



CEZ GROUP



# THE LEADER IN POWER MARKETS OF CENTRAL AND SOUTHEASTERN EUROPE

Equity story, July 2006



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Certain statements in the following presentation regarding CEZ's business operations may constitute "forward looking statements." Such forward-looking statements include, but are not limited to, those related to future earnings, growth and financial and operating performance. Forward-looking statements are not intended to be a guarantee of future results, but instead constitute CEZ's current expectations based on reasonable assumptions. Forecasted financial information is based on certain material assumptions. These assumptions include, but are not limited to continued normal levels of operating performance and electricity demand at our distribution companies and operational performance at our generation businesses consistent with historical levels, as well as achievements of planned productivity improvements and incremental growth from investments at investment levels and rates of return consistent with prior experience. Actual results could differ materially from those projected in our forward-looking statements due to risks, uncertainties and other factors. CEZ undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In preparation of this document we used certain publicly available data. While the sources we used are generally regarded as reliable we did not verify their content. CEZ does not accept any responsibility for using any such information.



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## CEZ GROUP STANDS APART FROM OTHER UTILITIES IN EUROPE

- The vision of CEZ is to be the leader in power markets in the Central and Southeastern Europe
- The largest Czech corporation and the largest corporation among 10 new EU member states
- The best performing European utility stock with growth at >260% in the last 24 months with wide international shareholders base
- Leading position in Central European power markets, 2<sup>nd</sup> biggest exporter of power in Europe
- Vertically integrated in the Czech Republic – from mining (45% market share) through generation (72%) to distribution (62%) and supply (57%)
- Distribution and supply in Bulgaria (42% market share) and Romania (17%)
- Generation in Poland – Power Plants Elcho (220MW) and Skawina (590MW) and in Bulgaria – Power Plant Varna (1,260MW)



## CEZ GROUP OFFERS SOME EXCEPTIONAL FEATURES TO EQUITY INVESTORS

| Key features   | Rationale  |
|--|--|
| <ul style="list-style-type: none"><li>▪ Strong financial performance</li></ul>   | <ul style="list-style-type: none"><li>▪ EBITDA margin 40% (generation mix, growth potential)</li></ul>   |
| <ul style="list-style-type: none"><li>▪ Dynamic profit growth expected to continue</li></ul>   | <ul style="list-style-type: none"><li>▪ Growing power prices and consumption, efficiency improvements and synergies</li></ul>  |
| <ul style="list-style-type: none"><li>▪ Vertically integrated</li></ul>  | <ul style="list-style-type: none"><li>▪ Stable performance once prices converge</li></ul>  |
| <ul style="list-style-type: none"><li>▪ Robust balance sheet</li></ul>   | <ul style="list-style-type: none"><li>▪ Strong cash flow and very low level of debt</li></ul>  |
| <ul style="list-style-type: none"><li>▪ Management fully focused on financial performance</li></ul>  | <ul style="list-style-type: none"><li>▪ Group restructuring, aggressive performance targets</li></ul>  |
| <ul style="list-style-type: none"><li>▪ Dividend policy targets 40-50 % payout</li></ul>   | <ul style="list-style-type: none"><li>▪ 41% pay out ratio in 2005</li></ul>  |
| <ul style="list-style-type: none"><li>▪ International corporate governance practices</li></ul>   | <ul style="list-style-type: none"><li>▪ Under scrutiny of equity brokers, institutional investors, financial advisors and rating agencies (S&amp;P, Moody's)</li></ul> |
| <ul style="list-style-type: none"><li>▪ Increasing exposure to attractive regions of 1<sup>st</sup> and 2<sup>nd</sup> EU convergence zone</li></ul> | <ul style="list-style-type: none"><li>▪ Central and Southeastern Europe</li></ul>  |



## CEZ GROUP WILL CONTINUE TO IMPROVE ITS PERFORMANCE FASTER THAN OTHERS

|                         | 2006   | 2007 and beyond  | Long term   |
|-------------------------|--|--|---|
| With current capital    | <ul style="list-style-type: none"><li>Wholesale price growth, stable fuel costs</li><li>Transformation savings</li><li>Savings in CO<sub>2</sub> emissions</li><li>Improvements in last acquisitions</li></ul> | <ul style="list-style-type: none"><li>Wholesale price convergence, stable fuel costs</li><li>Higher utilization of plants</li><li>Best practice savings</li><li>Favorable regulation</li></ul> | <ul style="list-style-type: none"><li>Stable fuel costs</li></ul>   |
| With additional capital | <ul style="list-style-type: none"><li>Consolidation of latest acquisitions (Poland, Varna)</li></ul>   | <ul style="list-style-type: none"><li>New acquisitions</li><li>Increased nuclear capacity</li><li>Renewables</li></ul>   | <ul style="list-style-type: none"><li>Upgrade of Czech generation fleet</li><li>Green/Brown field generation projects abroad</li><li>Additional nuclear units</li></ul> |



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# CEZ GROUP IS AN INTERNATIONAL UTILITY WITH STABLE POSITION IN DOMESTIC MARKET AND GROWING PORTFOLIO IN CEE

- Asset positions
- Target markets
- Trading office

## CEZ Group in Poland

(75% share in Skawina, 89% in Elcho)

|                         |             |
|-------------------------|-------------|
| Electricity sales (TWh) | 3.6         |
| <b>Market share</b>     | <b>2.4%</b> |
| Installed capacity (MW) | 810         |
| <b>Market share</b>     | <b>2.3%</b> |
| Number of employees     | 776         |
| Sales (EUR million)     | 194         |

## CEZ Group in Romania

(51% share in EDC Oltenia)

|                               |            |
|-------------------------------|------------|
| Electricity sales (TWh)       | 4.1        |
| Number of customers (million) | 1.36       |
| <b>Market share</b>           | <b>17%</b> |
| Installed capacity (MW)       | 0          |
| Number of employees           | 2,969      |
| Sales (EUR million)           | 368        |

## CEZ Group in the Czech Republic

|                               |            |
|-------------------------------|------------|
| Electricity sales (TWh)       | 61.2       |
| Number of customers (million) | 3.44       |
| <b>Market share</b>           | <b>62%</b> |
| Installed capacity (MW)       | 12,298     |
| <b>Market share (MWh)</b>     | <b>72%</b> |
| Number of employees           | 22,241     |
| Sales (EUR million)           | 3,815      |

## CEZ Group in Bulgaria

(67% shares in 3 EDCs, 100% in TPP Varna )

|                               |               |
|-------------------------------|---------------|
| Electricity sales (TWh)**     | 7.9+2.5       |
| <b>Market share</b>           | <b>41%+6%</b> |
| Number of customers (million) | 1.9           |
| <b>Market share</b>           | <b>42%</b>    |
| Installed capacity (MW)       | 1,260         |
| Number of employees           | 4,693+900     |
| Sales (EUR million)**         | 409+73        |

\* IFRS 2005, \*\* Last figure relates to TPP Varna,2004  
Note: Exchange rate CZK/EUR = 29.0, CZK/PLN = 7.5

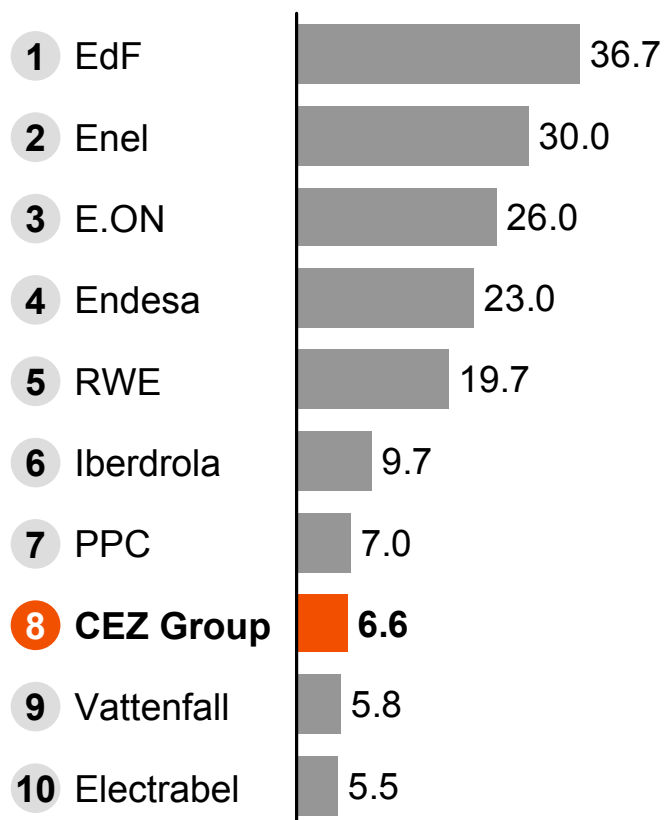
Source: CEZ, Distribution companies, national statistics



## CEZ BELONGS TO TOP 10 EUROPEAN POWER UTILITIES

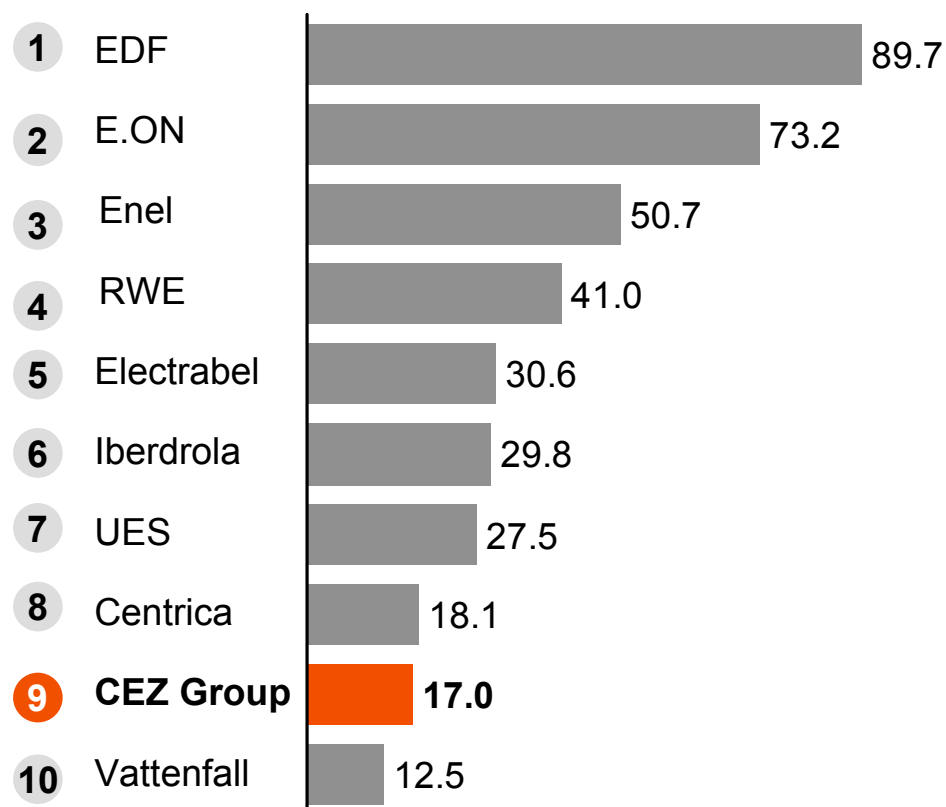
### Top 10 European power utilities

Number of customers in Europe, million



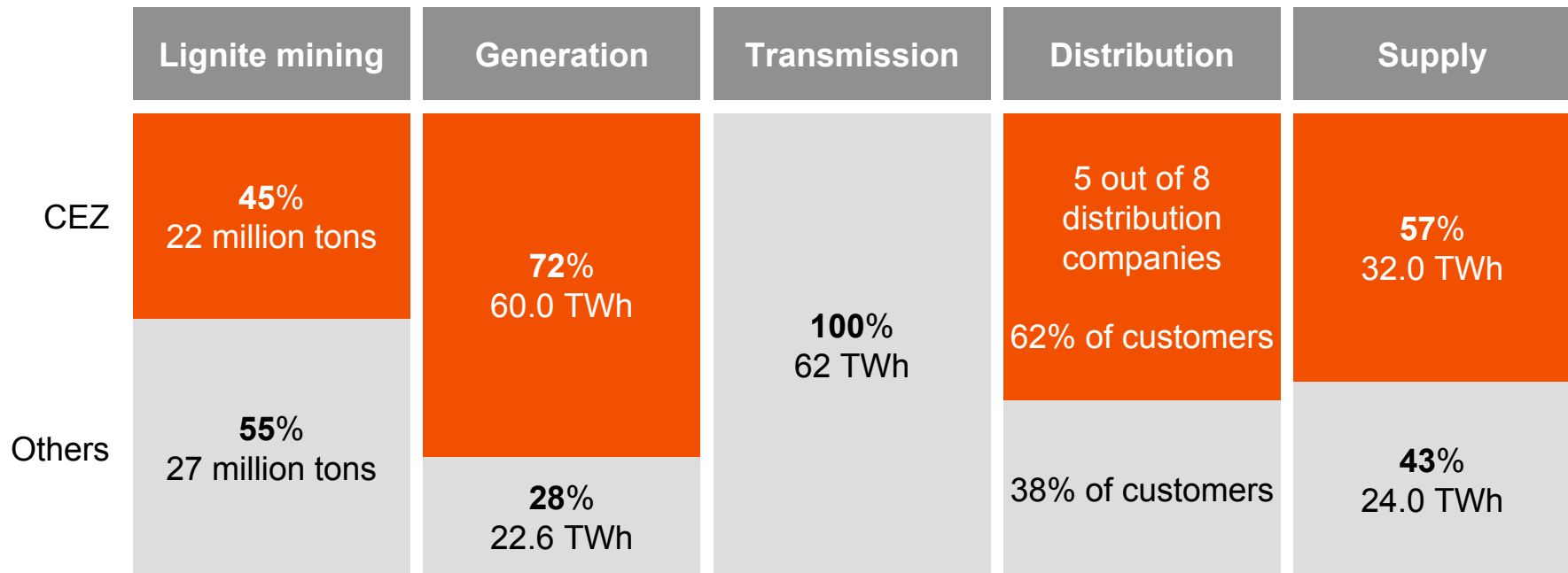
### Top 10 European power utilities

Market capitalization, USD bn, as of June 23, 2006





# CEZ IS A STRONG AND VERTICALLY INTEGRATED PLAYER ON THE CZECH ELECTRICITY MARKET



- CEZ fully owns the largest Czech mining company (SD)
- Remaining 3 coal mining companies are privately owned

- Other competitors – individual IPPs

- The Czech transmission grid is owned and operated by CEPS, 100% owned by the Czech state



- Other competitors – E.ON, RWE/EnBW



## VISION OF THE CEZ GROUP IS TO BE THE LEADER IN POWER MARKETS IN CENTRAL AND SOUTHEASTERN EUROPE

**Our vision**  
The leader  
in power  
markets in  
the Central  
and South-  
Eastern Europe

### **Business focus**

- Integrated utility focused on power generation, distribution and supply
- Present in related businesses where relevant (coal mining, heat generation)

### **Priority initiatives**

- **Czech Republic**
  - maintain strong hedged position
  - achieve operational excellence to be replicated across the group
  - renewal of plant portfolio
- **Central and South Eastern Europe**
  - build strong hedged position through acquisitions
  - integrate into the Group

### **Brand equity**

- Czech champion on the international energy markets



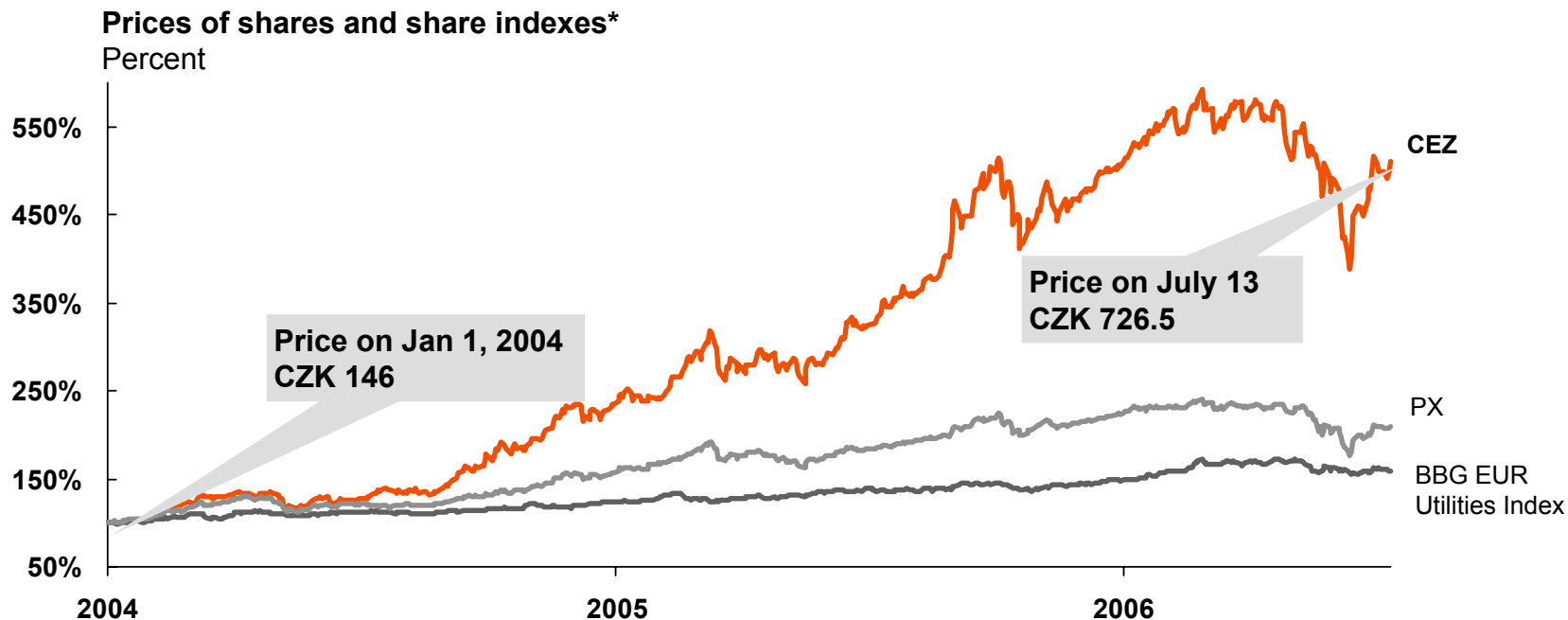
# NEW MANAGEMENT TEAM IS DETERMINED TO FULFILL THE MISSION

## Management team of CEZ Group

|                       | HR   | Trade  | Finance   | CEO   | Generation  | Distribution   | Operations  |
|-----------------------|--|--|---|---|---|--|---|
|                       |  |  |   |   |   |  |   |
|                       | <b>Zdeněk Pasák</b>  | <b>Alan Svoboda</b>  | <b>Petr Vobořil</b>   | <b>Martin Roman</b>   | <b>Jiří Borovec</b>   | <b>Tomáš Pleskač</b>   | <b>Daniel Beneš</b>   |
| <b>Responsibility</b> | <ul style="list-style-type: none"> <li>Human Resources</li> <li>Internal Communication</li> </ul>  | <ul style="list-style-type: none"> <li>Trading</li> <li>Sales and marketing</li> <li>Customer services</li> <li>Business dev.</li> </ul>                     | <ul style="list-style-type: none"> <li>Treasury</li> <li>Accounting</li> <li>Planning/controlling</li> <li>ICT</li> </ul> | <ul style="list-style-type: none"> <li>M&amp;A</li> </ul>   | <ul style="list-style-type: none"> <li>Conventional generation</li> <li>Nuclear generation</li> <li>New projects</li> </ul> | <ul style="list-style-type: none"> <li>Distribution</li> <li>Foreign equity participations</li> <li>Integration</li> </ul> | <ul style="list-style-type: none"> <li>Domestic Equity participations</li> <li>Procurement</li> <li>Coal mining</li> </ul>                |
| <b>Credentials</b>    | <ul style="list-style-type: none"> <li>Managing Partner Madsen &amp; Taylor Consulting</li> <li>Senior Consultant and International Partner Group Helmut Neumann Int.</li> </ul> | <ul style="list-style-type: none"> <li>Partner in McKinsey &amp; Company responsible for energy sector</li> <li>CFO in regional power distributor</li> </ul> | <ul style="list-style-type: none"> <li>Top management positions in CEZ, including CEO</li> </ul>                          | <ul style="list-style-type: none"> <li>CEO of Škoda holding in Plzeň</li> <li>CEO of US-owned Janka Lennox</li> </ul> | <ul style="list-style-type: none"> <li>CEO of Škoda Nuclear division</li> <li>CEO ABB Service Czech Republic</li> </ul>     | <ul style="list-style-type: none"> <li>Top management positions within the CEZ Group</li> </ul>                            | <ul style="list-style-type: none"> <li>Head of Sales Bohemiacoal</li> <li>Plant director Tchas</li> <li>Director Hedviga Group</li> </ul> |
| <b>Since</b>          | <ul style="list-style-type: none"> <li>2006</li> </ul>   | <ul style="list-style-type: none"> <li>2004</li> </ul>   | <ul style="list-style-type: none"> <li>1980</li> </ul>  | <ul style="list-style-type: none"> <li>2004</li> </ul>  | <ul style="list-style-type: none"> <li>2005</li> </ul>  | <ul style="list-style-type: none"> <li>1993</li> </ul>   | <ul style="list-style-type: none"> <li>2004</li> </ul>  |



# CEZ STOCK HAS SIGNIFICANTLY OUT-PERFORMED THE CZECH MARKET AS WELL AS EUROPEAN UTILITIES



**CEZ shares are among the most liquid on the Prague Stock Exchange**

- **Average daily volume in Q2 2006**
  - CZK 1.9 billion
  - 2.5 million pieces
  - 1.3% of the free float

**Dual listing in Warsaw in progress**

**CEZ shares are part of the following main indices**

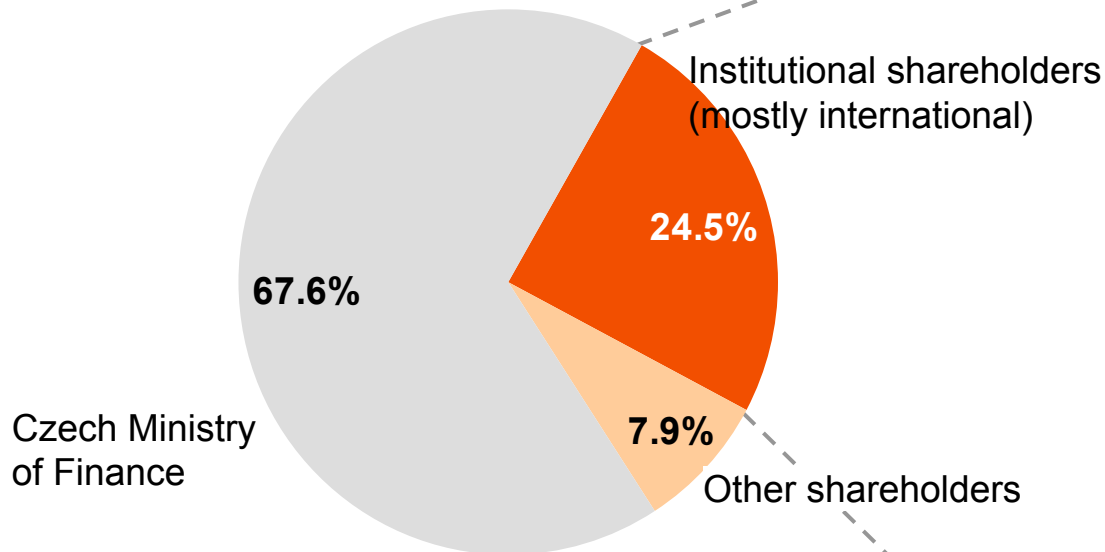
- PX – Prague Stock Exchange
- CTX – Wiener Borse
- CETOP 20 – Budapest Exchange
- STOXX EU Enlarged – Dow Jones

\* Indexed to Jan 1, 2004



# CEZ GROUP ATTRACTED MANY INTERNATIONAL SHAREHOLDERS

**Shareholders of CEZ, a. s.**  
As of December 31, 2005



Government stake unlikely to be reduced in near future

## Types of funds investing in CEZ shares

- Utilities
- Emerging markets
- Hedge

Increasing share

## Examples of large foreign investors

- Baring Global Umbrella
- BNP Paribas
- Charlemagne Capital
- Credit Suisse Life & Pensions
- J. P. Morgan
- Merrill Lynch
- Norwich Life & Pensions Ltd.
- Pioneer
- The State Teachers Retirement System Ohio
- UBS

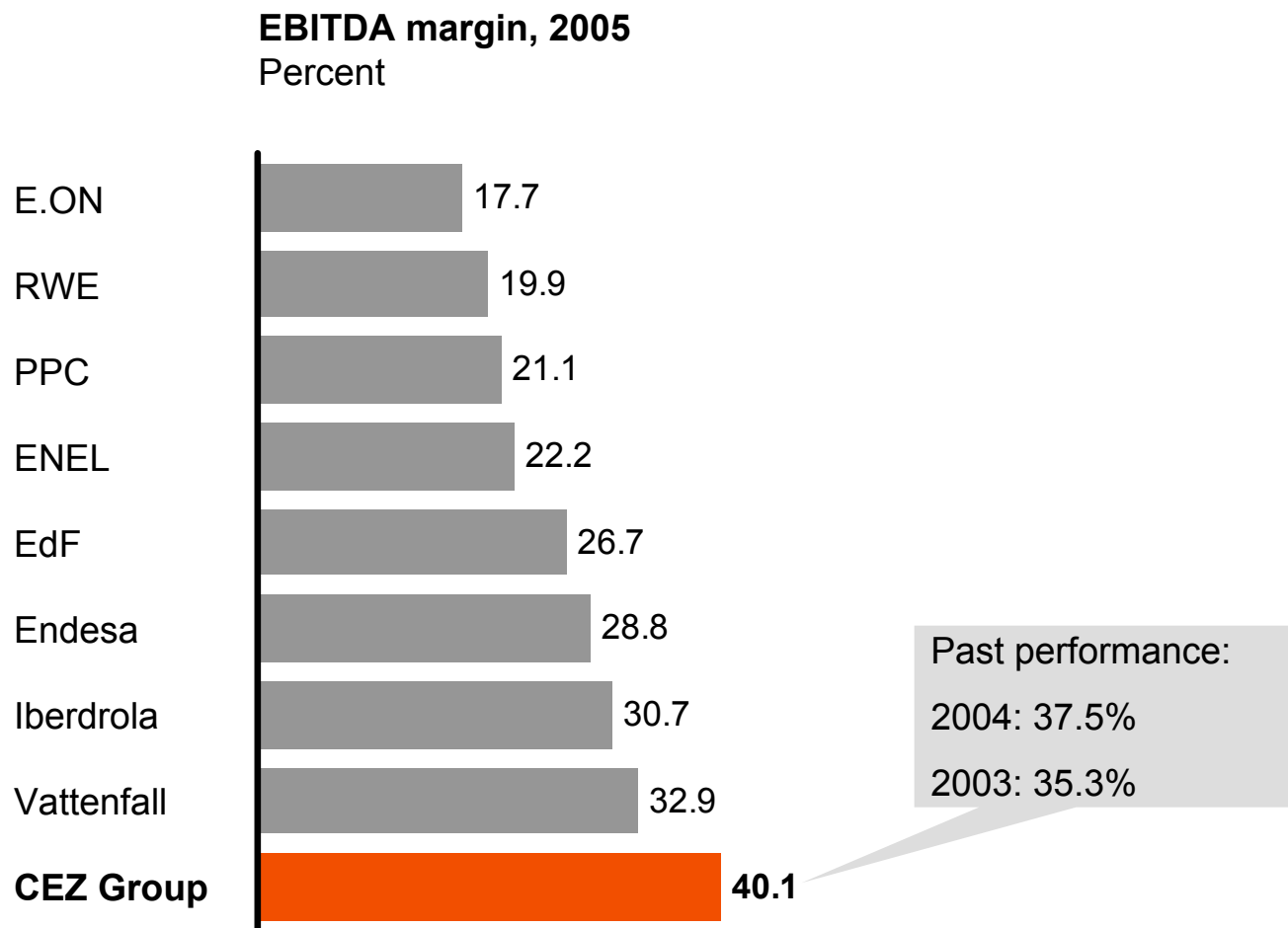


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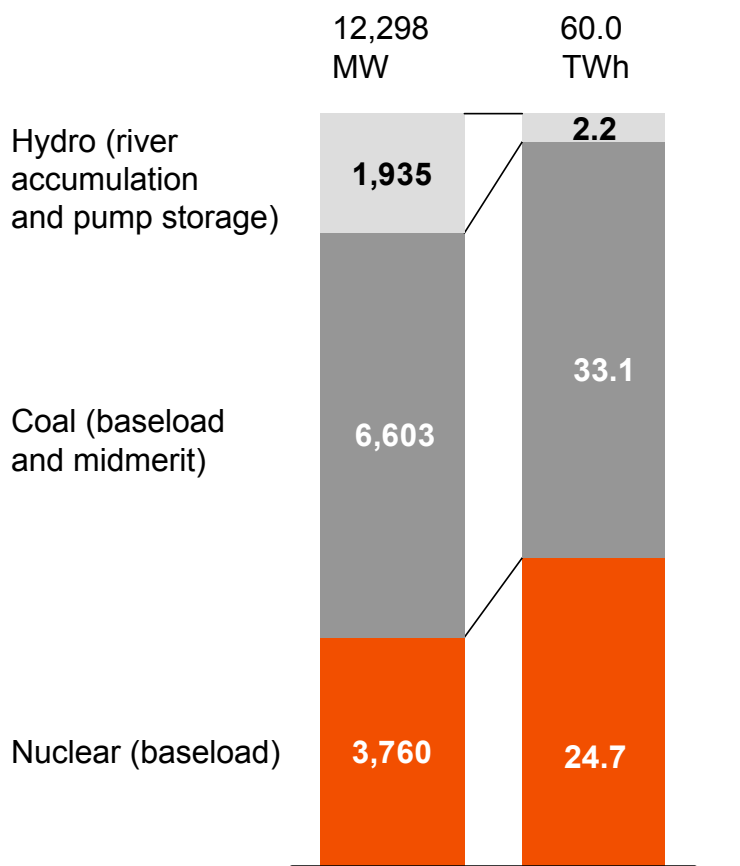
# CEZ GROUP IS THE MOST PROFITABLE UTILITY IN EUROPE



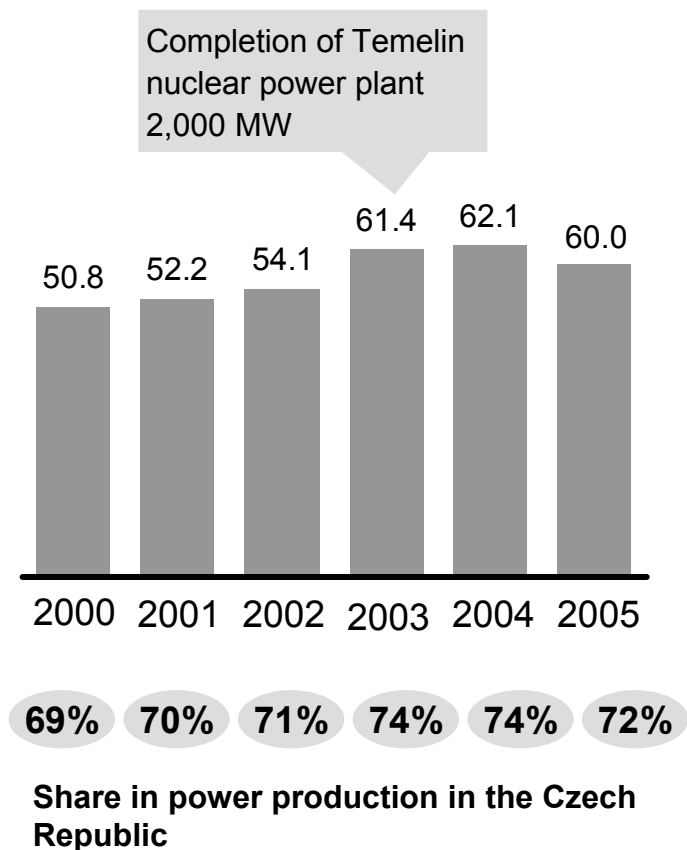


# THE MAIN COMPETITIVE ADVANTAGE OF CEZ GROUP IS THE LOW COST GENERATION FLEET

### CEZ Group generation (2005)



### Annual production of CEZ Group TWh



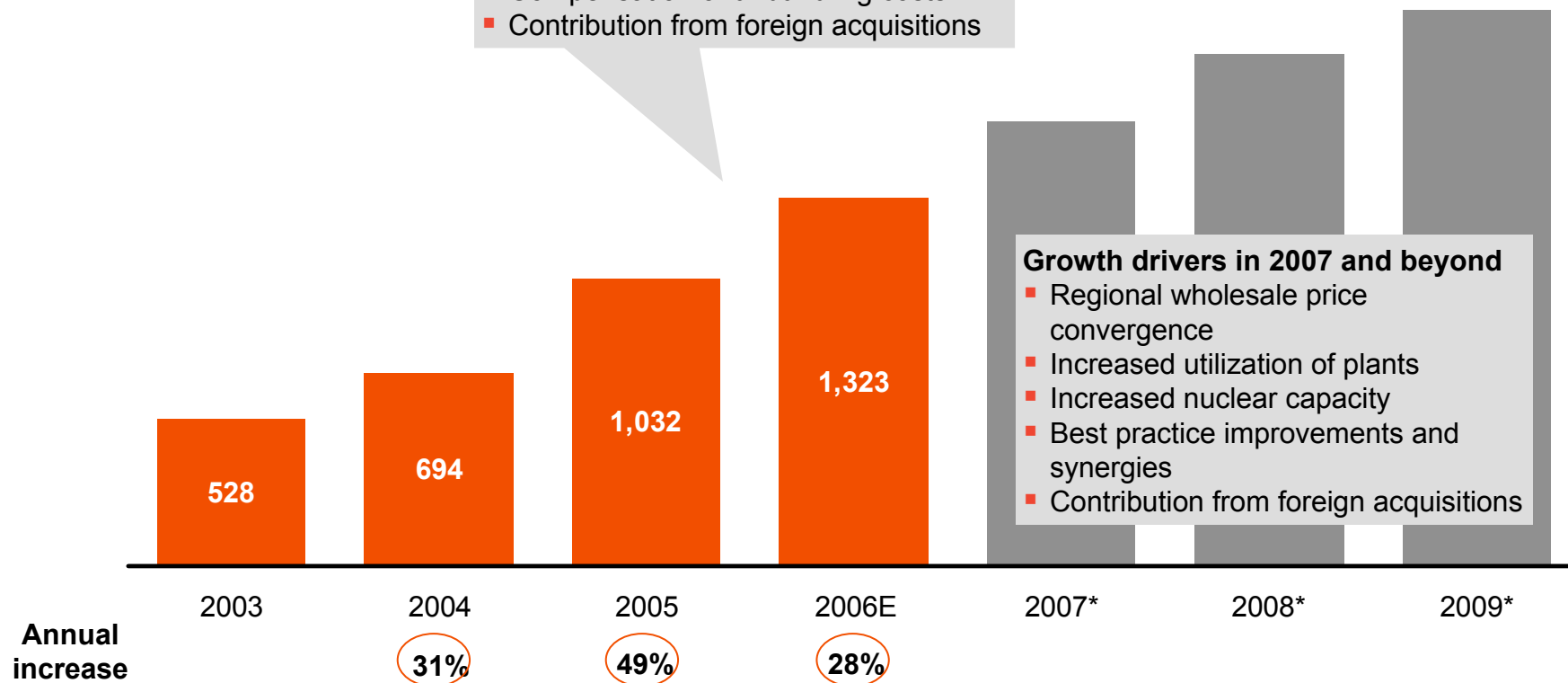


# CEZ GROUP MAINTAINS VERY HIGH DYNAMICS IN PROFIT GROWTH

**EBIT of CEZ Group**  
EUR millions

### Growth drivers in 2006

- 15% wholesale price increase
- Savings in CO<sub>2</sub> emissions
- Savings from restructuring (VIZE 2008)
- Compensation of unbundling costs
- Contribution from foreign acquisitions



### Growth drivers in 2007 and beyond

- Regional wholesale price convergence
- Increased utilization of plants
- Increased nuclear capacity
- Best practice improvements and synergies
- Contribution from foreign acquisitions

\* Illustrative

Note: Exchange rate CZK/EUR = 28.50



## CEZ GROUP WILL MAINTAIN LONG-TERM COMPETITIVE ADVANTAGE IN GENERATION COSTS

### Sources of long-term competitive advantage:

#### ■ Conventional generation

- Long term fuel lignite contract till 2050 for >90% of consumption
- Prices change only as fraction of electricity price and inflation changes
- Large share of supplies from own mines (~ 60% of lignite)
- Increased efficiency after plant portfolio renewal and maintenance cost reduction

#### ■ Nuclear generation

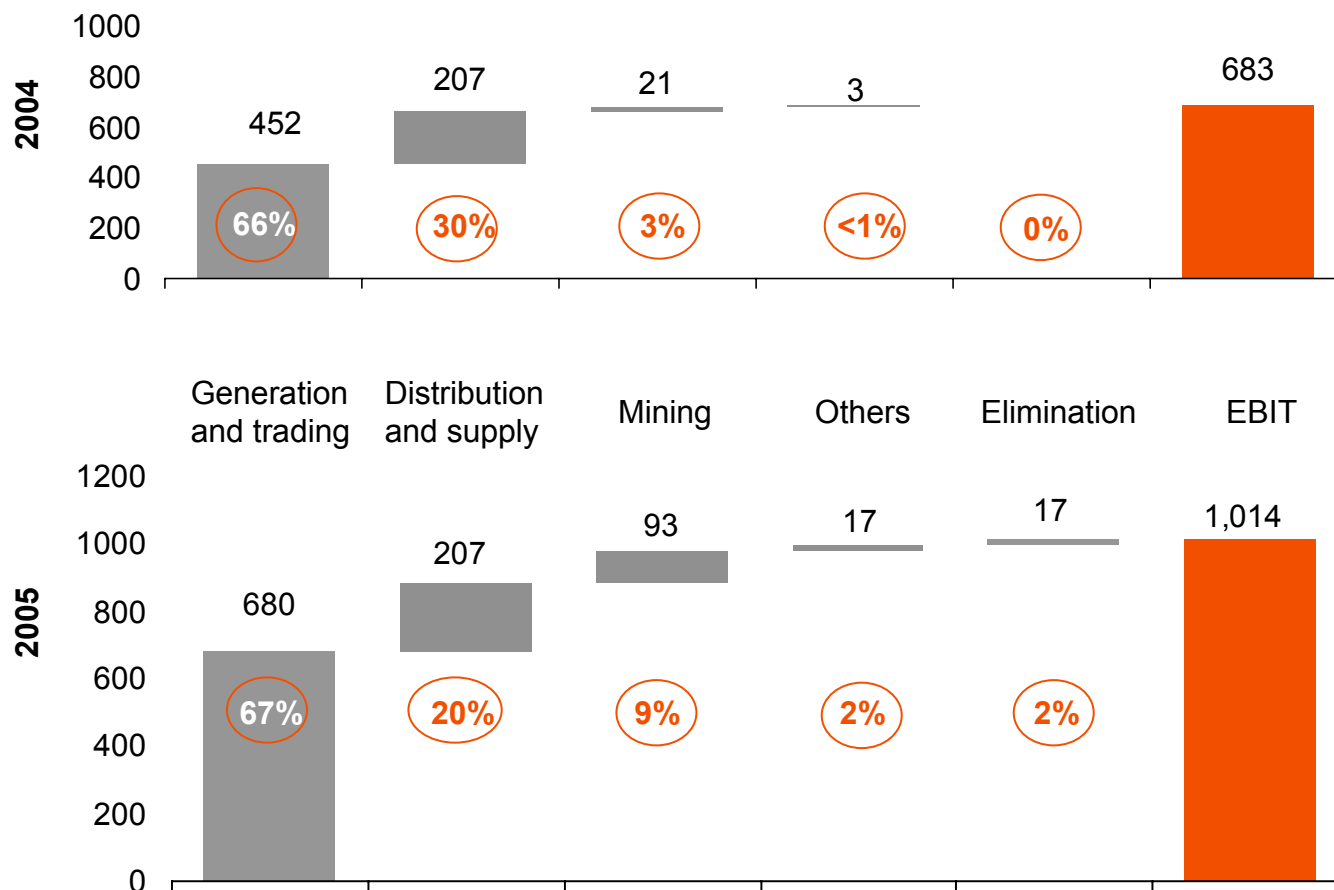
- Operations approved till 2037 (Dukovany after extension) and 2042 (Temelin)
- Further extension technically feasible and likely to be granted
- Increased capacity of Dukovany (~10% or 165 MW) after turbine rotor upgrades and increased reactor's thermal output
- Increased capacity of Temelin (~4% or 80 MW) after turbine rotor upgrades



# CEZ GROUP PROFITABILITY IS DRIVEN BY GENERATION AND TRADING

## EBIT contribution in 2004 and 2005

EUR m



Note: exchange rate 29 CZK/EUR

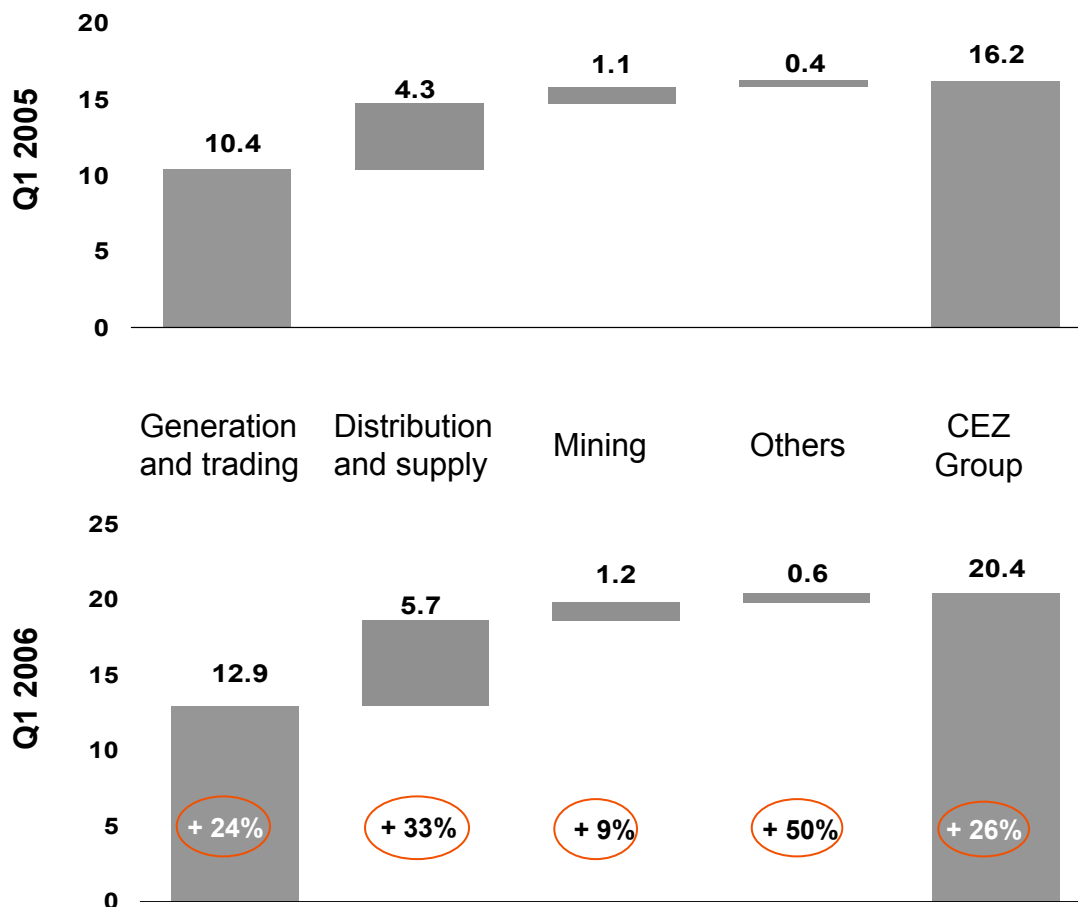
- Generation and trading contribute more than 2/3 to overall group EBIT
- Distribution and supply contribution impacted by one-off items in Czech business in 2004 and 2005
- Foreign distribution companies contributed ~ 4% to total group EBIT in 2005
- Mining contribution in 2004 impacted by one off items



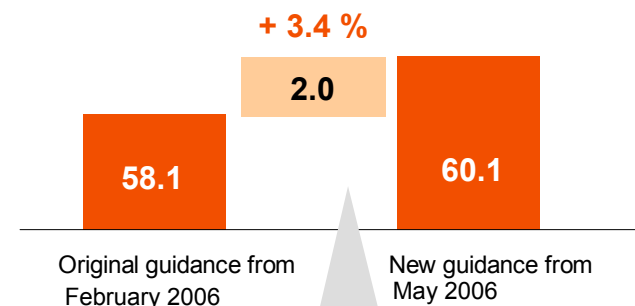
# EXPECTED PROFITABILITY GROWTHS IS CONFIRMED BY THE LATEST SET OF QUARTERLY DATA RESULTING IN IMPROVED GUIDANCE FOR 2006

## Contribution to EBITDA of CEZ Group

CZK bn



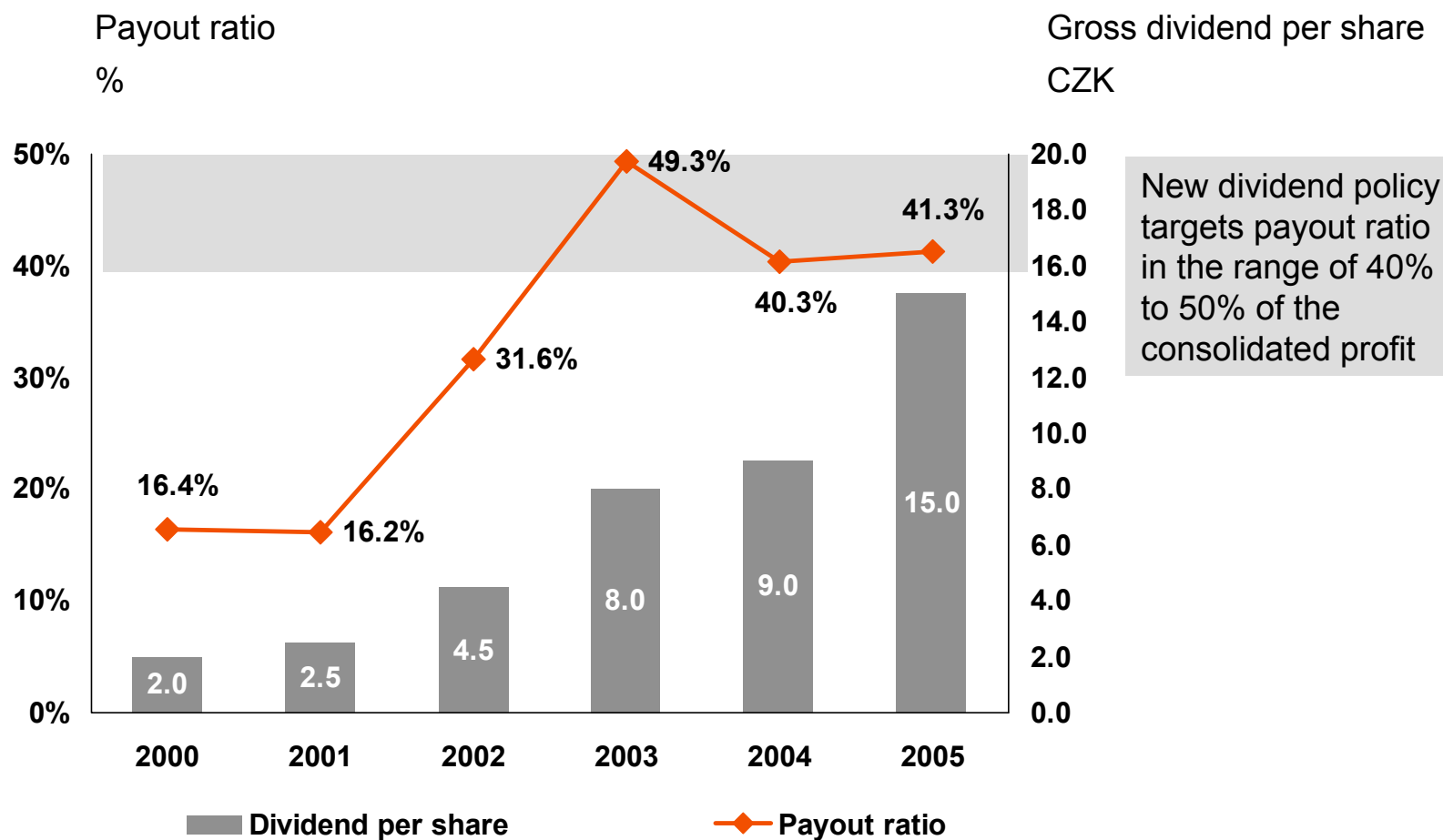
## EBITDA of CEZ Group 2006 guidance, CZK bn



- Higher wholesale margin
- Higher contribution from foreign operations



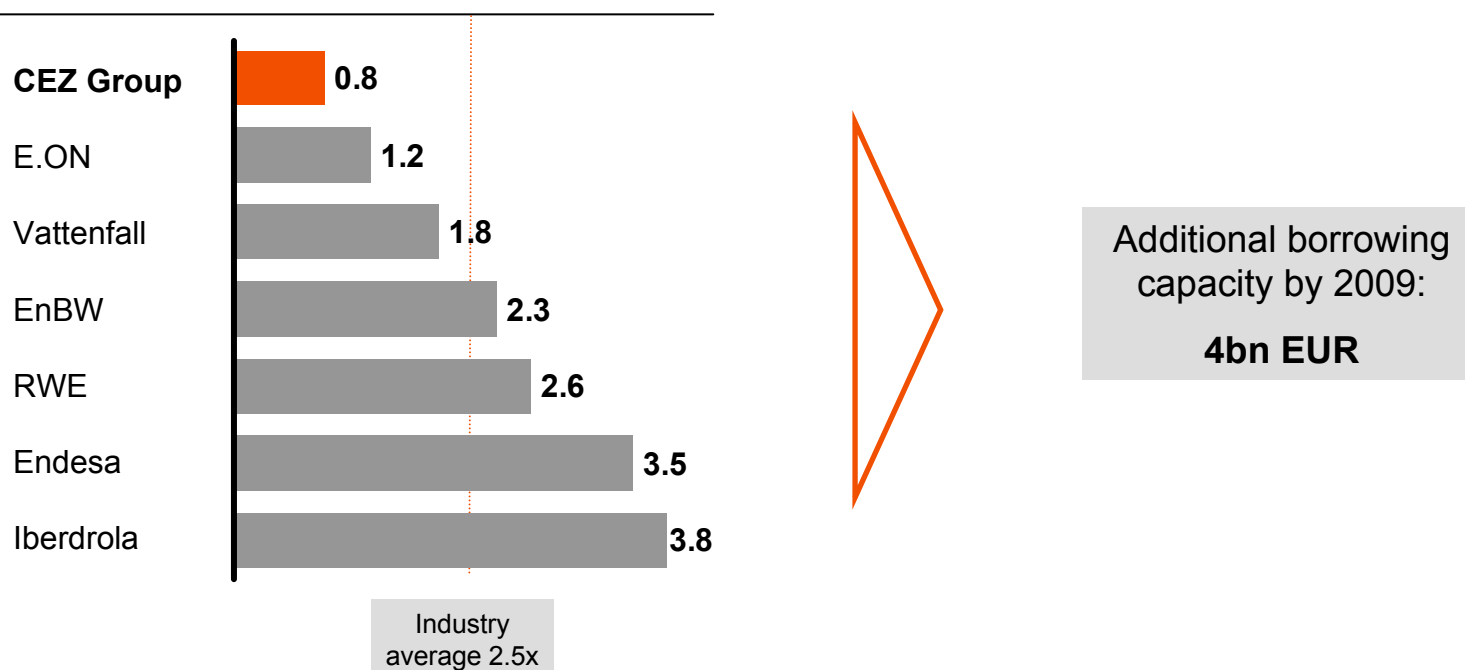
## CEZ HAS IN LAST YEARS SIGNIFICANTLY INCREASED IT'S DIVIDEND PAYMENTS





## CEZ GROUP IS THE LEAST INDEBTED UTILITY IN EUROPE WITH STRONG ADDITIONAL BORROWING CAPACITY

### Debt/ EBITDA Multiples, 2005

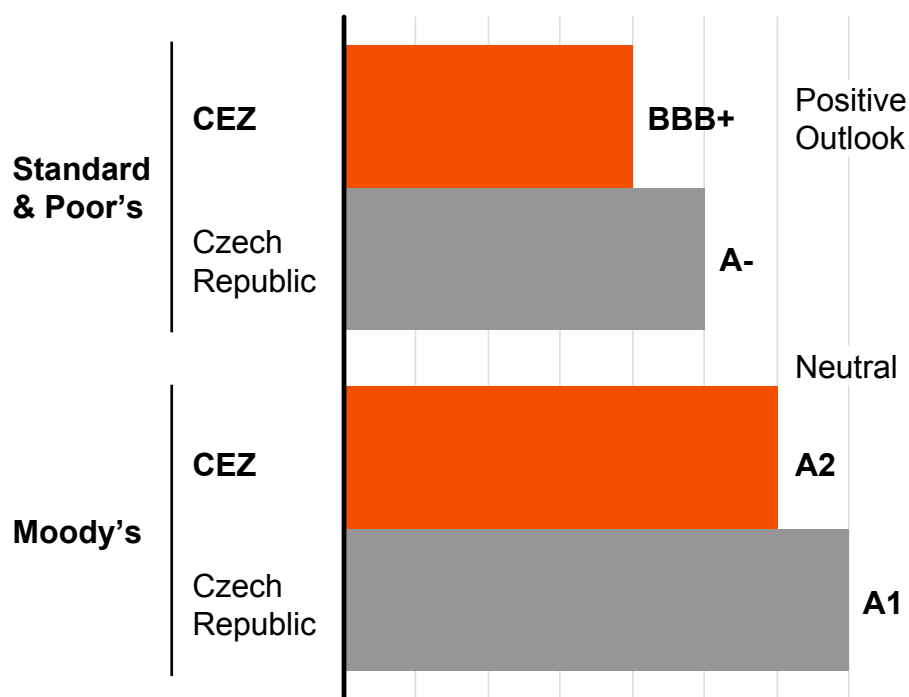


- Additional borrowing capacity may be used to finance recent acquisitions
- CEZ management committed to reach optimal capital structure



# CEZ MAINTAINS VERY STRONG CREDIT RATING

## Credit rating of CEZ and Czech Republic

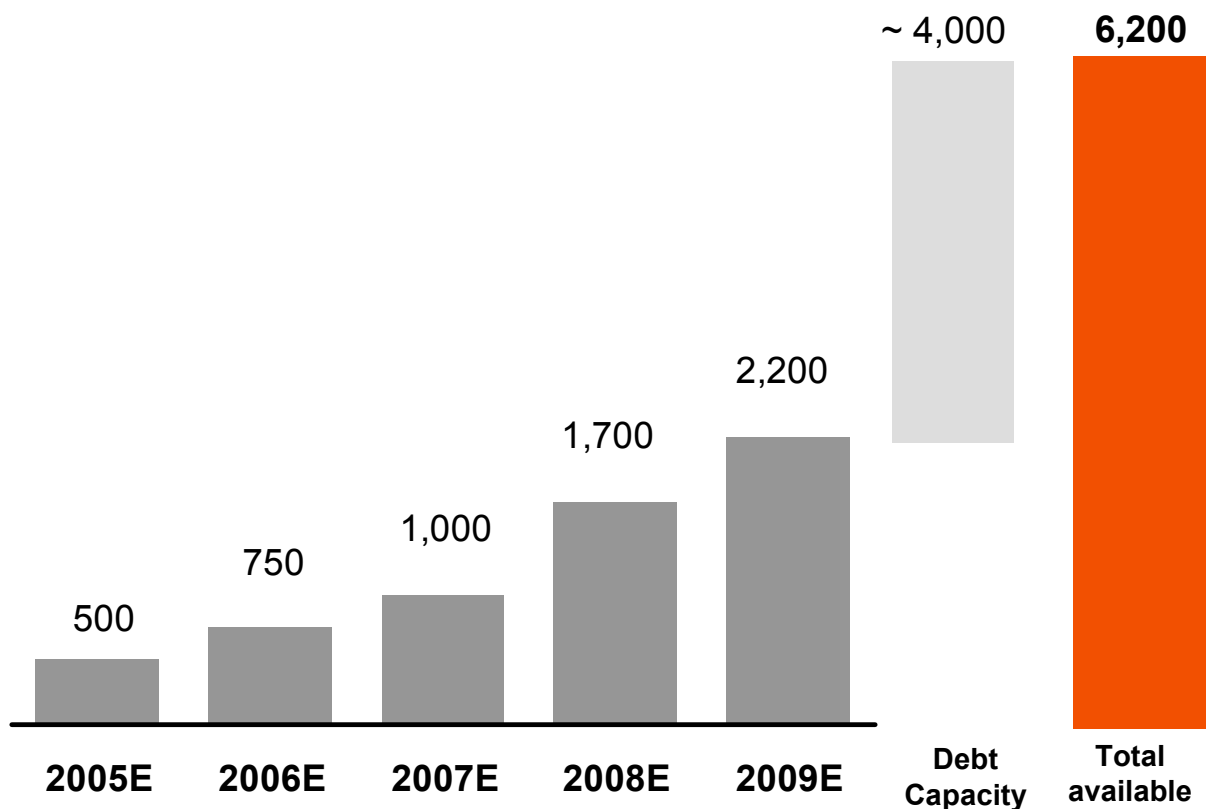


- CEZ has high credit rating just below the country risk
- CEZ has been first rated company in former Eastern Europe
- CEZ has been first and one of the largest corporate bond issuers in CEE
- CEZ is committed to maintain its strong credit rating



# CEZ GROUP HAS VERY STRONG FREE CASH-FLOW THAT COMBINED WITH ADDITIONAL BORROWING CAPACITY CAN BE USED TO FINANCE INTERNATIONAL GROWTH UP TO EUR 6.2 BILLIONS

**Free cash flow of CEZ Group (cumulative)**  
EUR million



CEZ Group can finance foreign acquisitions in the next 3-5 years from free cash flow up to EUR 6,200 millions without impacting

- Dividend payments (40% - 50% pay out ratio)
- Budgeted CAPEX



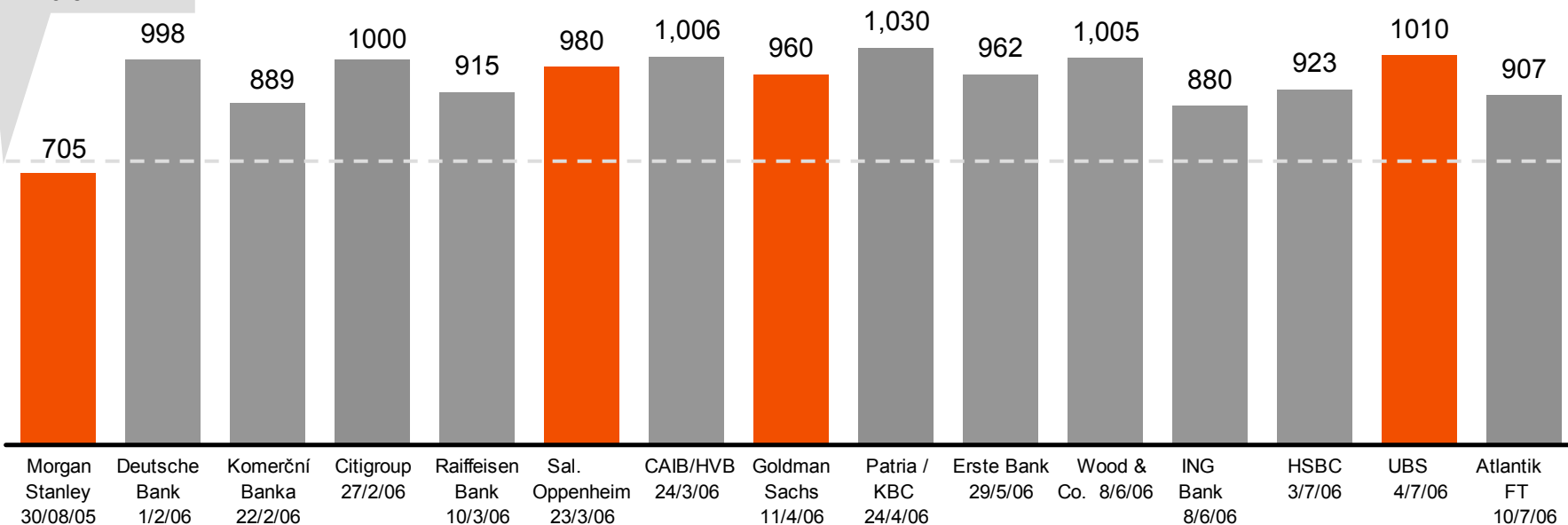
# ANALYSTS MAINTAIN POSITIVE VIEW ON CEZ GROUP PERFORMANCE

## Target share price

CZK, ranked by date of issue

■ Utilities analysts

Current share price  
CZK 726.5\*



## Recommendation:



\* July 13th, 2006

Note: Some of the analysts use different rating for recommendations and/or apply different meaning to target price

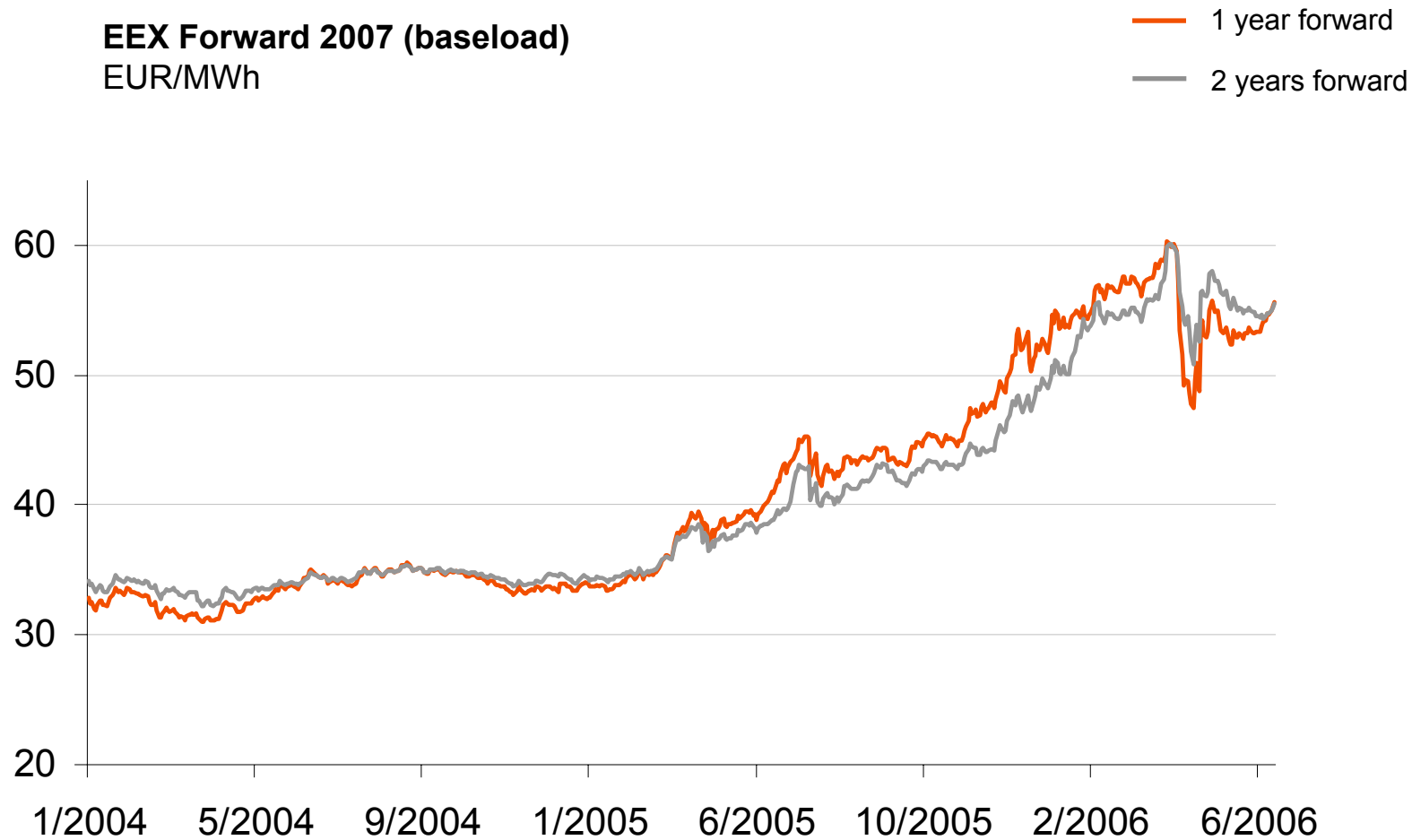


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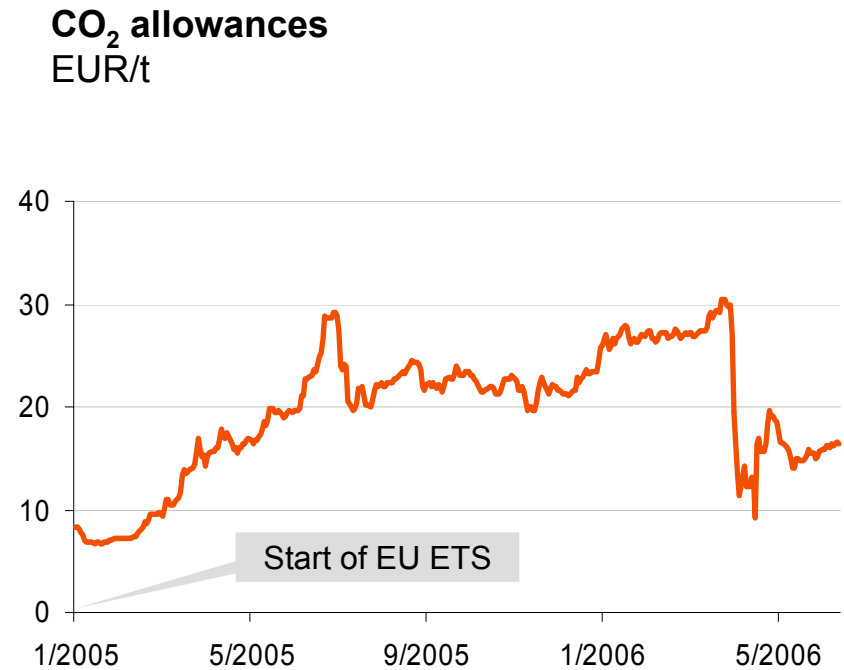
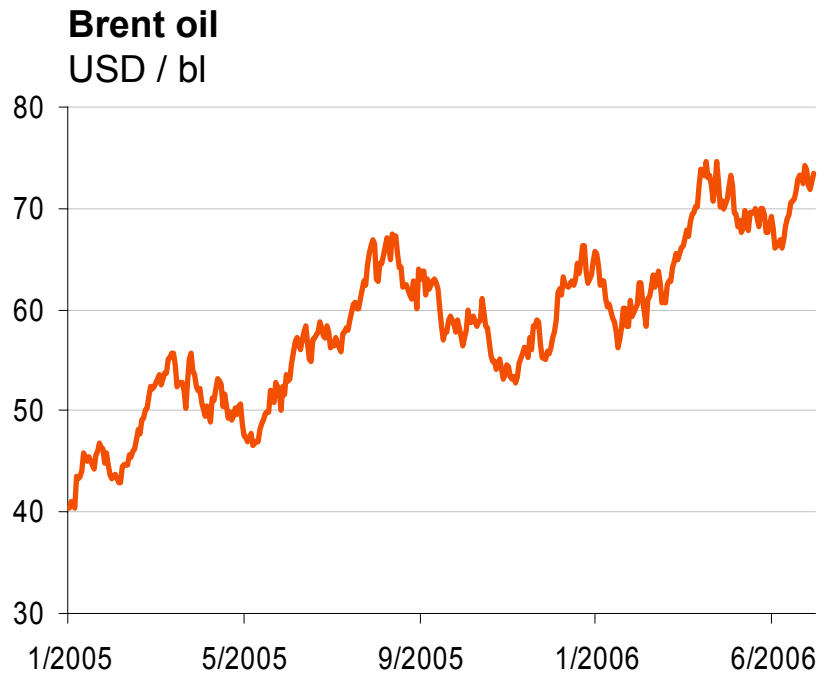


# GERMAN POWER PRICES AS BENCHMARK FOR THE REGION CONTINUE INCREASING





# GERMAN PRICES ARE DRIVEN BY GROWING OIL PRICES, CO<sub>2</sub> ALLOWANCES AND SUPPLY DEMAND SQUEEZE



## Additional factor

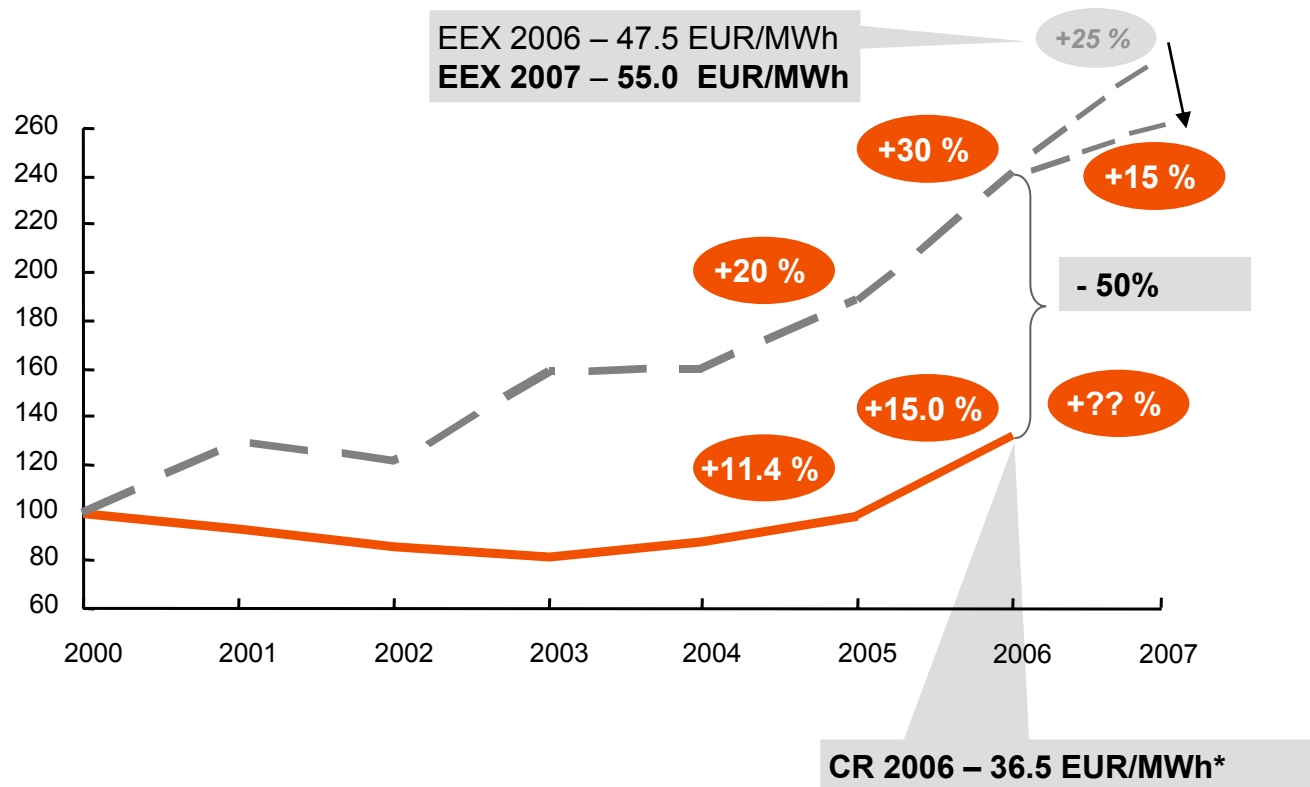
Supply / Demand  
Squeeze

- CO<sub>2</sub> allowances were distributed to emitters for free in volume believed to be lower than required
- Market price of CO<sub>2</sub> allowances reflects the extra costs of emissions saving (fuel switching, new technologies, ...)
- Market price of CO<sub>2</sub> de facto represents additional variable (opportunity) cost



# CZECH WHOLESALE PRICES ARE LINKED TO INCREASING GERMAN PRICES

**Wholesale power price (baseload)**  
2000 index



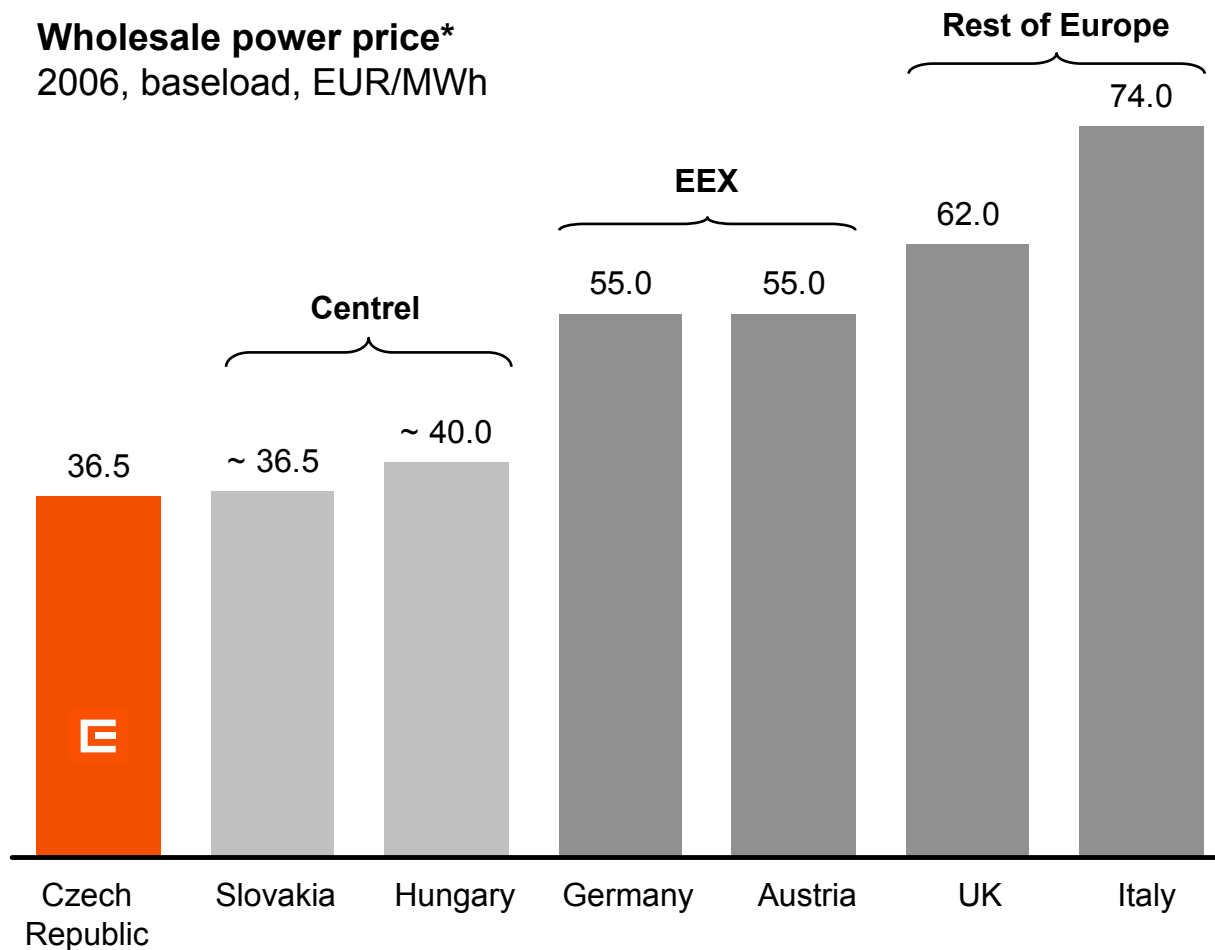
Price in the Czech Republic will continue increasing to German levels due to shortening supply and fast demand growth in the region

\* Exchange rate CZK / EUR 28.50



# WHOLESALE PRICES IN THE CZECH REPUBLIC ARE STILL AMONG THE LOWEST IN THE REGION

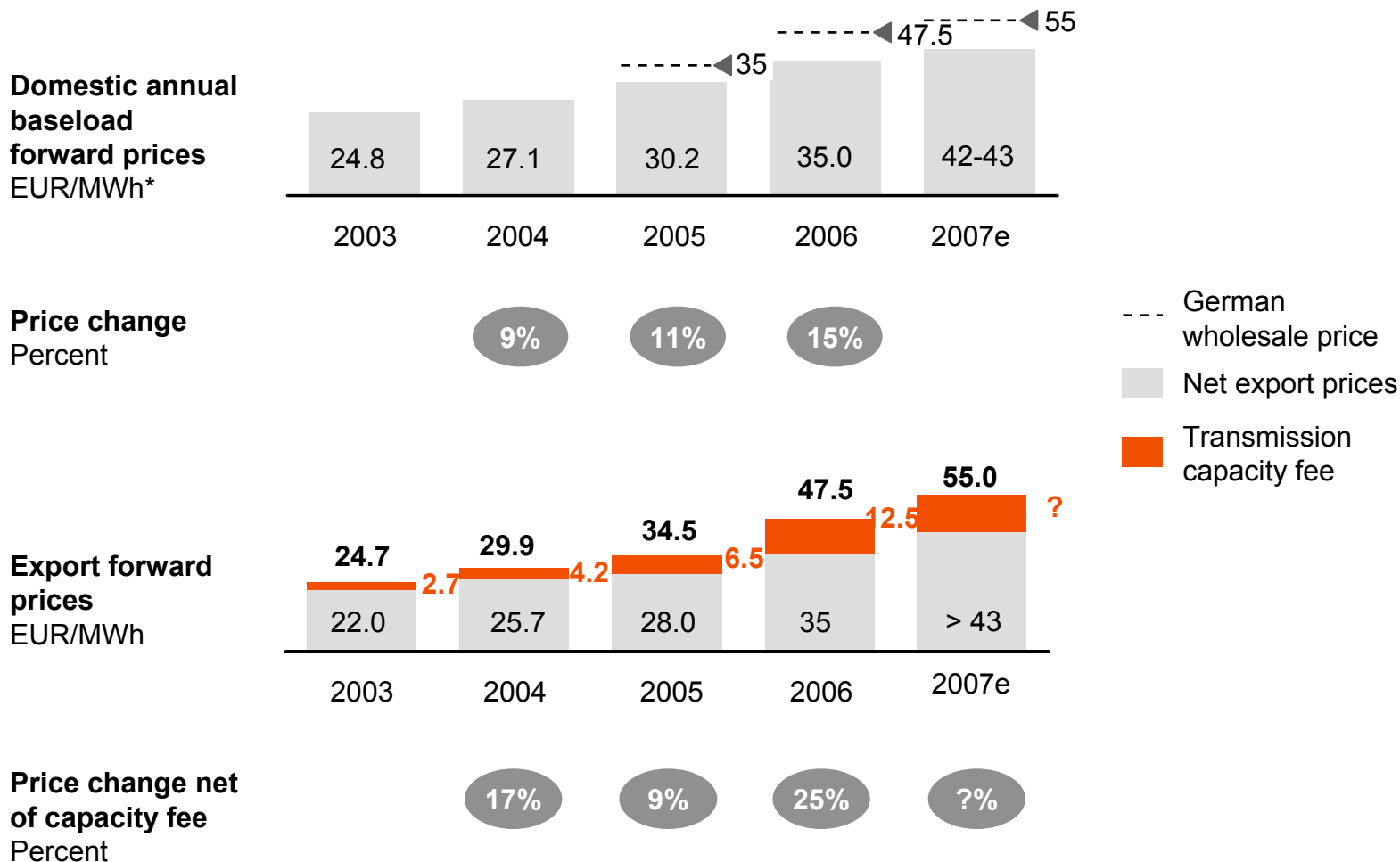
**Wholesale power price\***  
2006, baseload, EUR/MWh



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



# CEZ DOMESTIC AND EXPORT PRICES AFTER TRANSMISSION CAPACITY COST DEDUCTION ARE EQUAL



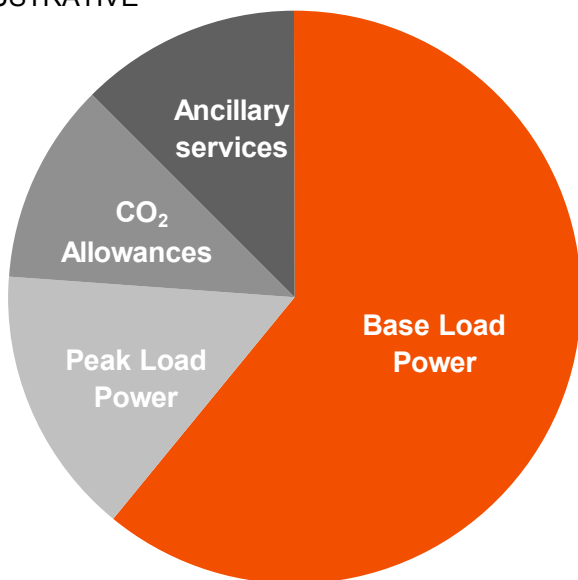
\* Exchange rate CZK/EUR = 30 for 2006 and before; 28.50 CZK/EUR for 2007



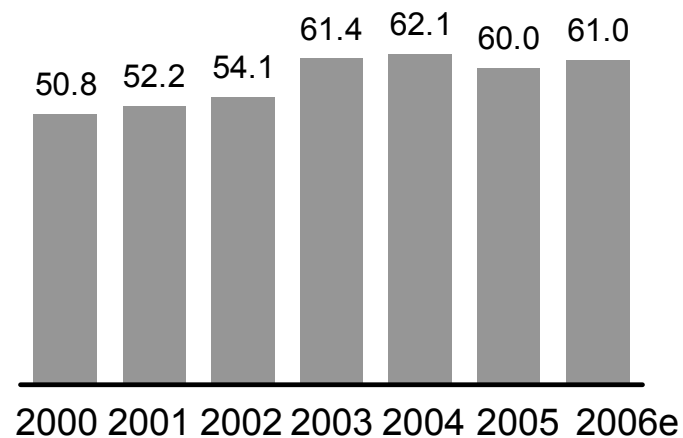
# CEZ SALES STRATEGY IS FOCUSED ON MAXIMIZING WHOLESALE MARGIN GIVEN THE AVAILABLE SALES MARGIN

## Split of wholesale margin by sales options

ILLUSTRATIVE



## Annual production of CEZ Group TWh

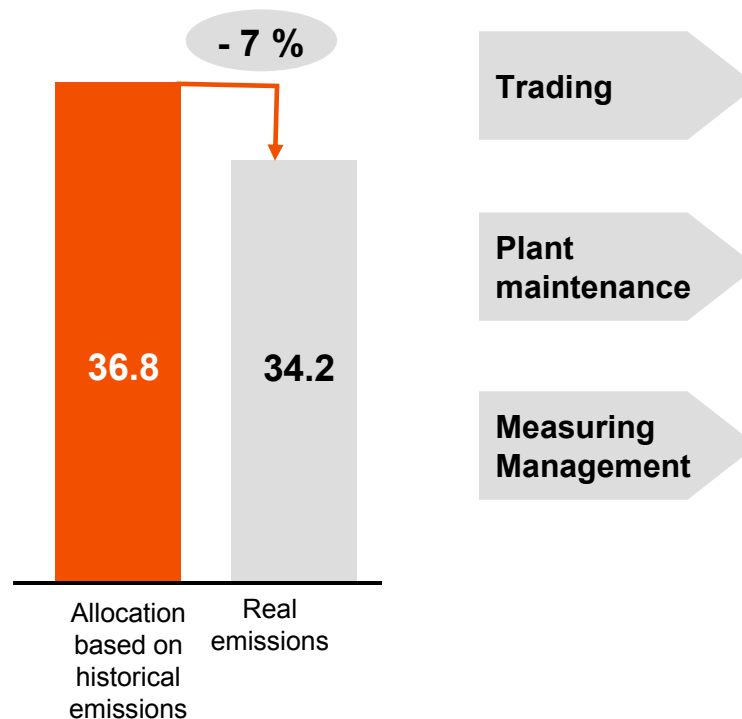


Reduced production due to CO<sub>2</sub> arbitrage



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

## CO<sub>2</sub> Emissions Mil. Tons, 2005



## Key measures taken

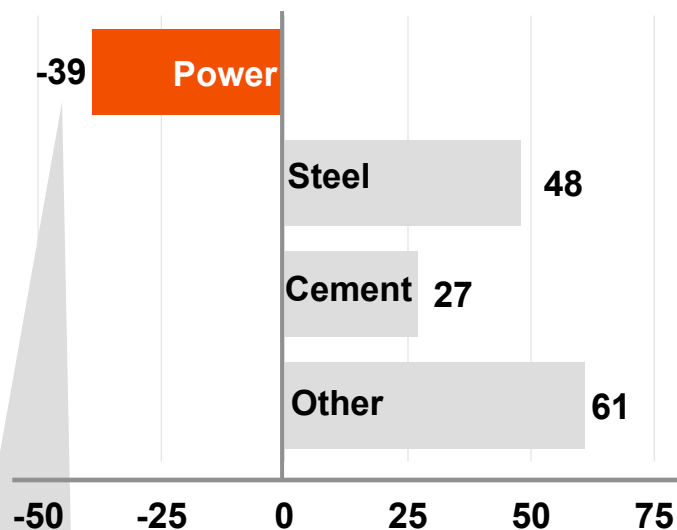
- Priority dispatch of units with low CO<sub>2</sub> emissions
- Reduction of export
- Increased availability of nuclear plants
- Increased focus on plant efficiency
- Increased renewable generation
- Implementation of more accurate measurement systems
- Opportunity cost of CO<sub>2</sub> emission considered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

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



## CEZ EXPECTS SAME ALLOCATIONS OF CO<sub>2</sub> ALLOWANCES FOR NEXT 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

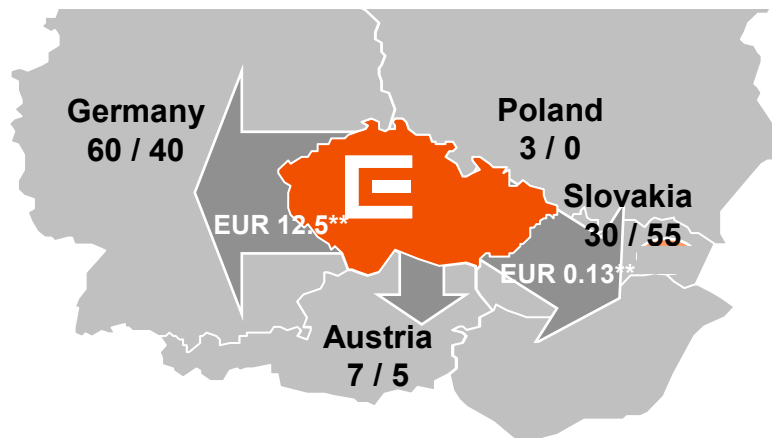
- Member states already meeting Kyoto targets (such as CR) may keep NAP II ceiling at NAP I levels
- When distributing the allowances to individual installations the governments should disregard data from the first phase to make ETS credible
- National allocation plan to be submitted to EC soon
- CEZ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



# CEZ IS REDIRECTING IT'S EXPORTS FROM WESTERN EUROPE TO CENTRAL EUROPE

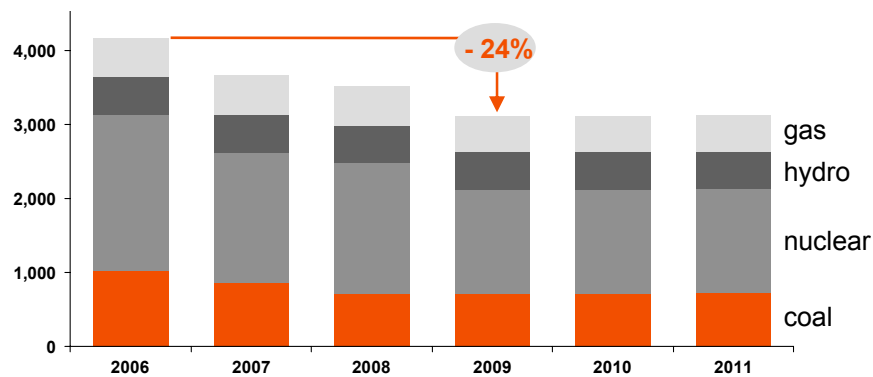
## Development of CEZ Exports in 2005/2006

Percent of total export



- Demand in CR and other CE countries will grow proportionally to high GDP growth
- Shutdown of nuclear and lignite units in Slovakia and other CEE countries
- Grid constraints from Poland and Ukraine

## Available\* capacity in Slovakia MW



\* Available capacity = installed capacity – planned outages

\*\* 2006 Charge for annual cross border capacity

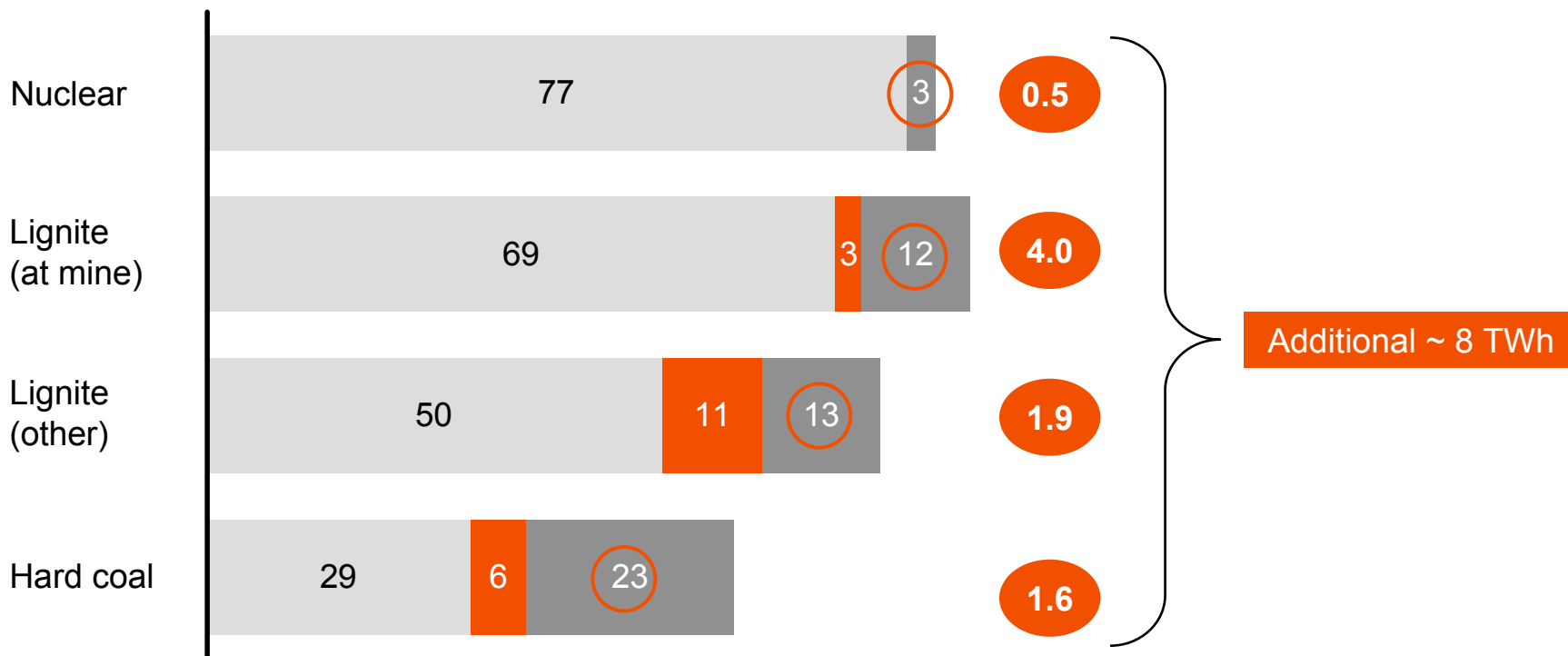


# CEZ CAN GENERATE ADDITIONAL 8 TWh BY INCREASING UTILIZATION OF NUCLEAR AND COAL PLANTS

## Utilization of generation capacity

Percent of hours p.a.

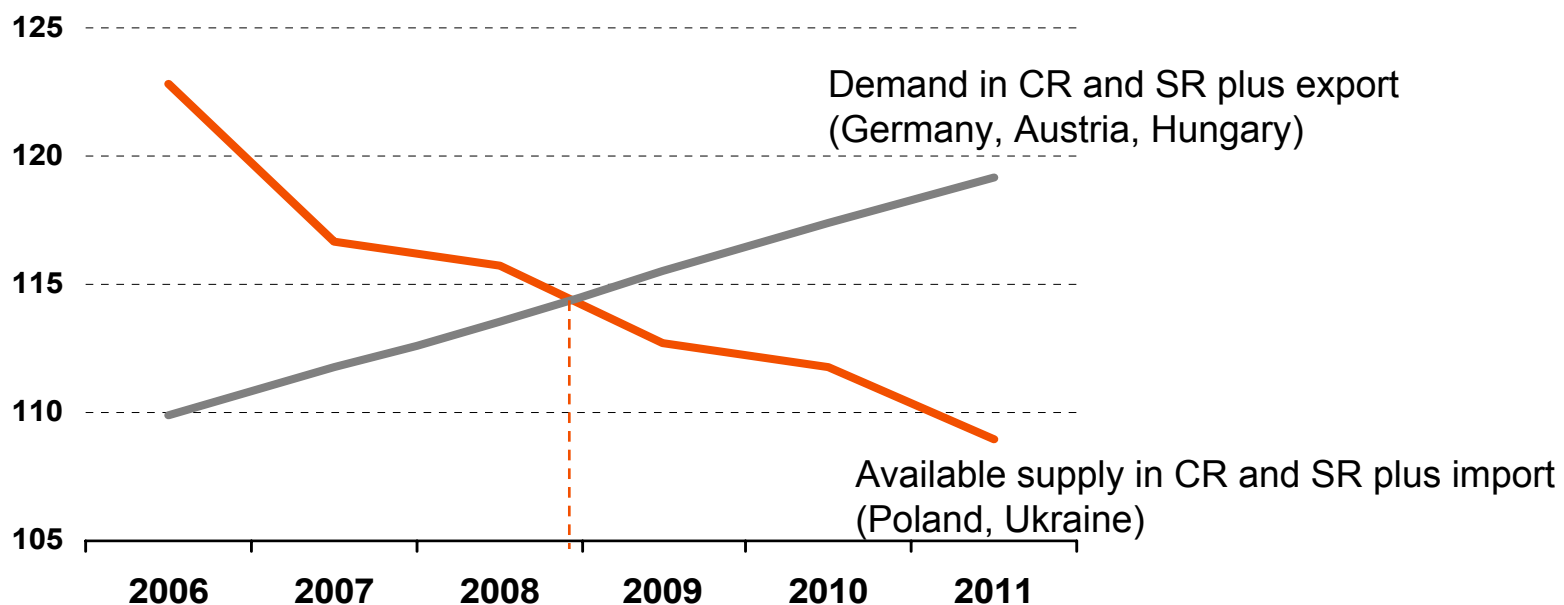
- Current utilization
- Ancillary services
- Reserve for higher utilization





## THE REGIONAL CAPACITY SURPLUS WILL DISAPPEAR IN 2008 – 2009 AND MARKETS OF WESTERN AND CENTRAL EUROPE WILL CONVERGE TO ONE PRICE

### Czech and Slovak power market balance TWh



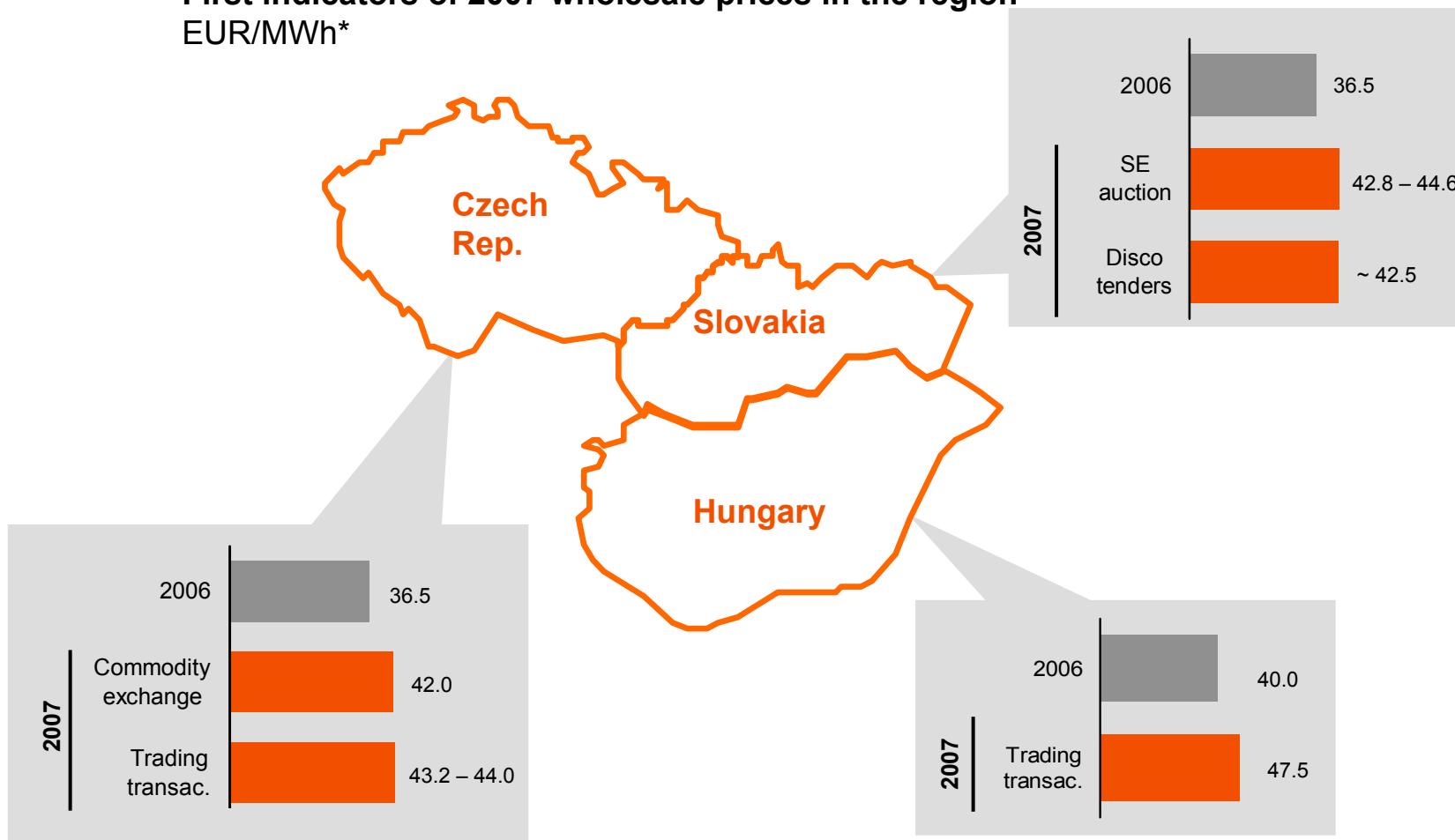
- Starting 2008/9 Czech export capacities will not be fully utilized due to lack of available electricity
- Prices will converge to one level determined by EEX

\* Assumptions: consumption growth 2.1%, 5% reserve margin



# CZECH WHOLESALE POWER PRICES FOR 2007 LIKELY TO LEVEL AROUND 42-43 EUR/MWh

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



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

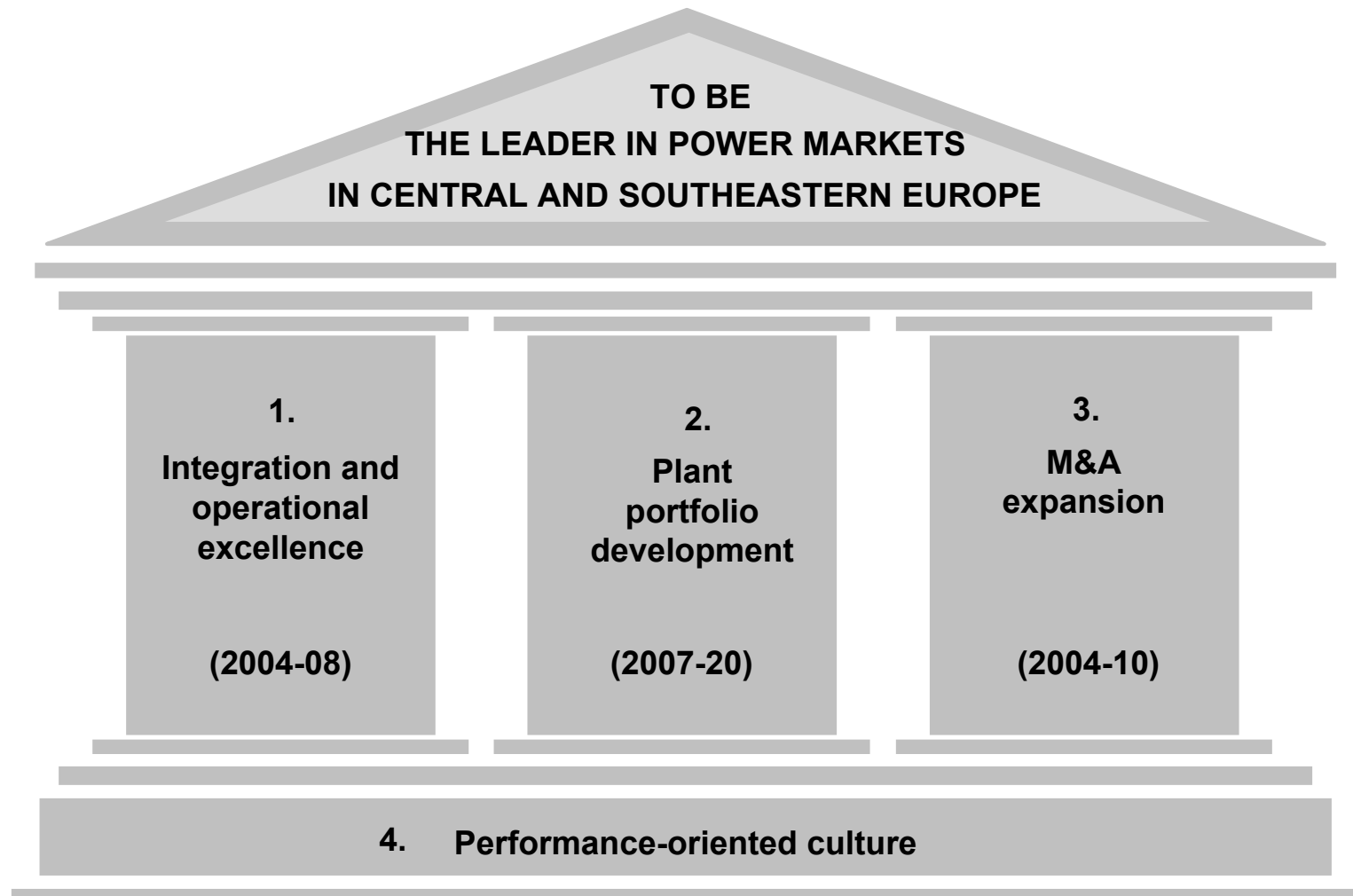


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## CEZ GROUP HAS LAUNCHED FOUR KEY STRATEGIC INITIATIVES TO ACHIEVE IT'S VISION



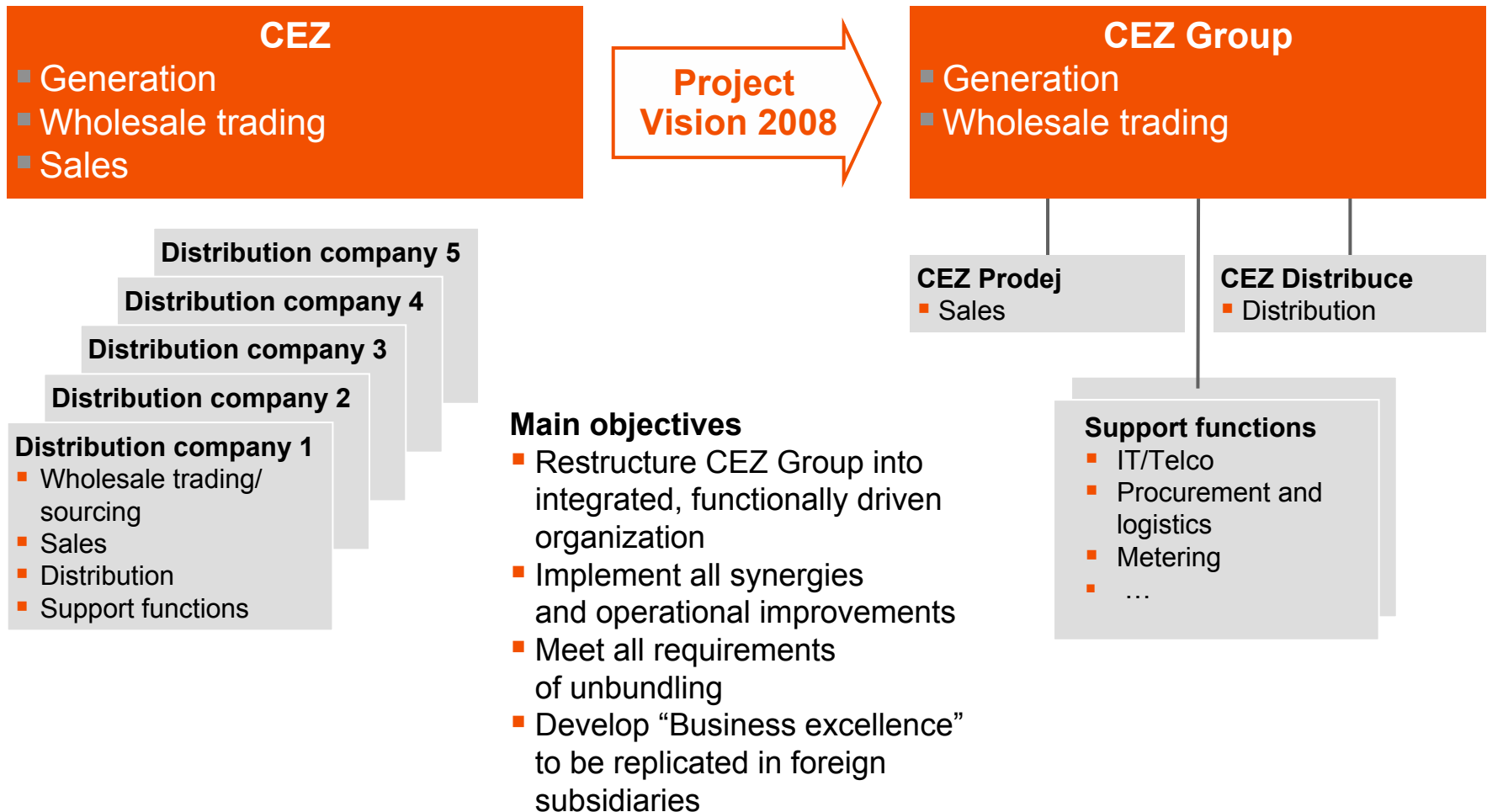


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# CEZ UNBUNDLED DISTRIBUTION AND SUPPLY ONE YEAR AHEAD OF LEGAL REQUIREMENT...

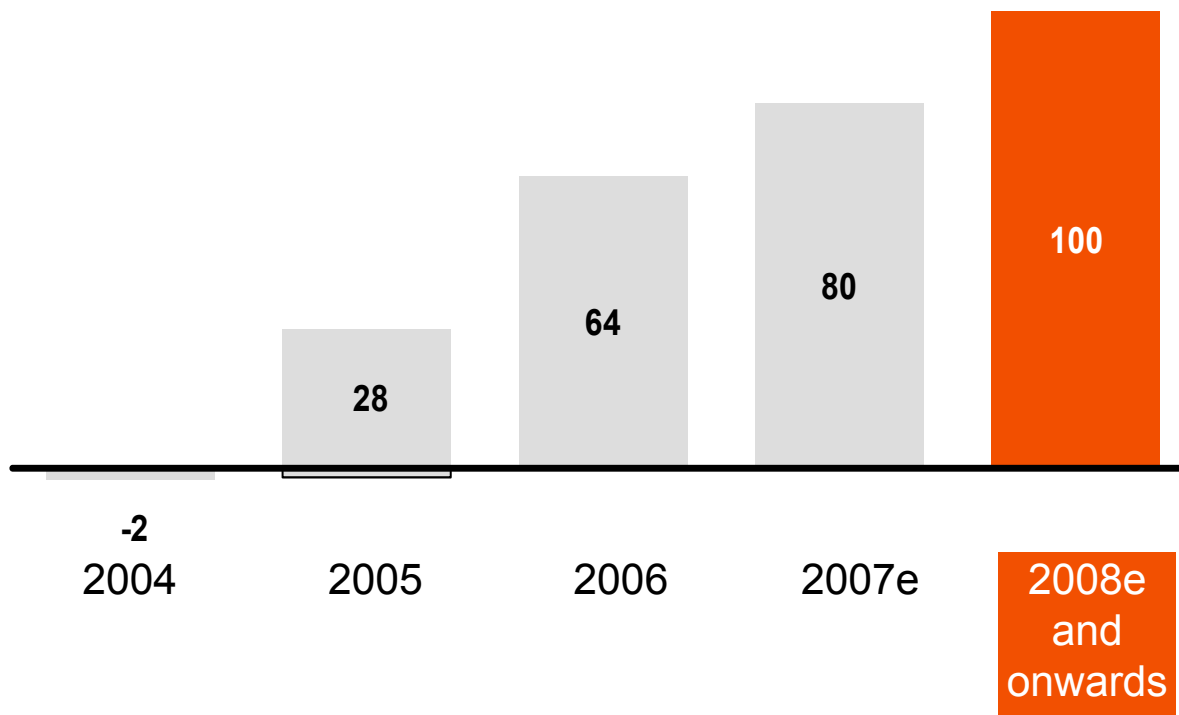




# ...AND WILL ACHIEVE EUR 100 MILLIONS IN ANNUAL SAVINGS UPON IMPLEMENTATION OF VISION 2008



## Gross annual costs saving EUR million, compared to 2003



Total annual costs savings related to Vision 2008 project are to reach CZK 2.9 bn by 2008, i.e., ~10% of operating costs in supply and distribution segment (excluding purchased electricity)

### Key contributions

- Processes unification
- Best practice
- Headcount reduction
- Centralized procurement

Note: CZK/EUR 28.50

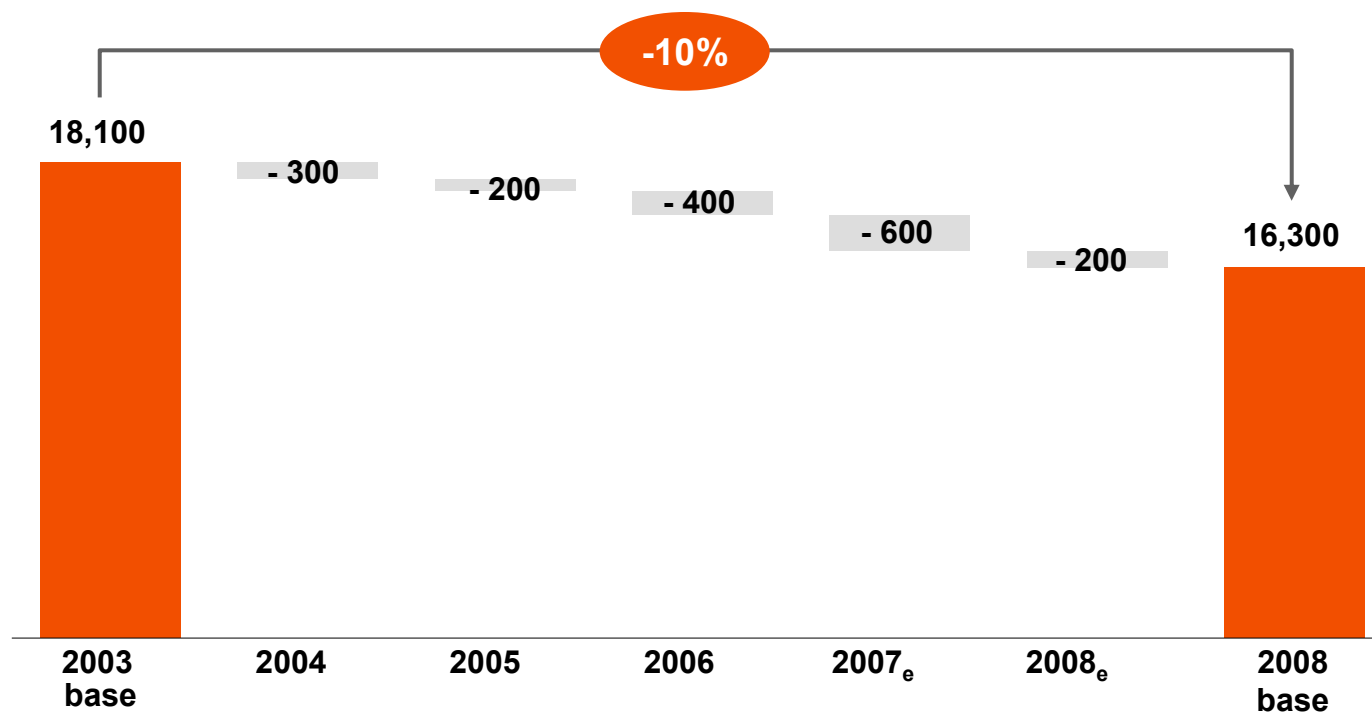
Source: CEZ



# NUMBER OF EMPLOYEES WILL DECLINE BY 10 % BY 2008



**Number of employees in distribution and support services of CEZ**  
Thousands

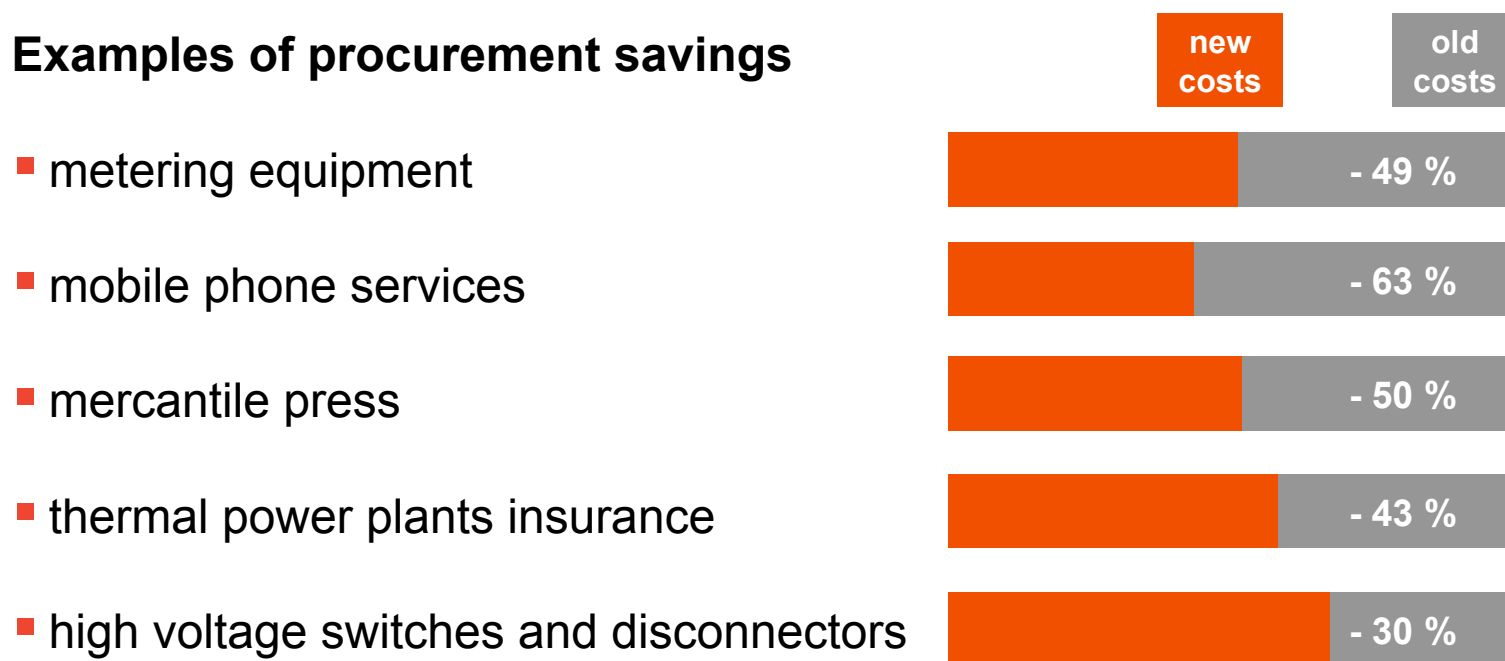




# FIRST SIGNIFICANT SAVINGS WERE ACHIEVED FOR EXAMPLE IN PROCUREMENT



## Examples of procurement savings





## KEY TARGETS FOR 2005 HAVE BEEN ACHIEVED



### IT support

All IT systems were transformed and became operational in record time

### Processes management

New operational and economic model of CEZ Group implemented and incorporated in SLA contracts

### Unbundling

Legal unbundling requirements fulfilled already in 2005

## Results of VISION 2008 in 2005

### Social reconciliation

Transformation steps related to employees successfully realized while keeping the social reconciliation

### Key figures

- 55 legal transformational transactions
- 4,263 – number of transferred/hired employees to new companies
- CZK 68bn – value of transferred fixed assets



# REGULATORY ENVIRONMENT IN THE CZECH REPUBLIC IS FAIR AND TRANSPARENT



2002-04

2005-09

## 1<sup>st</sup> regulatory period

- Introduction of RPI-X regulation
- Starting values of regulation parameters defined
- Full pass-through of the wholesale price

## 2<sup>nd</sup> regulatory period

- Regulation parameters reassessed for distribution after unbundling (WACC, RAB, allowed costs, ...) – Average revenue cap of CEZ Distribution up by ~20%

- Main new factors
  - Coverage of unbundling costs EUR 10-20 million agreed
  - Revaluation of asset base (with same WACC) up potentially by ~90%

$$PV = OC*(PPI - X) + D*PPI + RAB*WACC$$

PV distribution revenue cap

OC operating costs

PPI producer price index

X efficiency factor (2.085)

D depreciation

RAB operating assets

WACC weighted average capital costs (7.95% pre-tax in 2nd reg. period)



# CEZ GROUP CONTINUES INCREASING SALES MARGIN WHILE PROTECTING MARKET SHARE

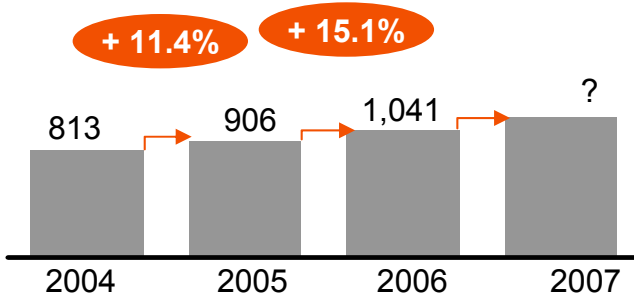


## Distribution regions of CEZ Group

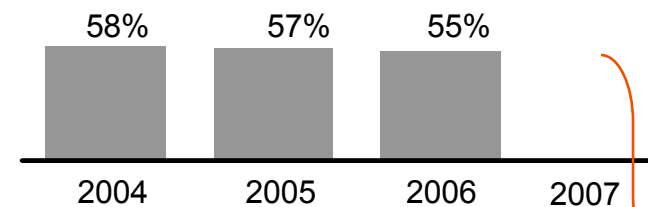


Mass-market customers still served with low margin – **upside potential**

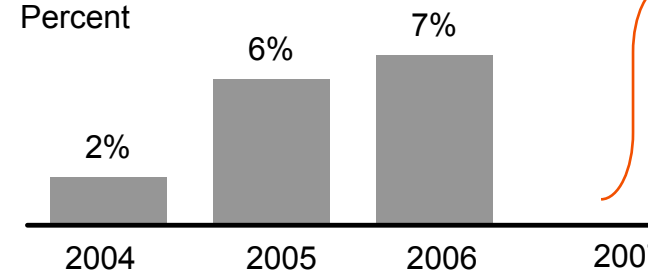
## Domestic wholesale baseload CZK/MWh



## Market share in power supply Percent of MWh



## Average supply margin Percent



**Target:**  
maintain profitability (no need to keep market share at any cost)



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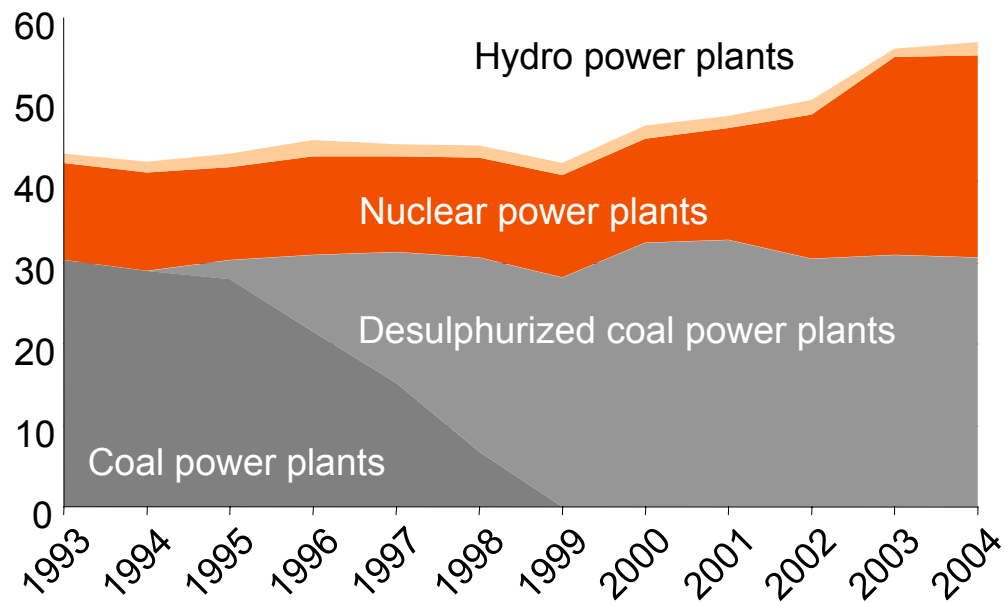


# CEZ OPERATES THE ONLY CLEAN GENERATION FLEET IN CEE



## Generation structure of CEZ Group

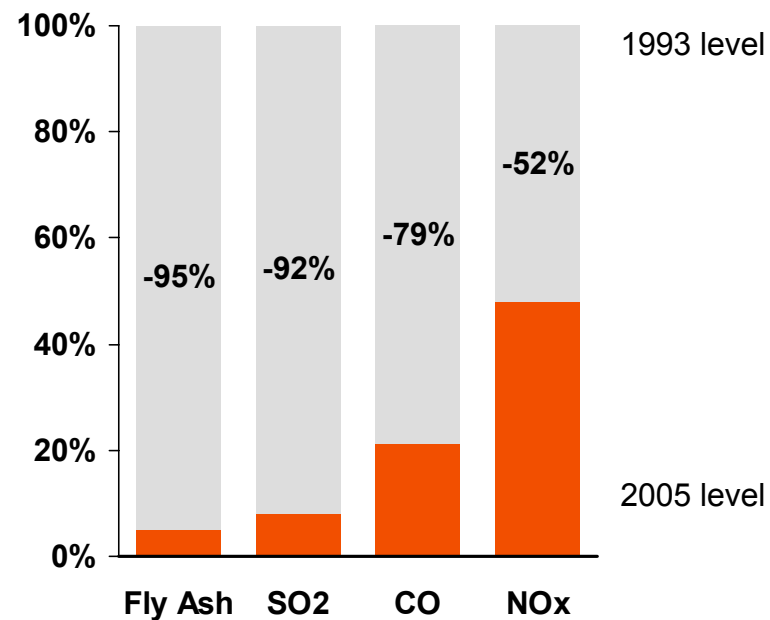
TWh



CEZ invested EUR 1.5 billion into desulphurization of its plants between 1993-99

## CEZ Group emission change 2005/1993

Percent



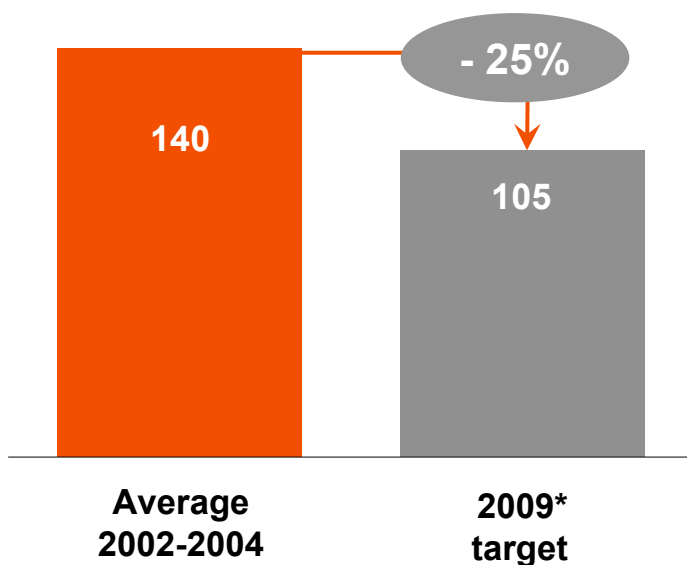


# CEZ WILL REDUCE GENERATION REPAIRS AND MAINTENANCE COSTS BY 25% (EUR 35M ) BY 2009



## CEZ targets to reduce average repairs and maintenance cost

EUR m



## Key tasks to achieve target

- Introduction of adaptive R&M to reduce workload by 50%
- Centralization of preparation R&M to save 20% personnel costs
- Centralization of R&M procurement to reduce related costs by 25%
- Decrease number of suppliers by 70%
- Divestiture of redundant R&M subsidiaries

\* Assuming „normalized“ R&M workload, prices not adjusted for inflation

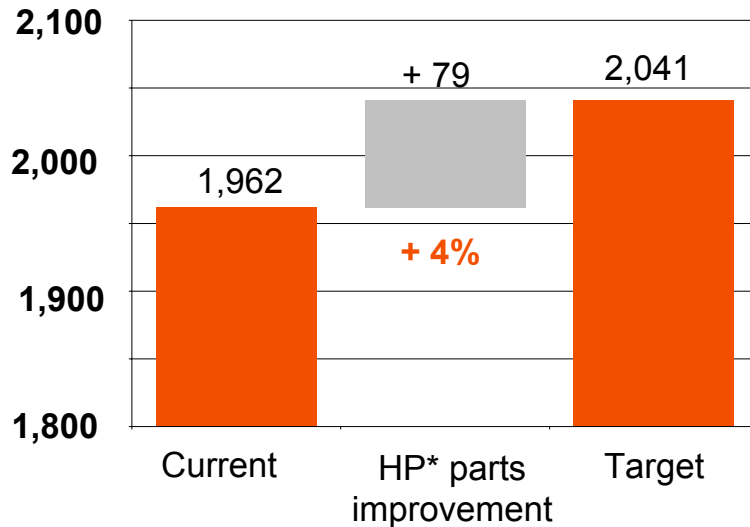
Note: exchange rate CZK/EUR = 28.5



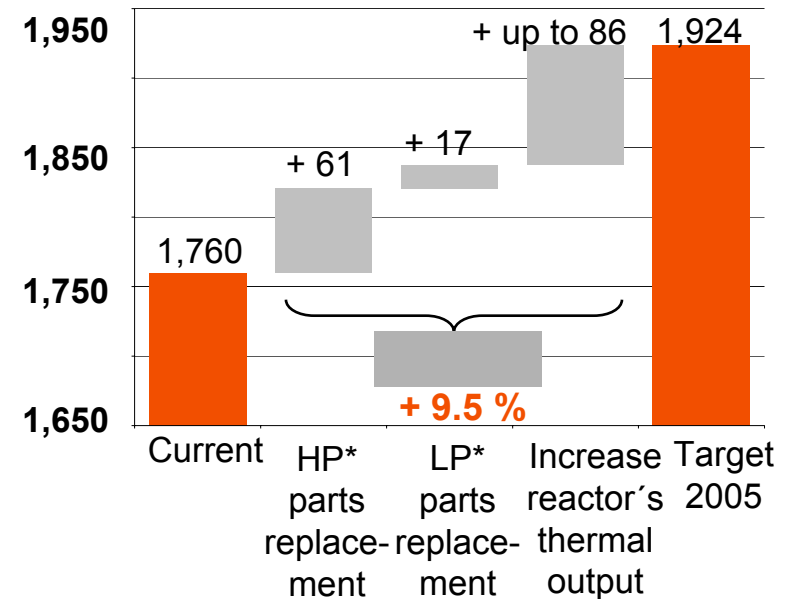
# NUCLEAR CAPACITY WILL INCREASE IN DUKOVANY BY 9.5% BY 2012 AND IN TEMELIN BY 4% BY 2008



**Temelin capacity increase**  
MW



**Dukovany capacity increase**  
MW



Status:

■ Project contracted

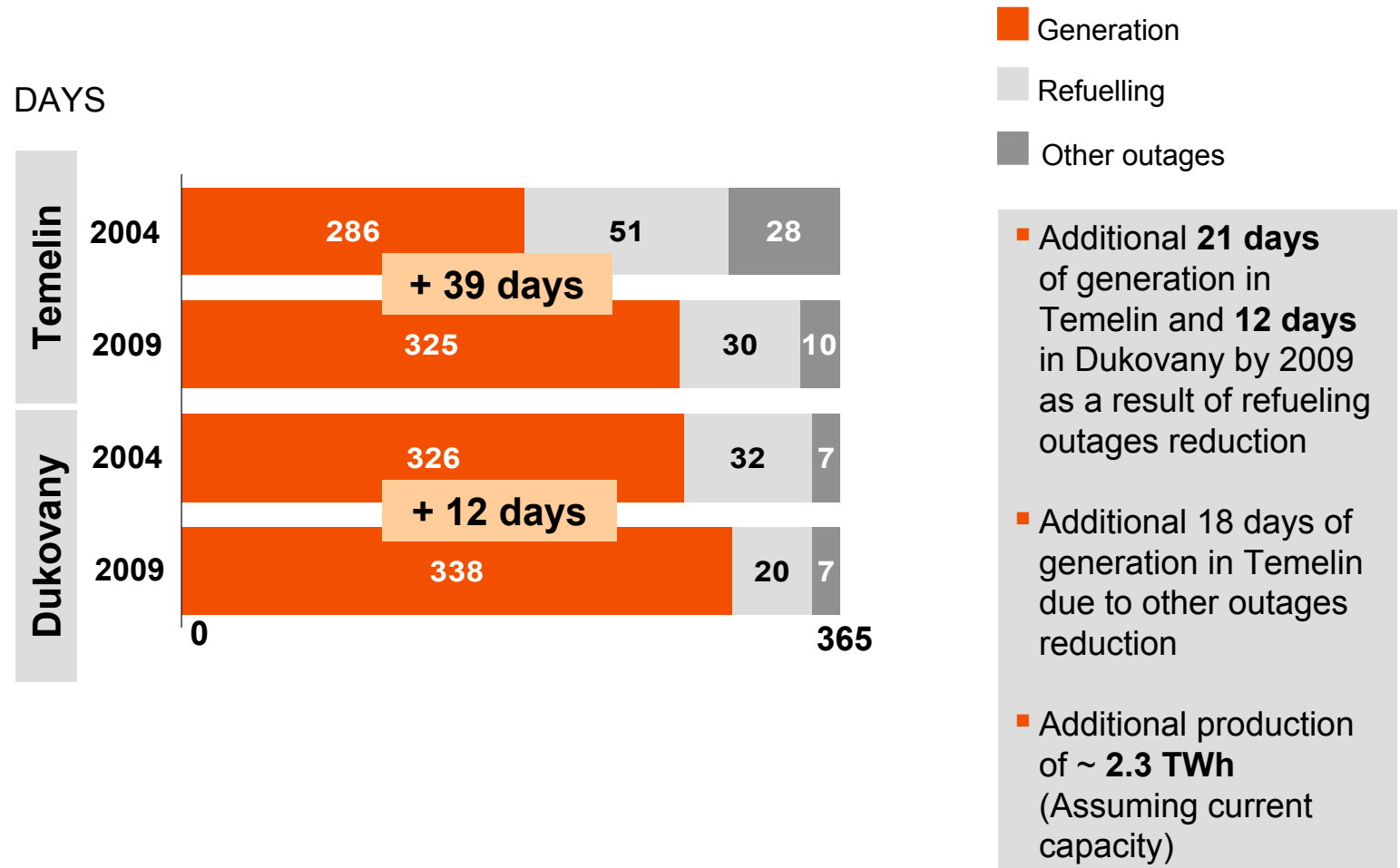
■ First project already implemented and running

■ Test in implementation, most tasks contracted

\* HP – High Pressure, LP – Low Pressure



# REDUCTION OF REFUELING OUTAGES IN NUCLEAR PLANTS WILL PROVIDE ADDITIONAL 2.3 TWh

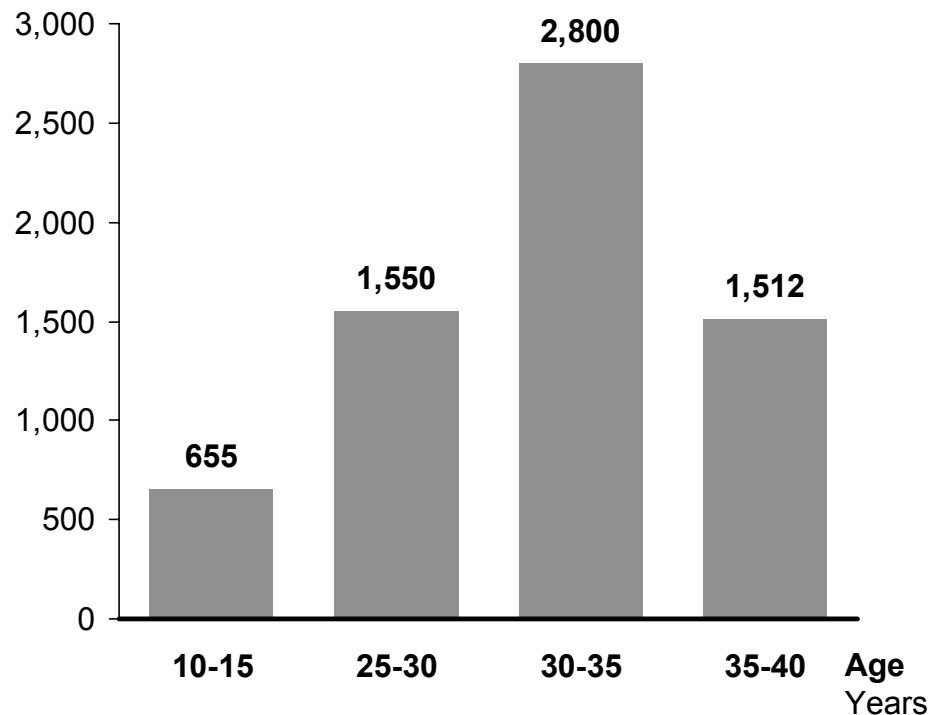




## PORTION OF CEZ POWER PLANTS IS NEARING THE END OF ITS LIFETIME



### Age structure of CEZ thermal blocks MW



- Portion of CEZ thermal capacity approaches end of its life time in 2010-20
- Desulphurization equipment to reach end of its lifetime in 2015-2020
- The emission limits on  $SO_x$ ,  $NO_x$  will get again much stricter starting 2016

**Thermal capacities must be renewed by new plants additions on refurbishment of existing equipment**



# CEZ INTENDS TO BUILD ITS FUTURE PLANT FLEET MAINLY AROUND MODERN TECHNOLOGY LIGNITE PLANTS



|                               | Coal   | Nuclear  | Gas   | Renewables  |
|-------------------------------|--|--|---|---|
| <b>Environmental impact</b>   | <ul style="list-style-type: none"><li>Acceptable emissions if modern technology adopted</li></ul>            | <ul style="list-style-type: none"><li>No emissions</li><li>Nuclear risk</li></ul>        | <ul style="list-style-type: none"><li>Low emissions</li></ul>                               | <ul style="list-style-type: none"><li>Limited/no emissions</li><li>No resources depletion</li></ul> |
| <b>Competitive advantages</b> | <ul style="list-style-type: none"><li>Low cost of domestic lignite</li></ul>                                 | <ul style="list-style-type: none"><li>Politically acceptable in Czech Republic</li></ul> | <ul style="list-style-type: none"><li>Flexibility, relatively low investment cost</li></ul> | <ul style="list-style-type: none"><li>Public support</li></ul>                                      |
| <b>Risks/constraints</b>      | <ul style="list-style-type: none"><li>Lignite availability</li><li>CO<sub>2</sub> regulation/price</li></ul> | <ul style="list-style-type: none"><li>High up-front investment</li></ul>                 | <ul style="list-style-type: none"><li>High/volatile gas price</li></ul>                     | <ul style="list-style-type: none"><li>Subsidy scheme not stable</li></ul>                           |
|                               | <p>Cornerstone of the future CEZ plant fleet</p>   | <p>Complement to lignite for baseload generation</p>                                     | <p>Potentially source of flexible power</p>   | <p>Complementary role (e.g., combined combustion of coal and biomass)</p>                           |

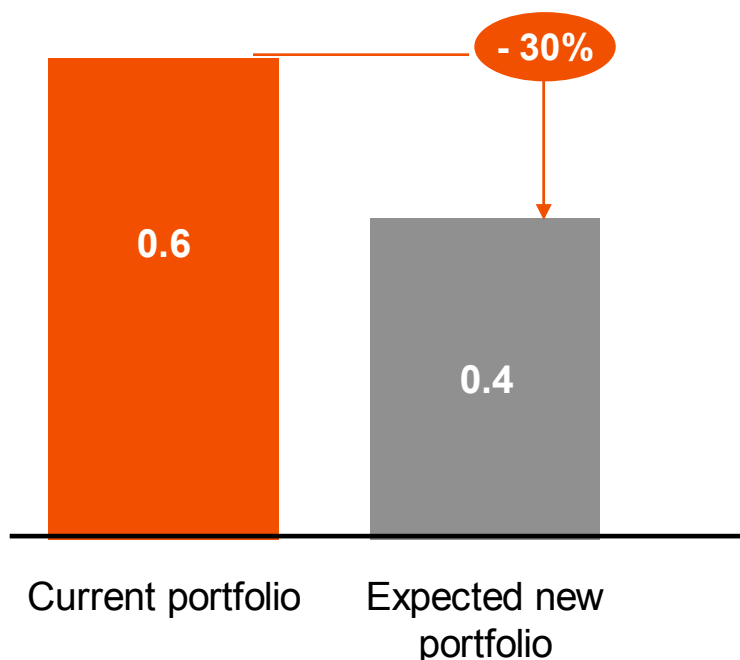


# CEZ COMMITTED TO A LARGE INVESTMENT PROGRAM LEADING TO A 30% REDUCTION OF THE AVERAGE EMISSION RATE



## CEZ average CO<sub>2</sub> emission

t CO<sub>2</sub> / MWh



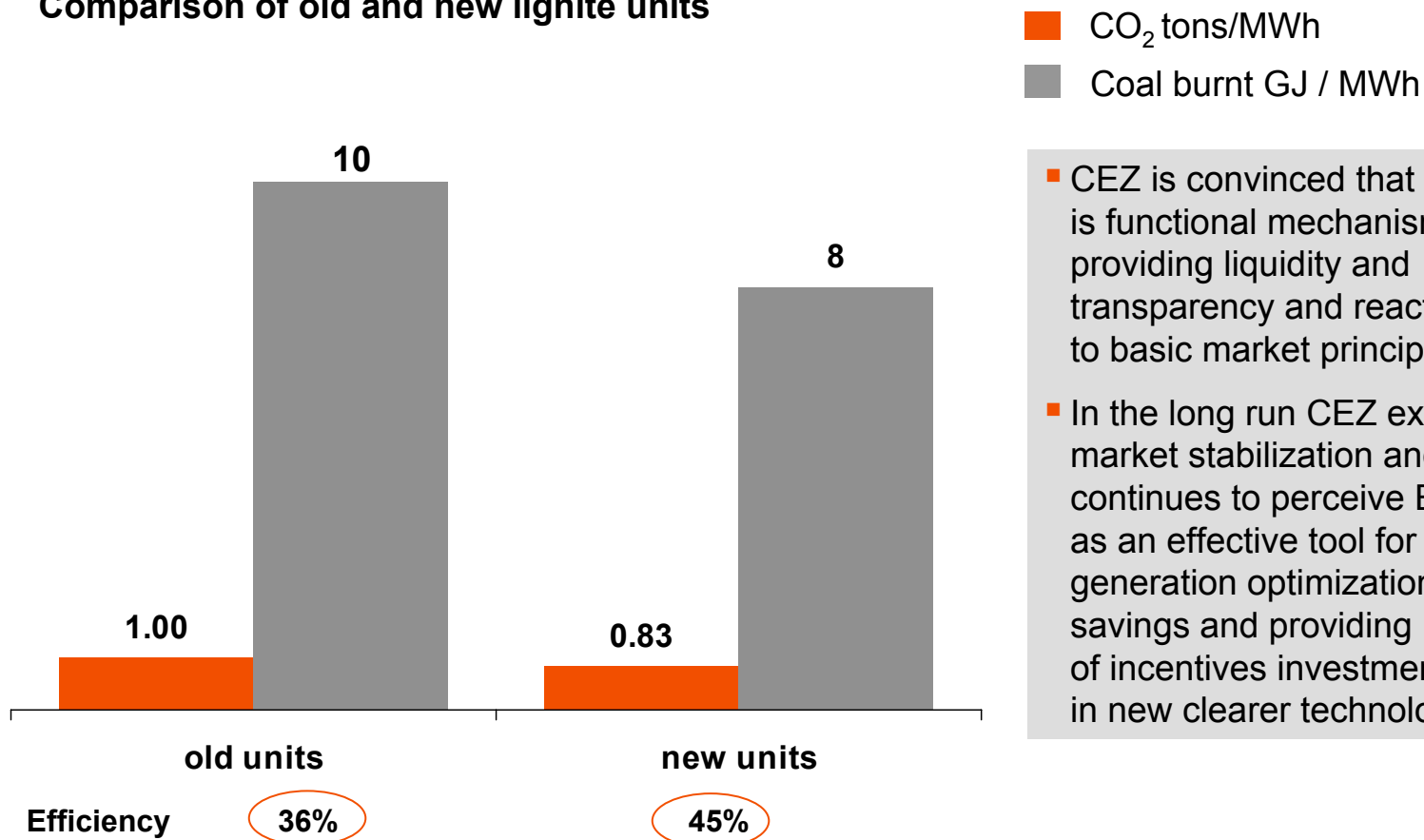
- CEZ designs new plant portfolio consistent with national energy policy
- New CEZ plant portfolio would represent a major contribution to CO<sub>2</sub> reduction in the Czech republic AND it would ensure sufficient supply to cover the increasing demand at the same time



# DUE TO HIGHER EFFICIENCY THE COAL CONSUMPTION WILL DECREASE THUS SAVING NATURAL RESOURCES AND CO<sub>2</sub> EMISSIONS



## Comparison of old and new lignite units



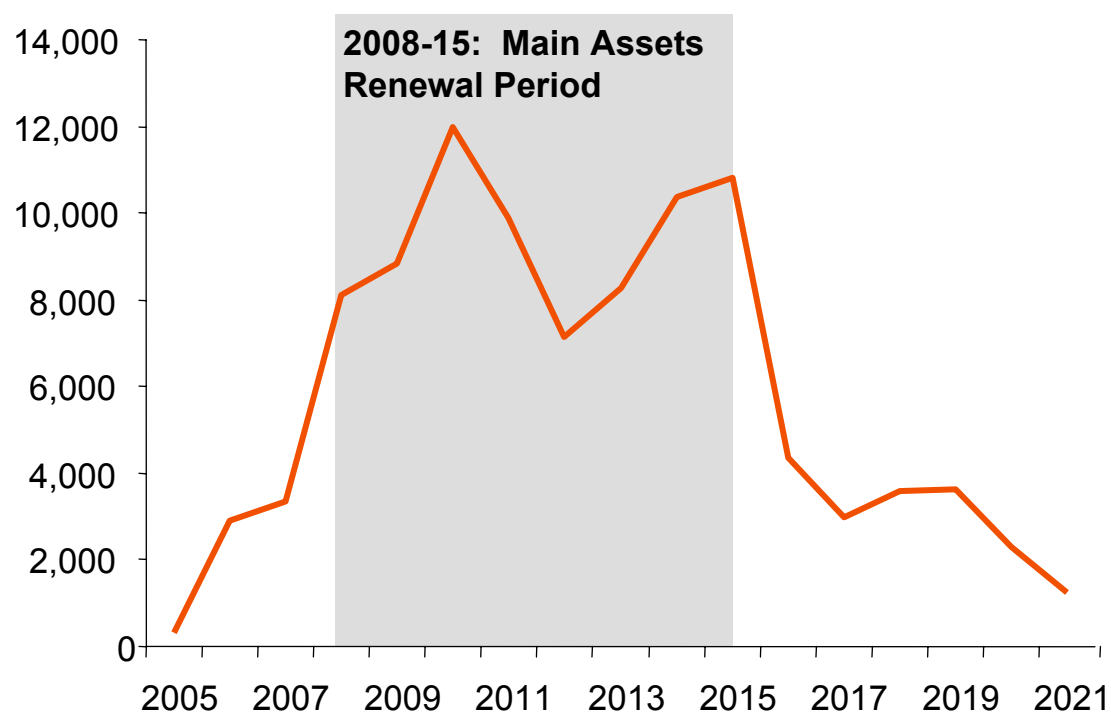
- CEZ is convinced that EU ETS is functional mechanism providing liquidity and transparency and reacting to basic market principles
- In the long run CEZ expects market stabilization and continues to perceive EU ETS as an effective tool for generation optimization, CO<sub>2</sub> savings and providing of incentives investments in new clearer technologies



# CAPEX FOR LIGNITE PLANTS RENEWAL WILL REACH CZK 100 BN AND BRING 14-25% EFFICIENCY UPLIFT



**Expected CAPEX – conservative scenario**  
CZK million



## Projects overview

- Highly efficient and environmentally friendly
- Highly profitable
- Secured fuel – low risk

## Retrofits

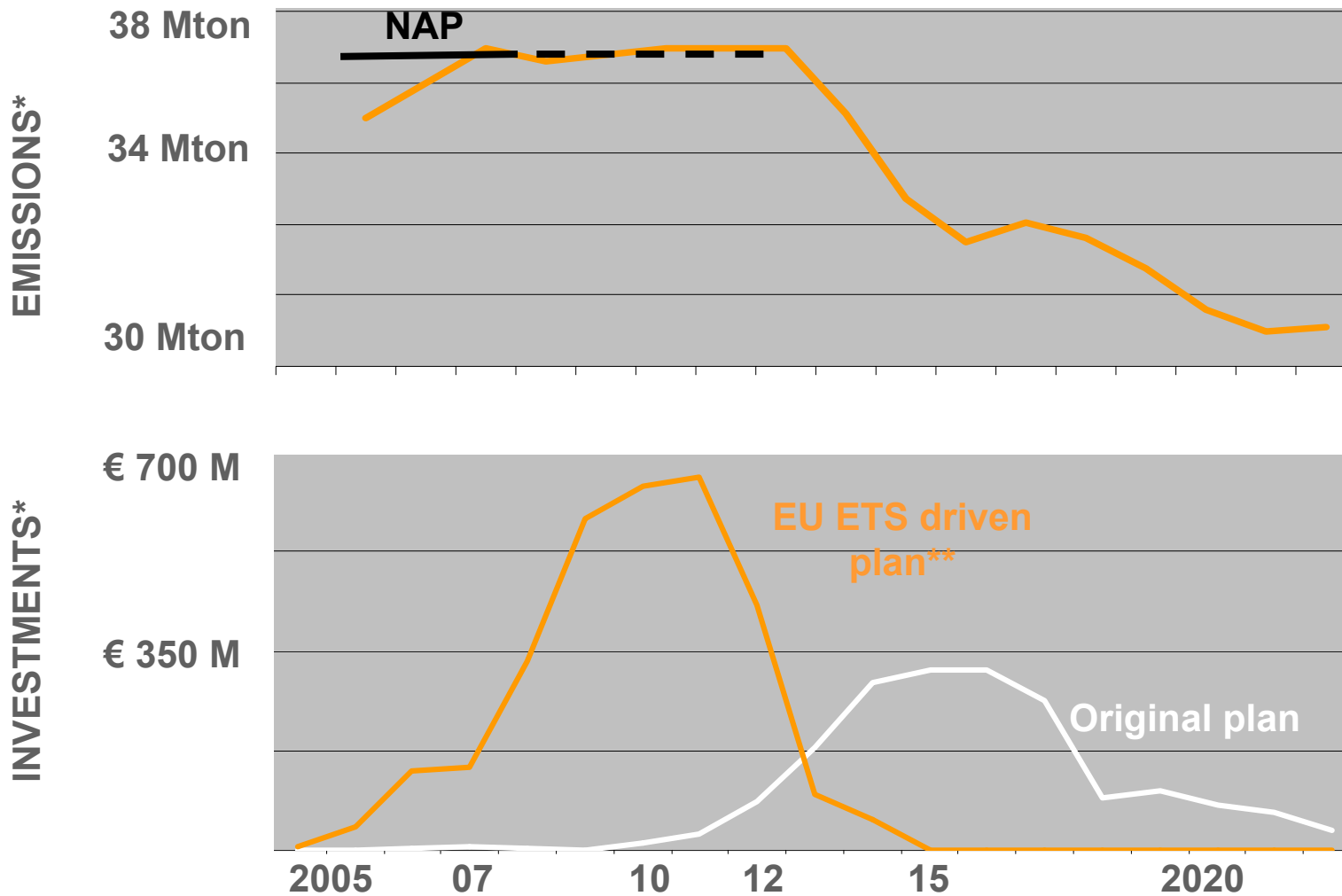
- Gross efficiency improvement from 36% to 41%
- Less CO<sub>2</sub> production
  - Tušimice II 4 x 200 MW
  - Prunéřov II 4 x 200 MW
  - Počerady 3 x 200 MW

## New units

- Gross efficiency 45%
- Less CO<sub>2</sub> production
  - Počerady 1 x 660 MW
  - Ledvice 1 x 660 MW



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

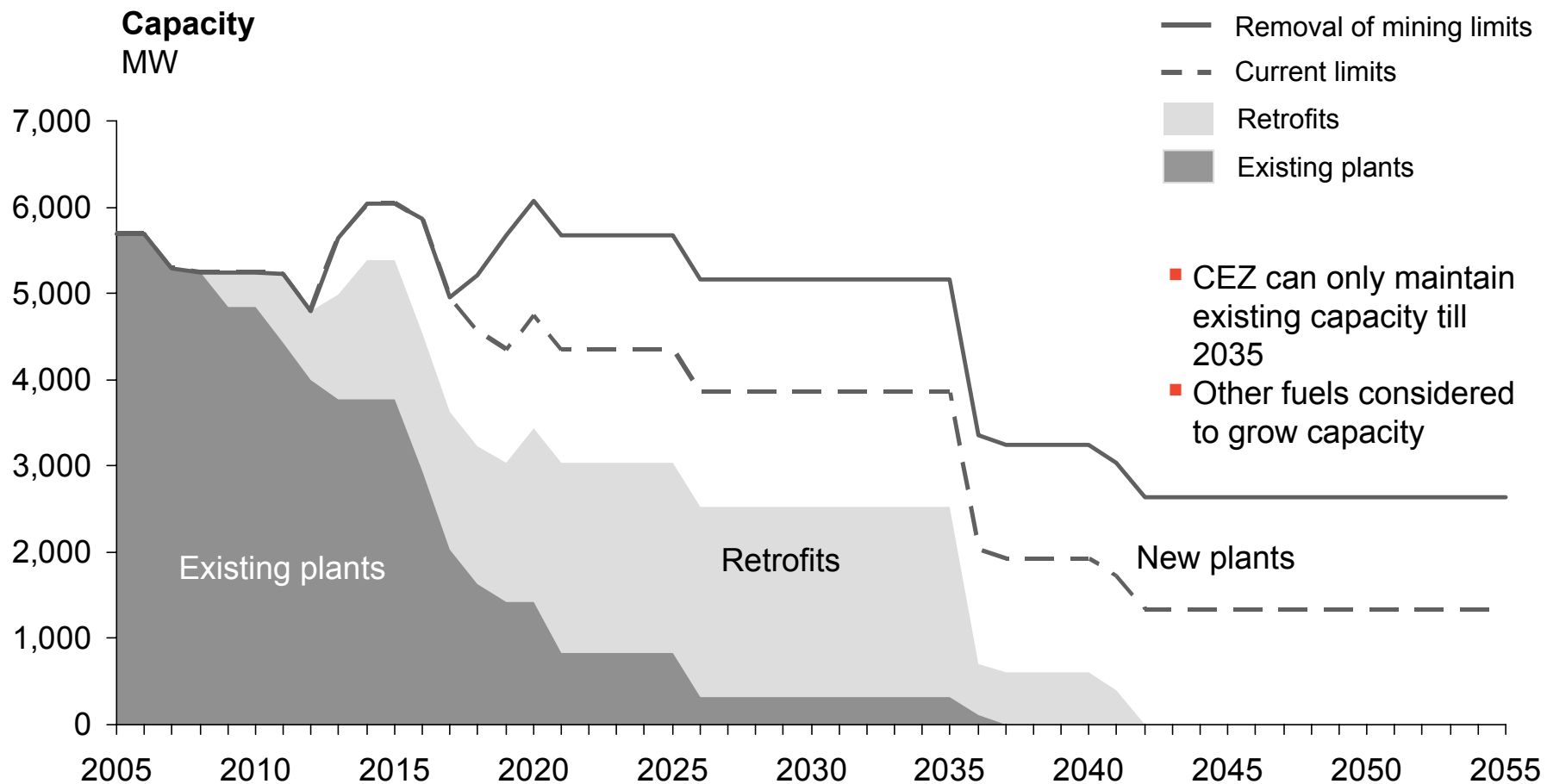


\* Best scenario \*\*CO2 directly related projects





# CEZ HAS FINALIZED PLANS FOR LIGNITE PLANTS RENEWAL AND NOW DEVELOPS STRATEGY IN OTHER FUELS TO GROW IT'S CAPACITY





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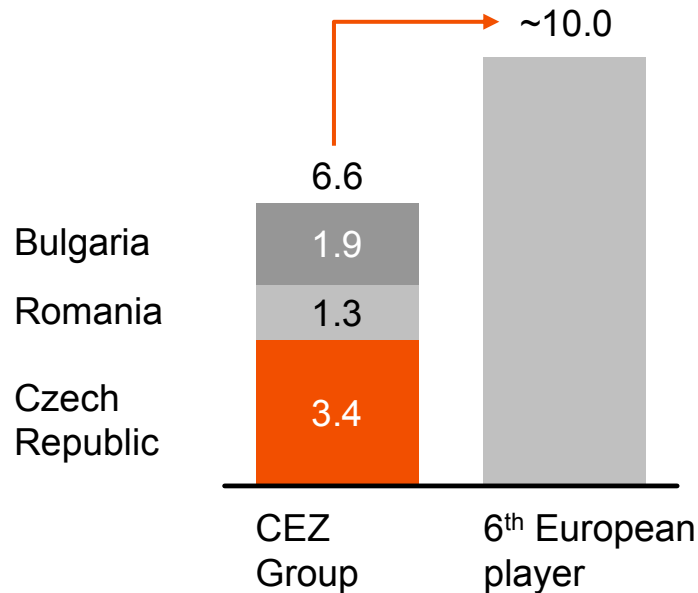


# CEZ GROUP WANTS TO GROW BOTH IN GENERATION AND DISTRIBUTION/SUPPLY



## Ambition for distribution/supply growth

Millions of customers



Current → Target

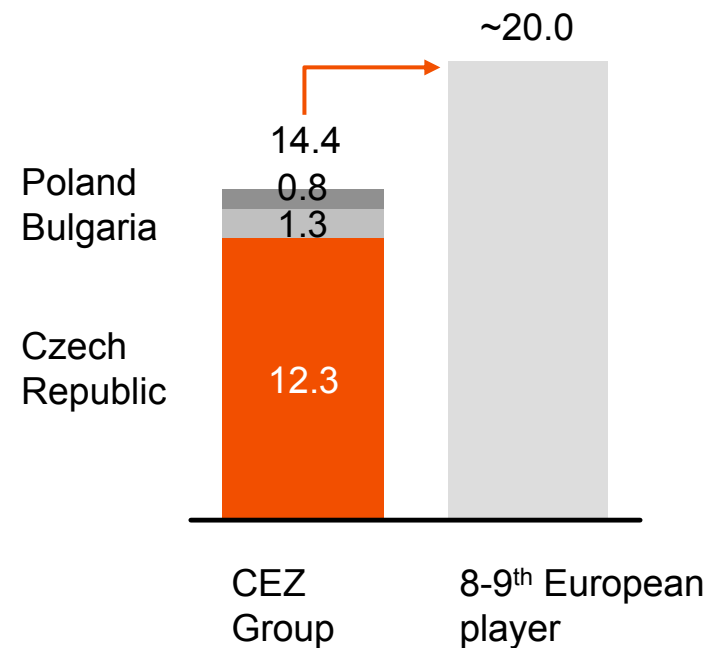
Ranking

8<sup>th</sup>

6<sup>th</sup>

## Ambition for target generation growth

GW of installed capacity



Current → Target

10<sup>th</sup>

8-9<sup>th</sup>



# CEZ GROUP BUILDS ON FIRST SUCCESSFUL EXPANSION MOVES



## Realized acquisitions

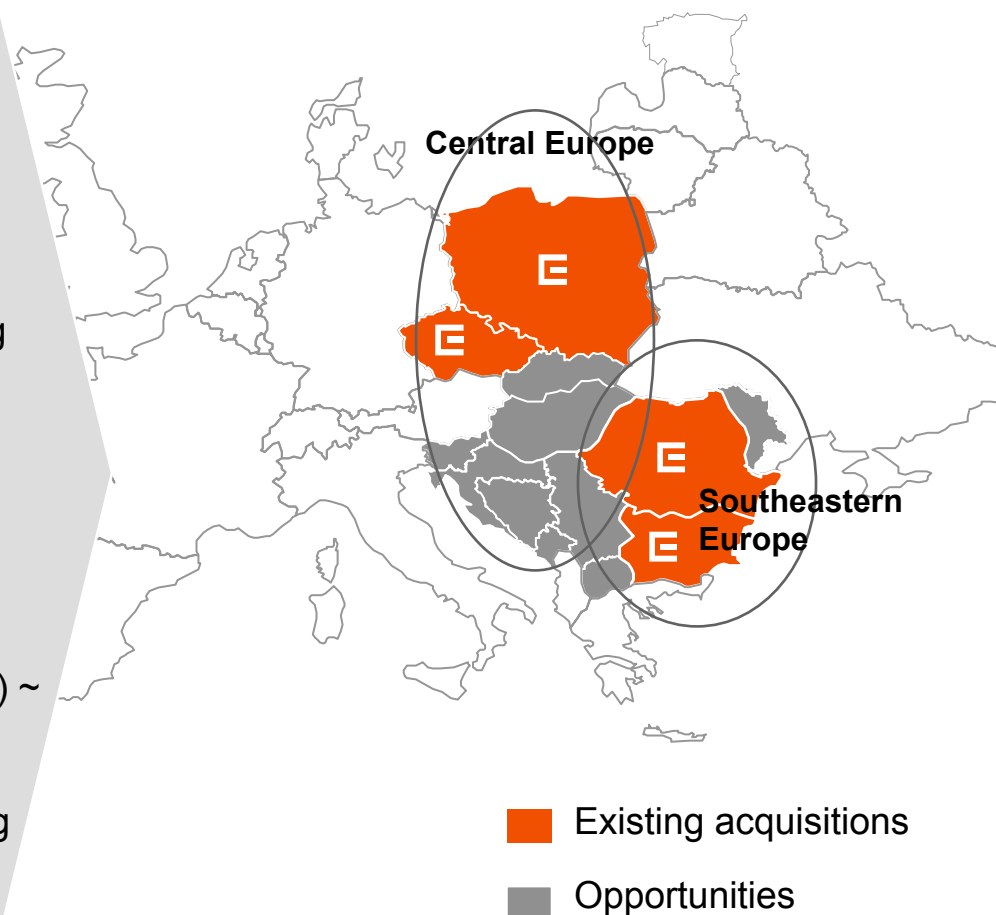
- Bulgaria (distribution) – 1.9 million cust.
- Romania (distribution) – 1.4 million cust.
- Poland (generation) – 810 MW

## On-going acquisitions

- Bulgaria (generation) – 1,260 MW – pending approval of antitrust authorities
- Ukraine (distribution) – 2.6 million cust.
- Romania (distribution) – 1.1 million cust.

## Other opportunities

- Romania (generation) – 4,240 MW
- Romania (distribution) – 3.3 million cust
- Rep. Srpska, Bosnia (green field generation) ~ 660 MW (Gacko only) – pending feasibility studies
- Kosovo (green field generation) - monitoring
- Serbia (green field generation) – monitoring
- Russia (green field generation) – monitoring





## CEZ GROUP IS BEST POSITIONED TO SUCCEED IN THE REGION OF CENTRAL AND SOUTHEASTERN EUROPE



- **Focus on one region**
- Intimate **knowledge of the region**
- **Very well accepted** due to close cultural/historical ties and electricity industry transformation experience
- **First-hand experience** with transformation of power markets
- **Natural hedge and synergies** to current position of CEZ Group providing significant synergies/risk mitigation
- **Management capacity** available from restructuring in the Czech Republic



## EVEN THOUGH CEZ GROUP HAS AMBITIOUS EXPANSION PLANS, WE ARE VERY PRUDENT IN OUR M&A DECISIONS



### Key criteria for M&A decisions

- Target attractive on standalone basis (market position, asset quality)
- Return above CEZ cost of capital plus country and project risk
- Positive contribution to CEZ Group value
- Credit rating targeting

### M&A process

- Always along a global advisor with target country ties
- Valuation prepared by advisor cross-checked by internal valuation team
- Multiple scenarios
- Transaction team includes post merger management team
- Valuation model becomes budget for the PMM team

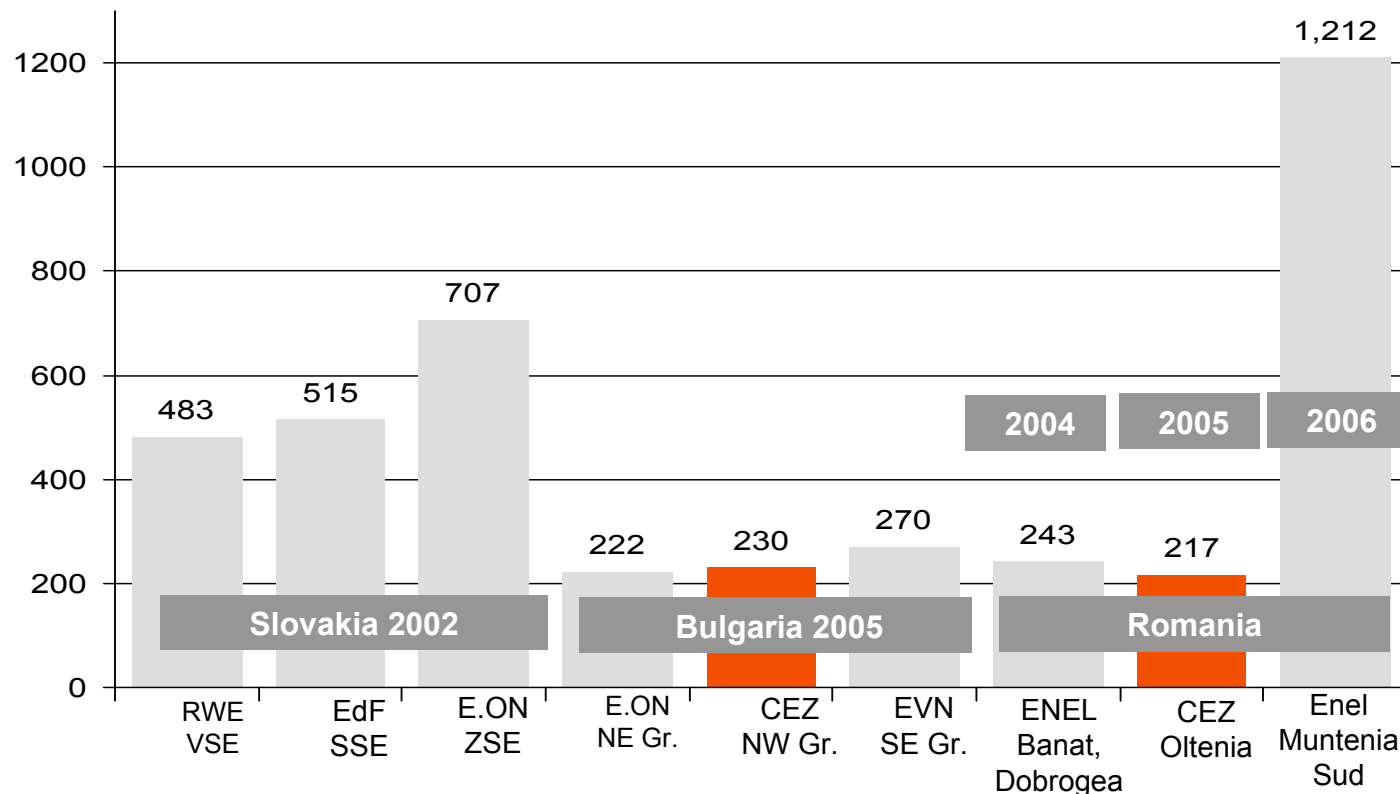


# CEZ ACQUIRED FOREIGN COMPANIES AT MUCH MORE FAVOURABLE PRICE THAN OTHER COMPETITORS



## Price per customer in privatizations of CEE power distribution companies

EUR/customer





# DESPITE INCREASED COMPETITION CEZ IS NOT WILLING TO PRICE ASSETS AT LEVELS IT CANNOT JUSTIFY



## Slovakia

- ENEL finished acquisition of SE
- waiting for further development in **Teplarna Kosice** (121 MW)

## Poland

- **Elcho** (220 MW) and **Skawina** (590 MW) settlement expected within next few weeks
- still pursuing **PAK** (2,338 MW), other processes are unrealistic

## Romania

- **Electrica Muntenia Sud** (1.1 million of customers) – awarded to Enel at a price above EUR 1,000 per customer
- waiting for start of privatization of generation complexes **Turceni** (2,310MW), **Rovinari** (1,320MW) and **Craiova** (610MW) and **remaining distribution companies** (3.3m cust.)
- searching other opportunities (cogeneration, etc.)

## Bulgaria

- contract for **TPP Varna** signed
  - pending settlement
- interested in **Sofia heating**





# CEZ IS LOOKING AT SEVERAL PROMISING GREENFIELD/BROWNFIELD PROJECTS IN SERBIA, KOSOVO AND REPUBLIKA SRPSKA



## Slovenia

- interested in cooperation with HSE
- if govt. starts privatization CEZ will definitely participate

## Rep. Srpska (in Bosnia and Hercegovina)

- actively working on JV with EPRS
  - expect to start working on the **Gacko** project already this year

## Serbia

- interested in finishing **Kolubara B** project
- Monitoring the market, analyzing opportunities

## Kosovo

- established company **New Kosovo Energy LLC**
- monitoring the market and analyzing opportunities

## Ukraine

- actively pursuing acquisition of Ukrainian **distribution companies** (2.6 million customers)
- watching the market and analyzing other opportunities and synergies

## Russia

- analyzing other greenfield projects in Moscow and St. Petersburg region





# RESULTS OF THE BULGARIAN ACQUISITION BETTER THAN EXPECTED IN 1<sup>st</sup> YEAR AFTER ACQUISITION, IMPROVEMENTS EXPECTED TO CONTINUE



## Selected financials (simple sum)

EUR m

|                      | 2004         | 2005         |
|----------------------|--------------|--------------|
| <b>Sales</b>         | 361.6        | 396.6        |
| <b>EBITDA</b>        | <b>42.4</b>  | <b>54.2</b>  |
| <b>EBITDA Margin</b> | 11.7%        | 13.7%        |
| <b>Deprecitation</b> | 25.5         | 26.4         |
| <b>EBIT</b>          | <b>16.8</b>  | <b>27.7</b>  |
| <b>Net income</b>    | 4.9          | 23.3         |
| <b>Net debt</b>      | <b>14.3</b>  | <b>-6.3</b>  |
| <b>ROIC</b>          | <b>5.2 %</b> | <b>8.7 %</b> |

## Key impacts 2005

- Revenues increased by 10 % driven by 3% increase in volume and 5% price increase
- Electricity losses decreased by 11.4% (from 19.3% to 17.1%) despite increased volume
- The OPEX increased by EUR 12 m due to
  - restructuring provision
  - staff costs
  - bad debt provisions

## Main challenges for 2006

- Unbundling
- Removal of subsidized („social“) residential tariff starting October 2006
- Further restructuring and losses reduction
- Achieve budgeted performance
  - EBITDA EUR 71m
  - EBIT EUR 38m



# BALANCE SHEET OF ROMANIAN OLTENIA HAS BEEN CLEARED UP AND THE COMPANY IS ON A GOOD TRACK TO SIGNIFICANTLY IMPROVE IN 2006



## Selected financials (restated)

EUR m

|               | 2004  | 2005    |
|---------------|-------|---------|
| Sales         | 352.6 | 350.7   |
| EBITDA        | 64.0  | 45.3    |
| EBITDA Margin | 18.2% | 12.9%   |
| Depreciation  | 86.6  | 27.5    |
| EBIT          | -22.6 | 17.8    |
| Net income    | -35.7 | 18.88   |
| Net debt      | 10.0  | 121.731 |

## Key impacts 2005

- Transaction settled on September 30, 2005; consolidated in Q4 only
- Restructuring process initiated with key positions staffed
- Agreement with regulator on maximum allowed RAB as of the date of completion
- One-off provisions

## Main challenges for 2006

- Increase sales to eligible customers
- Introduction of costs for unbundling into the regulatory framework
- Further restructuring
- Achieve budgeted performance
  - EBITDA EUR 51m
  - EBIT EUR 30m



# IN JANUARY 2006 CEZ SIGNED AN AGREEMENT TO BUY TWO POWER PLANTS IN POLAND



## Elektrociepłownia Elcho Sp. z o. o.



### Basic figures

| <i>million EUR*</i>    | 2003  | 2004  |
|------------------------|-------|-------|
| Revenues               | 46.2  | 88.9  |
| EBITDA                 | 4.2   | 44.9  |
| EBIT                   | 1.9   | 36.2  |
| Net profit             | 10.4  | 42.0  |
| Net debt (debt - cash) | 309.3 | 251.4 |

|                          |      |      |
|--------------------------|------|------|
| Electricity sales (TWh)  | n.a. | 1.4  |
| Installed capacity (MWe) |      | 220  |
| Installed capacity (MWt) |      | 500  |
| Fuel                     |      | coal |
| Commissioned             |      | 2003 |
| Stake controlled         |      | 89%  |

\* Polish accounting standards, converted at 3.85 PLN/EUR

- Brand new power plant commissioned in 2003
- Meets all environmental limits including those in place since 2008
- Revenues from electricity sales make c. 83% of revenues, remainder is mainly heat
- Production covered by long term power purchase agreements till 2023
- The heat is supplied mainly for residential heating
- Elcho has a long term agreement for coal supplies; the power plant is located close to the supplying mines
- Allocated CO2 cover full anticipated production
- Excellent management team - expertise to be utilized in further expansion
- Proximity to CEZ's 800MW hard coal power plant – Detmarovice (50 km) - possible future synergies, incl. possibility of joint coal supply



# SKAWINA IS AN UPGRADED PLANT WITH EXPOSURE TO OPEN MARKET SET TO PROFIT FROM PRICE CONVERGENCE AND INCREASED HEAT OFF-TAKE



## Elektrownia Skawina S.A.



### Basic figures

| <i>million EUR*</i>    | 2003 | 2004 |
|------------------------|------|------|
| Revenues               | 98.6 | 99.5 |
| EBITDA                 | 11.5 | 9.0  |
| EBIT                   | 6.7  | 3.8  |
| Net profit             | 5.1  | 3.0  |
| Net debt (debt - cash) | 1.4  | 9.3  |

|                           |      |     |
|---------------------------|------|-----|
| Electricity sales** (TWh) | 2.5  | 2.4 |
| Installed capacity (MWe)  | 590  |     |
| Installed capacity (MWt)  | 618  |     |
| Fuel                      | coal |     |
| Stake controlled          | 75%  |     |

\* Polish accounting standards, converted at 3.85 PLN/EUR

\*\* Excluding balanced trading in open markets

- Electricity generation part commissioned in 1961, heating part in 1986
- Almost half of the plant continuously refurbished since 1993; some further investments needed to meet stricter emission limits in 2008
- Potential to increase existing generation from biomass
- Electricity is sold in open market; we anticipate that the Polish open market prices will converge to the German ones in the next 5-7 years
- Potential to increase - up to 20% increase in heat off-take in 2006-2011
- Skawina's CO2 allocation per MW installed capacity among the highest in Poland
- Excellent management team - expertise to be utilized in further expansion
- Proximity to CEZ's 800MW hard coal power plant



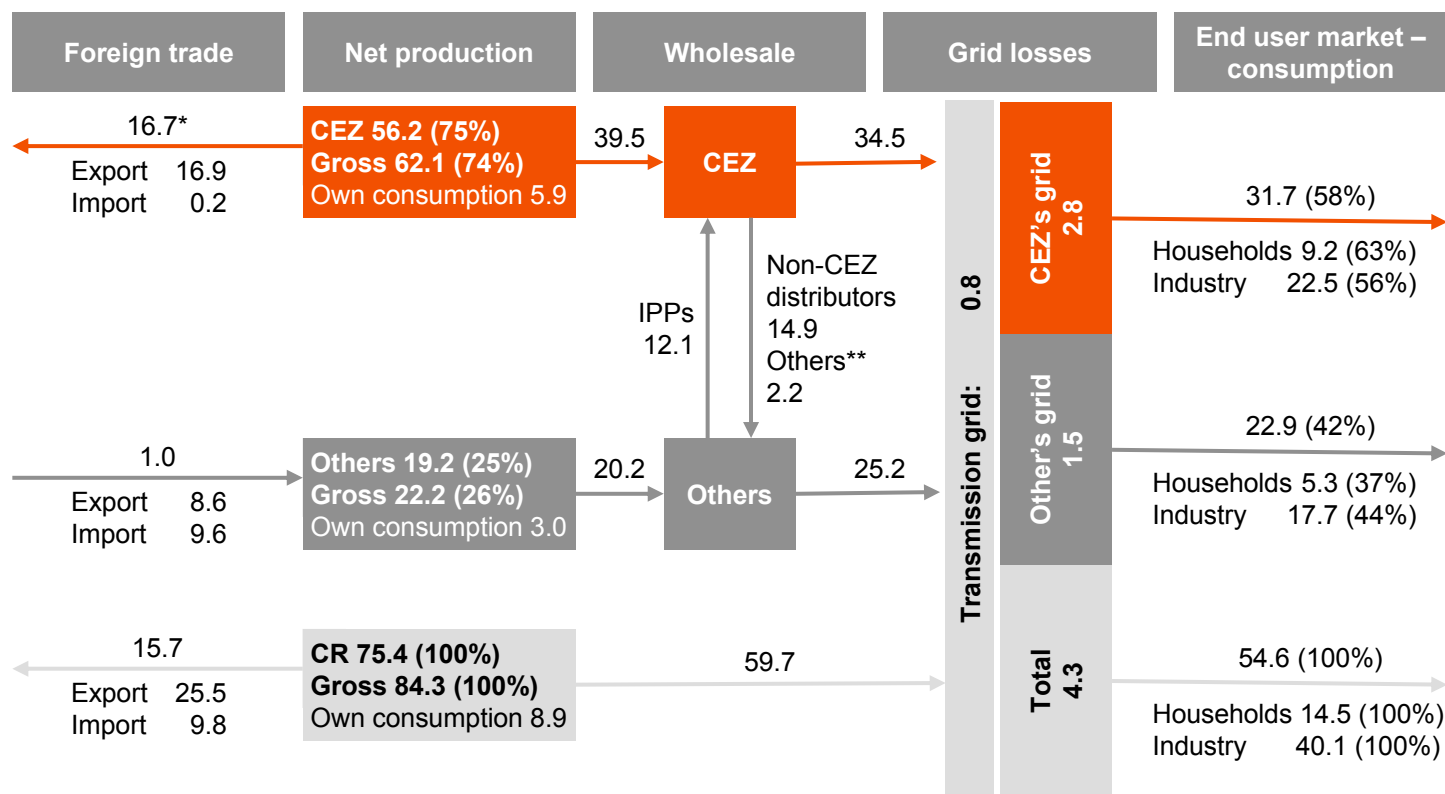
## AGENDA

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# CEZ IS A STRONG PLAYER IN ALL SEGMENTS OF THE CZECH ELECTRICITY MARKET

**Czech electricity market in 2004**  
TWh

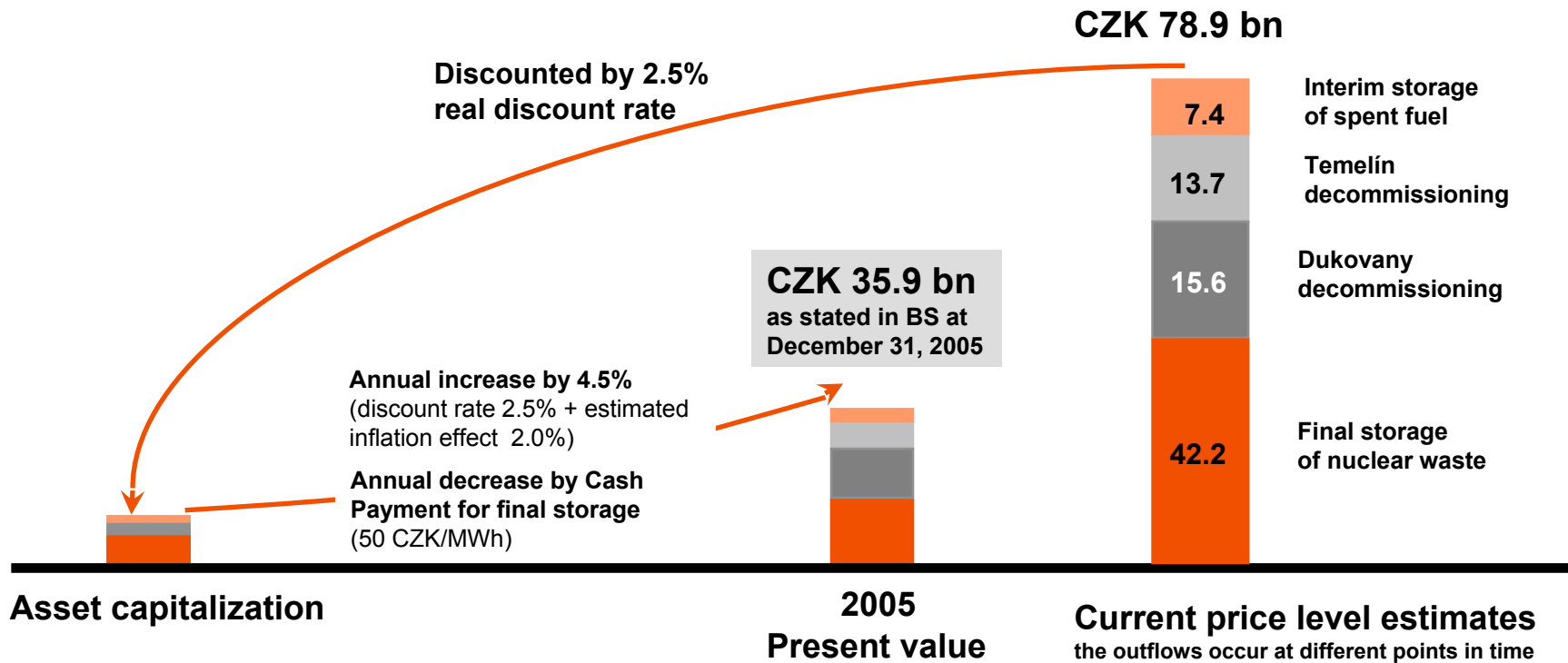


\* Includes sales to domestic traders for export, excludes trading on the foreign liquid markets which do not impact volume

\*\* Includes domestic power exchange trading, sales to grid operator to cover grid losses, direct sales to domestic traders for domestic consumption and other domestic sales



# NUCLEAR PROVISIONS IFRS STATEMENTS ARE FULLY IN LINE WITH IAS 37





## SELECTED HISTORICAL FINANCIALS CZK

### Profit and loss

|                                      | <i>CZK bn</i> | <b>2003</b>        | <b>2004</b>        | <b>2005</b>        |
|--------------------------------------|---------------|--------------------|--------------------|--------------------|
| <u>Revenues</u>                      |               | <u>87.3</u>        | <u>102.7</u>       | <u>125.1</u>       |
| Sales of electricity                 |               | 79.0               | 92.2               | 115.9              |
| Heat sales and other revenues        |               | 8.3                | 10.5               | 9.1                |
| <u>Operating Expenses</u>            |               | <u>53.7</u>        | <u>63.0</u>        | <u>74.9</u>        |
| Purchased power and related services |               | 21.1               | 26.5               | 37.5               |
| Fuel                                 |               | 9.2                | 9.3                | 9.0                |
| Salaries and wages                   |               | 9.7                | 11.4               | 13.4               |
| Other                                |               | 13.7               | 15.9               | 15.0               |
| <b><u>EBITDA</u></b>                 |               | <b><u>33.6</u></b> | <b><u>39.6</u></b> | <b><u>50.2</u></b> |
| <i>EBITDA margin</i>                 |               | <i>38%</i>         | <i>39%</i>         | <i>40%</i>         |
| Depreciation                         |               | 18.5               | 19.8               | 20.7               |
| <b><u>EBIT</u></b>                   |               | <b><u>15.0</u></b> | <b><u>19.8</u></b> | <b><u>29.4</u></b> |
| <i>EBIT margin</i>                   |               | <i>17%</i>         | <i>19%</i>         | <i>24%</i>         |
| <u>Net Income</u>                    |               | <u>9.6</u>         | <u>13.2</u>        | <u>21.5</u>        |

### Balance sheet

|  | <i>CZK bn</i> | <b>2003</b>         | <b>2004</b>         | <b>2005</b>         |
|--|---------------|---------------------|---------------------|---------------------|
| Non current assets                         |               | 271.9               | 271.7               | 280.4               |
| Current assets                             |               | 24.7                | 27.5                | 43.8                |
| - out of that cash and cash equivalents    |               | 5.0                 | 8.9                 | 16.8                |
| <b><u>Total Assets</u></b>                 |               | <b><u>296.6</u></b> | <b><u>299.3</u></b> | <b><u>324.2</u></b> |
| Shareholders equity (excl. minority. int.) |               | 171.1               | 178.4               | 191.3               |
| Interest bearing debt                      |               | 38.8                | 41.8                | 38.7                |
| Other liabilities                          |               | 86.7                | 79.0                | 94.2                |
| <b><u>Total liabilities</u></b>            |               | <b><u>296.6</u></b> | <b><u>299.3</u></b> | <b><u>324.2</u></b> |

**Note:** 2003 and 2004 results were restated to comply with pooling of interests method regarding Severoceske doly, i.e. the restated financials are as if CEZ had held 93% in Severoceske doly throughout the whole period of 2003 - 2005.



## SELECTED HISTORICAL FINANCIALS EUR

### Profit and loss

|                                      | <i>EUR m</i> | <b>2003</b>         | <b>2004</b>         | <b>2005</b>         |
|--------------------------------------|--------------|---------------------|---------------------|---------------------|
| <u>Revenues</u>                      |              | <u>3,009</u>        | <u>3,540</u>        | <u>4,312</u>        |
| Sales of electricity                 |              | 2,723               | 3,178               | 3,998               |
| Heat sales and other revenues        |              | 286                 | 362                 | 315                 |
| <u>Operating Expenses</u>            |              | <u>1,852</u>        | <u>2,174</u>        | <u>2,583</u>        |
| Purchased power and related services |              | 728                 | 914                 | 1,292               |
| Fuel                                 |              | 316                 | 321                 | 311                 |
| Salaries and wages                   |              | 334                 | 392                 | 463                 |
| Other                                |              | 474                 | 546                 | 518                 |
| <b><u>EBITDA</u></b>                 |              | <b><u>1,157</u></b> | <b><u>1,366</u></b> | <b><u>1,729</u></b> |
| <i>EBITDA margin</i>                 |              | <i>38%</i>          | <i>39%</i>          | <i>40%</i>          |
| Depreciation                         |              | 638                 | 684                 | 715                 |
| <b><u>EBIT</u></b>                   |              | <b><u>519</u></b>   | <b><u>682</u></b>   | <b><u>1,014</u></b> |
| <i>EBIT margin</i>                   |              | <i>17%</i>          | <i>19%</i>          | <i>24%</i>          |
| <u>Net Income</u>                    |              | <u>331</u>          | <u>456</u>          | <u>740</u>          |

### Balance sheet

|  | <i>EUR m</i> | <b>2003</b>          | <b>2004</b>          | <b>2005</b>          |
|--|--------------|----------------------|----------------------|----------------------|
| Non current assets                         |              | 9,374                | 9,368                | 9,668                |
| Current assets                             |              | 853                  | 949                  | 1,510                |
| - out of that cash and cash equivalents    |              | 173                  | 308                  | 579                  |
| <b><u>Total Assets</u></b>                 |              | <b><u>10,227</u></b> | <b><u>10,317</u></b> | <b><u>11,178</u></b> |
|  |              | 0                    | 0                    | 0                    |
| Shareholders equity (excl. minority. int.) |              | 5,898                | 6,152                | 6,596                |
| Interest bearing debt                      |              | 1,339                | 1,442                | 1,336                |
| Other liabilities                          |              | 2,990                | 2,723                | 3,247                |
| <b><u>Total liabilities</u></b>            |              | <b><u>10,227</u></b> | <b><u>10,317</u></b> | <b><u>11,178</u></b> |

Exchange rate used: 29 CZK/EUR

**Note:** 2003 and 2004 results were restated to comply with pooling of interests method regarding Severoceske doly, i.e. the restated financials are as if CEZ had held 93% in Severoceske doly throughout the whole period of 2003 - 2005.



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