

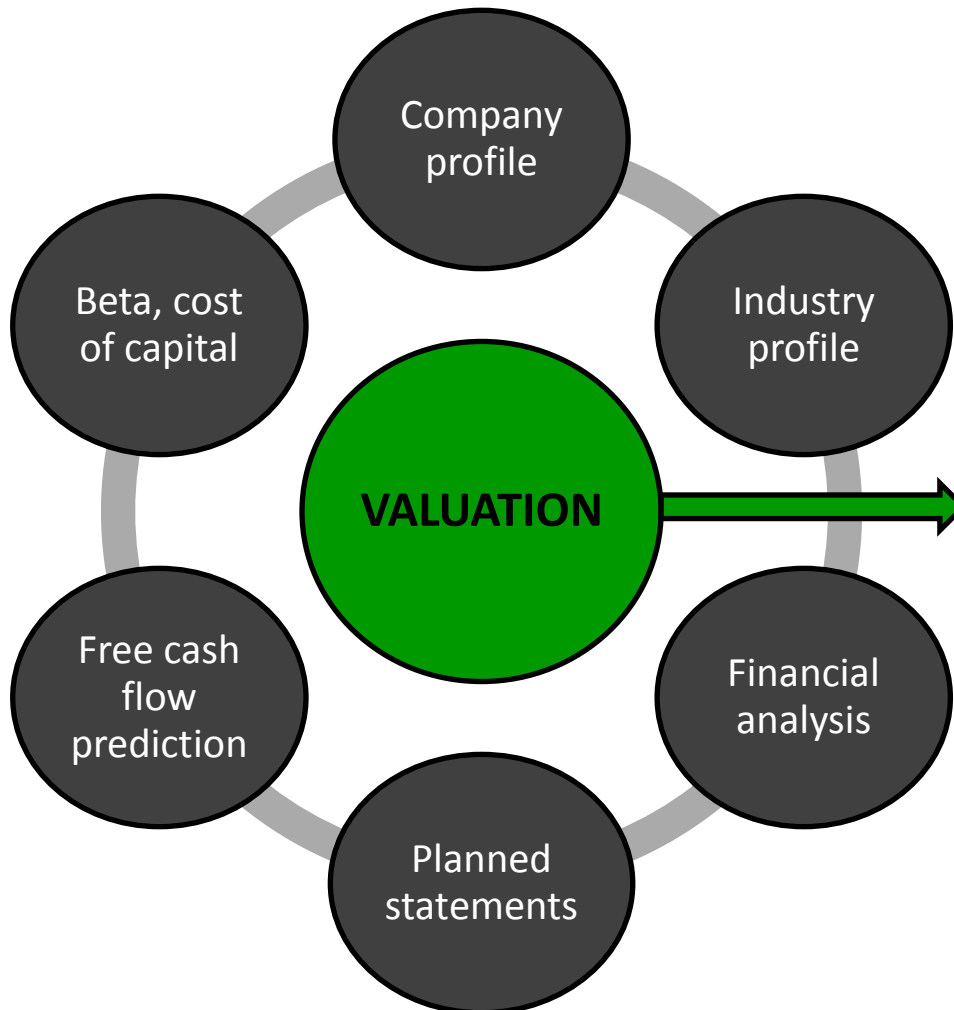
CFA INVESTMENT RESEARCH CHALLENGE

FEBRUARY 1, 2011

PRAGUE

VALUATION ASSUMPTIONS

TEAM E



ASSIGNMENT

- Risk averse investor
- Three years perspective
- Valuation to 21.12.2010
- Investment recommendation

TARGET PRICE

807 CZK

- Valuation based on 2 phases DCF equity method
- Value drivers
- Investment risks
- Actual issues

RECOMMENDATION

HOLD

CEZ AS INTERNATIONAL UTILITY

TEAM E



MAJOR ELECTRICITY PRODUCER IN THE CZECH REPUBLIC

74% of market

70% MoF

32.707 emp

ONE OF TEN BIGGEST EUROPEAN POWER UTILITIES

65,3 TWh

17 countries

60 plants

PRODUCTION BASED ON LIGNITE AND NUCLEAR POWER

45% lignite

42% nuclear

13% other

44% OF REVENUES IN POWER PRODUCTION

39% distribution

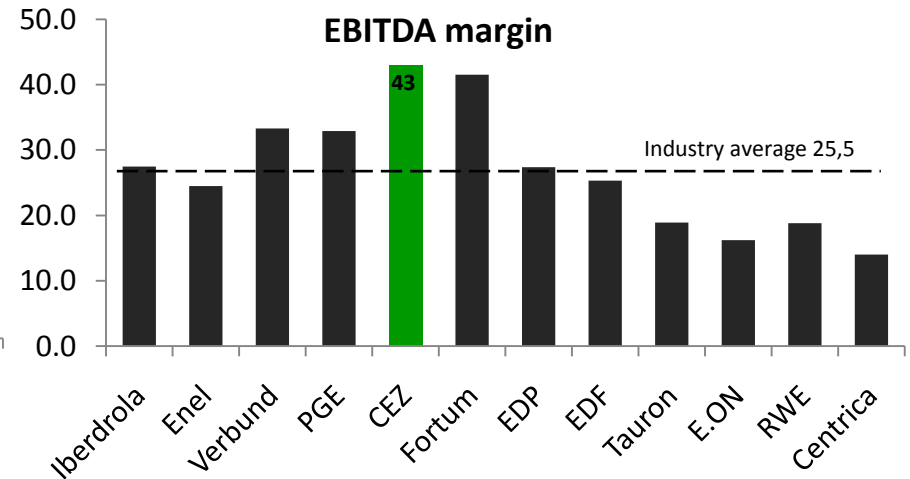
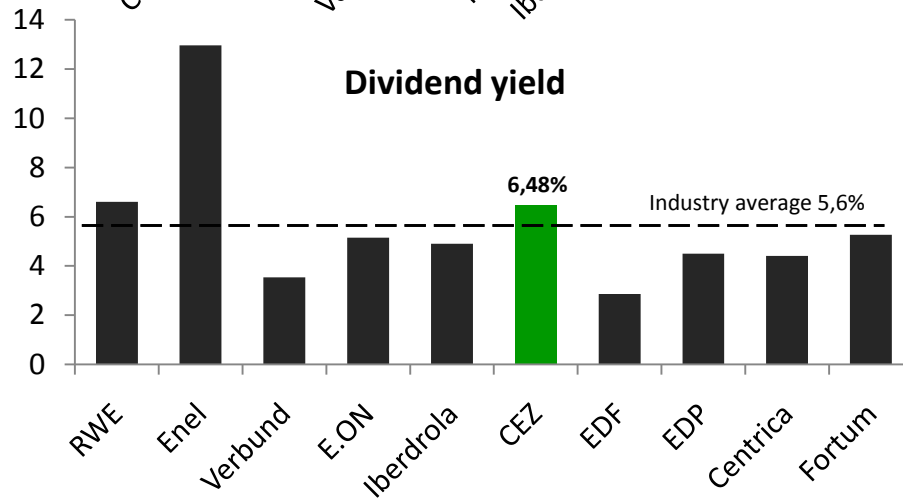
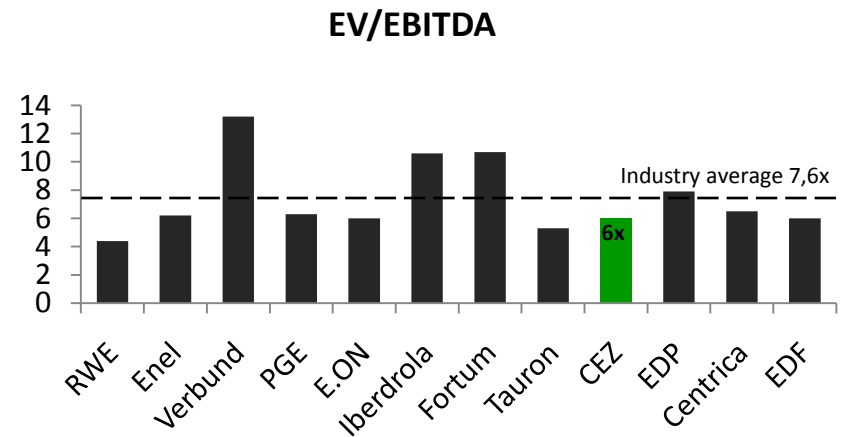
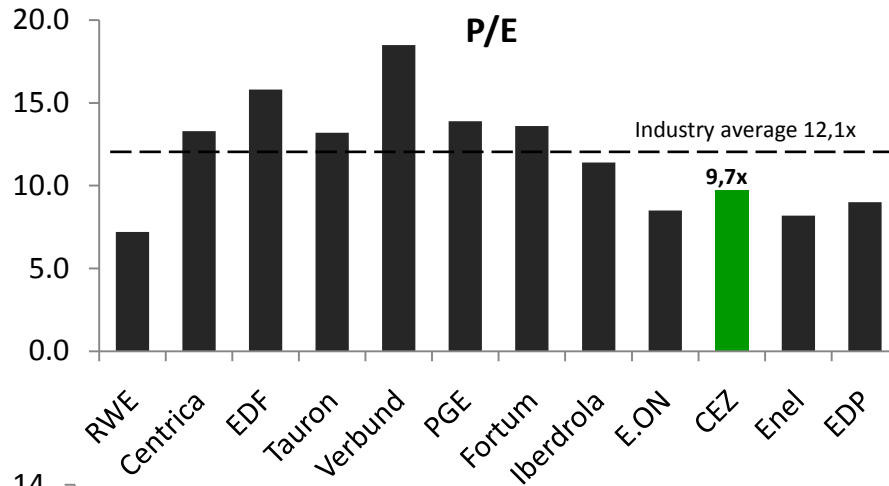
4% mining

14% other

Source: Company data, Team E research

COMPANY COMPARISON

TEAM E

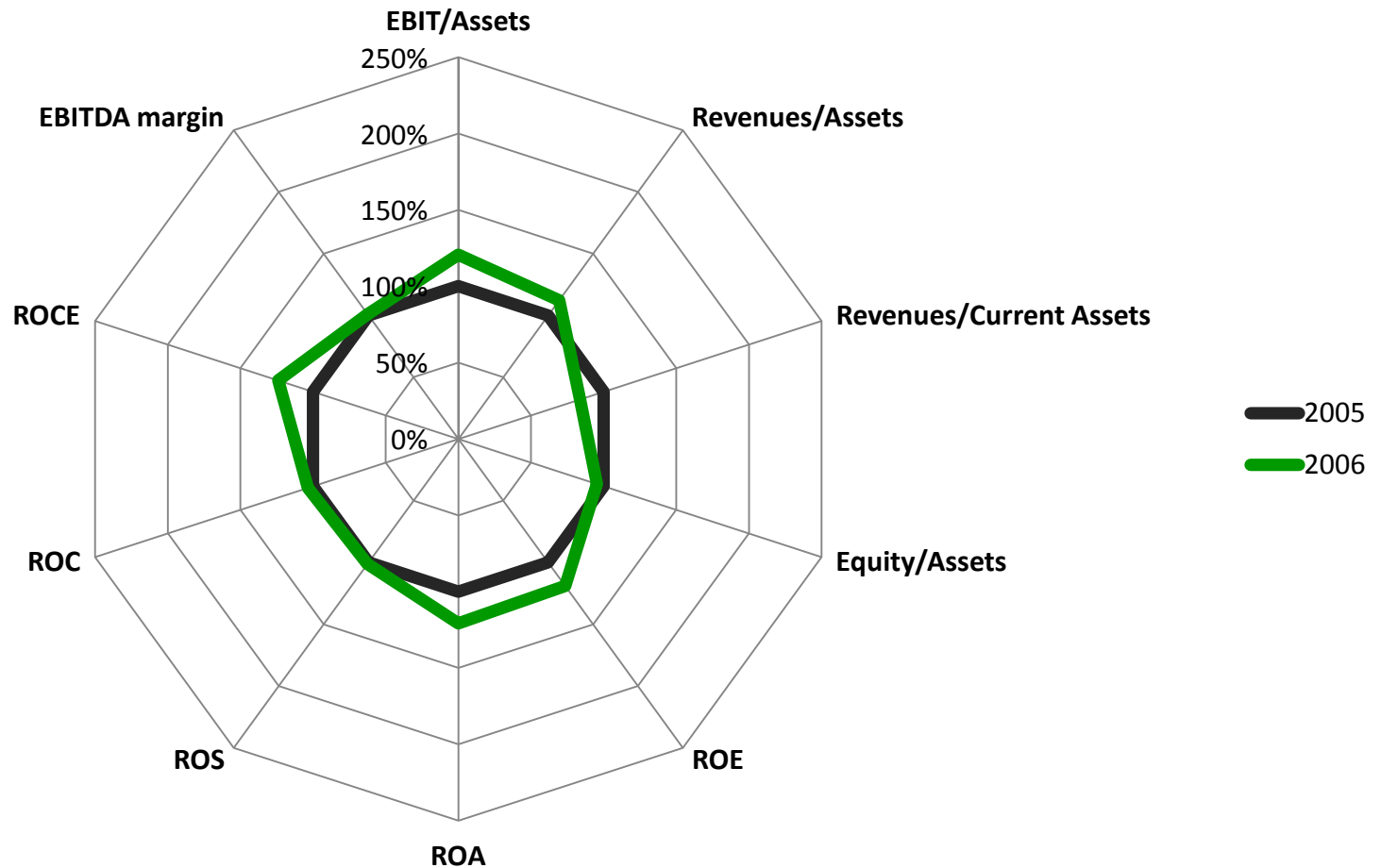


Data to 21/12/2010

Source: Team E estimates, Reuters

FINANCIAL ANALYSIS

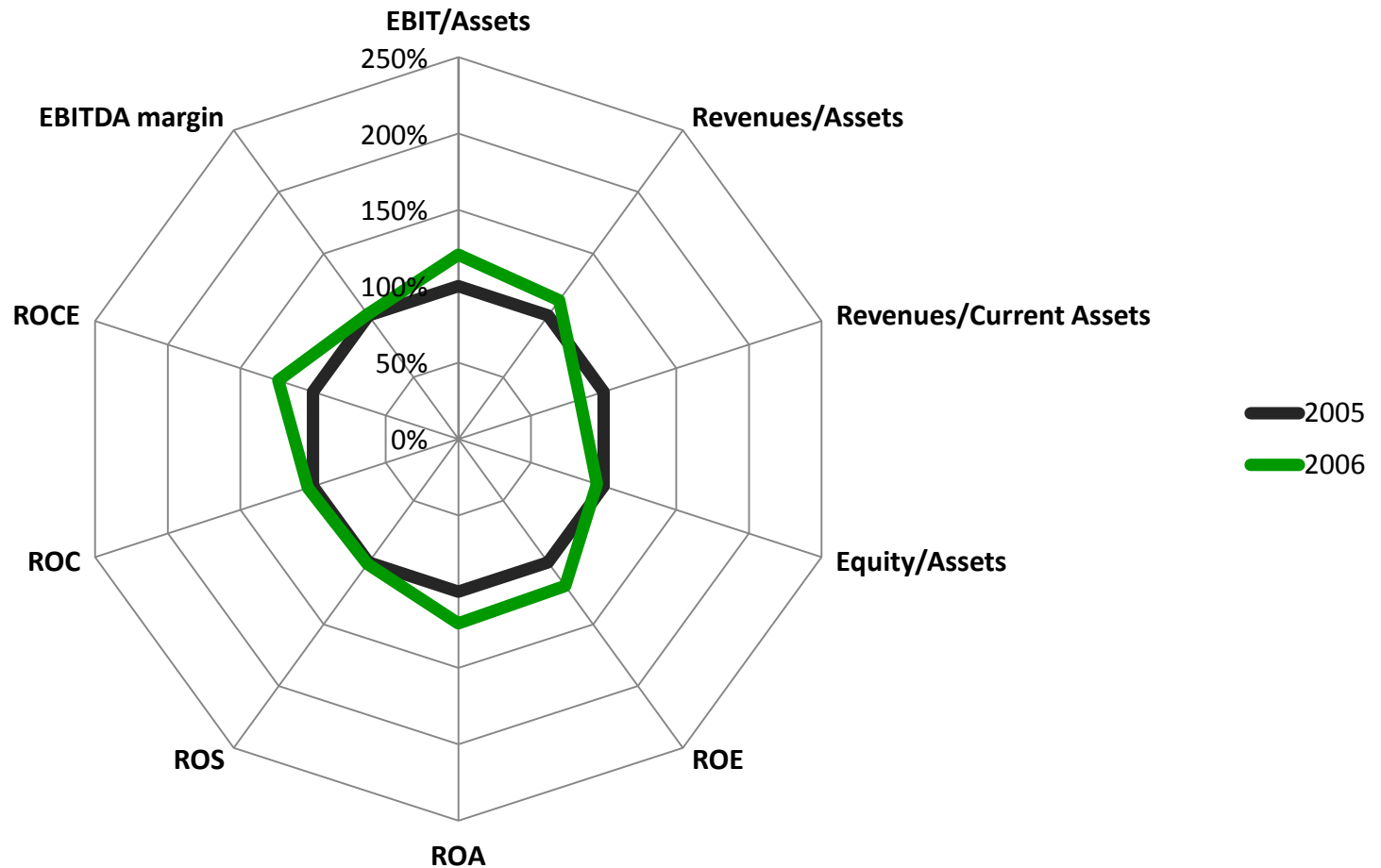
TEAM E



Source: Company data, Team E estimates

FINANCIAL ANALYSIS

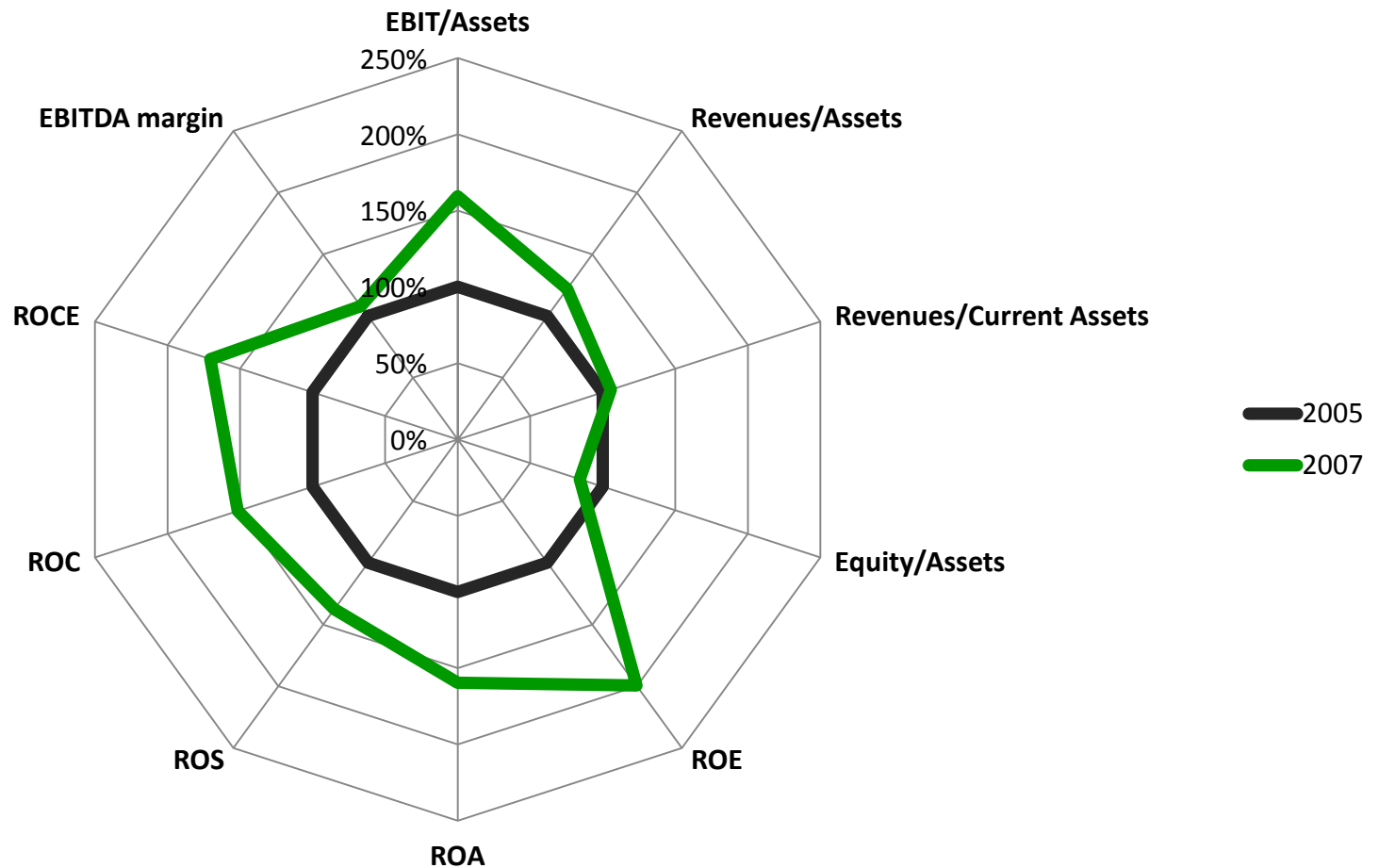
TEAM E



Source: Company data, Team E estimates

FINANCIAL ANALYSIS

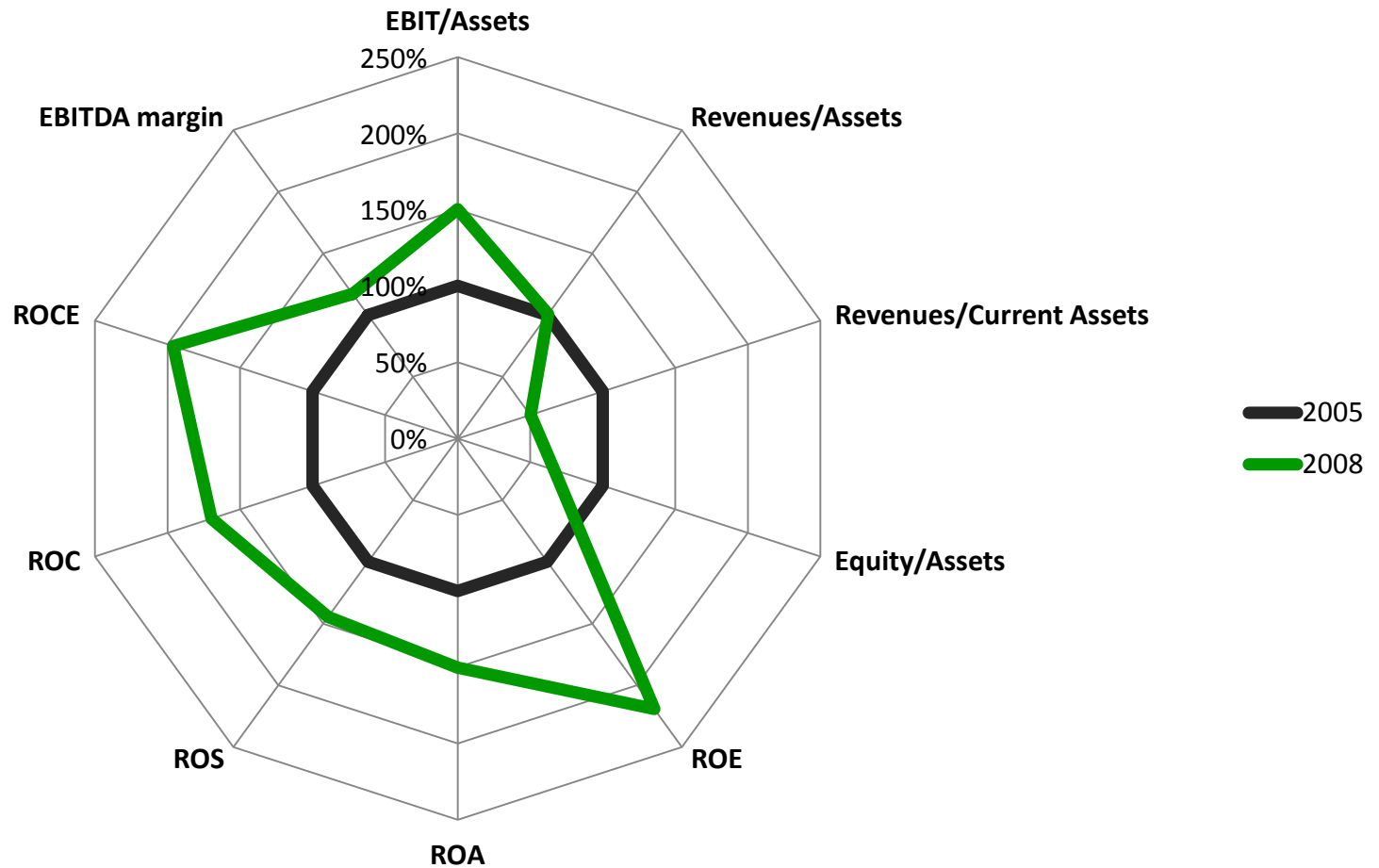
TEAM E



Source: Company data, Team E estimates

FINANCIAL ANALYSIS

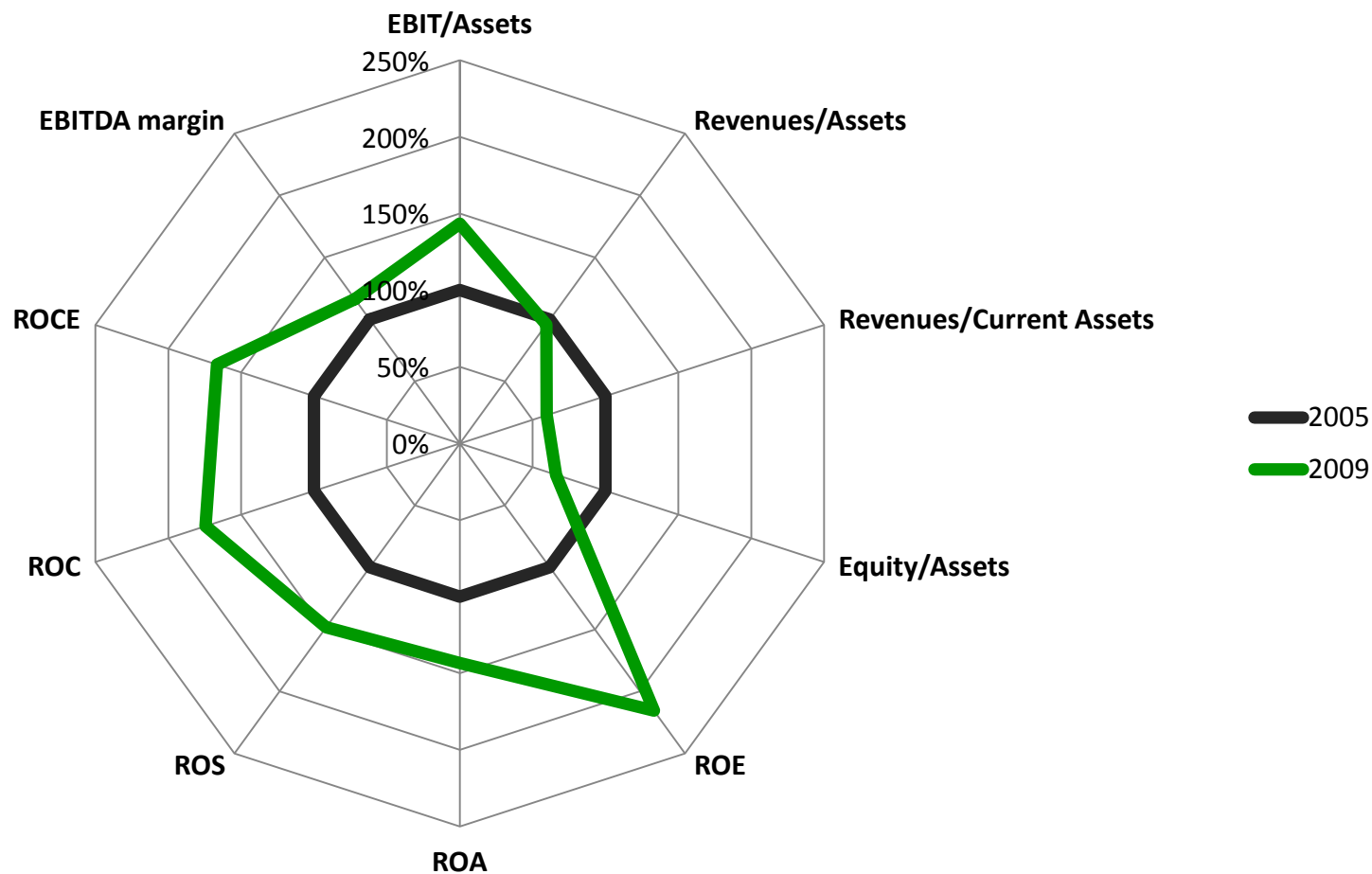
TEAM E



Source: Company data, Team E estimates

FINANCIAL ANALYSIS

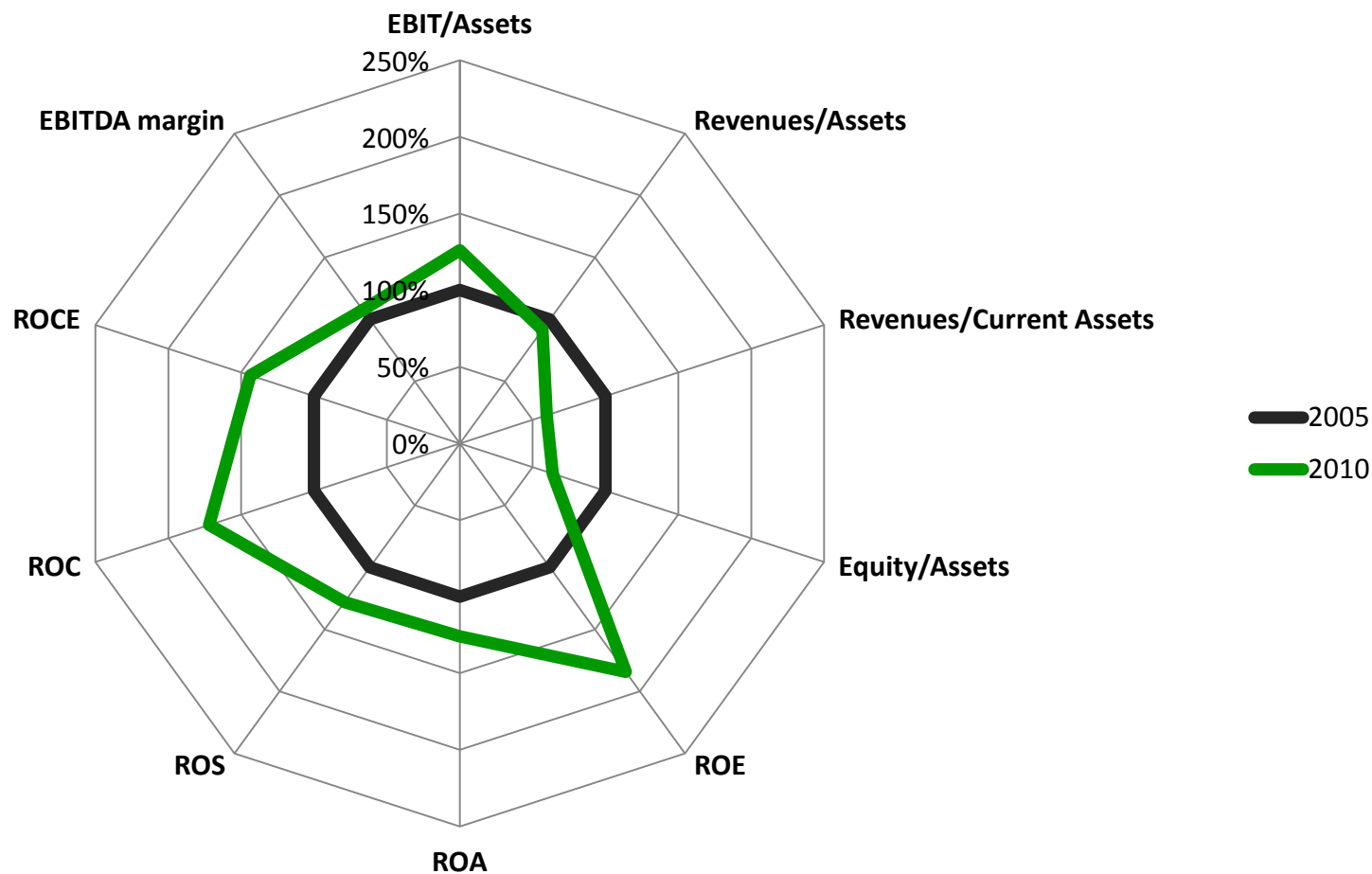
TEAM E



Source: Company data, Team E estimates

FINANCIAL ANALYSIS

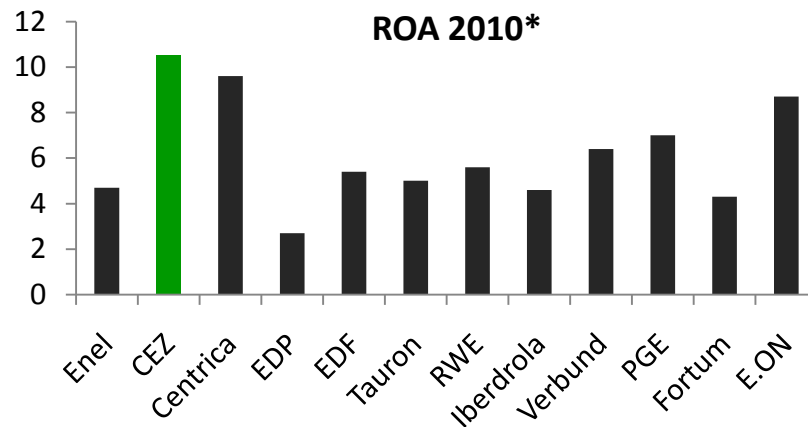
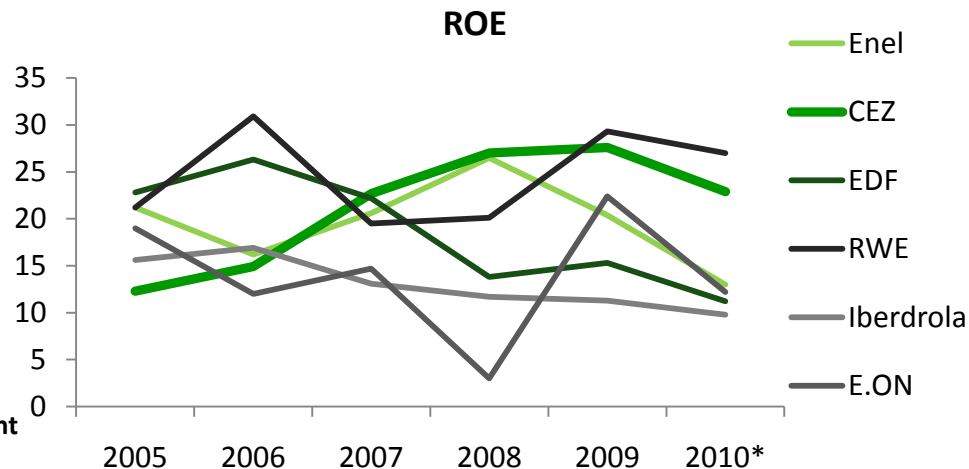
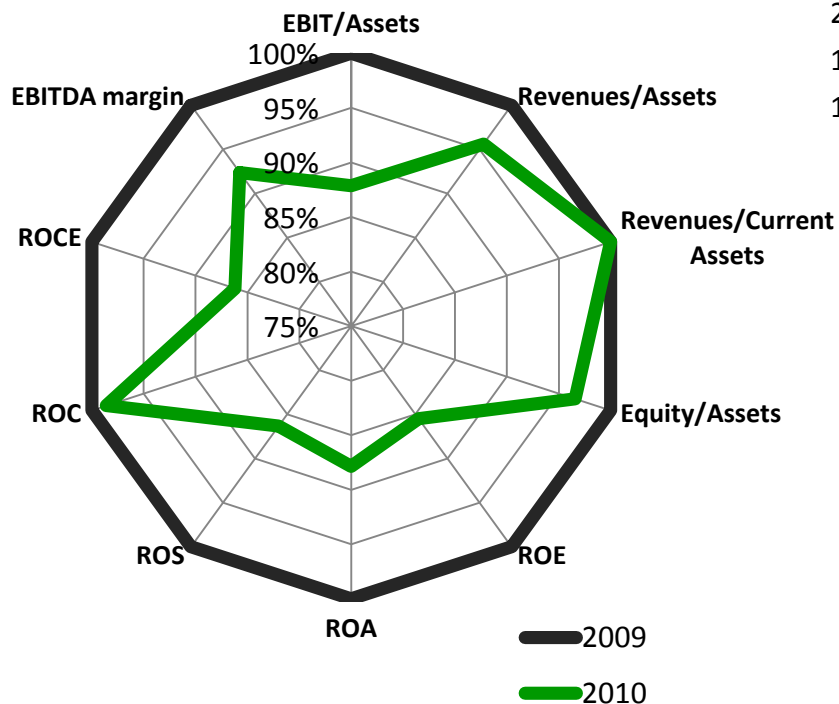
TEAM E



Source: Company data, Team E estimates

FINANCIAL ANALYSIS

TEAM E

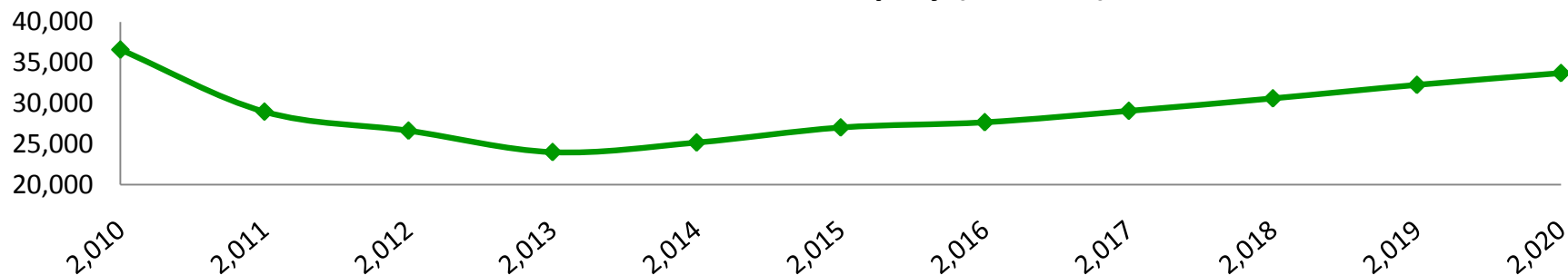


Source: Reuters, Bloomberg, Company data, Team E estimates

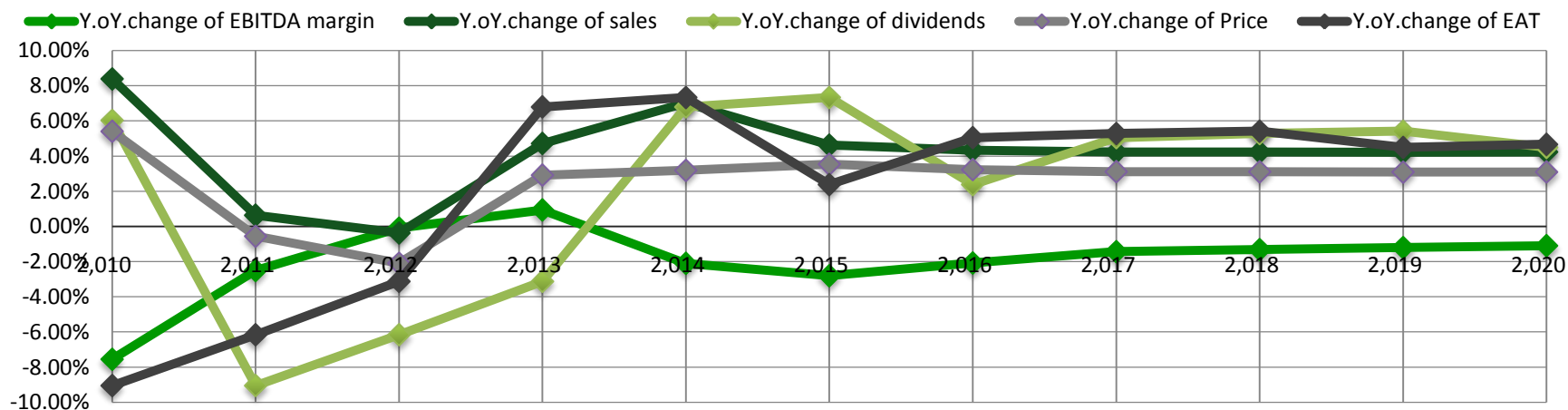
VALUATION BASE

TEAM E

Estimated free cash flows to equity (mil. CZK)



Relative changes of chosen value drivers



Source: Company data, Team E estimates

VALUATION

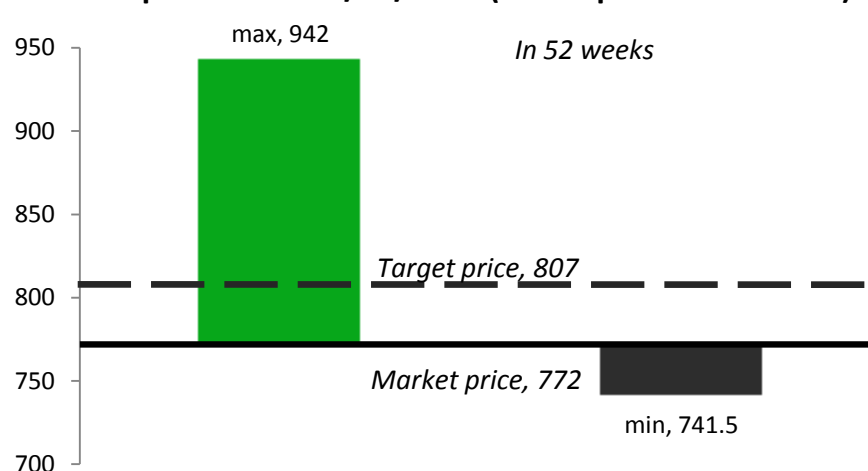
TEAM E

	Phase 1 : 2011 - 2017	Phase 2 : 2018 - ∞
Levered β	0,99	0,99
R_m	6,29%	6,99%
R_f	3,64%	4,00%
R_e	6,26%	8,50%
g		1,49%

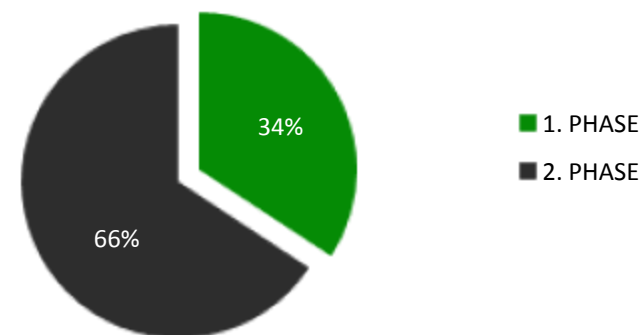
Values in mil. CZK

Value of phase 1	148 795
Continuing value (perpetuity)	436 668
Value of phase 2	285 405
TOTAL VALUE	434 201
Number of issued shares (pieces)	537 989 759
VALUE OF SHARE (in CZK)	807,080
Enterprise value	532 200
Indebtness	32,61%

Share price as for 21/12/2010 (in CZK per diluted share)



Ratio between phases of DCF equity



Source: Company data, Team E estimates

Volatility of
exchange
rate

Possible
drop in
rating

- Possible price increase of debt

Unstable
political
situation

- In the Czech Republic and in other countries

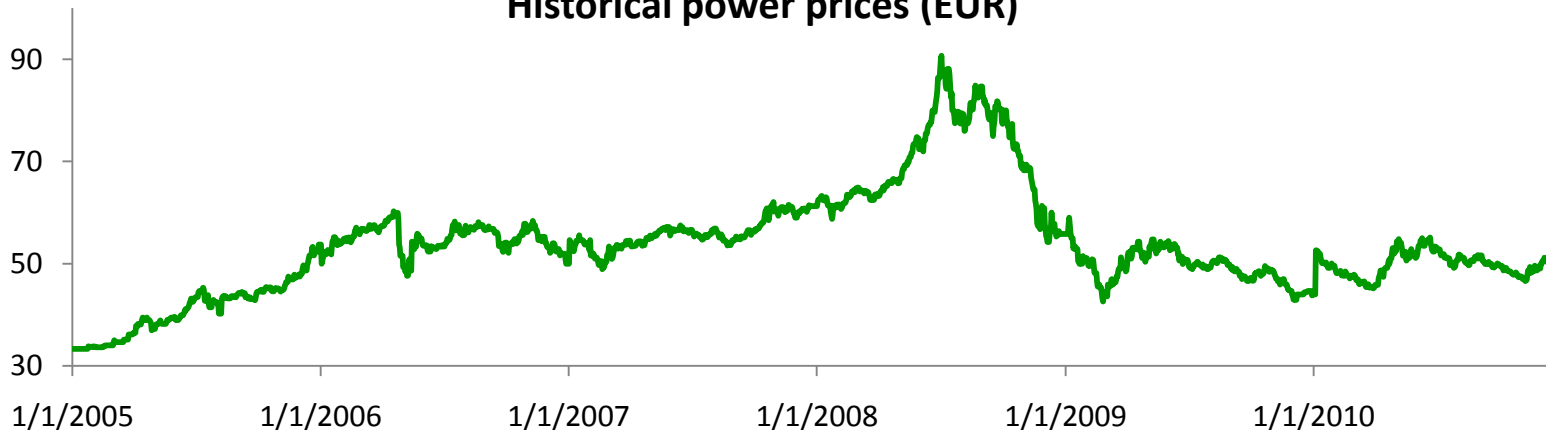
Low power
prices

- Contra high fixed costs

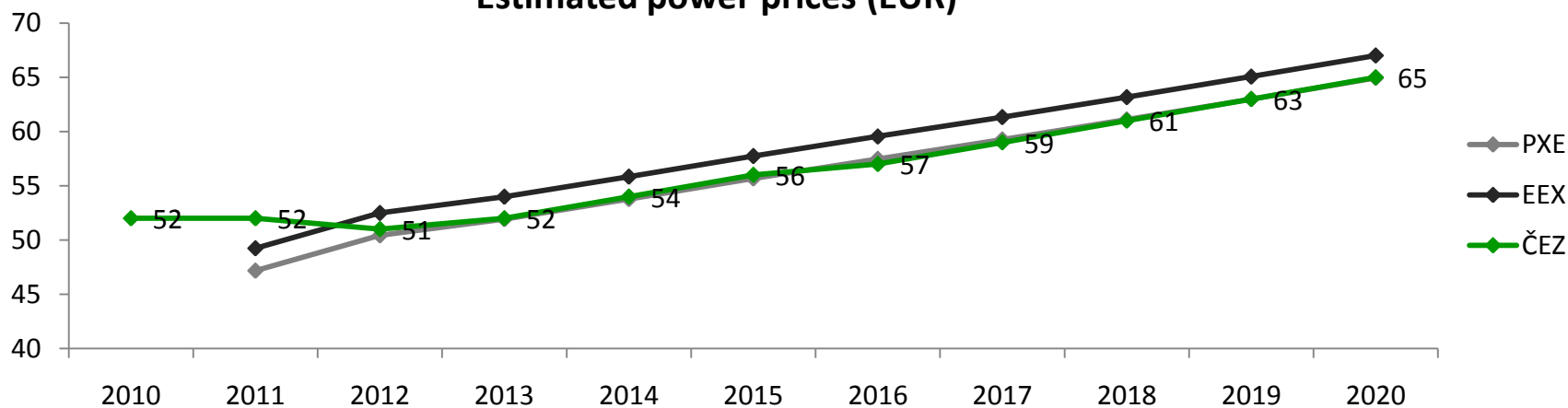
POWER PRICES

TEAM E

Historical power prices (EUR)



Estimated power prices (EUR)

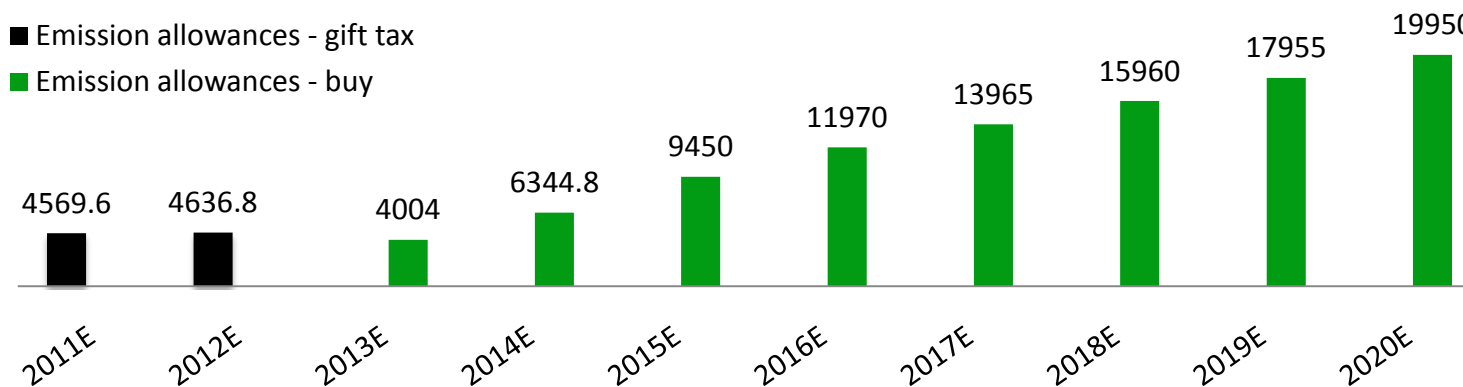


Source: EEX, PXE, Team E estimates

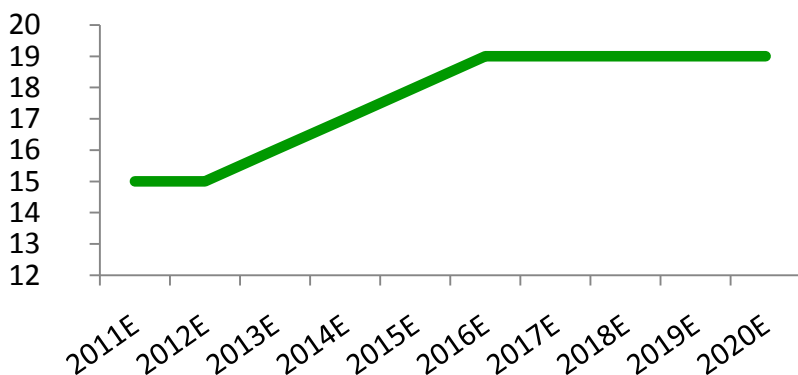
ACTUAL ISSUES

TEAM E

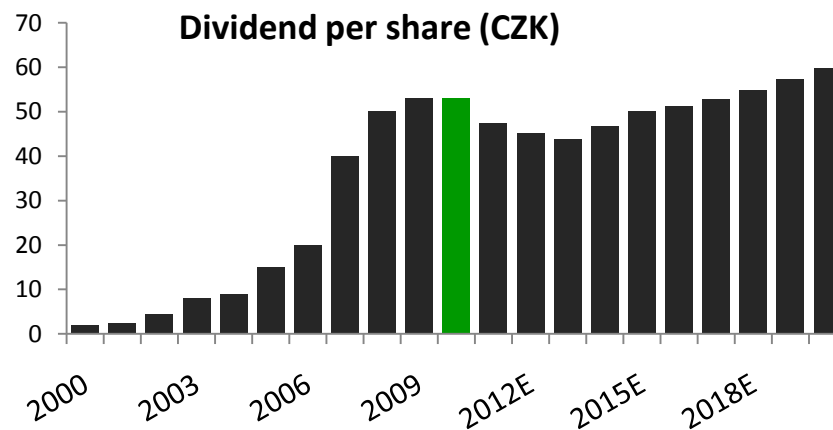
Development of subsidiary, taxed and bought emission allowances (mil. CZK)



Estimated prices of emission allowances (EUR)



Dividend per share (CZK)

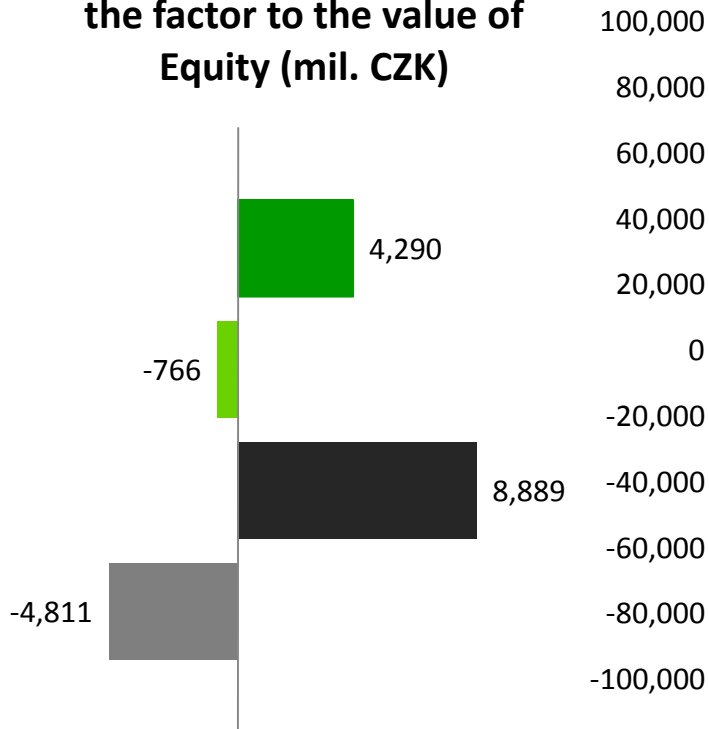


Source: Team E estimates

SENSITIVITY ANALYSIS

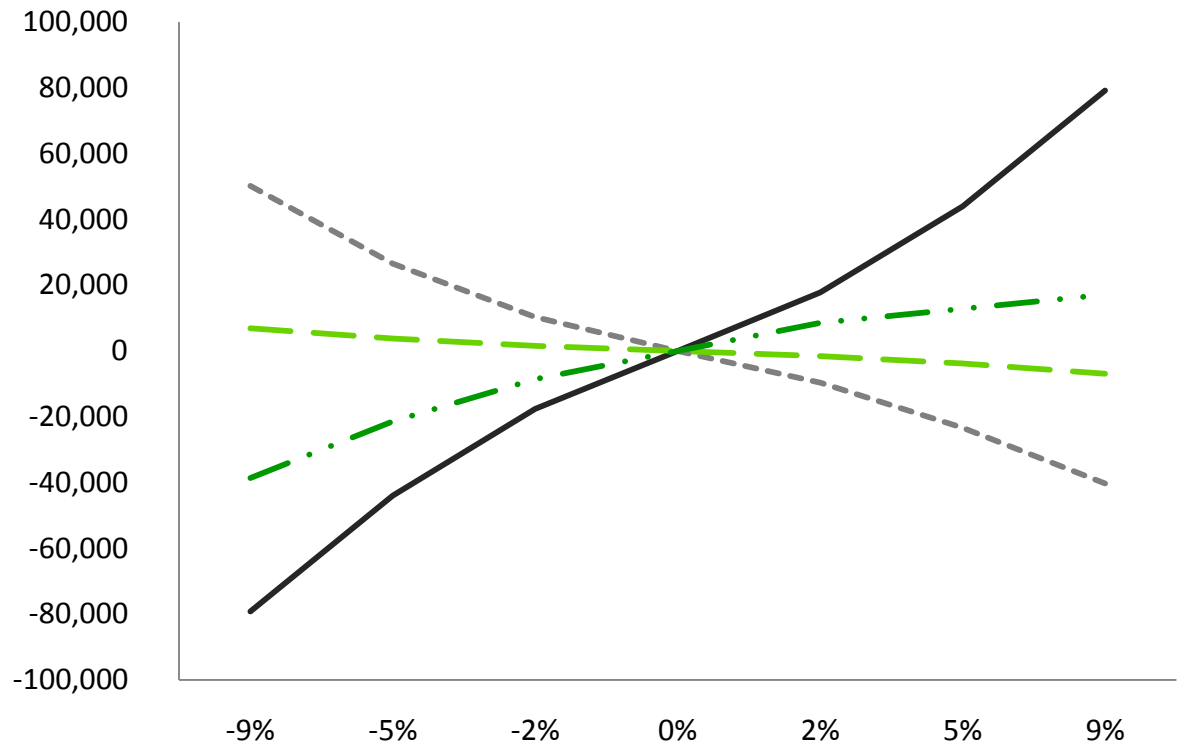
TEAM E

Influence of 1% change of the factor to the value of Equity (mil. CZK)



- Dividends
- Emmission allowances
- Sales
- Return on capital

Sensitivity of value to the factor (mil. CZK)



- Return on capital
- Sales
- Emmission Allowances
- · - Dividends

Source: Team E estimates

SUMMARY

TEAM E

Good stable company with Czech political support

Majority of indexes around industry average or higher

Reasonable financial analysis indicators

Stable production of free cash flow

UNDERVALUED

Necessity of cutting down costs

Uncertainty about allowances

Existing drop in dividends

Investment risks

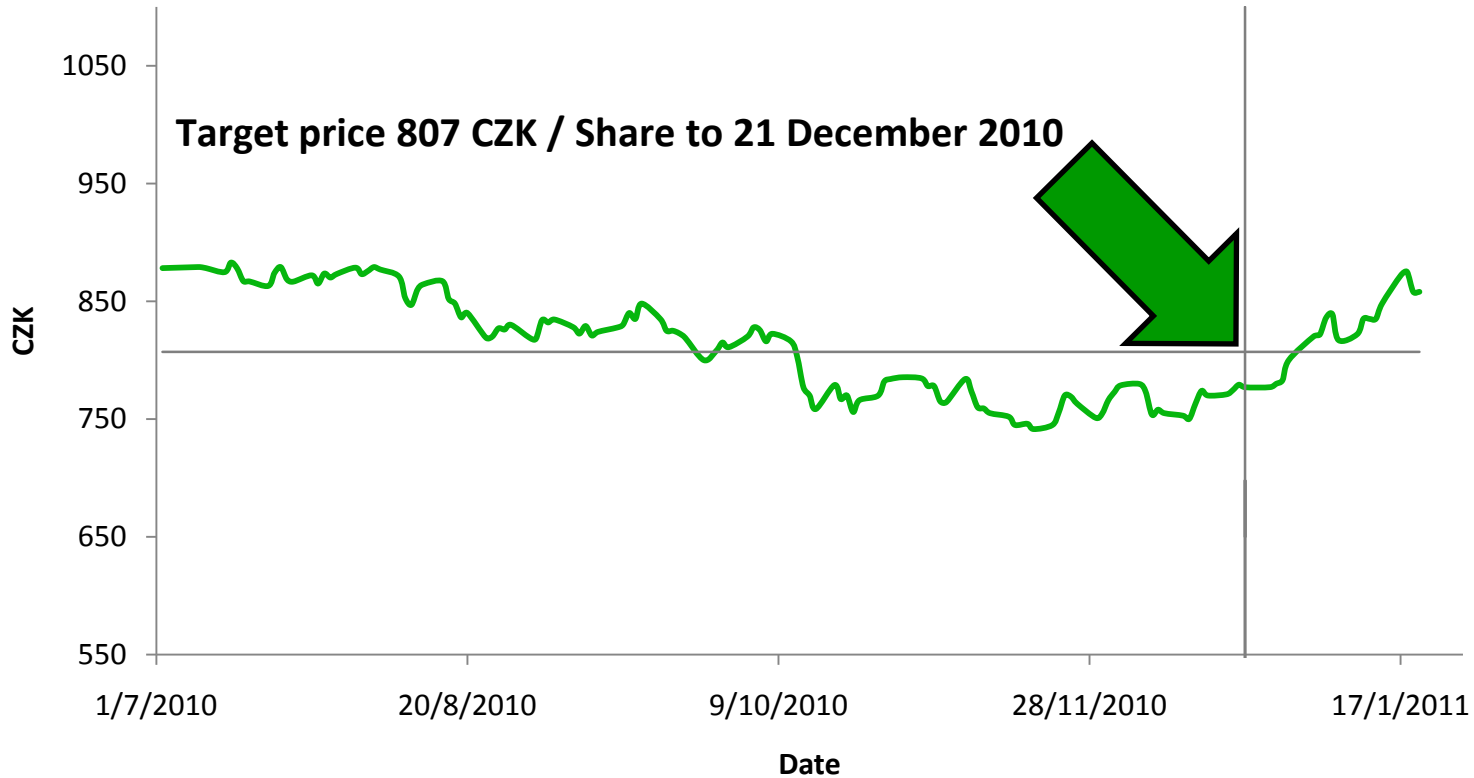
TICKER
NYSE
EURONEXT:
CEZ

HOLD

TARGET
PRICE:
807 CZK

SUMMARY

TEAM E



TICKER
NYSE
EURONEXT:
CEZ

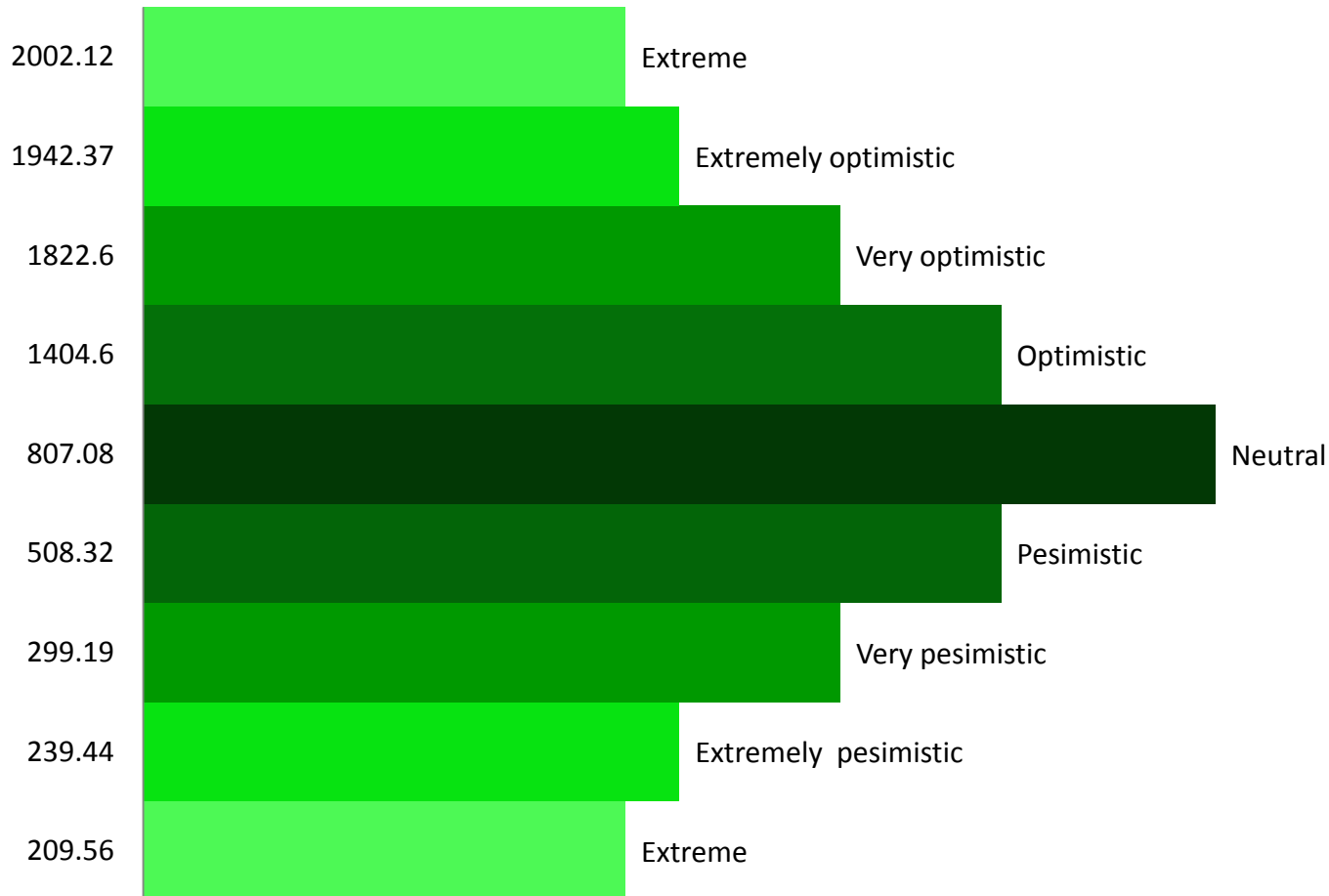
HOLD

TARGET
PRICE:
807 CZK

Source: Team E estimates

SUMMARY

TEAM E



TICKER
NYSE
EURONEXT:
CEZ

HOLD

TARGET
PRICE:
807 CZK

Source: Team E estimates

TICKER NYSE EURONEXT: CEZ

HOLD

TARGET PRICE: 807 CZK

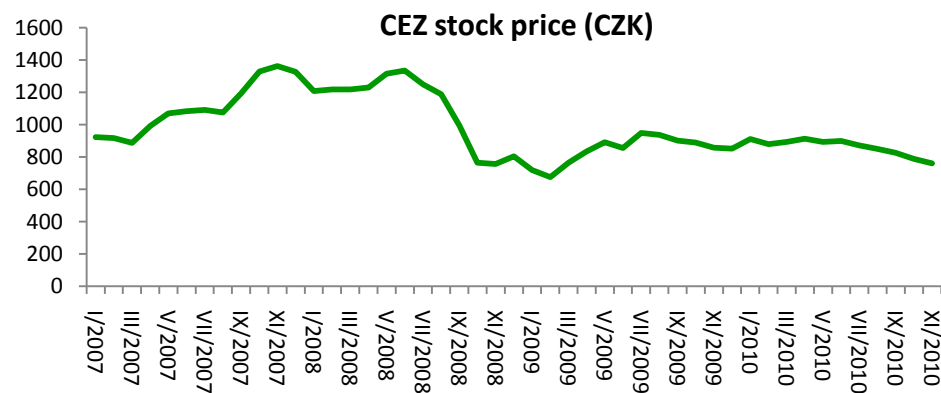
APPENDIX

APPENDIX - HIGHLIGHTS

TEAM E

Market profile

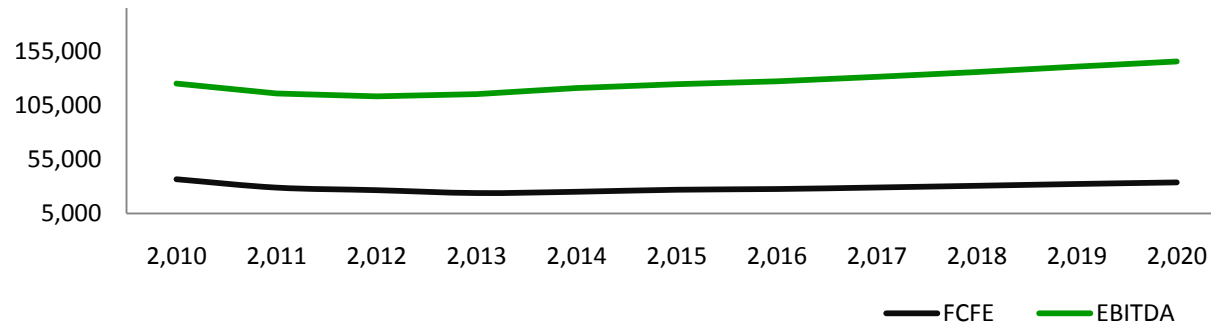
52 Week Price Range	950,00 – 736,00
Average Daily Volume	490 953,30
Beta	0,99
Dividend Yield (Estimated)	6,48%
Shares Outstanding	537 989 759
Market Capitalization	415 059
Institutional Holdings	79,86 %
Insider Holdings	0,84%
Book Value per Share	1 018,94CZK
Debt to Total Equity	35%
Return on Equity	21%



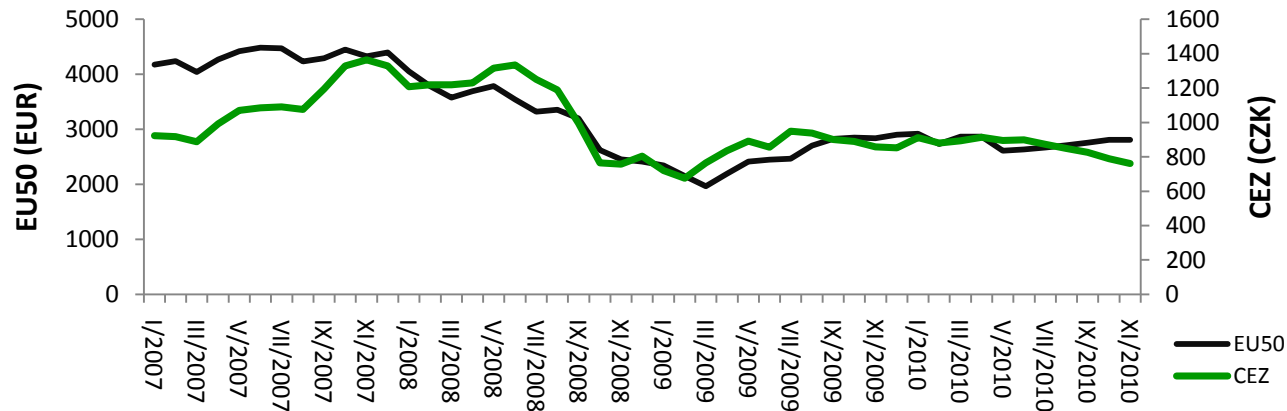
APPENDIX – INVESTMENT SUMMARY

TEAM E

FCFE and EBITDA (mil CZK)



EU50 : CEZ



APPENDIX – STATEMENT OF CASH FLOW

TEAM E

Statement of Cash Flows (in millions CZK)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EAT	47 163	44 259	42 877	45 790	49 149	50 320	52 861	55 655	58 669
Amortization	22 634	22 860	23 089	23 320	23 553	23 788	23 500	23 500	23 500
CASH GENERATED FROM OPERATIONS	69 797	67 119	65 966	69 109	72 702	74 109	76 361	79 155	82 169
CAPEX	67 751	59 610	61 468	45 723	47 706	33 380	35 000	35 000	50 000
Δ Current assets	6 168	774	-456	5 744	8 960	6 319	6 193	6 297	6 564
Δ Current liabilities	7 011	880	-518	6 529	10 185	7 183	7 039	7 158	7 462
Δ Working capital	-843	-105	62	-785	-1 225	-863	-847	-860	-897
Financial investments	8 078	3 035	2 300	426	0	0	0	0	0
CASH USED IN INVESTING ACTIVITIES	74 986	62 539	63 830	45 363	46 481	32 516	34 153	34 139	49 103
Dividends	28 520	25 940	24 342	23 583	25 184	27 032	27 676	29 073	30 610
Part payment of debts	5 797	5 797	5 797	5 797	5 797	5 797	5 797	5 797	5 797
CASH USED IN FINANCING ACTIVITIES	34 317	31 736,51	30 139	29 379	30 981	32 829	33 473	34 870	36 407
DIFFERENCE OF CASH FLOW	-39 506	-27 156	-28 003	-5 633	-4 760	8 763	8 734	10145	-3 341
Net debts	39 506	27 157	28 003	5 634	4 760	-8 763	-8 734	-10 146	3 341
Condition of debts	190 519	211 879	234 086	233 922	232 886	218 325	203 794	187 851	185 395

APPENDIX – BALANCE SHEET (ASSETS)

TEAM E

Balance Sheet (in millions CZK)

	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
ASSETS	530 259	584 179	621 702	659 626	687 773	720 886	736 796	754 489	772 286	805 351
NON-CURRENT ASSETS	414 955	462 707	499 457	537 836	560 239	584 392	593 984	605 484	616 984	643 484
Plant in service	509 618	577 369	636 979	698 447	744 170	791 876	825 256	860 256	895 256	945 256
Less accumulated provision for depreciation	266 377	-289 011	-311 871	-334 960	-358 280	-381 833	-405 621	-429 121	-452 621	-476 121
Net plant in service	243 241	288 358	325 108	363 487	385 890	410 043	419 635	431 135	442 635	469 135
Nuclear fuel, at amortized cost	5 439	6 000	6 000	6 000	6 000	6 000	6 000	6 000	6 000	6 000
Construction work in progress	80 125	80 125	80 125	80 125	80 125	80 125	80 125	80 125	80 125	80 125
Investment in associates and jointventures	17 250	17 400	17 400	17 400	17 400	17 400	17 400	17 400	17 400	17 400
Investments and other financial assets	49 423	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000	50 000
Intangible assets, net	18 653	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000
Deferred tax assets	824	824	824	824	824	824	824	824	824	824
CURRENT ASSETS	115 304	121 472	122 246	121 790	127 534	136 494	142 812	149 005	155 302	161 867
Cash and cash equivalents	26 727	38 537	43 258	42 333	47 884	56 429	61 815	67 083	72 449	78 063
Receivables, net	47 347	41000	37000	37500	38000	38500	39000	39500	40000	40500
Materials and supplies, net	4 959	5 224	5 258	5 238	5 485	5 870	6 142	6 408	6 679	6 962
Fossil fuel stocks	2 944	3 101	3 121	3 110	3 256	3 485	3 646	3 804	3 965	4 133
Emission rights	1 212	1 400	1 400	1 400	700	0	0	0	0	0
Other financial assets	29 706	29800	29800	29800	29800	29800	29800	29800	29800	29800
Other current assets	2 409	2 409	2 409	2 409	2 409	2 409	2 409	2 409	2 409	2 409

APPENDIX – BALANCE SHEET (LIABILITIES)

TEAM E

Balance Sheet (in millions CZK)

	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EQUITY AND LIABILITIES	530 259	584 179	621 702	659 626	687 773	720 886	736 796	754 489	772 286	805 351
TOTAL EQUITY	206 675	219 861	235 146	251 381	273 162	297 127	320 415	345 599	372 181	400 240
Equity attributable to equity holders of the parent	200 361	214 361	229 646	245 881	267 662	291 627	314 915	340 099	366 681	394 740
Stated capital	53 799	53 799	53 799	53 799	53 799	53 799	53 799	53 799	53 799	53 799
Treasury shares	-5 151	-4 600	-4 600	-4 600	-4 600	-4 600	-4 600	-4 600	-4 600	-4 600
Retained earnings and other reserves	151 713	165 162	180 447	196 682	218 463	242 428	265 716	290 900	317 482	345 541
Non controlling interests	6 314	5 500	5 500	5 500	5 500	5 500	5 500	5 500	5 500	5 500
TOTAL LIABILITIES	323 584	364 317	386 557	408 245	414 611	423 759	416 382	408 890	400 105	405 111
LONG-TERM LIABILITIES	177 181	211 238	232 598	254 805	254 641	253 605	239 044	224 513	208 570	206 114
Long-term debt, net of current portion	118 921	152 630	173 990	196 197	196 033	194 997	180 436	165 905	149 962	147 506
Accumulated provision for nuclear decommissioning and fuel storage	37 152	37 500	37 500	37 500	37 500	37 500	37 500	37 500	37 500	37 500
Other long-term liabilities	21 108	21 108	21 108	21 108	21 108	21 108	21 108	21 108	21 108	21 108
DEFERRED TAX LIABILITY	15 335	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000
CURRENT LIABILITIES	131 068	138 079	138 959	138 441	144 970	155 155	162 337	169 376	176 535	183 997
Short term loans and current portion of long-term debt	37 889	37 889	37 889	37 889	37 889	37 889	37 889	37 889	37 889	37 889
Trade and other payables	78 212	87 670	88 550	88 032	94 561	107 250	116 436	125 077	133 518	142 005
Accrued liabilities	14 967	12 520	12 520	12 520	12 520	10 016	8 013	6 410	5 128	4 103

APPENDIX – INCOME STATEMENT

TEAM E

Income statement (in millions CZK)

	2 009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
REVENUES	196 352	206 855	208 173	207 397	217 179	232 436	243 196	253 742	264 466	275 644
Sales of electricity	173 494	188 050	189 248	188 543	197 453	211 305	221 088	230 674	240 423	250 585
Heat sales and other revenues	22 858	18 805	18 925	18 854	19 744	21 131	22 109	23 067	24 042	25 059
Operating costs	128 153	118 155	116 577	116 142	121 620	130 164	136 190	142 095	148 101	154 361
Gift tax			4 570	4 637						
Allowances					4 004	6 345	9 450	11 970	13 965	15 960
OPERATING COSTS AFTER ALLOWANCES	128153	118 155	121 146	120 779	125 624	136 509	145 640	154 065	162 066	170 321
Amortization	22 876	22 634	22 860	23 089	23 320	23 553	23 788	23 500	23 500	23 500
EBITDA	97 075	88 700	87 026	86 618	91 555	95 927	97 556	99 676	102 400	105 323
EBIT	68 199	66 066	64 166	63 529	68 235	72 374	73 768	76 176	78 900	81 823
Interests	3 303	7 841	9 526	10 594	11 704	11 696	11 644	10 916	10 190	9 393
EBT	64 946	58 226	54 640	52 935	56 531	60 678	62 124	65 260	68 710	72 431
Income tax	13 091	11 063	10 382	10 058	10 741	11 529	11 803	12 399	13 055	13 762
EAT	51 855	47 163	44 259	42 877	45 790	49 149	50 320	52 861	55 655	58 669
Dividends	26 899	28 520	25 940	24 342	23 583	25 184	27 032	27 676	29 073	30 610
EAR	24 956	18 642	18 319	18 535	22 207	23 965	23 288	25 185	26 582	28 059

APPENDIX – FREE CASH FLOW

TEAM E

Free cashflow (in millions CZK)

FCFF	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EAT	47 163	44 259	42 877	45 790	49 149	50 320	52 861	55 655	58 669
ODPISY	22 634	22 860	23 089	23 320	23 553	23 788	23 500	23 500	23 500
změna ČPK	-843	-106	62	-785	-1 225	-864	-847	-861	-897
INV	67 751	59 610	61 468	45 723	47 706	33 380	35 000	35 000	50 000
úroky	7 841	9 526	10 594	11 704	11 696	11 644	10 916	10 190	9 393
úroky(1-t)	6 351	7 716	8 581	9 480	9 474	9 432	8 842	8 254	7 608
FCFF	9 240	15 331	13 017	33 652	35 695	51 024	51 049	53 270	40 674

FCFE	2 010	2 011	2 012	2 013	2 014	2 015	2 016	2 017	2 018
EAT	47 163	44 259	42 877	45 790	49 149	50 320	52 861	55 655	58 669
Odpisy	22 634	22 860	23 089	23 320	23 553	23 788	23 500	23 500	23 500
ČPK	-843	-106	62	-785	-1 225	-864	-847	-861	-897
INV	67 751	59 610	61 468	45 723	47 706	33 380	35 000	35 000	50 000
Saldo U	33 709	21 360	22 206	-163	-1 037	-14 560	-14 531	-15 943	-2 456
FCFE	36 598	28 975	26 642	24 009	25 184	27 032	27 676	29 073	30 610

APPENDIX – VALUATION

TEAM E

DCF method

	2 010	2 011	2 012	2 013	2 014	2 015	2 016	2 017	2 018
Free cash flow to the equity	36 598	28 975	26 642	24 009	25 184	27 032	27 676	29 073	30 610
Discounted free cash flow		27266,7	23594,0	20008,4	19751,2	19950,7	19222,1	19002,3	

Values in CZK	
Value od phase 1	148 795
Continuing value (perpetuity)	436 668
Value od phase 2	285 405
Total value	434 201
Number of issued shares	537989759
Value of share	807,080

Phase 1 : 2011 - 2017	
Levered β	0,99
R_e	6,26%
R_m	6,29%
R_f	3,64%
CZ/A	32,61%
E/A	37,64%

Phase 2 : 2018 and more	
Levered β	0,99
R_e	8,50%
R_m	6,99%
R_f	4,00%
CZ/A	23,02%
E/A	49,70%

Counted growth in the second phase was 1,49% based on planned growth of sales

Cross-border power flows (2009)

STATE	TRANSMISSION SYSTEM	PLAN	FACT
Germany	50 Hertz Trans.	-3720 GWh	-1400 GWh
	TenneT	-4077 GWh	-6321 GWh
Poland	PSE Operator	-726 GWh	5849 GWh
Slovakia	SEPS	-5229 GWh	-5825 GWh
Austria	APG	-1997 GWh	-6599GWh
Czech Republic	ČEPS	-14297 GWh	-14296GWh

DE - 51,14€/MWh

PL – 50,25€/MWh



SK – 49,15€/MWh

HU - 51,05€/MWh

APPENDIX

TEAM E

