

# CEZ GROUP H1 2006 RESULTS

NONAUDITED CONSOLIDATED RESULTS (IFRS)

**Prague, August 15th, 2006**



## PROGRAM

- **Financial results and main events**  
Petr Vobořil, Chief Finance Officer
- **CEZ Group Trading position**  
Alan Svoboda, Chief Sales and Trading Officer

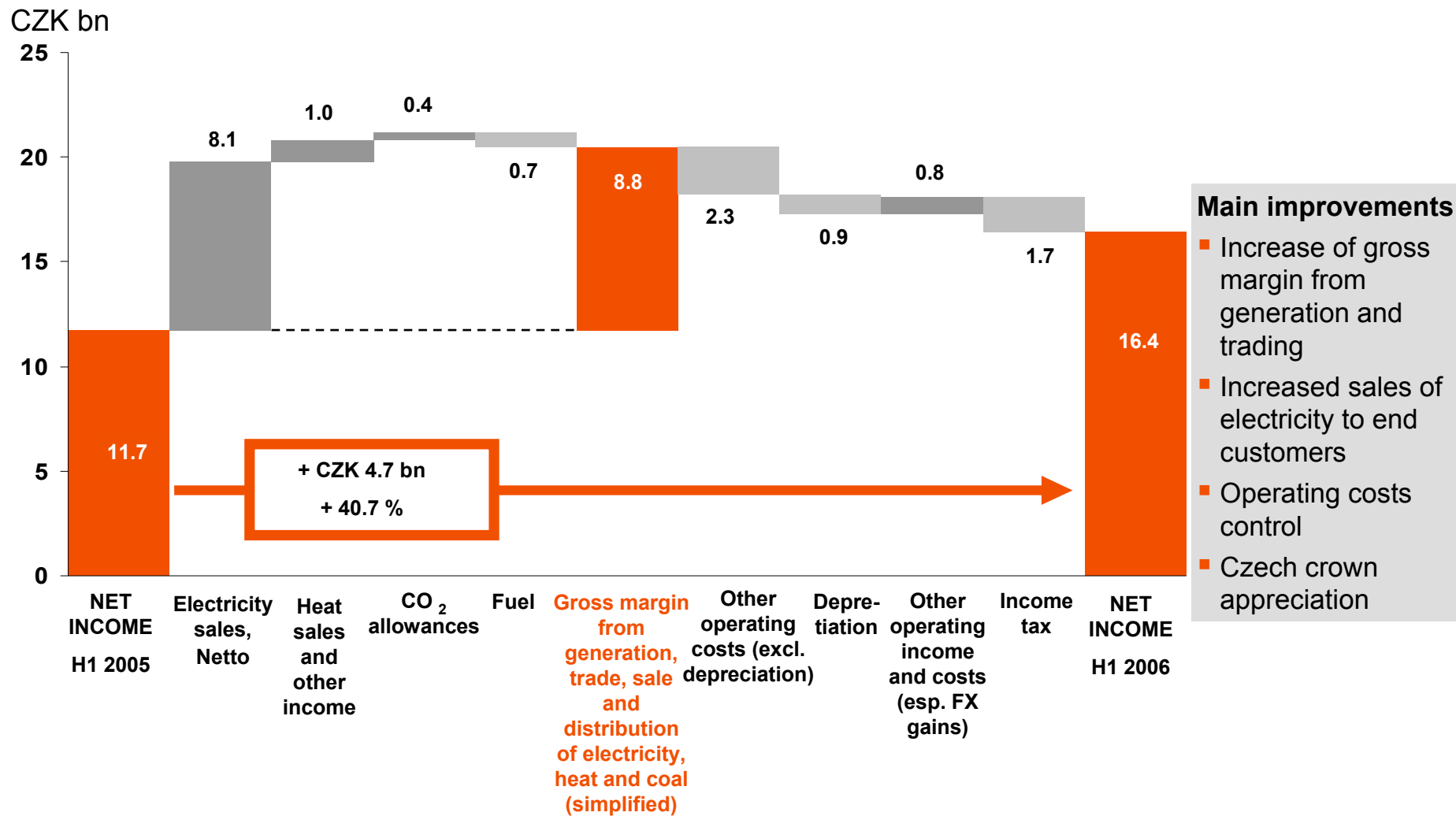


## H1 2006 MAIN FINANCIAL RESULTS AND EXPECTED FINANCIAL PERFORMANCE FOR 2006

- **EBITDA** y-o-y increased by 24 % to CZK 34.2 bn, y-o-y increase by CZK 6.6 bn.
- **EBIT** y-o-y increased by 32 % to CZK 23.2 bn, which represents y-o-y increase by CZK 5.6 bn.
- **Net Income** y-o-y increased by almost 41 % to CZK 16.4 bn (increase by CZK 4.7 bn)
- **ROE** y-o-y increased to 8.8 %
- After share price fall in May and June investors again gained their confidence in the value of CEZ Group, share price at **PSE on 11.8.2006 was at CZK 802.**
- **2006 EBITDA guidance** is CZK 61.3 bn (up from CZK 60.1bn announced in May 2006) and **EBIT** CZK 38.4 bn (up from CZK 37.7bn)



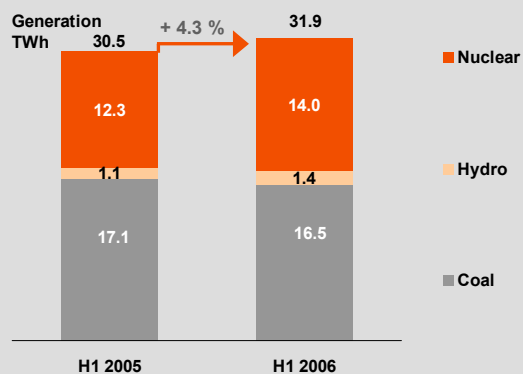
# NET INCOME GREW Y-O-Y BY CZK 4.7 BN – i.e. by 41 %



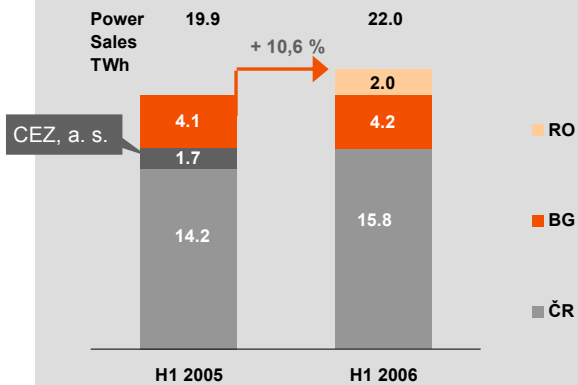


# GROSS MARGIN FROM GENERATION, TRADE, SALE AND DISTRIBUTION OF ELECTRICITY Y-O-Y INCREASED BY 23 % TO CZK 47.8 BN

## ■ Increase of generation and sales in the wholesale market



## ■ Growth of electricity sold to end customers



CZK m	H1 2005	H1 2006	Change 06-05	Index 06/05 (%)
Operating Revenues	61,715	77,183	15,469	125.1
Sales of electricity	57,216	71,645	14,429	125.2
Heat sales and other revenues	4,499	5,538	1,040	123.1
Variable operating expenses	22,751	29,382	6,632	129.2
Fuel	4,532	5,240	708	115.6
Purchased power and related services	18,218	24,499	6,281	134.5
CO <sub>2</sub> allowances	0	-358	-358	n.a.
<b>Gross margin (simplified)</b>	<b>38,964</b>	<b>47,801</b>	<b>8,837</b>	<b>122.7</b>

## Main improvements

- Increase of generation from nuclear power plants
- Optimization of generation from coal power plants and utilization of CO<sub>2</sub> allowances arbitrage
- Increase of sold electricity to end customers in abroad and maintaining position in CR



## OPERATING EXPENSES, EXCLUDING IMPACT OF NEW COMPANIES, INCREASED ONLY BY CZK 4.7 BN (BY 11 %)

(CZK m)	H1 2005	H1 2006	out of that new comp.	change 06-05	Index 06/05 (%)	H1 2006 w/o new comp.	Change 06-05 comparable cons. entity	Index 06/05 comparable consolidated entity
<b>Gross margin (simplified)</b>	<b>38,964</b>	<b>47,801</b>	<b>2,172</b>	<b>8,837</b>	<b>122.7</b>	<b>45,629</b>	<b>6,665</b>	<b>117.1</b>
Repairs and Maintenance	1,356	1,844	341	488	136.0	1,503	147	110.9
Salaries and Wages	5,683	6,581	407	898	115.8	6,175	491	108.6
Material	1,810	2,180	79	370	120.4	2,101	291	116.1
Other operating expenses	2,518	3,031	350	513	120.4	2,681	163	106.5
<b>EBITDA</b>	<b>27,597</b>	<b>34,165</b>	<b>984</b>	<b>6,568</b>	<b>123.8</b>	<b>33,181</b>	<b>5,584</b>	<b>120.2</b>
Depreciation	10,037	10,959	440	922	109.2	10,519	481	104.8
<b>EBIT</b>	<b>17 560</b>	<b>23 206</b>	<b>544</b>	<b>5,646</b>	<b>132.2</b>	<b>22,662</b>	<b>5,103</b>	<b>129.1</b>

### Main improvements

- Control of repairs and maintenance costs growth pace
- Decrease of number of employees (excluding impact of new companies) by 710



## NET INCOME GREW Y-O-Y BY 41 % TO CZK 16 BN (INCREASE BY CZK 4.7 BN)

(CZK m)	H1 2005	H1 2006	Change 06-05	Index 06/05 (%)
<b>EBIT</b>	<b>17,560</b>	<b>23,206</b>	<b>5,646</b>	<b>132.2</b>
Other expenses and income	2,476	1,668	-808	67.4
Out of that:				
FX profit and loss and derivative operation	945	-18	-962	x
Other financial expense/income,netto	-409	-11	398	2.8
<b>Profit before taxes</b>	<b>15,084</b>	<b>21,538</b>	<b>6,454</b>	<b>142.8</b>
Income tax	3,401	5,105	1,704	150.1
<b>Net Income</b>	<b>11,683</b>	<b>16,433</b>	<b>4,750</b>	<b>140.7</b>

### Main improvements

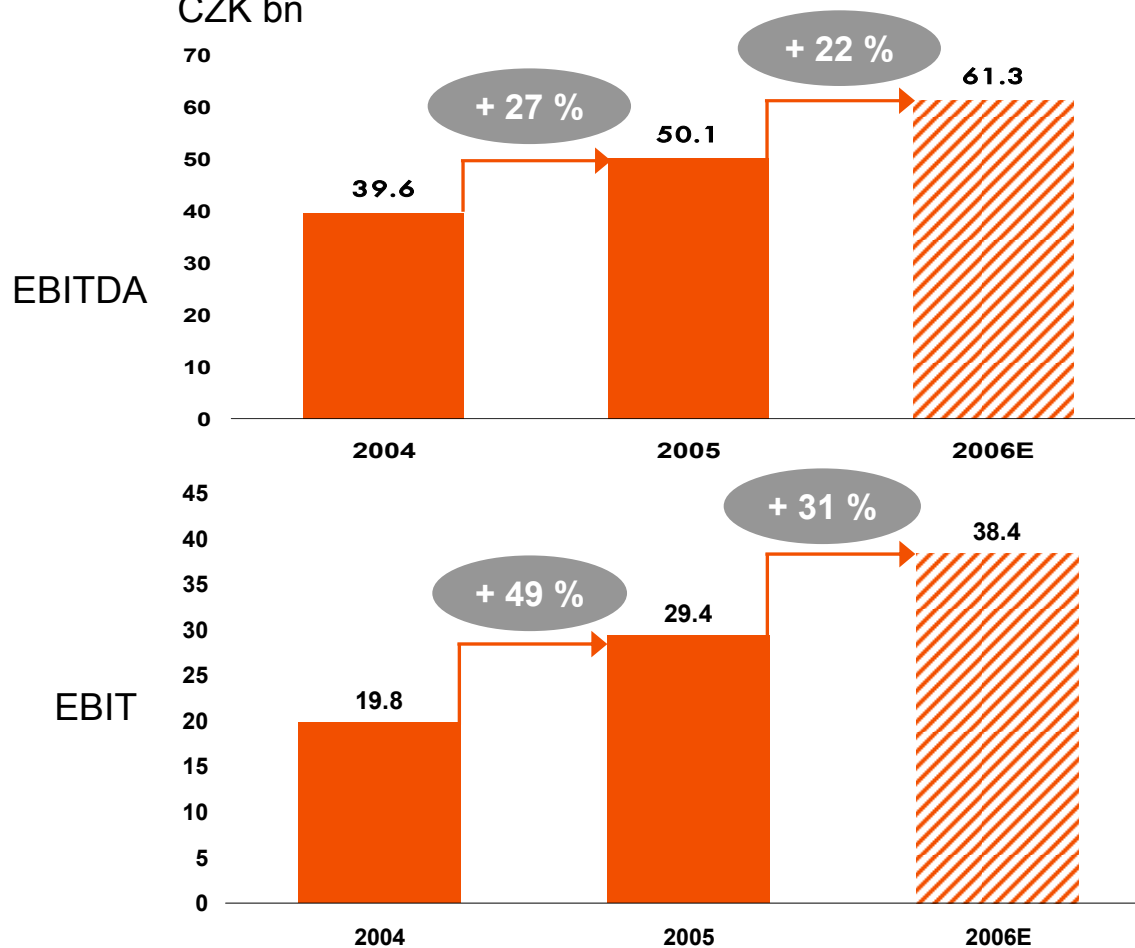
- Czech crown appreciation especially towards USD, but also towards EUR in comparison with the same period last year (positive impact on FX profit and partially negative impact on expenses for FX derivatives)



# WE EXPECT EBITDA CZK 61 BN AND EBIT CZK 38 BN FOR FULL 2006

## Main financial results

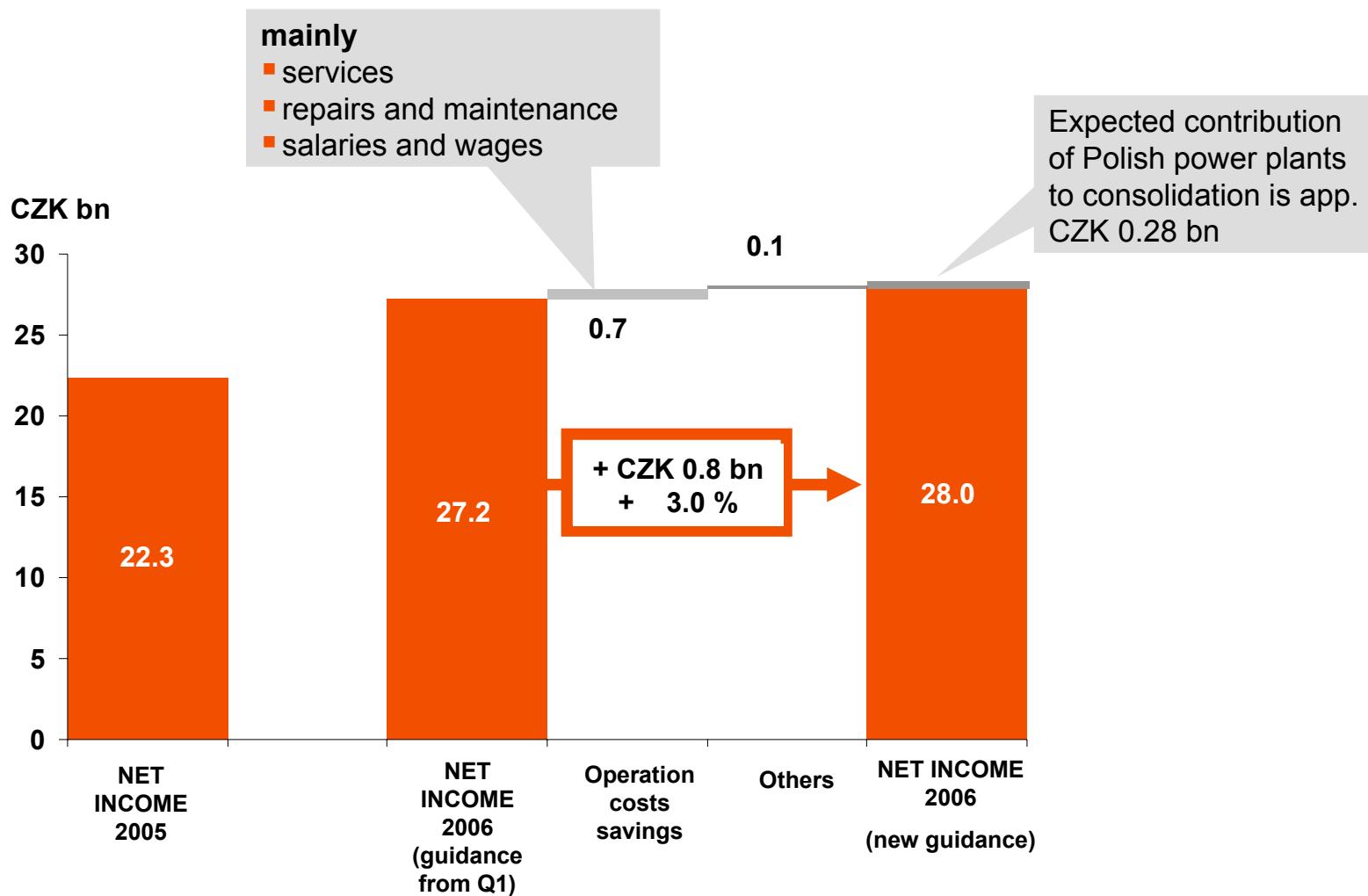
CZK bn



- The trend of growing gross margin and operating cost savings to continue in H2
- CEZ Group grew by new power plants in Poland – Elcho and Skawina, which will contribute to the expected consolidated EBIT by CZK 0.6 bn



## 2006 NET INCOME GUIDANCE IS CZK 28 BN – BY CZK 0.8 BN MORE COMPARED TO GUIDANCE FROM Q1



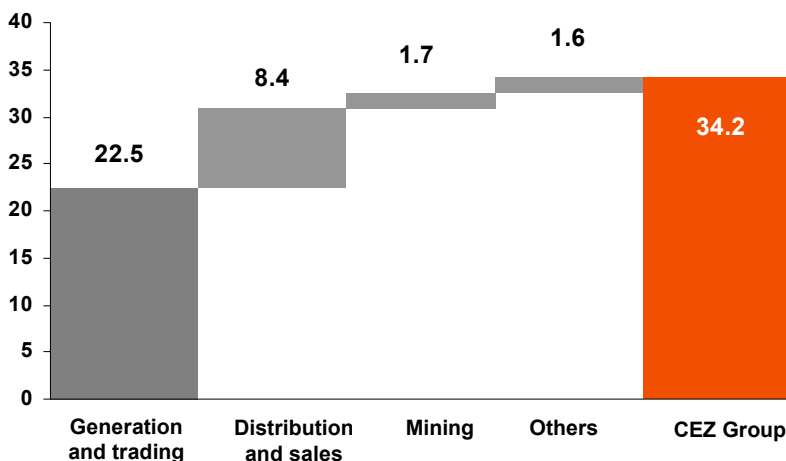


# GENERATION AND TRADING REMAINS A DOMINANT SEGMENT, BUT DISTRIBUTION AND SALES HAVE ALSO ACCOMPLISHED BIG GROWTH

H1 2006	Generation and trading	Index 06/05	Distribution and sales	Index 06/05	Mining	Index 06/05	Others	Index 06/05	Intergroup eliminations	CEZ Group	Index 06/05
<b>Revenues total</b>	47,490	135%	48,623	131%	4,222	108%	5,378	154%	-28 530	77,183	125%
<b>Out of that: external revenues</b>	27,646	117%	46,314	129%	1,706	136%	1,518	148%		77,183	125%
<b>EBITDA</b>	22,495	126%	8,396	120%	1,701	88%	1,572	193%		34,165	124%
<b>EBIT</b>	15,600	141%	5,976	125%	1,234	86%	397	131%		23,206	132%

**EBITDA Contribution in H1 2006**

CZK bn



- Generation and trading remains a dominant segment – it represents 66 % of EBITDA
- Newly it also includes Polish power plants Elcho and Skawina, which however are part of the H1 results only with one month and contribute to EBITDA by CZK 112 m
- Distribution and sales accomplish also big growth thanks to Bulgarian and newly also Romanian distribution development



## DISTRIBUTION AND SALES SEGMENT RESULTS

Distribution and Sales		Czech Republic			Bulgaria		Romania	
		H1 2005	H1 2006	out of that: CEZ Distribution	H1 2005	H1 2006	H1 2005	H1 2006
Revenues total	CZK m	31,094	36,957	15,264	5,992	6,378	x	5,288
EBITDA	CZK m	6,002	6,053	4,115	1,007	1,345	x	999
EBIT	CZK m	4,249	4,537	2,873	524	850	x	589
Electricity sales	GWh	14,735	18,132	x	4,074	4,255	x	1,978
out of that out of Group	GWh	14,162	15,817	x	4,057	4,239	x	1,978
Electricity distribution	GWh	22,637	21,769	21,769	4,979	5,100	x	6,244
Number of employees		6,465	5,787	1,119	4,889	4,747	x	2,971

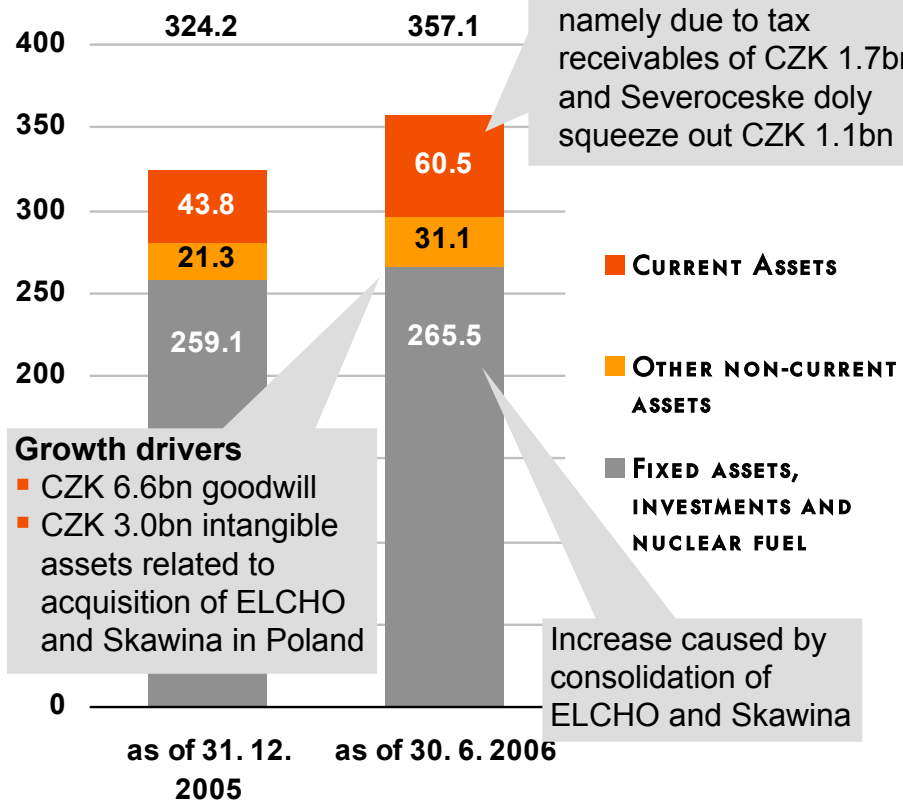
### Main improvements

- Higher electricity sales to end customers in Bulgaria
- Activities initiated in Romanian distribution company Oltenia (from Q4 2005)
- Maintaining supply volume in the Czech Republic
- Cost savings and lowering headcount in the segment on a comparable basis by 847

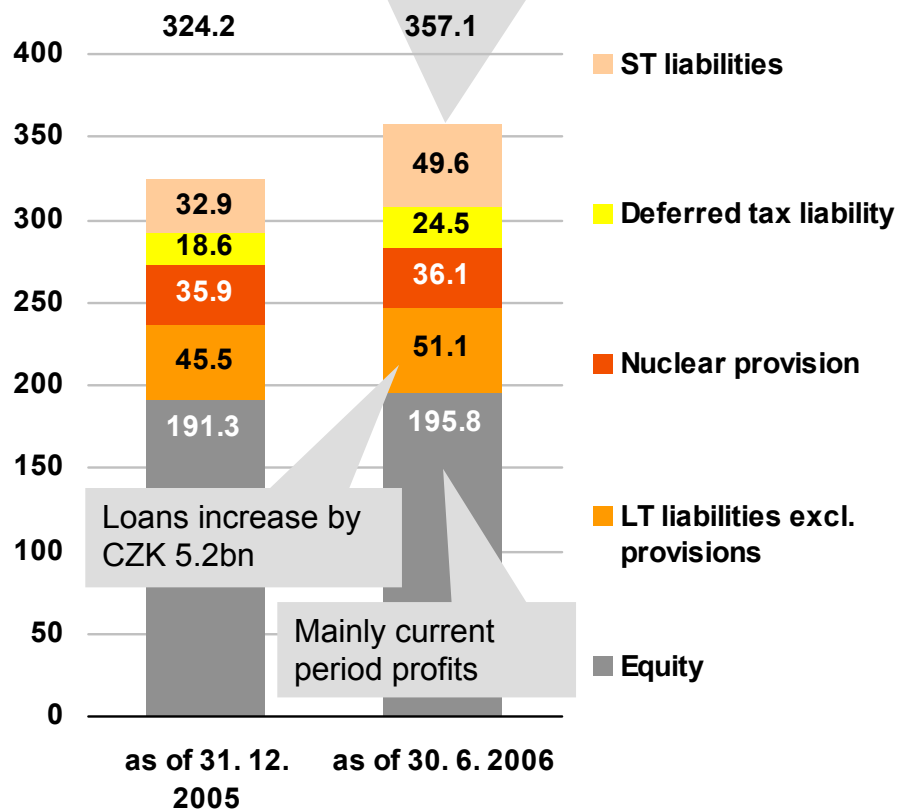


# ASSETS, EQUITY AND LIABILITIES OVERVIEW

## ASSETS CZK bn

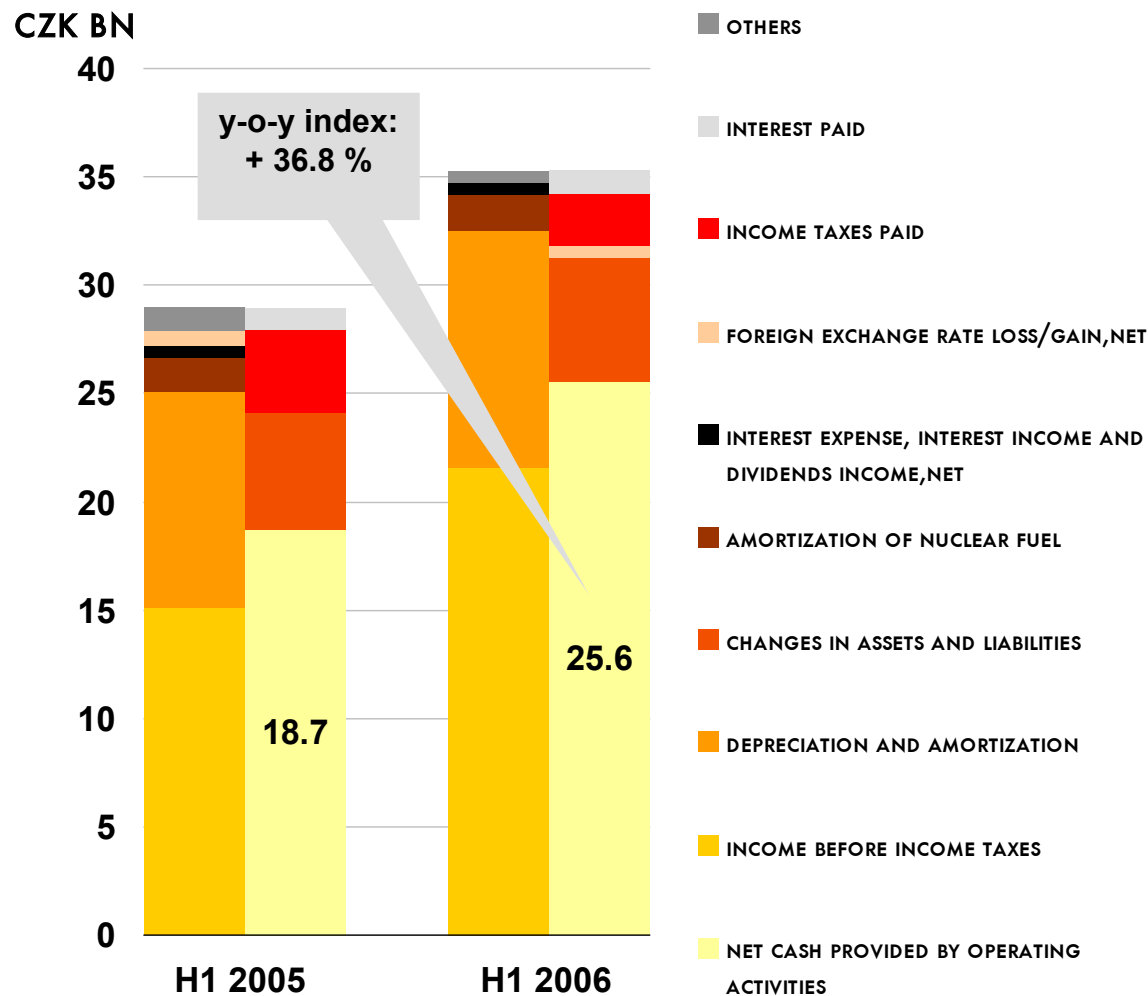


## EQUITY, LIABILITIES CZK bn





## OPERATING CASH FLOW INCREASED Y-O-Y BY 36.8%

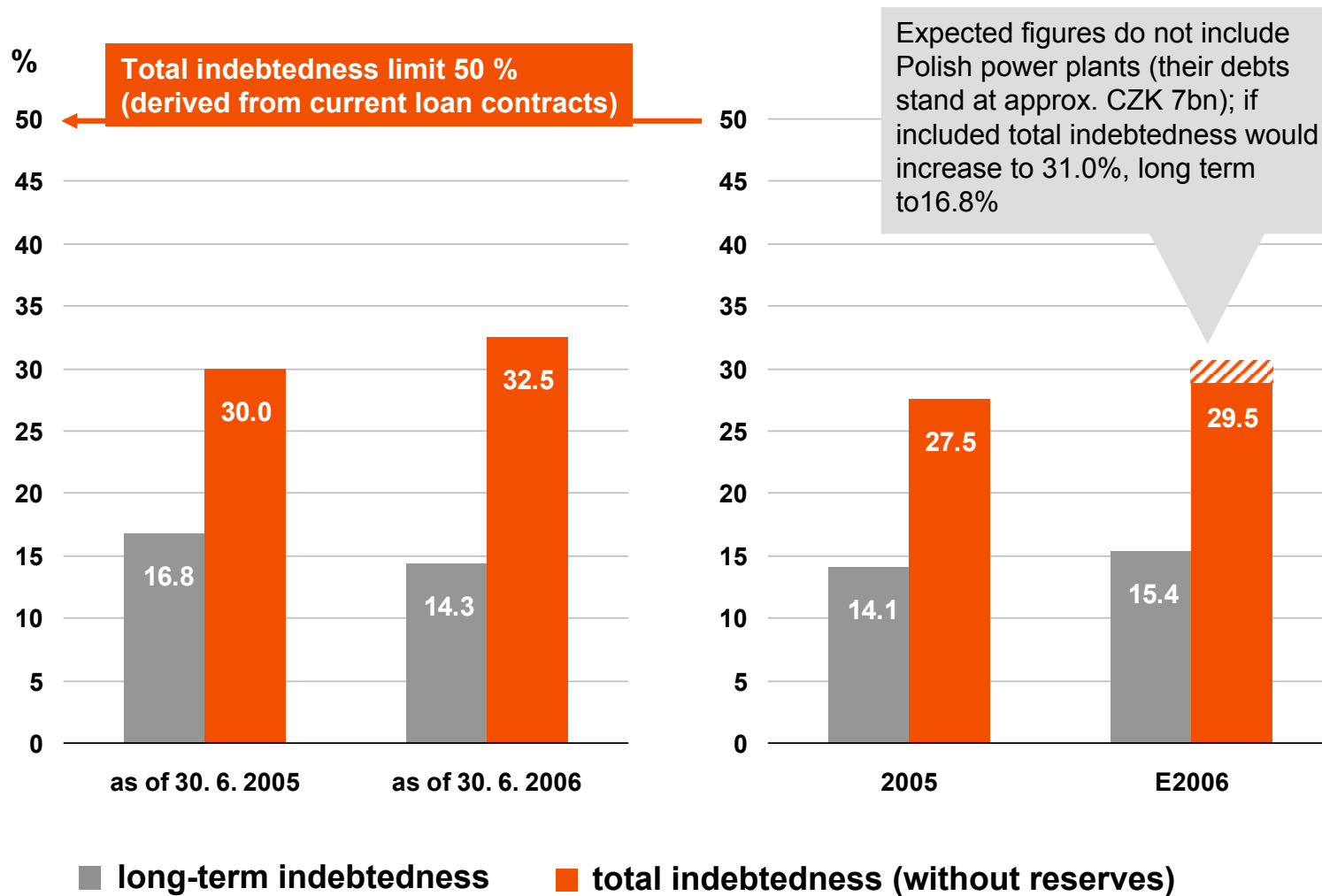


### Main impacts on operating cash flow increase CZK bn

- + 5.8 operating profit adjusted for non-cash items
- + 1.4 income tax paid



## TOTAL INDEBTEDNESS SLIGHTLY INCREASED Y-O-Y WHILE LONG TERM INDEBTEDNESS MARGINALLY DECREASED





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  - **Main events**
  - **Development of power prices and prices of CO<sub>2</sub> allowances**
  - **Growth of CEZ generation volume**
  - **Regulator's decision regarding Polish – Austrian power transit**
  - **Measures aimed at CO<sub>2</sub> allowances savings**
  - **CEZ's trade offices development**
  
- **2007 outlook**
  - **Supply / demand balance in neighboring countries**
  - **Development of wholesale power prices**
  - **Exports heading eastwards**
  - **Virtual power plant auction**
  - **Further sales procedure**
  
- **Emergency situation in the transmission grid on July 25, 2006**
  - **Situation and event development**
  - **CEZ's proposals for improvement**



## MAIN EVENTS IN TRADING IN H1 2006

- German 2007 power prices continue to rise
- Prices of CO<sub>2</sub> allowances stabilized at 16 EUR/t level following the price shock at the end of April
- Austrian regulatory office issued a decision to cancel long term power transit agreement from Poland to Austria
- CEZ Group expands its presence in Central and South Eastern Europe – on June 1 CEZ opened trading office in Hungary; further offices in the Balkans are under preparation
- Contracting for 2007 in Central Europe started at the end of H1; price growth trends have been confirmed as a result of growing demand (driven by increasing consumption) and declining supply (driven by generation capacity decommissionings)

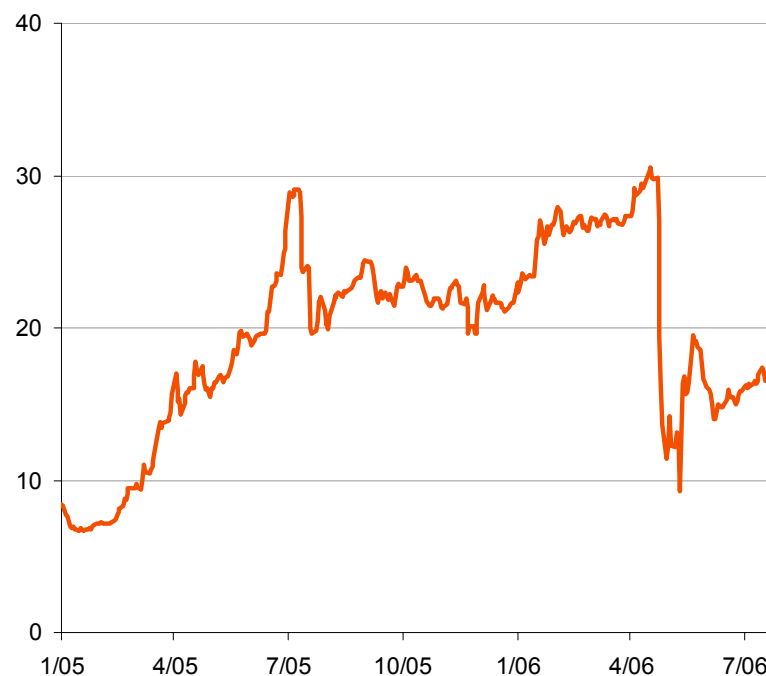


# GERMAN POWER PRICE CONTINUES TO GROW; PRICE OF CO<sub>2</sub> ALLOWANCES STABILIZED FOLLOWING THE PRICE SHOCK AT THE END OF APRIL

**EEX Forward 2007 (baseload)**  
EUR/MWh



**CO<sub>2</sub> allowances (EUR/t)**

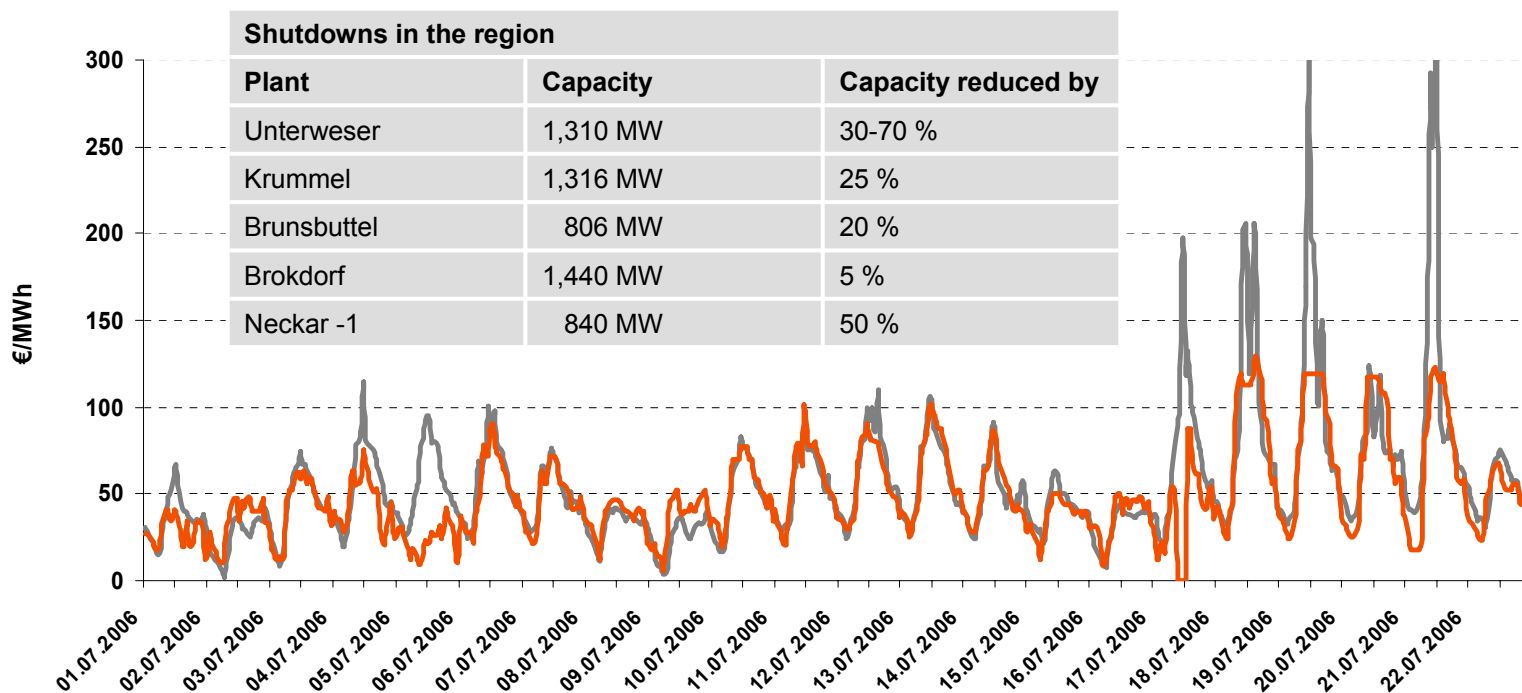




# LACK OF POWER IMPACTS THE WHOLE REGION AND SPOT PRICES IN CRITICAL MOMENTS GROW SKY HIGH

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

— OKO  
— EEX



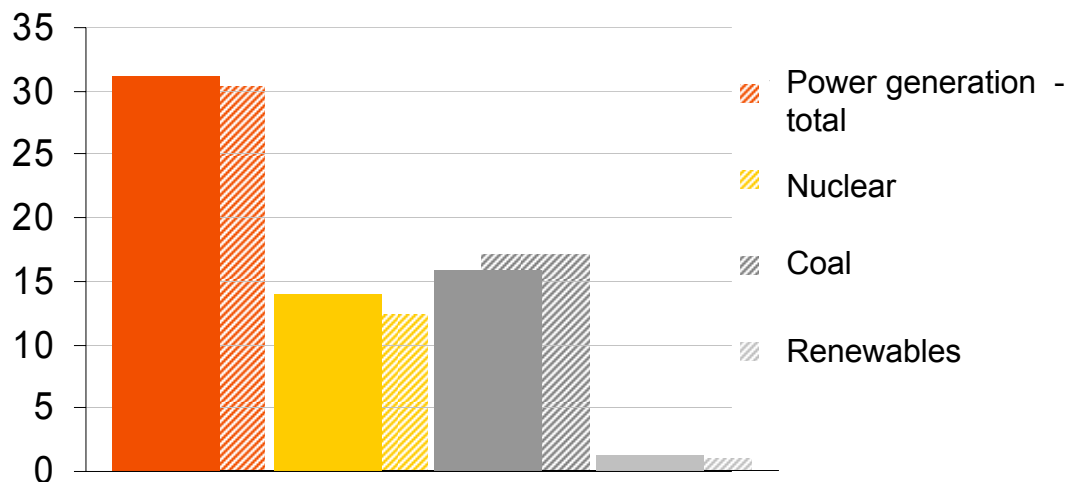
\* OKO = Czech Spot Market, organized by OTE



# CEZ POWER GENERATION INCREASES DUE TO HIGHER DEMAND

## Power generation in H1 2006 and 2005

TWh



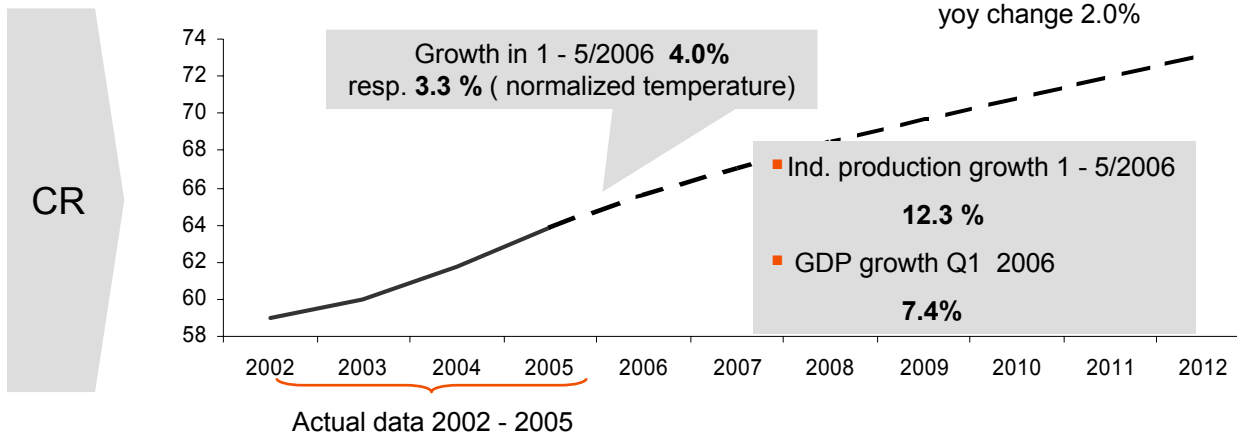
	Index 06/05
Power generation - total	1.03
out of that - nuclear	1.14
coal	0.94
renewables	1.24

- CEZ power generation increased by 3% in H1 2006
- Significant increase of nuclear power plant Temelin availability and, therefore, overall increase of generation in nuclear power plants
- Increase of domestic wholesale market sales to supply companies E.ON, PRE and CEZ Prodej and traders by 1.6 TWh in H1 2006 driven by increasing consumption

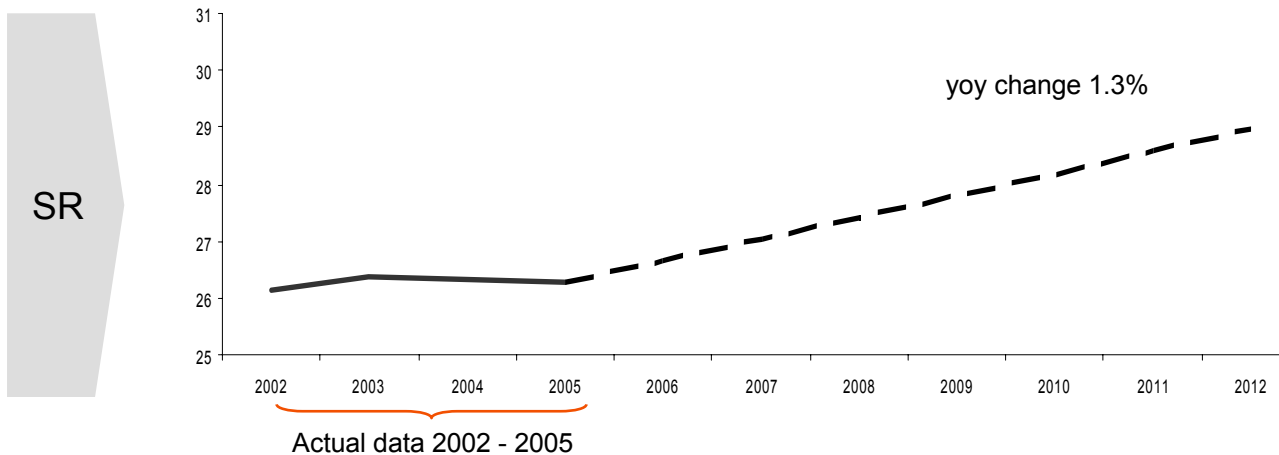


# THANKS TO GROWTH OF ECONOMY POWER DEMAND IN THE CZECH AND SLOVAK REPUBLICS GROWS FAST

### Consumption in TWh



### Consumption in TWh

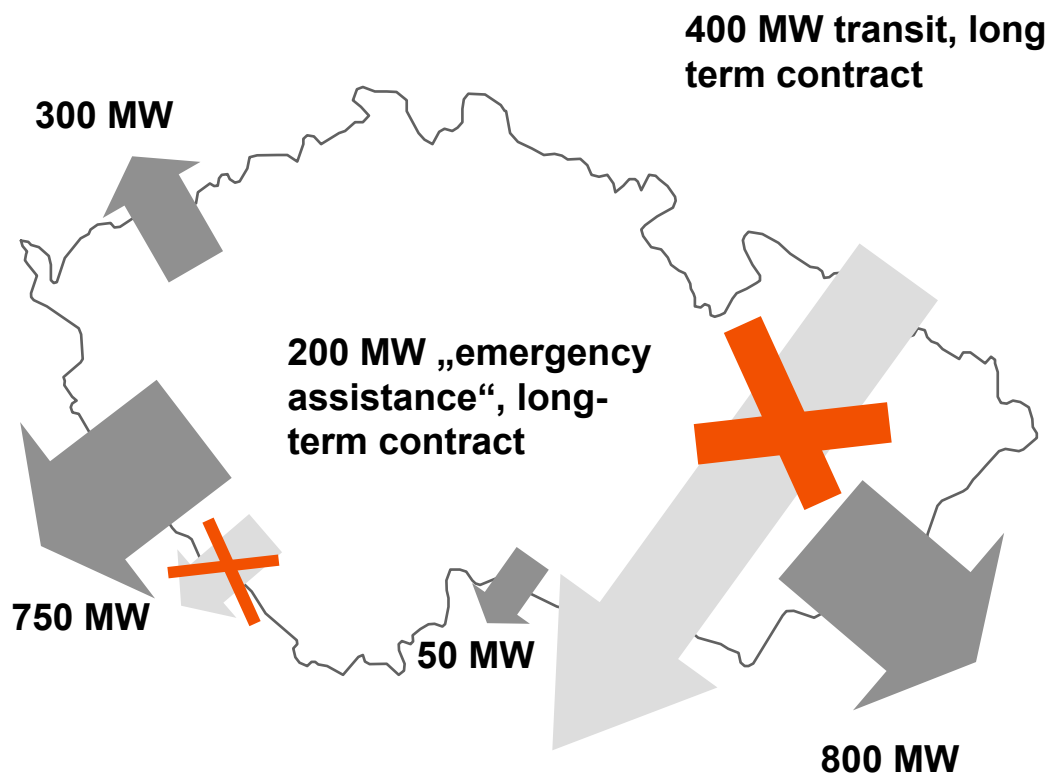


- Y-o-y demand increase in the Czech and Slovak Republics for 2007 by approx. 2 TWh
- Czech power consumption to increase by 7 TWh by 2012; Slovak consumption to increase by 3 TWh in the same period
- Based on actual development in CR in H1 2006 higher growth is not excluded



## CZECH EXPORT CAPACITIES WILL INCREASE IN 2007 DUE TO CANCELATION OF LONG TERM CONTRACTS IN BREACH OF EU TRADING RULES

### Cross border capacities from CR



- **Austria:** cancellation of 400 MW long term transit from Poland
  - **Decision of Austrian regulatory office from June 26, 2006 on unauthorized reservation of cross border capacities**
  - Similar decision expected from Czech ERO
- **Germany:** cancellation of 200 MW reservation for „emergency assistance“ between E.ON Sales&Trading and ČEPS in breach of EU trading rules – utilized for commercial activities
  - ERO and German regulatory office have been informed by CEPS



# DECISION OF AUSTRIAN REGULATORY AUTHORITY ON CANCELLATION OF POLISH-AUSTRIAN TRANSIT



GZ K NZV 01/05

PA 3605/06

1. CEZ a.s.  
vertreten durch:  
Wolf Theiss Rechtsanwälte OEG  
Frau RA Mag. Katja Tautscher  
Schubertring 6  
1010 Wien
2. VERBUND – Austrian Power Grid AG  
vertreten durch:  
Kanzlei Karasek Wietrczyk Rechtsanwälte GmbH  
Herrn RA Dr. Thomas Rabl  
Wagramer Straße 19  
1220 Wien  
  
per RSb

## B E S C H E I D

Die Energie-Control Kommission hat durch Dr. Wolfgang Schramm als Vorsitzenden sowie durch Mag. DI Georg Donaubauer und Mag. Ditmar Wenty als weitere Mitglieder im Verfahren K NZV 01/05 betreffend den Antrag der CEZ a.s., Duhova 2/1444, 140 53 Prag 4, Tschechische Republik, vertreten durch Wolf Theiss Rechtsanwälte OEG in Wien, vom 25.11.2005 auf Feststellung, „dass die ausgesprochene Verweigerung auf Netzzugang im Ausmaß der beantragten Kapazitäten für die Jahre 2004 und 2005 rechtswidrig waren und CEZ a.s. daher in ihrem gesetzlich eingeräumten Recht auf Gewährung eines Netzzugangs verletzt wurde“, erweitert durch Antrag vom 10.2.2006, die Energie-Control Kommission möge feststellen, „dass die VERBUND Austrian Power Grid AG ihr den Netzzugang für die Jahre 2004, 2005 und 2006 zu Unrecht verweigert [habe] und CEZ a.s. daher in ihrem gesetzlich eingeräumten Recht auf Gewährung eines Netzzugangs verletzt wurde“, gemäß § 20 Abs. 2 Elektrizitätswirtschafts- und –organisationsgesetz (EiWOG), BGBl. I Nr. 143/1998 i.d.F. BGBl. I Nr. 106/2006, in Verbindung mit § 31 Wiener Elektrizitätswirtschaftsgesetz 2001 (WEIWG 2001), LGBl. Nr. 72/2001, bzw. § 32 Wiener Elektrizitätswirtschaftsgesetz 2005 (WEIWG 2005), LGBl. Nr. 46/2005, in der Sitzung am 28.6.2006 einstimmig beschlossen:

Energie-Control Kommission  
p.A. Energie-Control GmbH  
Rudolfplatz 13a, A-1010 Wien

Tel: +43-1-24 7 24-0  
Fax: +43-1-24 7 24-900

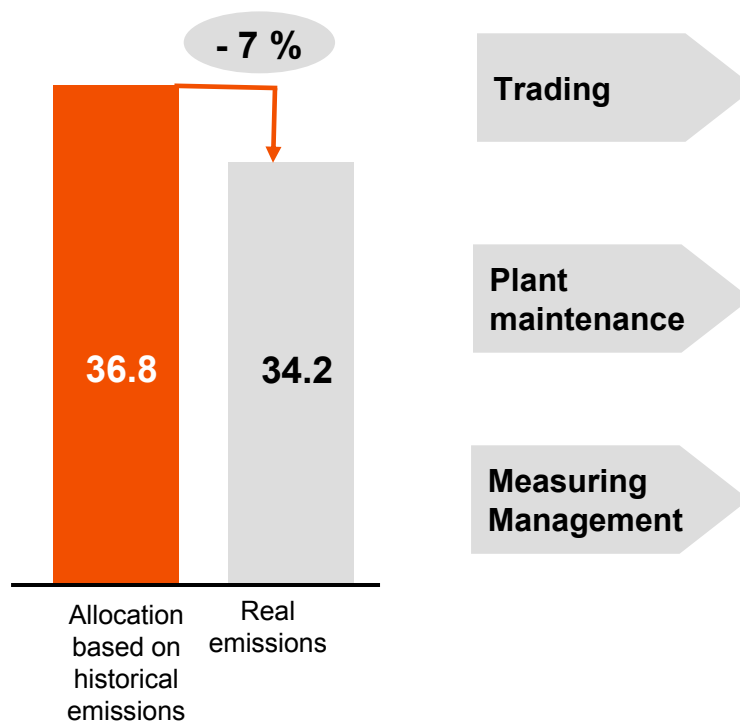
e-mail:office@e-control.at  
www.e-control.at

HG Wien  
FN 206078 g  
DVR 1059693



# CEZ IS EARNING ADDITIONAL MARGIN FROM SAVING CO<sub>2</sub> ALLOWANCES

## CO<sub>2</sub> Emissions M Tons, 2005



## Key measures taken

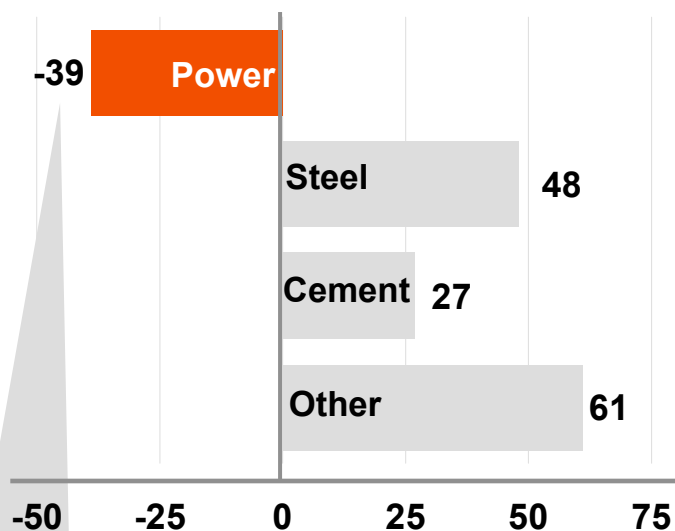
- Priority dispatch of units with low CO<sub>2</sub> emissions
- Reduction of export
- Increased availability of nuclear plants
- Increased focus on plant efficiency
- Increased renewable generation
- Implementation of more accurate measurement systems
- Opportunity cost of CO<sub>2</sub> emission considered in all decisions

Additional costs of the emission savings compensated from sales of saved CO<sub>2</sub> allowances



# CO<sub>2</sub> ALLOWANCES ALLOCATION IN THE FIRST TRADING PERIOD

## EU first phase allocation – surplus/deficit 2005, mil. tons CO<sub>2</sub>



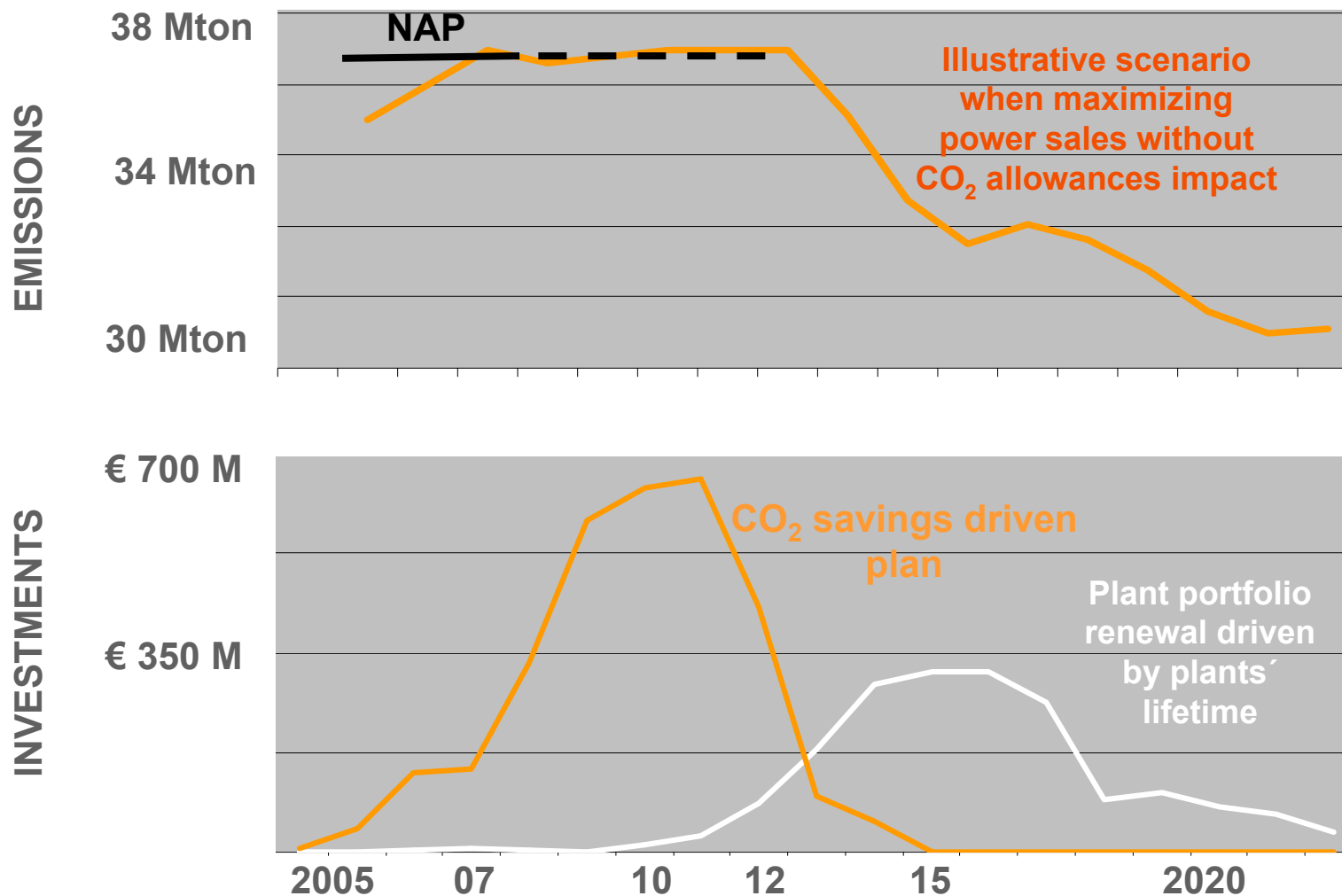
Power sector is the only one in deficit in the first period

## EU second phase allocation – guidelines

- Member states already meeting Kyoto targets (such as CR) may keep NAP II ceiling at NAP I levels
- When distributing the allowances to individual installations the governments should disregard data from the first phase to make ETS credible
- National allocation plan to be submitted to EC soon
- CEZ expects to be granted same volume as in current period

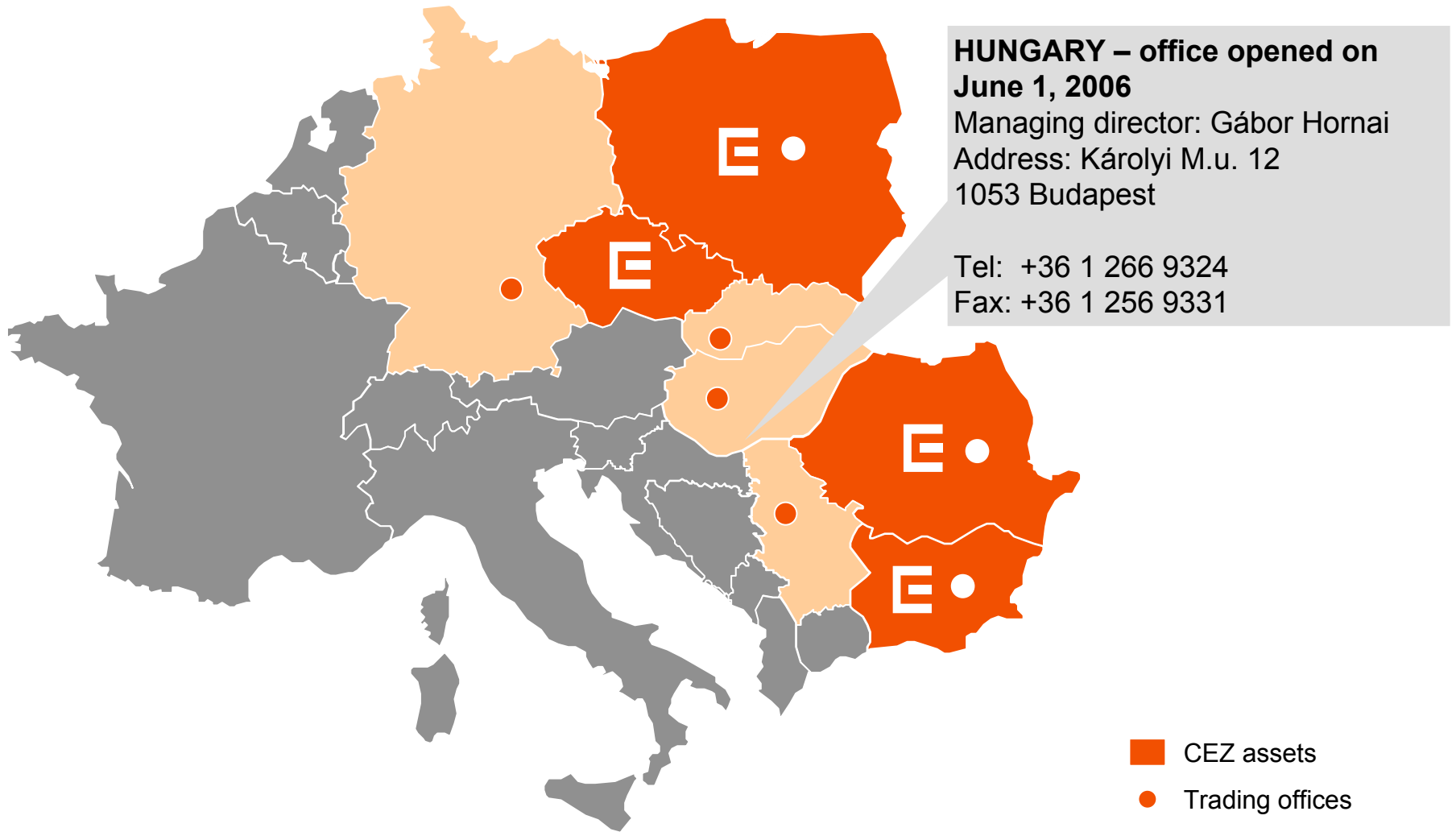


# EU ETS INCENTIVISED CEZ TO ACCELERATE AND INCREASE ITS INVESTMENTS IN GENERATION FLEET RENEWAL; HOWEVER THESE WILL BRING BENEFITS ONLY AFTER 2010





## IN JUNE CEZ OPENED ANOTHER TRADING OFFICE, THIS TIME IN HUNGARY





## AGENDA

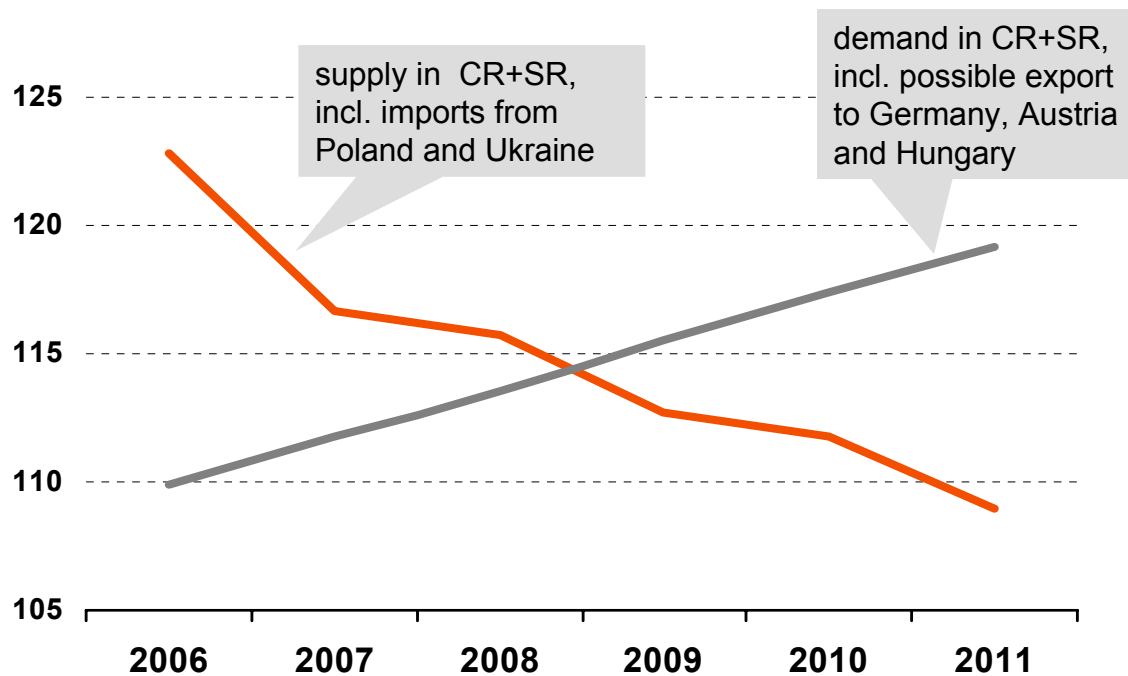
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# ERA OF RESERVE CAPACITY SURPLUS USED FOR EXPORTS OUTSIDE OF CZECH AND SLOVAK REPUBLICS WILL BE OVER IN THREE YEARS

## Czech and Slovak power market supply and demand development

TWh



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

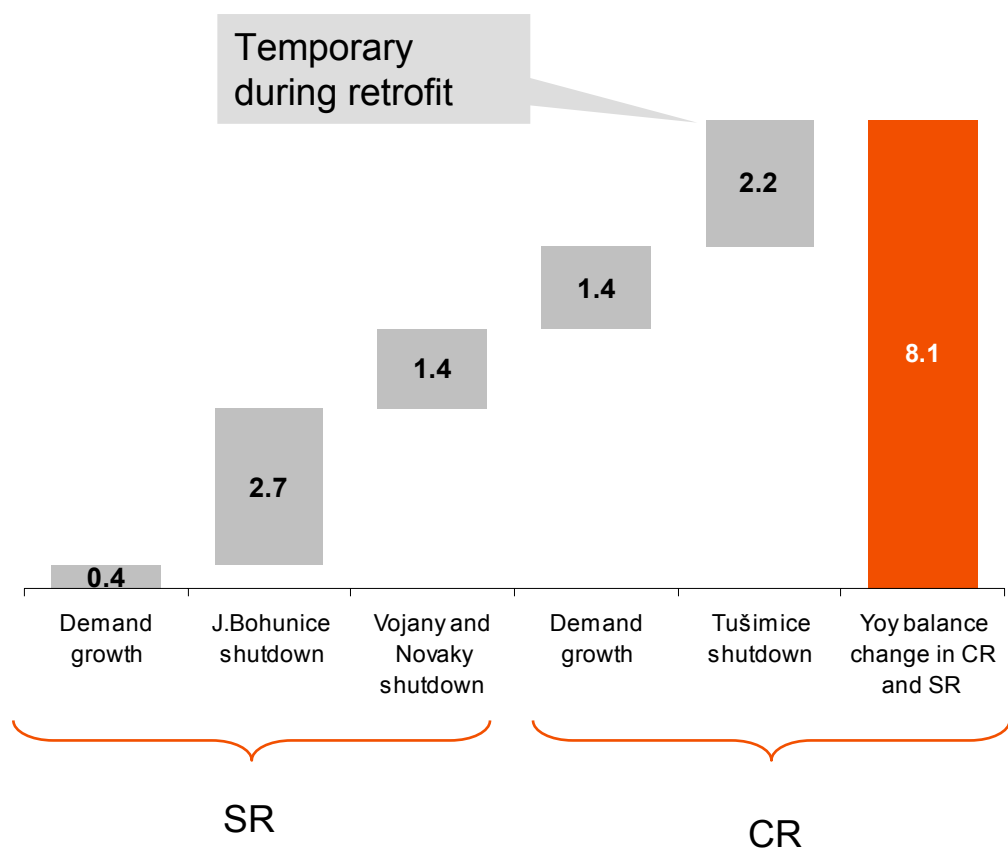
Annual change

8.1    2.9    5.9    2.8    4.6



# 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



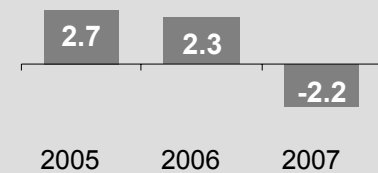
- Elimination of deficit of >8 TWh (approx. 11% CR demand) possible only via
  - imports or
  - initiation of expensive units (till now reserved)
- Both will have a strong impact on regional wholesale price development



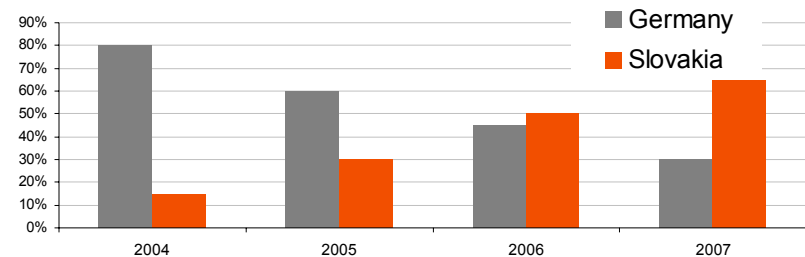
# CEZ WILL MOVE MOST OF ITS EXPORTS TO SLOVAKIA AND HUNGARY



Czech – Slovak  
Power import / export  
balance



CEZ's power export structure in %



Export  
TWh

20

16

14

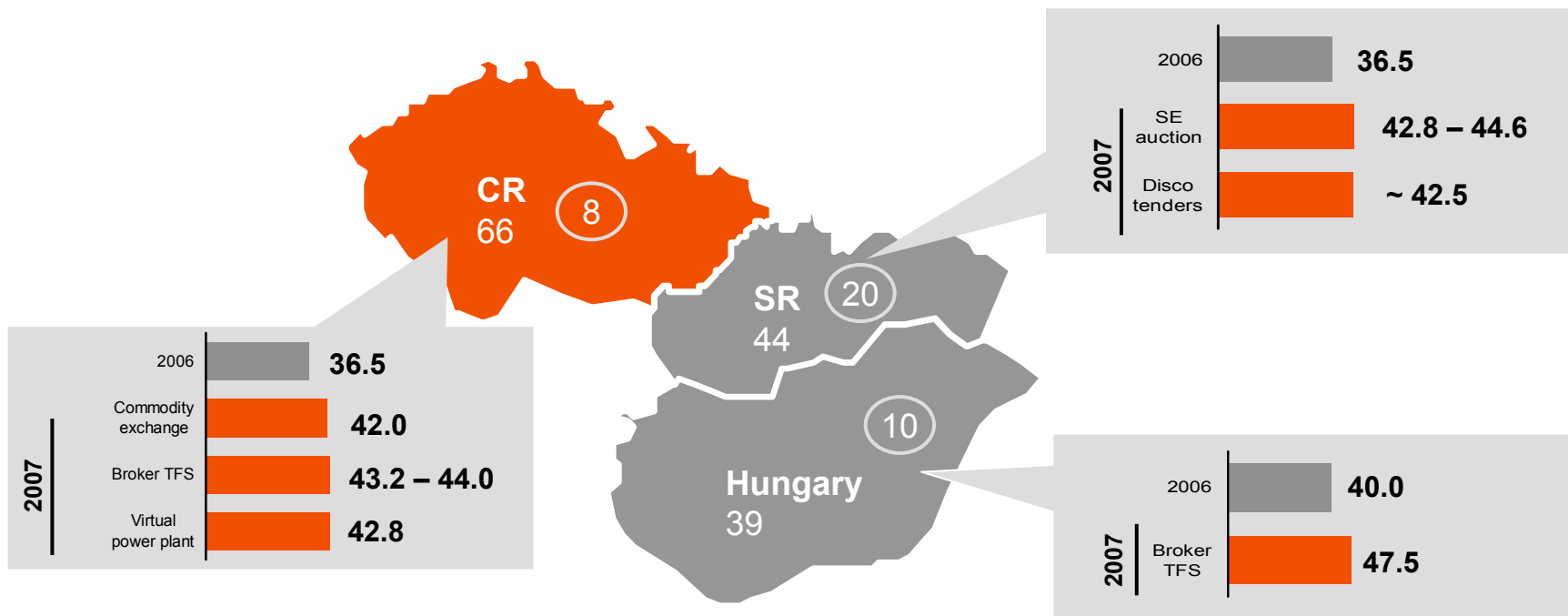
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# PRICE LEVEL OF ALREADY EXECUTED CONTRACTS IN THE REGION CONFIRMS THAT THERE IS AN INCREASING MARKET DEMAND FOR ELECTRICITY CONTRACTED 1 YEAR AHEAD

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

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



\* CZK/EUR 28.50, SKK/EUR 38.6, HUF/EUR 280.0

source: CEZ, a. s.; SE, a. s.; MVM; TFS; press clippings; KBK



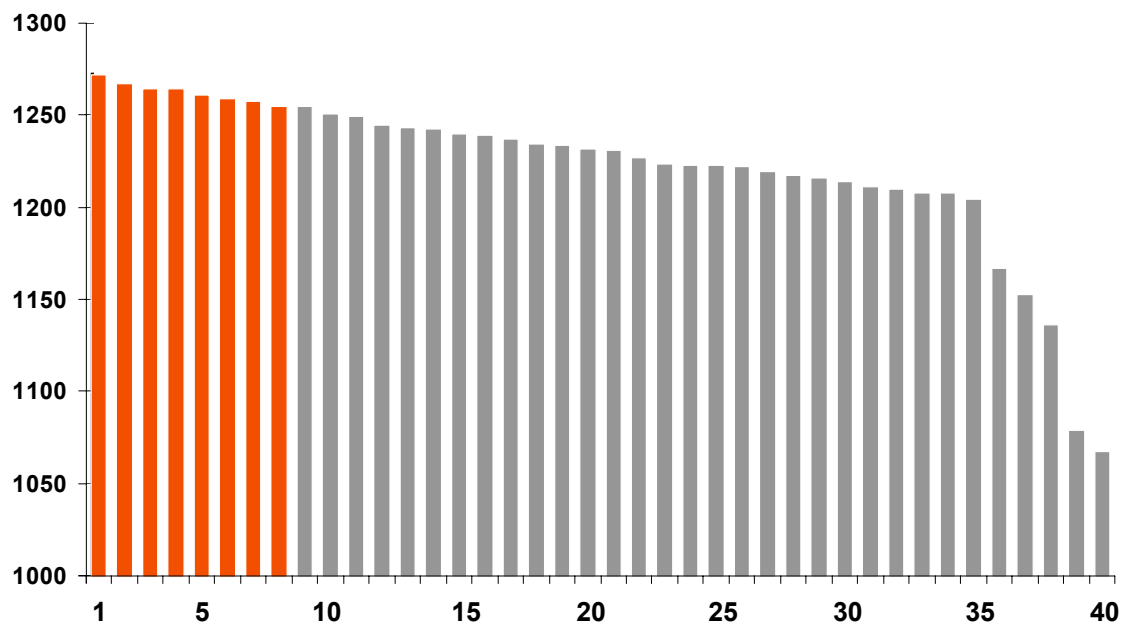
## Y-O-Y INCREASE OF WHOLESALE POWER PRICE IN VIRTUAL POWER PLANT AUCTION WAS A RESULT OF TRADERS' DEMAND

### Key outcomes of virtual power plant auction

- 18 registered participants, out of which 15 were valid
- Total of 40 bids submitted
- Successful bids in the range of 1,255 – 1,273 CZK/MWh

### Power prices in virtual power plant auction – overview of all bids

implied price (CZK/MWh)



- Average y-o-y increase of base load by 17.1% to 1,220 CZK/MWh
- 80 % of bids at average price of 1,239.50 CZK/MWh (14.9% above 2006 level)



## CEZ WILL CONTINUE TO SELL POWER IN THE WHOLESALE MARKET VIA AUCTIONS

- **CEZ will announce power auction designed for all trading partners who are registered settlement entities**
  - Auction start: August 15, 2006, 12.00
  - Ads in media will be published on August 17, 2006; as of that day all documents will be available on internet
  - Bids to be submitted by August 29, 2006
  - Results of the auction to be published on August 30, 2006
  
- **Auction will have two parts**
  - Part I: Auction of 500 MW annual base load („yellow power“); final price to be set by marginal price
  - Part II: Sale of all other products except for annual base load; maximum prices will be set; volume sold will depend on available generation capacity; after evaluating the volume sold CEZ may decrease the price
  
- **After the auction above CEZ will offer flexible product („white power“)**
- **Delivery will be in CEPS grid**
- **Auction will be organized by auction office FIN-servis, a.s.**



## AGENDA

- **Development in H1 2006**
  - **Main events**
  - **Development of power prices and prices of CO<sub>2</sub> allowances**
  - **Growth of CEZ generation volume**
  - **Regulator's decision regarding Polish – Austrian power transit**
  - **Measures aimed at CO<sub>2</sub> allowances savings**
  - **CEZ's trade offices development**
  
- **2007 outlook**
  - **Supply / demand balance in neighboring countries**
  - **Development of wholesale power prices**
  - **Exports heading eastwards**
  - **Virtual power plant auction**
  - **Further sales procedure**
  
- **Emergency situation in the transmission grid on July 25, 2006**
  - **Situation and event development**
  - **CEZ's proposals for improvement**



## CEZ ACTIVELY COOPERATED WITH CEPS TO RESOLVE THE EMERGENCY STATUS OF THE TRANSMISSION GRID

- 11:49 CEZ detects first drop-outs of its units  
disconnected units moved to island operations
- 12:30 CEPS dispatch center officially informs CEZ about the crisis situation
- 13:00 **CEZ decided to lower its exports despite significant financial burden**
- 14:00 CEPS announces emergency status, introduces regulatory degrees no. 2, 3, 4, 5  
CEPS utilizes emergency assistance of neighboring cooperating transmission grids  
**CEZ informed about emergency status; communication with CEZ**  
**Distribution initiated to implement regulation on demand side via HDO\***  
**CEZ offers to cut out consumption of Severoceske doly**
- 18:00 regulatory degrees no. 4 and 5 recalled  
**CEZ still in regular contact with CEPS operators and continues to be ready to help to ease the situation by adjusting its trading activities**
- 23:00 regulatory degrees no. 2 and 3 recalled; emergency status recalled; regulatory degree no. 1 remains in place
- 08:00 regulatory degree no. 1 recalled

*\* HDO – remote control allowing to cut out some customers in specific tariffs*



## CEZ PRESENTS PROPOSALS TO PREVENT, RESP. SMOOTHLY RESOLVE, SUCH SITUATIONS IN THE FUTURE

### ▪ **Volume of bought ancillary services**

- CEZ considers current volume of ancillary services purchased by CEPS insufficient for regulating the transmission grid in current conditions, therefore, recommends its increase

### ▪ **Intraday trading**

- Lack of standard and transparent intraday trading of the cross border capacity was clearly evidenced; this limits ability of market participants to react to sudden changes in power system balance

### ▪ **Price of regulation energy**

- Price for regulatory electricity (price for „deviation“) must be adjusted to prevent speculation on its range; recent trends evidence that peak prices tend to be above price for deviation which allows the said speculation