



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 |



# WITH COMPLETION OF VISION 2008 CEZ REDEFINED DISTRIBUTION AND SALE SEGMENT

## EBITDA, 2006

CZK million

	Original definition		New definition			
	Distribution and sale segment		Distribution and sale segment	Other segment		
<b>Central Europe</b>	ČEZ Prodej ČEZ Zákaznické služby ČEZ Distribuce ČEZ Distribuční služby ČEZ Měření REAS	} 9 352*	ČEZ Prodej ČEZ Distribuce	} 8 206		
						ČEZ Zákaznické služby ČEZ Distribuční služby ČEZ Měření REAS
<b>Southeast Europe</b>	All Romanian subsidiaries	1 943	Electrica Oltenia	1 940	ČEZ Romania	3
	All Bulgarian subs. excl. powerplant Varna	2 160	EDC Pleven EDC Sofia EDC Stolichno ČEZ Electro Bulgaria	} 2 150	ČEZ Bulgaria ČEZ Laboratories Bulgaria	} 10
		<b>13 455</b>			<b>12 296</b>	<b>1 160</b>

- All activities transferred to other companies as of today (e.g., ČEZ Správa majetku)
- In 2007 closing costs only; will be merged with ČEZ, a.s.

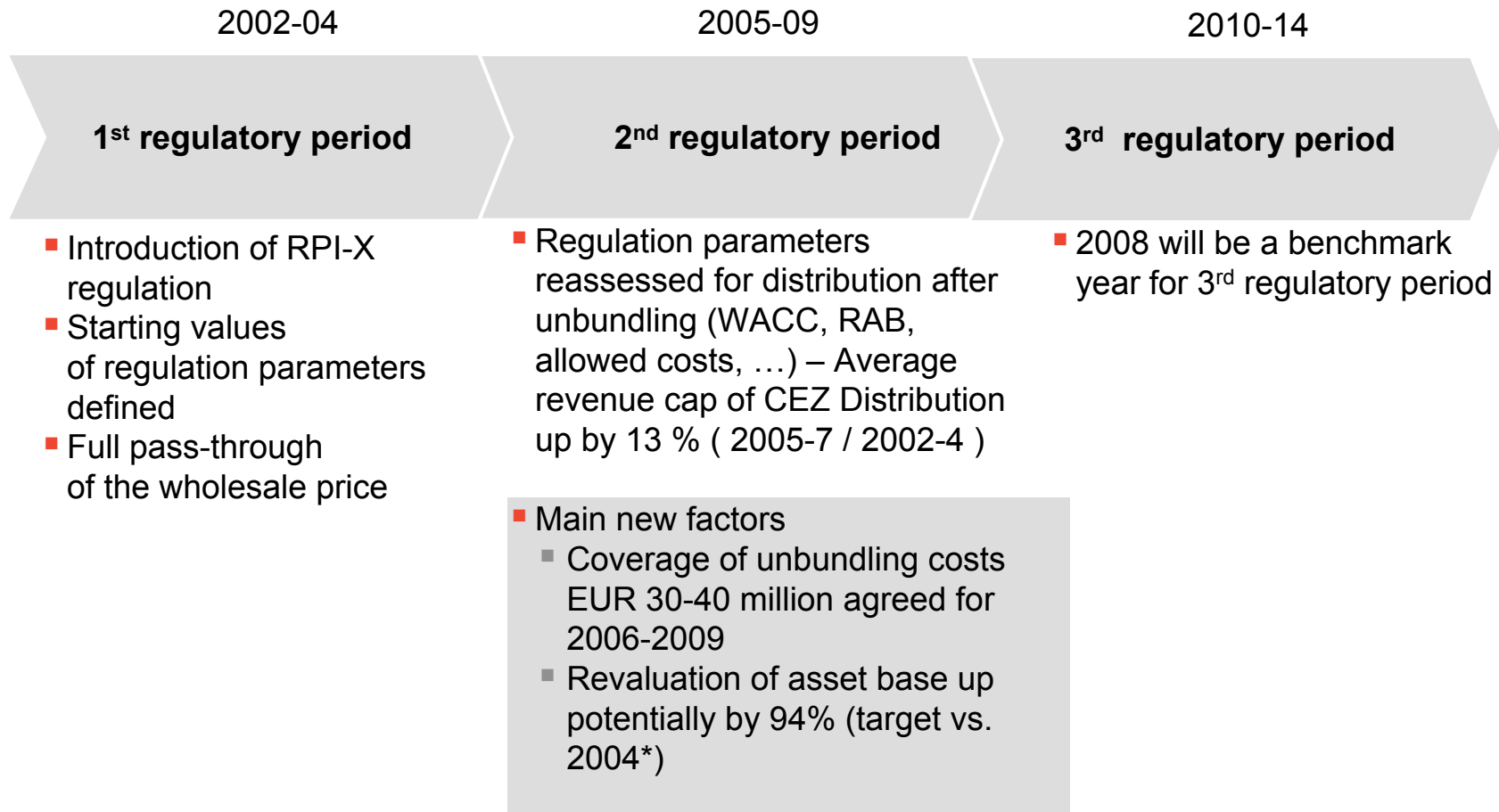


## AGENDA

- 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



# REGULATORY ENVIRONMENT IN THE CZECH REPUBLIC IS FAIR AND TRANSPARENT



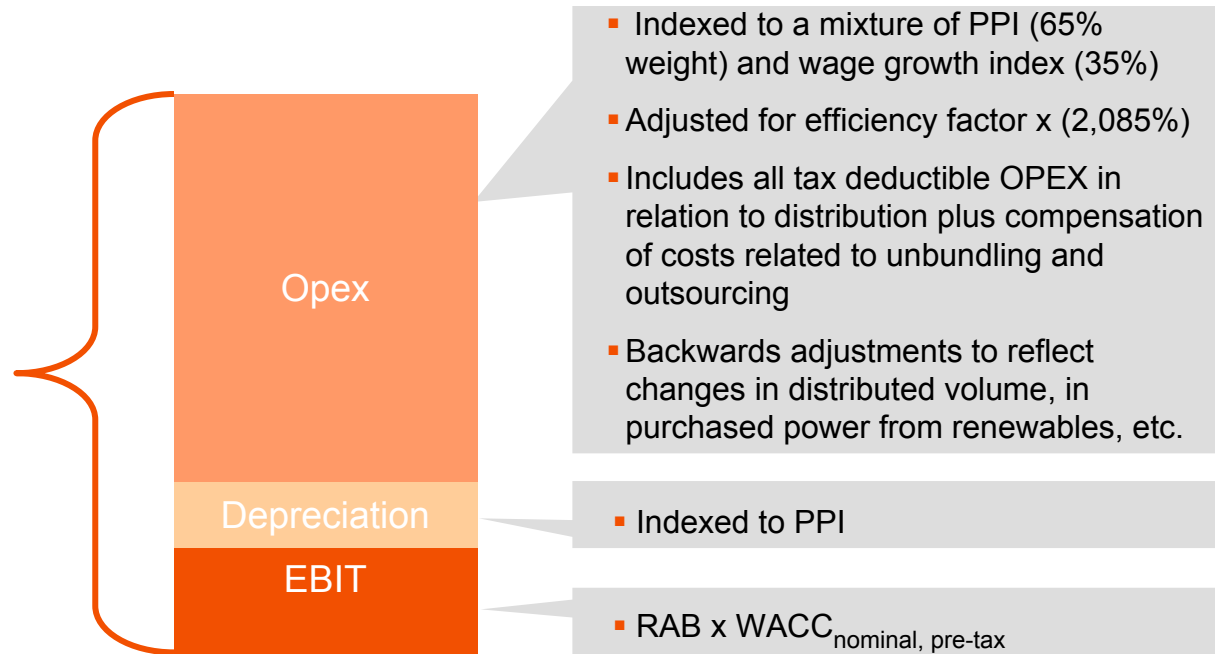
\* Detailed description on the following slide - chart RAB development



# 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<sub>nominal, pre-tax</sub> - 7.955%**

- Set for a full regulatory period

Risk free rate – 4.18%

Beta<sub>unlevered</sub> – 0.35

Risk premium – 6.32%

D/(D+E) – 30.00%

**RAB (Regulatory Asset Base)**

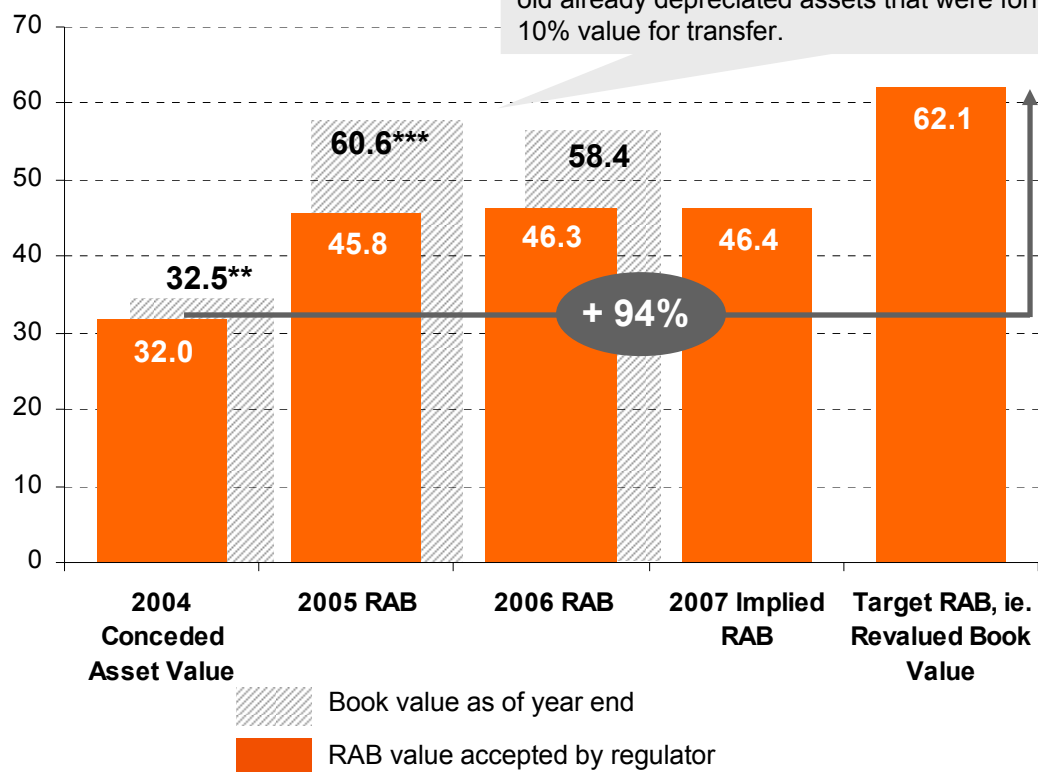
- Annually adjusted for changes

- 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

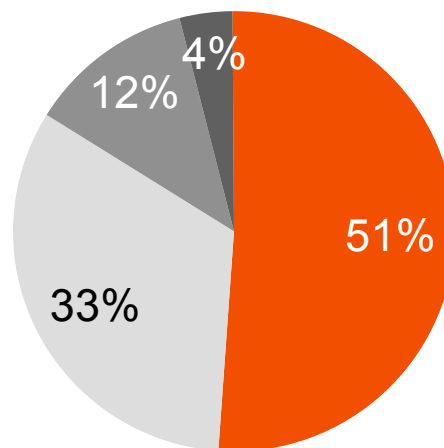
\*\*\*Revalued asset value to the last asset contribution date 01/ 2006







## 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





## 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



# 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 1<sup>st</sup> regulatory period
  - CPI adjustment used for part of costs (OPEX) in 1<sup>st</sup> regulatory period
  - Losses in 1<sup>st</sup> regulatory period set by regulator – 21.5%
  - Efficiency factor shall be introduced in 2<sup>nd</sup> regulatory period
  - Investment plan – approved by Regulator on yearly basis

## Regulatory period

- 1<sup>st</sup> regulatory period 1.10. 2005 – 31.9. 2008
- 2<sup>nd</sup> regulatory period 1.10. 2008 – 31.12. 2012

## Unbundling

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

## Liberalization

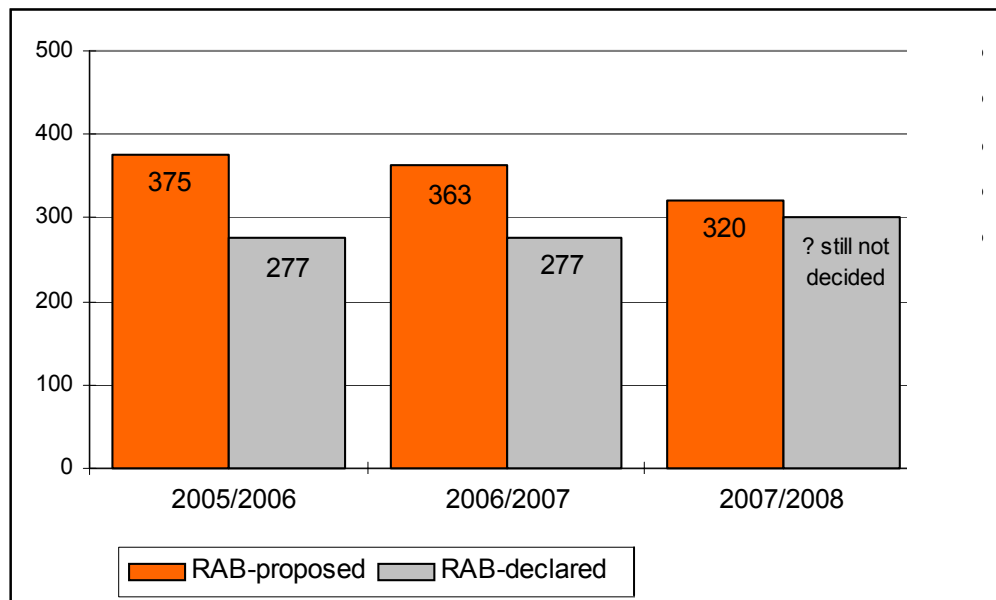
- All consumers excluding households have the right to become eligible (app. 60 % of the market), but the effective market degree is neglectable. Regulated tariffs are lower than the market price thus the customer doesn't have any incentive to go eligible.
- Starting July 2007 the market will be fully 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



## 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



# 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

- 1<sup>st</sup> regulatory period 1.1. 2005 – 31.12. 2007\*
- 2<sup>nd</sup> 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

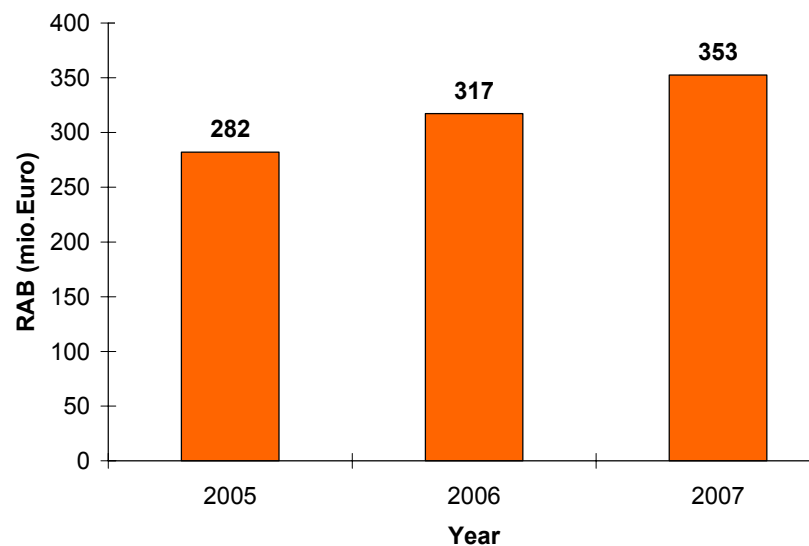
\* Regulatory period lasts 5 years except first regulatory period that lasted 3 years



# 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