

PRESS RELEASE

Taking cue from recent statements made in the media, ERE wishes to clarify Albanian customers and the entire public opinion regarding the stances of this institution and its position regarding the current situation of the power sector and the difficult financial situation of CEZ Distribution.

- We regret that an independent institution like the Energy Regulatory Authority is being attacked, which we can say is one of the most consolidated institutions and with an unchanged staff since 2002.
- As an important element of its activity, the foundation of every decision-making of ERE is the implementation of the law and the support of the criteria of transparency and consultation with interested parties and the public, from whom it has also received the relevant assessments. ERE makes public all its decision-making with the relevant reports, and makes available to interested parties and the media all applications of companies, correspondence and practices on which it relies in making its decisions.
- ERE has made public in the 2011 Annual Report, which was submitted and approved by the Parliament, all the elements that have caused the difficult financial situation of CEZ Distribution and has been extremely transparent with the Parliament, as well as other institutions in the country, regarding the difficult situation created in the powersector by the low performance of CEZ Distribution company. ERE has reported and has continuously made public to all interested parties and customers, the high level of electricity losses in the distribution system, which are at unacceptable levels, which is reflected in the low level of electricity billing compared to general consumption.
- In the Annual Report, ERE has also presented all the actions it has taken against CEZ Distribution and the contradictions that ERE has had with CEZ regarding the non-calculation in the energy balance of the “economic damage” billed to customers and the “unbilled energy”, which were the result of the conclusions of the monitoring carried out. The non-recognition in the energy balance of the above-mentioned

phenomena, have resulted in the real level of losses in the distribution system at 37.58%, forcing CEZ to pay all the costs caused by the failure to achieve the targets accepted in the distribution tariff and to import or financially compensate the additional amount of electricity to cover the real losses in the distribution system.

- Regarding the tariffs approved by ERE for the third Regulatory Period 2012-2014, contrary to the statements made, we emphasize the important fact that the tariffs for the sale of electricity to household and non-household end-use customers remain unchanged since 2010. For the third regulatory period 2012-2014, ERE significantly reduced CEZ's operating expenses as unjustified. Despite the revaluation of assets made by CEZ, ERE has calculated depreciation based on the value of assets determined at the time of privatization, in accordance with the Regulatory Declaration as such, the revaluation of assets made by the Company has had no effect on the determination of tariffs. Regarding the salaries of CEZ Distribution personnel, we clarify that ERE has recognized in the distribution tariff the same average salary level for all three public companies. The tariffs for 2012-2014, at the request of CEZ Distribution, were subjected to the evaluation of a Review Panel of international experts, who found no legal violations by ERE and praised its professionalism in this process.
- Failure to make investments approved by ERE is one of the elements with a direct impact also on the increase in losses in the distribution system. To reflect this lack of investment by the company, ERE has used the company's tariff adjustment mechanism by deducting this value from the required revenues for the following year.
- Regarding mutual debts between Companies, from the statements of some political representatives in the media, we regretfully conclude that the legislation for the power sector is not recognized and even less the regulatory framework, Regulatory Declaration, Model and Market Rules, Bilateral Contracts on which the relations between market participants are regulated, oriented to the regulatory practices of other countries. Now, the energy market is built on bilateral contractual relations based on the provisions provided for in these acts and we are not at the time when KESH operated as a vertically integrated company, based on the

orders of the general directors. For the respective invoices, the legislator has determined the legal means of their execution, giving them the status of executive title.

- Regarding the prices approved for all regulated companies, ERE has respected and respects the Law on Power Sector, approved in May 2003, and specifically its articles 8, 26, 27, 28. In implementation of this Law, ERE, in the principles of setting tariffs, takes into account the policy of the Council of Ministers (according to the aforementioned Law on Power Sector) and electricity prices must remain relatively stable over time (according to the Methodology).

Also, in implementation of the Privatization Package, part of which is the Government Support Agreement and Partial Risk Guarantee (PRG), the company has the right to request a guarantee of up to 60 million Euros, for ERE decisions that did not meet the requirements presented by CEZ, which would burden the state budget for the payment of this Guarantee issued by the World Bank. At the same time, the Albanian Government, in addition to this, is also the owner of KESH company and holds 24% of the shares of CEZ Distribution, so its exposure in relation to both companies is the same.

Under these conditions, ERE judged that in order not to increase the price of electricity for end-use customers and to minimize the costs of exposure of the Albanian state to the decisions of national and international courts, considering the reserves in the revenues given to the KESH Company in previous years, it concluded to reduce the latter's revenues, in order to maintain the balance between the interests of customers, the state, investors and other participants in the power sector, an obligation defined in Article 8, point 2/dh, of the Law on Power Sector. The same policy has been followed by ERE during the approval of tariffs since 2002.

- We are impressed by the fact that both CEZ Distribution and some political representatives in their statements are in unison blaming ERE

for the situation of CEZ Distribution. ERE has made public the official letters submitted by CEZ which blame ERE's decision-making for the difficult situation they are in, making ERE the cause of their departure from Albania. So we cannot be in the conditions of favoring CEZ, at a time when they themselves declare that they are leaving as a result of ERE's decisions (statement in Bloomberg of a member of the Board of CEZ a.s. on 31.10.2012).

- In this context, in the exercise of its legal powers, as a result of a continuous monitoring process, ERE has fined CEZ Distribution twice, in November 2010, with the decision that considered the billing carried out as "economic damage" and "unreasonable energy" illegal, and in September of this year in relation to the failure to carry out the import by CEZ Distribution, by punishing it with a fine of 430 million ALL. ERE Board of Commissioners has also initiated procedures for imposing a third fine on CEZ Distribution in relation to the collective interruptions carried out recently by CEZ.
- Finally, ERE remains open to any information and to clarify any uncertainties related to the decision-making of the Regulatory Authority, information which is moreover already published and updated on the official website of ERE and, in accordance with the law, every approved act is published in the official gazettes.