



# CEZ GROUP 2005 RESULTS

PRELIMINARY NONAUDITED CONSOLIDATED RESULTS (IFRS)

**Prague, March 21, 2006**



## PROGRAM

- **Financial results**  
Petr Vobořil, CFO
- **Trading position of CEZ Group and project Vision 2008**  
Alan Svoboda, Executive Director Sales and Trading



## 2005 FINANCIAL RESULTS AND EXPECTED FINANCIAL PERFORMANCE FOR 2006

- **EBIT** increased by 49 % to CZK 29.4 bn y-o-y for an increase of CZK 9.6 bn
- **Net income** increased by 56 % **y-o-y** to CZK 22.3 bn (increase of CZK 8.0 bn)
- **EBIT and net income** increase caused also by unplanned influence related to acquisitions
- **ROE** increased by 56 % y-o-y to 12.3% and CEZ Group started to create value for its shareholders
- **CEZ share price** increased from 341 CZK to 736 CZK (by 116%) and as of March 17, 2006 the price stood at 818.6 CZK
- **CEZ Group's 2006 EBIT** is budgeted at CZK 36.8 bn, EBITDA at 58.1 bn (increase of 25%, resp. 16%)
- Project **Vision 2008** successfully progressing



## 2005 FINANCIAL RESULTS

- **CEZ Group consists of 93 companies** (36 consolidated by full consolidation method, 5 consolidated by equivalence method)
- **Most significant new companies** – three Bulgarian distribution companies, Severoceske doly, SKODA PRAHA (influencing CEZ Group results during the whole year), Romanian distribution company Electrica Oltenia (influencing CEZ Group results only in the last quarter)
- **New acquisitions this year – Polish power plants Skawina and Elcho** will influence CEZ Group results from this year (negotiations about TPP Varna purchase are also progressing optimistically)
- **Foreign acquisitions share on CEZ Group revenues CZK 125 bn was 12%** (Romanian Electrica Oltenia only with one quarter)
- **CEZ Group as of the end of 2005 employed 29 905 people**, y-o-y increase by 7 137 influenced by increase in four foreign distribution companies in the region of southeastern Europe of 7662 , in the region of central Europe decrease by 525 employees



# EBIT GREW BY 49% Y-O-Y TO CZK 29 BN, INCREASE OF CZK 9.6 BN

CZK m	2004	2005	Change 05-04
Operating Revenues	102,670	125,083	22,413
Sales of electricity	92,183	115,949	23,767
Heat sales and other revenues	10,487	9,134	-1,353
Operating expenses	82,885	95,664	12,779
Fuel	9,305	9,009	-295
Purchased power and related services	26,520	37,474	10,954
Repair and maintenance	4,872	4,229	-642
Salaries and wages	11,368	13,426	2,058
Materials and supplies	4,625	4,020	-605
CO <sub>2</sub> allowances	0	-1,053	-1,053
Other operating expenses	6,354	7,820	1,466
<b>EBITDA</b>	<b>39,627</b>	<b>50,157</b>	<b>10,530</b>
Depreciation and amortization	19,842	20,737	896
<b>EBIT</b>	<b>19,785</b>	<b>29,419</b>	<b>9,634</b>

## Key impacts



- higher wholesale margin
- lower power generation
- CO<sub>2</sub> allowance trading and generation optimalization
- Contribution of Bulgaria, Romania and SD



- higher personnel costs
- lower income from fixed assets sales (disposal of former headquarters in 2004)
- provisions on value of STE headquarters in Prague



# NET INCOME INCREASED BY 56% Y-O-Y TO CZK 22 BN (INCREASE OF CZK 8 BN)

CZK m	2004	2005	Change 05-04	Index 05/04 (%)
<b>Operating results (EBIT)</b>	<b>19,785</b>	<b>29,419</b>	<b>9,634</b>	<b>148.7</b>
<b>Other expenses/income</b>	<b>1,284</b>	<b>2,097</b>	<b>813</b>	<b>163.3</b>
Interest on debt	1,823	1,800	-23	98.7
Interest on nuclear provisions	2,425	2,447	22	100.9
Interest income	-721	-437	284	60.7
FX profit and loss; net	-1,765	266	2,031	n.a.
Sale of subsidiaries and associates	0	170	170	n.a.
Accounting for negative goodwill	0	-1,704	-1,704	n.a.
Other financial expense/income	244	-343	-588	n.a.
out of which: derivatives	1,630	-169	-1,799	n.a.
gains/losses from sales of securities	-557	-7	549	1.3
Income from associates	-722	-102	620	14.2
<b>Profit before taxes</b>	<b>18,502</b>	<b>27,323</b>	<b>8,821</b>	<b>147.7</b>
Income Tax	4,233	5,025	792	118.7
<b>Net income</b>	<b>14,268</b>	<b>22,298</b>	<b>8,030</b>	<b>156.3</b>

## Key non operating impacts in CZK bn

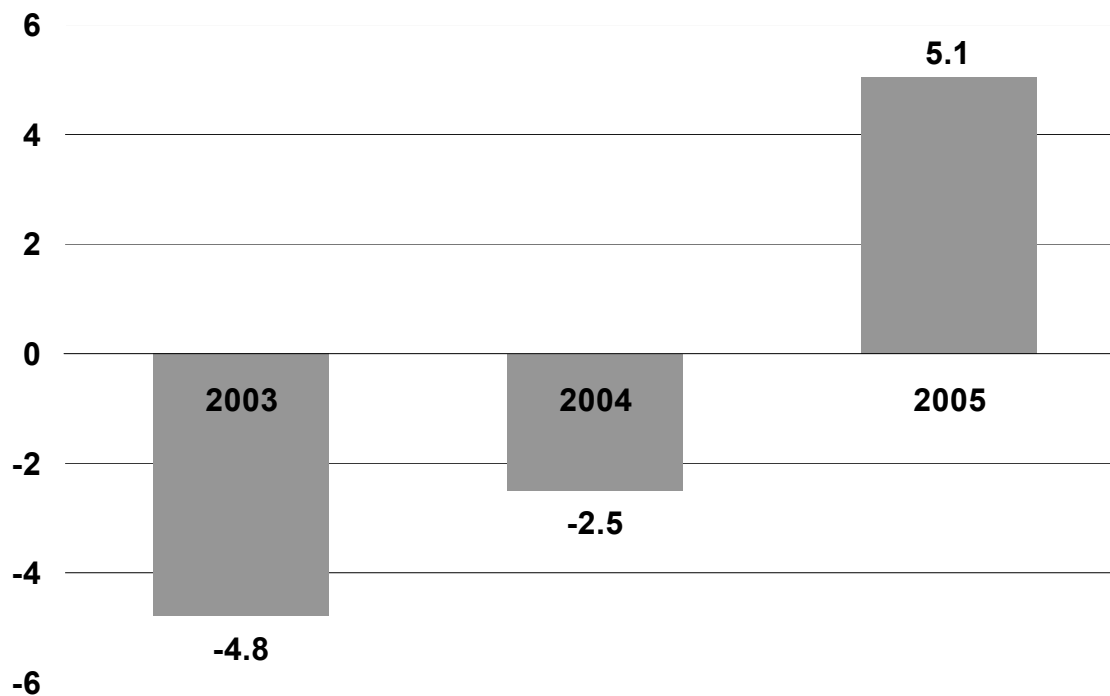
- 0.8 income tax
- 0.6 income from associates
- 0.5 P&L from securities disposal
- 0.2 foreign exchange and derivatives P&L
- + 1.7 accounting for negative goodwill in Electrica Oltenia



# CEZ GROUP STARTED TO CREATE VALUE FOR IT'S SHAREHOLDERS

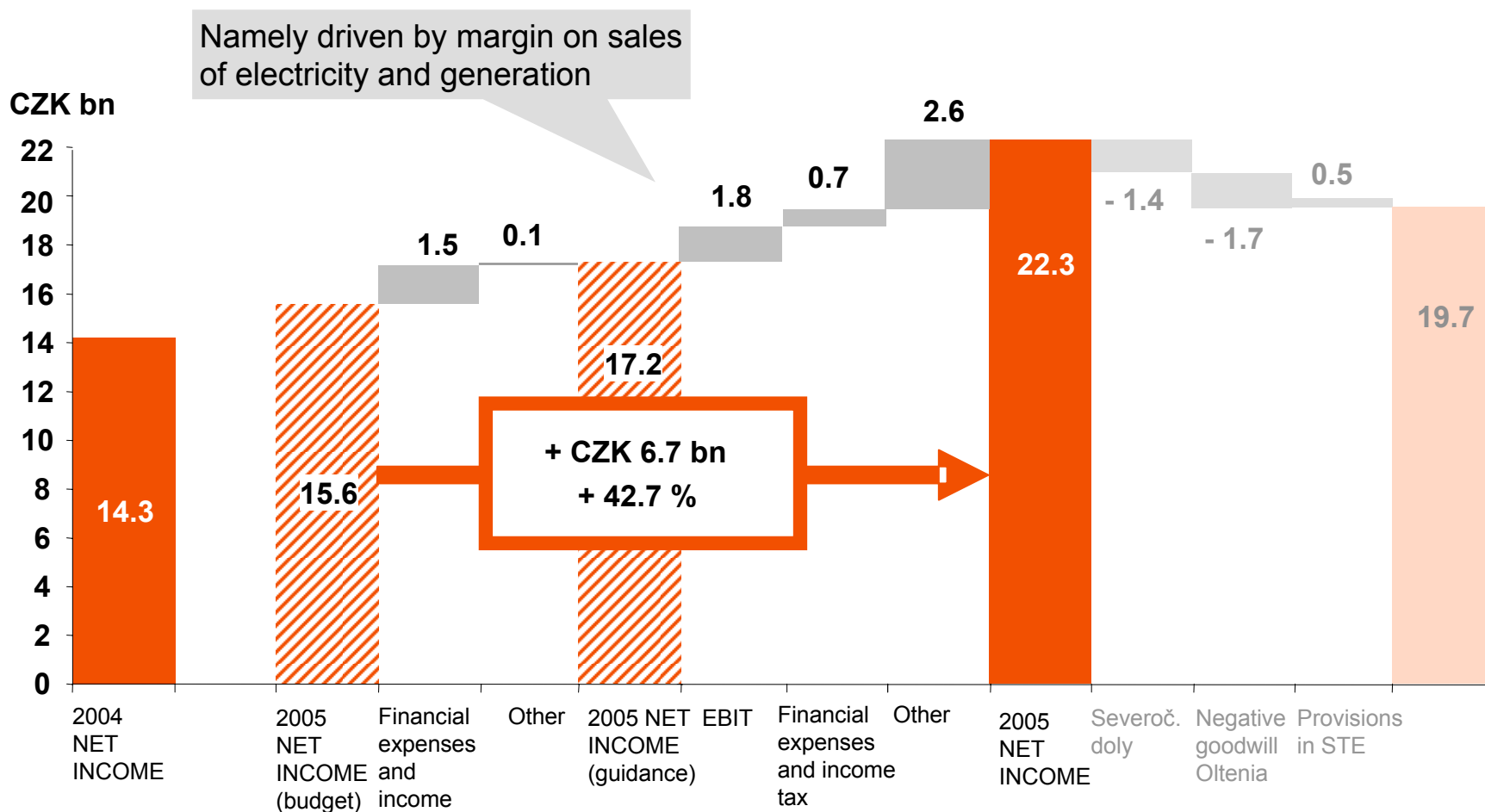
## Development of EVA y-o-y (Economic Value Added)

CZK bn





# NET INCOME INCREASED TO CZK 22.3 BN SINCE LAST GUIDANCE







# CEZ GROUP RESULTS WERE INFLUENCED BY SEVEROCESKE DOLY CONSOLIDATION AND ACCOUNTING FOR NEGATIVE GOODWILL AT OLTENIA

## Impact of SD consolidation and accounting for negative goodwill at Oltenia

CZK bn

	CEZ Group	SD impact (difference between full and equity consolidation)	Accounting for negative goodwill at Oltenia	CEZ Group (SD by equity consolidation, excl. neg. goodwill at Oltenia)
<b>Revenues</b>	125.1	2.2	0.0	122.9
<b>EBITDA</b>	50.2	3.8	0.0	46.4
<b>EBIT</b>	29.4	2.7	0.0	26.7
<b>Net Income</b>	22.3	1.4	1.7	19.2



## FINANCIAL PERFORMANCE BY SEGMENTS IN 2005

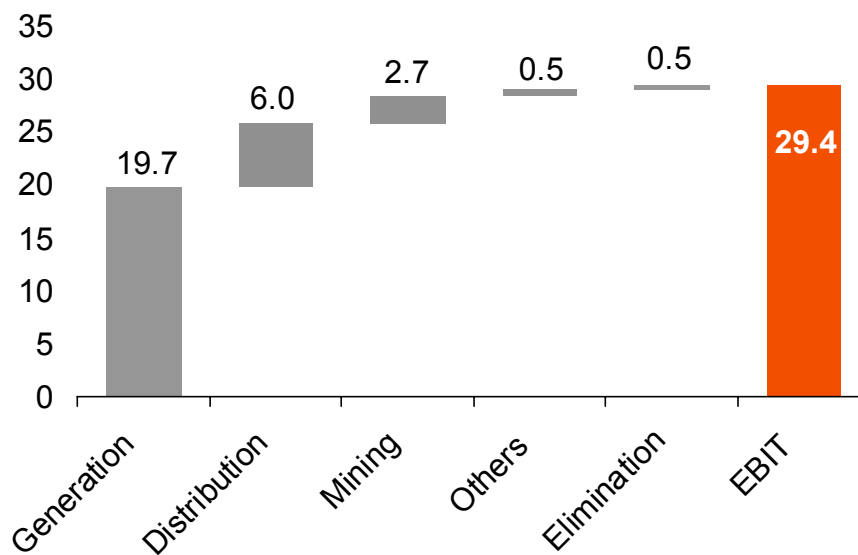
### CEZ Group by segments

CZK m

	Generation	Distribution	Mining	Others	Consolidated
<b>Revenues</b>	70,248	75,387	7,998	8,654	125,083
<b>EBITDA</b>	33,642	11,272	3,607	1,606	50,157
<b>EBIT</b>	19,734	6,029	2,660	516	29,420

### EBIT contribution

CZK bn





# 2005 PERFORMANCE OVERVIEW OF KEY GROUP COMPANIES (INDIVIDUAL NONCONSOLIDATED RESULTS)

## Companies in the Czech Republic

CZK m

	CEZ	SCE	SME	STE	VCE	ZCE	CEZ Prodej	CEZ Distr.	CEZ Zákaz. služby	CEZ Data	CEZnet	CEZ Měření	Sev. doly
<b>Revenues</b>	67,644	9,920	15,162	11,728	9,335	5,892	10,065	4,687	677	1,666	1,162	587	7,998
<b>EBITDA</b>	33,379	1,510	2,532	1,322	1,387	846	99	1,259	154	531	557	154	3,607
<b>EBIT</b>	19,609	953	1,716	632	884	499	41	276	153	36	282	146	2,660
<b>Net Income</b>	17,635	872	1,243	1,110	1,244	758	36	-103	114	28	217	103	2,010

## Foreign affiliates

CZK m

	ER Pleven	ER Sofia Oblast	ER Stolichno	Electrica Oltenia (IV. Q)
<b>Revenues</b>	3,155	3,102	5,611	2,599
<b>EBITDA</b>	233	363	979	266
<b>EBIT</b>	-4	177	630	70
<b>Net Income</b>	-14	138	549	295

Foreign affiliates contributed to CEZ Group profitability



# THE INTEGRATION OF THE BULGARIAN EDCs IS PROGRESSING FASTER THAN EXPECTED

## Selected financials (simple sum)

EUR m

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

## 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
  - ROIC 10.7%



# THE INTEGRATION OF ROMANIAN EDC OLTENIA IS ON TRACK

## Selected annual financials

EUR m

EUR m	2004 <sup>1</sup>	2005 <sup>2</sup>
Sales	387.8	340.5
EBITDA	67.9	26.6
EBITDA Margin	17.5%	7.9%
Depreciation	20.4	22
EBIT	47.5	4.9
Net income	45.1	-3.2
Net debt	1.3	-123.7
ROIC	16.2 %	1.2 %

1) In 2004 approx. EUR 20m one-off operating revenue related to reversal of bad debt provision; respective bad debt was sold to Romanian government; not restated to reflect 2005 changes in accounting methodology

2) Non audited results

## 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

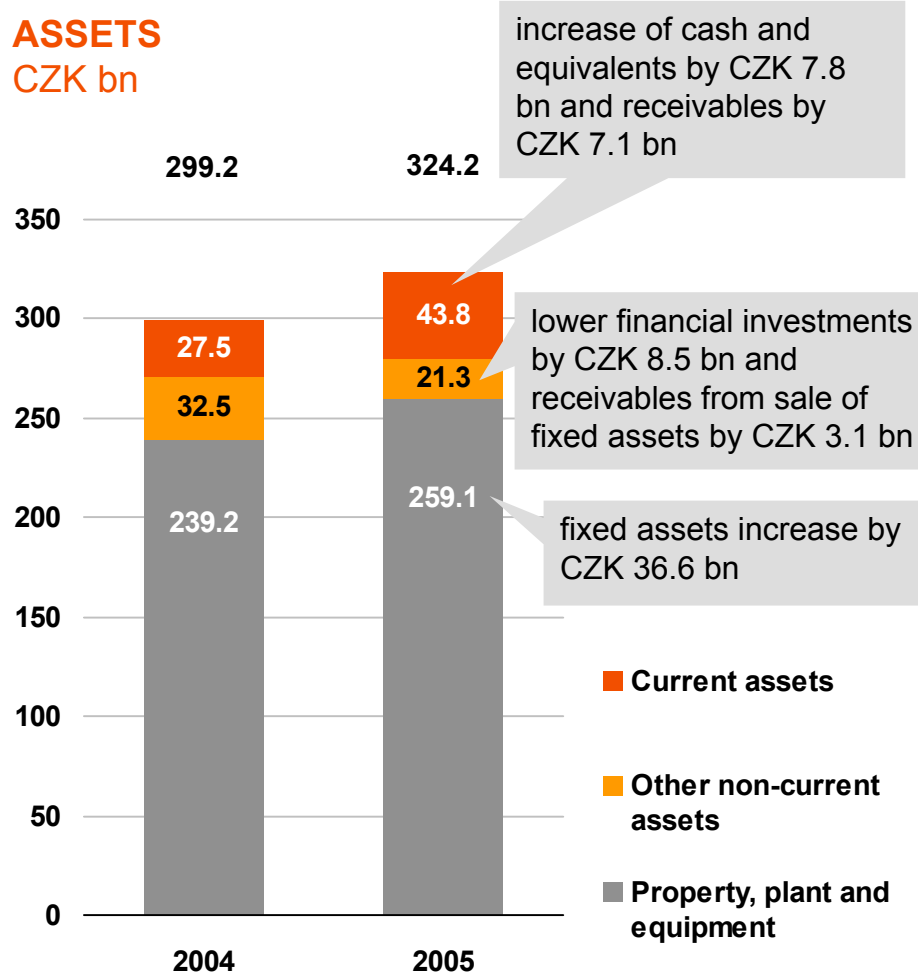
## Main challenges for 2006

- 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
  - ROIC 8.2%

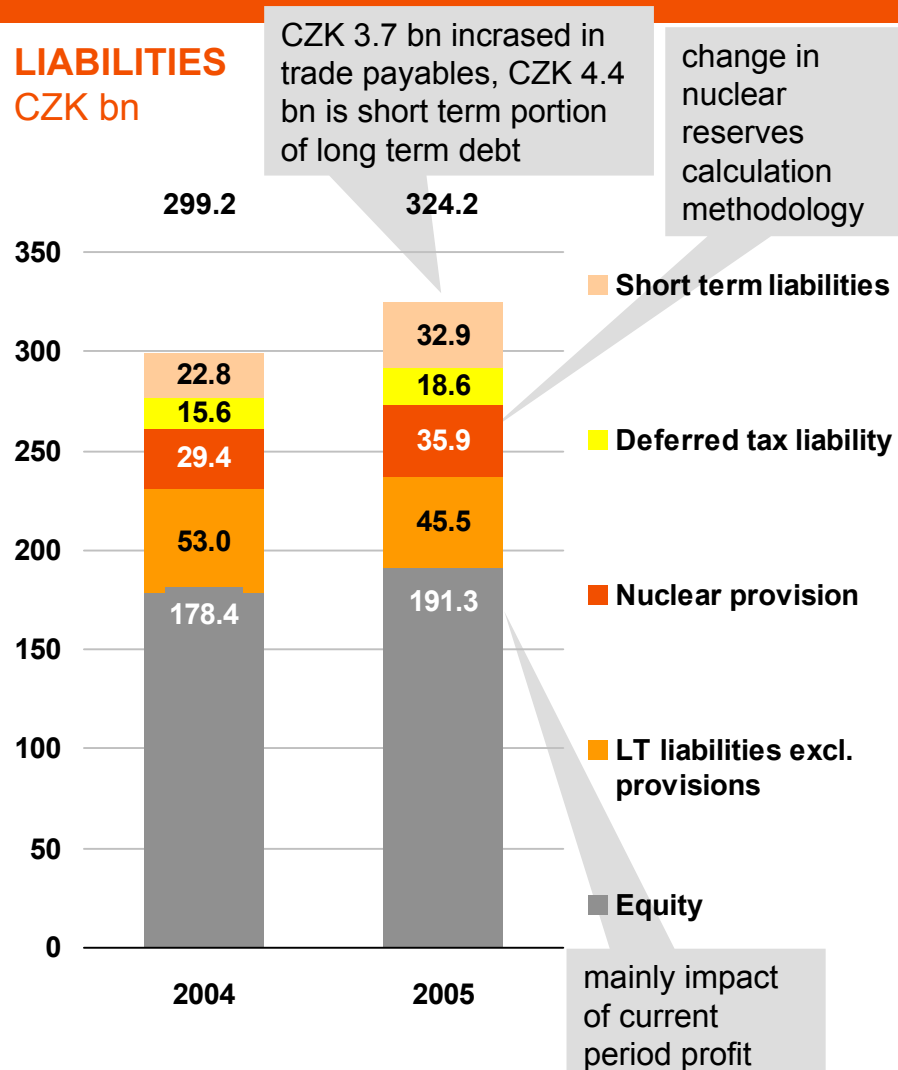


# ASSETS AND LIABILITIES OVERVIEW

## ASSETS CZK bn

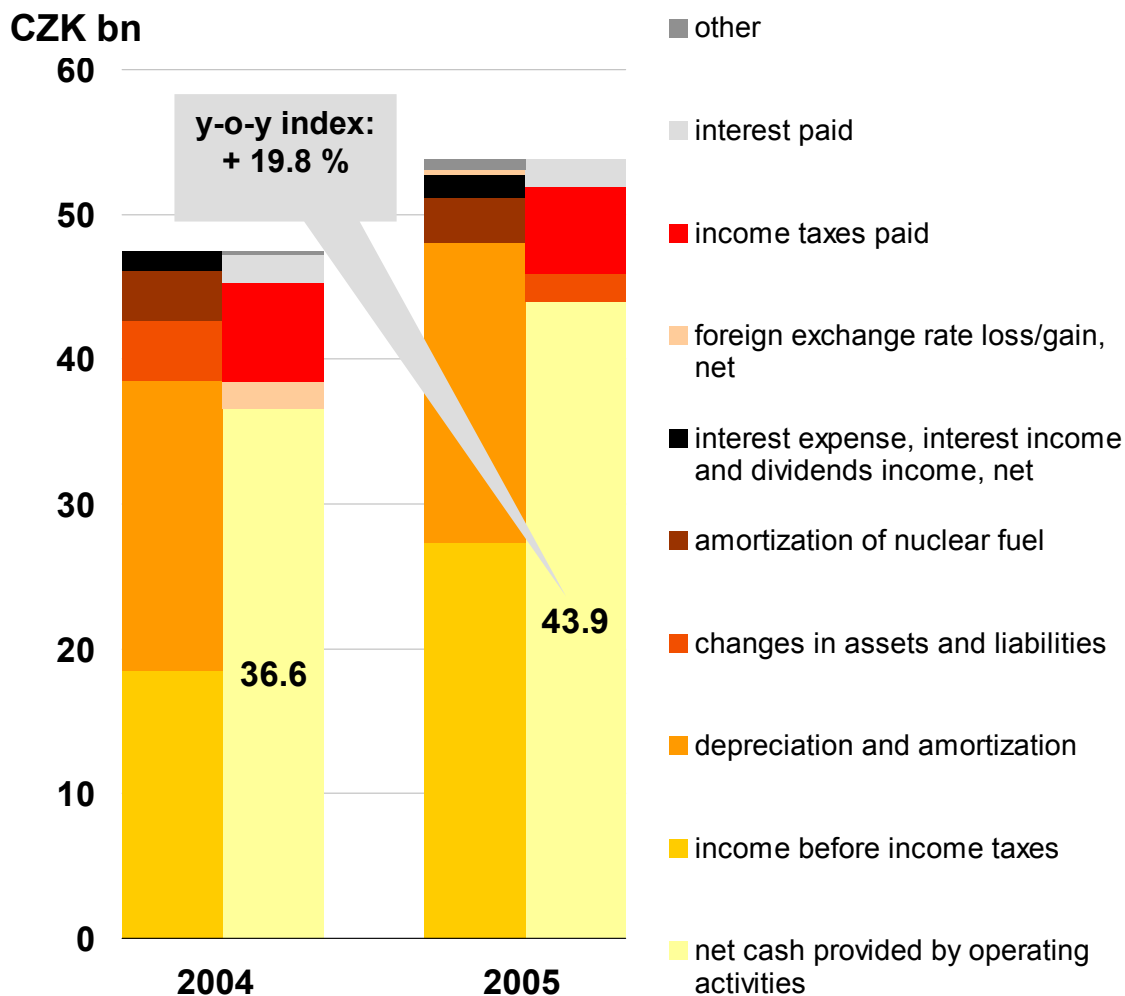


## LIABILITIES CZK bn





# OPERATING CASH FLOW



**Key impacts on operating cash flow increase in CZK bn**

**+ 13.2 EBIT adjusted for non-cash items**

**- 6.2 change in assets and liabilities (namely receivables and other current assets)**

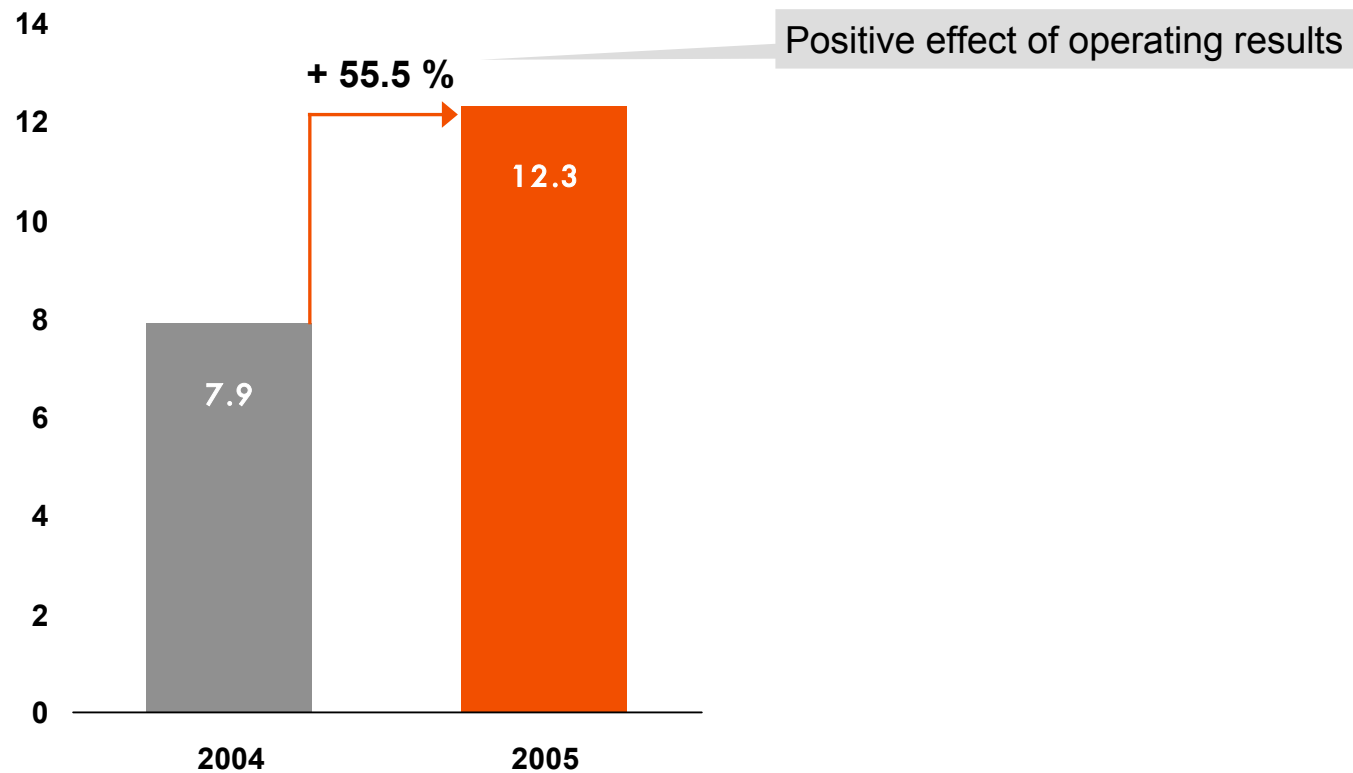
**+ 0.3 other**



## ROE INCREASED BY 56 % Y-O-Y

### ROE (net)

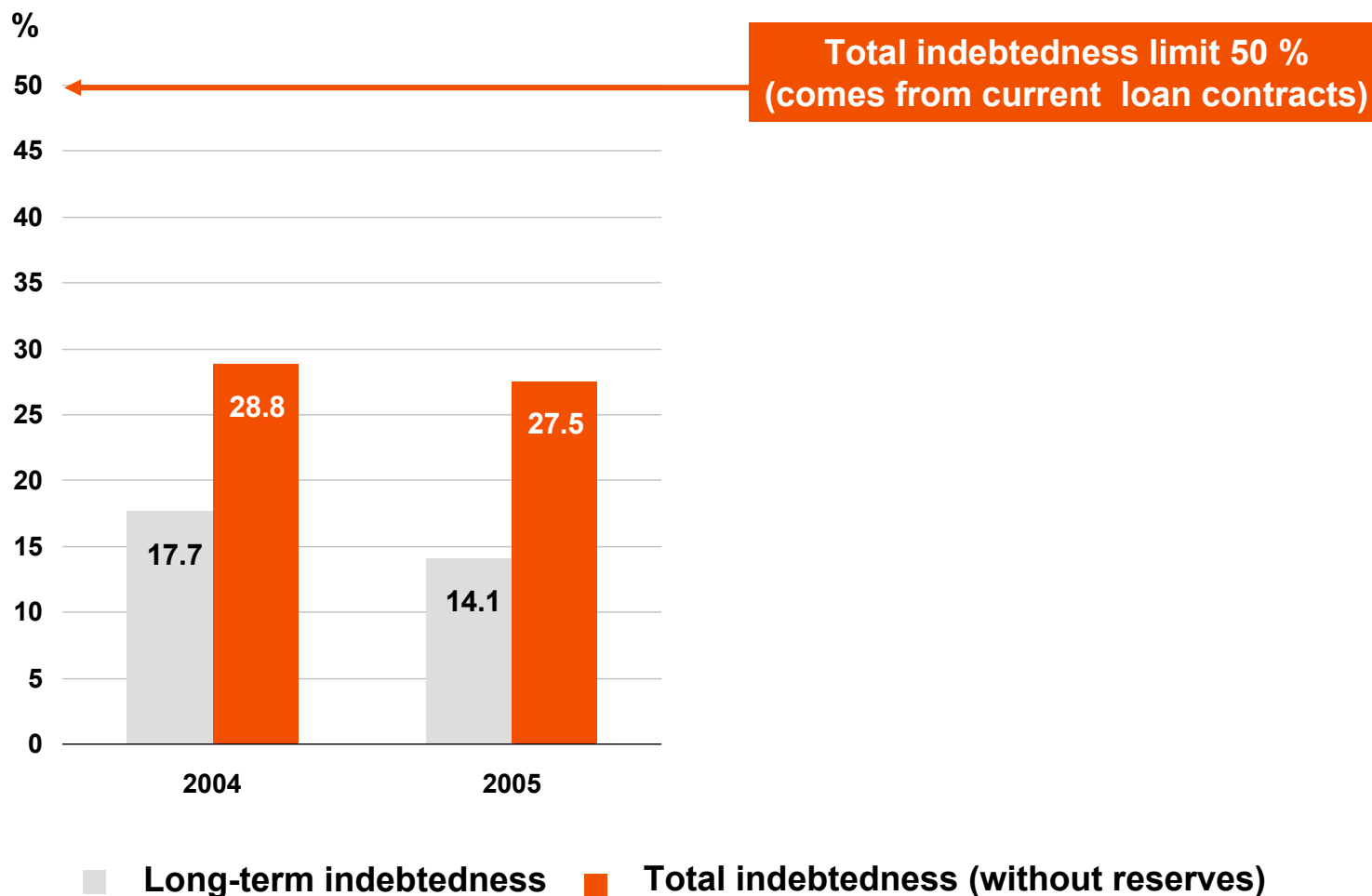
%







## INDEBTEDNESS SLIGHTLY DECLINED

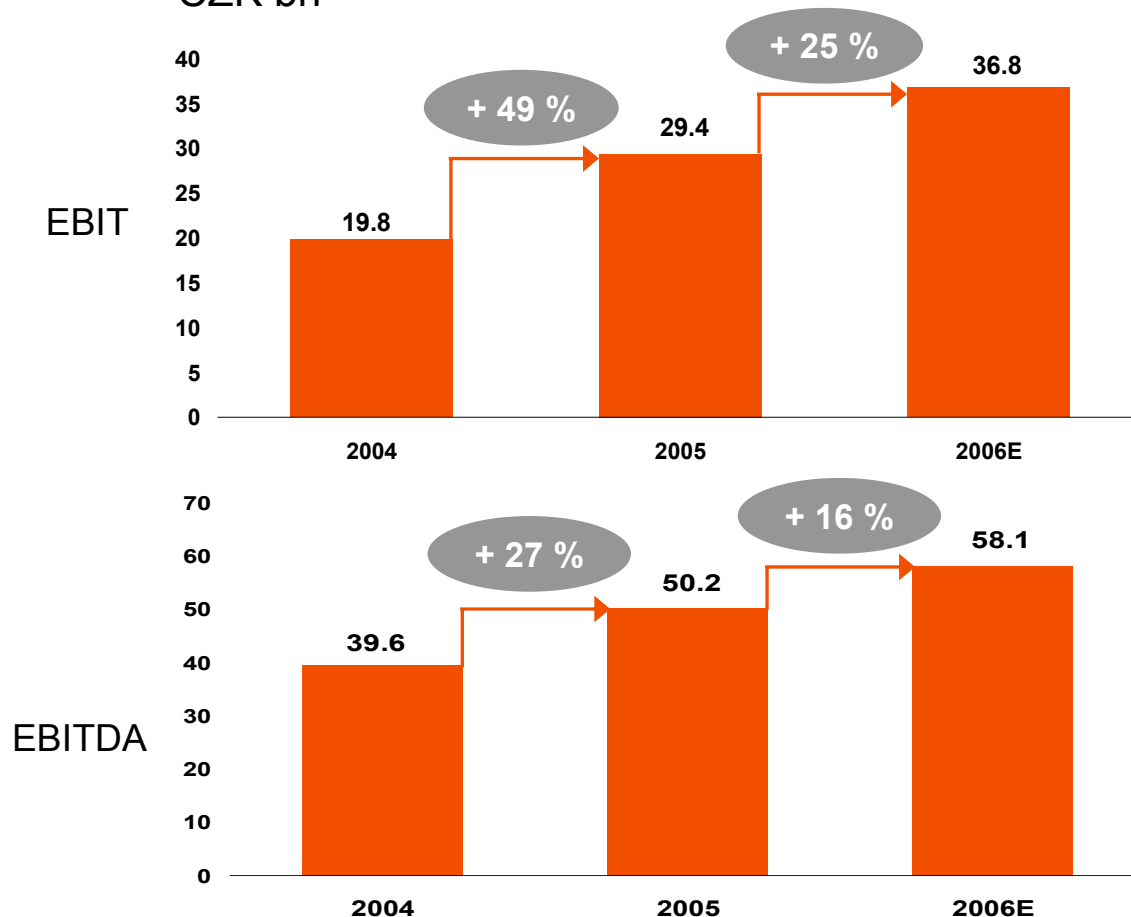




IN 2006 WE EXPECT EBIT AT CZK 36.8 BN AND EBITDA AT CZK 58.1 BN

## Main financial results

CZK bn



## Main growth factors

- Gross margin from generation and trade
- Savings within Vision 2008 and in generation
- Contribution of foreign acquisitions (Bulgaria, Romania, Poland)



## PROGRAM

- **Financial results**

Petr Vobořil, CFO

- **Trading position of CEZ Group and project Vision 2008**

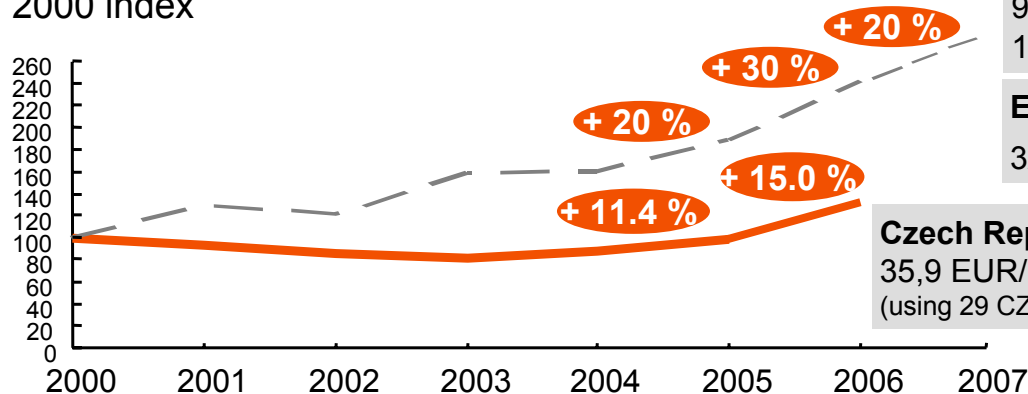
Alan Svoboda, Executive Director Sales and Trading



# WHOLESALE ELECTRICITY PRICES GROW DRIVEN BY INCREASING DEMAND AND LACK OF GENERATION CAPACITIES

## Wholesale electricity price (baseload)

2000 index



### EEX Forward 2006

9/05 45.3 EUR/MWh

12/05 50.0 EUR/MWh

### EEX Forward 2007

3/06 57.3 EUR/MWh

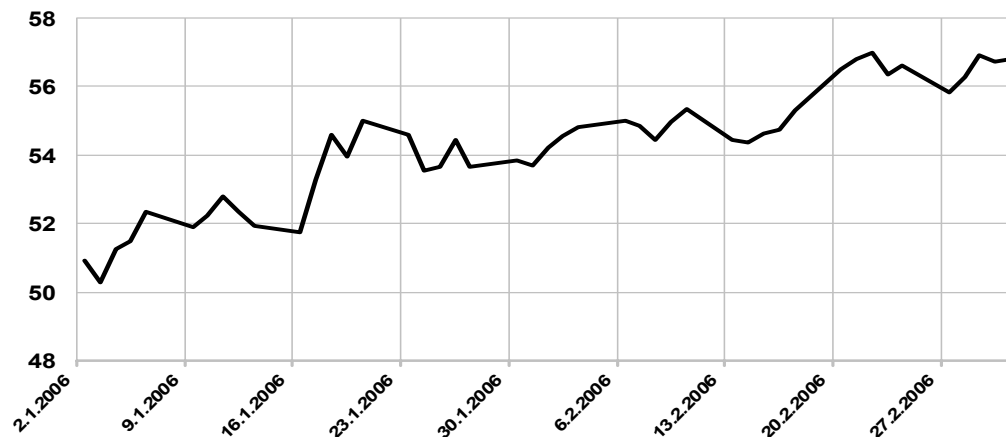
### Czech Republic 2006

35,9 EUR/MWh

(using 29 CZK/EUR)

## Baseload price development at EEX

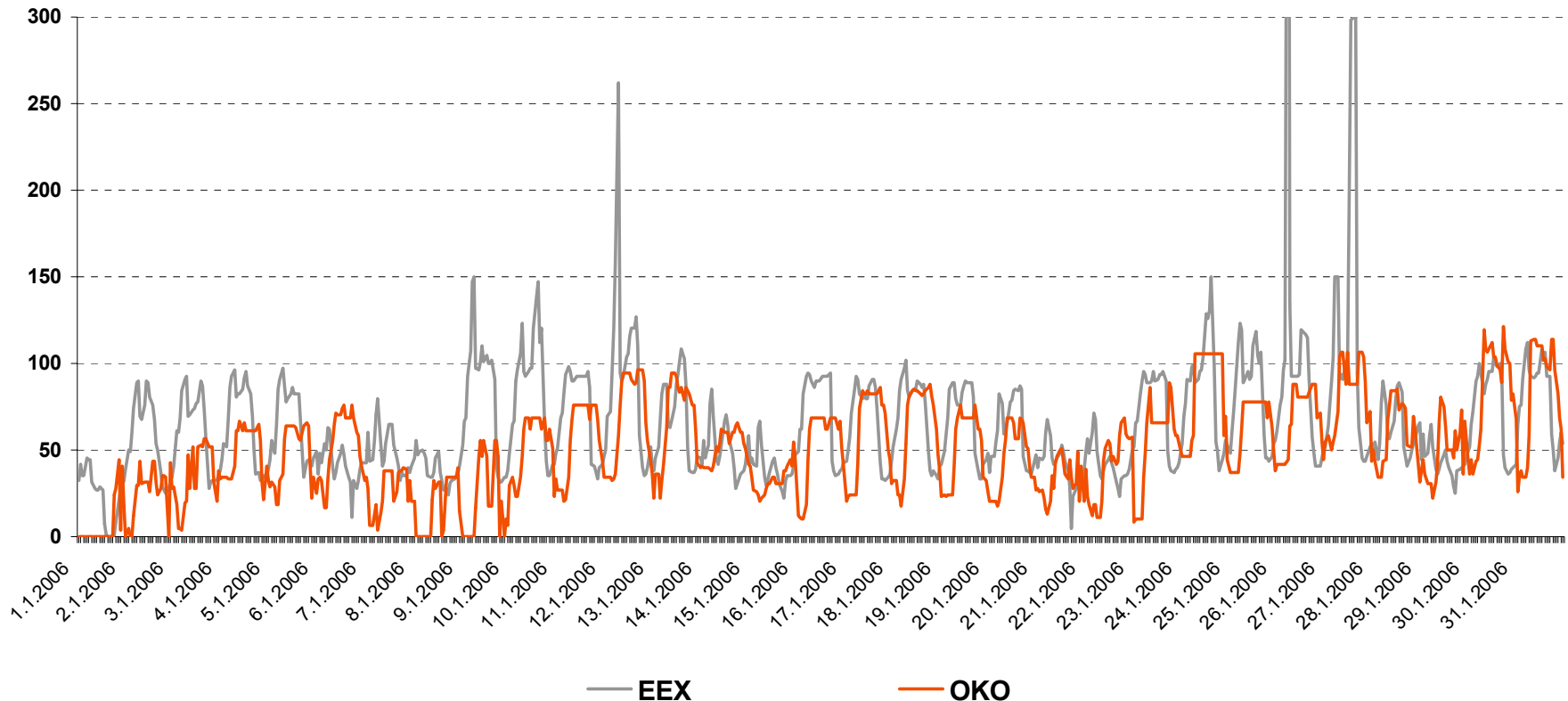
EUR/MWh





# CZECH MARKET IS MORE INTEGRATED INTO EU NOW (DOMESTIC PRICES ARE MORE FREQUENTLY SAME AS IN SURROUNDING COUNTRIES AND ARE VERY HIGH)

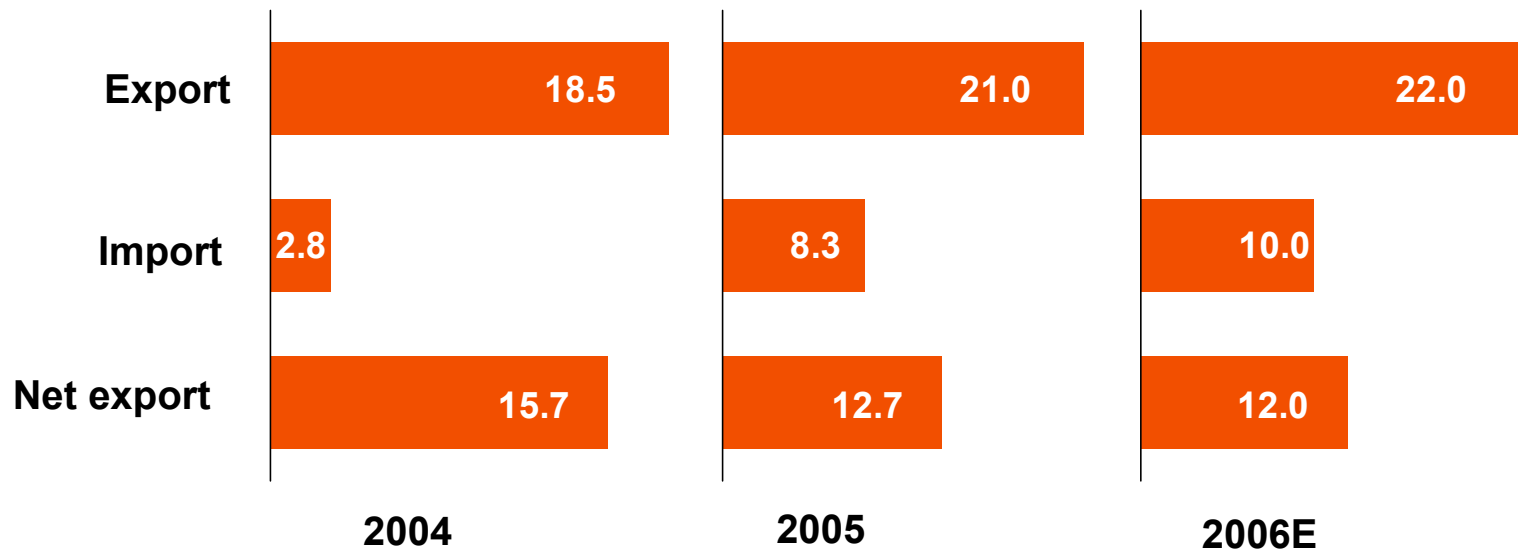
**Prices at OKO and EEX in January**  
EUR/MWh





# CROSS BORDER TRADING VOLUME EXPANDS, HOWEVER NET EXPORT OPPORTUNITIES DECLINE

**Development of export and import in the Czech Republic**  
TWh





# FULFILLING PRINCIPLES DECLARED BY EU SHOULD BRING HIGHER INTERCONNECTION AND GRID STABILITY

## **EU priorities in power sector:**

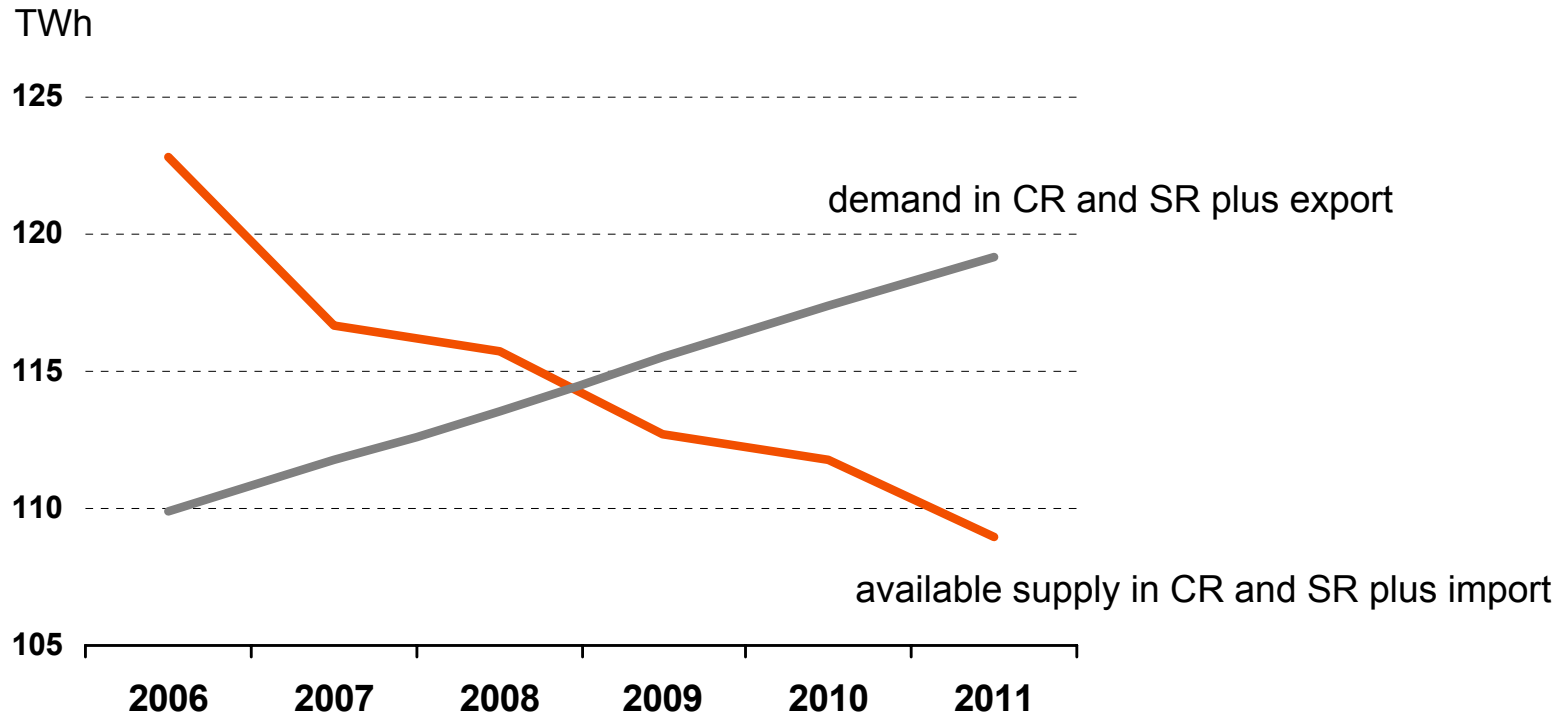
- continue in liberalization of European markets
- increase individual markets integration, freeing cross border capacity and increasing cross border trading
- investments in new power plants
- further progress in EU ETS implementation (trading in CO<sub>2</sub> allowances) as a funding source for new cleaner technologies

## **Implementation of EU Green Book's measure**



# COMING YEARS WILL SEE LACK OF ELECTRICITY ALSO IN OUR REGION

estimate



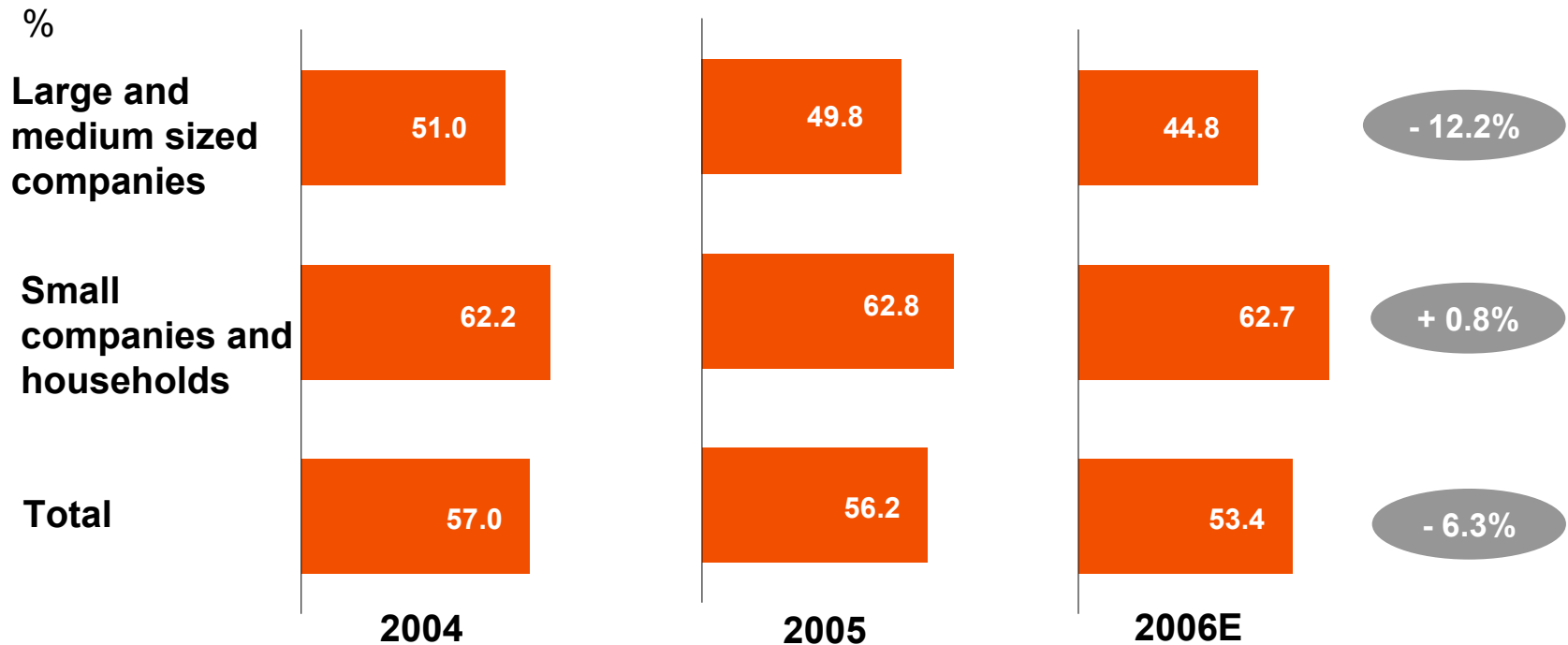
- starting 2008/9 export capacities will not be fully utilized due to lack of available electricity generation
- crisis situations will influence all countries in the region
- need to find motivation for new generation capacity construction





# CEZ IS SUBJECT OF MARKET FORCES – LOOSING DOMESTIC MARKETS AND EXPANDING ABROAD

## Development of domestic end customer market share



- in the last two years CEZ lost 12.2% in the market for large and medium sized companies; it is approaching threshold for market dominance – 40%
- loss of market share did not have a negative impact on margins as these are very low



# CEZ GROUP EXPANDED ITS PRESENCE ABROAD AND WANTS TO SERVICE END CUSTOMERS THERE AS WELL

## Number of CEZ Group end customers

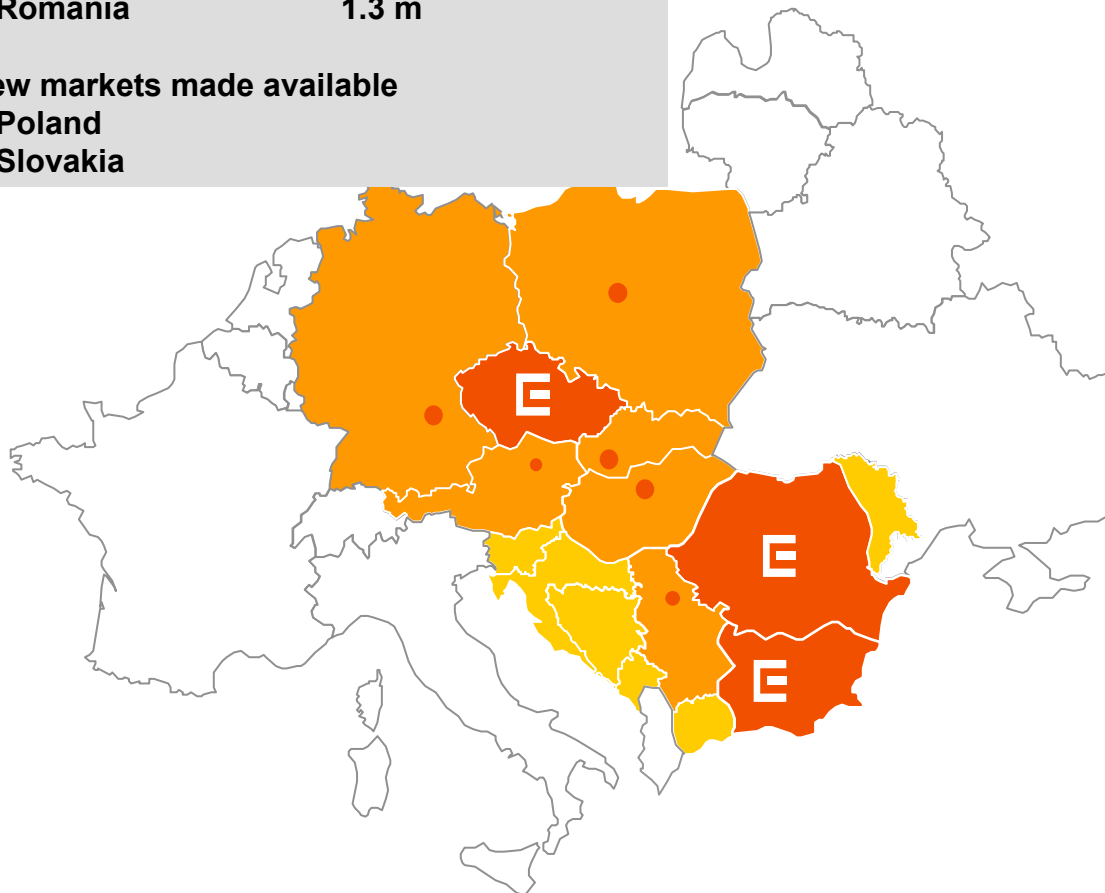
■ Czech Republic	3.4 m
■ Bulgaria	1.9 m
■ Romania	1.3 m

## New markets made available

■ Poland
■ Slovakia

## Trading office

- opened
- under preparation
- markets with CEZ assets
- markets with presence of ČEZ
- target markets



## Trading office

- Germany
- Slovakia
- Hungary
- Austria
- Serbia

## Generation and Trading

- Poland

## Distribution and Trading

- Bulgaria
- Romania



# VISION 2008 KEY TARGETS FOR 2005 HAVE BEEN FULFILLED

## Main results of the project in 2005

### Transformation and integration

The main transformation steps of the whole project have been speeded up and realized already in 2005

### IS and processes management

New operational and economical model of CEZ Group implemented and incorporated in SLA contracts and IT support

### Unbundling

Legal unbundling requirements fulfilled already in 2005

**VISION 2008  
in 2005**

### Social reconciliation

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

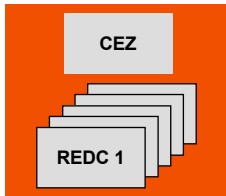
### Project management

Project management tools implemented as a substantial transformation management support



# VISION 2008 PROJECT COVERS FOUR YEARS, KEY TRANSFORMATION STEPS HAVE BEEN IMPLEMENTED ALREADY

## Initial status



## VISION 2008 time plan

**VISION  
2008**

### 2004 Big bang



- business model
- first companies
- IS/IT concept
- smaller-scale improvements

### 2005 Transformation



- major part of transformation
- key companies – Distribution, Sales
- unbundling
- implementation of IS/IT

### 2006 Efficiency enhancement

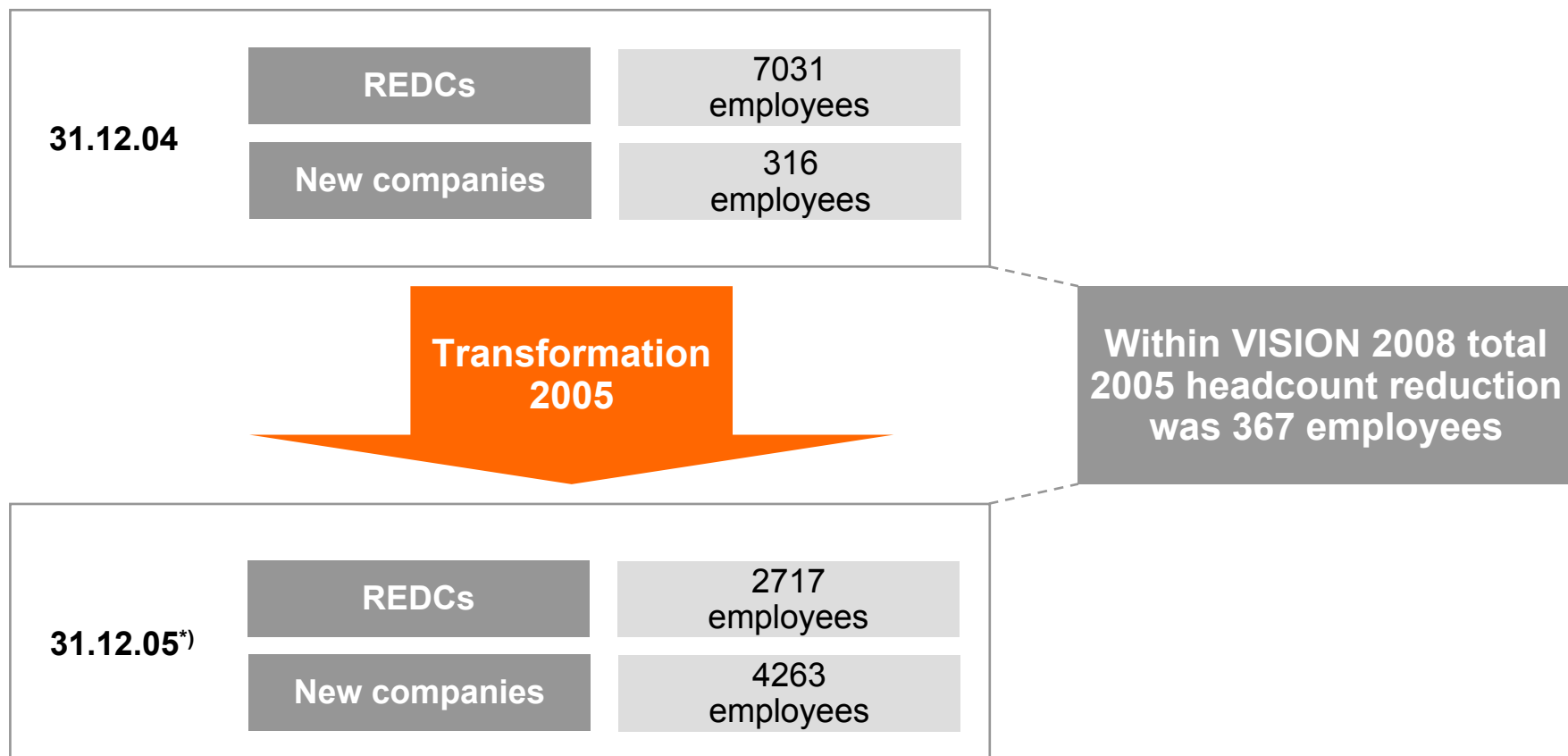
- transformation concluded
- best practices
- optimization
- planned benefits achieved

### 2007 Conclusion

- full productivity
- consolidation
- REDCs shut down



# 4263 EMPLOYEES IN NEW COMPANIES AFTER TRANSFORMATION STEPS IN 2005



\*) Expected result, including SME, where parts of company to CEZ Prodej and CEZ Distribuce was contributed on January 1, 2006



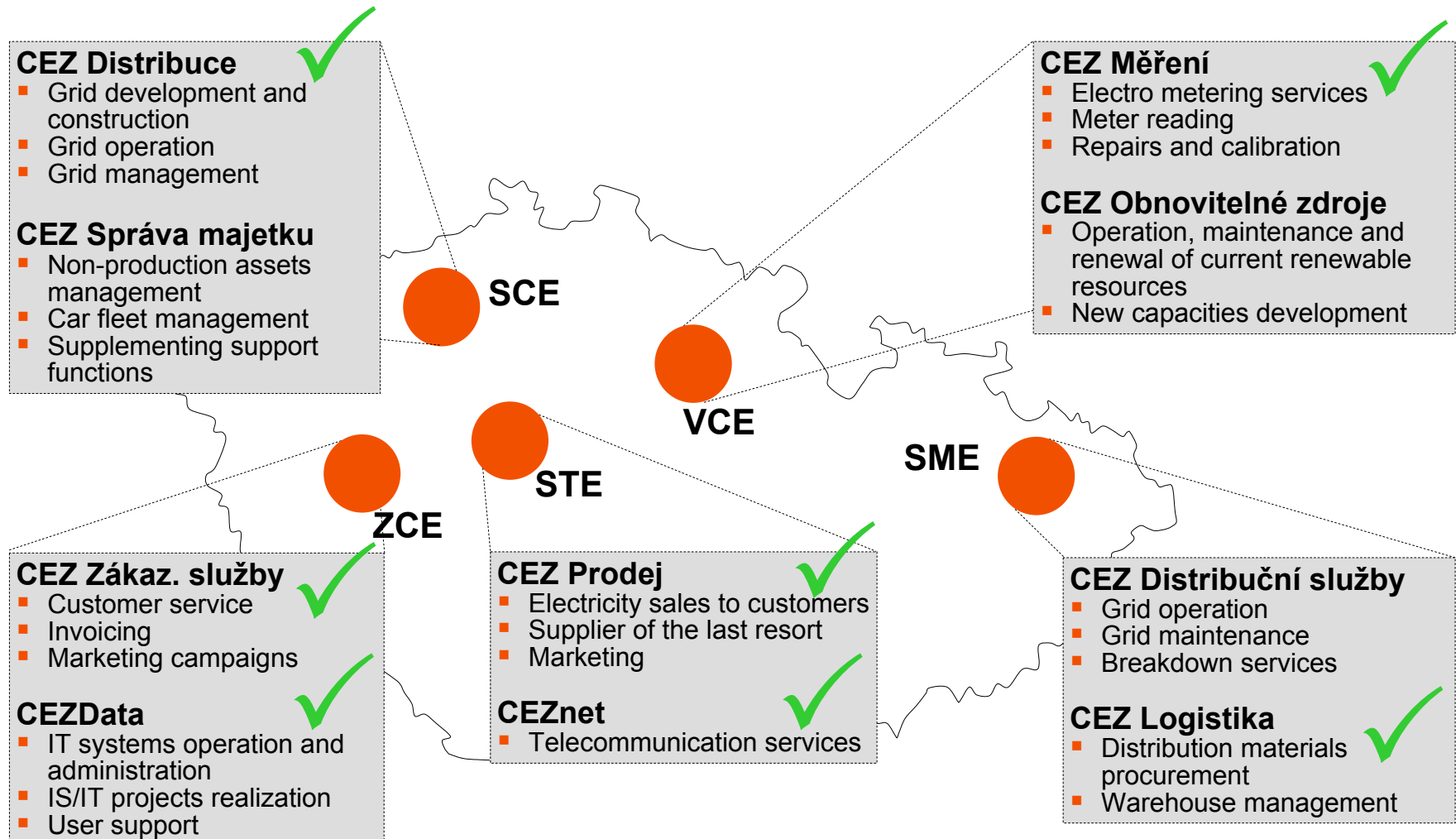
# VISION 2008 - YEAR 2005 WAS BY REALIZED TRANSFORMATION STEPS AND ACCOMPLISHED RESULTS A UNIQUE ONE

## Transformation steps results

- **55 legal-transformational transactions**
  - **41** – outsourcing
  - **12** – part of company contributions
  - **2** – mergers
- **4,263** – number of employees in new companies on 31.12.2005
- **CZK 68 bn**– value of transferred fixed assets (revalued volume)



# SEVEN OUT OF TEN NEW COMPANIES ARE ALREADY FULLY FUNCTIONING





# SAVINGS WITH TRANSFORMATION – PROCUREMENT HAS SEEN SIGNIFACANT SAVINGS

example

## Procurement savings:

