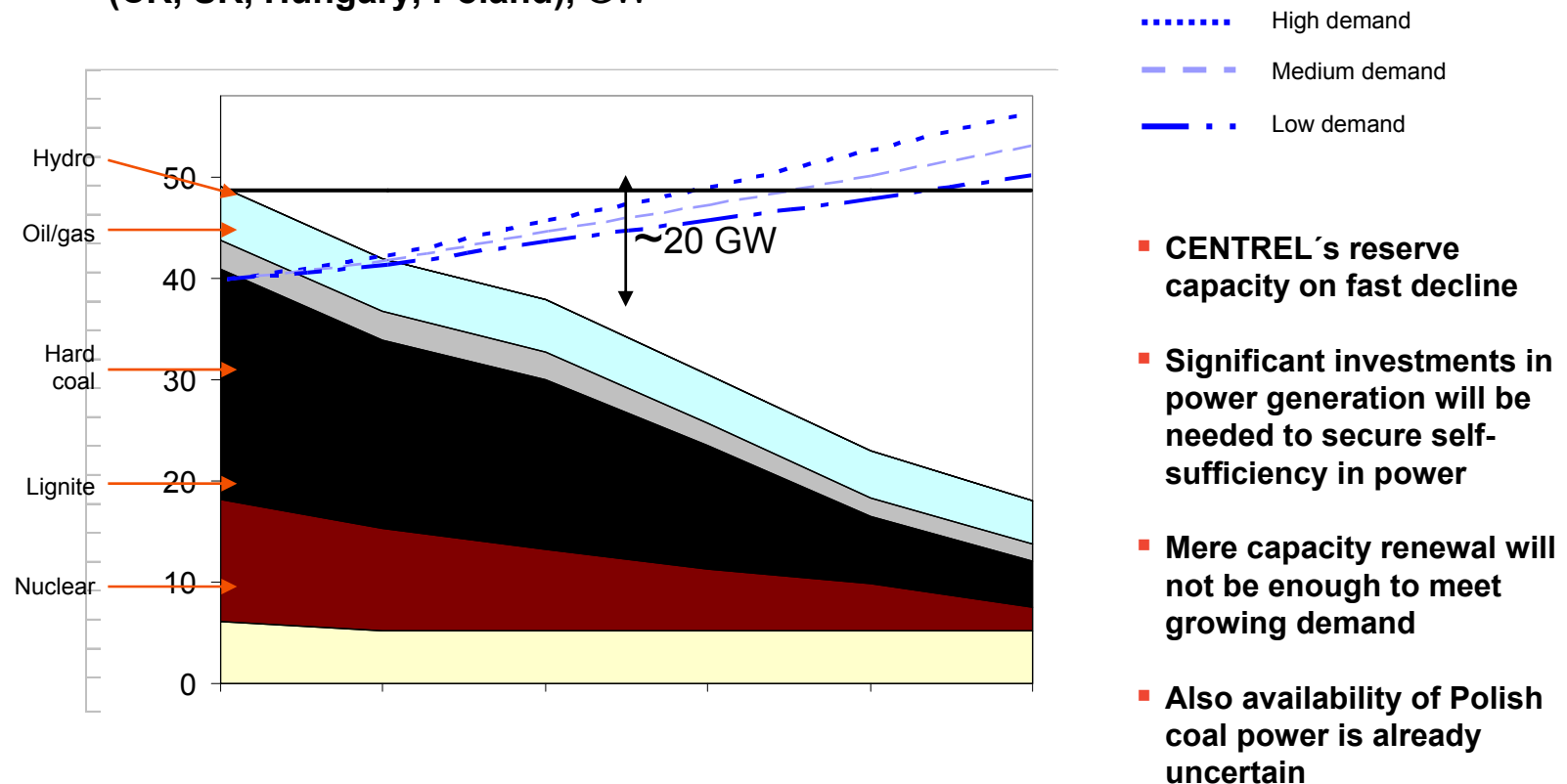


- **By 2012 Czech consumption will increase by 7 TWh and Slovak by 3 TWh**
- Significant demand growth is driven by economy growth and FDI (TPCA and Hyundai in CR, PSA in SR)
- Based on H1 2006 development Czech consumption is likely to grow even faster
- **Yoy change in 2007 in Czech and Slovak Republics to reach approx. 2 TWh**



BY 2020 20 GW INSTALLED CAPACITY WILL REACH END OF ITS LIFETIME

Supply / Demand development in CENTREL (CR, SR, Hungary, Poland), GW*



* peak demand vs. net installed capacity

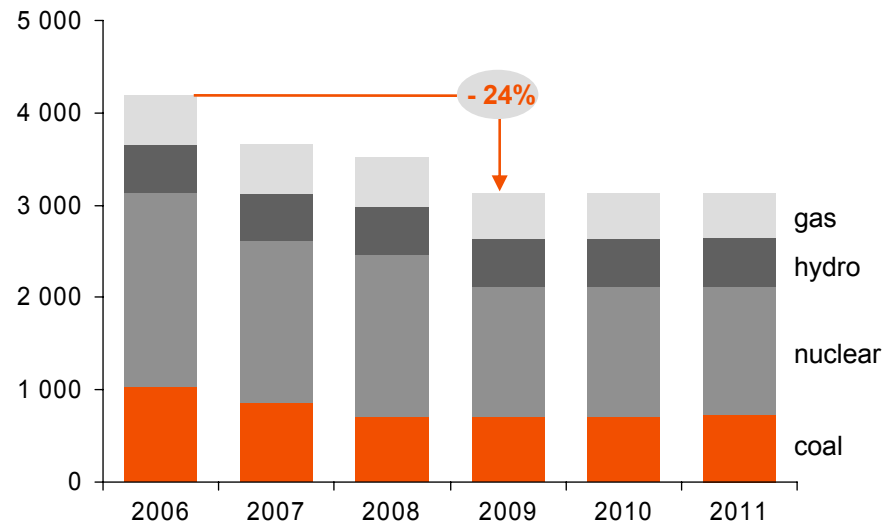


SLOVAKIA ALONE WILL LOSE 25% OF POWER IN THE NEXT THREE YEARS WITHOUT REPLACEMENT AND WILL CEASE TO BE SELF-SUFFICIENT IN POWER PRODUCTION

| Plant | Unit | Capacity (MW) | Shutdown year |
|-------------------------|--------------|---------------|------------------|
| Nováky A | TG 2 a TG | 54 | } 2006 |
| Nováky B | blok 3 a 4 | 220 | |
| Vojany 1 | blok 3 a 4 | 220 | |
| Vojany 2 | blok 25 a 26 | 220 | |
| J. Bohunice | blok 1 | 440 | } 2008 |
| J. Bohunice | blok 2 | 440 | |
| IPP | | 200 | 2006-2010 |
| Total 2006 | | 1,154 | |
| Total 2008 | | 440 | |
| Total cumulative | | 1,794 | 2006-2010 |

Yoy capacity decline 14%

Available capacity in Slovakia MW



Starting 2007 Slovakia will cease to be self-sufficient in power generation



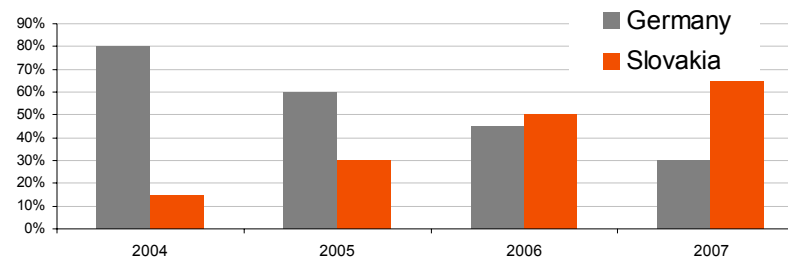
CEZ WILL MOVE MOST OF ITS EXPORTS TO SLOVAKIA AND HUNGARY



Czech – Slovak
Power import / export
balance



CEZ's power export structure in %



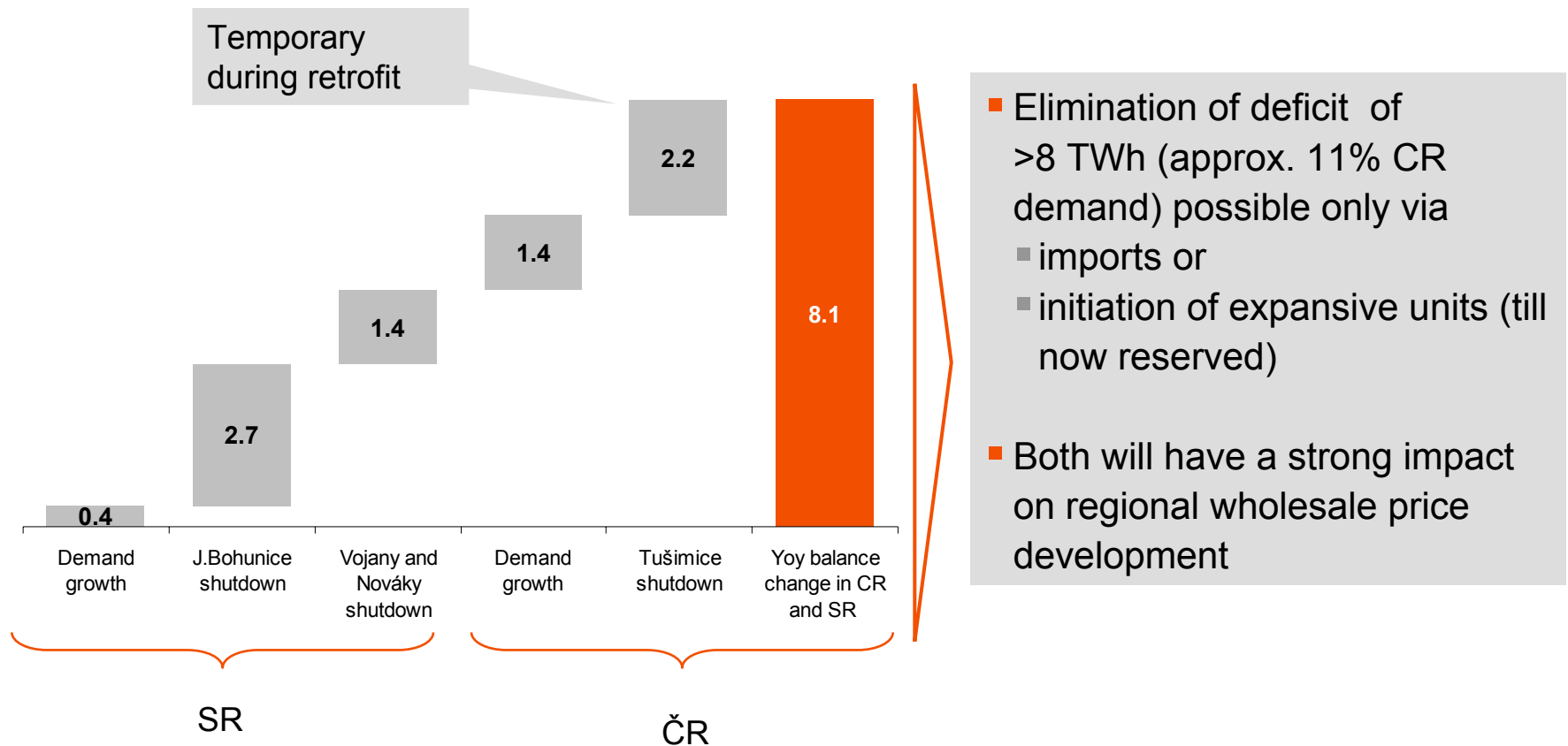
Export
TWh





FAST DEMAND GROWTH ALONG WITH SIGNIFICANT POWER CAPACITY DECOMMISSIONING AT THE END OF THIS YEAR WILL RESULT IN 8 TWH DEFICIT

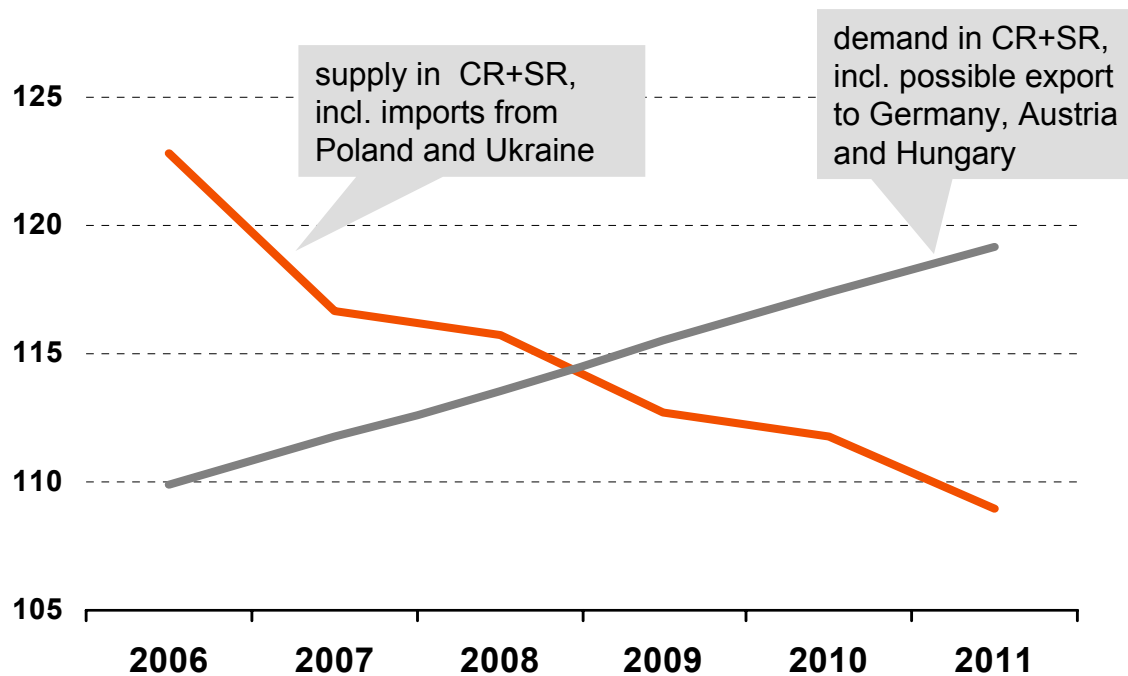
Yoy change of power balance in CR and SR TWh





ERA OF RESERVE CAPACITY SURPLUS USED FOR EXPORTS OUTSIDE OF CZECH AND SLOVAK REPUBLICS WILL BE OVER IN THREE YEARS

**Czech and Slovak power market supply
and demand development**
TWh



- Need to operate more expansive and less reliable capacity
- More frequent price spikes and crisis situations including risk of black-outs
- Need for fast new capacity construction

Annual change

8.1 2.9 5.9 2.8 4.6



DEFICIT CAN BE COVERED BY IMPORTS FROM MORE EXPANSIVE MARKETS OF GERMANY AND AUSTRIA RESP. BY LOWERING EXPORTS TO THESE COUNTRIES

First case: due to problems in Polish grid CEPS provided 400MW emergency support; Second case: due to cumulative 200MW generation fallout

Breach of confirmed contracts should happen only in exceptional cases

Poland

- Poland is likely to lower exports in the next year; **in July 2006 PSE twice canceled contracted cross border supplies due to lack of generation output**
- In 2008 – 2015 complete decommissioning of up to ~5000 MW is expected due to environmental concerns

Hungary

- Already in deficit (2005 imports of 16% total consumption, prices at German levels)

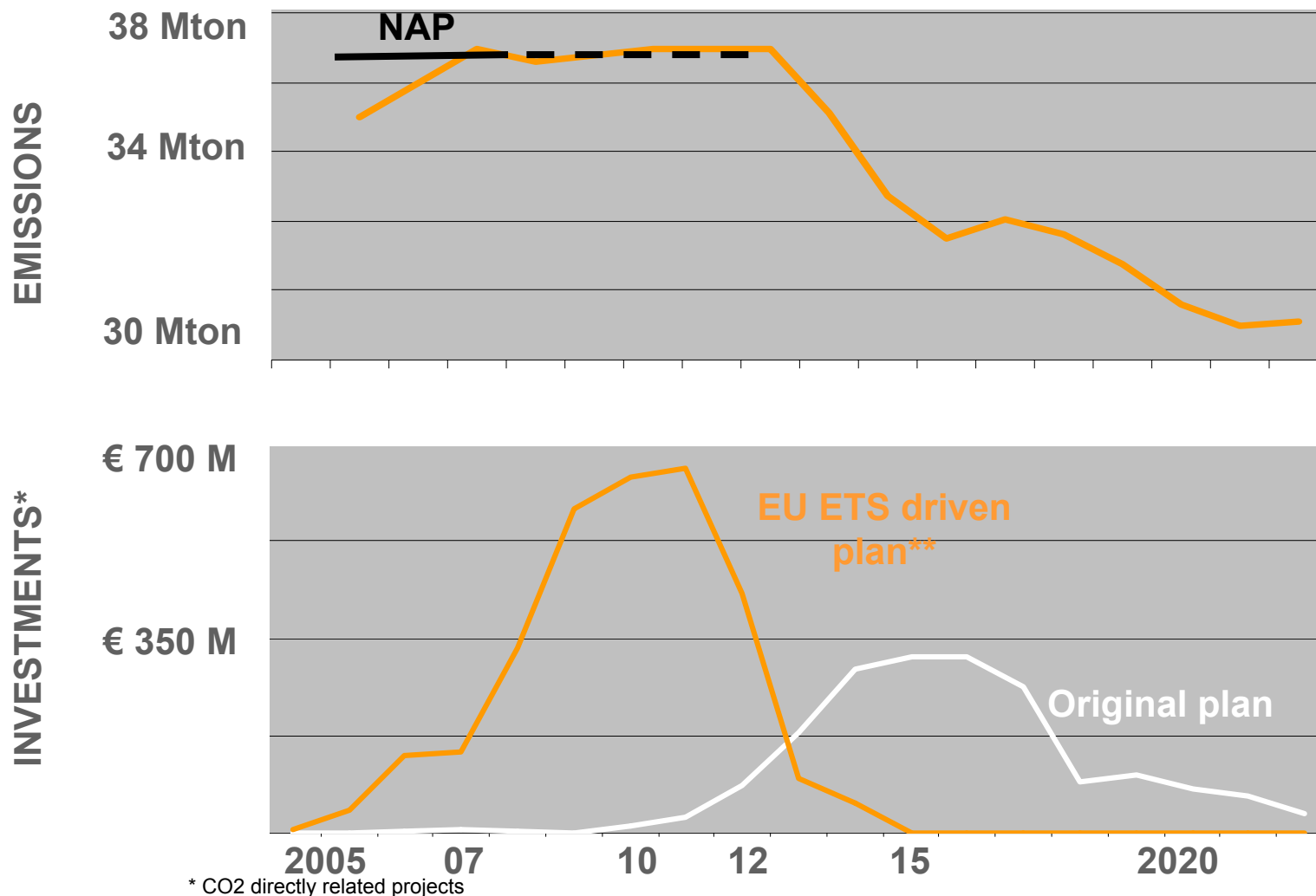
Ukraine

- Limited export possibilities of Burstyn island of 550 MW exhausted (UCTE technical limits), additionally used for supplies to Hungary



EU ETS INCENTIVISED CEZ TO ACCELERATE AND INCREASE ITS INVESTMENTS IN GENERATION

ILLUSTRATIVE SCENARIO



* CO2 directly related projects



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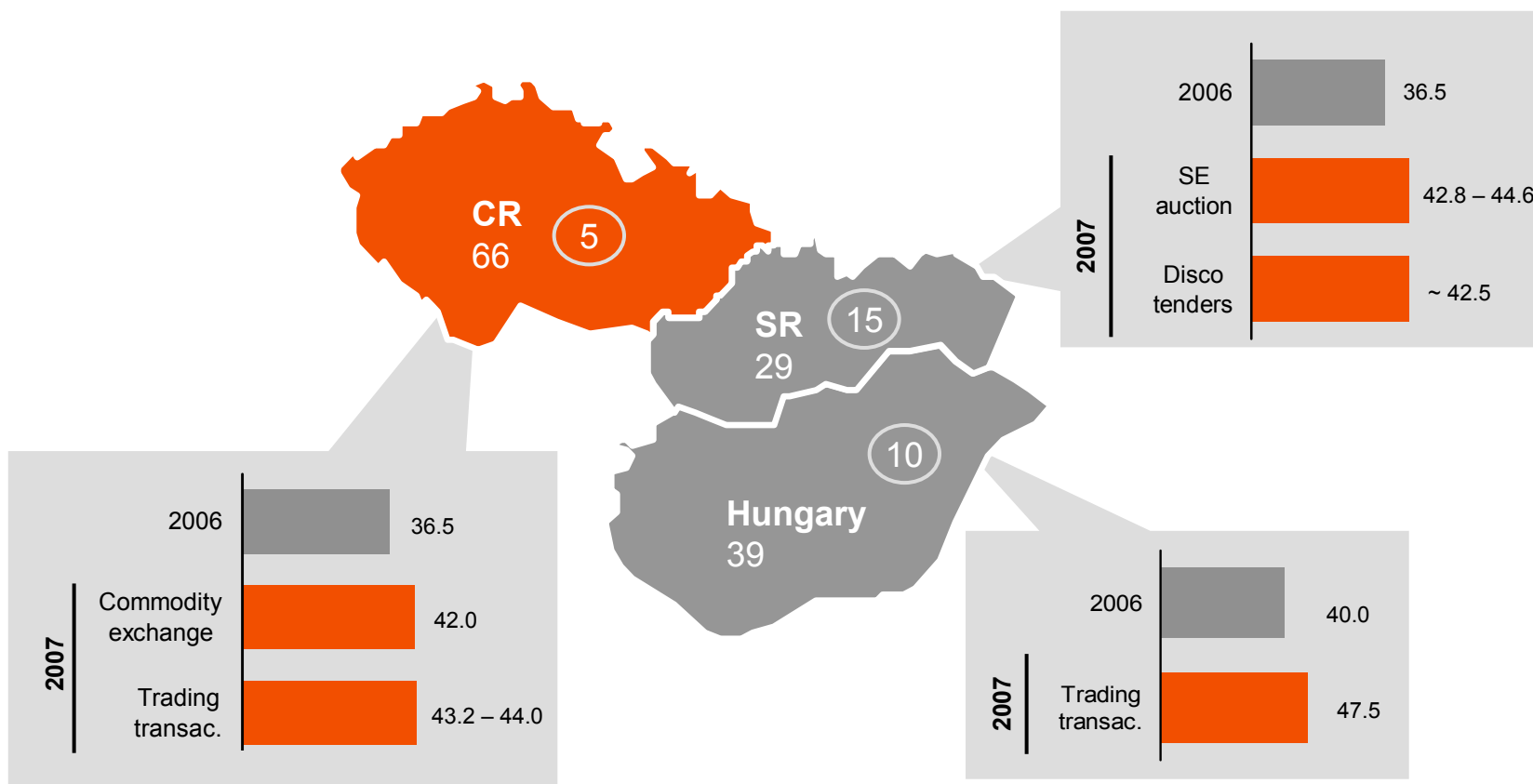
Michal Skalka



PRICE LEVEL OF ALREADY SIGNED CONTRACTS IN THE REGION CONFIRMS THAT THERE IS AN INCREASING MARKET DEMAND FOR ELECTRICITY CONTRACTED 1 YEAR AHEAD

First indicators of 2007 wholesale prices in the region EUR/MWh*

In the map volume traded in TWh (est.) vs. respective country's consumption



Note: CZK/EUR 28.50, SKK/EUR 38.6, HUF/EUR 280.0

Source: CEZ, SE, MVM, TFS, Press clippings, KBK; transactions executed in 2006

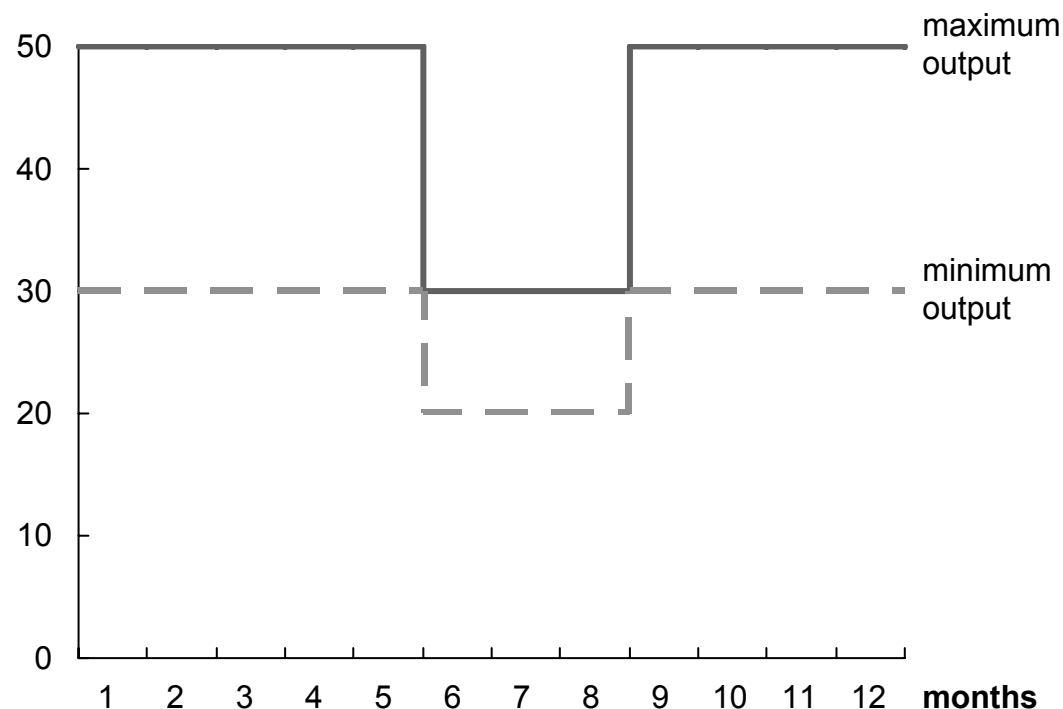


CEZ WILL OFFER THE VIRTUAL POWER PLANT ON EQUAL TERMS (SET BY THE ANTITRUST OFFICE) THIS YEAR AS LAST YEAR

Basic facts

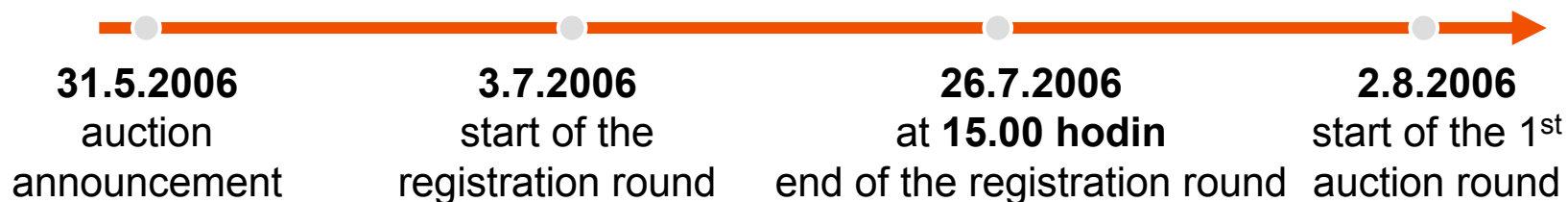
- Requirement to offer VPP in public auction set by the Antitrust Office as one of the conditions for integration of CEZ + 5 DISCOS
- VPP guarantees third parties access to CEZ generation capacity, including the possibility to place an exact shape of generation diagram
- Total supply 400 MW (with decrease to 240 MW in summer months) divided into 8 blocks with 50 MW
- Minimum output represents minimum electricity off-take in corresponding season so that the real power plants wouldn't fall under the technical operation minimum

Available capacity of virtual power plant block
MW

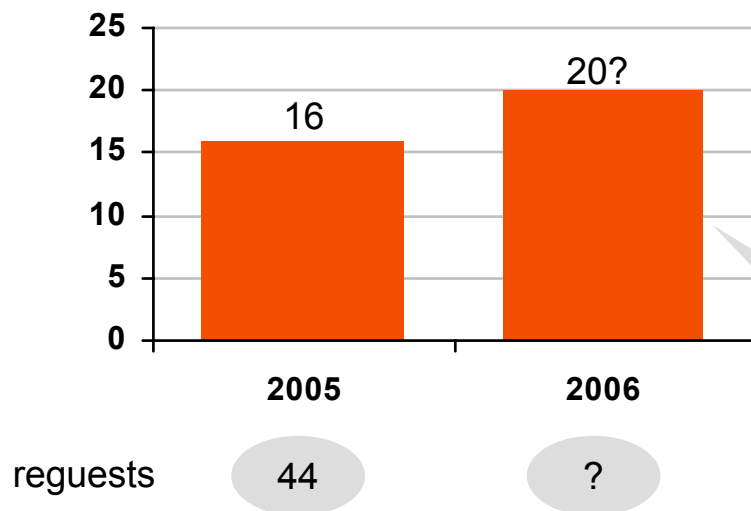




VIRTUAL POWER PLANT IS AGAIN OF A HIGH INTEREST



Number of registered participants



- Auction participants can be energy traders financially and personally independent on CEZ, a. s.
- Auction is set up by independent auction office Fin-servis, a.s.
www.fsk.cz

Already confirmed
17



EVALUATION AND PUBLICATION OF AUCTION RESULTS WILL TAKE PLACE IMMEDIATELY AFTER IT'S TERMINATION ON 2.8.

- Virtual power plant auction takes place on 2.8.2006 at the premises of Ceskomoravska komoditní burza Kladno, nam. Sitna 3105 organized by independent auction office Fin-servis, a.s.
- CEZ expects further electricity sales until the complete sources exhaustion by auctions
- CEZ will inform about all sales auctions without delay