

LIBERALISATION, MARKET CHALLENGES, GENERATION INVESTMENTS

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LIBERALISATION: SUCCESSFUL TRACK RECORD, AMBITIOUS PLANS

Energy market liberalisation in EU:

- Implemented in all member states – wide range of free market share
- Ambitious plans ahead
 - Further (full?) unbundling
 - Full harmonisation of market rules, standards, tariffs
 - ISO or TSO model
 - Regulatory independence

The real success factor is still the same: political commitment



CEZ HAS REACHED WIDE EXPERIENCE WITH MARKET LIBERALISATION...

From regulated market ...



Consumer

- Regulated wholesale price
- Long-term contracts both in domestic markets and cross border trade
- No competition in ancillary services

- No third-party access to grids

- Regulated retail tariffs
- No choice of suppliers

Isolated national markets

... to liberalised market



Consumer

- Free wholesale trading through spot markets and/or bilateral contracts
- Standardised trading platforms
- Open market for ancillary service providers

- Third-party access to grids
- Auctions for cross-border capacities

- Free choice of suppliers
- Retail price/products – result of supply/demand dynamics

Integrated European market



...AS WELL AS SOUTH EAST EUROPEAN OPERATIONS

CEZ Group in Poland
(75% stake in Skawina, 89% in Elcho)

Electricity generation, net (TWh)	3.6
Market share	2.5%
Installed capacity (MW)	728
Market share	2.4%
Number of employees	652
Sales (EUR million)	193

CEZ Group in the Czech Republic

Electricity sales, net (TWh)	68.2
Number of connection points (million)	3.5
Market share	45%
Installed capacity (MW)	12,303
Market share	70%
Number of employees	21,319
Sales (EUR million)	4,960

CEZ Group in Romania
(51% stake in EDC Oltenia)

Electricity sales, net (TWh)	4.3
Number of connection points (million)	1.37
Market share	16%
Number of employees	3,246
Sales (EUR million)	448

CEZ Group in Bulgaria
(67% stake in 3 EDCs, 100% in TPP Varna)

Electricity sales, net (TWh)	8.3
Number of connection points (million)	1.97
Market share	43%
Installed capacity (MW)	1,260
Market share	11.6%
Number of employees	4,872
Sales (EUR million)	605

- Energy Assets
- Trading Activities
- Target markets
- Presence / Subsidiaries

Notes: IFRS 2007, Exchange rate CZK/EUR = 27.762

Source: CEZ, national statistics



CEZ HAS SOME CLEAR TAKEAWAYS FROM THE LIBERALISATION PROCESS

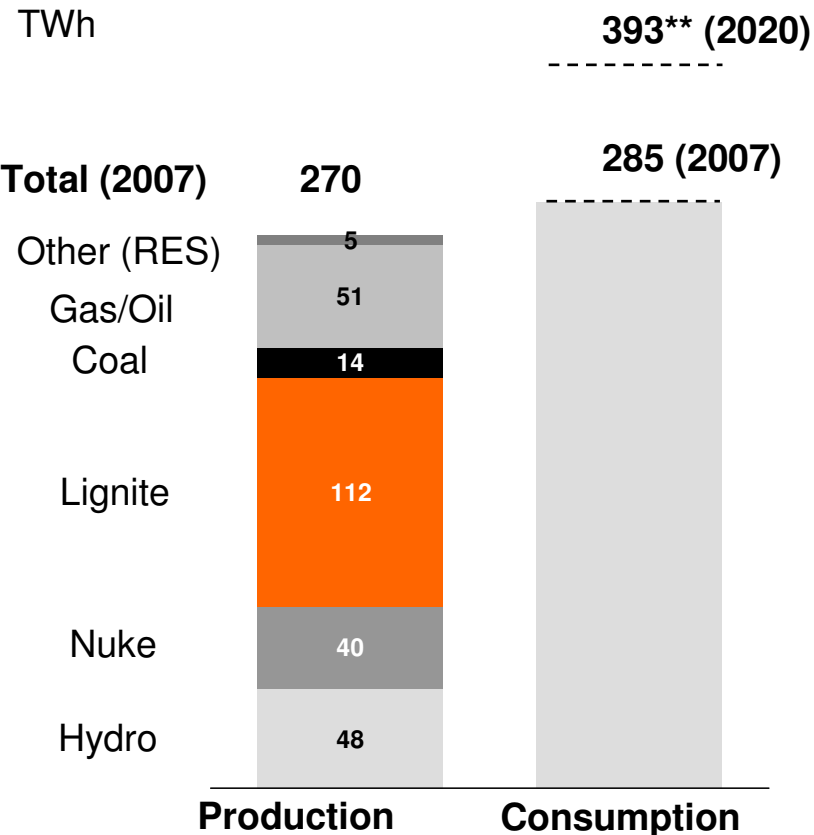
Key CEZ learnings from the liberalization process

- Need for strong and independent institutions – regulators, market operators, power exchanges
- “The devil is in detail” – while the free market principles may be formally implemented, they would not work unless supported by user friendly and transparent detailed market rules
- Need to consider all consequences (social, environmental etc.) and on that basis make pragmatic implementation decisions
- Small markets need to integrate to create “critical mass” and to dilute market power of local incumbents



SEE EUROPE FACES LACK OF CAPACITY

SEE* ELECTRICITY BALANCE



- SEE is short on power now and the deficit is likely to deepen as demand growth is expected to recover after recession
- SEE imported 15 TWh in 2007

Comments:

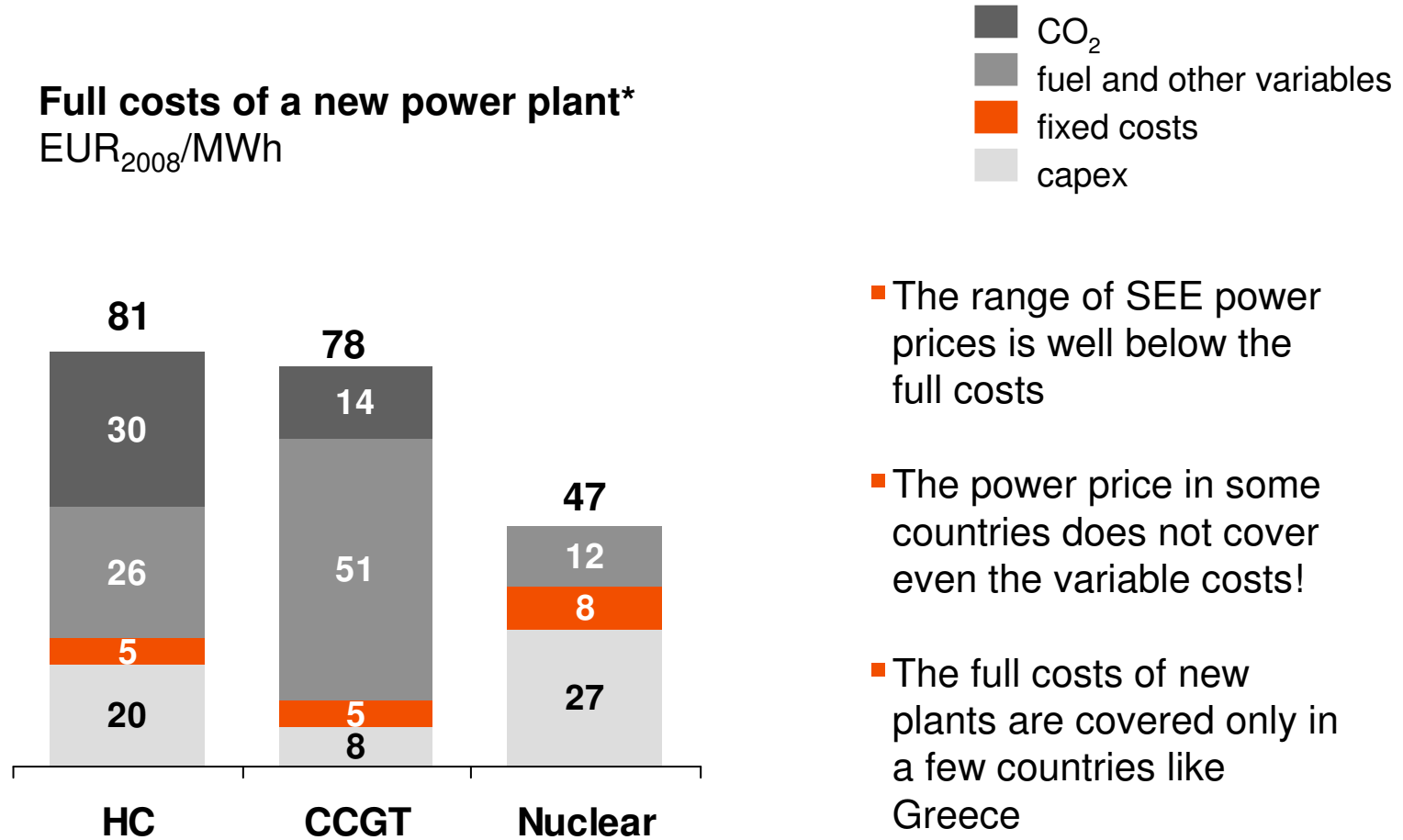
* Albania, Bosnia, Bulgaria, Croatia, Greece, Hungary, Kosovo, Macedonia, Montenegro, Romania, Serbia, Slovenia,

** 2,5% CAGR (2008-2020)



THE INVESTMENTS INTO NEW FOSSIL PLANTS HAVE A NEGATIVE PAYBACK AS DISTORTED PRICES ARE BELOW THE FULL COSTS OF A NEW PLANT...

Full costs of a new power plant*
EUR₂₀₀₈/MWh



*coal 110 USD/t, oil 80 USD/bbl, CO₂ 40 EUR/t

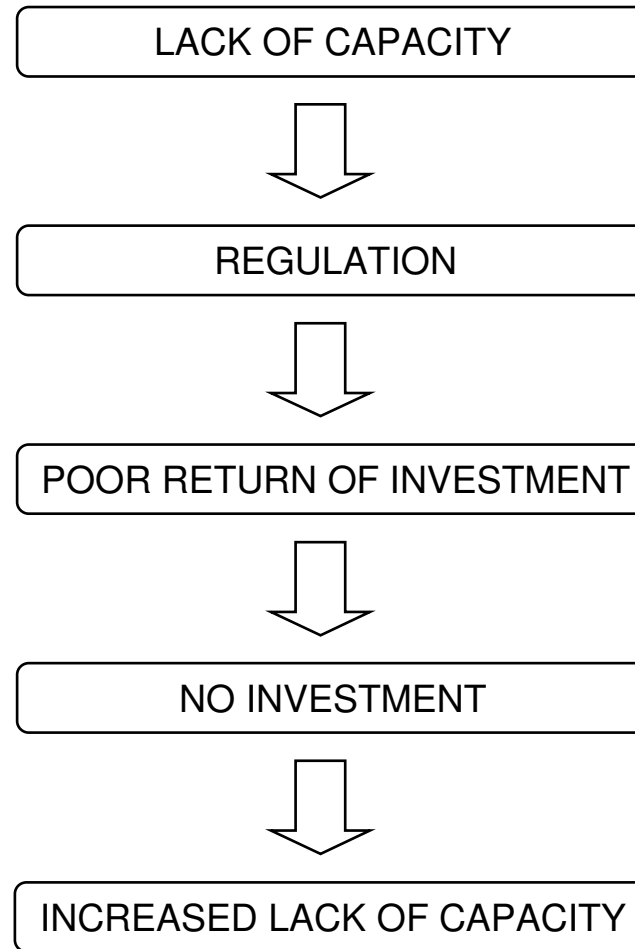


...THEREFORE, ONLY A FEW PROJECTS HAVE BEEN COMMITTED

New project status	Capacity (GW)
Set to start	1
Construction	4
Underway	2
Approved	4
Tendering	2
Feasibility	1
Permitting	2
Applied	1
Planned	26
Proposed	5



POTENTIALLY, THERE IS A VICIOUS CIRCLE PROBLEM WITH ENERGY INVESTMENTS





THE SOLUTION IS STILL FULL LIBERALISATION

TARGET	PROCESS
SHOW FAIR AND REAL PRICE OF POWER	LIBERALISE TRULY NATIONAL MARKETS - ESTABLISH POWER EXCHANGES
MINIMIZE THE OVERALL PRODUCTION COSTS	ENABLE CROSSBOARDER TRADING WITHOUT ANY CONSTRAINTS
ALLOW THE MARKET MECHANISMS TAKE EFFECT	REGULATORY SELF-CONTROL. MODERATION INSTEAD OF CONTINUOUS INTERVENTION



THE GLOBAL CRISIS CREATES UNIQUE OPPORTUNITY FOR MARKET LIBERALISATION AND INCREASES ITS URGENCY AT THE SAME TIME

Implications of the financial crisis and economic downturn for CEE/SEE power markets

Lack of financing. Banks more concerned about risks than ever: perception of CEE/SEE markets as weak/risky makes financing of new projects difficult and/or more expensive.

Drop in commodity prices (oil from ~150 to <50 \$/bl, coal ~220 to <80 \$/t, CO2 from ~30 to <18 Eur/t CO2, power from ~ 90 to <60 Eur/MWh) due to less feverish demand reduces the gap between regulated and freemarket power price

The opportunity and urgency for liberalization is bigger than ever

- Now, there is no way to obtain financing for new projects without creating credible markets
- The social impact of liberalization will be reduced as the drop in global commodities push free market power prices down
- Shrinking state budgets can get relieved from energy price subsidies
- The new plant projects would create a large number of new jobs and, consequently, would help to mitigate the impact of the economic downturn



MOMENT OF MERCY: URGENCY AND OPPORTUNITY ARE HAND-IN-HAND TO HELP FINISHING LIBERALISATION

