



**CEZ BULGARIA**  
**ENERGY WITHOUT BORDERS**

**Central Cooperative Bank**

**2 December 2011**

**Zurich**



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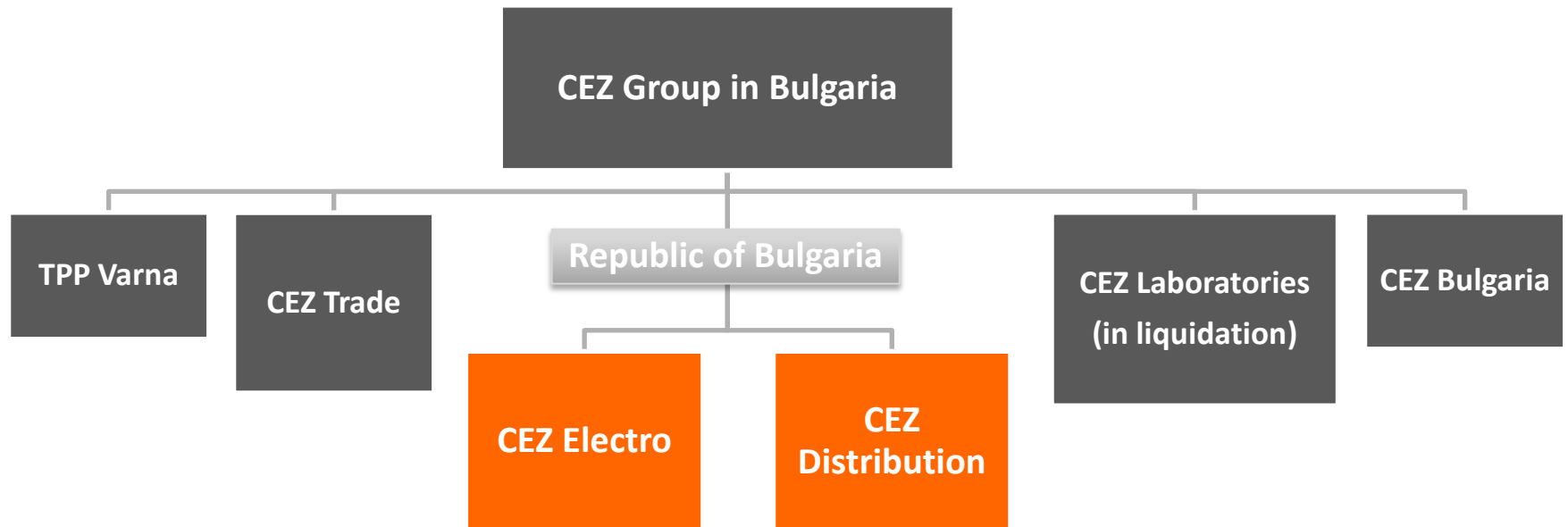


# Agenda

- CEZ Group in Bulgaria
- Electricity sector in Bulgaria
- CEZ Distribution Bulgaria
- CEZ Electro Bulgaria
- Conclusion



# CEZ Group in Bulgaria

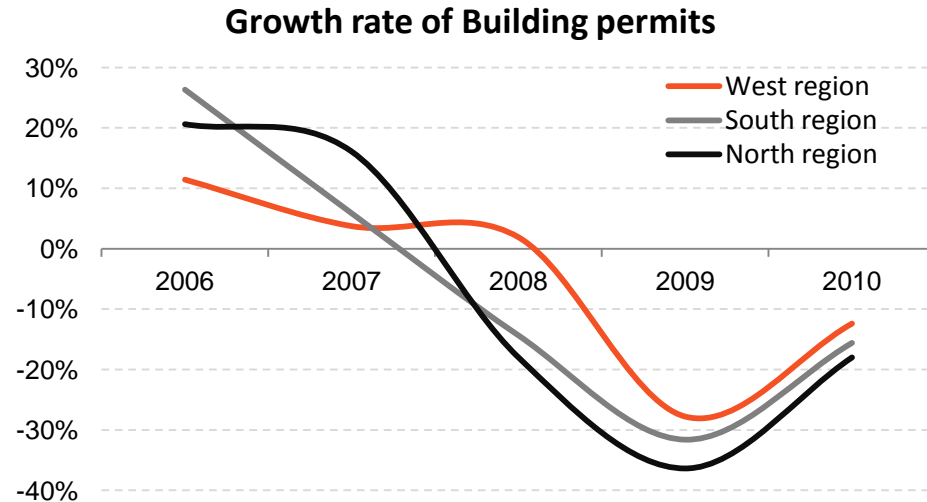
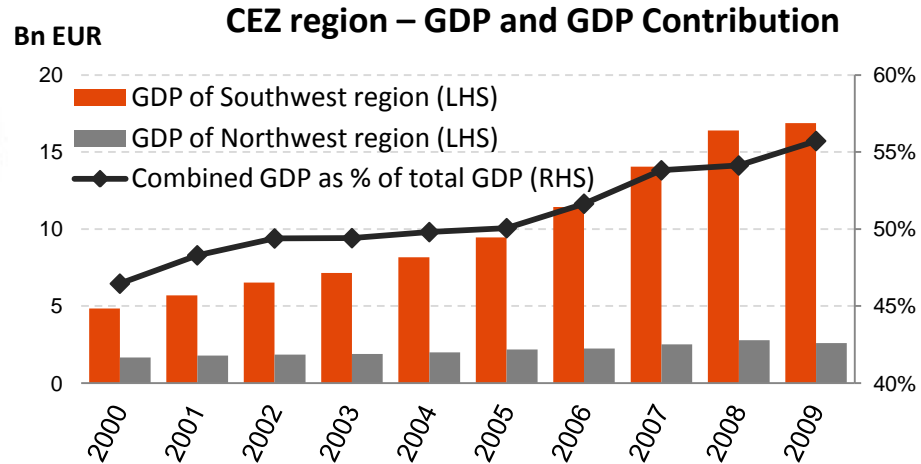




# CEZ Region



- **40% of the population**
- **Over 50% of GDP**
- **Internal migration towards the capital**
- **Highest income of households**
- **Lowest unemployment**
- **1.2 mln. new building permits for 2010**





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# Bulgarian electricity market

- The Energy Act of Bulgaria liberalized the wholesale market on 1 July 2007.
- Despite this, the country still uses a system of “quotas” to determine supplies of electricity at prices regulated by the State.
- In 2010 18% of the internal consumption and 27% of total consumption (domestic and exports) is traded in the open market.
- The Government program is to increase the share of the free market to 30% until 2013.
- Amendments to the Energy Act in relation to conceptual plan for an energy exchange.

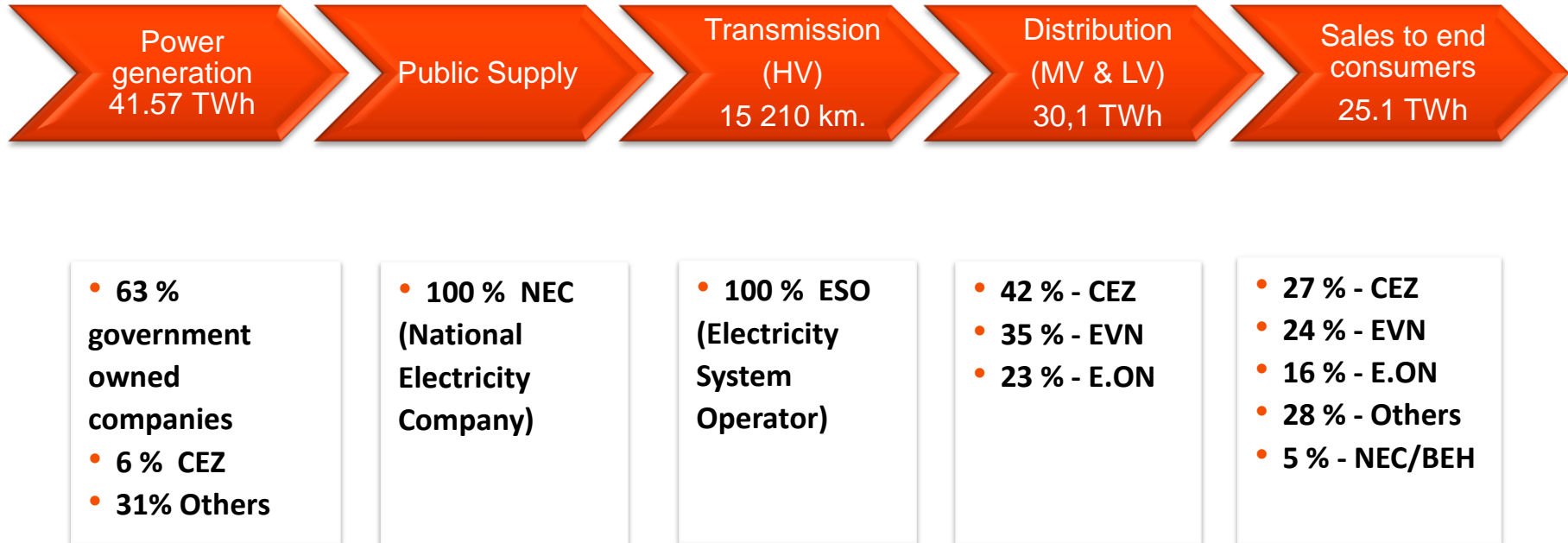
## Electricity generation, consumption and export in Bulgaria till 2030

	2005	2010	2015	2020	2030
<b>Generation (TWh), of which:</b>	<b>44</b>	<b>39.7</b>	<b>43.2</b>	<b>49.7</b>	<b>58</b>
Nuclear	18.6	14.7	14.7	22.3	30
Hydro + Wind	4.3	4.5	5.2	5.8	6.9
TPP incl. biomass and new gas capacities	21	21	23.4	21.6	21.2
<b>Consumption (TWh)</b>	<b>36.4</b>	<b>35.5</b>	<b>37</b>	<b>39.3</b>	<b>45</b>
<b>Export (TWh)</b>	<b>7.6</b>	<b>4.2</b>	<b>6.2</b>	<b>10.4</b>	<b>13</b>



# Market segmentation

*Market participants, main sector activities and market shares.*







# Regulation

## ***Regulation***

- Energy Act and the related Regulations
- Energy Strategy of the Republic of Bulgaria till 2020
- Regulator - State Energy and Water Regulatory Commission (SEWRC)

## ***Regulatory Method – Revenue cap***

- Operating expenses
- Technological Losses
- Regulatory Asset Base – RAB
- Investments approved for the period on an annual basis
- Return on RAB – WACC nominal, pre-tax
- Efficiency factor adjustment for revenue cap
- CPI adjustment used for revenue cap

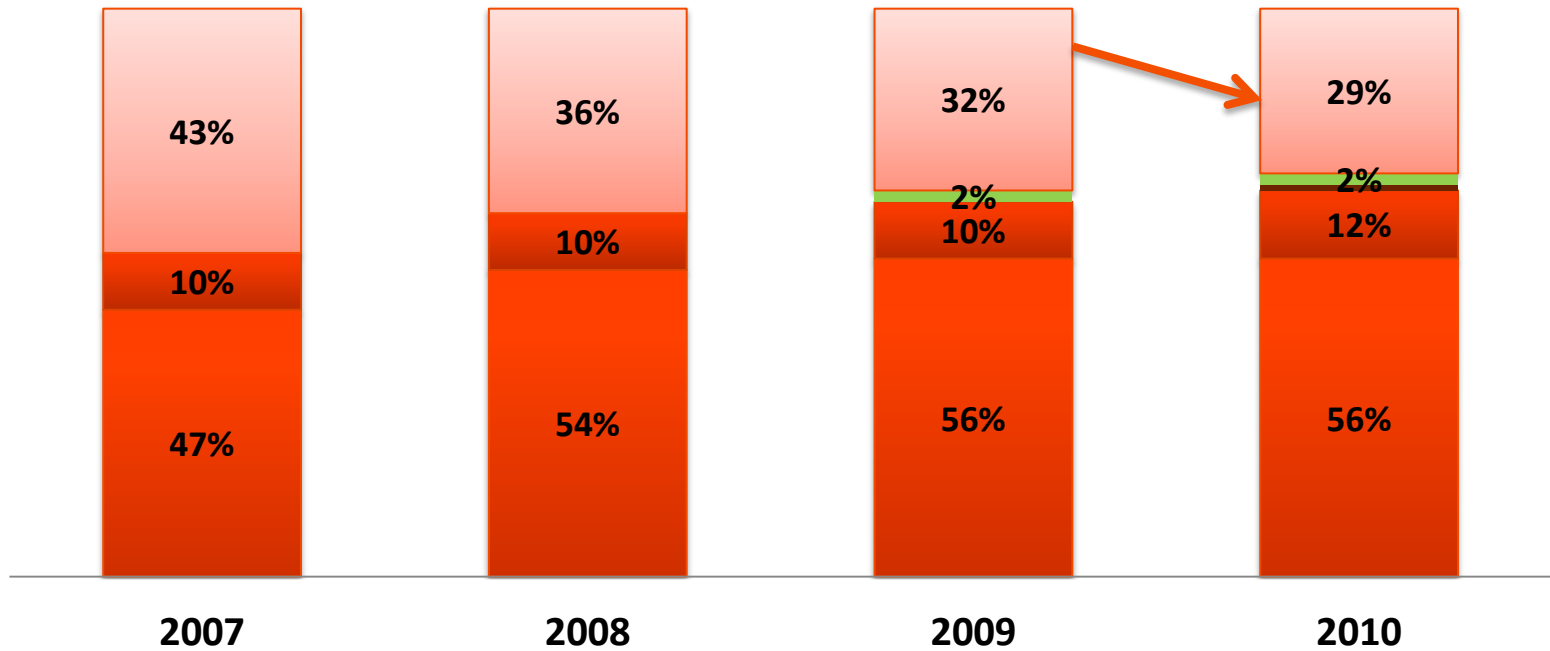
## ***Regulatory periods, preset by the Regulator***

- I-st regulatory period = 3 years – ended 30 June 2008 (WACC – 16%)
- II-nd regulatory period = 5 years – ending 30 June 2013 (WACC – 12% ; TL – 17.80% -15% for 2010)
- III-rd regulatory period = 5 years – ending 30 June 2018 (target cap structure – 50%/50%)



# Price Formation

■ Energy ■ Transmission High Voltage ■ Cogeneration ■ Green energy ■ Distribution Low Voltage

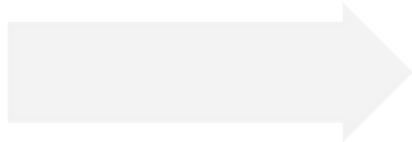




# Electricity prices to end consumers

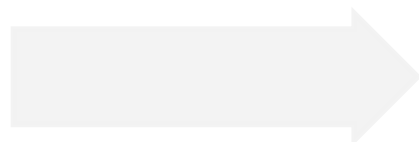
## *Price formation components*

End user price



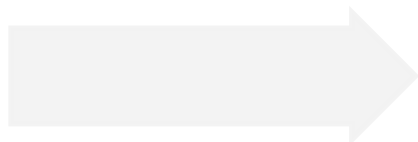
### Retail fees

- corporate clients and households
- consumption scales /day, night and peak load/
- type of voltage (HV, MV, LV)



### Transmission fees

- transmission fee (LV)
- access fee to the power grid
- transmission fee (HV and MV)





### Additional fees

- green energy
- highly efficient co-generation



# Factors affecting the electricity prices in Bulgaria

## Wholesale prices

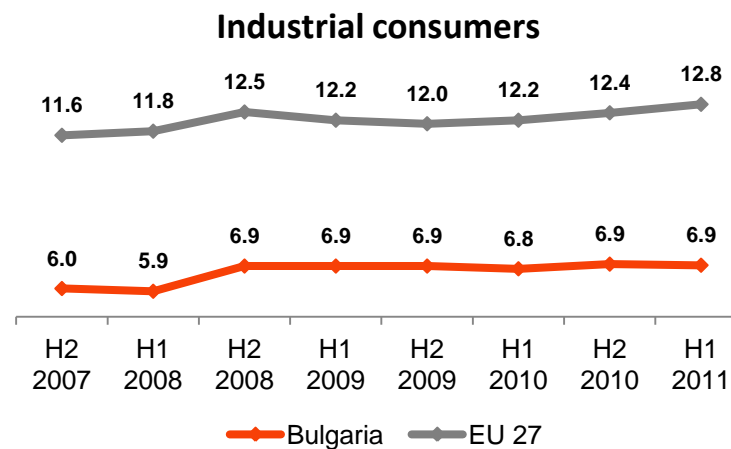
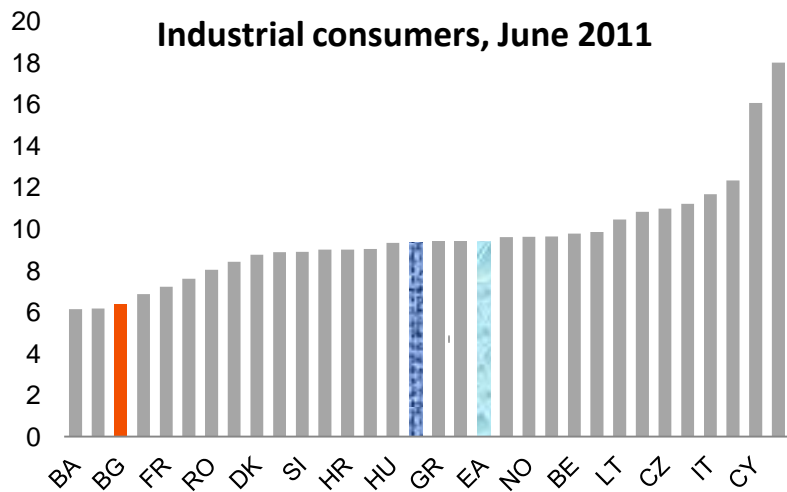
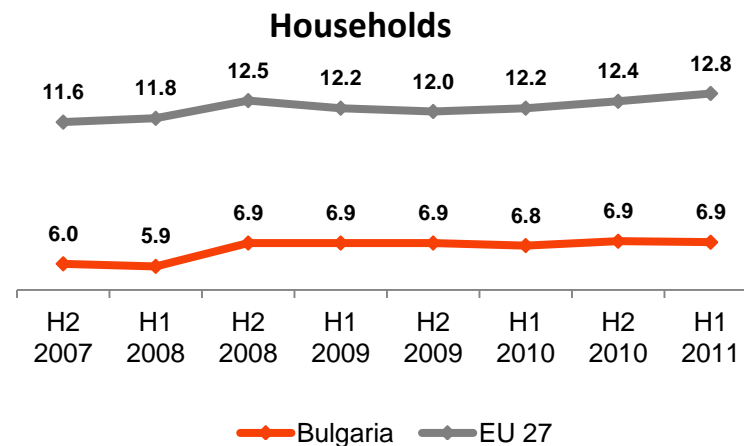
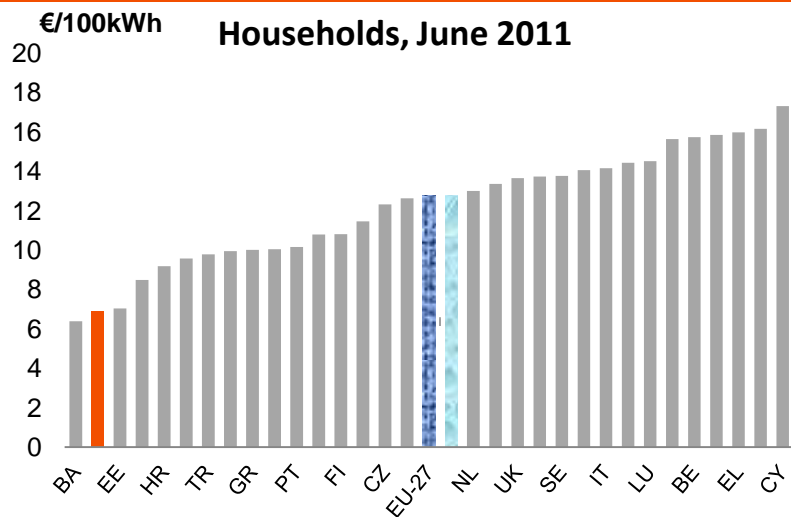
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- Convergence of European markets
    - Interconnection capacity (EC target for electricity interconnections of min 10% of the installed production capacity)
    - Market coupling
  - Potential price increase of non-renewable sources
    - Stock supply decrease
    - Political dependence
  - Increasing share of the renewable energy sources
- Global economy fears
    - Slowing energy demand
    - Decreasing prices of alternative products (oil, gas)
  - Increasing competition with the liberalization of the market
  - Regulatory constraints for maximum price increase limits
- 

## Retail prices

- Low elasticity of demand  Successful transferring to consumers



# Electricity prices in EU





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# CEZ Distribution Bulgaria - Profile

- **Main activities**
  - Electricity distribution on the territory of West Bulgaria
  - Operation and management of the electricity distribution network
  - Construction and maintenance of new electricity distribution and metering systems
- **Shareholder structure**
  - 67% CEZ a.s., Czech Republic (acquired through privatization in 2004)
  - 33% Ministry of Economy, Energy and Tourism, Republic of Bulgaria
- **35-year license**
  - 13.8.2039
- **Network information**
  - 21 240 – transformers
  - 2 076 000 – electric meters
  - 60 313 – total length of cables
- **Number of employees** – 2 745
- **Customers** – over 2 mln.



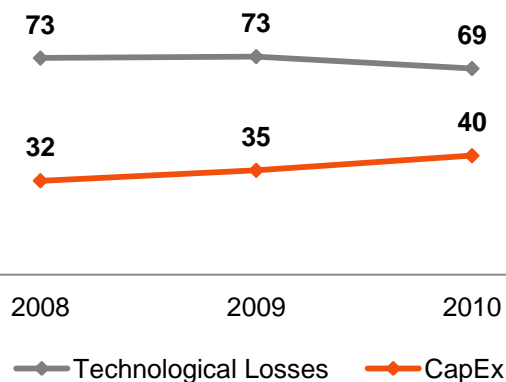


# Investments

- **37.9 mln. EUR** - Average amount of completed investments
- The necessary investments are usually much higher than the approved by the SEWRC
- **14.2%** - Average level of Technological losses



CapEx and Technological Losses



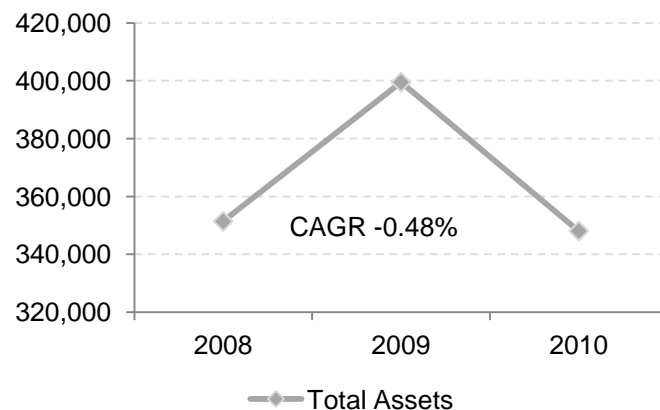
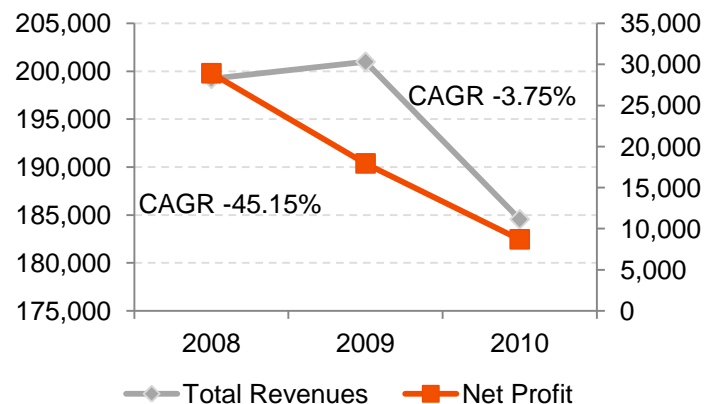
Mln. EUR	2005	2006	2007	2008	2009	2010	Requested 2011
Necessary investments for the network	52	61.9	54.2	45.1	46	66.5	77.7
Approved investments by the SEWRC	34.8	34.8	34.8	36.5	36.5	36.5	
Completed investments	33.2	26.4	49	31.8	47.9	34.2	
Network development				13.4	28.9	22.7	55.3
Increase of security of supplies				5.4	9.3	5.4	9.5
Decrease of technical losses				11.6	8.2	5.1	9.4
Average annual completed investments	<b>36.2</b>	<b>36.2</b>	<b>36.2</b>	<b>37.9</b>	<b>37.9</b>	<b>37.9</b>	





# CEZ Distribution Bulgaria – Key Financials

In EUR thousands	2008	2009	2010	Y/Y
Total Revenues	199,215	200,991	184,550	-8.18%
Operating Expenses	(169,327)	(184,787)	(176,303)	-4.59%
EBIT	29,888	16,205	8,247	-49.11%
Financial income/expenses	2,364	2,183	1,455	-33.36%
Taxes	(3,319)	(439)	(996)	126.78%
Net Profit	28,932	17,948	8,706	-51.50%
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Total Assets	351,399	399,505	348,051	-12.88%
Long-term Liabilities	37,519	32,505	35,226	8.37%
Short-term Liabilities	24,133	59,297	37,852	-36.16%
Equity	289,747	307,703	274,972	-10.64%
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Net Cash Flows from Operating Activities	46,735	59,433	45,018	-24.25%
Net Cash Flows from Investing Activities	(37,208)	(34,946)	(38,459)	-210.05%
Net Cash Flow from Financing Activities	(71)	(67)	(41,614)	-62229.77%
Total Net Cash Flows	4,835	12,485	(17,923)	-243.56%
<hr/>				
Net Profit Margin	14.52%	8.93%	4.72%	
ROE	10.51%	6.01%	2.99%	
ROA	9.44%	4.90%	2.60%	

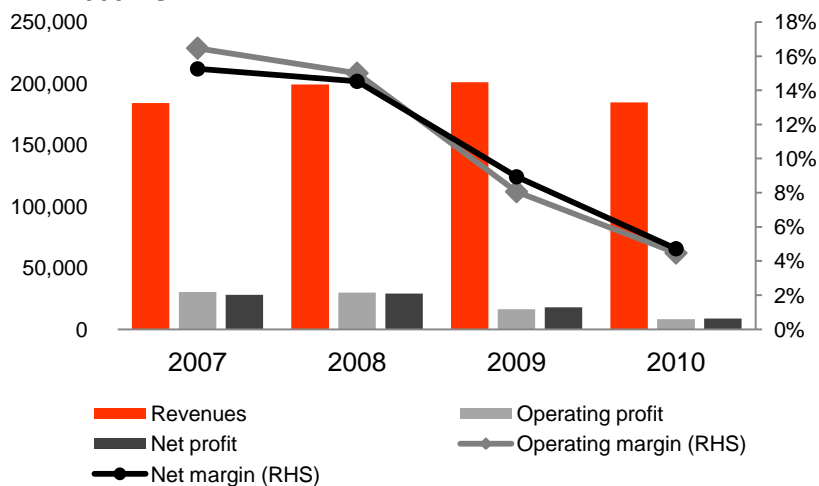


• Dividends (2010) - 41.4 mln EUR / 215 EUR/share

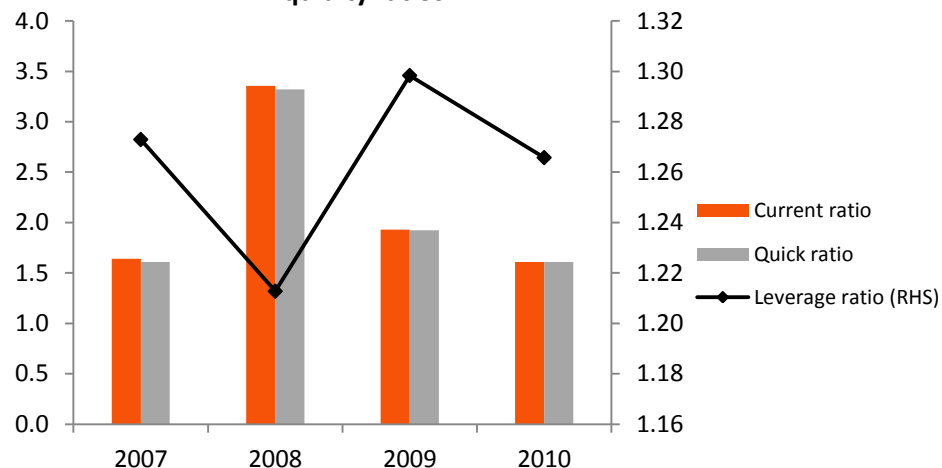


# CEZ Distribution Bulgaria – Key ratios

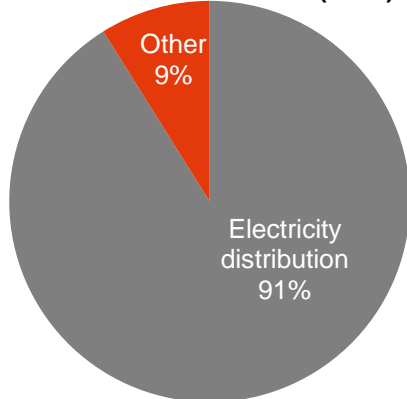
**Profitability ratios**



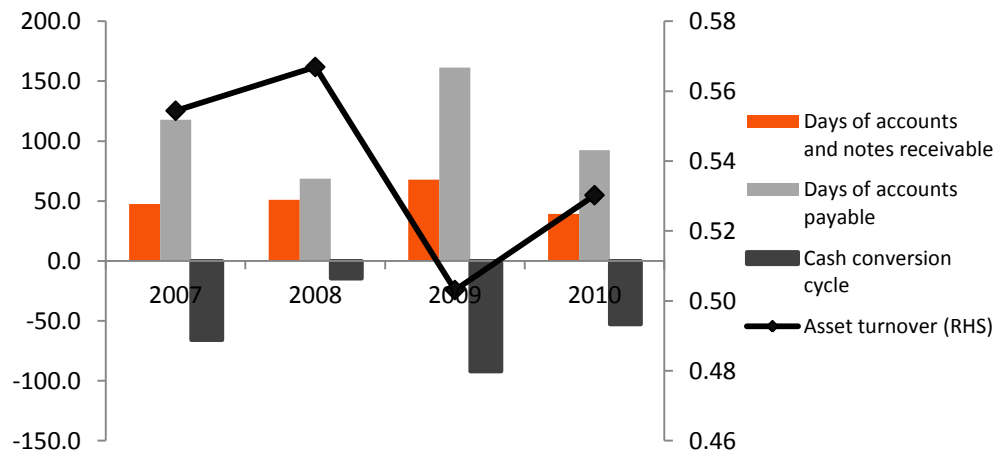
**Liquidity ratios**



**% share of revenues from electricity distribution and other activities (2010)**



**Efficiency ratios**





# CEZ Distribution Bulgaria – SWOT Analysis

## Strengths

- Highly regulated industry
- Positive operating cash flows
- Good liquidity and strong balance sheet
- Favorable tax environment

## Weaknesses

- Low growth of approved CAPEX
- Hard to collect receivables
- Decrease in profitability

## SWOT

## Opportunities

- Higher electricity prices
- Growth in disposable income
- Decrease in operating expenses
- Higher growth of approved CAPEX

## Threats

- Liberalization and increased competition
- Regulatory changes
- Negative demographic trends
- Litigation risks



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# CEZ Electro Bulgaria – Profile

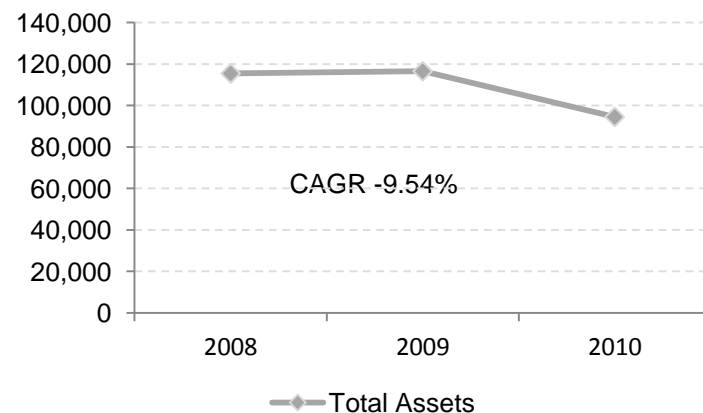
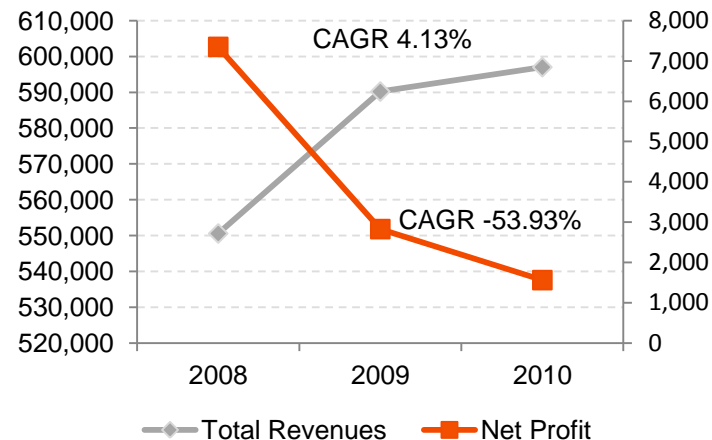
- **Main activities**
  - Public supply of electricity
  - Trade with electricity
- **Shareholder structure**
  - 67% CEZ a.s., Czech Republic (acquired through privatization in 2004)
  - 33% Ministry of Economy, Energy and Tourism, Republic of Bulgaria
- **Licenses**
  - Electricity supply – 35 years (until 13.8.2039)
  - Electricity trade – 10 years (until 17.5.2017)
- **Customers** – over 2 mln.
- **Lowest prices of electricity for both households and industrial customers (2010)**





# CEZ Electro Bulgaria – Key Financials

In EUR thousands	2008	2009	2010	Y/Y
Total Revenues	550,565	590,193	597,016	1.16%
Operating Expenses	(545,407)	(589,446)	(596,444)	1.19%
EBIT	5,157	748	572	-23.53%
Financial income/expenses	3,036	2,394	1,170	-51.12%
taxes	(845)	(315)	(182)	-42.30%
Net Profit	7,348	2,826	1,560	-44.81%
Total Assets	115,470	116,537	94,487	-18.92%
Long-term Liabilities	8,546	7,180	7,352	2.40%
Short-term Liabilities	54,085	53,693	52,119	-2.93%
Equity	52,839	55,664	35,016	-37.09%
Net Cash Flows from Operating Activities	15,079	5,783	(4,166)	-172.04%
Net Cash Flows from Investing Activities	(2,131)	(2,556)	7,669	400.00%
Net Cash Flow from Financing Activities	(12)	(15)	(22,209)	-149886.21%
Total Net Cash Flows	6,614	1,642	(9,564)	-682.39%
Net Profit Margin	1.33%	0.48%	0.26%	
ROE	14.95%	5.21%	3.44%	
ROA	7.71%	2.71%	1.65%	

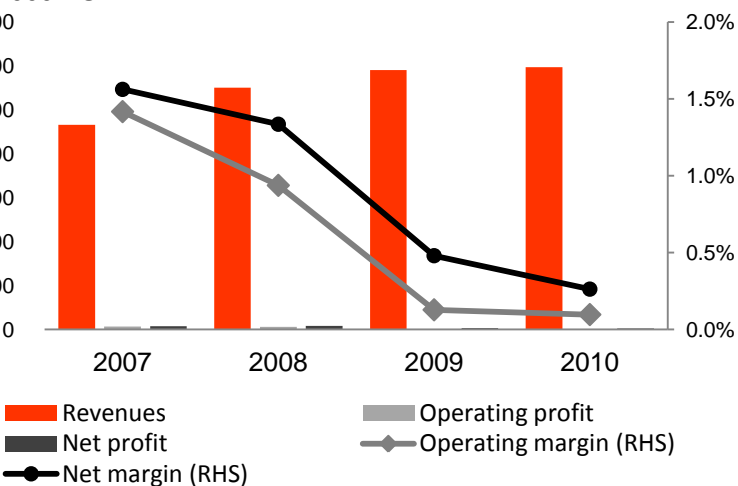


• Dividends (2010) – 22.2 mln EUR / 4 441 EUR/share

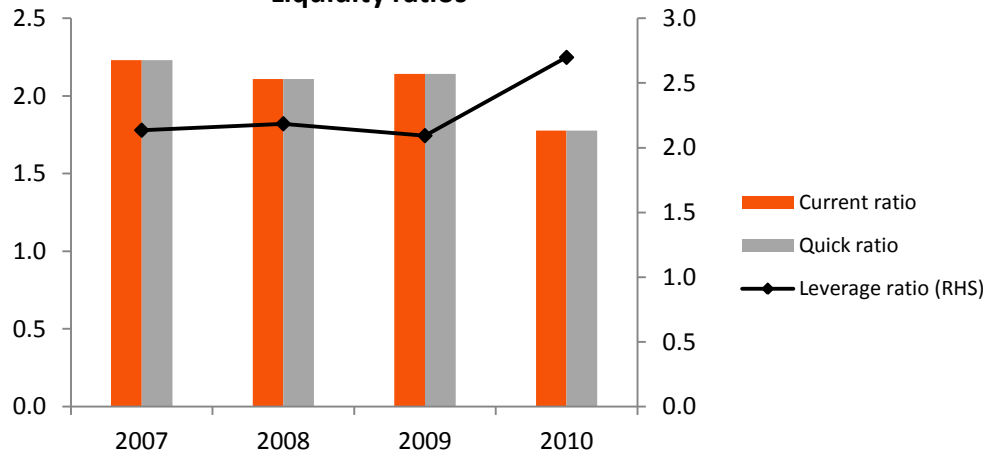


# CEZ Electro Bulgaria – Key ratios

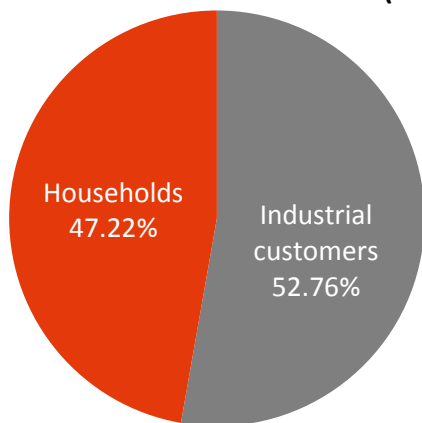
**000 EUR Profitability ratios**



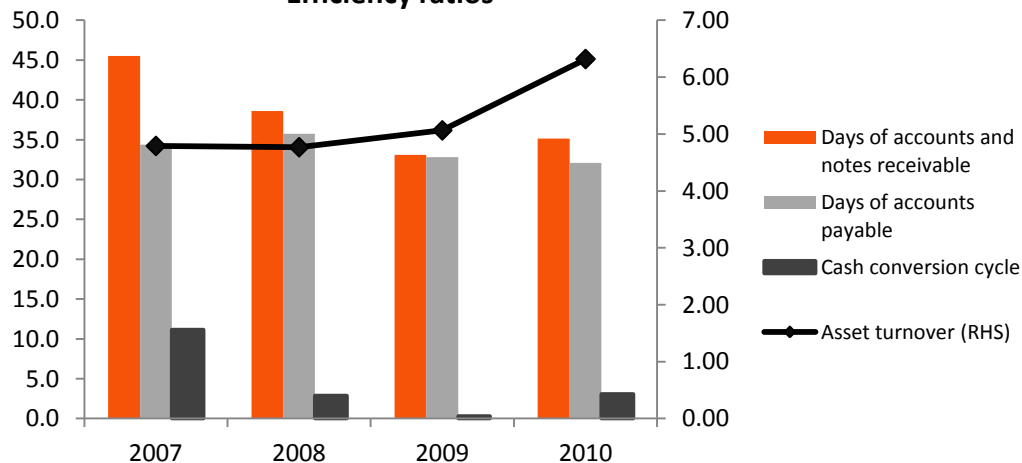
**Liquidity ratios**



**Client structure of revenues (2010)**



**Efficiency ratios**





# CEZ Electro Bulgaria – SWOT Analysis

## Strengths

- Low elasticity of demand
- Large market share
- Positive operating cash flows
- Good liquidity and strong balance sheet
- Favorable tax environment

## Weaknesses

- Dependency on government regulation
- Hard to collect receivables
- Low profitability
- Unclear future price formation

## SWOT

## Opportunities

- Increase in price of electricity to end consumers
- Increase in disposable income
- Decrease in operating expenses
- Increase of competitiveness

## Threats

- Market liberalization
- Regulatory changes
- Negative demographic trends
- Litigation risks





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# Company conclusion

Low-risk industry

“Pure-play”  
electric utility

Regulated company with stable cash  
flows

Prudent financial strategy





# To be privatized

## CEZ Distribution Bulgaria

Selling shareholder – Republic of Bulgaria  
Shares to be privatized – 63 624  
Percentage to be privatized – 33%  
Stock exchange – BSE Sofia  
Manager – Central Cooperative Bank

## CEZ Electro Bulgaria

Selling shareholder – Republic of Bulgaria  
Shares to be privatized – 1 650  
Percentage to be privatized – 33%  
Stock exchange – BSE Sofia  
Manager – Central Cooperative Bank





# THANK YOU!

## Contact Information

Iliana Petrova  
Head of Investment Banking Department

Lilyana Marinova, FRM  
Senior Finance Expert

Central Cooperative Bank  
2, Stefan Karadja Str., 1000 Sofia, Bulgaria  
phone: +3592 981 85 99  
e-mail: [i.petrova@ccbank.bg](mailto:i.petrova@ccbank.bg)  
web: [www.ccbank.bg](http://www.ccbank.bg)