



Changes in distribution and sales segment definition with
chosen details on regulation in CR, BG and RO



AGENDA

- New definition of Distribution and Sale segment 2
- Selected information on distribution regulation in the Czech Republic 4
- Selected information on distribution and sale regulation in Bulgaria 9
- Selected information on distribution and sale regulation in Romania 12

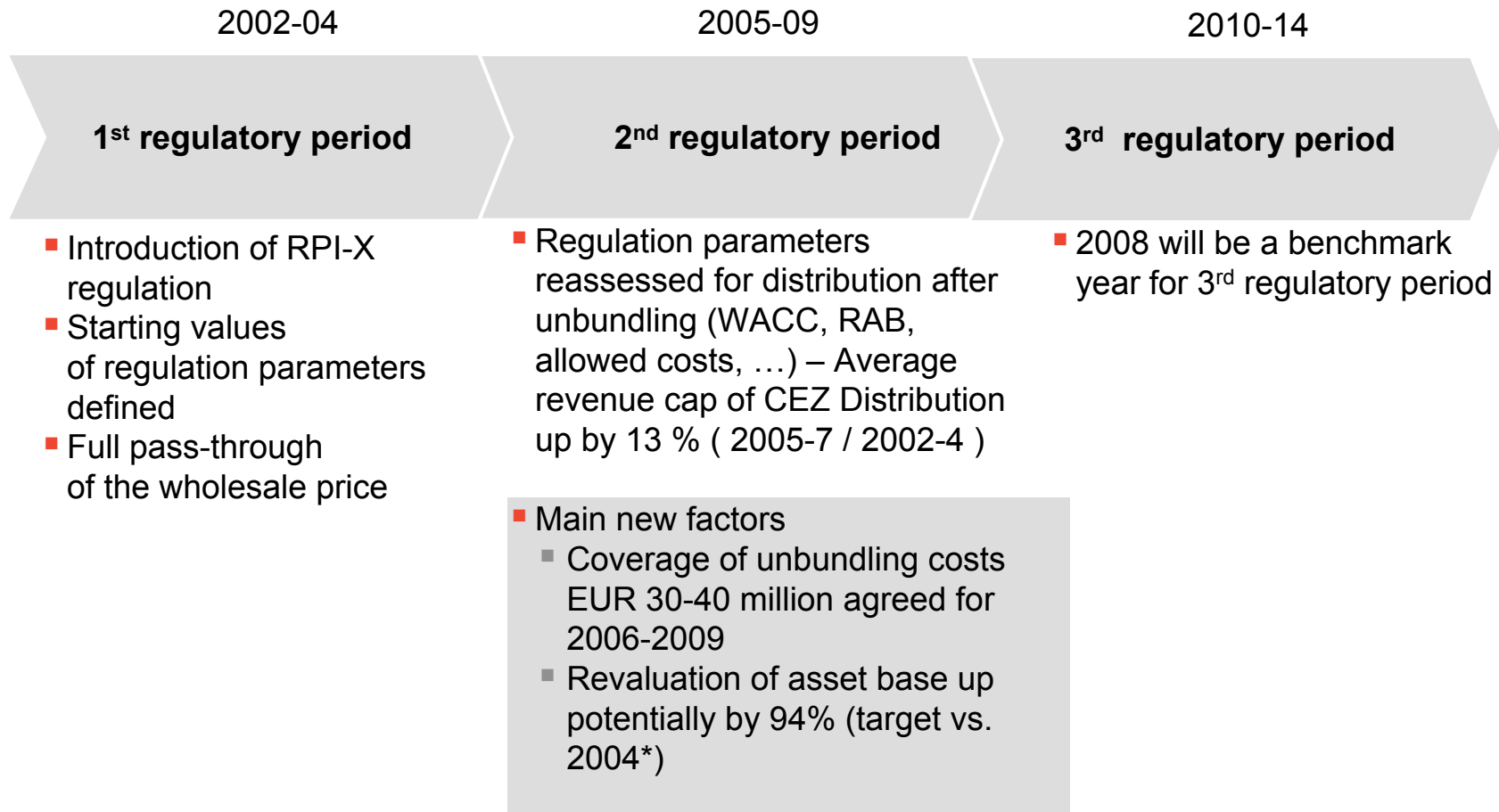


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REGULATORY ENVIRONMENT IN THE CZECH REPUBLIC IS FAIR AND TRANSPARENT



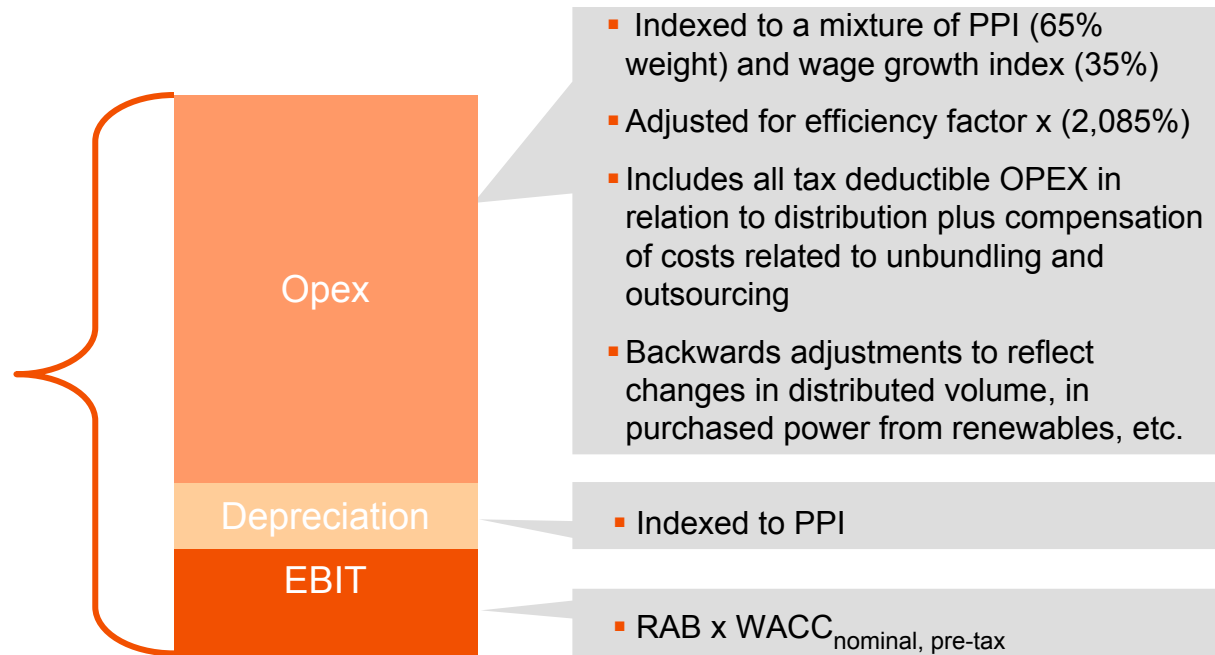
* Detailed description on the following slide - chart RAB development



PRINCIPLES OF REGULATION IN THE CZECH REPUBLIC ARE IDENTICAL TO THE REST OF EUROPE

Revenue Cap

- Set by the regulatory office
- Revised annually based on formula and key parameters valid through regulatory period



WACC_{nominal, pre-tax} - 7.955%

- Set for a full regulatory period

Risk free rate – 4.18%

Beta_{unlevered} – 0.35

Risk premium – 6.32%

D/(D+E) – 30.00%

RAB (Regulatory Asset Base)

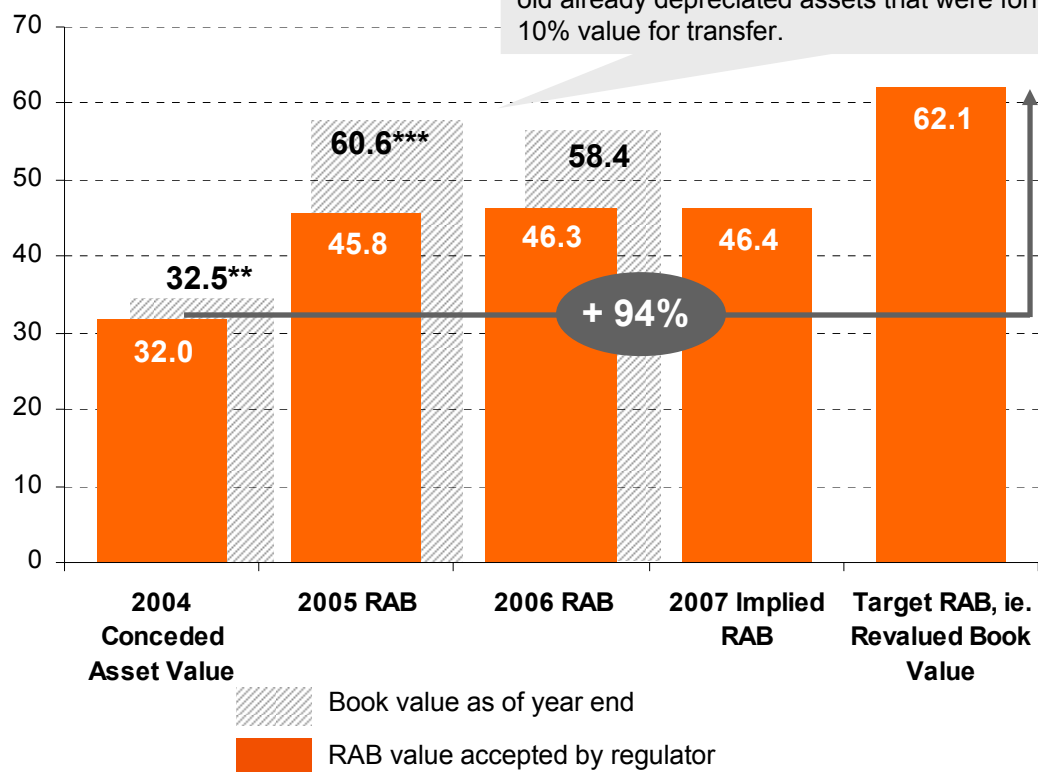
- Annually adjusted for changes

- To increase by 94% (from 2004 level) in the next several years



RAB IS BEING REVALUED TO REFLECT MARKET VALUE

RAB* development CZK bn



- RAB revaluation is a result of assets revaluation conducted as a part of assets transfer within Vision 2008 on the basis of requirement stipulated by commercial law
- Revaluation carried out for all transferred assets
- Part of assets formerly used in distribution moved to support companies and outsourcing
- One off item increasing profit by CZK 450 mil granted by regulator from 2006 on - partial compensation of depreciation revaluation

* Adjusted to reflect assets transfer to support companies

**Historical value of assets contributed into CEZ Distribuce

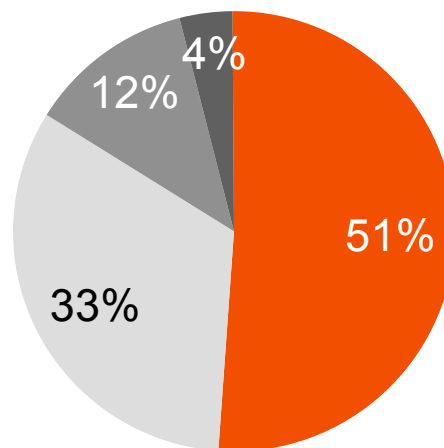
***Revalued asset value to the last asset contribution date 01/ 2006







APPROXIMATELY 33% OF CEZ DISTRIBUTION REVENUES ARE PASS-THROUGH SERVICES

Break-down of distribution revenues (2006)

CZK 30,199 bn.



-  Distribution revenues without pass through items and losses
-  Transmission fee (CEPS), CHP, renewables, decentralized production, OTE, system services (pass through)
-  Distribution grid losses
-  Other revenues



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REVIEW OF BULGARIAN REGULATORY ENVIRONMENT

Regulatory Framework

- Regulated by SEWRC (State Energy and Water Regulatory Commission)
- The regulatory formula for distribution
 - Revenue cap = Costs + Regulatory return on RAB + Depreciation
 - Regulatory rate of return (WACC nominal, pre-tax) –16% for 1st regulatory period
 - CPI adjustment used for part of costs (OPEX) in 1st regulatory period
 - Losses in 1st regulatory period set by regulator – 21.5%
 - Efficiency factor shall be introduced in 2nd regulatory period
 - Investment plan – approved by Regulator on yearly basis

Regulatory period

- 1st regulatory period 1.10. 2005 – 31.9. 2008
- 2nd regulatory period 1.10. 2008 – 31.12. 2012

Unbundling

- Deadline – December 31, 2006
- Successfully completed in time

Liberalization

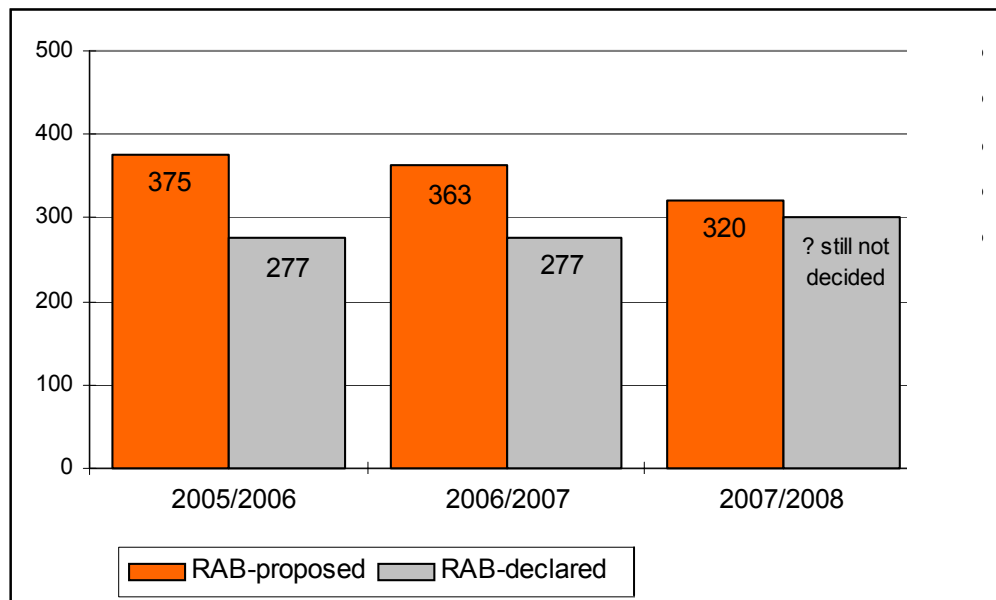
- All consumers excluding households have the right to become eligible (app. 60 % of the market), but the effective market degree is neglectable. Regulated tariffs are lower than the market price thus the customer doesn't have any incentive to go eligible.
- Starting July 2007 the market will be fully liberalized according to the legislation (However a transition period for households and small businesses is discussed as the market is not fully prepared)



BULGARIAN NEW REGULATORY RULES IN PLACE SINCE OCTOBER 2005 ARE BELOW OUR ORIGINAL PROPOSAL BUT STILL ABOVE VALUATION CASE

I. Regulatory period (10/2005 -10/2008)

EUR m (distribution and sales together)



- In 2005/2006 end user prices increased on average by 7,1% compared to 2005/2004
- In 2006/2007 end user prices increased on average by 0,7 % compared to 2006/2005 and we are expecting an increase in July 2007
- End user prices for 2007/2006 will be determined in July 2007
- Electricity purchase price from NEK and renewables in 2006/2007 rose faster than the end-user price (both regulated, but each on a different basis) , impacting the expected y-o-y results

- Significant reduction of regulated Capex (72% vs. CEZ proposal)
- Similar reduction for all three groups in Bulgaria (EVN, E.ON and CEZ)
- Reduced Capex threatens safety of distribution network and meeting EU norms in the long run
- Distributors filed a complaint against the decision.
- Assumed ROIC is still above original valuation case (savings from losses reduction, synergy effect, efficiency improvements)

- For **sales to captive customers** (still regulated), the tariff determination principles are the same as for distribution tariffs



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REVIEW OF ROMANIAN REGULATORY ENVIRONMENT – ELECTRICITY DISTRIBUTION

Regulatory Framework

- Regulated by ANRE (Autoritatea Nationala de Reglementare in domeniul Energiei)
- Price cap (tariff basket) methodology
- Revenue = Controllable OPEX + non-controllable OPEX + Regulatory return on RAB + Depreciation
 - Efficiency factor of 1% applied only to controllable OPEX - annually
 - Losses (technical+commercial) reduction program agreed with ANRE (target 2012 – average of 9.5%); CEZ almost achieved 2012 target now
 - Minimum quality standard in formula
 - Possibility for annual corrections
 - Regulatory return (WACC real, pre-tax) equals
 - 12% in 1st regulatory period
 - 10% in 2nd regulatory period
- Distribution tariff growth capped in real terms at:
 - 18% in the first regulatory period
 - 12% in the second regulatory period

If distribution tariff increase is higher y-o-y than indicated (18;12%) regulator will return the difference in the following year

Regulatory periods

- 1st regulatory period 1.1. 2005 – 31.12. 2007*
- 2nd regulatory period 1.1. 2008 – 31.12. 2012

Unbundling

- Legal deadline according to Electricity law July 1, 2007
- CEZ - first company in Romania achieving legal unbundling on March 15, 2007

Liberalization

- New Electricity law (no.13/2007; harmonized with EU directives) calls for full liberalization by July 2007
- Since July 2005 - 83 % of electricity market opened, protected customers include households and small commercial customers opting out from eligibility
- Effective market degree approx. 55%; 60 active suppliers (end-user suppliers and traders)
- Prolongation of the tariff regulation after the full opening of the market for households and small commercials

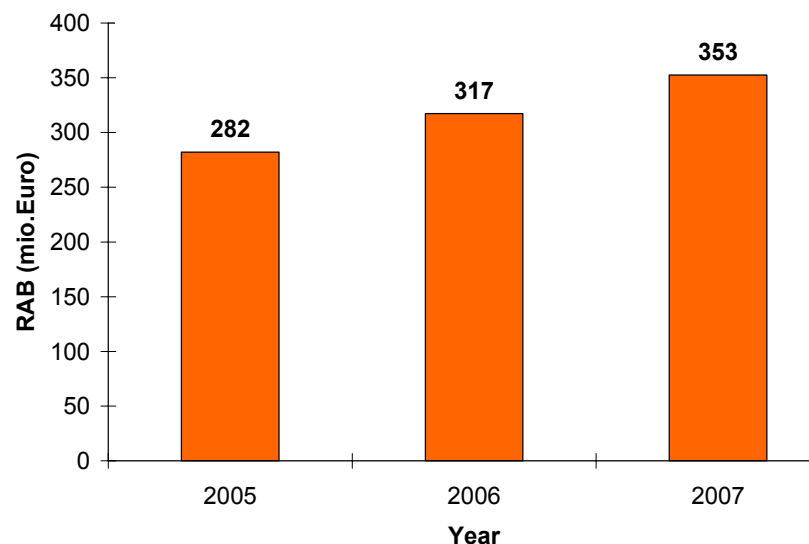
* Regulatory period lasts 5 years except first regulatory period that lasted 3 years



ROMANIAN REGULATORY FRAMEWORK IS SIMILAR TO CZECH AND EU

I. Regulatory period (2005 - 2007)

EUR m*



- Regulatory framework for distribution is price cap type (tariff basket), based on RAB regulated return (12% pre-tax, real terms WACC for first regulatory period – 2005-2007)
 - Regulator targets maximum own technical consumption at 9.5% of total consumption by 2012 (El. Oltenia target was 10.7% in 2006 and 10.5% in 2007)
 - Investment plan approved by ANRE in advance before regulatory period
 - Electrica Oltenia - the only distribution company having negotiated the maximum distribution tariff growth in 2007
-
- For **sales to captive customers** (still regulated), the approach is 2.5% margin on top of electricity procurement costs (including wholesale price, transmission, ancillary services, market administration)

* Exchange rate used as of year end