ČEZ, a. s.

(a joint stock company incorporated under the laws of the Czech Republic)

Admission of Shares to Listing and Trading on the Warsaw Stock Exchange

This is a prospectus ("Prospectus") for the purpose of listing of the shares ISIN CZ0005112300 (the "Shares") of ČEZ, a. s. ("ČEZ" or the "Issuer" and, together with its affiliated companies, "ČEZ Group" or "ČEZ Holding") on the Main Market of the Warsaw Stock Exchange ("WSE") prepared in accordance with the Czech Capital Markets Act (Act No. 256/2004 Coll.) and relevant EU legislation (Directive 2003/71/EC, the "Prospectus Directive", and Commission Regulation (EC) 809/2004) and approved by the Czech National Bank, as the competent authority under the Prospectus Directive. In granting its approval, the Czech National Bank does not accept any responsibility for the financial soundness of the Issuer or for the correctness of any of the statements made or opinions expressed with regard thereto.

On the date of this Prospectus, the Shares representing 100% of the Issuer´s capital are admitted to listing and trading on the Prague Stock Exchange and application will be made for the Shares to be admitted to listing and trading on the regulated market of the WSE. It is expected that the admission to listing and trading of the Shares will become effective on or around October 31 2006.

See "Risk Factors" set out on pages 6 to 12 of this Prospectus for a description of certain risks and factors that should be considered by prospective investors.

Investors should only rely on the information contained in this document. No person has been authorized to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorized by the Issuer. Unless otherwise indicated, all information in this document is given as at the date of this document. Nothing contained in this document is or should be relied upon as a promise or representation as to future results or events. Neither the delivery of this document nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or its group since the date of this document or that the information in this document is correct as of any subsequent time. The Issuer will comply with its obligation under Czech law to publish any information required by law or by any appropriate regulatory authority.

The distribution of this document and the offer of the Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Issuer to permit a public offering or listing of the Shares or to permit the possession or distribution of this document (or any other offering or publicity materials or application form(s) relating to the Shares) in any jurisdiction where action for that purpose may be required, except the application for admission of the Shares to listing and trading on the WSE. Accordingly, neither this document, nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This document does not constitute or form a part of an offer to sell the Shares to any person in the United States or in any jurisdiction to whom or in which such offer or solicitation is unlawful. The Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act") or under any other securities laws or with any other securities regulatory authority of any state or other jurisdiction of the United States. The Shares are being offered and sold only outside the United States to non-US persons in offshore transactions in reliance on Regulation S under the Securities Act. The Shares may not be offered or sold in the United States or to US persons absent an exemption from the applicable registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In making an investment decision, investors must rely on their own examination of the Issuer, its group and the Shares, including the risks involved. The contents of this document should not be construed as legal, business or tax advice. Each prospective investor should consult his or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice.

Certain figures included in this document have been subject to rounding adjustments; accordingly, figures shown for the same item of information presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an arithmetical aggregate of the figures preceding such totals.

In this document, all references to (i) "€", "EUR" and "euro" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union and as amended by the Treaty of Amsterdam, and (ii) "Czech crowns", "CZK"' and "Kč" are to the lawful currency for the time being of the Czech Republic.

Unless otherwise specified, the exchange rates used herein in relation to euro at a particular date or for a particular period are those specified under the heading "Exchange Rates". The commercial mid-rate reported by the Czech National Bank as at 31 December 2005 was Kč 29.005 = € 1.00.

Certain terms used in this document, including capitalized terms, are defined and explained in "Definitions".

The contents of the websites of the Issuer or of any other member of its group do not form a part of this document.

TABLE OF CONTENTS

TECHNICAL TERMS AND PRESENTATION OF OTHER DATA

The technical abbreviations and expressions used in this document have the following meanings:

CO	Carbon monoxide;
CO_2	Carbon dioxide;
Demand	Consumption by the final consumer not including transmission and distribution losses and self consumption by the utilities sector (including electricity used in pump storage facilities) and other electricity generators and distributors;
FBB	Fluidized-bed boiler, a kind of boiler which reduces the content of sulphur dioxide emissions in the flue gases during the combustion process;
FGD	Flue-Gas Desulphurization, a flue stack technology for reducing sulphur dioxide content in power plant emissions;
GW; GWh	One gigawatt equals 1,000 MW; one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1 GW;
Installed Capacity	The highest constant level of generation of electricity which a power plant is designed to be capable of maintaining;
IPP	Independent Power Producer;
kV	A kilovolt is a unit of electric tension; one kilovolt equals one thousand volts;
kW; kWh	A kilowatt is a unit of power, representing the rate at which energy is produced; one kilowatt-hour represents one hour of electricity consumption at a constant rate of 1 kW;
MW; MWh	One megawatt equals 1,000 kW; one megawatt-hour represents one hour of electricity consumption at a constant rate of 1 MW;
NO_X	Nitrogen oxides;
PWR	A type of pressurized water nuclear reactor designed in the United States. This type of reactor uses water as both a moderator (the medium in the reactor core which facilitates the chain reaction) and coolant (the medium which conveys the heat generated in the reactor to a steam generator);
SO_2	Sulphur dioxide;
t/h	Tons of steam per hour;
ton	Metric ton;
TW; TWh	One terawatt equals 1,000 GW; one terawatt-hour represents one hour of electricity consumption at a constant rate of 1 TW; and
VVER	A type of pressurized water nuclear reactor designed in the former Soviet Union, which uses water as both a moderator and a coolant.

Unless otherwise indicated, all figures in this document are gross units of generation of electricity (i.e., including the electricity consumed by the power plants themselves).

The Issuer has provided the data contained in this document as to installed capacity, generation and other market share information with respect to the electricity and heating industries in the Czech Republic. The Issuer compiles and publishes certain of this data on a regular basis, and also supplies certain of this data to the Czech Statistical Office and/or Energy Regulatory Office for use in compiling national data on the energy sector.

1. SUMMARY

The following information is derived from, and should be read as an introduction to, the full text of this Prospectus. Investors should read the whole of this Prospectus and not rely on the summary information contained in this section. The attention of potential investors is drawn to the section entitled "Risk Factors" set out on pages 6 to 12 of this Prospectus.

Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the European Economic Area, no civil liability will attach to the Issuer in any such member state in respect of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this document is brought before a court in a member state of the European Economic Area, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Overview of Market and Demand for Electricity in the Czech Republic in 2005

Compared to 2004, demand for electricity[1] in the Czech Republic increased by 1,277 GWh (2.3%) in 2005, reaching a level of 57,664 GWh. The key factor contributing to the rise is an increase in demand of large-scale industrial customers by 1,250 GWh (2.2%), while the consumption of electricity by small corporate customers and households increased only mildly, namely by 165 GWh (0.7%), and the non-generation related consumption of energy sector fell by 141 GWh (8.1%).

Business Overview

The core business areas of the ČEZ Group involves the generation of electricity in its own facilities and the subsequent distribution and sale of such electricity, including the related provision of power system ancillary services.

In addition to the generation and distribution of electricity, the core business of the ČEZ Group companies also include the generation, distribution, and sale of heat, mining and processing of raw materials, construction and civil engineering, maintenance and upgrades of power plants and the distribution grid, as well as information technologies, telecommunications, scientific research in selected fields, and other activities.

Figure 1: Split of Revenues by Segments

CZK billion	2003	2004	2005	H1 2005 / H1 2006
Generation and trading	40.76	42.24	47.38	23.53 / 27.65
Distribution and supply	38.37	54.15	72.91	35.91 / 46.31
out of which Bulgaria and Romania	*n. a.*	*n. a.*	*14.44*	*5.99 / 11.67*
Mining	*n. a.*	3.09	2.74	1.25 / 1.71
Other	5.69	3.19	2.06	1.03 / 1.52
Total	84.82	102.67	125.08	61.71 / 77.18

Source: ČEZ. Please note that financial statements for 2003 were not restated to include the mining segment. Further please note that transmission segment revenues (CZK 3.57 billion) were included in section "Other" in 2003 financial statements and that the control in the segment was divested in 2003.

[1] *Electricity demand is the net consumption of the final consumers in Czech Republic, which does not include transmission losses and self-consumption in generation (including electricity used by pump storage facilities).*

Figure 2: Geographical Split of Revenues

CZK billion	2003	2004	2005	H1 2005 / H1 2006
Czech Republic	84.82	102.67	110.64	55.72 / 65.11
Bulgaria	0	0	11.84	5.99 / 6.38
Romania	0	0	2.60	0 / 5.29
Poland	0	0	0	0 / 0.41
Total	84.82	102.67	125.08	61.71 / 77.18

Source: ČEZ. Bulgarian operations are consolidated for the full year 2005; Romanian operations for 4th quarter 2005. Please note that the financial statements for 2003 were not restated to take into account the ownership of Severočeské doly, a. s., as per "pooling of interests" methodology applied in 2005 and also retrospectively for 2004 and full 2005. Poland was ittributed

ČEZ Group is the largest electricity generator in the Czech Republic in terms of installed electricity generation capacity with a market share of 72.7% of electricity generated in the Czech Republic, and is one of the largest companies in the Czech Republic in terms of operating revenues. Based on the market capitalization, ČEZ is the largest company in the Central European region (with a market cap of approximately USD 22 billion).

Risk Factors

The risk factors related to the ČEZ's business activities may be categorized as follows:

1. Risk Factors Relating to the Issuer, which include, in particular, the following risks:

The majority shareholder makes decisions that reflect Czech government policy. Liberalization of the electricity market in the Czech Republic could adversely affect ČEZ's Business. Separation of electricity distribution from electricity generation required by Czech law as of 1 January 2007 will limit ČEZ's ability to exercise full control over ČEZ Distribuce, a. s. ČEZ's commercial relationship with the supply companies and the competitive environment for the supply of electricity in the Czech Republic could change. Loss of control by ČEZ over the transmission grid may cause electricity transmission prices to increase. Integration with REAS and newly acquired foreign targets could encounter obstacles and thus negatively influence ČEZ's business. ČEZ's future profitability is dependent upon several factors, some of which are outside of ČEZ's control. The condition of some of the plants, equipment and components of ČEZ's power plants is subject to gradual deterioration over time. Future regulation could have a significant adverse effect on ČEZ's business and its profitability. A failure to comply with, or the incurrence of liabilities under, environmental, health and safety laws and regulations to which ČEZ is subject, or a failure to obtain or maintain required environmental, health and safety regulatory approvals, could adversely affect ČEZ's business or its ability to trade profitably. State support to selected power generation sources could adversely affect the portion of ČEZ's business, which is subject to regulated prices. The costs charged for radioactive waste disposal may increase. The amounts that ČEZ has to keep in a special escrow account for future decommissioning of ČEZ's nuclear power plants may increase and ČEZ may become liable for such increased costs of future decommissioning. ČEZ's insurance does not fully cover its risks and facilities. ČEZ could incur significant losses if it suffered a nuclear accident.

2. Risk Factors Relating to the Shares, which include, in particular, the following risks:

If no trading market develops for the Shares at WSE, investors may experience difficulties in selling the Shares at WSE. If the Czech government decides to reduce its current stake in ČEZ via sale of some of its Shares on capital markets, the Share price may be depressed. The Shares may be subject to market price volatility and the market price of the Shares may decline disproportionately in response to adverse developments that are unrelated to ČEZ's operating performance.

3. Risk Factors Relating to the Czech Republic, which include, in particular, the following risks:

Political instability in the Czech Republic could negatively impact economic conditions in the Czech Republic and ČEZ's business. If the Czech economy performs poorly, ČEZ's Business will be impacted negatively.

There is an existing foreign exchange rates exposure. ČEZ could incur unforeseen tax penalties and/or sanctions.

4. Risk Factors Relating to Other Countries of ČEZ Business Presence, which include, in particular, the following risks:

Political instability in other countries of ČEZ's business presence could negatively impact economic conditions in these countries and ČEZ's business. There are risks associated with international operations. ČEZ may not succeed in its strategy of expanding its business into new markets.

Please see the Section called "*Risk Factors*" for a full description of the individual risks.

ČEZ's Financial Performance in the Past Three Years

ČEZ has experienced a strong financial performance in the past three years. Revenues grew by a CAGR of nearly 13% from 2003 to 2005. The net income of ČEZ was over CZK 22 billion in 2005. For other key financial information, please see the table below.

This table includes audited consolidated financial information of ČEZ for 2005, the audited consolidated financial information of ČEZ for 2004 and the non-audited consolidated financial information of ČEZ for 2003. The financial results of ČEZ for 2004 have been restated and audited as a result of the its acquisition of a majority share in Severočeské doly a.s. in 2005. The financial results of ČEZ for 2003 included below have been restated and added by ČEZ to the audited statements of 2005 and 2004, in order to enable a more thorough historical comparison of the data. The 2003 numbers are not audited. Their sole purpose is to enable the comparison with the more recent years, and thus should not be considered to form a part of the audited statements.

Figure 3: Selected Financial Information of ČEZ

CZK million	H1 2005 / H1 2006	2005	2004	2003
Income Statement Data:				
Total revenues	61,715 / 77,183	125,083	102,670	87,264
Net income	11,683 / 16,433	22,282	14,268	10,213
Cash-Flow Data:				
Net cash provided by/(used in):				
Operating activities	18,687 / 25,568	43,895	36,641	38,329
Investing activities	(5,053) / (23,283)	(23,970)	(30,500)	(33,091)
Financing activities	(3,435) / 6,197	(11,919)	(1,935)	(5,397)
Balance Sheet Data:				
Total assets	315,472 / 357,129	324,209	299,250	296,638
Total equity	184,303 / 195,767	191,289	178,447	171,075

Source: ČEZ.

The Shareholders' Structure

The only shareholder of ČEZ with a share exceeding 5% of the registered capital is the Czech Republic – Ministry of Finance (since 1 January 2006, when the stake was transferred by the virtue of law from the National Property Fund), with a stake of 67.61%. Other entities (including administrators) account for a 27.74% stake. Natural persons account for a 4.65% stake.

ČEZ's Board of Directors

The statutory and managerial body of ČEZ is the Board of Directors, which is composed of five members. The CEO and the Chairman of the Board of Directors is Martin Roman. The remaining four directors are Zdeněk Pasák, Jiří Borovec, Tomáš Pleskač, and Daniel Beneš.

Figure 4: ČEZ's Board of Directors

Name	Position	Held Since	Born
Martin Roman	Chairman of the Board of Directors	2004	1969
Zdenek Pasák	Member of the Board of Directors	2006	1966
Jiří Borovec	Vice-Chairman of the Board of Directors	2006*	1964
Tomáš Pleskač	Member of the Board of Directors	2006	1966
Daniel Beneš	Member of the Board of Directors	2005	1970

Source: ČEZ.

** Member since 2004*

2. RISK FACTORS

Prospective investors in Shares should carefully consider the risks described below and other information contained in this Prospectus for acquiring Shares. The risks and uncertainties described below are not intended to be exhaustive and additional risks and uncertainties not presently known to the Issuer, or which the Issuer currently deem immaterial, may also have a material adverse effect on the Issuer's business, financial position and results and could therefore have a negative effect on the trading price or the value of the Shares.

Risk Factors Relating to the Issuer

The Majority Shareholder Makes Decisions that Reflect Czech Government Policy

The Ministry of Finance (the "**MF**"), which is a central governmental body of the Czech Republic, holds and administers approximately two-thirds of all shares in ČEZ. Consequently, certain of ČEZ's decisions reflect Czech Republic government policy. ČEZ can give no assurance that these decisions will not adversely affect its business, prospects, financial condition or results of operations.

Liberalization of the Electricity Market in the Czech Republic Could Adversely Affect ČEZ's Business

ČEZ competes on the retail electricity market and the wholesale electricity market. With respect to the retail market in the Czech Republic, "eligible final customers" choose their electricity supplier and freely negotiate prices. Since January 1, 2005, all final customers except for households have been among the "eligible final customers". Households became "eligible final customers" as of January 1, 2006, when the Czech retail electricity market became fully liberalized. In the final stage of market liberalization, all suppliers have the right to offer their electricity and all customers have the right to choose their electricity supplier at their own discretion. ČEZ has direct access to 62% of final customers of the Czech retail electricity market. On the other hand, the remaining 38% of the Czech retail electricity market (mostly households) is served by supply companies outside the ČEZ Group, which are free to choose on the wholesale market suppliers to cover the demand of their customers. As a consequence of the liberalization, the REAS and final customers may purchase some electricity from other retailers, producers and/or producers outside of the Czech Republic, which might reduce ČEZ revenues. ČEZ responds to these price and other pressures by adjustments of its trading policies. However, ČEZ can provide no assurance that decisions of the independent supply companies or final customers will not adversely affect its business, prospects, financial condition or results of operations.

Separation of Electricity Distribution from Electricity Generation ("Unbundling") Required by Czech Law as of 1 January 2007 Will Limit ČEZ's Ability to Exercise Full Control over ČEZ Distribuce, a. s.

Under the Czech law, by January 1, 2007, distribution of electricity must be separated and independent from generation of electricity. The process of separation is called "unbundling". To ensure the required independence, management responsible for electricity distribution business must be different from management responsible for electricity generation and supply business, appropriate measures must be taken to prevent professional conflicts of interest between persons responsible for electricity distribution and generation and supply businesses, and control over electricity distribution companies exercised by shareholders is restricted. After having complied with these requirements, ČEZ could encounter difficulties and obstacles in respect of controlling ČEZ Distribuce, a. s., despite being its majority shareholder. Consequently, ČEZ's business, prospects, financial condition or results of operations may be adversely influenced by the above legal limitations of its control over ČEZ Distribuce, a. s.

ČEZ's Commercial Relationship with the Supply Companies and the Competitive Environment for the Supply of Electricity in the Czech Republic Could Change

ČEZ sells a significant portion of its electricity to three supply companies (previously eight REAS), one of which is controlled by ČEZ. The contracts between ČEZ and the supply companies are signed on an annual basis. ČEZ can provide no assurance that the two supply companies, over which it has no control, will continue to purchase electricity from ČEZ in the same quantities as they did in the past and/or for the same or better prices, or that the competitive environment in the area of supply of electricity in the Czech Republic will not change.

As a result of ČEZ's Loss of Control over the Transmission Grid, Electricity Transmission Prices May Increase

Until 1 April 2003, ČEZ controlled the electricity transmission grid in the Czech Republic through its wholly-owned subsidiary, ČEPS, a.s. ("ČEPS"). As a part of the liberalization of the energy market in the Czech Republic, ČEZ had to sell its majority stake in ČEPS and thereby lost control over the transmission grid. In September 2004 ČEZ sold the remaining minority stake in ČEPS As a result of the lost control over ČEPS, the regulated prices for electricity transmission could increase. If these transmission prices increase and such increase is followed by increases of end prices for electricity, ČEZ can give no assurance that the possible resulting decrease of consumption/ČEZ's increased costs would not adversely affect its business, prospects, financial condition or results of operations. Further, ČEZ can give no assurance that the specific regulatory or other relationship that actually develops with respect to transmission of electricity will not adversely affect its business, prospects, financial condition or results of operations.

Integration with REAS and Newly Acquired Foreign Targets Could Encounter Obstacles, Negatively Influencing ČEZ's Business

On 1 April 2003, ČEZ acquired from the Czech Republic its shares in eight REAS. Accordingly, ČEZ held majority shares in five REAS and minority shares in three REAS. ČEZ was required to dispose of all three minority shares, which it did. On January 18, 2005, ČEZ acquired from the Bulgarian government majority shares in three distribution companies in Western Bulgaria. In September 2005, ČEZ acquired majority stake in the Romanian distribution company Electrica Oltenia S.A. In May 2006, ČEZ settled acquisition of a 75% stake in power plant Elektrownia Skawina and a 89% stake in power plant Elektrocieplownia Elcho. In May 2006, ČEZ signed a Share Purchase Agreement based on which it has acquired a 100% stake in Bulgarian power generator TPP Varna EAD in October 2006. ČEZ is in the process of full integration of the five REAS and the acquired foreign distributors and power generators into the ČEZ Group. While ČEZ believes that it will be successful in its efforts, it can give no assurance that the integration will continue smoothly and as expected. Consequently, ČEZ can provide no assurance that its business, prospects, financial condition or results of operations will not be adversely influenced by these factors.

ČEZ's Future Profitability is Dependent upon Several Factors, Some of Which Are Outside of ČEZ Control

Costs structure and variable electricity prices. The operation of ČEZ power plants, in particular ČEZ nuclear power plants, is characterized by high fixed costs. Additionally, some of these costs are not carried by ČEZ's non-nuclear competitors because they are unique to the nuclear power generation industry. ČEZ's ability to generate sufficient turnover and a sufficient margin to cover its fixed costs is dependent, in part, on favorable electricity prices and ČEZ's sales and trading strategy. Electricity prices depend on a number of market and other factors. Since ČEZ's nuclear-related costs (and to certain extent other costs as well) are primarily fixed in nature, they cannot be reduced in periods of low electricity prices. Therefore, under these circumstances, it is possible that ČEZ may not produce sufficient revenues from electricity sales and/or trading to cover its fixed generation costs.

CO_2 emissions credits. In 2005 EU introduced the European Trading System for CO_2 emission credits (ETS). Within ETS, each emitter is allocated certain cap by the EU Commission, or by the national government respectively, within which it is allowed to emit CO_2. Any emissions in excess of this cap must be counterbalanced by CO_2 credits acquired in the open market at a market price; allocated credits not off-set by actual emission may be sold in the open market at a market price. The allocations are fixed for a specific trading period and only the allocations for the first trading period (2005 – 2007) are known to date. The allocations for the second period (2008-2012) are not known yet, and for the periods after 2012, various changes to the system are discussed and planned. Allocations of CO_2 credits in the coming trading periods and/or development of prices of CO_2 credits may result in an increase of the generation variable costs, thus making electricity price offered by ČEZ uncompetitive. In addition thereto, excess CO_2 credits may be sold at lower than anticipated prices.

Unplanned outages. Unplanned outages of ČEZ power plants, in particular nuclear reactors, result in lost generation and, due to ČEZ's contractual obligations to deliver electricity at pre-established prices and quantities, ČEZ may be required to purchase replacement electricity volume in the open market at a potentially unfavorable prices. Given the complexity of operating nuclear power plants, ČEZ does not believe that it will be able to completely eliminate the risk of unplanned outages and, as a result, it cannot predict the timing or impact of these outages with any certainty. Therefore, there is no assurance that ČEZ will be profitable or generate sufficient cash to fund its operations or to meet its financial obligations as they become due.

Availability of cross border transmission capacities. Approximately 20% of ČEZ´s generation is linked to exports. Exports are carried out through cross border transmission links whose availability is dependent on the discretionary decisions of their owners (the Transmission Grid Operators). ČEZ can provide no guarantee that the cross border transmission capacities will be available in quantity and at prices suitable for its trading policies. Should their availability be restricted, ČEZ´s business conditions and/or financial situation may be adversely influenced.

The Condition of Some of the Equipment and Components of ČEZ Power Plants is Subject to Gradual Deterioration over Time

The impact of plant operations and natural processes, such as erosion and corrosion, on the condition of some of the equipment and components of ČEZ power plants tends to increase as such plant, equipment and components grow older. While ČEZ attempts to implement inspection and maintenance practices, including repairs or replacements of such equipment and components before they fail, there is no guarantee that ČEZ will be successful in its efforts and consequently can provide no assurance that its business, prospects, financial conditions or results of operations will not be adversely influenced by these factors.

Future Regulation Could Have a Significant Adverse Effect on ČEZ's Business and Its Profitability

As an owner and operator of nuclear and coal-fired power plants and owner of an electricity distribution business, ČEZ is subject to extensive governmental regulations, including, among other, nuclear safety, electricity market and environmental regulations in the Czech Republic, the European Union and other countries. Future regulation by the Czech government or the European Union may require significant changes in ČEZ's business or otherwise affect its business in ways that ČEZ cannot predict. Any new regulations that cause ČEZ to restructure or otherwise change its business may have a material adverse effect on its business prospects, results of operations and financial condition.

A Failure to Comply with, or the Incurrence of Liabilities under, Environmental, Health and Safety Laws and Regulations to which ČEZ Is Subject, or a Failure to Obtain or Maintain Required Environmental, Health and Safety Regulatory Approvals, Could Adversely Affect ČEZ's Business or Its Ability to Trade Profitably

ČEZ is subject to various environmental, health and safety laws and regulations governing, among other: (i) the generation, storage, handling, release, use, disposal and transportation of hazardous and radioactive materials; (ii) the emission and discharge of hazardous materials into the ground, air or water; and (iii) decommissioning and decontamination of ČEZ's facilities and the health and safety of the public and ČEZ's employees. These laws and regulations are enforced and the compliance with them is supervised by regulatory authorities in the Czech Republic. ČEZ is also required to obtain environmental and safety permits from various governmental authorities for its operations. Certain permits require periodic renewal or review of their conditions and ČEZ cannot predict whether it will be able to renew such permits or whether material changes in permit conditions will be imposed. Therefore, ČEZ may not have been, or may not at all times in the future be, in complete compliance with such laws, regulations and permits. Violations of these laws, regulations or permits could result in plant shutdowns, fines and/or commencement of litigation against ČEZ or other sanctions. Other liabilities under environmental laws, including clean-up of radioactive or hazardous substances, can be costly to discharge. Environmental liabilities or failure to comply with environmental laws could also lead to negative publicity and significant damage to ČEZ's reputation. Environmental, health and safety laws are complex, change frequently and have generally become more stringent over time. Whilst ČEZ has budgeted for future capital and operating expenditures to comply with current environmental and health and safety laws, it is possible that any of these laws will change or become more stringent in the future. Therefore, ČEZ's costs of complying with current and future environmental, health and safety regulations, and ČEZ's liabilities arising from the past or future releases of, or exposure to, radioactive or hazardous substances, could adversely affect its business or its operating or financial performance.

State Support to Selected Power Generation Sources Could Adversely Affect the Portion of ČEZ's Business Subject to Regulated Prices

The New Energy Act requires distribution companies to purchase certain amounts of electricity from environmentally friendly "co-generation", "small hydro", "decentralized" or "renewable" facilities and to pay subsidies to such generators. This approach leads to a significantly higher state support for small generation sources or those that are connected directly to the distribution grids. ČEZ, however, operates large plants and transmits a major portion of its electricity to the transmission grid and thus cannot take full advantage of the state support for otherwise comparable power generation sources. While ČEZ believes that these purchases by the supply/distribution companies will remain an insignificant portion of overall electricity purchases by supply/distribution companies, it can provide no assurance that this will in fact be the case and that its electricity sales to supply companies will not decrease and adversely affect its business, prospects, financial condition or results of operations.

The Costs Charged for Radioactive Waste Disposal May Increase

Under Czech law, ČEZ is required to contribute funds to a "Nuclear Account" administrated by the Ministry of Finance based on the amount of electricity ČEZ produces in its nuclear power plants. This fund is used by the Radioactive Waste Repository Authority (the "**Repository Authority**") to centrally organize, supervise and undertake responsibility for all final disposal facilities and deposition of nuclear waste therein.

ČEZ can give no assurance that the contributions which the Nuclear Act requires ČEZ to pay into the Nuclear Account will not be increased. Additionally, if the cash amounts accrued in the Nuclear Account are not sufficient to pay the final disposal costs, ČEZ may be required to pay additional amounts.

The Amounts ČEZ Has to Keep in a Special Escrow Account for Future Decommissioning of Its Nuclear Power Plants May Increase; ČEZ May Become Liable for Increased Costs of Future Decommissioning

Under Czech law, ČEZ is required to keep funds in a special escrow account based on the expected costs of future decommissioning of its nuclear power plants. These funds can be used only for such decommissioning and only with the permission of the Repository Authority.

ČEZ can give no assurance that its contributions to the special escrow account will not increase as a result of increased expected costs of decommissioning or other factors determining the amount of its annual contributions. Additionally, if the cash amounts accrued in the special escrow account are not sufficient to pay the decommissioning costs, ČEZ may be required to pay additional amounts.

ČEZ Insurance Does Not Fully Cover Its Risks and Facilities

ČEZ has limited insurance (e.g., property and machinery insurance) for certain of its significant assets, including the *Dukovany* and *Temelín* nuclear power plants. ČEZ can give no assurance that its business will not be adversely affected by the costs of accidents or other unexpected occurrences at such facilities.

ČEZ Could Incur Significant Losses If It Suffered a Nuclear Accident

In accordance with the Vienna Convention, the Nuclear Act provides that the operator of a nuclear facility is liable for any damage caused by a nuclear accident up to CZK 6 billion per accident. The Nuclear Act also provides that operators of nuclear facilities, such as ČEZ, are obliged to acquire insurance covering potential liabilities for nuclear damages in an amount of not less than CZK 1.5 billion. ČEZ has concluded insurance policies for both *Dukovany* and *Temelín* nuclear power plants, which provide coverage at these amounts. However, notwithstanding such limitation of liability and ČEZ's additional coverage, any nuclear accident at a nuclear power plant could have a material adverse effect on its business, prospects, financial condition or results of operations due to, *inter alia*, potential shut-down of the nuclear facility involved in the accident and the resulting loss of generation capacity, remedial and replacement expenses and negative public response. In addition, as the Nuclear Act has not been tested in court, ČEZ can give no assurance that judicial interpretations will be consistent with its stated limitation of liabilities.

Risk Factors Relating to the Shares

If No Trading Market Develops for the Shares at the WSE , Investors May Experience Difficulties in Selling the Shares at the WSE

Prior to the listing, there has been no trading market for the Shares in Poland. After the listing, there will be no public market for the Shares outside of the Czech Republic other than Poland. To the extent of the Issuer's knowledge, the Shares were also introduced by third parties ("unsponsored listing") to trading in Germany, namely on XETRA and Frankfurt, Berlin, Munich and Stuttgart Stock Exchanges. There is no assurance that any active trading market for the Shares will develop or be sustained after the listing, or that the actual price on the Prague Stock Exchange will correspond to the price at which the Shares will trade in other public markets, including the WSE, subsequent to the listing.

Shareholders of CEZ (with Ministry of Finance as the major shareholder holding a 67.61% stake) can decide to delist the Company from WSE. The shares can also be delisted by decision made by the WSE's Management Board in certain cases provided by the WSE Rules.

In case that CEZ is delisted from WSE (either at the will of shareholders or compelled by WSE), the CEZ's liquidity and access to Polish funds would suffer, which may have an effect of material decrease of shares price. It cannot be excluded that this situation may take place in the future. However, in accordance with CEZ's beliefs, in case that shares of CEZ will be listed simultaneously on WSE and PSE, the risk of material decrease of shares price regarding decreasing of free float of shares on Polish territory is very little.

If the Government Decides to Reduce its Current Stake in ČEZ via Sale of Some of Its Shares on Capital Markets, the Shares Price May be Depressed

Various representatives of the Czech government, as well as of some political parties, repeatedly mentioned that they could see a reduction in the government´s stake in ČEZ from its current levels via a sale on the capital markets. While ČEZ believes that such sale is not on the government agenda in the near future, such a decision is entirely at the discretion of the state, as a shareholder. Should such a sale occur, it could adversely affect the market price of Shares.

The Shares May Be Subject To Market Price Volatility And The Market Price Of The Shares May Decline Disproportionately In Response To Adverse Developments That Are Unrelated To ČEZ's Operating Performance.

Market prices for the securities of power industry companies may become volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors including concerns as to regulation issues, fluctuations in the company's operating results, and general market conditions can have an adverse effect on the market price of the Shares. The market prices of the Shares are likely to be particularly volatile also due to the absence of comparable listed companies on the Czech and Polish markets. There is no guarantee that the Shares, even though expected to be quoted on the Main Market of the WSE, will be actively traded, and if they are not, this may increase their price volatility.

The settlement scheme to accommodate the transfers of shares between the Prague and Warsaw Stock Exchanges may be discontinued.

Although the KDPW, Clearstream, and Czech Securities Center have agreed, or are expected to agree, to establish the settlement procedures in order to facilitate the transfers of the Shares among participants of KDPW and Czech Securities Center, they are under no obligation to perform or to continue to perform such procedures and such procedures may be discontinued at any time. The Issuer, KDPW, Czech Securities Center, WOOD & Company Financial Services a.s. and any of their agents or affiliates will have no responsibility for the performance of such procedures.

Risk Factors Relating to the Czech Republic

Political Instability in the Czech Republic Could Negatively Impact Economic Conditions in the Czech Republic and ČEZ's Business

The last general elections for the Chamber of Deputies took place in June 2006. Based on the results of the elections the new government has recently been formed and currently there is no certainty as to its future and the policies it will pursue.

ČEZ can give no assurance that changes to the current government policies will not occur. ČEZ can give no assurance that the new government formed will continue the economic, fiscal, and regulatory policies of former governments. Nor can there be any assurance that any changes in such policies will not have a material adverse effect on ČEZ's business, prospects, financial condition or result of operations. Moreover, any change in the government may affect the structure/occupation of the Ministry of Finance, and/or the structure of the Supervisory Board and the Board of Directors.

If the Czech Economy Performs Poorly, ČEZ's Business Will Be Impacted Negatively

ČEZ's revenues are sensitive to the performance of the Czech economy. Majority of its assets and operations are located in the Czech Republic and ČEZ derives the substantial majority of its electricity revenues from domestic sales. Changes in economic, regulatory, administrative or other policies of the Czech government, as well as political or economic developments in the Czech Republic over which ČEZ has no control, could have a significant effect on the Czech economy, which in turn could have a significant effect on its business, prospects, financial conditions or results of operations or our ability to proceed with its business plan.

Furthermore, the Czech Republic has undergone dramatic reform in its economy since 1989. Public discussion continues as to the need for restructuring certain sectors of the economy. Although the reforms already undertaken have significantly improved economic performance, ČEZ can give no assurance that they will continue or that the level of economic performance attained over the last few years will be sustained. In addition, ČEZ can give no assurance that such restructuring will not result in a decrease in the sales or production of certain significant power consumers, which could lead to a decrease in electricity demand.

The Czech Republic has experienced growing public finance deficits which could potentially destabilize the Czech crown against foreign currencies, increase inflation and increase the borrowing costs of the Czech Republic through lower debt ratings, and thus for ČEZ as well. While political parties in the Czech Republic acknowledge this problem, they have not reached political accord on a solution. Though the Czech crown is currently strong and the inflation low, ČEZ can give no assurance that this will be the case in the future years.

Foreign Exchange Rates Exposure

A significant part of ČEZ´s revenues is generated in currencies other than CZK, namely in BGN, RON, PLN and EUR; relevant costs are generated in BGN, RON, PLN and CZK. A significant part of ČEZ´s debt is denominated in other currencies than CZK, namely EUR and USD. ČEZ´s major EUR and USD debt is covered by financial or natural FX hedge. ČEZ´s operating profit is hedged against FX risk partially, thus any CZK appreciation may result in loss expressed in CZK.

ČEZ Could Incur Unforeseen Tax Penalties and/or Sanctions

Changing interpretations of tax regulations by the tax authorities, extended time periods relating to overdue liabilities and the possible imposition of high penalties and other sanctions result in the tax risk for a Czech company being significantly higher than in countries with more mature tax systems.

Risk Factors Relating to Other Countries of ČEZ Business Presence

Political Instability in Other Countries of ČEZ Business Presence Could Negatively Impact Economic Conditions in these Countries and ČEZ's Business

Part of ČEZ's assets and operations are now located in countries other than the Czech Republic (Poland, Bulgaria, Romania) and ČEZ considers expansion in additional countries/regions. Changes in economic, regulatory, administrative or other policies of these countries, as well as political or economic developments over which ČEZ has no control, could have a significant effect on the particular economy, which in turn could have a significant effect on ČEZ's business, prospects, financial conditions or results of operations or ČEZ's ability to proceed with its business plan.

There are Risks Associated with International Operations

On January 18, 2005, ČEZ acquired from the Bulgarian government majority shares in three distribution companies in Western Bulgaria. In September 2005, ČEZ acquired majority stake in the Romanian distribution company Electrica Oltenia S.A. In May 2006 ČEZ acquired the majority stakes in two Polish power generators Skawina and Elcho. In May, 2006 ČEZ executed agreements based on which it has acquired a 100% stake in a Bulgarian power generator Varna in October 2006. ČEZ is in the process of bidding for acquisition of several other electricity generation and distribution companies outside of the Czech Republic. ČEZ will continue to evaluate opportunities abroad and may expand its investments into new markets. There are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, trade barriers including import and export controls, tariffs, customs, duties, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, expropriation, nationalization, war and other political risks, fluctuations in currency exchange rates, foreign exchange controls which restrict or prohibit repatriation of funds, technology export and import restrictions or prohibitions and potentially adverse tax consequences, any of which could adversely impact the success of ČEZ's international operations.

ČEZ May Not Succeed In Its Strategy of Expanding its Business into New Markets

ČEZ plans to expand its business into a number of markets and it may incur substantial costs in expanding into these markets. However, ČEZ may not be able to successfully identify, consummate and integrate future acquisitions. If ČEZ's expansion is unsuccessful, it may incur losses in these markets and the costs of expansion will lower its overall profits.

3. STATEMENT OF THE ISSUER

The Issuer accepts responsibility for the information contained in this Prospectus and represents that, to the best of the knowledge and belief of the Issuer, having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Notwithstanding the foregoing, any information and prospects related to future events or future development of the economic status of the Issuer or that of other companies within the Issuer's group of companies indicated in this Prospectus are conditional upon development trends in the political, economic and legislative spheres. Such information and prospects should not be deemed a commitment or statement of the Issuer in respect of future events or results. Prospective buyers of the Shares should therefore perform their own analyses of development trends or prospects contained in this Prospectus and base their investment decisions on the results of such analyses.

Where information has been sourced from a third party, the Issuer confirms that this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In Prague, as of the date of this Prospectus

ČEZ

Name: Tomáš Pleskač	Name: Zdeněk Pasák
Title: CDO	Title: HR Director

4. SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The selected historical financial information set forth below has been derived from and should be read in conjunction with the Issuer's historical consolidated balance sheets and statements of income and cash flows as at and for the years ended 31 December 2003, 2004, and 2005, and the related notes thereto.

This section includes selected audited consolidated financial information of ČEZ for 2005, selected audited consolidated financial information of ČEZ for 2004 and selected non-audited consolidated financial information of ČEZ for 2003.

The financial results of ČEZ for 2004 have been restated and audited as a result of the its acquisition of a majority share in Severočeské doly a.s. in 2005.

The financial results of ČEZ for 2003 included below have been restated and added by ČEZ to the audited statements of 2005 and 2004, in order to enable a more thorough historical comparison of the data. The 2003 numbers are not audited. Their sole purpose is to enable the comparison with the more recent years, and thus should not be considered to form a part of the audited statements.

The complete non-restated audited financial information for 2003 and 2004, including the auditors' report, is incorporated herein by reference and made available at the ČEZ's registered address and at the PSE as part of the respective annual reports.

The Issuer's audited consolidated financial statements for the years ended 31 December 2003, 2004 and 2005 have been audited by Ernst & Young Audit & Advisory.

Figure 5: ČEZ's Consolidated Financial Statements

CZK million	H1 2005 / H1 2006	2005	2004	2003
Income Statement Data:				
Total revenues	61,715 / 77,183	125,083	102,670	87,264
Fuel expense	4,532 / 5,240	9,010	9,305	9,165
Purchased power and related services	18,218 / 24,499	37,474	26,519	21,109
Salaries and wages	5,684 / 6,581	13,426	11,368	9,688
Income before other expenses (income) and income taxes	17,560 / 23,206	29,403	19,785	15,048
Interest income	(181) / (290)	(437)	(721)	(712)
Income taxes	3,401 / 5,105	5,024	4,233	2,040
Net income	11,683 / 16,433	22,282	14,268	10,213
Net income attributable to:				
Equity holders of the parent	11,128 / 15,787	21,438	13,213	9,594
Minority interests	555 / 646	844	1,055	619
Other Data:				
Net cash provided by/(used in):				
Operating activities	18,687 / 25,568	43,895	36,641	37,276
Investing activities	(5,053) / (23,283)	(23,970)	(30,500)	(30,930)
Financing activities	(3,435) / 6,197	(11,919)	(1,935)	(5,148)
Net effect on currency translation in cash	63 / (139)	(157)	(287)	(59)
Expenditure on property, plant and equipment	(7,338) / (9,425)	(15,671)	(16,925)	(23,942)
Balance Sheet Data:				
Cash and cash equivalents	16,791 / 25,134	16,791	8,942	5,023
Total assets	315,472 / 357,129	324,209	299,250	296,638
Total non-current liabilities	82,848 / 87,251	81,429	82,449	73,298
Total current liabilities	28,192 / 49,625	32,936	22,751	37,037
Total equity	184,303 / 195,767	191,289	178,447	171,075
Minority interests	8,600 / 12,582	14,616	6,350	9,078

Source: ČEZ.

5. REASONS FOR THE ADMISSION

The ČEZ Group is a key player in the Central and Southern European electricity markets, with operating assets in the Czech Republic, Poland, Romania, and Bulgaria. ČEZ is the largest company in both the Czech Republic and the CEE region (based on market capitalization). Its Shares are listed on the Prague Stock Exchange and, to the extent of the ČEZ's knowledge, the Shares were also introduced by third parties ("unsponsored listing") to trading in Germany, namely on XETRA and Frankfurt, Berlin, Munich and Stuttgart Stock Exchanges. ČEZ currently seeks admission of its Shares to trading on the WSE. This dual listing expresses its focus and commitment to the Central European market.

ČEZ is seeking the listing on the WSE for several reasons:

- Poland is a strategic market for ČEZ's expansion plans into the Southern and Central Europe. In May 2006 ČEZ acquired two Polish electricity companies, Elcho and Skawina and does not rule out further investment activities. Listing at a local exchange is clear evidence of ČEZ´s commitment to Polish market.
- ČEZ wishes to take advantage of the developed Polish capital market. ČEZ's listing on the Warsaw exchange will enable Polish pension funds to purchase its Shares (the funds are considerably regulated and limited in investment decisions outside of Poland). Thus, ČEZ will gain access to a very large and affluent group of potential investors.
- Listing at the national exchange will lead to a greater interest in ČEZ's Shares among the local investors and analysts community. In practical terms, ČEZ would become the only listed power utility company in Poland.

Once listed, ČEZ will become one of the largest companies on the WSE (based on the market capitalization).

Application will be made for the Shares to be admitted to listing and trading on the Main Market of the WSE. ČEZ contemplates to apply for the admission by way of an ordinary procedure under the WSE Rules. No new Shares will be issued and no Shares will be offered by ČEZ. Accordingly, no proceeds will be generated.

6. INFORMATION ON THE ISSUER

Introduction

Overview of the Core Business of the ČEZ Group

The core business areas of the ČEZ Group entail the generation of electricity in its facilities and the subsequent distribution and sale of such electricity, including the related provision of power system ancillary services.

In addition to generation and distribution of electricity, the core business of the ČEZ Group also includes the generation, distribution, and sale of heat, mining and processing of raw materials, construction and civil engineering, maintenance and upgrades of power plants and the distribution grid, as well as information technologies, telecommunications, scientific research in selected fields, and other activities.

Figure 6: Split of Revenues by Segments

CZK billion	2003	2004	2005	H1 2005 / H1 2006
Generation and trading	40.76	42.24	47.38	23.53 / 27.65
Distribution and supply	38.37	54.15	72.91	35.91 / 46.31
out of which Bulgaria and Romania	*n. a.*	*n. a.*	*14.44*	*5.99 / 11.67*
Mining	*n. a.*	3.09	2.74	1.25 / 1.71
Other	5.69	3.19	2.06	1.03 / 1.52
Total	84.82	102.67	125.08	61.71 / 77.18

Source: ČEZ. Please note that financial statements for 2003 were not restated to include the mining segment. Further please note that transmission segment revenues (CZK 3.57 billion) were included in section "Other" in 2003 financial statements and that the control in the segment was divested in 2003.

Figure 7: List of Consolidated Companies Allocated into Individual Segments

Segment	Company
Generation and trading	ČEZ, a. s. (ČEZ)
	CEZ Trade Bulgaria EAD
	ČEZ Obnovitelné zdroje, s.r.o.
	Energetika Vítkovice, a.s.
	rpg Energiehandel GmbH
	Coal Energy, a.s.
	Plzeňská energetika a.s.
Distribution and Supply	CEZ Bulgaria EAD
	CEZ Romania S.R.L.
	ČEZ Distribuce, a. s.
	ČEZ Distribuční služby, s.r.o.
	ČEZ Měření, s.r.o.
	ČEZ Prodej, s.r.o.
	ČEZ Zákaznické služby, s.r.o.
	Electrica Oltenia S.A.
	Elektrorazpredelenie Pleven EAD
	Elektrorazpredelenie Sofia Oblast EAD
	Elektrorazpredelenie Stolichno EAD
	Severočeská energetika, a.s.
	Severomoravská energetika, a. s.
	Středočeská energetická a.s.
	Východočeská energetika, a.s.
	Západočeská energetika, a.s.
Mining	Severočeské doly a.s.
	KOTOUČ ŠTRAMBERK, spol. s r.o.
	LOMY MOŘINA spol. s r.o.
Other	CEZ FINANCE B.V.
	ČEZ Logistika, s.r.o.
	ČEZ Správa majetku, s.r.o.

	ČEZData, s.r.o. ČEZnet, a.s. Energetické opravny, a.s. ePRIM, a. s., v likvidaci I & C Energo a.s. MSEM, a.s. SD - 1.strojírenská, a.s. SD - Autodoprava, a.s. SD - Kolejová doprava, a.s. STE – obchodní služby spol. s r.o. ŠKODA PRAHA a.s. Ústav jaderného výzkumu Řež a.s. VČE – montáže, a.s. KNAUF POČERADY, spol. s r.o.

Source: ČEZ.

The ČEZ Group is the largest electricity generator in the Czech Republic in terms of installed electricity generation capacity with a market share of 72.7 % of electricity generated in the Czech Republic and is one of the largest companies in the Czech Republic in terms of operating revenues.

The total installed capacity of ČEZ Group's generation facilities as of 31 December 2005 amounted to 12,298 MW. In 2005, ČEZ Group generated 60,016 GWh of electricity and purchased 25,129 GWh of electricity; 67.4% thereof was sold in the Czech Republic, 9.3% through distribution companies in Bulgaria, 1.1% in Romania, 9.6% was exported and the remaining 12.6% represents own consumption by ČEZ (for pumping, generation of electricity and other consumption by production facilities and grid losses). In 2005, coal-fired plants accounted for 55%, the nuclear power plants for 41% and hydroelectric plants for 4% of the electricity produced. The remaining electricity consumed in the Czech Republic comes from independent power producers ("IPPs"), self generators ("APs") and imports. ČEZ Group operates 55 power plants, including 16 coal-fired plants, 34 hydroelectric plants, two nuclear power plants, two wind converters and one photovoltaic (solar) power plant. Out of the electricity sold by ČEZ in the Czech Republic in 2005, approximately 24.2% were sold to supply companies outside of the ČEZ Group, 13.1% to traders, 46.9% to end customers, and the rest was sold to grid and market operators.

In addition to ČEZ, as the parent company, and other ČEZ Group companies that trade electricity including Germany-based rpg Energiehandel GmbH and Coal Energy, a.s., ČEZ Distribuce, a.s. is a company engaged in electricity distribution, which represents all electricity distribution assets of the ČEZ Group in the Czech Republic. ČEZ Prodej, s.r.o. is a ČEZ Group company which supplies electricity to end customers in the Czech Republic.

The ČEZ Group companies that deal with extracting and processing primary raw materials are LOMY MOŘINA spol. s r.o., KOTOUČ ŠTRAMBERK, spol. s r.o., and Severočeské doly a.s. The first two companies extract and provide limestone to the ČEZ Group in the form of processed limestone or lime, which is then used in the flue-gas desulphurization process at coal-fired power plants. Severočeské doly a.s., mines and processes brown coal and it is the biggest supplier of this strategic raw material to the coal-fired power plants of ČEZ. The company supplies approximately 60% of annual lignite consumption of ČEZ.

In the engineering, power plant services and maintenance area, the ČEZ Group is represented in particular by the companies ŠKODA PRAHA a.s., ČEZ ENERGOSERVIS spol. s r.o., Energetické opravny, a.s., I & C Energo a.s. and SIGMA - ENERGO s.r.o. These companies focus primarily on providing comprehensive services in the area of repair, maintenance, and refurbishment of power-related machinery and equipment. In addition to these activities, ŠKODA PRAHA a.s. also provides engineering and contracting services in the area of power plant construction and upgrades. Within the ČEZ Group are several companies, dealing with construction, engineering, and service activities for distribution-related plant and equipment including VČE - montáže, a.s., MSEM, a.s., Energetická montážní společnost Ústí nad Labem, s.r.o., Energetická montážní společnost Liberec, s.r.o., SEG s.r.o. and several other companies. Information technologies and telecommunications are the core business of ČEZData, s.r.o. and ČEZnet, a. s., respectively.

The ČEZ Group member focused on nuclear research and design of power-related plant and equipment is Ústav jaderného výzkumu Řež a.s. (Řež Nuclear Research Institute). Its activities include, for example, research focused on ensuring a long useful lifetime and high levels of efficiency and safety of VVER reactors operated in the Czech Republic. Further, there are research projects focused on new nuclear power generation facilities as well as research in the areas of safety and defense. The know-how is utilized primarily in projects for the ČEZ Group, as well as for the Nuclear Safety Authority, the Repository Authority, the Ministry of Defense of the Czech Republic, as well as for the Ministry of Education, Youth, and Physical Culture of the Czech Republic and in OECD (Organization for Economic Co-operation and Development) projects. The institute also performs research relating to the production of radiopharmaceuticals for specialized treatment.

Overview of Market and Demand for Electricity in the Czech Republic

Electricity demand is the net consumption of the final consumers in the Czech Republic, excluding transmission losses and self-consumption during generation (including electricity used by pump storage facilities). Compared to 2004, demand for electricity in the Czech Republic increased by 1,277 GWh (2.3%) in 2005, reaching a level of 57,664 GWh. The key factor contributing to the rise is the increased demand of large-scale industrial customers (by 1,250 GWh (2.2%)), while consumption of small corporate customers and households increased only mildly by 167 GWh (0.7%)), and non-generation related consumption by energy sector fell by 141 GWh (8.1%). Increase in consumption by large corporate customers has been also the main cause for overall demand increases in 2003 and 2004.

Figure 8: Development of Electricity Demand in the Czech Republic

GWh	2003	2004	2005
Domestic consumption (net)	**54,807**	**56,388**	**57,664**
%change		*2.89%*	*2.26%*
- out of this			
large corporate consumers	30,749	32,184	33,434
%change (compared to the total consumption)		*2.62%*	*2.22%*
small corporate/corporate retail consumers	7,699	7,927	7,899
%change (compared to the total consumption)		*0.42%*	*-0.05%*
households	14,508	14,525	14,720
%change (compared to the total consumption)		*0.03%*	*0.34%*
power industry (incl. pumping)	1,851	1,752	1,611
%change (compared to the total consumption)		*-0.18%*	*-0.25%*

Source: Czech Statistical Office(until 2004); Energy Regulatory Office (for 2005)

Current Market Structure and Market Participants

Licensing Regime

Participants on the electricity market must obtain a license for their activities issued by the Energy Regulatory Office ("Office", "ERO" or "ERU" in Czech). In order to avoid the risk of any discriminatory decisions, the Office is required to issue a license if the applicant meets certain statutory requirements therefor. The licenses are granted for a definite period of time (minimum of 25 years, with the exception of the license for electricity trading – minimum of 5 years). The holders of the licenses are published in a Bulletin issued by the Office. ČEZ holds all required licenses for electricity generation, electricity distribution, electricity trading, heat generation, and heat energy distribution.

In addition to the licensing regime described above, authorization by the Ministry of Industry and Trade is required for the construction of electricity generators with a capacity of 30MW or more and for construction of a direct electricity lines. Such authorization is within the discretion of the Ministry of Industry and Trade (unlike the licensing regime before the Office), and when awarded, the authorization is granted for a period not exceeding 5 years (with a possibility of prolongation).

The current Czech electricity market structure is relatively straightforward. The main participants in the market are:

- electricity generators

- brown coal mines
- electricity distributors
- electricity supply companies
- national transmission grid operator - ČEPS
- electricity traders
- electricity sector regulator within the Energy Regulatory Office (ERU)
- Electricity Market Operator (OTE)
- the Competition Office (UOHS)
- Ministry of Finance and Ministry of Industry and Trade.

Electricity generators generate electricity and include[2]:

- the ČEZ Group, accounting for about 73% of total production in 2005;
- a number of independent generators and industrial self-generators accounting for approx. 27% of total production in 2005; of the IPPs only ten are really important.

Brown coal mines supply brown coal to electricity generators and ČEZ is their dominant customer. There are three brown coal mining companies in the Czech Republic - Severočeské doly a.s., Mostecká uhelná (recently renamed to Czech Coal) and Sokolovská uhelná. Severočeské doly a.s. is a 100% subsidiary of ČEZ. Czech Coal and Sokolovská uhelná were acquired by their management in leveraged MBOs in 2004. In 2006 the shareholders of Czech Coal divested up to 49% stake to a Cyprus based company details of which are unkown. Severočeské doly a.s. sell approximately 80% of its production to ČEZ, Czech Coal approx. 58%, Sokolovská uhelná 23%. ČEZ buys almost 60% of its brown coal from Severočeské doly a.s., another approx. 33% from Czech Coal and the remainder from Sokolovská uhelná[3].

Electricity distributors distribute electricity (which is a regulated business) and there are currently three of them, each within a specific region. ČEZ Distribuce, a. s., owned by ČEZ, comprises an area of five former REAS (Severočeská energetika, a.s., Východočeská energetika, a.s., Severomoravská energetika, a. s., Středočeská energetická a.s., Západočeská energetika, a.s.), and includes approximately 62% of customers. The second electricity distribution company, E.ON, a member of the E.ON group, comprises an area of former two REAS (Jihomoravská energetika, a.s., Jihočeská energetika, a.s.), and includes about 25% of customers. The last electricity distribution company, Pražská Energetika, a.s. is controlled by Pražská energetika Holding. Majority control in the Pražská energetika Holding is exercised by the City of Prague and minority stakes are held by GESO/EnBW/EDF group and RWE; the company provides services to the City of Prague, approximately 13% of customers[4].

Electricity supply companies buy and sell electricity (which is not a regulated business). Currently, there are three large electricity supply companies. Their ownership structure and geographical presence is identical to that of the distribution companies described above, as they emerged from unbundling of the former REAS. Of the electricity supply companies, ČEZ owns ČEZ Prodej, s.r.o.

National transmission grid operator company, ČEPS, has a monopoly in transmission of electricity over very high voltage lines (220 kV and 400 kV) and is responsible for providing system services to the national power supply system, and to ensure its stability and smooth functioning. In order to provide system services, ČEPS purchases ancillary or grid support services from a selected group of generators with such capacity. ČEPS is now under the control of the Ministry of Finance.

Electricity traders are private businesses and are relatively new players on the Czech electricity market. There are about 300 licensed trading companies but only approximately 40 of them are active, with only the top 4-5 having some degree of significance.

Electricity sector regulator within the Energy Regulatory Office performs functions equivalent to those performed by electricity regulators in other countries. Its tasks include :

[2] *The market share data in this paragraph are based on the ERO statistics for 2005*
[3] *The figures in this paragraph are based on the Annual Reports of the respective companies.*
[4] *The figures in this paragraph are based on the Annual Reports of the respective companies.*

- Emphasizing the quality and reliability of energy supplies to consumers;
- Supporting competition, i.e., supporting the development of well-established rules of the electricity and gas markets;
- Promoting the effectiveness of energy utilities' business, which involves analyzing the impacts of regulation, motivating the energy utilities to reduce costs of energy supplies, and making regulated activities more efficient to achieve stable energy prices over the medium term; and
- Price stabilization, i.e., regulation of reasonable profit derived from business, and high-quality, reliable and safe energy supplies to end customers.

Electricity Market Operator (OTE) provides the following services for the electricity market players: (i) processing of information on the supply and demand balance of electricity supplies, (ii) organization of the short-term electricity market, (iii) evaluating deviations, i.e., differences between actual and contracted electricity amounts, and (iv) settlement of the deviations in terms of invoicing and payments, etc.

The Competition Office (UOHS) is responsible for the maintenance of competitive environment throughout the Czech economy, including the electricity sector. It must approve all significant acquisitions and mergers within the electricity sector and related sectors (such as brown coal mining, gas transport and distribution, etc.). For example, the Competition Office recently imposed restrictive conditions on ČEZ when it purchased all government holdings in the distribution sector and ordered partial divestiture of such assets as well as divestiture of all holdings in electricity transmission.

The Ministry of Finance and the Ministry of Industry and Trade are two main players representing the interests of the Czech state, as the majority owner of ČEZ and ČEPS. Because of the lack of technical expertise, the Ministry of Finance has transferred the exercise of shareholder rights to the Czech Ministry of Industry and Trade (MIT). In practical terms, MIT exercises considerable control over both ČEZ and ČEPS and its influence in terms of running these companies significantly exceeds that of MF.

Regulatory Framework, Electricity Sector Liberalization, Impact of the EU Entry

Regulatory Framework

Electricity Generation

The electricity and heat generation sector is subject to regulation by the Energy Regulatory Office. With minor exceptions, ERO concentrates on the regulation of entry into the sector, sets legal and technical conditions for entry, issues operating permits, etc. but does not set prices of electricity or any fees directly pertaining to the production of electricity.

However, there are a few important areas in the production of electricity and heat where ERO makes pricing decisions. These are of significance to the generators that operate co-generation capacity and sell heat and to those which generate electricity from hydropower or other renewable sources.

ERO sets the price at which electricity produced by co-generation be purchased by distribution companies. It is important to note that this does not refer to all electricity produced from co-generation facilities, but rather only to the part which comes truly from co-generation. In other words, when a CHP plant produces co-generated electricity only from one or more of its units or only during some parts of the year, the remaining portion of electricity is not eligible for a guaranteed price.

In case of heat supply, ERO regulates the methodology providing for the calculation of heat prices permissible costs, the extent of their inclusion, and regulates the profit margin of heat suppliers.

ERO also specifically sets minimum purchase prices for electricity from the following sources: (i) small hydropower plants, (ii) wind turbines, (iii) solar sources, and (iv) biomass.

Electricity Transmission

ČEPS provides transmission services and system services, which ensure smooth functioning of the Czech power supply system. The specific rates for these services are set by the ERO on the basis of requests by ČEPS based on its costs of providing transmission and system services and the costs of purchasing ancillary services required to provide system services and the maximum permitted profit (set as regulated rate of return on regulatory assets basis).

Electricity Distribution

ERO approves distribution fees for end customers. Distribution fees are set on the basis of fairly standard formulas that take into account return on distribution assets and provide incentives for distribution companies to cut costs. In this particular area, the regulatory set-up adopted in the Czech Republic is very similar to that observed in most market economies in the Western Europe.

Role of the Competition Office in Electricity Generation, Transmission, and Distribution

An additional factor in the electricity sector regulation is the Competition Office (UOHS). It is important to note that the Competition Office is an entirely independent body and it does not co-operate or co-ordinate its activities with ERO in any way. As noted above, the task of the Competition Office is to protect the competitive environment in any industry or line of business in the Czech Republic and the electricity sector is but one sector it monitors, albeit a rather important one.

The Competition Office must be contacted for approval of any significant merger, acquisition, or consolidation, which would have an impact on the competitive structure of the industry.

Electricity Price Regulation

At present, the end-user price of electricity consists of the following components:

- wholesale (generation) price (plus suppliers margin; collected by suppliers);
- transmission fee (collected by ČEPS);
- system services fee (collected by ČEPS as well);
- distribution fee (collected by distribution companies);
- fee for renewable sources, cogeneration and decentralized generation (collected by distribution companies to subsidize the concerned generators); and
- VAT (collected by the Ministry of Finance).

Turning now to explicit/direct regulation of generation prices**,** the scope for regulation is quite limited. In the area of generation, direct regulation is limited to the following areas:

- setting bonuses for co-generated electricity (co-generation fee), which guarantees preferential price for electricity produced in co-generation fashion by CHP;
- setting bonuses for electricity fed into other than transmission grid; and
- setting prices or bonuses for electricity produced from renewable sources (small hydropower plants, wind turbines, solar sources, and biomass).

All transmission fees are subject to regulation. The fee for use of national transmission network and its structure must be approved by the Energy Regulatory Office on the basis of a request from ČEPS . Note that the full regular transmission fee must be paid only for electricity transported over the national grid (220 kV and 400 kV lines). In the event that an electricity supplier supplies electricity over 110 kV lines owned by distribution companies that are not part of the national grid, only the decentralized (transmission) fee is paid.

The second fee collected by ČEPS is the system service fee, which covers the cost of operating a stable and reliable power supply network, the cost of purchasing of ancillary services by ČEPS and other related/similar expenses. The amount of this fee is also subject to the approval by the Energy Regulatory Office on the basis of a request from ČEPS .

Distribution fees require approval from the Energy Regulatory Office with respect to all eligible customers and are set on the basis of a formula, guaranteeing a given return on distribution assets owned by distributors with incentives to cut costs over time. Distribution companies file requests for approval of their distribution fees with the Energy Regulation Office which may either approve them or require changes and adjustments.

The distribution fee regulatory formula (simplified) in the current regulatory period (covering 2005 – 2009) is:

$$\mathbf{RC = OC*(PPI_{wa} - X) + D*PPI + RAB*WACC}$$

RC - distribution revenue cap
OC - operating costs
PPI - producer price index
PPI_{wa} – weighted average of PPI (65%) and wage inflation index (35%)
X - efficiency factor (2.085)
D - depreciation
RAB - operating assets
WACC - weighted average capital costs (7.95% pre-tax in second regulatory period)

Environmental Issues

Environmental Liability

Environmental liability is based on statutory regulations encompassing (i) administrative, (ii) criminal and (iii) civil law. Administrative and criminal law provide for the means of public control of the environment, whereas civil law is an instrument of private control between private individuals. Case law, which to date is not well developed in this field in the Czech Republic, is not binding and can be used only as a guidance.

Administrative Liability Towards the State

The regulation of administrative liability for environmental offences is split into different acts, each of them regulating a specific area of the environment, e.g. Act No. 254/2001 Coll. (the "Water Act"), Act No. 289/1995 Coll. (the "Forests Act"), Act No. 185/2001 Coll. (the "Waste Act"), Act No. 18/1997 Coll. (the "Atomic Act"), Act No. 86/2002 Coll. (the "Act on Air"), etc.

The above acts set out environmental offences which may be committed by individuals and entities carrying out business activities in connection with the operation of the business. The standard for the offences is strict liability and individual or entity does not need to be the owner of the business to be found liable. The relevant administrative body is entitled to penalize the individual or entity with a fine of up to CZK 100,000,000 depending on the breached Act. Such penalties do not affect the liability for damages under the Civil Code, which may be claimed separately.

In addition to the above, Act No. 17/1992 Coll. (the "Environment Act") introduced into the Czech legal system a new concept of "Environmental Damage" in order to ensure the repair of all such damage. The rationale behind the Environment Act is that Environmental Damage shall be repaired regardless of whether a private claim for damages has been brought against the person responsible for Environmental Damage (the "Polluter"). Thus, an administrative body is authorized to order the Polluter to restore the natural functions of the impaired ecosystem. This liability does not cover future benefits lost due to Environmental Damage. However, due to the insufficient and incomplete nature of this regulation, the practical impact of the Environmental Act is minimal.

Criminal Liability towards the State

The most serious offences against the environment are qualified as crimes and are penalized by fines of up to CZK 5,000,000 or by imprisonment. However, Czech criminal law currently does not acknowledge criminal liability of an entity; therefore, the entity's responsible person can be liable. Criminal liability does not affect general liability for damages under the Civil Code that may be claimed separately.

Civil Liability towards a Third Party

Except for general liability for damages, Act No. 40/1964 Coll. (the "Civil Code") imposes, in certain circumstances, a "quasi strict liability" for damages (the "Quasi Strict Liability") which is relevant in most environmental damage cases. Quasi Strict Liability is applied if the actions of an individual or entity cause damage to another party in the course of its business. Unlike general liability, the claimant does not need to prove fault, which is presumed under Quasi Strict Liability. However, the individual or entity can be exempted from liability if it can prove that the damage was caused by the conduct of the party to which the damage was caused or as a result of an unavoidable event. Compensation under civil law includes compensation for current and future damages, including lost profit. The statute of limitations applicable in cases of general liability applies to Quasi Strict Liability.

The "Polluter Pays" Principle

The "polluter pays" principle applies under administrative, criminal and civil law. The Polluter shall pay administrative fines, be subject to criminal sanctions and compensate for damages occurring to a third person. The law does not distinguish between instances where the Polluter is the owner, operating its own property, and a third person, operating the property on the basis of a lease or any other agreement. It means that Polluters are liable for their own damages. The responsibility of an owner of a business or property cannot be assumed by the lessee and vice versa. A current lessee cannot be held responsible for damages caused by former lessees or the owner.

Environmental Impact Assessment Act 2001

The Environmental Impact Assessment Act (Act No. 100/2001 Coll.) sets forth a duty to conduct in certain cases an environmental impact assessment prior to approval by relevant authorities of a new investment project. The public is allowed to participate actively in the intended investment project. from the very first moment when the investor applies for the EIA analysis. The act distinguishes projects which always fall within the scope of the environmental impact assessment, projects which are always excluded, and projects in which the state authorities decide ad hoc whether the EIA is required. The total length of the EIA procedure, which can exceed one year, is the most criticized feature of the Act.

Act on Air 2002

The Act on Air comprises not only regulation aiming to protect the air, but also to protect the climate system of the Earth, as product of the Kyoto Protocol to the Framework UN Convention on Climate Change. The act is based on the Polluter Pays principle and implements the economic instrument of emission regulation, i.e., emissions charges. These emission allowances affect emissions of, e.g., SO_2, NO_X, CO, solid pollutants (e.g., fly ash) and hydrocarbons. In 2005, the emission charges ČEZ paid amounted to CZK 117.8 million. The emission limits set under the Act on Air are generally in accord with the limits in other EU countries.

The Act on Air further empowers the Ministry of Environment to temporarily restrict emissions from, reduce output of, or shut-down certain pollution sources (such as some of ČEZ's coal-fired power plants) if overall air pollution levels are exceeded, even if a given pollution source does not exceed applicable limits. In addition, the Act on Air empowers the Czech Environmental Inspection Agency to order any pollution source exceeding pollution limits to be shut down. ČEZ is currently in compliance with all requirements under the Act on Air.

Water Act 2001

The Water Act distinguishes the general disposal of the surface and underground water for the personal use and other disposals, which are subject to the permit. The release of pollution in the water is governed by the principles like the best available technology, right agricultural practice etc. The water regulation is based on the user pays and the polluter pays principles. ČEZ is currently in compliance with all requirements under the Water Act. ČEZ adopted changes in its water management that enabled its power plants to comply with the limits for the period after 2005.

Waste Act 2001

The Waste Act fully respects the notions and definitions of the EU directives, but is partly inspired by regulations in certain individual states, such as Germany and Austria. The act regulates all aspects of waste generation, storage, transfer handling and disposal. The operation of equipment for using, disposal, collection or sale of waste can be operated only with a permit. Any person dealing with more than 100 tons of the hazardous waste per year in the last two years must appoint a waste manager who ensures the waste disposal management. Certain types of waste and equipment are subject to notification duty and records must be kept. The act requires the planning of waste disposal at all levels. The import, export and shipments of waste are regulated fully in compliance with the EU regulation. ČEZ is currently in compliance with all requirements under the Waste Act.

Nuclear Waste Final Disposal

Under the Atomic Act, the responsibility for securing the final disposal of nuclear waste, including spent fuel, is the responsibility of the Repository Authority. ČEZ is required to finance the final disposal through contributions into a special fund. See Section "Nuclear Power Generation – Atomic Act" on page 48. The Nuclear Safety Authority supervises nuclear-related activities in general, in particular the safety of nuclear facilities, and its approval is required for the operation of nuclear facilities. ČEZ is currently in compliance with all requirements under the Atomic Act.

Coal Waste Storage

ČEZ has prepared a project aimed at the collection of dry ash and desulphurization of end-products and their conversion into solids. This conversion reduces the negative impact of mines on the water table when such solids are deposited in landfills, open cast mines or disused shafts of existing mines. The new de-ashing technology used in the power plants allows ČEZ to process the ash and desulphurization end-products into a material with properties that will permit its deposition into existing mud pits without any further measures, or to use a portion of such waste as building material. ČEZ paid CZK 22,5 million for the disposal of dry ash and desulphurization by-products in 2005.

IPPC Act (including integrated pollution register) 2002

Act No. 76/2002 Coll., on Integrated Pollution Prevention and control (the "IPPC Act") fully implements IPPC Directive 96/61/EC in to the Czech legal system. It introduces a new approach to limits to industrial pollution according to the related reference documents (BREF – Best Available Technique Reference Documents). The users of certain installations must obtain an integrated permit prior to launch of their operation. The main criterion for granting the permit is their compliance with the best available technology. The act became effective on 1 January 2003, however, transitional provisions on the "existing" installations, which must obtain the integrated permit by October 2007, and the "old-new" installations which had to submit an application for the integrated permit within three months after the Act came into effect. ČEZ is currently in compliance with all requirements under the IPPC Act.

Within the IPPC Act and according to governmental decree no. 368/2003 Coll., ČEZ must report to the Integrated Pollution Register data on emission and transfers of registered substances (according of Annex 1 of the said decree) for the preceding year by 15 February of the next year .

Promotion of Cogeneration and Promotion of Electricity Produced from Renewable Sources

Act No. 180/2005 Coll., on the Promotion of Electricity Produced from Renewable Energy Sources, was adopted and became effective in 2005. The primary purpose of the act was to implement the 2001/77/EC directive and to provide for the promotion of electricity from renewable energy sources. First, operators of transmission grid or distribution systems are obliged, upon the producers' request, to provide priority connection to producers of electricity from renewable sources to their transmission grid or distribution systems. Further, in order to promote electricity from renewable sources, the act provides for two basic manners of support, namely (i) mandatory repurchases of such electricity by operators of regional distribution systems for a fixed price (these are not available for electricity produced from renewable sources in combination with non-renewable sources), or (ii) green bonuses payable by operators of regional distribution systems after the producer sells such electricity in the market. In 2005, the amount of electricity and heat produced by ČEZ that benefited from this promotion was 58,153 MWh in small hydroelectric power plants and 115,337 MWh produced by co-combustion of biomass with coal. ČEZ also operates wind (capacity of 1.165 MW) and photovoltaic installations (capacity of 0.01 MW) on a non-commercial basis.

CO_2 Reduction

Act No. 695/2004 Coll., on Emissions Trading, was adopted and became effective in the beginning of 2005. The primary purpose of the act was to implement the Directive 2003/78/EC, to introduce a new regulatory framework and to set a new scheme of greenhouse gas emissions allowances. In 2005, ČEZ emitted 32.8 million tons of CO_2. ČEZ, despite being a significant carbon dioxide emitter, received the appropriate number of emissions allowances on the basis of the National Allocation Plan for 2005 - 2007 (adopted in 2004) as the

Czech Republic has enough space to allocate allowances for free. However, ČEZ implemented hedging mechanism to ensure that it obtains (by way of purchase on the market) a sufficient number of emissions allowances to cover its CO_2 emissions.

Damages Paid by ČEZ

In 2005, ČEZ paid CZK 3.4 million in compensation for environmental damages out of a total of CZK 21.0 million in damage claims. ČEZ is currently litigating environmental compensation claims in the amount of CZK 167.5 million. The reduction of emissions has been reflected in a reduction of damages for air pollution, but other damages for pollution of the environment together with indemnities claimed by legal entities and individuals managing forests and farmland represent a financial burden for ČEZ. ČEZ has accumulated a reserve for future indemnity of damage caused by emissions amounting to CZK 200 million as of December 2005. ČEZ expects that damages claimed from it by third parties due to air pollution will gradually decrease as a result of the implementation of the program of pollution sources decommissioning and installation of facilities with limited solid and greenhouse emission levels.

Liberalization of the Czech Electricity Market

Beginning 1 January 2002, in accordance with the New Energy Act, the Czech Republic's electricity market began a process of market liberalization. The market for electrical energy is based on regulated third party access to the transmission grid and to the distribution grids. Electricity market players include producers, the transmission grid operator, distribution grid operators, the electricity market operator, electricity traders, and end customers. As from 1 January 2003, the group of customers with annual consumption higher than 9 GWh were given eligible customer status, with the right to access the transmission grid and the distribution grids and with the right to choose their electrical energy supplier (the "Eligible Customers"). On 1 January 2004, the group of the Eligible Customers was enlarged to include all customers with a reserved energy input higher than 250 kW from high-voltage lines which are equipped with permanent consumption measuring (amount of energy or mean value of capacity within the period measured is recorded continuously). From 1 January 2005, the electricity market was open for all customers except for households. The last phase, i.e., the full opening of the market to competition, when all customers (including households) became the Eligible Customers, began on 1 January 2006. In the final stage of market liberalization, all suppliers have the right to offer their electricity and all customers have the right to choose their electricity supplier at their own free discretion.

Figure 9: Historical Overview of the Process of Liberalization

Year	Customer Group - Threshold	Liberalized consumption (%)
2002	> 40 GWh	30%
2003	> 9 GWh	40%
2004	All continuous metering	60%
2005	Small Commercials	75%
2006	Households	100%

Source: ČEZ.

The liberalization of the electricity market in the Czech Republic was combined with the unbundling of transmission and distribution system operators. The transmission and distribution system operators (when part of a vertically integrated undertaking) should be independent at least in terms of their legal form, organization and decision making from other activities not related to transmission (in case of the transmission system operators) or distribution (in case of the distribution system operators).

The new energy regulation in the Czech Republic demands the transfer towards legally unbundled-distribution-system operators no later than at the beginning of 2007. As of the date of this Prospectus, ČEZ has already established the separate new companies ČEZ Distribuce, a. s. and ČEZ Prodej, s.r.o., and transferred all corresponding assets and activities from REAS within the ČEZ Group in order to accommodate the distribution and sale (supply) services to the above demands.

On 1 January 2002, the electricity prices for which ČEZ supplied electricity to REAS were placed in the category of negotiated prices. The electricity prices that remained regulated by the state (through the Energy Regulatory Office) until 2006 were electricity prices for those who, for the time being, were not allowed to choose their electricity supplier (the "Captive Customers"). From 1 January 2006 only charges for transmission and distribution of electricity and charges for system services (charged by grid monopolies) and prices for mandatory purchases of electricity from renewable sources remain regulated.

ČEZ reacted to the liberalization process by introducing a new system of electricity sales. Under the "Duhová energie" brand ("Rainbow Energy" in English), ČEZ offered electricity in the domestic market in the form of standardized products similar to those used for trading in liberalized European markets. The structure of the product offering consists of "building blocks" from which the customer can tailor supplies to meet his/her needs. The aim of this new sales structure is to allow to fully meet the needs of all kinds of customers.

An important part of ČEZ's trading activity is the export of electricity which constituted 12.4% of ČEZ's electricity sales in 2005. In 2005 ČEZ exported electricity to Germany, Slovakia, Austria and Poland. Through diversification in export destinations, ČEZ has been able to mitigate the dependence on the big German market players.

Presentation and Strategy of Major Players

Generation Sector: Breakdown, Key Actors, Their Market Shares and Financial Situation, Future Strategy

Sector Breakdown, Generation Capacity, and Electricity Output

The standard breakdown of the generation sector is:

- ČEZ - the largest electricity generator - accounting for 72.7% of overall Czech electricity generation in 2005;
- independent generators (including CHP plants) - accounting for approximately 17.0% of overall Czech electricity generation in 2005; and
- industrial generators - accounting for the remaining approximately 10.3% of overall Czech electricity generation in 2005.

Figure 10: Description of Generation Volume by Fuel Type in the Czech Republic in 2005

GWh	Czech Republic	ČEZ
total	**82,579**	**60,016**
coal	54,803	33,099
nuclear	24,728	24,728
other	3,048	2,189

Source:ČEZ, ERU

Figure 11: Description of Installed Capacity in the Czech Republic in 2005

MW	Czech Republic	ČEZ
Total	**17,412**	**12,298**
Coal	11,464	6,603
Nuclear	3,760	3,760
Other	2,188	1,935

Source:ČEZ, ERU

Over the next two decades, the following major changes are to be expected in the structure of the generation capacity:

- hydropower generation capacity in the country is largely exhausted, except for small hydropower plants, but these will continue to play only a minor role;
- the potential for the use of renewable energy (solar, wind, sea, biomass) is either rather limited or non-existent, except for the significant potential use of wood waste (note that the Czech Republic is one of the most heavily forested countries in Europe);
- ČEZ has announced its intentions to refurbish or replace most of its coal generation capacities; with this exception no new major projects in coal generation are expected; and
- ČEZ has also announced that it is considering construction of two additional units of nuclear power plant in the site of Temelín, however, the idea is still only in pre-feasibility study phase.

List of Projects Announced by ČEZ within its Generation Portfolio Renewal Program

Figure 12: Refurbishments

Power plant	Fuel	Capacity	New gross efficiency
Tušimice II	lignite	4 x 200 MW	41%
Prunéřov	lignite	4 x 200 MW	41%
Počerady	lignite	3 x 200 MW	41%

Source: ČEZ.

Figure 13: New Constructions

Power plant	Fuel	Capacity	New gross efficiency
Počerady	lignite	1 x 660 MW	45%
Ledvice	lignite	1 x 660 MW	45%

Source: ČEZ.

Since some of the independent generators have common owners; the logical way of introducing independent generators is by ownership rather than focusing on individual power plants. The most important independent generators in 2005 were as follows:

International Power Group. This UK-based group owns Elektrárna Opatovice and effectively controls Energotrans and Pražská teplárenská (Prague District Heating). International Power is well entrenched in the Czech Republic. The total combined installed generation capacity controlled by the group is approx. 850 MW and the only fuel used is soft coal; in case of the Pražská teplárenská, most of the heat is brought by a hot water pipeline from Energotrans in Mělník. Total electricity sales of the group in 2005 was approx. 3.5 TWh and it accounted for 4.5% [5] share in overall Czech electricity production.

Sokolovská Uhelná. The company was bought-out by management in June 2003. The company is involved in brown coal mining, production of briquettes, gasification of coal (it produces coal gas), and production of electricity and heat. The company operates a relatively new 400 MW combined cycle generation facility fired by coal gas and older 220 MW traditional CHP plant, which together produced around 3.4 TWh of electricity and gave the company a 4.0% share in overall Czech electricity production in 2005[6].

Dalkia Group. This French group owns a number of CHP plants in the Czech Republic, including the former MST and Teplárny Karviná as well as Teplárna Ústí nad Labem and PPC Trmice in Northern Bohemia (all four merged last year and are now referred to as Dalkia ČR). The combined installed generation capacity controlled by the group is 530 MW and it uses different fuels at different locations (hard coal in Northern Moravia, brown coal at Ústí nad Labem, and natural gas at PPC Trmice). Total electricity sales of the group in 2005 was approximately 2.4 TWh and it accounted for 3.3 % share in overall Czech electricity production[7].

J&T Group. The Slovak financial group acquired control over United Energy in 2005 and acquired 50% stake in Plzeňská Energetika in early 2006. Total combined installed generation capacity controlled by the group is 338 MW and the dominant fuel used is brown coal. The total electricity output of the group now controlled by J&T Group in 2005 was 1.5 TWh and it accounted for 2,0% share in overall Czech electricity production[8].

Distribution Sector: Key Players and Their Strategies

E.ON had originally hoped to control Jihočeská energetika, a.s., Západočeská energetika, a.s., and Jihomoravská energetika, a.s. distribution companies and one more company adjacent to Jihomoravská energetika, a.s. (either Východočeská energetika, a.s. or Severomoravská energetika, a. s.). By acquiring the ZSE power distribution company in Slovakia, E.ON gained another adjacent REAS to Jihomoravská energetika, a.s. and through ZSE it also linked to its Hungarian assets. The strategy was logical, but not entirely successful. E.ON failed to acquire a

[5] *All data are based on the annual report of the company and the total power generation volume report by ERO.*
[6] *Estimate based on 2004 generation volume.*
[7] *All data are based on the annual report of the company and the total power generation volume report by ERO.*
[8] *Estimate based on 2004 generation volume.*

controlling stake in Západočeská energetika, a.s. and, eventually, it swapped its remaining stakes with ČEZ , leaving it with control over Jihočeská energetika, a.s. and Jihomoravská energetika, a.s..

PRE - GESO/EnBW/EDF, RWE, J&T, City of Prague. The strategy of this shareholder group is unclear, further development is to be expected.

Market Shares

The most important information on the three emerging distribution groups and individual distribution companies within each group is summarized below. The table provides information on:

- the region of operation of each group;
- electricity deliveries and respective market shares;
- electricity revenues and respective shares; and
- after tax profit and respective shares plus profit relationship to electricity deliveries and revenues.

Figure 14: Summary Information on the Czech Distribution Sector for 2005

	Electricity sold	
	(GWh)	*(%)*
Distribution sector - total	**49,943**	**100%**
ČEZ Group total	**32,187**	**64%**
E. ON Bohemia Group - total	**12,270**	**25%**
PRE	**5,486**	**11%**

Source: Annual statistics of Czech power industry as reported by ERO.

National Grid and Interconnections with Neighboring Countries

Effective from 1 January 1999, the Czech transmission company – ČEPS (established in October 1998) owned and operated by the Czech high-voltage transmission system (including all 400 kV and 220 kV lines). Until 2002, ČEPS was 100% subsidiary of ČEZ but ČEZ has sold its 66% stake in the company to the Czech government in 2003 and the remaining 34% in 2004.

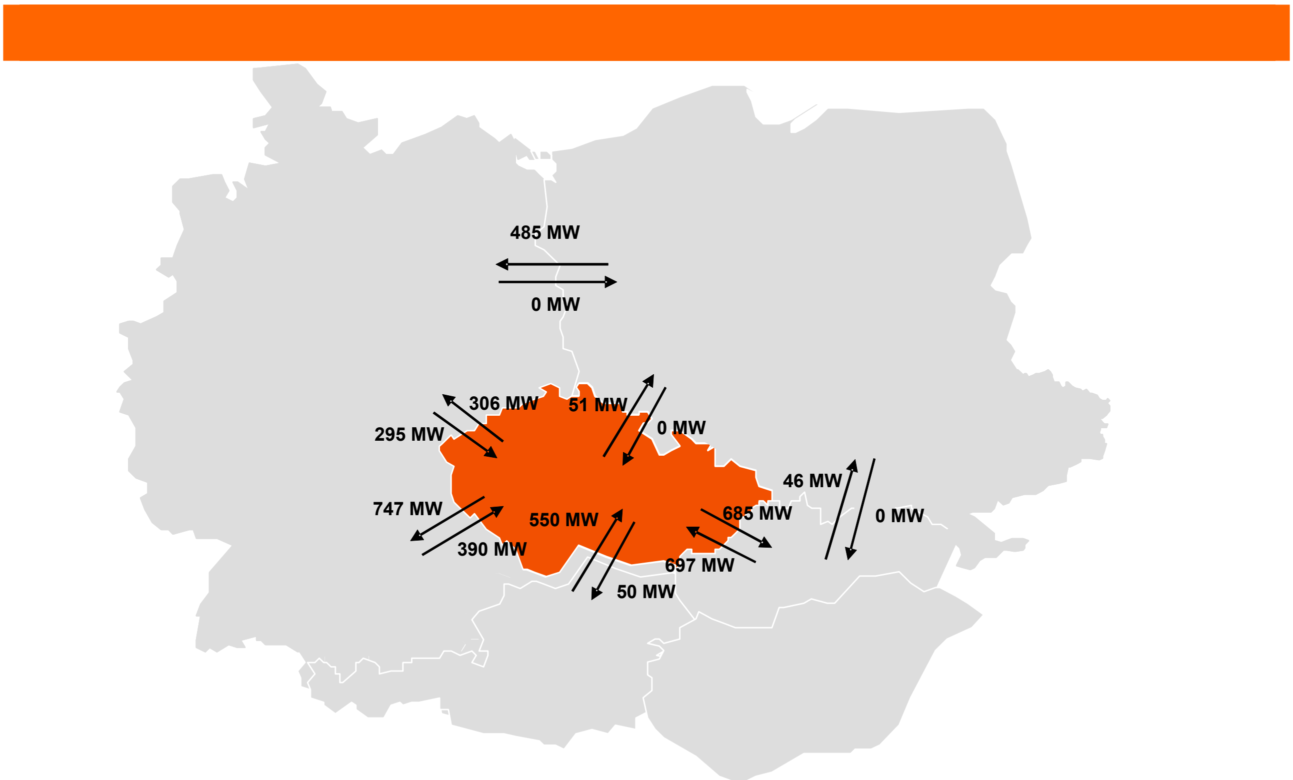
The entire Czech transmission system consists of 2,910 km of 440 kV lines (2,393 km single, 517 km double), 440 km of 220 kV lines (960 km single, 480 km double), and 37 substations.

ČEPS, as the transmission system operator in the Czech Republic, enjoys bilateral co-operation primarily with its neighboring partners (TSOs) in Bavaria – E.ON, East Germany – Vatennfall, Poland - PSE, Austria – Verbund APG, and Slovakia - SEPS. Multilateral co-operation is especially intensive within CENTREL a regional organization which comprises partners from the Czech Republic, Hungary, Poland and Slovakia, and within UCTE, whose synchronously interconnected system integrates a part of continental Europe stretching from Portugal to Poland. ČEPS is actively involved in the activities of these organizations. A significant milestone concerning the quality of co-operation was reached in October 1995, when the transmission system of the Czech Republic was synchronously interconnected with that of the UCTE. Regulation vis-à-vis the UCTE and accounting with neighboring systems is provided for the CENTREL block by the Energy Accounting and Control Centrum (EACC) in Warsaw, part of the PSE company. ČEPS representatives take an active part in EURELECTRIC working group activities. ČEPS participates in the work of CIGRE, the international organization which addresses the technical issues of electric energy transmission.

Interconnection with Neighboring Countries

In terms of ability to move electricity in and out of the Czech Republic, the Czech Republic is in good shape relative to its size (in terms of land and economy), as it can transmit large amounts of electricity that exceed the country’s domestic needs.

Figure 15: Cross border capacities from/to Czech Republic made available for and sold in annual auction for 2006; please note that additional capacity is made available in monthly and daily auctions



Source: Auction Office

A more specific review of transmission connections from the Czech Republic to the neighboring countries and vice versa follows:

- **Austria.** There are two connections with Austria at present. There are two 220 kV lines connecting the Sokolnice substation in Southern Moravia to Bisamberg, with 350 mm^2 line cross-section for each phase and 2x260 MVA transmission capacity (at 20°C). The second connection is the single 400 kV line from Slavetice in Southern Moravia to Durnrohr in Austria with 3x450 (2x680) mm^2 line cross-section for each phase and 1,400 MVA transmission capacity (at 20°C). Currently there is some 400 MW export capacity, which is, however, blocked by a long term agreement between the Polish Transmission Grid Operator and APG, and, therefore, export possibilities to Austria are limited; nevertheless we expect that, based on some precedent rulings by European Court of Justice (namely ruling C 17 03), the above long term agreement will be abolished.
- **Bavaria (E.ON).** There is a double 400 kV connection with Etzenricht in Bavaria, one originating from Hradec substation in North-Western Bohemia and one from Přeštice substation in Western Bohemia. The former line has 3x400 mm^2 line cross-section for each phase and 1,600 MVA transmission capacity (at 20°C). The latter line has 3x450 mm^2 line cross-section for each phase and 1,660 MVA transmission capacity (at 20°C). Both 400 kV lines are rather recent; the former was put into operation in 1992 and the latter in 1997.
- **Former German Democratic Republic (VEAG).** The main connection goes from Hradec substation in North-western Bohemia to Rohrsdorf through double 400 kV line. This line has 3x350 (3x380) mm^2 line cross-section for each phase and 2x1,400 MVA transmission capacity (at 20°C). This line was put into operation in 1976 and is in good shape.
- **Poland.** There are two single 400 kV lines from Wielopole to Albrechtice and Nosovice substations in Northern Moravia. The former line has (2x525) 3x350 mm^2 line cross-section for each phase and 1,505 MVA transmission capacity (at 20°C), and so does as does the latter line. Both lines were put into operation at the same time in 1978. In addition to 400 kV lines, the substation at Lískovec in Northern Moravia is connected by two 220 kV lines with Bujakow and Kopanina substations in Silesia. The former line has (400) 350 mm^2 line cross-section for each phase and 290 MVA transmission capacity (at 20°C), and the

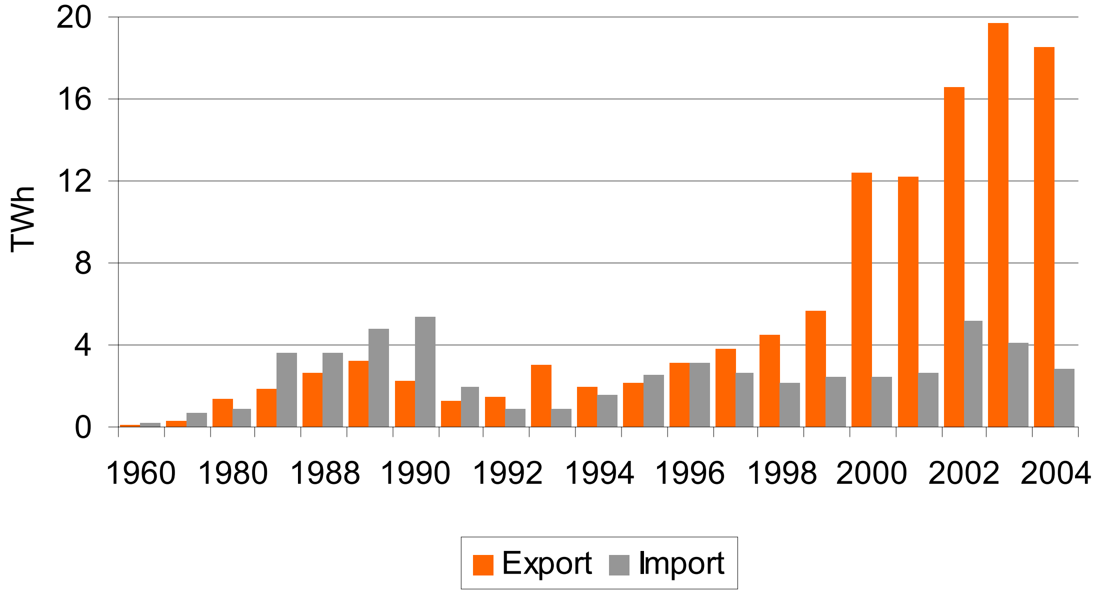
latter line has (525) 350 mm^2 line cross-section for each phase and 290 MVA transmission capacity (at 20°C) as well. The two 220 kV lines were put into operation in 1976 and 1960, respectively. The latter line is quite old, being one of the oldest high-voltage interconnections still in place.

- **Slovakia.** The transmissivity of the Czech grid is quite robust through the Czech-Slovak border since, until the end of 1992, Czech Republic and Slovakia shared a common grid in the former Czechoslovakia. At present, there are three 400 kV lines connecting the two countries. One runs from Nosovice substation in North-Eastern Moravia to Varin in North-Western Slovakia and two run from Sokolnice substation in Southern Moravia to Křižovaný and Stupava substations in South-Western Slovakia. The first line has 3x350 mm^2 line cross-section for each phase and 1,100 MVA transmission capacity (at 20°C). The line from Sokolnice to Křižovaný has 3x350 mm^2 line cross-section for each phase and 1,100 MVA transmission capacity (at 20°C) while the line from Sokolnice to Stupava has 3x450 mm^2 line cross-section for each phase and 800 MVA transmission capacity (at 20°C). The three lines were put into operations in 1959, 1969, and 1986, respectively. In addition to the three 400 kV lines, there are two additional interconnections through 220 kV lines. The first is from Lískovec substation in North-Eastern Moravia to Považská Bystrica substation in Western Slovakia and the second is from Sokolnice substation to Senice substation in South-Western Slovakia. The two 220 kV lines have 350 and 450 $mm^{2,}$, respectively, cross-sections for each phase and 158 and 190 MVA transmission capacity (at 20°C). The former line was put into operation in 1952 and it is the oldest cross-border interconnection line at present, the latter was put into operation in 1962.

Exports and Imports of Electricity

Export of electricity did not play a key role in the Czech power industry until approximately 2001. Then, driven by the increasing competition within the framework of European market liberalization, the cross-border flows (both ways) increased significantly. Currently, the Czech Republic is the second largest exporter in Europe.

Figure 16: Development of Cross Border Flows in the Czech Power Markets (Excluding Pass-Through Traffic)



Source: Czech Statistical Office

The increased interest for cross border activity put significant pressure on cross border transmission capacity; the technically strong interconnection capacity became quickly congested as, among other factors, its significant part was being blocked by German TSOs as a reserve for windmill power plants operations. In 2004, the grid operators decided to allocate the available capacity based on auctions. The excess demand for the capacity in the auctions results in a price that arbitrages out almost the entire price difference between the Czech and German prices.

The high demand for Czech-German interconnectors will disappear in the next few years as significant capacity (mainly in Slovakia) will be decommissioned. As a result, the price for the cross-border capacity is likely to decline; this will be the key contributor towards the price convergence between the two markets.

Figure 17: Expected Development of Available Capacity in the Czech and Slovak Republics

Czech Republic *MW*	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Available capacity*	10,182	9,961	9,988	10,017	9,904	9,562
Coal	6,149	5,884	5,848	5,848	5,695	5,336
Nuclear	3,036	3,056	3,080	3,085	3,085	3,085
Hydro	256	280	319	343	382	400
Gas	741	741	741	741	741	741

Source: ČEZ estimate.
Note: In the CR main available capacity changes relate to ČEZ lignite power plants portfolio renewal.

Slovak Republic *MW*	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Available capacity*	4,180	3,662	3,516	3,123	3,123	3,130
Coal	1,029	861	716	716	716	721
Nuclear	2,107	1,756	1,756	1,404	1,404	1,404
Hydro	514	514	514	514	514	514
Gas	531	531	531	489	489	490

Source: ČEZ estimate.
Note: In the SR main available capacity changes relate to:

- *Nuclear power plant (NPP) Jaslovské Bohunice closure 2007 (350 MW available capacity / 440 MW installed capacity) and 2009 (350/440);*
- *Closure of 2 lignite units in 2007 (168/220) and 2 hard coal units in 2008 (145/220); and*
- *Commissioning of NPP Mochovce in 2012 (686/880).*

Based on some information (eg. Platts magazine dated 3 February 2006), decommissioning of non-nuclear powerplants may be faster than anticipated herein.

** Available capacity = installed capacity – planned outages (overhauls, fuel exchange, etc.).*
Source: ČEZ.

Figure 18: Expected Development of Available Power Supply and Demand in the Czech and Slovak Markets

TWh	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Expected supply in CR and SR plus import	122,854	116,695	115,707	112,678	111,735	108,945
Expected demand in CR and SR plus export	109,891	111,720	113,588	115,497	117,400	119,199

Source: ČEZ.
Note: Supply includes potential imports from Poland at 3.5 TWh p.a. given by availability of cross -border transmission capacity. Supply also includes 5% safety margin.
Demand includes potential export to Germany and Austria at 19.1 TWh p.a. given by availability of cross- border transmission capacity. Domestic demand growth is assumed at 2.15%.

History and Development of ČEZ and the ČEZ Group

Figure 19: Historical Milestones in the ČEZ Group's Development

Date	Event
1990	▪ Separation of regional distribution companies, heat production and other activities from the "state enterprise" České energetické závody.
1992	▪ Joint-stock company ČEZ, a. s. established
1993	▪ Partial privatization of ČEZ (27%). ▪ Regional distribution companies established as joint-stock companies.
1995	▪ Partial privatization of regional distribution companies (approximately 50%). ▪ Further step of ČEZ privatization (up to 33%). ▪ Connection of ČEZ grid to UCTE.
1999	▪ Establishment of ČEPS (transmission grid) as a subsidiary of ČEZ. State re-acquires control over five of eight regional distributors.
2001	▪ Government initiated privatization of FNM shares in ČEZ and eight regional electricity distribution companies (not completed)
2002	▪ Full market opening for electricity generation in the Czech Republic. ▪ Tender for privatization of shares in ČEZ and in regional distributors held by the National Property Fund cancelled, government decided on integration of Czech power sector.
04/2003	▪ New ČEZ Group established. ČEZ acquired shares in all regional distribution companies (5 majority and 3 minority shares) and lost majority share in ČEPS.
11/2003	▪ Majority stakes in Středočeská energetická a.s., Východočeská energetika, a.s. and ZČE increased to 97.7 – 99.1%.
1/2004	▪ Control obtained in Škoda Praha, a.s. through a debt-for-equity swap.
08/2004	▪ Minority stake in PRE sold for best offered price.
09/2004	▪ Majority stakes in Severočeská energetika, a.s. and Severomoravská energetika, a. s. increased. Minority stake in ČEPS was sold.
11/2004	▪ Execution of an agreement with the Bulgarian government on purchase of three Bulgarian distribution companies (closing January 2005).
03/2005	▪ Competition Office decision allowing Severočeská energetika, a.s. to remain in the ČEZ Group.
8/2005	▪ First virtual power plant auction organized.
9/2005	▪ ČEZ selected as the winner of a tender for 51% the Romanian distribution company Electrica Oltenia S.A. (closing 9/2005).
11/2005	▪ ČEZ, as a short listed investor, submitted the specification of its bid for Polish power plant Kozienice and became short listed a tender for Dolna Odra power plant.
12/2005	▪ Acquisition of a 56% stake in the mining company Severočeské doly a.s. (increase of ČEZ´s share to 93%).
2005	▪ Squeeze outs in Východočeská energetika, a.s., Západočeská energetika, a.s., Severomoravská energetika, a. s., ŠKODA PRAHA were completed. ▪ Unbundling - establishment of ČEZ Distribuce, a. s. and ČEZ Prodej, s.r.o.
4/2006	▪ ČEZ acquired an additional 39.04% stake in Severočeská energetika bringing its stake to 96.14% .
05/2006	▪ Acquisition of Polish power plants Skawina and Elcho.
06/2006	▪ Squeeze out in Severočeské doly completed .
08/2006	▪ Squeeze out in Severočeská energetika approved by shareholders meeting
10/2006	▪ Acquisition of Bulgarian power plant Varna

Source: ČEZ.

ČEZ was established on 6 May 1992 as a joint-stock company. ČEZ was established through the aggregation of formerly state-owned enterprise into one company. The resulting company is the largest electricity generation group in the Czech Republic in terms of installed electricity generation capacity with a market share of 73% of electricity generated in the Czech Republic, which accounts for 85.8% of electricity used in the Czech Republic, and is one of the largest companies in the Czech Republic in terms of operating revenues. The total installed capacity of ČEZ Group's generation facilities as of 31 December 2005 amounted to 12,298 MW. In 2005, ČEZ Group generated 60,016 GWh of electricity and purchased 25,129 GWh, 67.4% of which was sold in the Czech Republic, 9.3% through distribution companies in Bulgaria, 1.1% in Romania, 9.6% was exported and the remaining 12.6% represents ČEZ Group´s own consumption (for pumping, generation of electricity and other consumption by production facilities and grid losses). In 2005, coal-fired plants accounted for 55%, the nuclear power plants for 41% and hydroelectric plants for 4% of electricity produced. ČEZ Group operates 55 power plants, including 16 coal-fired plants, 34 hydroelectric plants, two nuclear power plants, two wind converters and one photovoltaic (solar) power plant.

In addition to electricity, ČEZ Group also generates heat, which it supplies to municipalities, district heating companies, and industrial consumers via steam/hot water pipelines operated by ČEZ Group and/or other entities. See "Heat Generation". Power plants operated by ČEZ Group are located in the Czech Republic and Poland.

Recent Developments

ČEZ Distribution Companies

On 11 March 2002, the Czech government decided to sell its shares in REAS, which were held by the NPF and the Czech Consolidation Agency, to ČEZ and to purchase from ČEZ its share in its transmission subsidiary, ČEPS. The transactions were approved by the General Meeting of ČEZ on 11 June 2002, and on 1 April 2003 the shares of the eight REAS were transferred to ČEZ. Concurrently, ČEZ transferred a 51% share in ČEPS to *OSINEK, a.s*., a wholly-owned subsidiary of the NPF, and a 15% share in ČEPS to the Ministry of Labour and Social Affairs. After setting off the price payable by ČEZ for the REAS against the price to be received by ČEZ for ČEPS, ČEZ was required to pay to the NPF approximately CZK 16.7 billion by 2006; all the payments were settled in 2004.

Through the above transaction, ČEZ acquired majority shares in five of the eight REAS. The Competition Office ruled that ČEZ must sell all acquired minority shares in REAS, sell the remaining 34% share in ČEPS and offer 400 MW a in so called "Virtual Power Plant (VPP) auction". Originally, the Competition Office ruled that ČEZ has also to dispose of one of the majority stakes held in five REAS (ČEZ considered to sell Severočeská energetika, a.s.); however, the decision was eventually revoked in March 2005.

All of the above conditions have been fulfilled. The VPP auction scheduled in 2005 occurred on 3 August 2005 and the 2006 VPP auction took place on 2 August 2006. ČEZ fulfilled its obligation related to its two minority interests in REAS by swapping its minority shares in *Jihočeská energetika, a.s*., and *Jihomoravská energetika, a.s.,* with E.ON for minority interests in *Západočeská energetika, a.s.,* and *Východočeská energetika, a.s.* The swap and financial settlement took place on 30 September 2003. The remaining minority stake (in *Pražská energetika, a.s).*was sold by ČEZ in August 2004. The 34% stake in ČEPS was sold in September 2004 to the Ministry of Finance. Within the 34% stake divestiture, a payment schedule has been agreed with the buyer; all the payments to date have been paid in timely manner.

Figure 20: Payment Schedule Related to Sale of 34% Shares of ČEPS to the Czech Ministry of Finance

Payment	Sum	Term
1st	CZK 1,416 million	By 30 June 2005
2nd	CZK 2,817 million	By 31 July 2006
3rd	CZK 842 million	By 31 July 2007
4th	CZK 742 million	By 31 July 2008
5th	CZK 1,270 million	By 30 June 2009

Source: ČEZ.

Through a series of follow up transactions, including buy-outs and squeeze outs, ČEZ acquired 100% control over Východočeská energetika, a.s., Západočeská energetika, a.s. and Severomoravská energetika, a.s.. The squeeze out for Středočeská energetická a.s. is pending; the decision of the shareholders meeting on the squeeze out from 5 August 2005 has been challenged by 2 minority shareholders. ČEZ acquired a call option to acquire 39,04% stake in Severočeská energetika, a.s. from the then holder Segfield Investments Limited which was executed on 14 April 2006; the shareholders meeting held on 28 August, 2006 approved a squeeze out of the remaining minority shareholders.

Figure 21: Overview of Ownership Stakes in Individual REAS

	Stake Held	Last Buy-Out/Squeeze Out Price per Share *(CZK)*	Book Value *(CZK million)*
Severočeská energetika, a.s.	96.14%	3,575	5 290,0
Západočeská energetika, a.s.	100%	7,052	9 944,0
Severomoravská energetika, a. s.	100%	3,811	12 817,6
Východočeská energetika, a.s.	100%	3,292	7 802,8
Středočeská energetická a.s.	97.7%	2,750	6 282,9

Source: ČEZ.

The acquisition of the distribution companies was the first step in creating a vertically integrated business model of the ČEZ Group. The acquisition was financed using ČEZ´s own funds.

VISION 2008 (VIZE 2008) – ČEZ Group Integration Strategy

The management of the ČEZ Group introduced the Vision 2008 project in June 2004 to integrate the distribution companies into the ČEZ Group structure and, at the same time to, fulfill the unbundling regulatory requirements. The integration of the individual companies and unified management structure will bring significant synergies. Related annual cost savings are estimated to reach CZK 2.85 billion by 2008 (compared to 2003).

The VIZE 2008 project covers most of the ČEZ Group's principal activities. The project focuses primarily on the following areas:

- sales of electricity (trading, marketing, sales, customer services);
- distribution of electricity and all related activities;
- group-level management functions (e.g. risk management, finance, controlling, communications, management of shareholdings, regulation, human resources); and
- group-level support functions (e.g. information technologies, telecommunications, procurement, property management).

The VIZE 2008 project encompasses all ČEZ Group member companies, including ČEZ, as the parent company, the electricity distribution companies, existing and newly established or acquired subsidiaries of ČEZ and subsidiaries of the electricity distribution companies.

The project's first significant accomplishment is the implementation of a unified financial information system in all the electricity distribution companies. In just nine months in 2004, the financial information system was implemented in five companies with different corporate cultures and systems, their processes and numbering systems were unified, and links were created to the new Customer Information System and other systems.

During the first six months of its existence, the VIZE 2008 project made major progress towards the implementation of a new "Management by Processes" based business model with in the ČEZ Group. New subsidiaries, ČEZData, s.r.o., ČEZ Zákaznické služby, s.r.o. and ČEZ Logistika, s.r.o. were established and the first transfers of employees and assets took place. These were followed by the establishment of ČEZ Prodej, s.r.o. and ČEZ Distribuce, a. s. in March 2005. A centralized services model was created, with the first centralized service process within the group being human resources.

Project teams took first the steps in identifying and implementing best practices. For example, a unified set of Preventive Maintenance Rules was created in the distribution area, the first phase of centralizing dispatching centers took place, technical materials standards were unified, and a unified system for evaluating investments was put in place.

During 2005, the biggest transformation and integration changes in the ČEZ Group took place. The key parts of assets, employees and processes of five REAS were successively transferred to newly established, process-oriented subsidiaries and centralized departments of ČEZ.

Figure 22: Transfer of Processes from REAS to Newly Established Process Companies

REAS	New Process Companies			
	ČEZ Zákaznické služby, s.r.o.	ČEZ Měření, s.r.o.	ČEZ Logistika, s.r.o.	ČEZ Prodej, s. r. o. and ČEZ Distribuce, a. s.
Severočeská energetika, a.s.	1. 5. - 1. 7. 2005	1. 6. 2005	1. 11. 2005	1. 11. 2005
Severomoravská energetika, a. s.	1. 7. 2005	1. 6. 2005	1. 7. 2005	1. 1. 2006
Středočeská energetická a.s.	1. 6. - 1. 7. 2005	1. 6. 2005	1. 12. 2005	1. 12. 2005
Východočeská energetika, a.s.	1. 4. - 1. 5. 2005	1. 6. 2005	1. 10. 2005	1. 10. 2005
Západočeská energetika, a.s.	1. 1. 2005	1. 6. 2005	1. 9. 2005	1. 9. 2005

Source: ČEZ.

REAS	New Process Companies			
	ČEZData, s.r.o. a ČEZnet, a.s.	ČEZ Správa majetku, s.r.o.	ČEZ Distribuční služby, s.r.o.	ČEZ Obnovitelné zdroje, s.r.o.
Severočeská energetika, a.s.	1.1.2005	1.7.2006	1.7.2006	1.7.2006
Severomoravská energetika, a. s.	1.1.2005	1.7.2006	1.7.2006	1.7.2006
Středočeská energetická a.s.	1.1.2005	1.7.2006	1.7.2006	1.7.2006
Východočeská energetika, a.s.	1.1.2005	1.7.2006	1.7.2006	1.7.2006
Západočeská energetika, a.s.	1.1.2005	1.7.2006	1.7.2006	1.7.2006

Source: ČEZ.

In the time period from January to July 2005, the customer services for 3,400 customers were transferred from individual REAS to ČEZ Zákaznické služby, s.r.o. As of 1 July 2005, the services for all retail customers have been operated from one center, increasing the quality and effectivity of the customers' care.

As of 1 June 2005, all activities related to the measurement of electricity within all REAS were centralized in the a new company ČEZ Měření, s.r.o. A majority of the employees remained in their regions; however, their activities are now methodically coordinated and managed from one point, for the entire ČEZ Group.

As of 1 July 2005, a new company, ČEZ Logistika, s.r.o., established in 2004, began to provide selected services in connection with purchases for Severomoravská energetika, a. s. During autumn 2005, ČEZ Logistika, s.r.o., assumed the provision of purchasing services from the remaining REAS. Today, it provides the purchasing services in the distribution area for the entire ČEZ Group.

In 2005, the centralization of financial, tax and accounting services within the ČEZ Group took place. As of 1 July 2005 and as of 1 January 2006, the financing and tax/accounting services respectively, were transferred from REAS to ČEZ.

In the second half of 2005, the sales and distribution business parts of REAS were continuously incorporated (in monthly cycles) into newly established process companies, ČEZ Prodej, s.r.o. and ČEZ Distribuce, a. s. This operation resulted into separation of distribution (as licensed activity) from sale (supply) and the unbundling requirement has been fulfilled. As of 1 December 2005, the part of ČEZ's business dealing with sale of electricity was transferred to ČEZ Prodej, s.r.o.

As of 1 January 2006, all internal and external communication activities were transferred from REAS to ČEZ and the centralization of the IT administration was completed by the transfer of the respective part of ČEZ's business into ČEZData, s.r.o.

To meet the outlined goals, an intensive and continuous communication with all employees was necessary. The job positions in new companies were, in the course of transformation, preferentially filled by employees of the ČEZ Group, on the basis of internal selection procedures. The labor unions were continuously informed on the transformation progress, while the conditions of all collective agreements and the Labour Code were strictly kept.

As of 31 December 2005, merger between ČEZ Obnovitelné zdroje, s.r.o, and HYDROČEZ, a.s. was completed.

Acquisition of Severočeské doly a.s.

On 19 December 2005, ČEZ acquired a 55.792% stake in Severočeské doly a.s., in addition to its 37.3% share already held. The acquisition price was CZK 9.046 billion. The extraordinary General Meeting, held on 27 March 2006, decided on a squeeze out of minority shareholders; on 19 June 2006 ČEZ became 100% owner of Severočeské doly a.s.

Figure 23: Selected Financial Information on Severočeské doly a.s. (IFRS)

	Unit	2003	2004	2005
Revenues	*CZK million*	8,114	7,953	8,221
EBITDA	*CZK million*	3,661	2,090	3,844
EBIT	*CZK million*	2,088	612	2,776
Net income	*CZK million*	1,411	179	2,091
Number of employees (avg.)	#	5,242	5,038	4 857
Total volume of coal sold	*Million t*	22,7	21,8	21,8

Source: ČEZ.

Through the acquisition of Severočeské doly, a.s. ČEZ has secured control over 60% of its lignite needs. The acquisition was financed from ČEZ´s own funds.

Renewal of Generation Fleet

In compliance with the Program of future operation and conception of renewal of ČEZ's production base, the preparation of a complex renewal of power plants Tušimice II (4x 200 MW), Prunéřov II (4 x 200 MW) and Počerady (3x200 MW) and construction of two new lignite-fired units of installed capacity 660 MW each at existing localities of plants Ledvice and Počerady has started.

In February 2006, the intention of the complex refurbishment of the Tušimice II power plant was approved, while preserving the existing production capacity 4 x 200 MW. As follows from an assessment, carried out according to the Environmental Impact Assessment Act, the construction is not subject to EIA evaluation. The conceptual technical project documentation was elaborated and, in December 2005, the application for construction permit was filed. The construction will be realized from March 2007 to June 2010.

In February 2006, the business plan regarding the complex refurbishment of the power plant Prunéřov II, was approved and will be realized following the renewal of the power plant Tušimice II. Both power plants will be supplied from the adjacent lignite mine Libouš approximately until year 2035.

The second part of the renewal program consists of the construction of modern lignite-fired blocks using commercially affordable modern technology with supercritical parameters of steam securing corresponding efficiency of production and compliance with emission limits set for such sources. In November 2005, the business plan regarding the construction of 660 MW lignite-fired unit in the power plant Ledvice was approved. It will be supplied from the adjacent Bílina mine and the contemplated date for the start of its operation is the end of 2011. For Počerady, a feasibility study for the second project of the same capacity was elaborated and the business plan was approved in April 2006.

Estimated CAPEX for the refurbished power plants is approximately CZK 25-30 million per MW installed capacity, and for new power plants approximately CZK 40-45 million per MW installed capacity. The total related CAPEX will exceed CZK 125 billion. The refurbished power plants will have a gross efficiency improvement from 36% to 41%; the gross efficiency of the new power plants will reach 45%. Depending on a decision regarding the territorial mining limits for MUS, another two 660 MW units could be built at approximately the same price as above. The above CAPEX will be financed mainly using ČEZ's own funds, partly through debt financing.

Foreign Acquisitions

In January 2005, ČEZ acquired 67.5% shares in three Bulgarian distribution companies (**Elektrorazpredelenie Plevno EAD, Elektrorazpredelenie Sofia Oblast EAD, Elektrorazpredelenie Stolichno EAD**) for a total consideration of EUR 281.5 million. In October 2005, ČEZ acquired a 51% share in a Romanian distributor **Electrica Oltenia S.A.** for a total consideration of EUR 151 million plus an additional post-closing compensation of EUR 15.5 million in February 2006.

Figure 24: Selected Financial Information on Bulgarian Distribution Companies within ČEZ Group (IFRS, Simple Sum)

	Unit	2003	2004	2005
Revenues	*CZK million*	9,987	10,558	11,608
EBITDA	*CZK million*	933	1,029	1,570
EBIT	*CZK million*	308	290	803
Net income	*CZK million*	181	144	676
Number of employees	#	4,954	4,920	4,698
Volume of electricity sold	*TWh*	7.8	7.7	8.0
Total number of customers	#	1,891,163	1,898,289	1,920,919

Source: ČEZ.

For comparative reasons the data above were recalculated using one exchange rate of 14.83 CZK/BGN, i.e. different exchange rate than the one used for accounting purposes (average exchange rate in the respective period) .

Figure 25: Selected Financial Information on the Romanian Distribution Company within the ČEZ Group (IFRS, restated)

	Unit	2003	2004	2005
Revenues	*CZK million*	10,118	10,226	10,171
EBITDA	*CZK million*	-467	1,857	1,314
EBIT	*CZK million*	-3,323	-655	516
Net income	*CZK million*	-1,638	-1,036	546
Number of employees	#	2,960	2,930	2,969
Volume of electricity sold	*TWh*	6 820	5 518	4.412
Total number of customers	#	1,364,901	1,371,398	1,366,147

Source: ČEZ.
For comparative reasons the data above were recalculated using an exchange rate of 7.87 CZK/RON, i.e., different than the one used for accounting purposes (average exchange rate in the respective period).
Note: In 2005, the company was forced to create provisions in accordance with IFRS requirements and ČEZ Group accounting policies. Among other things, provisions were created for risks associated with potential litigation, employee benefits expenditures, assets reduction, etc. Since a part of the provision relates to previous years, previous financial statements were adjusted as called for by IFRS.

In January 2006, ČEZ entered into an agreement with PSEG on acquisition of control over two power plants in Poland: Elektrocieplownia Elcho Sp. z o. o. and Elektrownia Skawina S.A**.** with a combined installed capacity of 810 MW. The transactions were settled on 29 May 2006. The consideration paid by CEZ was EUR 383.3 million.

Figure 26: Selected Financial Information on Polish Generating Companies within the ČEZ Group (Polish Accounting Standards, Simple Sum)

	Unit	2003	2004	2005
Revenues	*CZK million*	4,200	5,474	5,604
EBITDA	*CZK million*	455	1,562	1,441
EBIT	*CZK million*	249	1,161	1,043
Net income	*CZK million*	450	1,305	-199
Number of employees*	#	819	808	786
Volume of electricity sold	*TWh*	2.5	3.8	4.1

Source: Annual reports of the companies concerned.
For comparative reasons the data above were recalculated using one exchange rate of 7.53 PLN/CZK.
** 2003 and 2004 status as at the end of the year; 2005 average number*

In October 2006, ČEZ acquired control over a 100% share in the second largest Bulgarian power plant Varna with an installed capacity of 1,260 MW for a consideration of EUR 206 million. In addition thereto, ČEZ has also committed to raise the capital of the power plant by 16% through the issue of and subscription for new shares in the amount of EUR 99.8 million and to contribute additional EUR 40 million in to an investment fund that will implement projects in the energy sector.

Figure 27: Selected Financial Information on the Bulgarian Generating Company (IFRS, simple sum)

	Unit	2003	2004	2005
Revenues	*CZK million*	1,801	2,017	2,131
EBITDA	*CZK million*	227	266	140
EBIT	*CZK million*	79	105	-27
Net income	*CZK million*	55	78	-32
Number of employees	#	931	907	900
Volume of electricity sold	*TWh*	2.2	2.2	2.4

Source: Annual reports of TPP Varna EA.
For comparative reasons the data above were recalculated using one exchange rate of 14.83 CZK/BGN

Future ČEZ´s Development in M&A Area

ČEZ intends to continue acquisitions in Central and South-Eastern Europe. The acquisitions will target core activities of the ČEZ Group, i.e., electricity generation, supply and distribution, and potentially directly related activities, i.e., mining and heat generation. ČEZ does not have any intentions to expand into other utilities activities, such as gas, water or waste management.

There are many pending and/or potential acquisition targets in the region. Most are privatization tenders; however, a limited number of private transactions is available as well. Also, primarily in the former Yugoslavian countries, green field and brown field transactions in the form of a joint venture with a local state-owned power company. come into consideration.

Some of the transactions might have a form of a project with long term agreements for power offtake and fuel procurement. Such a project is considered in Russia, where the power purchase agreements would be concluded with the City of Moscow and/or City of St. Petersburg.

The interest in these assets increased significantly in the last year, given the recent development in European power markets as well as significant improvements in the target markets. It is not possible to estimate ČEZ´s success in these transactions or to quantify related investments. ČEZ is prepared to allocate all free cash flow generated until 2009 for acquisitions. The total amount of the internal cash flow, including potential releveraging, is estimated at EUR 6-7 billion.

Figure 28:   Potential Acquisitions

- ČEZ became a short listed investor and submitted the specification of the bid for the Polish power plant Kozienice (2,820 MW); the privatization is on hold.
- ČEZ participates in the privatization of Teplárna Košice (121 MW) in Slovakia; the privatization is on hold.
- ČEZ is in discussions with a private owner of five distribution companies in Ukraine (2.6 million customers).
- ČEZ executed an agreement with Electroprivreda Republiky Srpske (ERS) to enter into a joint venture with an aim to operate the existing and new generation facilities in Gacko and Ugljevik; details of the transaction are still being negotiated.
- ČEZ executed an agreement to buy 100% in Bulgarian power plant Varna (1,260 MW); the transaction was settled in October 2006.
- ČEZ is actively pursuing opportunities in green-and brown-fields in Kosovo.
- ČEZ is interested in acquiring a majority stake in ZE PAK (2,338 MW) in Poland; the transaction is on hold.

Source: ČEZ.

Principal Activities

Electricity Generation

In 2005, ČEZ Group produced a total of 60,016 GWh of electricity, which represents approximately 85.8% of the total electricity consumed in the Czech Republic.

ČEZ generates 99% of the electricity generated the ČEZ Group. The remaining 1% is generated mainly by Energetika Vítkovice, a. s., with an installed capacity of 79 MW. Energetika Vítkovice generated 546 GWh of electricity in 2005 and recorded revenues of CZK 2.3 billion (1.8% of the ČEZ Group´s total revenues); almost 75% of its revenues come from heat sales. Another 209 GWh was generated in small hydropower plants, within the ČEZ Group but not directly by ČEZ.

The ČEZ's electricity generation experienced a year-on-year decrease, mainly due to the reduction of exports as a result of the increased focus on the domestic market and also due to the "allowances arbitrage", whereby the sale of emission allowances ensured ČEZ a higher business margin than the electricity export itself.

The following two figures provide a breakdown of the ČEZ's electricity generation based on the method of production, as well as information about its installed capacity.

Figure 29: Structure of ČEZ Group's Electricity Generation – Gross Numbers

GWh	2003	2004	2005
Coal-Fired Plants	34,342	34,002	33,099
Nuclear Plants	25,872	26,325	24,728
Hydro, Solar and Wind Power Plants	1,185	1,799	2,189
Total	**61,399**	**62,126**	**60,016**

Source: ČEZ.

Figure 30: ČEZ Group's Installed Capacity as of 31 December 2005

	Installed Capacity *(MW)*	Installed Capacity *(%)*	Electricity Generation *(GWh)*	Total Production *(%)*
Coal-Fired Plants	6,603	53	33,099	55%
Nuclear Plants	3,760	31	24,728	41%
Hydro, Solar and Wind Power Plants	1,935	16	2,189	4%
Total	**12,298**	**100**	**60,016**	**100**

Source: ČEZ.

Coal-Fired Power Generation

ČEZ owns and operates 15 coal-fired power plants. In 2005, ČEZ's coal-fired plants generated 32,762 GWh of electricity. ČEZ's coal-fired plants have a diversified age profile, and ČEZ has a plan of regular repairs and overhauls the generating units. In most cases, parts of these units have already been completely reconstructed and modernized and most of them have been equipped with desulphurization units. Since 1 January 1999, all coal-fired plant units have been in compliance with the requirements of the Act on Air. As of 31 December 2003, ČEZ had FBB or FGD equipment installed on all of its entirely coal-fired capacity and had also installed or refurbished precipitators (which reduce emissions of ash) on all of its coal-fired power plants. In addition thereto, since May 1992, ČEZ has closed 1,645 MW of its coal-fired generating capacity. The coal-fired plants owned by ČEZ are situated in various locations throughout the Czech Republic, the largest concentration being in the lignite mining region in the northwest of the Czech Republic.

ČEZ sold the *Náchod* heat generation plant in March 2003.

The ČEZ´s 15 coal-fired power plants and details on Energetika Vítkovice, a. s. are listed in the following table:

Figure 31: ČEZ's Coal-Fired Power Plants

Location	Installed Capacity *(MW)*	Start of Operations
Prunéřov I and II	4 x 110	1967-1968
	5 x 210	1981-1982
Tušimice II	4 x 200	1974-1975
Mělník II and III	2 x 110	1971
	1 x 500	1981
Tisová I and II	3 x 57	1959
	1 x 12.8	1960
	1 x 112	1961
Hodonín	1 x 55	1958
	1 x 50	1956
Chvaletice	4 x 200	1977-1978
Dětmarovice	4 x 200	1975-1976
Ledvice II	3 x 110	1966-1969
Počerady I and II	5 x 200	1970-1977
Poříčí	3 x 55	1957-1958
Dvůr Králové*	1 x 6.3	1955
	1 x 12	1963
Energetika Vítkovice	2 x 16, 1 x 25, 1 x 22	1983-1995
Total installed capacity	6,524.1	

Source: ČEZ.
** Dvůr Králové coal-fired power plant is a part of the Poříčí power plant organizational unit.*

Types and Sources of Coal

The majority of ČEZ's coal-fired power plants (approximately 96.6%) utilize lignite. Only one of ČEZ's power plants (Dětmarovice) and part of another plant (Poříčí) use hard coal. ČEZ has four main domestic suppliers of lignite and one domestic supplier of hard coal.

Most of ČEZ's coal-fired power plants are located in the vicinity of the North Bohemian brown coal basin. Conveyor belts from nearby mines directly supply coal to three power plants, *Ledvice II*, *Tisová I* and *II* and *Tušimice II*. In other cases, rail is primarily used to transport coal supplies over relatively short distances. ČEZ maintains coal stocks at a general level of 23.6% of its annual consumption in plants that are not in direct proximity to the coal mines.

Coal Contracts

ČEZ purchases the largest amount of coal in the Czech Republic. ČEZ has secured:

a) brown coal based on medium and long term agreements with Czech Coal, a. s. Severočeské doly a.s. (ČEZ´s subsidiary), Sokolovská uhelná, právní nástupce, a. s., and Lignit Hodonín, s.r.o.; and
b) hard coal based on annual contracts with OKD, a. s., and Gemec Union, a. s.; the rest is secured via imports from Poland on an as needed basis.

Severočeské doly a.s. supplies more than 60% of ČEZ's total consumption of lignite, Czech Coal, a.s., supplies approximately 32.5% and Sokolovská uhelná, a.s., approximately 7.5%.

ČEZ purchases majority of hard coal on the basis of the above mentioned annual contracts. The rest of hard coal is delivered on the basis of tenders.

Taking into account geographical restrictions and current estimates that of coal-fired generation needs, ČEZ estimates there are sufficient lignite reserves in the Czech Republic for the operation of its coal-fired power plants until 2035 for retrofitted power plants and until 2050 - 2055 for the newly built power plants.

Expenses for Coal, Lime, and Limestone

Total expenses of the ČEZ, a. s. and energetika Vítkovice, a. s. for lignite, hard coal and biomass consumed in 2005 (on an unconsolidated bases) amounted to CZK 11,155 million. The total expenses for lime and limestone consumed in 2005 amounted to approximately CZK 594 million.

ČEZ purchases limestone and lime for desulphurization facilities and fluidized-bed boilers under medium-term contracts from a total of five domestic suppliers. Approximately 48% of the total amount is supplied by *Lomy Mořina spol. s r.o.*, which ČEZ holds a 51.05% share. In addition, *KOTOUČ ŠTRAMBERK, spol. s r.o.*, in which ČEZ holds a 25% share, supplies approximately 21% of its total limestone and lime needs at prices which are renegotiated each year. These prices do not differ significantly from market prices.

Final Disposal of Coal Waste

Pursuant to Act No. 185/2001 Coll., on Wastes (the "**Waste Act**"), effective from 1 January 2002, and related regulations, ČEZ disposes of coal ash by depositing it in landfills and disused shafts of existing mines. ČEZ sells some of the coal ash residues to certain producers of construction materials. In addition thereto, since 1994, ČEZ has been selling also a portion of the FGD gypsum remaining after the desulphurization process to certain producers of construction materials. Although such sales have not been material to its revenues, they represent an important element in its environmental initiatives.

Sources of Working Materials

ČEZ selects suppliers of caustic soda, sulphuric acid, hydrochloric acid, technical gases, turbine and transformer oils and other working materials on the basis of tenders. Individual power plants conclude these supplier contracts.

Nuclear Power Generation

ČEZ currently owns and operates two nuclear power plants (NPP) situated in Dukovany, in the South Moravian District of Třebíč, and Temelín, in the South Bohemian district of České Budějovice. In 2005, ČEZ's nuclear power plants generated 24,728 GWh of electricity, representing 42% of ČEZ Group´s total electricity production.

Nuclear Power Plants

Dukovany Nuclear Power Plant

The construction of the Dukovany nuclear power plant began in January 1979 and its four units became operational between May 1985 and July 1987. The power plant has been in continuous operation since January 1988. The power plant uses four Soviet designed VVER 440-213 pressurized water reactors with a total installed capacity of 1,760 MW. Outside the former Soviet Union, such reactors are in operation in the Czech Republic, Finland, Hungary, Bulgaria and the Slovak Republic.

Two units of Dukovany are designed to operate until 2015 and two units until 2017. ČEZ has initiated a study assessing the possibility of an extension of the operating life of the units at the Dukovany nuclear power plant beyond their projected operating life. The results of this initial study show that it is technically possible to extend the operating life of the Dukovany units by at least 10 years.

For the past 10 years, ČEZ has been improving the safety standards at the Dukovany power plant in accordance with the requirements of the Nuclear Safety Authority and with respect to its further operation. As a part of its modernization program, ČEZ has also been progressively implementing recommendations resulting from domestic and foreign technical audits, including recommendations by the IAEA, including, among others, introducing a multi-function and full scope simulator, main condenser tube exchange using titanium, emergency feed water pumps, pump suction filters, bus switchboards, and vital power system reconstruction.

Additionally, ČEZ has been implementing measures to improve the economy of operations and to extend the life of the main components of its production equipment including, increasing the efficiency of the main condenser, improving the secondary circuit and up-rating the turbo-generator.

In 1996, a pre-feasibility study for a refurbishment of the instrumentation and control system (I&C) at the Dukovany power plant was started in order to improve its reliability and to prolong the plant operation. During the course of 1998, ČEZ continued to carry out works related to the refurbishment and invited bids for the first stage of implementation in 1999. In September 2000, ČEZ signed an agreement with ŠKODA JS a.s. for the refurbishment of the major parts of I&C system at the Dukovany power plant.

The Nuclear Safety Authority grants operating licenses that are renewable upon application. The following table sets forth the status of licenses at the Dukovany power plant:

Figure 32: Licenses at the Dukovany Power Plant

Block	License Valid Until
1	31 December 2015
2	31 December 2006
3	31 December 2007
4	31 December 2007

Source: ČEZ.

In 2005, the Dukovany nuclear power plant generated a total of 13,744 MWh of electricity. From the start of its operation to 31 December 2005, the Dukovany nuclear plant has generated 251,771 GWh of electricity at an average load factor per year of 89%. In the years 2001 to 2005, the nuclear plant's average load factor was approximately 88%; 88%; 86%; 89% and 88%, respectively.

Temelín Nuclear Power Plant

The construction of the Temelín nuclear power plant commenced in 1986. According to the original project, the power plant was to have four Soviet-designed units with a capacity of 1,000 MW each. Agreements regarding the construction of the Temelín power plant were concluded in 1986 with general contractors ŠKODA PRAHA, a.s. for the delivery of technology, and Vodní stavby Bohemia, a.s. for the delivery of construction. Both of these contracts were initially governed by the Economic Code (now repealed), an act dating back to 1964, under which the contractor had the title to the plant until the contracted performance was rendered in full (i.e., until the delivery of the completed plant). In mid 1995, ČEZ renegotiated the agreement with ŠKODA PRAHA to be based on the Commercial Code, under which ČEZ acquires title and ownership to parts of the plant as they are constructed, and to update the scope of work and estimated costs of the plant. The agreement with Vodní stavby Bohemia, a.s was governed by the Economic Code and, accordingly, title to the construction passed to ČEZ upon delivery of the construction in 2002 (Unit 1) and in 2003 (Unit 2).

Following the fall of the communist regime in 1989, and as a result of an ensuing uncertainty with respect to the energy policy of the Czech Republic, the construction of the Temelín nuclear power plant was delayed. In March 1993, the government approved the completion of only two out of the originally planned four units and, at the same time, ordered a fundamental change in the design of the reactor, primarily to enhance operational safety of the nuclear power plant. This change consisted of adapting the already built Soviet plant technology to function with western instrumentation and control systems. Following the decision to fundamentally change the design, ČEZ launched a tender and selected Westinghouse to supply the instrumentation and control technology, as well as the nuclear fuel to be used at Temelín. Other contracts concerning further technology needed for the completion of the power plant were concluded, as well. The adaptation of the U.S. technology supplied by Westinghouse to the original Soviet plant construction in Temelín is the first such adaptation of this kind and, accordingly, has posed difficult technical challenges beyond what had been anticipated in 1993. As a result of the extensive design and construction changes, the completion date for Temelín has been delayed several times.

In August 1998, the Czech government commissioned an independent review of the Temelín project, including the expended and projected costs, financing, existing supply contracts, the risks jeopardizing the completion, social impact and alternative power supply solutions. The report made no clear recommendation on whether to complete or discontinue the construction. The report emphasized risk factors, particularly in relation to future developments in electricity demand in the Czech Republic. On the basis of this report, the Czech government decided on 14 May 1999, by a vote of eleven to eight ministers to proceed with the construction of both blocks of the Temelín nuclear power plant. However, the governmental approval was conditioned on the budgeted costs not exceeding CZK 98.6 billion and the two blocks being loaded with fuel by September 2000 and December 2001, respectively.

In July 2000, ČEZ loaded Unit 1 of Temelín with nuclear fuel and in October 2000 it essentially completed the construction of Unit 1 with the initial nuclear reaction and testing activities beginning shortly thereafter. In January 2001, ČEZ connected the generator from Unit 1 of Temelín to the electricity network and test transmitted the first electricity from Temelín to the transmission network. By March 2001, ČEZ had brought Unit 1 up to 30% of its production capacity. During the month of March 2001, ČEZ brought Unit 1 to 55% of its capacity and did so again in early October 2001. In mid-October, after receiving the approval from the Nuclear Safety Authority, ČEZ performed tests at 75% of Unit 1's capacity. In January 2002, ČEZ continued the energy generation start-up process of Unit 1 that had been commenced in November 2000 and proceeded up to 100% of the nominal power output of the reactor. This phase was prolonged by delivery of new armatures and the necessary shut-down for the performance of works connected with the replacement of the armatures. After performing the tests at a power output level of 100% and the completion of a 144-hour comprehensive testing process, Unit 1 obtained an approval for pilot operation, which commenced on 11 June 2002. At the end of January 2003, a planned two month shut-down commenced in connection with the replacement of one quarter of the fuel. After the inspection by IAEA and the Nuclear Safety Authority of the correctness of delivering fuel into the reactor's active zone and the deposition of spent fuel into the storage pool for spent fuel, the warranty-inspection was completed at the end of April 2003.

In early 2002, the phase of non-active testing of Unit 2 was completed, a review following an integrated hydro-test was performed, and preparatory works for active testing were completed. In March 2002, the Nuclear Safety Authority issued a permit for the commencement of active testing. Following the delivery of fuel, the reactor was closed and preparatory works and testing for the first activation of fuel were performed in May 2002. At the end of June 2002, following successful physical start-up, the phase of energy-generation start-up commenced. In the course of this phase, repeated defects appeared in the generator rotor. The defects were removed and have no further impact on for the operation of Unit 2. The first turbo-generator phasing did not take place until 29 December 2002, during a sub-phase when the reactor was run up to a level of 55% of its nominal power output.

The Nuclear Safety Authority grants operating licenses that are renewable upon application. The following table sets forth the status of licenses at the Temelín power plant:

Figure 33: Licenses at the Temelín Power Plant

Block	License Valid Until
1	11 October 2010
2	31 May 2015

Source: ČEZ.

In 2005 Temelín generated 10,984 GWh of electricity. Since the start of its operations the Temelín nuclear plant has generated 42,390 GWh of electricity. Its load factor in 2005, 2004 and 2003 was 63%, 72% and 69%. The decline in load factor in 2005 has been caused by unplanned outages namely related to faults at Unit 2 turbine, namely default of its rotor. The faulty rotor has bee repaired in January 2006 and we expect higher Temelín utilization in 2006. In addition thereto, the rotors in both units will be replaced with new design rotors in 2007.

Temelín nuclear power plant is equipped with VVER reactors. In the former Soviet Union, two designs of nuclear reactors (with various sub-types) were developed: the RBMK reactor, a graphite moderated water-cooled reactor, and the VVER, a pressurized water reactor, in which water acts as both the moderator and the coolant. The design of a VVER plant is generally considered identical to the design of PWR plants based on U.S. technology (in which water also acts as the moderator and the coolant) and which is the most common reactor type commercially used around the world.

The delays in the commencement of the commercial operations of the Temelín power plant resulted in ČEZ being entitled to CZK 700 million contractual penalty payable by ŠKODA PRAHA. ČEZ agreed to settle this claim by means of a debt equity swap and became a majority shareholder in ŠKODA PRAHA in January 2004.

The Austrian federal land of Upper Austria filed on 31 July 2001 a lawsuit with the Land Court of Linz, Austria, against ČEZ whereby it sought a ruling ordering the Temelín nuclear power plant to be prohibited from commencing its operations. On 23 May 2002, the court ruled that it had no jurisdiction over a power plant located outside of Austria. The above court´s decision was upheld by European Court of Justice ruling in June 2006. Nevertheless, in August 2006 Austrian Supreme Court ruled that Austrian courts have jurisdiction over this case. Therefore, Austrian courts will tackle petition by Upper Austria County asking CEZ to implement measures to prevent ionizing radiation from Temelín Nuclear Power Plant.

ČEZ can provide no assurance that the operations of Temelín will not be interrupted as a result of events beyond the control of the management. ČEZ can provide no assurance that any such interruptions will not adversely affect its business, prospects, financial condition or results of operations.

Atomic Act

On 24 June 1994, the Czech Republic became a party to the Vienna Convention on Civil Liability for Nuclear Damage (the "**Vienna Convention**"). On the basis of the principles of the Vienna Convention, the government initiated, and the Parliament enacted, the "**Atomic Act**". The Atomic Act came into force on 1 July 1997. In accordance with the Vienna Convention, the Atomic Act provides that only the operator of a nuclear facility is liable for any damage caused by a nuclear incident and that the operator's liability for such damage is limited to CZK 6 billion per incident. The Atomic Act also provides that operators of nuclear facilities, such as ČEZ, are obliged to acquire insurance covering potential liabilities for nuclear damages in the amount of not less than CZK 1.5 billion. The Dukovany and Temelín power plants are currently fully insured in accordance with the Atomic Act and the Vienna Convention. See Section "Insurance Matters" on page 64 for more information about ČEZ's insurance.

The Atomic Act contains a provision to the effect that, subject to the conditions of the act, the Czech Republic shall guarantee the safe final disposal of nuclear waste, including spent fuel. The Atomic Act requires the Ministry of Industry and Trade to establish the Radioactive Waste Repository Authority (the "**Repository Authority**") as a state organization, which carries out particular activities associated with disposal of nuclear waste. The Repository Authority was established on 1 June 1997. The Atomic Act provides that a generator of nuclear waste, such as ČEZ, will remain responsible for storage of nuclear waste and related costs until the handover of the waste in subject to the Repository Authority. The Repository Authority centrally organizes, supervises and is responsible for all final disposal facilities and deposition of nuclear waste therein. The establishment and activities of the Repository Authority are financed through the **Nuclear Account** funded by the generators of nuclear waste. The Nuclear Account is managed by the Ministry of Finance. ČEZ contributes CZK 50 per each MWh of electricity produced in the nuclear power plant to the Nuclear Account. Since 1 October 1997, ČEZ has made regular payments to the Nuclear Account based on the volume of electricity generated in nuclear power plants. During the period of 1997 - 2005 ČEZ paid CZK 7.2 billion to the Nuclear Account. ČEZ continues to provide for the future costs of interim storage in the form of an accounting reserve.

In 1999, ČEZ sold the repository for disposal of nuclear waste from the operation of both *Dukovany* and *Temelín* nuclear power plants to the Repository Authority. The Repository Authority has engaged ČEZ to continue operating this repository located at the Dukovany site.

According to the Atomic Act, ČEZ, as an operator, is responsible for decommissioning of its nuclear power plants and other nuclear facilities (e.g., storage facilities) at its expense. The state through the Repository Authority is supervising the sufficiency of accumulated funds.

Nuclear Fuel Materials and Fuel Procurement

Nuclear fuel materials and services (i.e. uranium, conversion and enrichment) have been procured on the middle and long-term contractual basis. The main portion of the total uranium needs has been so far covered from domestic sources. Since the Czech uranium production has been continuously decreasing in recent years with the perspective of almost full cessation in 2008, ČEZ concluded several new contracts for long term uranium supply in the world market in 2003 to cover the future needs of the nuclear power plant (NPP)

Temelín. These contracts have broadened ČEZ's portfolio of suppliers and contributed to an increased security regarding fuel materials supply. With respect to the future needs of the Dukovany NPP, ČEZ is going to buy uranium together with conversion and enrichment services as a package mostly based on its existing long term fuel fabrication contract with a Russian company JSC TVEL.

ČEZ's current nuclear fuel supplier for the Temelín NPP is Westinghouse Electric company which produces nuclear fuel for ČEZ in its facility in Columbia, South Carolina, USA. Refueling and shipments of nuclear fuel for the Temelín NPP from Westinghouse are performed according to the requested schedule on the basis of a long term contract. In April 2004, ČEZ opened a tender for supplies of nuclear fuel for the Temelín NPP for the period following the expiry of the current fuel contract. Westinghouse Electric company and a Russian company TVEL took part in the tender; based on the results of the tender the contract has been awarded to TVEL in May 2006.

Nuclear fuel for the four reactors of the Dukovany NPP is provided under very long-term commitments concluded with the Russian fabricator TVEL. Deliveries of nuclear fuel designated for transition from the four to five-year fuel cycle have been carried out recently. Nuclear fuel design has also been modified in order to accommodate the operation of reactors to an increased power level.

Spent Nuclear Fuel Storage

An interim storage facility for spent nuclear fuel, which utilizes transport and storage containers licensed and used in a number of countries (including the United States) at the Dukovany nuclear power plant became operational in December 1995. The capacity of this facility was fully used up in the first half of 2006. Construction of the second stage interim storage facility for spent nuclear fuel at the Dukovany power plant site is currently being completed. In 1999, the Nuclear Safety Authority issued a zoning permit for the second stage storage facility for spent nuclear fuel and an environmental impact assessment was completed. In 2000, ČEZ received a local zoning permit for this interim storage facility and in 2001 ČEZ entered into an agreement for the provision of storage containers for this facility. ČEZ received a construction permit in 2003. First spent fuel will be placed to the new storage in the second half of 2006. Upon the completion of this second stage, ČEZ expects that the capacity of the interim storage facility will be sufficient for the planned life of the power plant. ČEZ also plans the construction of an interim storage facility for spent nuclear fuel from the Temelín power plant directly at the Temelín site. ČEZ received offers for the storage and transport containers for the storage in the Temelín NPP in 2006. The supplier should be selected in 2007. As an alternative, an underground interim storage facility at the Skalka site in Southern Moravia is considered for the storage of spent fuel from both nuclear power plants. ČEZ obtained a local zoning permit for this site in March 2001.

Decommissioning of the Nuclear Power Plants

According to the Atomic Act, ČEZ will be responsible for decommissioning of the nuclear power plants and other nuclear facilities (e.g., storage facilities). ČEZ is providing funds for the future costs of decommissioning of its plants on a straight-line basis over the operating life of the plant. The total decommissioning costs have been currently estimated at CZK 16.4 billion for the Dukovany nuclear power plant and at CZK 13.7 billion for the Temelín nuclear power plant. These estimates of the decommissioning costs are submitted for verification to the Radioactive Waste Repository Authority. In order to accumulate an adequate amount of funds necessary to cover the ultimate costs of decommissioning the plants after the expiry of their service lives, ČEZ is obliged to review periodically the decommissioning costs estimates and to update its decommissioning provisions at least once in five years. The latest update of the decommissioning costs was made in 2003 for the Dukovany nuclear power plant and in 2004 for the Temelín nuclear power plant.

Nuclear Safety

Under Czech law, the Nuclear Safety Authority is responsible for supervising the safe operation of nuclear power plants. The Nuclear Safety Authority also supervises the compliance with relevant regulations and decrees and reviews ČEZ's operating documents, safety reports regarding the operation of nuclear facilities, the quality of selected facilities, repairs and maintenance and personnel training. The Nuclear Safety Authority representatives (local inspectors) are permanently on the Dukovany and Temelín sites in order to monitor the facilities' performance and compliance with safety standards and operating procedures, and to make recommendations for improvements where appropriate. Safe operation at the Dukovany and Temelín NPPs is governed by the requirements and documentation approved by Nuclear Safety Authority (Technical Specifications, Radioactive Effluent & Emission Monitoring Programs, etc.). Compliance with the regulations and requirements set out in the approved documentation is the responsibility of the plant. The Nuclear Safety Authority carries out the supervision through inspections. In 2005, there were 246 inspections at the Dukovany nuclear power plant and 96 inspections at the Temelín nuclear power plant. In its annual reports on nuclear safety and protection against radiation presented to the government of the Czech Republic, the Nuclear Safety Authority has evaluated the operation of the Dukovany and Temelín nuclear power plants in 2005 as reliable and safe. Since the start of the operations, the Dukovany and Temelín nuclear power plants have been continuously monitoring (under the supervision of the Nuclear Safety Authority) the levels of radiation in the immediate vicinity of the plants. To date, the results of the monitoring in the ventilation outlets and in the drains of the plants have indicated that radiation levels remain considerably below the statutory limits.

Unlike analogous western nuclear power plants, the units of the Dukovany nuclear plant do not have full pressure containment; however, the prevention of radioactive steam escape into the atmosphere in case of a breach of the primary circuit (the sealed circuit consisting of the steel pressure vessel containing the reactor, the steam generator and the connecting pipe) is ensured via hermetic zones complemented with a bubbler tower, which can relieve over-pressurization from the hermetic zones. In the Temelín nuclear power plant, both units are constructed with the standard full pressure containment of the western type. The Dukovany and Temelín nuclear power plants are designed to withstand the maximum design accident caused by a breakdown of the primary circuit and to consequently reduce the pressure and temperature of steam escaping from the primary circuit to the hermetic zones/containment by using spray systems.

IAEA, WANO

The Czech Republic is a member of the International Atomic Energy Agency ("IAEA"), a United Nations inter-governmental agency. ČEZ is also a member of the World Association of Nuclear Operators ("WANO"), and, like other members of this organization, submits its nuclear power plants to periodic peer review by members of the association. A peer review mission carried out by WANO at the *Dukovany* nuclear power plant in 1997 commended the power plant for a high level of operational safety. In accordance with ČEZ's practice with respect to the peer reviews, it has implemented the recommendations of the WANO peer review mission. In 1999 a WANO peer review verified whether its recommendations had been implemented. Such inspection concluded that its recommendations were implemented according to the recommended timetable. Similar WANO peer review mission has been carried out at Temelín plant at the end of 2004.

As a result of the Czech Republic's membership in the IAEA, the IAEA carried out an on-site IAEA assessment mission (ASSET mission) in October 1993 in order to evaluate the Dukovany nuclear power plant's operation with respect to failures, investigation thereof and remedial action in respect thereto. The IAEA mission commended ČEZ for a high level of operational safety, citing, among other things, a low occurrence of nuclear safety related incidents and the reduction of such incidents over the years immediately preceding the study. The next IAEA mission at the Dukovany power plant, which was initially scheduled for 1999 was rescheduled at November 2001. In November 2001, Dukovany underwent an Operational Safety Review Team (the "OSART") review. ČEZ received several recommendations and suggestions, which in overall puts Dukovany among well operated nuclear power plants. Based on the review, ČEZ prepared an action plan and fulfilled it. In October 2003, a follow-up OSART mission was held to review the implementation of its earlier recommendations and stated excellent fulfillment of previous recommendations. In February 2001 Temelín underwent an IAEA inspection (of the PRE OSART type), the results of which commended Temelín for its level of safety. As is usual for such inspections, the mission made recommendations regarding additional safety measures and suggested improvements, which ČEZ is currently implementing. However, the main conclusions were positive (commitment of Temelín managers to improve its operational safety and reliability, highly professional plant staff, plant material condition and housekeeping in accordance with good international practices). A follow up OSART mission took place at the end of 2003. The conclusions state that the OSART team was impressed with the actions taken in most areas to resolve the findings of the original mission. In November 2001, Temelín also underwent a different IAEA review mission focused on resolution of safety issues recommended for implementation at VVER-1000 reactors. This mission concluded that most of the

IAEA recommendations have been fully implemented and a few improvements are in an advanced stage of their implementation. The implementation of these improvements, however, should not preclude ČEZ's to safely operate the plant. The IAEA review also noted that in some areas Temelín exceeds generally applicable safety standards. In April 2002, a mission by IPPAS (International Physical Protection Advisory Service) performed the final physical protection assessment of Temelín. The final report evaluated the physical protection of the nuclear plant as good and stated that the level of the protection is adequate to the current international standards. In March 2003, a Site Seismic Hazard Assessment mission took place in Temelín to perform the final seismic hazards assessment. The final report of this mission did not contain any negative conclusions as to the seismic hazard at Temelín.

In 1991, IAEA and the Nuclear Energy Agency of the OECD introduced a seven-grade international nuclear events scale ("INES"), an internationally recognized standard used to inform the public of the safety significance of a nuclear event. Grades 5 to 7 mark accidents with a significant radiation exposure off-site, while grades 2 through 4 signify events with effects within the nuclear facilities only. Grade 1 means a deviation from normal operation and Grade 0 stands for an incident not related to safety. According to this scale applied retrospectively, the Dukovany nuclear power plant has experienced since 1999 until the end of 2005 only 5 incidents assessed at Grade 1 and no incident assessed at Grade 2 or higher. The Temelín nuclear power plant has experienced throughout its lifetime 7 incidents assessed at Grade 1 and no incident assessed at Grade 2 or higher.

Pursuant to the INES, this relatively small number of low-level incidents over a period of the past 6 years of operations at Dukovany and over the initial operational phase of the Temelín plant reflects a high level of safety. For comparison, the accident at an RBMK reactor at Chernobyl in the former Soviet Union in 1986 was retrospectively classified as level 7. The accident at the PWR reactor at Three Mile Island in the United States in 1979 was retrospectively classified as level 5.

To enhance the performance of and safety at the *Temelín* nuclear power plant, ČEZ conducted a bidding process for an instrumentation and control system and supply of nuclear fuel assemblies. Affiliates of the Westinghouse group were selected to supply this system. It is a requirement of the Nuclear Safety Authority and a contractual condition of the supplier that the components comply with the relevant licensing standards of their countries of origin as well as the standards applicable in the Czech Republic. ČEZ believes that, in large part, due to the substitution of the instrumentation and control system at the *Temelín* nuclear power plant and the change in the supplier and the design of the fuel, *Temelín* nuclear power plant reached a technical level assuring compliance with not only the existing Czech law and IAEA safety recommendations, but also a level comparable with the standards and recommendations of the U.S. Nuclear Regulatory Commission.

Hydroelectric Power Generation

ČEZ Group operates 34 hydroelectric power plants (small storage or pump storage). In 2005 ČEZ Group's hydroelectric power plants generated more than 2 TWh of electricity representing approximately 2% of its total electricity generation.

Nine of these plants are situated on dams on the *Vltava* river creating a cascade operation controlled by a central control system. The total of 1,932 MW (out of this 1,145 MW is pump storage) of the hydroelectric power capacity that ČEZ operates represents an important and cost-effective source of peak load generation for ČEZ Group. In recent years, the electricity consumption pattern in the Czech Republic has exhibited increasing intra-day peak demand. Additional development of hydropower generation in the Czech Republic is limited by the topography of the country and ČEZ Group is currently not constructing and does not have plans to construct any new hydroelectric power plants.

Hydroelectric power plants have a high degree of flexibility in the regulation of their output. The ability of the hydroelectric power plants and pump storage plants to centrally control conventional storage permits the hydroelectric plants to commence operating very rapidly, thereby facilitating their regulation of electric output.

Neither conventional storage nor pump storage hydroelectric power plants release polluting emissions into the atmosphere. These plants also represent an inexpensive source of electric energy, particularly in periods of peak demand. In addition thereto, pump storage power plants allow the productive use of excess electricity generated by base load plants by operating storage pumps in periods of low demand.

ČEZ Group's hydroelectric power plants may sustain damage in floods. In 1997 the hydroelectric power plant Dlouhé Stráně (but also three coal-fired power plants Dětmarovice, Hodonín and Dvůr Králové) were slightly damaged by floods and the total damage amounted to CZK 27.5 million In 2002, seven out of nine ČEZ Group's hydroelectric power plants located on the Vltava river and the coal-fired power plant Mělník were damaged by floods and the total damage was CZK 766 million This damage was covered from ČEZ Group's insurance (with 50 million deductible). As a result of the floods in 2002, the power generation in 2002 was reduced in four hydroelectric power plants from the planned 157 GWh to 74 GWh, and in the coal-fired power plant Mělník from 175 GWh to 39 GWh. The floods in 2004 did not have any impact on ČEZ's hydro power plants.

ČEZ owns the dams at the Dalešice, Mohelno, Dlouhé Stráně and Želina power plants and leases the other dams used for its other hydroelectric power plants. The leased dams are owned by the Czech Republic and managed by Povodí Vltavy, s.p., a company whose sole shareholder is the Czech Republic. ČEZ entered into agreements with Povodí Vltavy, s.p. to lease the dams. The agreements were concluded for an indefinite period of time and do not permit unilateral termination. The rent paid by ČEZ is based on a cost model and is agreed annually for each succeeding year. In 2005, the rent for all dams amounted to approximately CZK 128 million.

Figure 34: ČEZ Group's Hydroelectric Power Plants (Plants in Italic are owned by other ČEZ Group members)

Location	Installed Capacity *(MW)*	Type of Plant	Start of Operations
Lipno I	2 x 60	Accumulation	1959
Orlík	4 x 91	Accumulation	1961 - 1962
Kamýk	4 x 10	Accumulation	1961
Slapy	3 x 48	Accumulation	1954 - 1955
Štěchovice I	2 x 11,25	Accumulation	1943 - 1944
Vrané	2 x 6,94	Accumulation	1936
Střekov	*3 x 6,5*	*Accumulation*	*1936*
Lipno II	1 x 1,5	Small Hydro	1957
Hněvkovice	2 x 4,8	Small Hydro	1992
Kořensko I	2 x 1,9	Small Hydro	1992
Mohelno	1 x 1,2; 1 x 0,56	Small Hydro	1977, 1999
Dlouhé stráně II	1 x 0,16	Small Hydro	2000
Kořensko II	1 x 0,94	Small Hydro	2000
Želina	2 x 0,315	Small Hydro	1994
Přelouč	*2 x 0,68; 2 x 0,49*	*Small Hydro*	*1927, reconstruction 2005*
Spálov	*2 x 1,2*	*Small Hydro*	*1926*
Hradec Králové	*3 x 0,25*	*Small Hydro*	*1926*
Práčov	*1 x 9,75*	*Small Hydro*	*1953*
Pastviny	*1 x 3*	*Small Hydro*	*1938*
Obříství	*2 x 1,679*	*Small Hydro*	*1995*
Les Království	*2 x 1,06*	*Small Hydro*	*1923, reconstruction 2005*
Předměřice nad Labem	*1 x 2,1*	*Small Hydro*	*1953*
Pardubice	*1 x 1,96*	*Small Hydro*	*1978*
Spytihněv	*2 x 1,3*	*Small Hydro*	*1951*
Brno – Kníničky	*1 x 3,1*	*Small Hydro*	*1941*
Veselí nad Moravou	*1 x 0,12; 1 x 0,15*	*Small Hydro*	*1914, 1927*
Brno – Komín	*2 x 0,106*	*Small Hydro*	*1923*
Vydra	*2 x 3,2*	*Small Hydro*	*1939*
Hracholusky	*1 x 2,55*	*Small Hydro*	*1964*
Čeňkova pila	*1 x 0,09*	*Small Hydro*	*1912*
Černé jezero	*1 x 1,5; 1 x 0,04; 1 x 0,37*	*Small Hydro*	*1930, 2004, 2005*
Štěchovice II	1 x 45	Pump Storage	1947 – 1949, reconstruction 1996
Dalešice	4 x 112,5	Pump Storage	1978
Dlouhé Stráně I	2 x 325	Pump Storage	1996
Total installed capacity	1,932	of which 93 MW is within the group, but outside ČEZ.	

Source: ČEZ.

Wind and Solar Power Generation

ČEZ operates three wind power plants with an installed electricity generation capacity of 1 x 220 kW, 1 x 315 kW and 1 x 630 kW in the locality of Mravenečník near the Dlouhé Stráně hydroelectric power plant and four power plants in Nový Hrádek with an installed generation capacity of 4 x 400 kW. In 2005 these wind power plants generated 474 MWh of electricity.

ČEZ also operates one solar power plant which was built in October 2003 in the locality of the Dukovany nuclear power plant with an installed electricity generation capacity of 1 x 10 kW. This solar power plant was originally installed in the locality of Mravenečník.

Heat Generation

In general, heat is a by-product of the generation of electricity. ČEZ sells heat to municipalities, district heating companies and industrial consumers. At the present time, ČEZ is supplying heat from all of its coal-fired plants and the Dukovany and Temelín nuclear power plants. Heat is supplied to customers via steam/hot water pipelines operated by ČEZ, as well as by other persons. In 2005, sales of heat by ČEZ Group amounted to CZK 1,488 million.

Electricity Sales and Trading

ČEZ is optimizing the profit margin by flexibly arbitraging opportunities in domestic sales, exports and provision of ancillary services. Since 2005 this was expanded to include the CO_2 allowances trading and ČEZ decided to generate end export electricity only if by doing so it can obtain a better profit margin than from sale of unused CO_2 allowances. This has allowed ČEZ to increased its profit margin despite declining export volumes in 2005.

Figure 35: Balance of Electric Energy Provided and Supplied by ČEZ (GWh)

GWh	2003	2004	2005
Procurement			
Generated in-house (gross)	60,934	61,602	59,470
Other purchasing for resale	2,085	4,599	4,477
Purchased from OTE	353	67	219
Purchase to cover own consumption	21	11	6
Import	1	148	150
Purchased outside of the Czech Republic	895	1,977	1,068
Total	**64,289**	**68,404**	**65,390**
Supplied			
Sold domestically	39,093	49,795	51,431
Sold to supply companies (incl. ČEZ Group)	34,914	39,073	38,580
Sold to OTE	553	142	233
Sold to eligible customers	1,623	3,496	3,214
Sold to traders	1,209	6,370	8,616
Sold to ČEPS for loss coverage	719	677	757
Other domestic sales	75	37	31
Export	18,728	10,962	7,114
Sales of the Czech Republic	895	1,977	1,068
Total	**58,716**	**62,734**	**59,613**
Other ČEZ Group consumption	5,573	5,670	5,777
Total	**64,289**	**68,404**	**65,390**

Source: ČEZ.

Domestic Sales

ČEZ's total sales in the domestic market increased by 1,636 GWh in 2005, representing an increase of 3.9% compared to 2004. ČEZ sold most of its electricity supplies to the supply companies, accounting for 75% of all domestic electricity sales in 2005. ČEZ's direct sales of electric power to supply companies fell by 493 GWh compared to 2004, representing a decline of 1.3%. This decrease has been accompanied by an increase in sales to traders by 2,246 GWh, representing a 35% increase. The increasing share of traders in ČEZ´s domestic sales (from 3% in 2003 to 17% in 2005) is a result of the increasing competition in the market.

ČEZ is selling electricity for prices agreed by the contractual parties. Since 2002, the wholesale prices are no longer regulated by state. Most of the volume is sold for prices determined in two types of auctions – a Virtual Power Plant Auction and a wholesale auction.

Virtual Power Plant and Wholesale Auctions

An auction for electricity sales for 2006 through electricity generated in a virtual plant emerged as a new opportunity in the market in 2005. This option was provided for the Competition Office as a means for strengthening competition on the market after its approval of Severočeská energetika, a.s. remaining within the ČEZ Group. The electricity from the virtual power plant was offered in the blocks of 50 MW or 30 MW in summer months respectively. The demand was five times the amount of the supply. 17 domestic and foreign traders participated in the auction in August 2005.

For 2006, ČEZ offered electricity to its customers in the form of 15 zoning products. A wholesale auction for the supply of electricity for 2006 was initiated in August 2005. The overall electricity sales, including previously signed agreements on the sale of electricity generated in a virtual plant rose by 4.1% (1.6 TWh) as compared to 2005. The overall year-on-year increase in the price of the volume demanded in the given structure equaled to 14.3%. On the basis of the ordered volume and structure, ČEZ could optimize the utilization of its generation capacities and decrease the final prices of some products by 0.1% to 2.1% as compared to originally announced prices. The price of the baseload, the so - called yellow electricity, was therefore slightly reduced to CZK 1,041 per MWh.

In the auction process, in addition to the orders, ČEZ took into consideration the required volume of electricity needed for supplies to the final customers of ČEZ Prodej, s.r.o., which has an exclusive responsibility within ČEZ Group (since 2006) for sales to end customers in the Czech Republic. The volume of electricity offered by ČEZ Prodej, s.r.o., is sold under the same price conditions as electricity sold to other subjects on the market within the wholesale auction. Approximately 98% of predicted volume of electricity sale on the domestic market for 2006 was already sold as of 31 December 2005.

On 2 August 2006 CEZ held Virtual Power Plant Auction for supplies in 2007. Resulting price implied y-o-y change in the price of base load power of 17.1% to 1,220 CZK/MWh.

On 29 August 2006 CEZ also held a wholesale auction to sell 2007 power supplies mainly for domestic market. As opposed to last year, the power was split in two parts – base load and structured products; base load was auctioned in a price driven auction, the structured products were sold at prices which were capped at pre-set levels. Resulting annual base load price was 1,244 CZK/MWh, i.e. y-o-y increase of 19.5%. The structured products were demanded in volumes more than 6 times higher than a year ago while the price was capped at average 10.8% increase. The combined average prace increase (on a comparable basis) was 16.87%.

Exports, Imports, and International Exchange of Electricity

In 2005, the ČEZ's imports amounted to 150 GWh and the costs of such imports amounted to approximately 0.07% of its total operating expenses.

In 2005, ČEZ exported a total of 7,114 GWh, constituting 12% of all ČEZ´s electricity sales. ČEPS's high-voltage transmission grid is inter-connected with the transmission grids in Germany, Poland, Austria and the Slovak Republic. ČEZ exports electricity to Germany, Poland, Slovakia and Hungary on the basis of both short and long-term contracts.

Export of electricity to foreign markets remains a significant business activity of ČEZ. As a consequence of an increase in domestic sales (including electricity exported through other domestic businesses) and partially because of the introduction of trade with emission allowances, the direct exports decreased by 37% on a year-on-year basis.

Last year, the ČEZ's exporting activities were limited mostly by the accessibility of cross-border profiles, which were distributed among the interested parties through an auction. This mechanism, governed by supply and demand forces, often dramatically increased the profiles' prices. The electricity export price, decreased by the profile price, was mostly comparable with the price on the domestic market.

To improve capacity utilization, conciliate cross-border operations and strengthen its position on new markets, ČEZ established its representative offices in neighboring countries. These offices are to assist in the expansion of electricity business to the markets of Central and South-Eastern Europe.

Provision of Ancillary Services

To secure the system services, ČEPS, the transmission grid operator, has been buying ancillary services from 11 companies. In 2005, ČEZ had a share of 72% (in financial terms) on the Czech market of ancillary services. Since 2005, ČEZ has been selling ancillary services also to Slovakia (to SEPS, a.s.).

Figure 36: Development of Ancillary Services Revenues

CZK million	2003	2004	2005
Revenues from Provision of Ancillary Services	4,334	5,293	6,263

Source: ČEZ.

CO_2 Emission Allowances

In 2005, ČEZ became actively engaged in the trade with CO_2 emission allowances. After the approval of the National Allocation Scheme in the spring of 2005 (which allocated to ČEZ allowances for 36.9 million tones), and the creation of the Czech Register for Emission Allowances Trading and allocation of quotes, ČEZ started trading. Throughout the year, framework contracts were set up and ČEZ joined selected business platforms for the realization of trades with CO_2 allowances. In 2005, CO_2 emission allowances became a significant factor in optimizing the electricity plants' operations and a factor influencing the electricity prices on the European energy markets.

Figure 37: CO_2 Emission Allowances of ČEZ

Million of tons	Quantity
Assigned	36.9
Consumed	32.8
Sale	3.0
Purchase	0.8
Carried forward to the next years	1.9

Source: ČEZ.

Capital Investments

Strategic Goals of ČEZ in the Area of Investments

Upon completion of the environmental program, the updated strategic core of ČEZ's development is focused on the renewal of its generation fleet to remain competitive in the long run. ČEZ has developed a clear plan of its brown coal generation fleet renewal. Currently, ČEZ is also looking at its other technologies, namely nuclear, gas and hard coal; it is expected that a comprehensive strategy with respect to other fuels will be completed and presented in the second half of 2006. The goals for near future are to increase the reliability of the Temelín nuclear power plant through upgrades of turbines on both units; to continue in further development of the power plant portfolio renewal; to further invest into Bulgarian and Romanian distribution companies; to reduce power losses; to complete its integration in the Czech Republic; and to evaluate the investment opportunities in power sector in Central and Eastern Europe so that ČEZ is able to respond flexibly to developments in demand.

Additions to Property, Plants, Equipment, and Other Non-Current Assets

The following table sets out cash outflows related to additions to property, plants, equipment and other non-current assets (including capitalized interests) made from 2003 to 2005 (figures are consolidated in accordance with IFRS).

Figure 38: Cash Outflows Related to Additions to Property, Plants, Equipment, and Other Non-Current Assets

CZK million	2003	2004	2005
Plants and equipment	12,870	13,676	15,901
of which: nuclear fuel	*2,220*	*1,771*	*2,605*
Intangible fixed assets	962	1,288	1,367
Financial investments	14,382	222	242
Impact of acquisitions of fixed assets on liabilities	-1,833	1,739	-1,839
Total	**26,381**	**16,925**	**15,671**

Source: ČEZ.

Capital Investments in 2003

ČEZ

The main focus of capital investments in 2003 was put on the nuclear power. In April, Unit 2 of the Temelín nuclear power plant was put into commercial operation. Also, a program was implemented to bring the Dukovany nuclear power plant (especially through the renovation of the instrumentation and control system) into line with operational practice of nuclear power plants in the European Union, in order to create conditions for the facility's long-term safe and environmentally viable operation. Preparations were also underway for construction of spent nuclear fuel storage facilities in the compounds of both nuclear stations.

Total amount spent on capital projects related to nuclear power plants amounted to CZK 5.31 bn.

In conventional power generation, capital investments focused on revamping equipment, ensuring that the existing generation facilities were reliable and safe, with the objective of their optimal utilization and efforts to further rationalize their operations, automate them and make them more environmentally friendly. Preparations were underway to enable biomass to be burned in a mixture with coal in fluidized-bed, grate, and selected powder boilers. Further improvements were made to increase the utilization of power generation by-products for production of construction materials and in reclamation of fly-ash disposal sites. Several projects focused on renewal and ensuring reliability of installed plants and equipment damaged by the flood in 2002 continued or were commenced.

Total amount spent on capital projects related to conventional power plants amounted to CZK 0.77 bn.

Subsidiaries

Capital investment activities in all ČEZ Group electricity distribution companies focused primarily on the distribution grid. The objective was to continue increasing the reliability and operational safety, to improve availability parameters and to ensure a high standard of quality in supplies to customers.

The structure of the construction program focused on investments in construction and renovation of the high, medium, and low voltage grids and on renovations of high/medium voltage substations. The principal purposes of these investments were the development, renewal, and upgrading – with the use of environmentally friendly technologies that increase the grid's reliability and require only minimal maintenance.

Among the factors helping to fulfill these objectives were the development and application of new work techniques and procedures, such as work on energized power lines.

Similarly to the past years, information technologies were another major investment area, helping to facilitate active customer communications. This area included Call Centers development, Customer Relationship Management (CRM) projects, and e-Commerce. The renewal of a portion of the information system through implementation of SAP modules also played an important role.

Total amount spent on capital projects in ČEZ subsidiaries amounted to CZK 5.48 bn.

Capital Investments in 2004

ČEZ

Unit 1 of the Temelín nuclear power plant underwent guarantee repairs from February to April and Unit 2 overhaul took place from April to July. In the instrumentation and control system (I&C), new devices were installed to measure the quantity of steam from the steam generators, and adjustments were made to the controls of the low-pressure compressor station to allow for automated remote control. The preparatory project for the nuclear fuel storage facility continued, concurrently with work on documentation for zoning permit, basic safety analysis report, tender documentation for a container sets supplier, and documentation for the Environmental Impact Assessment (EIA) process. The EIA process with both Austrian and German representatives in the assessment team was initiated.

The most important capital investment project in the Dukovany nuclear power plant in 2004 was the refurbishment of the first two I&C system modules. The installation of new safety systems on Unit 3 was completed and these were put into operation for testing purposes. Construction work began on a new spent fuel storage facility at the Dukovany site. Work began in the spring, and structural work was completed in late 2004.

Total amount spent on capital projects related to nuclear power plants amounted to CZK 4.75 bn.

Construction of projects for dewatering and disposal of slag from the Tušimice power plant and disposal of industrial gypsum from the Prunéřov power plant, and preparatory works for the utilization of slag continued at the Ledvice and Mělník power plants. Completion of a capital investment project at the Dětmarovice power plant made it possible to utilize a part of that facility's fly ash for land reclamation and construction purposes. At the Tisová power plant, the issue of disposing of stabilized products from fluidized-bed boilers and desulphurization equipment was resolved. At the Poříčí and Hodonín power plants, changes necessary for burning biomass together with coal were made and, in addition, the electrofilter for the first fluidized-bed boiler at the Hodonín power plant was refurbished.

Total amount spent on capital projects related to conventional power plants amounted to CZK 1.12 bn.

Subsidiaries

Severočeská energetika, a.s.

The refurbishment and automation of Střekov hydro power plant, with a total budget of CZK 140 million, began in 2002 and continued throughout 2004. The project included the refurbishment of two turbogenerators and a series of steps leading to the full automation of the entire facility, with the objective of eliminating the need for any human operators.

Středočeská energetická a.s.

A revision of the connection of Tuchlovice – Stehelčeves 110 kV power line was performed, with a total budget of CZK 109 million. The purpose of the project was to connect the new Kladno power plant to the grid and to build a fiber-optic connection between Tuchlovice and the Kladno Regional Dispatching Center.

Východočeská energetika, a.s.

A new double power line, with a total budget of CZK 190 million, connecting the Mírovka 400/110 kV and Hlinsko 110/35/10 kV transformer substations was under construction. The objective was to connect the substations in question into a circuit and thereby increase the reliability of the supply. Preparatory works began in 1998, and the project is slated for completion in 2007.

Installation of a system of remote-controlled section switches began with a pilot project in 2000, and the completion of the entire system is anticipated in 2005. The budget for this project is CZK 162 million. The installation of remote-controlled section switches will shorten power-down times when localizing faults, thereby substantially improving the grid availability indicator.

The construction of a 110/35 kV transformer station in Rokytnice nad Jizerou, with a total budget of CZK 131 million, began in 2002 and was commissioned in 2003. In 2004, finishing works took place. The new station addresses capacity issues in the area and provides for its further development.

Západočeská energetika, a.s.

E CENTRUM, a sales and consultation center with a budget of CZK 209 million, was completed and opened in May 2004. The E CENTRUM is a multifunction building with facilities for providing services and consulting in the area of energy, along with office space and facilities for training, seminars, social events, and catering.

Capital Investments in 2005

ČEZ

Capital expenditures in 2005 focused on upgrading and developing the Dukovany nuclear power plant and preparations for renewal of the generating base in conventional power.

<u>*Nuclear Power*</u>

Dukovany Nuclear Power Plant

The Instrumentation & Control system renewal project is being implemented during standard fuel replacement outages. On Unit 3, the installation of generating unit information systems, a reactor control system, and an intrareactor monitoring system were completed. Another significant project on Unit 3 was the replacement of low-pressure components in the flow-through section of the turbogenerators, including rotors, to increase efficiency and extend useful life. The result is a 3.4% decrease in unit heat consumption, corresponding to a 16 MW increase in the achievable capacity of this unit. At the same time, the useful life of the low-pressure stage was extended so it will last for the entire period for which the power plant is to remain in operation.

Spent Nuclear Fuel Storage Facility at Dukovany Nuclear Power Plant

When the last CASTOR cask was delivered in early 2006, the existing storage facility reached its full design capacity of 60 CASTOR casks. In 2005, a new spent fuel storage facility was under construction. The new facility's capacity of 133 CASTOR casks is amply sufficient to cover the entire period for which Dukovany nuclear power plant is planned to be in operation. The facility will be opened in 2006.

Temelín Nuclear Power Plant

In 2005, demolition and cleanup works on special-purpose buildings and sites used in the course of the plant's construction begun. These works are to be completed in 2006. A protective layer of paint was applied to the outer cladding of the Unit 2 cooling towers.

A number of measures were taken in order to upgrade the generating equipment and to increase the reliability and safety of individual operating components. Further, boiler No. 3 and 4 of the gas-fired boiler island were overhauled and upgraded to allow fully automated operation without human intervention.

Spent Nuclear Fuel Storage Facility at Temelín Nuclear Power Plant

In 2005, documentation for the zoning permit and for the facility location permit was prepared, as was the documentation for a tender to find a supplier of casks and an information memorandum for the Environmental Impact Assessment of the project, in which Austrian and German representatives participated. Both the Ministry of Environment of the Czech Republic and the European Union issued consenting opinions on the proposed project. The Nuclear Safety Authority, as the administrative authority with jurisdiction over the matter, issued the nuclear facility location permit.

Activities necessary for the possible renewal of preparatory works with respect to a storage facility for spent fuel from the Temelín nuclear power plant at the Skalka site, as an alternative solution, are ongoing.

Total amount spent on capital projects related to nuclear power plants amounted to CZK 5.90 bn.

Conventional Power

Generation Base Renewal

In accordance with the Program of Further Operation and Conception of Renewal of the ČEZ's Generation Base, preparations for the comprehensive renewals of the Tušimice II and Prunéřov II power plants and the construction of new brown-coal generating units, each with 660 MW capacity in the existing sites of Ledvice and Počerady power plants, begun.

The merged business and construction plans for the Comprehensive Renewal of Tušimice II power plant, proposing that the facility retain its current generating capacity of 4 x 200 MW were approved in February 2005. The fact-finding phase of the Environmental Impact Assessment (EIA) confirmed that the project is not subject to EIA. Basic engineering documentation of the project was drawn up and in December 2005 and an application was filed for a building permit. The actual construction of the project will take place between March 2007 and June 2010.

The business plan for the comprehensive renewal of the Prunéřov II power plant (4 x 200 MW) was approved in 2006. Implementation of this project will follow the renewal of Tušimice II power plant. Both plants will be supplied from the adjoining Libouš brown coal mine until approximately 2035.

A second part of the renewal program is the construction of cutting-edge brown coal-fired units utilizing commercially available modern technologies with supercritical steam parameters, ensuring commensurate generating efficiency and compliance with emissions limits prescribed for these facilities.

A business plan to construct a 660 MW unit in Ledvice power plant to be fired by brown coal from Doly Bílina with a planned commissioning date in late 2011 was approved in November 2005. In April 2006, a business plan for a second project with the same capacity in Počerady (660 MW) was completed and submitted for approval.

Total amount spent on capital projects related to conventional power plants (including environmental imvestments below) amounted to CZK 1.22 bn.

Environmental Investments

In accordance with the governmental decree No. 406/2004 Coll., preparations for the implementation of technical measures leading to an increased generating facility operational safety, especially by reducing dust levels begun. Also, projects in the area of improving the utilization of energy generation by-products for the production of construction materials and in cleaning up and reclaiming repositories of such by-products are ongoing.

Modifications were made to selected coal-fired power plants to enable them to fire an increased proportion of biomass in mixture with coal in fluidized-bed and fire-grate boilers. A number of technical and biological reclamation projects have been executed at conventional power plants to reclaim energy generation by-product landfills and revitalize the countryside. In 2005, reclamation works were ongoing or completed in the vicinity of Mělník, Poříčí, Chvaletice, Ledvice, Tušimice, and Hodonín power plants. Since in 2005, emissions measurement technology has been upgraded in all power plants and CO_2 emissions measurement started. This should ensure that pollutants emitted into the air will continue to be measured accurately in the future.

At the hydropower plants, preparations were made for modification of the dispatching control station of the Vltava Cascade and a turbine wheel was replaced at Dalešice power plant.

Expenditures for the ČEZ Group Information System

In 2005, the ČEZ Group spent CZK 1.83 billion on its information system. The largest component was the implementation of SAP and the related infrastructure. The ČEZ Group IT infrastructure was developed through roughly 30 projects, the most important of which are the projects for the implementation of a Financial Information System (FIS) and a Customer Information System (CIS).

In accordance with the roll-out of the unified SAP information system, the following efforts continued in 2005 within the VIZE 2008 project framework:

- implementation of basic systems for ČEZ Zákaznické služby, s.r.o., ČEZ Prodej, s.r.o., ČEZ Distribuce, a. s., ČEZ Měření, s.r.o., and ČEZ Obnovitelné zdroje, s.r.o.;
- implementation of planning, reporting, and strategic indicators products for the five regional electricity distribution companies and eight of the new process-based companies; and
- full development of system for the core businesses of ČEZ Prodej, s.r.o., ČEZ Distribuce, a. s., and ČEZ Logistika, s.r.o.

A new ČEZ Group Data Center was built in the Temelín nuclear power plant compound. The new data center will be operated by ČEZData, s.r.o.

Key Capital Projects of Subsidiaries

Severočeské doly a.s.

An extensive refurbishment and modification of an existing minewater treatment plan that doubled the facility's capacity to 80 liters/second was completed in 2005. A new feature is the ability to discharge treated minewater in a controlled fashion even when the treatment plan is not operating, for a period of 14 days at an average flow rate of 13 l/s into the public waterway, thereby ensuring the public-health minimum flow needed by the town of Březno. The total expenditures were CZK 159 million.

Another completed project in 2005 was the assembly of a SchRs 1320 large-scale extractor for Doly Nástup Tušimice at a total project costs of CZK 802 million.

ČEZ Distribuce, a. s.

A project to build a 110 kV high voltage power line and a 400/110 kV transformer station in Krasíkov begun in 2005. The total budget of the project is CZK 100 million.

ČEZData, s.r.o.

An ERP (Enterprise Resource Planning) development project began for ČEZ Prodej, s.r.o. and ČEZ Distribuce, a. s. The total budget of the project is CZK 150 million.

An information unbundling project included a major overhaul of the Customer Information System at the total budgeted cost of CZK 126 million.

Severočeská energetika, a.s.

Automation of the Střekov hydropower plant began on 1 July 2002 with the refurbishment of the TG 3 turbogenerator. In 2005, the machine was disassembled and its main portion was transported to a sub-contractor. In 2003, the machinery portion of TG 3 was refurbished, a control system was installed, and a cleaning machine was purchased. TG 3 was commissioned on 25 November 2003. TG 2 was refurbished in 2004 and recommissioned on 8 February 2005. TG 1 was refurbished in 2005 and reassembly and reinstallation were completed on 31 December 2005. The total expenditures were CZK 172 million.

Severomoravská energetika, a. s.

CZK 160 million was expended to purchase a 110 kV power line that connects the Dětmarovice power plant to the grid.

Východočeská energetika, a.s.

Construction works on a new 110 kV double power line between the Mírovka 400/110 kV and Hlinsko 110/35/10 kV transformer stations continued. Preparatory works on the project began in 1998 and the completion is planned in 2007. Total budgeted costs are CZK 190 million.

Another continued project was the installation of remote-controlled section switchgears that reduce shutoff times when localizing grid faults, thereby substantially improving the grid availability parameter. The total costs of the project are CZK 209 million.

Elektrorazpredelenie Pleven EAD

A capital project, was implemented involving the shifting of electrical panels and electric meters to the outer perimeters of land parcels at total budgeted cost of BGN 11 million (CZK 168 million). The principal aim is to reduce the amount of electricity consumed but not metered.

Elektrorazpredelenie Sofia Oblast EAD

Capital projects – shifting of electrical boxes and electric meters to land parcel perimeters – were implemented at total budgeted cost of BGN 12 million (CZK 184 million).

Elektrorazpredelenie Stolichno EAD

The following capital projects were implemented in 2005:

- shifting of electrical boxes and electric meters to land parcel perimeters at a total budgeted cost of BGN 52 million (CZK 785 million);
- construction of medium- and low-voltage equipment at a cost of BGN 41 million (CZK 631 million) and BGN 28 million (CZK 428 million), respectively; and
- a project to upgrade substation equipment at a total cost of BGN 23 million (CZK 346 million).

Capital Investments in 2006

Power Generation and Trading Segments

At the beginning of 2006, the activities at Nuclear Power Plant Dukovany were concentrated mainly on preparation of construction of Renewal of System of Control and Management of Units 1 and 4 planned outages. Within the framework of general revisions of Unit 3, defects (discovered during unit shutdown in 2005) were repaired and changes caused by relevant modifications were implemented. During the general revision of Unit 2, activities towards the next step of Renewal of System of Control and Management were undertaken. Recently, general revision of Unit 1 has been under preparation.

At Spent Nuclear Fuel Storage Site for the Dukovany Nuclear Power Plant functional tests were completed and construction handover took place. Construction site has been in temporary use following construction authority approval since April 2006. At the end of H1 a planned supply of the containers took place. The duration of testing operation will be determined based on permission by State Office for Nuclear Safety for individual phases of construction commissioning.

Total amount spent on capital projects related to nuclear power plants amounted to CZK 2,082 million in H1 2006. The pattern of investments to date has not changed significantly compared to H1 2006.

Main focus in conventional power plants was on Plant Portfolio Renewal.

Complex renewal of power plants Tušimice II (4 x 200 MW) and Prunéřov II (5 x 210 MW) and construction of new lignite units of total installed capacity of 660MW in current areas of power plants Ledvice and Pocerady has been initiated in 2006. In April 2006 a construction permit was issued for the power plant Tušimice II and a contract with general supplier - Škoda Praha Invest, s r.o. was signed. In June 2006 sub-supplier contracts for important technological parts (machine room, boiler room and desulphurization) were signed, and at the beginning of July 2006 a contract with the supplier of water management systems was signed. The construction will be realized from June 2007 till September 2010.

In February 2006 Power plant Prunerov II complex renewal business plan was approved, detailed technical concept has not been decided yet.

Second part of the renewal program consists of construction of modern lignite units using commercially accessible modern technologies. In May 2006 a plan of construction of 660MW unit in power plant Ledvice using lignite from Bilina mine was approved. The considered date of commissioning is half of 2012. In July 2006 a proposal was sent to the Ministry of Environment of the Czech Republic to review the potential impact of the construction on the environment. The second project of lignite unit of 660 MW in Pocerady is in approval process of the business plan.

The total amount spent on capital projects related to conventional power plants amounted to CZK 2,412 million in H1 2006. The pattern of investments related to conventional power plants to date has not changed significantly compared to H1 2006.

Distribution and Supply Segment

Works on construction of 110kV line Mírovka – Hlinsko continued with the aim to increase security of supply from supply area of transformer station Hlinsko. Construction of switching station 110 kV Tynec was initiated. Planned finalization is in Q3 2008. The first phase of construction of Krasikov, TR 400/110 kV – switching station 110 kV was finalized.

The total amount spent on capital projects related to distribution and supply segment amounted to CZK 2,421 million in H1 2006, out of which CZK 1,617 millions was for CEZ Distribuce (ie. in the Czech Republic). The pattern of investments related to distribution and supply segment to date has not changed significantly compared to H1 2006.

Mining Segment

In April 2006 a two year testing operation of Large Excavator SchRs 1320 placed in Nastup Tusimice mine was initiated.

Total amount spent on capital projects related to mining amounted to CZK 1,008 million in H1 2006. The pattern of investments related to mining to date has not changed significantly compared to H1 2006.

Segment Others

The main investments in segment "Others" was represented mainly by projects related to CEZ Data.

ČEZ Data, s.r.o

The company mainly invested in infrastructure development and renewal of IT end user device at customers. Notable were also investments into safety of operated information technologies. In 2006 the investments should be further concentrated on customer information system development and on technical information system preparation for assets management of distribution companies.

Total amount spent on capital projects related to ČEZ Data, s.r.o. amounted to CZK 220 million in H1 2006. The pattern of investments related to segment "Others" to date has not changed significantly compared to H1 2006.

Research and Development, Patents and Licenses

Research and Development

ČEZ hires external entities to perform research projects based on ČEZ's technical assignments, evaluations, and performance check-ups. ČEZ provides documentation, technical information and data to such entities. The research performed by the external entities covers numerous projects primarily in the areas of conventional power and nuclear energy. Further, ČEZ's REAS perform research regarding the operation of the distribution grid. Some of ČEZ's research is conducted with the support of the Czech Ministry of Industry and Trade. None of the research projects currently performed by ČEZ are material for its business.

Licensing Regime

Participants on the electricity market must obtain a license issued by the Energy Regulatory Office for their activities. The entities having authorizations under the former Energy Act had to obtain new licenses under the New Energy Act during a transition period of one year, i.e., until 31 December 2001. In order to avoid the possibility of the Office making discriminatory decisions, the Office is required to issue a license if the applicant meets certain statutory requirements. The licenses are granted for a definite period of time (at least 25 years, with the exception of the license for electricity trading – at least 5 years). The owners of the licenses are published in a Bulletin published by the Office. ČEZ holds all required licenses to operate electrical power generation, electricity distribution, electricity trading, heat generation, and heat energy distribution.

In addition, authorizations granted by the Ministry of Industry and Trade are necessary for the construction of electricity generators of 30MW capacity and of a direct electricity line. The granting of such an authorization is within the discretion of the Ministry of Industry and Trade (unlike the licensing regime of the Office). An authorization is granted for a period not exceeding 5 years (with a possibility of prolongation).

Insurance Matters

ČEZ maintains several types of insurance against damage of its property and against its potential liabilities. It includes property insurance of conventional power plants, property insurance of nuclear power plants, nuclear liability insurance, other liability insurance and other property insurance. The insurance coverage complies with the Atomic Act and the Vienna Convention requirements in respect of responsibility for damage caused by a nuclear incident.

ČEZ's coal-fired plants and hydroelectric plants have been covered by property insurance since 1 June 1997. In 2005, ČEZ launched a tender and concluded a new insurance policy . The policy covers any and all property of the power plants (except for land, disposal sites and landscapes recultivation) duly kept in its accounts. In 2005, the scope of cover was extended from "natural hazards" and "machinery breakdown" to "all risks cover" and "machinery breakdown". Currently, the maximum coverage under the policy is CZK 3.3 billion, and the deductible per event is CZK 50 million.

Pursuant to the Atomic Act and the Vienna Convention, ČEZ is obliged to conclude insurance of liability for nuclear damages caused by operation of nuclear power plants and liability for nuclear damages caused during the transport of fresh nuclear fuel. The Atomic Act also stipulates limits of operators' liability for nuclear damages and the minimum limits of liability insurance. Regarding liability for the operation of a nuclear facility, the operator is liable for nuclear damages up to CZK 6 billion and must be insured for at least CZK 1.5 billion. Regarding the transport of fuel, the maximum liability is CZK 1.5 billion, and the operator must be insured at least for CZK 200 million. As a rule, liability insurance for nuclear damages is concluded separately for each site and transport of fuel with the Czech Nuclear Pool.

In accordance with the requirements of the Atomic Act, ČEZ has concluded a nuclear third party liability policy for damages connected with the operation of the Dukovany and Temelín nuclear power plants covering damages up to CZK 1.5 billion, and insurance policies covering the nuclear third party liability up to CZK 200 million for transport of nuclear fuel to the Dukovany and Temelín power plants.

ČEZ maintains insurance policies that cover all property of both Temelín and Dukovany nuclear power plants. These insurance policies were concluded under different conditions of risk coverage, in particular with different limits of insurance proceeds and various deductibles. The property insurance policy for the Dukovany nuclear power plant was concluded as of 31 December 1998. The maximum coverage is CZK 3 billion, and the deductible per event is CZK 80 million. For Temelín, the property insurance policy is effective from 5 July 2000 and the maximum coverage is CZK 35 billion, the deductible per event is CZK 180 million. All insurance policies for Dukovany and Temelín nuclear power plants are maintained with the Czech Nuclear Pool, which is an association of 9 major insurance companies (as of 1 January 2006) in the Czech insurance market. The leader of the Czech Nuclear Pool is Česká pojištovna, a.s. Through reinsurance, the Czech Nuclear Pool assigns the majority of risk to other national nuclear pools all over the world.

Apart from the above, ČEZ maintains other insurance policies, including comprehensive general liability insurance and directors and officers liability insurance to cover certain damage caused to third parties by the members of the Board of Directors, Supervisory Board and governance bodies of ČEZ and its subsidiaries.

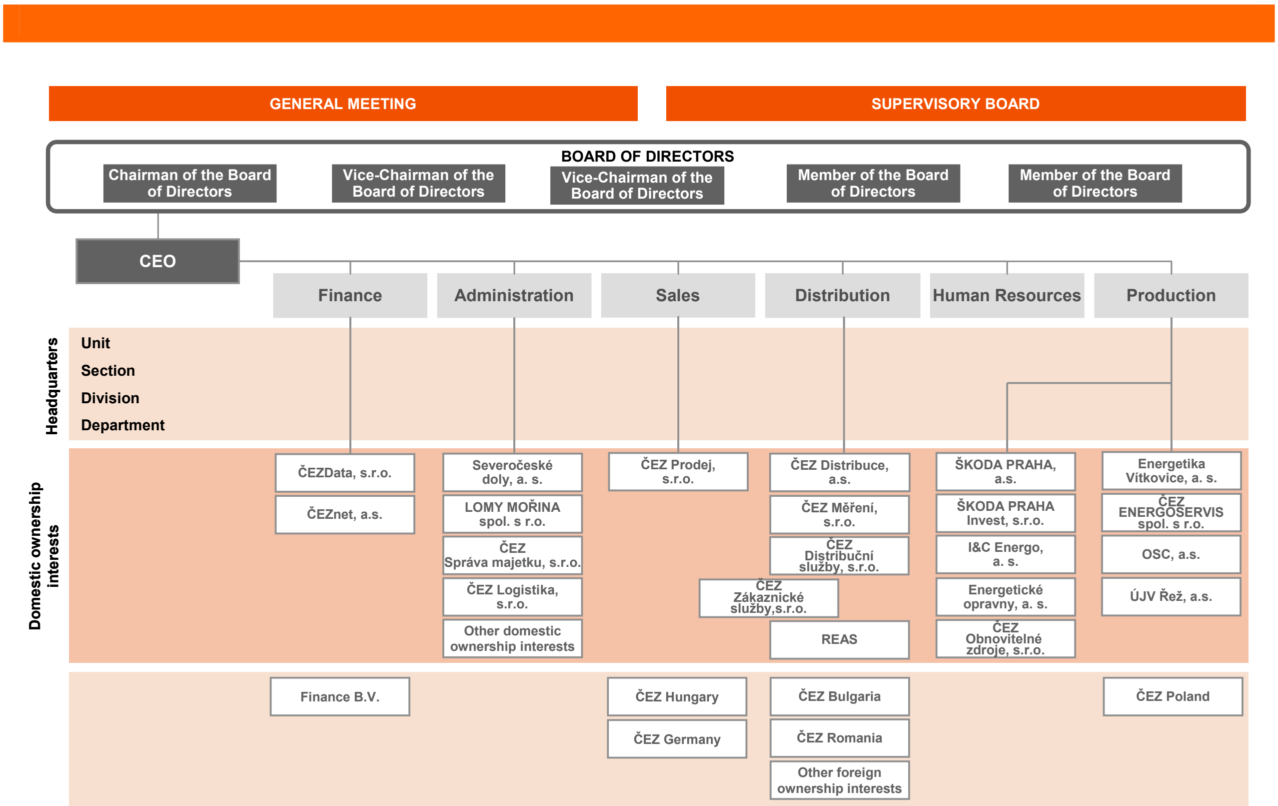
Organizational Structure

The ČEZ Group belongs to the largest energy holdings in the Central and South-Eastern Europe. In 2005, the Group further expanded abroad and strengthened its position on the domestic market through the integration of a coal company.

As of the end of 2005, the ČEZ Group consisted of 93 entities, including the holding company, ČEZ and the acquired Bulgarian and Romanian distributors, and employed 29,905 employees. 41 of these entities were consolidated.

During 2006, ČEZ executed agreements based on which it would acquire two Polish and one Bulgarian power plant once all the necessary approvals are in place (namely the approvals of the relevant antitrust authorities). The acquisition of the Polish power plants was settled in May 2006.

Figure 39: ČEZ's Organizational Structure



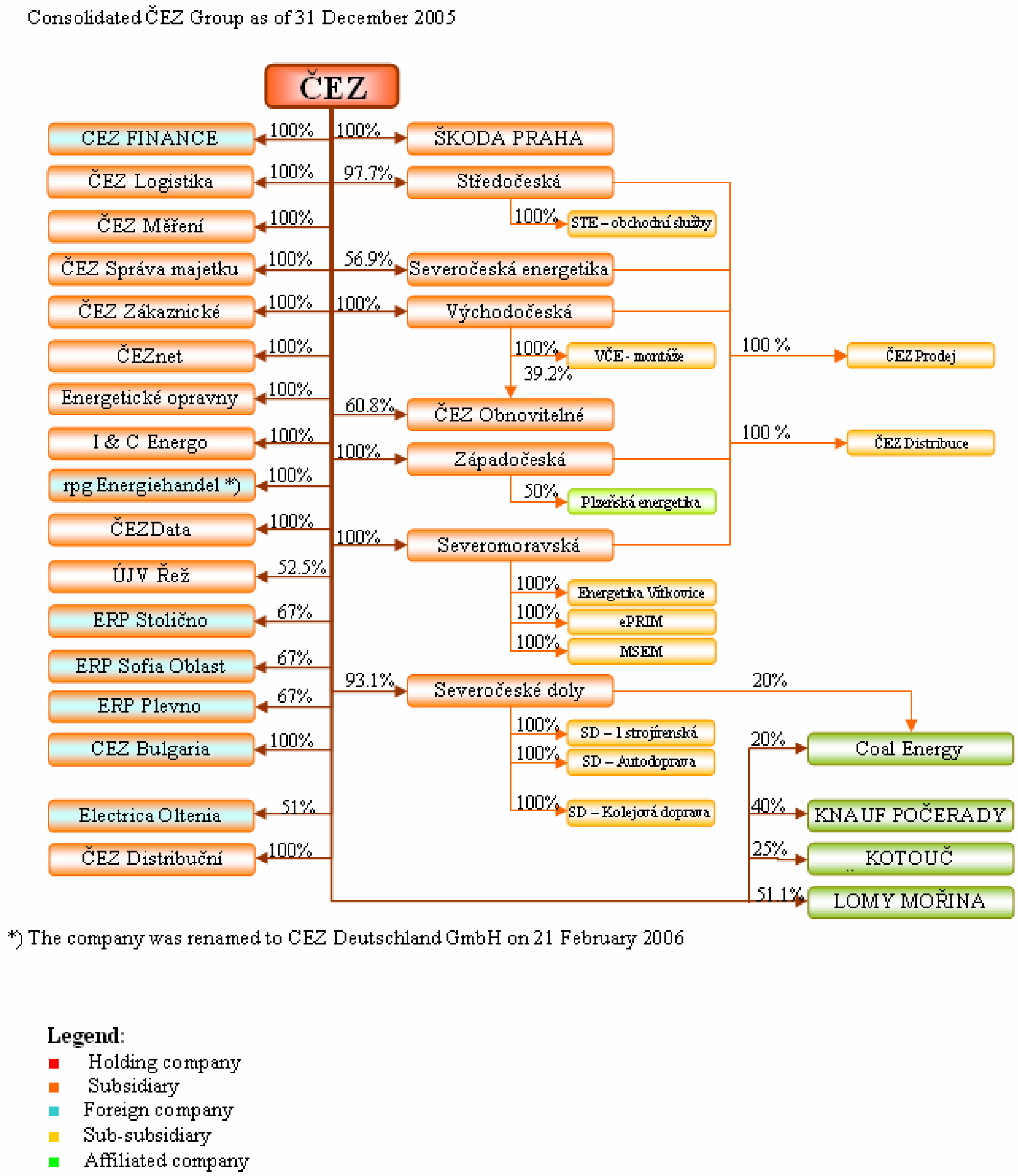
Source: ČEZ.

In the Czech Republic, ČEZ is the dominant electricity generator, operator of distribution network on the majority of the country's area, and the strongest player on the wholesale and retail electricity markets. Most of the production capacities are centralized in the holding company ČEZ, which at the same time ranks among the biggest heat producers. In 2005, the original organization of ČEZ's distribution companies was replaced by a process organization. One of the reasons was the separation of distribution, as a regulated activity, from generation (unbundling). ČEZ Distribuce, a. s., and ČEZ Prodej, s.r.o. overtook the key activities of distribution and sale of electric energy respectively. By the acquisition of the coal company Severočeské doly a.s. in December 2005, ČEZ achieved a full vertical integration with the exception of the transmission system in the Czech Republic. In 2005, the acquisition of three Bulgarian distribution companies Elektrorazpredelenie Plevno EAD, Elektrorazpredelenie Sofia Oblast EAD, and Elektrorazpredelenie Stolichno EAD, and the acquisition of the Romanian distributor Electrica Oltenia S.A. were completed. In May 2006, the purchase of majority stakes in the Polish electric companies Elektrownia Skawina S.A. and Elektrocieplownia Elcho Sp. z o. o. was completed. In May 2006, a contract for the purchase of a 100% share in the Bulgarian power plant Varna was signed; the transaction was settled on 3 October 2006.

The most significant business activity of ČEZ is generation, procurement, distribution and sale of electric energy to end users, including the offer of ancillary services. The decisive share of revenues is generated by the supply of electricity from its own economically-efficient sources, secured with high reliability, minimal safety risks and harmful effects on the environment. In the operation of nuclear plants, nuclear safety has the highest priority.

Other activities of the ČEZ Group are telecommunications, IT, nuclear research, projection, building and maintenance of energetic equipment, mining of resources, refinement of side energetic products and others.

Figure 40: List of Significant Subsidiaries



Source: ČEZ.

The ČEZ Group

ČEZ was established by the National Property Fund of the Czech Republic, as the sole founder, on the basis of the deed of foundation (including the founder's decision pursuant to Section 172(2) and (3) and Section 171(1) of the Act No. 513/1991, the Commercial Code) dated 30 April 1992 in the form of a notarial deed. ČEZ was established on 6 May 1992 by its record into the Commercial Register. The majority shareholder of ČEZ was the National Property Fund and, after its termination on 31 December 2005, the stake was transferred to the Czech Republic – Ministry of Finance.

The key business activity of ČEZ is the sale of electricity generated in its own facilities (including accompanying ancillary services), and generation, distribution, and sale of heat.

Regional Distribution Companies

ČEZ has controlling stake in several regional distribution companies, which form a part of the ČEZ Group and are listed in the table below.

Figure 41: Regional Distribution Companies

Regional Distribution Company	ČEZ's Ownership	
	as of 1 January 2005 (%)	as of 30 June 2006 (%)
Středočeská energetická a.s.	97.72	97.72
Severočeská energetika, a.s.	56.93	96.14
Severomoravská energetika, a. s.	89.38	100.00
Východočeská energetika, a.s.	98.83	100.00
Západočeská energetika, a.s.	99.13	100.00

Source: ČEZ.

ČEZ increased its stakes in the regional distribution companies as a result of the mandatory takeover bid addressed to shareholders of Severomoravská energetika, a. s. (the shareholding was increased to 99,13% in February 2005), and as a result of the squeeze out rights, exercised by ČEZ, as the majority shareholder, in Severomoravská energetika, a. s., Východočeská energetika, a.s. and Západočeská energetika, a.s., in accordance with the Sections 183i-183n of the Commercial Code.

The squeeze out and the transfer of the minority shares to ČEZ were approved by the general meetings of all the respective companies. The following consideration per share was approved in compliance with Section 183m of the Commercial Code:

Figure 42: Squeeze Out Consideration

Regional Distribution Company	Consideration per Share *(CZK)*
Severočeská energetika, a. s.	3,575
Severomoravská energetika, a. s.	3,811
Středočeská energetická a.s.,*	2,750
Východočeská energetika, a.s.,	3,292
Západočeská energetika, a.s.,	7,052

Source: ČEZ.
**The squeeze-out has been challenged by two shareholders, please see below for more details.*

Following the record of the general meetings resolutions in the Commercial Register and after a corresponding announcement in Commercial Bulletin in August 2005, ČEZ, became a 100% shareholder in Severomoravská energetika, a. s., Východočeská energetika, a.s. and Západočeská energetika, a.s.. The payment of cash consideration was launched in November 2005. As far as Středočeská energetická a.s. is concerned, the decision of the general meeting was not recorded in the Commercial Register and the increase of ČEZ's share is not yet effective, due to a pending court dispute. In 2005 ČEZ acquired a call option to acquire a 39.04% stake in Severočeská energetika, a.s. from its former holder, Segfield Investments Limited, which ČEZ exercised on 14 April 2006. On August 28 the general meeting of Severočeská energetika, a.s. approved squeeze out of the remaining minority shareholders. The ultimate goal is to achieve 100% ownership in all 5 distribution companies.

In connection with the ongoing realization of the VISION 2008 project and the restructuralization of the ČEZ Group, and as a consequence of the duty to separate distribution as the regulated activity, from other activities, the respective parts of businesses of the particular REAS dealing with electricity distribution and dealing with electricity sale, were contributed into the share capital of ČEZ Distribuce, a. s., and ČEZ Prodej, s.r.o., respectively.

As of 1 January 2006, none of five REAS in the ČEZ Group dealt with purchase, distribution and sale of electricity services. The sale of electricity is carried out by ČEZ Prodej, s.r.o., and the distribution by ČEZ Distribuce, a. s.

For basic financial information on the REAS, please see the following table.

Figure 43: REAS – Basic Financial Overview

	Unit	Severočeská energetika, a.s.	Severomoravská energetika, a. s.	Středočeská energetická a.s.	Východočeská energetika, a.s.	Západočeská energetika, a.s.
Revenues	*CZK million*	9,920	15,162	11,728	9,335	5,892
outside of the ČEZ Group	*CZK million*	8,795	14,319	11,279	8,637	5,504
EBITDA	*CZK million*	1,510	2,532	1,322	1,387	846
Net income	*CZK million*	872	1,243	1,110	1,244	758
Total assets	*CZK million*	8,728	12,865	8,629	8,554	7,798
Equity	*CZK million*	7,571	10,760	7,889	8,155	7,540
Number of employees as of 31 December 2005	#	532	957	614	598	455
Not providing services related to distribution and trading with electricity since		11/1/2005	1/1/2006	12/1/2005	10/1/2005	9/1/2005

Source: ČEZ.

Process Companies and Their Position within the ČEZ Group

The new business concept of the ČEZ Group encompasses 10 process companies. Each particular company is responsible for one basic process. The registered seats of the process companies are evenly located across the distribution area of the group. Each process company covers by its activity the whole distribution area of the five former REAS.

1) ČEZ Distribuce, a. s.

ČEZ Distribuce, a. s. was established on 31 March 2005 by the five regional electricity distribution companies controlled by ČEZ with the registered capital of CZK 25 million in order to comply with the requirement set by the Energy Act that distribution operations must be separated from electricity sales.

By having a single company operating the distribution grids of the five regional electricity distribution companies, including dispatching centers, cost savings were realized and the business became more effective. On 22 August 2005, the company's General Meeting approved an increase of the registered capital by CZK 63.55 billion through non-monetary capital contributions consisting of the distribution business of the regional electricity distribution companies. The increase of the registered capital was recorded in the Commercial Register on 28 February 2006. As of 1 January 2006, the company is the only entity in the ČEZ Group that holds an electricity distribution license.

The following table provides a basic overview of financial information regarding ČEZ Distribuce, a. s.

Figure 44: ČEZ Distribuce, a. s

	Unit	2005
Revenues	*CZK million*	4,687
outside of the ČEZ Group	*CZK million*	419
EBITDA	*CZK million*	1,259
Net income	*CZK million*	-103
Total assets	*CZK million*	59,081
Equity	*CZK million*	37,919
Number of employees as of 31 December 2005	#	869

Source: ČEZ.

2) ČEZ Prodej, s.r.o.

ČEZ Prodej, s.r.o. was established on 31 March 2005 by the five regional electricity distribution companies controlled by ČEZ with the registered capital of CZK 25 million. It sells electricity to end customers of the ČEZ Group in the Czech Republic. On 22 August 2005, the company's General Meeting approved a CZK 6.66 billion increase of the registered capital in the form of contributions of the applicable parts of business of the regional electricity distribution companies and ČEZ. On 8 March 2006, the registered capital increase in the amount of CZK 6.685 billion was recorded in the Commercial Register. ČEZ Prodej, s.r.o. commenced operations in autumn 2005, when it organized the 2006 electricity contracting campaign for the ČEZ Group.

The following table provides a basic overview of financial information regarding ČEZ Prodej, s.r.o.

Figure 45: ČEZ Prodej, s.r.o.

	Unit	2005
Revenues	*CZK million*	10,065
outside of the ČEZ Group	*CZK million*	9,506
EBITDA	*CZK million*	99
Net income	*CZK million*	36
Total assets	*CZK million*	15,775
Equity	*CZK million*	4,447
Number of employees as of 31 December 2005	#	184

Source: ČEZ.

3) ČEZnet, a.s.

ČEZnet, a.s. which is a 100% subsidiary of ČEZ, provides all telecommunications services to the ČEZ Group members, including leases of devices connected to telecommunication networks. In addition, it offers its excess capacities, which are relatively small, for sales through the free market.

On 26 January 2005, ČEZ increased the registered capital of ČEZnet, a.s. by a CZK 1 billion monetary contribution in order to finance the purchase of telecommunication assets of the regional electricity distribution companies. Also, an agreement on the transfer of a 100% equity stake in SINIT, a.s. to ČEZnet, a.s. from Severomoravská energetika, a. s. was signed on 21 December 2005. Currently the company's registered capital amounts to CZK 1.77 billion.

The following table provides a basic overview of financial information regarding ČEZnet, a.s.

Figure 46: ČEZnet, a.s.

	Unit	2005
Revenues	*CZK million*	1,162
outside of the ČEZ Group	*CZK million*	205
EBITDA	*CZK million*	557
Net income	*CZK million*	217
Total assets	*CZK million*	2,540
Equity	*CZK million*	2,032
Number of employees as of 31 December 2005	#	256

Source: ČEZ.

4) ČEZData, s.r.o.

ČEZData, s.r.o., a wholly-owned subsidiary of ČEZ, acts as a computer services and data processing services provider within the ČEZ Group. As of 1 January 2005, all IT administration functions of the five regional electricity distribution companies were transferred to the company and, effective from 1 January 2006, the centralization of IT administration was completed by the transfer of ČEZ's IT section to ČEZData, s.r.o.

On 1 September 2005, the company's 100% subsidiary, EN-DATA a.s., was merged into ČEZData, s.r.o.

The company's registered capital is currently CZK 1.95 billion.

The following table provides a basic overview of financial information regarding ČEZData, s.r.o.

Figure 47: ČEZData, s.r.o.

	Unit	2005
Revenues	*CZK million*	1,666
outside of the ČEZ Group	*CZK million*	49
EBITDA	*CZK million*	531
Net income	*CZK million*	28
Total assets	*CZK million*	2,751
Equity	*CZK million*	974
Number of employees as of 31 December 2005	#	303

Source: ČEZ.

5) ČEZ Zákaznické služby, s.r.o.

ČEZ Zákaznické služby, s.r.o., is a 100% subsidiary of ČEZ with the registered capital of CZK 20 million, and was established in 2004. It provides services to small customers, operates the sales offices and the ČEZ Group central telephone center. It also provides for invoicing and administers the accounts of all end electricity customers. It began providing services on behalf of selected ČEZ Group members in 2005.

The following table provides a basic overview of financial information regarding ČEZ Zákaznické služby, s.r.o.

Figure 48: ČEZ Zákaznické služby, s.r.o.

	Unit	2005
Revenues	*CZK million*	677
outside of the ČEZ Group	*CZK million*	9
EBITDA	*CZK million*	154
Net income	*CZK million*	114
Total assets	*CZK million*	290
Equity	*CZK million*	127
Number of employees as of 31 December 2005	#	877

Source: ČEZ.

6) ČEZ Logistika, s.r.o.

ČEZ Logistika, s.r.o., is a 100% subsidiary of ČEZ, with the registered capital of CZK 200 million, is the ČEZ Group's centralized procurement and logistics company, established in 2004. The company conducts large-volume procurement and subsequently optimizes transport, handling, and sale of materials and services needed for the operation and construction of distribution grids. Its principal customers are members of ČEZ Group, but the company is also active in the market at large.

The following table provides a basic overview of financial information regarding ČEZ Logistika, s.r.o.

Figure 49: ČEZ Logistika, s.r.o.

	Unit	2005
Revenues	*CZK million*	615
outside of the ČEZ Group	*CZK million*	173
EBITDA	*CZK million*	5
Net income	*CZK million*	5
Total assets	*CZK million*	492
Equity	*CZK million*	204
Number of employees as of 31 December 2005	#	164

Source: ČEZ.

7) ČEZ Měření, s.r.o.

ČEZ Měření, s.r.o., is a 100% subsidiary of ČEZ, with the registered capital of CZK 216 million. The company's original name was VČE - měřicí technika, s.r.o. It commenced operating on 1 June 2005 and became fully functional as of the second half of 2005. Its role in the ČEZ Group is to provide electricity metering services for approximately 3.5 million customers. With the objective of streamlining electric meter operations, the following functions, among others, were transferred to this company from the regional electricity distribution companies: data gathering, processing, and verifying for operating, sales, and regulation purposes as well as administration, repairs, and inspections of all types of electric meters, switching elements, etc.

The following table provides a basic overview of financial information regarding ČEZ Měření, s.r.o.

Figure 50: ČEZ Měření, s.r.o.

	Unit	2005
Revenues	*CZK million*	587
outside of the ČEZ Group	*CZK million*	3
EBITDA	*CZK million*	154
Net income	*CZK million*	103
Total assets	*CZK million*	489
Equity	*CZK million*	321
Number of employees as of 31 December 2005	#	1,017

Source: ČEZ.

8) ČEZ Správa majetku, s.r.o.

ČEZ Správa majetku, s.r.o., is a 100% subsidiary of ČEZ with the registered capital of CZK 550.1 million, and commenced its operations on 1 September 2005. In the future, its principal business will be the administration of the ČEZ Group's non-power-related assets.

The following table provides a basic overview of financial information regarding ČEZ Správa majetku, s.r.o.

Figure 51: ČEZ Správa majetku, s.r.o.

	Unit	2005
Revenues	*CZK million*	45
outside of the ČEZ Group	*CZK million*	0
EBITDA	*CZK million*	-12
Net income	*CZK million*	-19
Total assets	*CZK million*	576
Equity	*CZK million*	540
Number of employees as of 31 December 2005	#	110

Source: ČEZ.

9) ČEZ Obnovitelné zdroje, s.r.o.

ČEZ Obnovitelné zdroje, s.r.o. is held by ČEZ (60.8%) and Východočeská energetika, a.s. (39.2%), and has the registered capital of CZK 200 million. The company's mission is to act as a central repository of all the ČEZ Group's operations relating to the production of electricity from renewable energy sources (small-scale hydropower plants, wind power plants, and solar power plants) and to work actively to further develop them. After the completion of certain asset transfers, ČEZ will hold 100% in the company.

The original name of the company is VČE - elektrárny, s.r.o. and it was a 100% subsidiary of Východočeská energetika, a.s. On 31 December 2005, it merged with HYDROČEZ, a.s. and ČEZ obtained a majority stake therein. The company's reorganization will continue with the contribution of hydropower plants from Západočeská energetika, a.s. and Severočeská energetika, a.s. and of a portion of the assets of Východočeská energetika, a.s. As of 1 July 2006, when these transactions are completed, the company's generation portfolio should consist of 18 hydropower plants and one farm of wind power plants.

The following table provides a basic overview of financial information regarding ČEZ Obnovitelné zdroje, s.r.o.

Figure 52: ČEZ Obnovitelné zdroje, s.r.o.

	Unit	2005
Revenues	*CZK million*	184
outside of the ČEZ Group	*CZK million*	37
EBITDA	*CZK million*	124
Net income	*CZK million*	23
Total assets	*CZK million*	1,191
Equity	*CZK million*	954
Number of employees as of 31 December 2005	#	53

Source: ČEZ.

10) ČEZ Distribuční služby, s.r.o.

ČEZ Distribuční služby, s.r.o., is a 100% subsidiary of ČEZ with the registered capital of CZK 10 million, and was established on 12 October 2005. Its principal business is a comprehensive provision of distribution grid services and the operation of a fault response service. The principal beneficiary of these services will be ČEZ Distribuce, a. s. The company is expected to become fully operational starting in the second half of 2006.

As of 1 January 2006, there were seven fully functional process companies in the ČEZ Group. During 2006, the transformation of the activities from former REAS into the process companies will be completed by means of in-kind contributions of distribution services of the respective former REAS into the registered capital of ČEZ

Distribuční služby, s.r.o. and by an in-kind contribution of the asset management activities to the registered capital of ČEZ Správa majetku, s.r.o. The restructuralization will continue with the separation of services and assets from Severočeská energetika, a.s., Východočeská energetika, a.s. and Západočeská energetika, a.s. and their contributions to the registered capital of ČEZ Obnovitelné zdroje, s.r.o.

The following table provides a basic overview of financial information regarding ČEZ Distribuční služby, s.r.o.

Figure 53: ČEZ Distribuční služby, s.r.o.

	Unit	2005
Revenues	*CZK million*	0
outside of the ČEZ Group	*CZK million*	0
EBITDA	*CZK million*	0
Net income	*CZK million*	0
Total assets	*CZK million*	10
Equity	*CZK million*	10
Number of employees as of 31 December 2005	#	0

Source: ČEZ.

Other Important Entities

Severočeské doly a.s.

Principal business activity of Severočeské doly a.s. is the research, mining, processing and sale of brown coal and associated raw materials. As of 1 January 2005, ČEZ owned a 37.20% stake in the company. After the purchase of additional shares from the Březno municipality, the shareholding increased to 37.31%.

By a government decision No. 1259 dated 29 September 2005, the state's share in Severočeské doly a.s. was privatized by means of direct sale to ČEZ. Pursuant to the government decision and in compliance with the respective Share Purchase Agreement between the National Property Fund, as the seller, and ČEZ as the buyer, dated 20 October 2005, ČEZ acquired additional 55.79% share, which resulted in its 93.10% shareholding.

On the request of ČEZ, as the majority shareholder, the general meeting of the company held on 27 March 2006 approved the squeeze out of minority shareholders and the transfer of their shares to ČEZ. On 19 June 2006 ČEZ was registered in the Commercial Registry as a 100% shareholder of Severočeské doly, a. s.

The following table provides a basic overview of financial information regarding Severočeské doly a.s.

Figure 54: Severočeské doly a.s.

	Unit	2004	2005	Index 2005/2004 (%)
Revenues	*CZK million*	7,801	7,998	102.5
outside of the ČEZ Group	*CZK million*	2,996	2,738	91.4
EBITDA	*CZK million*	1,860	3,607	193.9
Net income	*CZK million*	355	2,010	565.6
Total assets	*CZK million*	24,328	22,528	92.6
Equity	*CZK million*	14,392	14,218	98.8
Number of employees as of 31 December 2005	#	3,685	3,554	96.4

Source: ČEZ.

ŠKODA PRAHA a.s.

Principal business activities of the company consist of construction of high-efficient energetic systems (coal-fired and nuclear power plants, gas-steam power plants, peaking units), reconstruction of existing power plants, industrial and municipal energetic systems (heating plants) and ecological projects (biomass burning).

ČEZ increased its participation from 68.88% to 97.6% as a result of a mandatory take-over bid as of 9 March 2005. After the general meeting held on 31 August 2005, which approved squeeze out of minority shareholders, ČEZ became a 100% owner of ŠKODA PRAHA a.s. as of 5 November 2005. The economic performance of the company after the stabilization remains balanced.

The following table provides a basic overview of financial information regarding ŠKODA PRAHA a.s.

Figure 55: ŠKODA PRAHA a.s.

	Unit	2004	2005	Index 2005/2004 (%)
Revenues	*CZK million*	1,985	1,004	50.6
outside of the ČEZ Group	*CZK million*	1,301	290	22.3
EBITDA	*CZK million*	238	65	27.1
Net income	*CZK million*	135	57	42.2
Total assets	*CZK million*	1,512	1,299	85.9
Equity	*CZK million*	749	793	105.9
Number of employees as of 31 December 2005	#	385	381	99.0

Source: ČEZ.

I & C Energo a.s.

I & C Energo a.s., is a wholly-owned subsidiary of ČEZ, whose main business activities are complex supplies of engineering and maintenance services in the area of supervision and management systems, technological information systems, electro systems etc. The company belongs, with its turnover over CZK 1 billion, among the biggest companies in this sector in Czech Republic.

The following table provides a basic overview of financial information regarding I & C Energo a.s.

Figure 56: I & C Energo a.s.

	Unit	2004	2005	Index 2005/2004 (%)
Revenues	*CZK million*	797	860	107.9
outside of the ČEZ Group	*CZK million*	330	291	88.2
EBITDA	*CZK million*	105	96	91.6
Net income	*CZK million*	63	42	66.5
Total assets	*CZK million*	498	585	117.4
Equity	*CZK million*	255	297	116.6
Number of employees as of 31 December 2005	#	913	1060	116.1

Source: ČEZ.

Ústav jaderného výzkumu Řež a.s.

ČEZ owns a 52.46% stake in the company. The business activities of Ústav jaderného výzkumu Řež a.s. consist of a relatively broad area of responsibilities:

- design, projection, expert assessment, production, construction, operation, maintenance, refurbishment, and decommissioning of nuclear equipment;
- research and development, and application in the nuclear area; and
- engineering, projection in construction, hazardous waste management, production of isotopes, and medical formulations for health care.

The following table provides a basic overview of financial information regarding Ústav jaderného výzkumu Řež a.s.

Ústav jaderného výzkumu Řež a.s.

	Unit	2004	2005	Index 2005/2004 (%)
Revenues	*CZK million*	733	842	114.8
outside of the ČEZ Group	*CZK million*	369	470	127.5
EBITDA	*CZK million*	144	155	107.1
Net income	*CZK million*	48	37	77.7
Total assets	*CZK million*	1,202	1,236	102.8
Equity	*CZK million*	726	764	105.3
Number of employees as of 31 December 2005	#	921	948	102.9

Source: ČEZ.

Energetické opravny, a.s.

ČEZ owns a 10% stake in the company. The business activities of Energetické opravny, a.s. include boiler and engine room operations, coal handling, decommissioning, pumping stations, water cleaning stations, heavy oil handling, compressor stations, and related piping.

The following table provides a basic overview of financial information regarding Energetické opravny, a.s.

Figure 57: Energetické opravny, a.s.

	Unit	2004	2005	Index 2005/2004 (%)
Revenues	*CZK million*	385	379	99.3
outside of the ČEZ Group	*CZK million*	34	35	104.5
EBITDA	*CZK million*	18	19	104.8
Net income	*CZK million*	5	7	148.4
Total assets	*CZK million*	125	180	144.2
Equity	*CZK million*	73	80	109.0
Number of employees as of 31 December 2005	#	455	465	102.2

Source: ČEZ.

Significant Foreign Stakes

Bulgaria

ČEZ owns the following companies in Bulgaria[9]:

- Elektrorazpredelenie Pleven EAD - 67%;

[9] TPP Varna EAD was acquired on 2 October 2006; 2005 financial results are not dealt with in this section.

- Elektrorazpredelenie Sofia Oblast EAD - 67%; and
- Elektrorazpredelenie Stolichno EAD - 67%.

Energy Sector

The European Commission denied Bulgaria's request for additional financial aid for shutting down two reactor units of the Kozloduj nuclear power plant. The deadline for shutting down Kozloduj is still the end of 2006, and this is also one of the conditions for the country to join the European Union.

In near future, the construction of a new nuclear power plant in Belene is to begin. On 1 February 2006, a group of Czech companies, Škoda Alliance, which includes ŠKODA PRAHA a.s. and Ústav jaderného výzkumu Řež a.s. (both members of the ČEZ Group), submitted a final bid for the construction of the new power plant. The contract is valued at EUR 3.5 billion. The power plant is to be completed by the construction of two 1,000 MW generation units. The first unit is to be commissioned in 2010/2011, and the second one by 2016. The general contractor of the project will be selected by the Bulgarian power company, NEK, by the end of the year, so that works on the plant's construction can begin in 2007.

Currently, the Bulgarian electricity market is only partially liberalized. On 25 October 2005, Bulgaria, Romania, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro, Kosovo, and Turkey signed an Energy Community Treaty with the European Union representatives. The principal goal of this project is to integrate these countries into the EU's internal energy market. This should result in a unified regulatory framework for the entire South-Eastern Europe.

Bulgaria has completed the privatization of its electricity distribution companies, in which ČEZ acquired the companies Elektrorazpredelenie Stolichno EAD, Elektrorazpredelenie Sofia Oblast EAD, and Elektrorazpredelenie Pleven EAD. These ČEZ Group companies, including CEZ Bulgaria EAD, employ an overall work force of 4,693 people. Their distribution grid includes 57,224 km of lines, mostly medium and low voltage. Annual sales volume, including grid losses, is approximately 9,590 GWh, the companies serve 1.94 million end customers, and their share in the Bulgarian market is approximately 42%.

The distribution market in Bulgaria has entered the "unbundling" phase, i.e., the separation of the licensed activity, i.e., distribution, from the sale of electricity. The entire process must be completed by the entry of Bulgaria to the European Union, or by 31 December 2006, whichever comes earlier.

The ČEZ Group's main project in Bulgaria for 2006 is to legally separate distribution from electricity supply, since this is required even by the existing licenses of the three distribution companies acquired by ČEZ. At the same time, shared services such as central procurement, finance, human resources, and IT will be spun off from the three distribution companies. Eligible customer services, wholesale trading, and electricity export/import will be done by CEZ Trade Bulgaria EAD, which obtained an electricity trading license on 4 July 2005. Currently, price negotiations are underway for purchases of electricity in the wholesale market and sale of electricity to eligible customers.

Management of New Acquisitions and Integration into the ČEZ Group

The new acquisitions in Bulgaria are being managed using experience gained in the VIZE 2008 project. The project includes, for example, comparisons of the Bulgarian electricity distribution companies among themselves, and with the Czech regional electricity distribution companies. A unified organization structure was rolled out in mid-2005 and planned steps include the implementation of a new Management Information System and unification of the invoicing system. One hundred employees from the three distribution companies work in integration project teams led by a Bulgarian team leader and a Czech supervisor whose task is to ensure that the ČEZ Group's best practices are used.

Figure 58: Economic Results of Bulgarian Distribution Companies

CZK million	2004*)	2005**)
Sales revenues	11,685	11,872
of which outside ČEZ Group	11,685	11,836
EBITDA	1,134	1,576
Net income	159	674
Assets	9,506	9,586
Equity	6,335	6,695
Work force head count at 31 December 2005	4,905	4,693

Source: ČEZ.
Note: The exchange rate used herein is the average exchange rate in the respective periods.
** Elektrorazpredelenie Stolichno EAD, Elektrorazpredelenie Sofia Oblast EAD, and Elektrorazpredelenie Pleven EAD.)*
*** Elektrorazpredelenie Stolichno EAD, Elektrorazpredelenie Sofia Oblast EAD, Elektrorazpredelenie Pleven EAD, and CEZ Bulgaria EAD*

Capital Expenditures

Overall capital expenditures in Bulgaria totaled BGN 66.0 million (approximately CZK 1.005 billion), the main portion of which (BGN 55.3 million or CZK 888 million) went to distribution grid development in general, reducing losses, increasing reliability, and extending facility life, including renovations and upgrades of medium- and low-voltage transformer stations. Another significant capital project was the installation of electric meters to reduce unauthorized electricity consumption.

Electricity Procurement and Supply in Bulgaria

Figure 59: Electricity Procurement and Supply in Bulgaria

GWh	2005
Procurement:	
Other purchases for resale	9,590
Purchased from the spot market	0
Imported	0
Total	**9,590**
Supply:	
Sold in Bulgaria	7,937
Wholesale	1,882
Retail (businesses)	2,419
Households	3,631
Sold to regional distribution companies	5
Exported	0
Total sales	**7,937**
Other consumption (including in-house)	12
Losses in the distribution grid	1,642
Total	**9,590**

Source: ČEZ.

Romania

Energy Sector

The privatization of the energy industry in Romania is currently ongoing. The natural gas distributors were privatized in 2004.

In late 2004, two electricity distribution companies were privatized: Electrica Banat S.A. and Electrica Dobrogea S.A. Two more followed in April 2005: Electrica Moldova S.A. and Electrica Oltenia S.A. In October 2005, ČEZ became the owner of a majority stake (51%) in Electrica Oltenia S.A.

In 2005, the distribution company Electrica Oltenia S.A. supplied 4,075 GWh of electricity to 1.37 million end customers, and its Romanian market share was 15%. In the fourth quarter alone, when it entered the ČEZ consolidation group, Electrica Oltenia S.A. sold 918 GWh of electricity to end customers.

Energy legislation in Romania is mostly harmonized with European Union directives. Their application in practice is slower, however. As of June 2005, the electricity market is open for all customers, except households. Complete opening of the market is to take place in mid-2007.

A government ordinance passed in July 2003 calls for an administrative separation of regulated and non-regulated operations starting from 1 January 2006, and full legal separation no later than 1 July 2007. The Energy Act only contains a general statement of the necessity of separating regulated operations from non-regulated ones.

ČEZ was given the opportunity to participate directly in comment proceedings during the process of drafting unbundling legislation and rules. The aim is to prepare (by 30 June 2006) and execute (by 30 June 2007) the legal separation of these operations in Electrica Oltenia S.A. The target solution will be the same as for the Bulgarian electricity distribution companies.

Management of New Acquisitions and Integration into the ČEZ Group

2006 will see the roll-out of a new, process-based organization, which will replace the current structure. Functions will be centralized and costs of certain functions such as meter readings and maintenance will be optimized through outsourcing. A new invoicing system will also be implemented. A rebranding project is in the preparation phase.

In 2006, the ČEZ Group plans to commence a pilot model for mass customer service channels and actively manage the process of changing customers' status. Implementation also began on a unified dispatching control system. A non-energy-related assets utilization strategy is being prepared.

In order to realize the long-term trading plans and develop ČEZ Group's business in Romania, a trading function was established, which will cooperate with the ČEZ trading department. The objective is to increase the wholesale margin, and effectively balance the trading position in markets that fall within ČEZ Group's sphere of interest.

Figure 60: Economic Results of Electrica Oltenia S.A.

CZK million	**2004**	**IV. Q 2005**	**2005**
Sales revenues	11,189	2,599	10,665
of which outside ČEZ Group	11,189	2,599	10,665
EBITDA	1,829	266	1,305
Net income	(981)	295	515
Assets	12,475	16,350	16,337
Shareholders' equity	8,416	12,600	12,591
Work force head count at 31 December 2005	2,930	2,969	2,969

Source: ČEZ.
Note: In 2005, the company was forced to create provisions in accordance with IFRS requirements and ČEZ Group accounting policies. Among other things, provisions were created for risks associated with potential litigation, employee benefits expenditures, assets reduction, etc. Since a part of the provision relates to previous years, previous financial statements were adjusted as called for by IFRS. The company is consolidated from Q4 2005.
The figures presented herein are as presented in the annual report of CEZ Group before final adjustments. For final figures please see Figure 25.
The exchange rate used herein is the average exchange rate in the respective periods.

Capital Expenditures

Overall capital expenditures totaled RON 77 million (approximately CZK 615.08 million), of which RON 11.5 million (approximately CZK 91.86 million) was covered by a program of state-guaranteed distribution grid development loans. Expenditures on information technologies reached a total of RON 1.9 million (approximately CZK 15.18 million).

The principal goals of the spending were to improve the technical condition of plant and equipment, increase efficiency (particularly by reducing losses) and reliability, ensure that electricity supplies meet contract parameters, mitigate negative environmental impacts, and enable electricity sales to new customers.

Procurement and Sale of Electricity

In the fourth quarter of 2005, when the company became a member of the ČEZ Group, Electrica Oltenia S.A. sold a total of 953 GWh. Sales volume for the entire year 2005 was 4,142 GWh.

Figure 61: Electricity Procurement and Sale in Romania

GWh	IV. Q 2005	2005
Procurement:		
Purchased for resale	1,345	4,984
Purchased on the spot market		407
Imported		2
Total	**1,345**	**5,393**
Supply:		
Sold in Romania	953	4,142
Wholesale	421	2,182
Retail (businesses)	215	819
Households	281	1,074
Sold on the spot market	10	13
Other sales in Romania	25	54
Exported	0	0
Total sales	**953**	**4,142**
Other consumption (including in-house)	18	18
Losses in the distribution grid	374	1,233
Total	**1,345**	**5,393**

Source: ČEZ.

Poland

The ČEZ Group operates in Poland through its representative office, ČEZ Poland, in Warsaw. On 31 January 2006, agreements for the purchase of the majority stakes in Polish electricity companies Elektrociepłownia Chorzów "ELCHO" p. z r.o. and Elektrownia Skawina S.A. were signed and the transaction was settled on 29 May 2006.

The installed capacity of the black-coal electricity company Skawina is 592 MW and it produces approximately 2.4 TWh of electricity annually. The electricity generation part was established in 1961, the heating part in 1986. Almost half of the power plant has been continuously refurbished since 1993; nevertheless, some further investments are needed to meet the stricter emission limits in 2008. Electricity is sold in the open market and prices are approximately 45% below those of the long term power purchase agreements. Due to the combined generation of electricity and heat, the electricity plant supplies the city of Skawina and the western part of Krakow with heat and hot water; its share on the heat market in the Krakow region exceeds 20%. The power plant is located close to the supplying mines. Skawina's CO_2 allocation per MW installed capacity belongs to the highest in Poland, mainly due to high historical utilization of its capacity.

Figure 62: Skawina – Selected Data

*EUR million**	2003	2004	2005
Revenues	98.6	99.5	104.9
EBITDA	11.5	9.0	5.2
EBIT	6.7	3.8	0.1
Net profit	5.1	3.0	0.1
Net debt (debt - cash)	1.4	9.3	18.9
Electricity sales** *(TWh)*	2.5	2.4	2.7
Installed capacity *(MW)*			590
Installed capacity *(MWt)*			618
Fuel			Coal

Source: ČEZ.

* *Polish accounting standards, converted using 3.85 PLN/EUR rate.*

** *Excluding balanced trading in open markets.*

The black-coal electricity plant Elcho, located in Chorzów (north-west from Katovice), generates both electricity and heat in two modern blocks with the installed capacity of 238 MW. It is a brand new power plant established in 2003. The single buyer of the generated electricity (100%) is the operator of the Polish transmission grid, PSE, based on a long term power purchase agreement. The heat is supplied to Katovice and the surrounding area. The power plant is located close to the supplying mines. Allocated CO_2 allowances fully cover the anticipated production.

Figure 63: Elcho – Selected Data

*EUR million**	2003	2004	2005
Revenues	46.2	89.3	88.4
EBITDA	4.2	44.9	44.5
EBIT	1.9	36.2	35.9
Net profit	10.4	42.0	-6.9
Net debt (debt - cash)	309.3	251.4	253.3
Electricity sales *(TWh)*	n.a.	1.4	1.4
Installed capacity *(MW)*			220
Installed capacity *(MWt)*			500
Fuel			Coal
Commissioned			2003

Source: ČEZ.

* *Polish accounting standards, converted using 3.85 PLN/EUR rate.*

Both power plants are close to the ČEZ's 800 MW hard coal power plant in northern Moravia – Dětmarovice (50 and 100 km, respectively); this proximity is favorable for possible future synergies in a number of activities, including the possibility of joint coal supply.

The ČEZ Group continues to participate in the privatization tenders for majority stakes in the electricity plants Dolna Odra, Kozienice, and a mining company Katowicki Holding Węglowy, and competes for the acquisition of a majority stake in ZE PAK (Patnów, Adamów, Konin). In case of further privatization tenders and inclusion of other companies therein, ČEZ will consider its participation in such tenders.

The Shareholders Structure and Its Development

The below table sets forth the shareholdings in ČEZ as of 31 December 2005 and the development of the shareholders structure in the past years.

Československá obchodní banka, a. s., administers securities of 52 shareholders in the nominal value of CZK 1,654 million and Citibank administers securities of five shareholders in the nominal value of CZK 442 thousand. Foreign investors' (both entities and natural persons) representation in the ČEZ's registered capital is

19.88%. ČEZ is unable to detect potential further foreign shareholders, whose securities are administered by administrators.

The only shareholder with a share greater than 5% of the registered capital is the Czech Republic – Ministry of Finance (since 1 January 2006, when the stake was, by the virtue law, transferred from the National Property Fund). There are no specific rights associated with the shares held by the Czech Republic – Ministry of Finance.

Figure 64: Shareholders Structure

in %	31 Dec. 2001	11 June 2002*	31 Dec. 2002	31 Dec. 2003	31 Dec. 2004	31 Dec. 2005
Entities total	**97.02**	**96.09**	**95.71**	**95.04**	**95.29**	**95.35**
National Property Fund of the Czech Republic *	67.61	67.61	67.61	67.61	67.61	67.61
Other entities	16.77	17.40	18.71	21.95	24.45	24.29
out of that: domestic	5.52	6.08	7.35	6.52	5.25	4.53
foreign	11.25	11.32	11.36	15.43	19.20	19.77
Administrators	12.64	11.08	9.39	5.48	3.23	3.45
Natural persons total	**2.98**	**3.91**	**4.29**	**4.96**	**4.71**	**4.65**
out of that: domestic	2.81	3.74	4.13	4.78	4.54	4.54
foreign	0.17	0.17	0.16	0.18	0.17	0.11

Source: ČEZ.

* *As of 1 January 2006, the National Property Fund of the Czech Republic was wound up and its equity stake in ČEZ was transferred to the state and it is now administered by the Ministry of Finance.*

Exercise of the Right to Buy-Out Shareholders' Securities (Squeeze Out of Minority Shareholders)

In compliance with Section 47(1), of the Capital Markets Act and Section 183i(1), of the Commercial Code, ČEZ has decided to exercise its right to buy out securities in the below listed companies.

According to Section 183n(1), of the Commercial Code, the shareholders' securities in Východočeská energetika, a.s., Severomoravská energetika, a. s., Západočeská energetika, a.s., and ŠKODA PRAHA were removed from trading on the official capital markets by announcement of the general meeting decision on the transfer of the securities to the majority shareholder ČEZ.

The transfer of securities in Středočeská energetická a.s. is subject to a legal proceedings with two shareholders, Roman Minařík and KOR BUSINESS Ltd.

Figure 65: Overview of the Exercise of the Right to Buy-Out Shareholders' Securities (Squeeze Out of Minority Shareholders)

Company	Východočeská energetika, a.s.	Severomoravská energetika, a. s.	Západočeská energetika, a.s.	Středočeská energetická a.s.	ŠKODA PRAHA a.s.
Extraordinary general meeting	8/4/2005	8/8/2005	8/9/2005	8/5/2005	8/31/2005
Registration	8/11/2005	8/9/2005	8/10/2005	Action not registered	9/16/2005
Announcement in the business journal	8/17/2005	8/31/2005	8/24/2005		10/5/2005
% stake in the company	98.83	99.13	99.136	97.72	97.6
Share price (CZK)	3292	3811	7052	2750	352
Consideration	7.11.05 - 31.12.09	16.11.05 - 31.12.09	11.11.05 - 31.12.09		15.12.05 - 31.12.09
Record date	9/17/2005	9/30/2005	9/24/2005		11/5/2005
Number of shares	29,741	29,778	13,939	73,353	30,201
ISIN	CZ0005076950	CZ0005078352	CZ0005077354	CZ0005078253	CS0005006857
SIN	770950001501	770950000404	770950000818	770950000784	---
SIN	---	770950000677	---	---	---
Administrator of the disbursement	Česká spořitelna	Česká spořitelna	Česká spořitelna	Česká spořitelna	Česká spořitelna

Source: ČEZ.

In addition to the above, the extraordinary General Meeting of Severočeské doly a.s. held on 27 March 2006 decided on the squeeze out of minority shareholders. The squeeze out price has been set at CZK 1,789.20 per share. The decision of the General Meeting was recorded in the commercial registry on 5 May 2006.

Also on August 28 2006 General Meeting of Severočeská energetika approved the squeeze of minority shareholders. The squeeze out price has been set at CZK 3,575 per share. The decision has yet to be recorded in the commercial registry.

Treasury Shares

The purchases and sales of treasury shares by ČEZ in 2005 served for covering the motivating option program, which was adopted by the General Meeting on 19 June 2001, and amended by decisions of General Meetings in 2003, 2004, and 2005. The option contracts provide the selected managers, members of the Board of Directors, and the Supervisory Board with a right to purchase a limited number of common shares at a fixed price. The aim of these options is to increase long-term interest of managers and directors in the economic results and stability of the issuer. Treasury shares are the Shares (i.e., common ČEZ bearer shares ISIN CZ0005112300) that are held by ČEZ. ČEZ is not allowed to exercise any voting rights with respect and attached to treasury shares.

In the beginning of 2005, 10,000 treasury shares were registered on ČEZ's asset account with the Prague Securities Center. Throughout the year, ČEZ bought 3,210 thousand shares for the purposes of the option program, at an average price of CZK 407.99 (the average price, including the provision to the broker and the market fee, was CZK 408.79 per share), the lowest price being CZK 375.51 and the highest price being CZK 600.00. The total sum used for the purchases of the shares in 2005 amounted to CZK 1,310 million, or CZK 1,312 million including the brokerage and market fees. At the end of May 2006, ČEZ held 2,440 thousand treasury shares.

In 2005, ČEZ sold 310,000 treasury shares to three beneficiaries, who exercised their options at an average price of CZK 147.99 (the lowest price being CZK 81.06 per share, the highest price being CZK 213.36 per share). The total sum for the sale of shares to the beneficiaries amounted to CZK 45,877 thousand, or CZK

45,903 thousand including interest. In 2005, ČEZ further sold 470,000 treasury shares to a broker at the price of CZK 440 per share.

Dividends and Dividend Policy

In 2004 ČEZ committed itself to a 50% increase of the nominal dividend between 2003 and 2007. Given the recent improvements in financial performance, the existing policy would lead to deterioration of pay out ratios outside boundaries targeted by the management. Therefore, ČEZ has decided to modify its existing dividend policy. In the future, Board of Director's recommendations on the dividend payments will be based on the ČEZ's consolidated profit, with a pay-out ratio set at 40-50%. This dividend policy revision is in line with recent developments in acquisition target regions since, given the increased competition, ČEZ is likely to find less suitable acquisition targets.

Figure 66: Development of the Company's Dividend Payments

	Unit	2001	2002	2003	2004	2005	2006
Consolidated net profit per share - basic*	*CZK*	15.4	14.3	16.2	22.3	36.3	n.a.
Dividend per share (gross)**	*CZK*	2	2.5	4.5	8	9	15
Dividend payments	*CZK billion*	1.2	1.5	2.7	4.7	5.3	8.9
Pay out ratio **	*%*	16.4	16.2	31.6	49.3	40.3	41.3

Source: ČEZ.
** Excluding minority interests.*
*** Paid out for previous year; on consolidated net income.*

General Meeting

The general Meeting is the meeting of the Issuer's shareholders, constituting the highest governing body of the Issuer.

The General Meeting shall take place at least once per year, no later than six months following the end of the preceding accounting period. The invitation to the General Meeting shall be published no later than thirty days prior to the proposed date in the Czech daily newspaper *Hospodářské noviny*. The right to attend the General Meeting shall be vested in each person recorded as a shareholder or administrator in the Securities Center as of the decisive date, which is the sixth calendar day prior to the proposed date of the General Meeting.

Besides the regular annual General Meeting, extraordinary General Meetings may be convened by the Board of Directors or the Supervisory Board, or if holders of at least 3% of the share capital request so.

The powers of the General Meeting include the most fundamental corporate decisions, such as, for example, deciding on the increase or decrease of the Issuer's registered capital, appointment and removal of the members of the Supervisory Board, deciding on remuneration of the members of the Board of Directors and Supervisory Board, approval of the Issuer's annual reports, resolution on the liquidation of the Issuer, its merger or split-off or change of its legal form, disposition of the Issuer's business, resolutions regarding changes regarding the Issuer's shares, etc.

A shareholder may participate at the General Meeting either personally or may appoint a proxy, who need not be a shareholder, to represent him at the General Meeting. A quorum of the General Meeting shall constitute holders of shares with aggregate nominal value exceeding 30% of the Issuer's registered capital. If the quorum requirement is not met, the Board of Directors shall convene a substitute General Meeting to take place within six weeks following the date of the original General Meeting. Such substitute General Meeting shall have the same agenda and shall be deemed to constitute a quorum regardless of the above 30% requirement.

As a general rule, the General Meeting adopts its resolutions by a majority of the present shareholders unless stricter rules apply, either under the Issuer's Articles of Association or the Commercial Code. This is the cases, among others, of deciding on the change of the Issuer's Articles of Association, increase or decrease of the Issuer's registered capital, issue of convertible and priority bonds, or liquidation of the Issuer, which require 2/3 majority of the present shareholders. Stricter rules apply also in cases of deciding on exclusion or restriction of priority right for convertible and priority bonds, exclusion or restriction of priority right for subscription of new shares, approval of controlling agreement and its change, approval of agreement on transfer of profits and its change, or increase of the registered capital by in-kind contributions, which require ¾ majority of the present shareholders. Resolutions regarding change of type or form of shares, change of rights attached to certain shares and delisting of shares require also approval of at least ¾ of holders of such shares. Resolution on consolidation of shares also requires the approval of all holders of the shares subject to the consolidation.

Board of Directors, Supervisory Board, and Senior Management

Names, Functions, and Principal Business Activities

ČEZ has a two-tier board system consisting of a Board of Directors and a Supervisory Board. The Board of Directors represents ČEZ in all matters and is charged with its management, while the Supervisory Board is an independent body (similar to German Model of Board of Directors) that oversees the Board of Directors and ČEZ's executive officers. ČEZ's executive officers manage the daily operation of ČEZ. Under the Commercial Code, the Supervisory Board may not make management decisions; however, its approval is needed for certain key management decisions. The highest governing body of ČEZ is the General Meeting,.

The Issuer is bound by: (i) the joint signatures of all members of the Board of Directors, (ii) the joint signatures of any two members of the Board of Directors, (iii) the signatures of any person to whom a special signatory power has been delegated by the Board of Directors, but only within the limits of such power of attorney, or (iv) the signatures of the Issuer's employees within the limits resulting from the organizational and signing rules of the Issuer. In any of the above cases, the signatures shall be attached to the commercial name of the Issuer.

Since 2000, ČEZ has used the "German model" of corporate governance, in which members of the Board of Directors generally also serve as members of executive management. Currently, a single person serves as both the Chairman of the Board of Directors and the Chief Executive Officer. The separation of the two positions did not have satisfactory results when tried in the past. The Issuer complies with the Czech corporate governance regime, as prescribed by applicable Czech law.

Except as stated below in this Prospectus, none of the members of the Board of Directors, Supervisory Board, or senior management has been a member of the administrative, management or supervisory body of any company or partner of any partnership at any time in the previous five years.

None of the members of the Board of Directors, Supervisory Board, or senior management:

a) has been subjected to any convictions in relation to fraudulent offences;

b) has been a member of the administrative, management or supervisory body of any company or partner of any partnership subject to a bankruptcy, receivership, liquidation or similar collective proceedings;

c) has been the subject of any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies);

d) has been disqualified by a court from acting as a member of the administrative, management or supervisory body of any company or from acting in the management or conduct of the affairs of any company; or

e) has any conflict of interest between his or her duties to the Issuer and his or her private interests.

Board of Directors

The Board of Directors is the Issuer's statutory body which manages its operation and acts on its behalf. It is composed of five members. Members of the Board of Directors are selected professionals who possess the necessary qualifications for the job and whose expertise contributes to the overall know-how base of the Issuer. The members of the Board of Directors are elected by the Supervisory Board for a maximum period of four years and may be re-elected. The Supervisory Board may also remove members of the Board of Directors from their positions. In the event of one or more vacancies in the office of a member of the Board of Directors, the Supervisory Board shall, within three months, elect a new director to fill such a vacancy.

The Board of Directors is vested with the powers to decide all company matters, unless they fall within the powers of the General Meeting or Supervisory Board according to the Commercial Code or the Issuer's Articles of Association. The Board of Directors shall follow the principles and instructions approved by the General Meeting, provided that they conform to the statutory provisions and the Articles of Association. A non-exhaustive list of the General Meeting powers is included in Article 19 of the Issuer's Articles of Association.

The Board of Directors shall choose from among its members a chairman and two vice-chairmen. Since 2000, the Issuer has used the "German model" of corporate governance, in which members of the Board of Directors generally also serve as members of executive management. Currently, a single person serves as both the chairman of the Board of Directors and the Chief Executive Officer. The separation of the positions did not have satisfactory results when tried in the past.

The Board of Directors shall meet at least once a month. 45 meetings took place in 2005. Meetings shall be convened by the chairman of the Board of Directors and also upon request of (i) any two members of the Board of Directors, or (ii) the chairman of the Supervisory Board upon a resolution of the Supervisory Board. Quorum for a meeting of the Board of Directors is a majority of directors present and resolutions of the Board of Directors are approved by a majority of the present directors, unless a decision is made in writing (*per rollam*), in which cases the quorum is at least 2/3 of the directors and the resolutions are approved by a majority of all directors.

The Board of Directors may establish working commissions, teams, and committees to support its activities. Besides the three committees of the Supervisory Board (see "*Supervisory Board*" below), a risk committee and a committee for safety of nuclear equipment operate within the Issuer. They deal with specific issues related to the mentioned areas, take positions and offer recommendation to the chairman of the Board of Directors or, alternatively, to the Chief Executive Officer (currently the same person).

Set forth below are the members of ČEZ's Board of Directors.

Figure 67: ČEZ's Board of Directors

Name	Position	Held Since	Born
Martin Roman	Chairman of the Board of Directors	2004	1969
Zdenek Pasák	Member of the Board of Directors	2006	1966
Jiří Borovec	Vice-Chairman of the Board of Directors	2006*	1964
Tomáš Pleskač	Member of the Board of Directors	2006	1966
Daniel Beneš	Member of the Board of Directors	2005	1970

Source: ČEZ.
** Member since 2004*

Martin Roman

Education:	▪ Charles University, Faculty of Law, Prague ▪ St. Gallen University, Faculty of Economics, Switzerland (1-year scholarship) ▪ Karl-Ruprechtsuniversität Heidelberg, Germany (1 year)	
Current Positions:	▪ ČEZ, Chairman of the Board of Directors	23.2.2004-to date
	▪ ČEZ, Chief Executive Officer	31.1.2005-to date
	▪ Prague Stock Exchange, Member of the Supervisory Board	9.6.2005-to date
	▪ Confederation of Industry of the Czech Republic, Vice President	29.4. 2005-to date
Former Positions:	▪ ŠKODA HOLDING a.s., Chairman of the Board and Chief Executive Officer	2000-2004
	▪ ŠKODA a. s., Chairman of the Board and Chief Executive Officer	1999-2000
	▪ Janka Radotín, a. s., Chief Executive Officer and Member of the	1994-1999

	Board of Directors (since 1998)	
	▪ Wolf Bergstrasse CR, s. r. o. (manufacturer of potato chips), Sales Director	1992-1994

Source: ČEZ.

Zdeněk Pasák		
Education:	▪ Charles University, Prague	
Current Positions:	▪ ČEZ, Member of the Board of Directors	22.4.2006- to date
	▪ ČEZ, Human Resources Director	15.3.2006
Former Positions:	▪ Madsen & Taylor Consulting, Managing Partner	1997-2006
	▪ Group Helmut Neuman Management Consultants, Senior Consultant and International Partner	1994-1997
	▪ Hill International, Consultant	1992-1994

Source: ČEZ.

Jiří Borovec		
Education:	▪ Military Academy, Brno	
	▪ Masaryk University, Brno	
	▪ United States Air Force Defense Language Institute, TX, USA	
	▪ Brno Business School, MBA from Nottingham Trent University	
	▪ ABB International Management Workshop for ABB Group Senior Top Managers (1997), ABB Service Management Certificate (1999)	
Current Positions:	▪ ČEZ, Vice-Chairman of the Board of Directors	26.1.2006- to date
	▪ ČEZ, Member of the Board of Directors	21.10.2004- to date
	▪ ČEZ, Power Generation Director	31.1.2005- to date
	▪ ŠKODA PRAHA Invest s.r.o., Vice Chairman of the Supervisory Board	11.7.2005- to date
	▪ ŠKODA PRAHA a.s., Member of the Supervisory Board	22.6.2005- to date
Former Positions:	▪ ŠKODA JS a.s., Chairperson and Chief Executive Officer	2000-2004
	▪ Chamber for Economic Relations with the Commonwealth of Independent States (CIS), Member of the Board of Directors	2003-2004
	▪ ABB Czech Republic, CEO of the ABB Service Czech Republic and Business Unit Manager ABB Service Central Europe; formerly Personnel Director, Vice-President for Human Resources, Member of the Country Board	1995-2000
	▪ Czech Army, Interpreter and Translator (English, Spanish, Russian)	1990-1995

Source: ČEZ.

Tomáš Pleskač		
Education:	▪ University of Agriculture, Brno, Faculty of Business and Economics	
	▪ Prague International School, MBA	
	▪ Business Operation course organized by the Stock Exchange Preparatory Committee	
	▪ Course on nuclear power plants operation control, Japan	
Current Positions:	▪ ČEZ, Member of the Board of Directors	26.1.2006-

	ČEZ, Distribution Director	to date 31.1.2005-to date
	ČEZ Distribuce, a. s., Chairman of the Supervisory Board	31.3.2005-to date
	ČEZData, s.r.o., Vice Chairman of the Supervisory Board	17.5.2004-to date
	Severomoravská energetika, a.s., Member of the Supervisory Board	17.6.2004-to date
	ČEZ, Integration Division Director, responsible for project VISION 2008	2004-to date
	Elektrovod Holding, a.s. (Bratislava, Slovakia), Member of the Supervisory Board	20.5.2003-to date
Former Positions:	Severomoravská energetika (ČEZ), Vice President of the Board and a Chief Financial Officer	May 2003-May 2004
	ČEZ Distribution Division, responsible for preparing integration of ČEZ and the regional power distribution organizations	January-April 2003
	Dukovany nuclear power plant, Deputy Director for Economy and Sales	1993-2002
	Komerční banka, a. s., Loan officer	1991-1993

Source: ČEZ.

Daniel Beneš		
Education:	VŠB Ostrava, Faculty of Mechanical Engineering	
Current Positions:	ČEZ, Member of the Board of Directors	15.12.2005-to date
	ČEZ, Chief Administration Officer	31.1.2005-to date
	ŠKODA PRAHA a.s., Member of the Supervisory Board	14.12.2005-to date
	ČEZ Správa majetku, s.r.o., Vice Chairman of the Supervisory Board	1.7.2005- to date
	ŠKODA PRAHA Invest s.r.o., Chairman of the Supervisory Board	12.7.2005-to date
	ČEZ Purchasing Department, Director	2004- to date
	ČEZ Logistika, s.r.o., Chairman of the Supervisory Board	13.9.2004-to date
	Severočeské doly a.s., Member of the Board of Directors	25.6.2004-to date
Former Positions:	Tchas, Director	2000-2004
	Hedviga Group, Director	1997-2000
	Bohemia Coal, Head of the Sales Department	1993-1997

Source: ČEZ.

Figure 68: List of Board of Director Members whose Membership Terminated in 2005 and 2006

Name	Born	Position	Term
Radomír Lašák	1965	Member of the Board of Directors	1.9.2004-26.1.2006
Petr Vobořil	1950	Vice Chairman of the Board of Directors	21.6.2004-15.12.2005
Alan Svoboda	1972	Member of the Board of Directors	3.5.2004-20.4.2006

Source: ČEZ.

Supervisory Board

The supervision of the operations of the Issuer is entrusted to the Supervisory Board, which shall supervise the exercise of powers and satisfaction of obligations of the Board of Directors and conduct of the Issuer's business. The Supervisory Board shall have twelve members. Two-thirds of the members shall be elected and removed by the General Meeting and one-third of the members shall be elected and removed by the Issuer's employees, in accordance with Section 200(1) of the Commercial Code. The term of office of the Supervisory Board members shall be four years, with possible re-election. In the event of one or more vacancies in the Supervisory Board and, provided that the number of its members did not drop under one half, the remaining members of the Supervisory Board may elect substitute members to fill such a vacancy until the next General Meeting.

The Supervisory Board's powers include, among others, the power to elect members of the Board of Directors, supervision of the Issuer's business activities, management of the Issuer by the Board of Directors, review of the Issuer's financial and accounting matters, including the report on relations among affiliated entities, financial statements, profit allocation proposals, and the power to grant prior approval for key decisions of the Board of Directors.

The Supervisory Board shall choose from among its members a chairman, who shall convene the meetings of the Supervisory Board, and two vice-chairmen. The Supervisory Board shall meet at least once per month. 14 meetings were held in 2005. Quorum for a meeting of the Supervisory Board is a majority of its members present and its resolutions are generally adopted by a majority of all of the Supervisory Board members. As a rule, materials for meetings are sent to members seven days before the meeting date. The chairman of the Board of Directors is generally present at the meetings. Depending on the character of matters on the agenda, meetings are attended by members of the Board of Directors or company employees who present verbal reports on the matters at hand. The secretary of the Supervisory Board attends all Supervisory Board meetings and keeps minutes. Among the changes of the Articles of Association adopted by the General Meeting held on 23 May 2006 is also the possibility for Supervisory Board to adopt written resolution (*per rollam*) provided that all Supervisory Board members agree with this manner of resolution and that such written resolution is adopted by a majority of 2/3 of all Supervisory Board members.

The Supervisory Board has formed three committees. For effective management of control and audit processes, the Audit Committee supervises the independence of both internal and external audits. It also assesses the adequacy and efficiency of the Issuer's internal system of controls based on information and reports from internal and external auditors and information from the Issuer's managers. The second committee, the Personnel Committee, deals in a systematic fashion with appointing and removing members of the Board of Directors. The third committee is the Strategic Planning Committee.

As noted above, ČEZ's Audit Committee is a committee of the ČEZ Supervisory Board composed of its members. In particular, the Audit Committee is currently composed of Zdeněk Hrubý, chairman of ČEZ Supervisory Board, Pavel Suchý and Zdeněk Židlický, members of ČEZ Supervisory Board. Pursuant to the statutes, the Audit Committee is charged with regular communication with and supervision of the internal audit department. Specifically, the Audit Committee should discuss and evaluate the audit department's annual report, annual audit plan, quarterly action plans, and should ensure that the internal audit department follows the ethics code for internal company auditors. It is also responsible for regular communication and supervision of ČEZ's external auditors, and preparation of an evaluation of ČEZ's external auditors for the Board of Directors and Supervisory Board. The Audit Committee also discusses the correctness and completeness of ČEZ's quarterly, semi-annual, and annual reports. Under Czech law, the Board of Directors is required to make all business decisions regarding ČEZ, unless the authority to make a decision is delegated by law or by the Articles of Association to the General Meeting or to the Supervisory Board. Accordingly, is not possible for ČEZ Audit Committee to make decisions on its own, without appropriate formal action being taken by the Board of Directors, General Meeting, or the Supervisory Board. For these reasons, ČEZ Supervisory Board is, in fact, formally making certain decisions generally required to be made by the Audit Committee. Audit Committee, however, prepares documents for the Supervisory Board and discusses relevant matters before they are decided by the Supervisory Board.

Set forth below are the incumbent members of the Supervisory Board:

Figure 69: Incumbent Members of the Supervisory Board

Name	Initially Appointed	Current Term Expires	Born
Zdeněk Hrubý (Chairman)	2003	2007	1956
Tomáš Huner	2006	Till next shareholder meeting	1959

Martin Kocourek	2006	Till next shareholder meeting	1966
Drahoslav Šimek[(1)]	2006	2010	1953
Pavel Suchý	2003	2007	1954
Jiří Jedlička	2004	2008	1959
Jan Ševr[(1)]	2000	2008	1947
Zdeněk Trojan	2006	2010	1936
Jan Demjanovič	2003	2007	1953
Aleš Cincibus	2005	2009	1956
Petr Kousal	2005	2009	1954
Zdeněk Židlický	2002	2006	1947

Source: ČEZ.
(1) Employee Representative.

Zdeněk Hrubý

Education:	▪ Technical University, Faculty of Electrical Engineering, major in Cybernetics	
Current Positions:	▪ ČEZ, Chairman of the Supervisory Board	26.1.2006- to date
	▪ ČEZ, Vice Chairman of the Supervisory Board	24.2.2003- to date
	▪ GARNET MINING a.s., Member of the Board of Directors	13.9.2005- to date
	▪ Sokolovská uhelná, právní nástupce, a.s., Member of the Board of Directors	22.6.1999- 14.5.2004
	▪ České Aerolinie a.s. (ČSA), Member of the Supervisory Board	20.4.2003- 17.4.2004
Former Positions:	▪ NPF, Vice-Chairman of the Presidium	2002-2005
	▪ ČESKÝ TELECOM, a.s., Vice Chairman of the Supervisory Board	20.5.2004- 23.6.2005
	▪ Eurotel Praha, spol. s r.o., Member of the Supervisory Board	8.4.2004- 23.6.2005
	▪ Deputy Minister of Finance	2002- 15.4.2005
	▪ Governmental Representative at the Annual Meeting of the World Bank and the International Monetary Fund	1.6.1999- 30.11.2000
	▪ Deputy Vice Prime Minister for Economic Policy	1.6.1999- 30.11.2000

Source: ČEZ.

Tomáš Huner

Education:	▪ Technical University in Brno (VUT)	
Current Positions:	▪ ČEZ, Member of the Supervisory Board	21.9.2006-to date
	▪ Ministry of Industry and Trade, Deputy Minister	14.9.2006-to date
Former Positions:	▪ ČEZ Bulgaria, a. s., Chairman of the Board of Directors and CEO	2004 - 2006
	▪ AP & P, consultant	2002 - 2004
	▪ Severomorvaská energetika, a.s., Chairman of the Board of Directors and CEO	1994 – 2002
	▪ Aliatel, a. s., Chairman of the Supervisory Board	Within group of

	▪ Union Leasing, a.s., Chairman of the Supervisory Board ▪ Energetika Vítkovice, Chairman of the Board of Directors ▪ ePRIM, a. s., Chairman of the Board of Directors ▪ Union Group, a. s., Vice - Chairman of the Supervisory Board ▪ Elektrovod Holding, a. s., Vice - Chairman of the Supervisory Board	companies around Severomoravská energetika, a. s.
	▪ ČEZ, Detmarovice Power Plant	1984 – 1994

Source: ČEZ.

Martin Kocourek		
Education:	▪ Technical University Prague	
Current Positions:	▪ ČEZ, Member of the Supervisory Board	21.9.2006- to date
	▪ Economic advisor	since June 2006
Former Positions:	▪ Budget Committee of the Parliament of the Czech Republic, Vice - Chairman	1998 - 2006
	▪ National Property Fund, Member of the Supervisory Board	1999 - 2005
	▪ Hospital “Na Homolce”, Member of the Supervisory Board	1996 - 2006
	▪ Land Fund of the Czech Republic, Member of the Presidium	1994 - 2005

Source: ČEZ.

Drahoslav Šimek		
Education:	▪ Electrician	
Current Positions:	▪ ČEZ, Member of the Supervisory Board elected by employees	29.6.2006- to date
	▪ Electrician in the Nuclear Power Plant Dukovany	
Former Positions:	▪ With ČEZ since 1975, initially as an Engine Driver in the Power Plant Tusimice, lately as Electrician in the Nuclear Power Plant Dukovany	1975-to date

Source: ČEZ.

Pavel Suchý		
Education:	▪ University of Economics, Prague, major in Economic Information and Control	
Current Positions:	▪ ČEZ, Member of the Supervisory Board	24.2.2003- to date
	▪ České Aerolinie a.s. (ČSA), Member of the Supervisory Board	25.6.2003- 20.3.2006
	▪ Advisory services	1.1. 2006- to date
Former Positions:	▪ UNIPETROL, a.s., Member of the Supervisory Board	17.1.2003- 8.6.2005
	▪ NPF, Member of the Executive Committee, First Vice-Chairman (since 2002)	1994- 31.12.2005
	▪ Audit and consulting experts s.r.o., Director	1993-1994
	▪ Závody silnoproudé elektroniky	1978-1989

Source: ČEZ.

Jiří Jedlička		
Education:	▪ Zetor Brno Secondary Vocational School	

Current Positions:	▪ ČEZ, Member of the Supervisory Board	10.11.2004- to date
	▪ Dukovany nuclear power plant, Chairman of the Labor Union of Shift Workers	1994- to date
	▪ Union of Nuclear Power Industry Employees, Chairman	2003- to date
	▪ Governing Board of the Association of Independent Labor Unions, Member	2003- to date

Source: ČEZ.

Jan Ševr

Education:	▪ Secondary Mechanical Engineering College	
Current Positions:	▪ ČEZ, Member of the Supervisory Board (twice elected by employees)	9.11.2000- to date
	▪ Mělník power plant, Head of the Operations Management Department (various positions in the past)	1997-to date
	▪ Chairman of the Mělník power plant Labor Organization	1996-to date

Source: ČEZ.

Zdeněk Trojan

Education:	▪ Czech Technical University, Faculty of Engineering	
Current Positions:	▪ ČEZ, Member of the Supervisory Board	26.1.2006- to date
	▪ Czech Technical University, Faculty of Mechanical Engineering, Professor	1.12.1962-1992
	▪ Advisor to the Prime Minister	2005-6/2006
	▪ Střední průmyslová škola dopravní, Střední odborné učiliště, and Učiliště, a.s., Vice Chairman of the Supervisory Board	17.12.2001- to date
Former Positions:	▪ Advisor to the Minister of Regional Development	2004-2005

Source: ČEZ.

Jan Demjanovič

Education:	▪ Liberec Mechanical Engineering and Textile College, Mechanical Engineering Faculty	
	▪ Secondary Mechanical Engineering College	
Current Positions:	▪ ČEZ, Member of the Supervisory Board	24.2.2003- to date
	▪ SD – Kolejová doprava, Vice Chairman of the Supervisory Board	25.11.2002- to date
	▪ Coal Energy, a.s., Vice Chairman of the Board of Directors	31.10.2001- to date
	▪ Severočeské doly a.s., Chomutov, Sales Director and Member of the Board of Directors	3.9.1996-to date
	▪ Teplárna Ústí nad Labem, Member of the Board of Directors	2002-2004
Former Positions:	▪ ENETECH a.s., Chairman of the Supervisory Board	2003-2004
	▪ Doly Nástup Tušimice, státní podnik	1980-2.9.1996

Source: ČEZ.

Aleš Cincibus

Education:	▪ University of Chemistry and Technology	
Current Positions:	▪ ČEZ, Member of the Supervisory Board	20.6.2005- to date
	▪ Leading adviser to the Minister of Industry and Trade	1.5.2003- 18.6.2006
	▪ ČEPRO, a.s., Chairman of the Supervisory Board	26.8.2004- to date
	▪ AERO Vodochody a.s., Member of the Supervisory Board	6.12.2004- to date
	▪ Severočeské doly a.s., Vice Chairman of the Supervisory Board	27.6.2003- 14.3.2006
	▪ ČPP Transgas, s.p. Praha, Member of the Supervisory Board	2003- to date
	▪ R.G.I., spol. s r.o., Shareholder	10.12.1993- to date
	▪ B.R.G., spol. s r.o., Shareholder	10.12.1993- to date
	▪ A.R.G., s.r.o., Shareholder	10.12.1993- to date
	▪ R.I.G.I., spol. s r.o., Shareholder	2.11.1992- to date
Former Positions:	▪ Foundation Duhová energie	13.11.2004- 28.8.2005

Source: ČEZ.

Petr Kousal

Education:	▪ Vysoká škola dopravní, Žilina, Slovakia	
Current Positions:	▪ ČEZ, Member of the Supervisory Board	20.6.2005- to date
	▪ České dráhy, a.s., General Deputy in Vienna, Austria	1.8.2005- to date
	▪ České dráhy, a.s., Chief Executive Officer	4.3.2003- 9.5.2005
	▪ České dráhy, a.s., Chairman of the Supervisory Board	28.2.2003- 9.5.2005
	▪ České dráhy, a.s., Member of the Supervisory Board	9.5.2005- 3.6.2005
	▪ České dráhy, a.s. (and its legal predecessors)	1978- to date

Source: ČEZ.

Zdeněk Židlický

Education:	▪ Secondary Industrial School of Mechanical Engineering	
Current Positions:	▪ ČEZ, Member of the Supervisory Board (elected by employees)	13.6.2002- to date
	▪ Association of Independent Trade Unions (ASO), Vice Chairman	1995 - 2002
	▪ ČEZ-EPR II, Union chairman	1993- to date
Former Positions:	▪ ČEZ, Designer, Electrician, Vocational Training Supervisor, PR EPK Maintenance Engineer, Sales Officer	1977

Source: ČEZ.

Figure 70: List of Supervisory Board Members whose Membership Terminated in 2005 and 2006

Name	Born	Position	Term
Jiří Bis	1941	Vice Chairman of the Supervisory Board	22.9.2005-21.9.2006
Jiří Havel	1957	Chairperson of the Supervisory Board	20.6.2005-26.1.2006
Václav Krejčí	1953	Vice Chairman of the Supervisory Board	13.6. 2002 – 29.6. 2006
Jan Juchelka	1971	Member of the Supervisory Board	11.6. 2002 – 23.6. 2006
Stanislav Kázecký	1948	Chairperson of the Supervisory Board	24.2.2003-20.6.2005
Martin Pecina	1968	Member of the Supervisory Board	17.6.2003-22.9.2005
Václav Srba	1941	Member of the Supervisory Board	11.6.2002-20.6.2005
Pavel Šafařík	1953	Member of the Supervisory Board	17.6.2004-20.6.2005

Source: ČEZ.

Senior Management

The Board of Directors of ČEZ established an Executive Committee (EXCO), effective 1 January 2005, which replaced the Management Meeting. Members of EXCO include the chief officers, section managers, and managers from selected subsidiaries.

Figure 71: ČEZ's Executive Directors

Name	Position	Held Since	Born
Martin Roman	Chief Executive Officer	31.1.2005	1969
Jiří Borovec	Chief Production Officer	31.1.2005	1964
Alan Svoboda	Executive Director for Sales and Trading	31.1.2005	1972
Daniel Beneš	Chief Administration Officer	31.1.2005	1970
Tomáš Pleskač	Director, Distribution	31.1.2005	1966
Petr Vobořil	Chief Finance Officer	31.1.2005	1950
Zdeněk Pasák	Executive Director, Human Resources Section	15.3.2006	1966
Jiří Feist	Director, Business Development	31.1.2005	1962
Karel Křížek	Director, Engineering	31.1.2005	1953
Bohumil Mazač	CEO, ČEZ Prodej, s.r.o.	31.1.2005	1955
Josef Sedlák	CEO, ČEZ Obnovitelné zdroje, s.r.o.	31.1.2005	1959
Vladimír Schmalz	Director, Mergers and Acquisitions Section	31.1.2005	1966
Michal Skalka	Director, Trading	1.11.2005	1975
Jaroslav Suk	Director, Executive Finance Director	31.1.2005	1954
Igor Smucr	CEO, ČEZ Zákaznické služby, s.r.o.	31.1.2005	1965
Lubomír Štěpán	Director, Strategy ICT	20.2.2006	1955
Jan Krenk	Director, Plant Management Section	1.6.2006	1951
Pavel Cyrani	Director, Planning and Controling	1.7.2006	1976

Source: ČEZ.

Alan Svoboda		
Education:	▪ Západočeská univerzita v Plzni (University of West Bohemia in Pilsen), Faculty of Applied Sciences, Information and Finance Management (Ing.), Plzeň	1991-1998
	▪ University of Missouri, Master of Arts In Economic (MA), Master of Business Administration (MBA) with focus on finance, Kansas City, USA	1994-1996
	▪ International Association of Chartered Financial Analysts, Chartered Financial Analyst (CFA)	1996-1999
Current Positions:	▪ ČEZ, Executive Director for Sales and Trading	04/2004 to date
	▪ EURELECTRIC, Brussels, Member of the Board of Directors	since 2004
	▪ Foratom, Brussels, Member of the Board of Directors	since 2005
	▪ World Energy Council, Prague, Vice-Chairman of the Czech chapter	since 2006
	▪ ČEZ Prodej, s.r.o., Vice-Chairman of the Supervisory Board	since 2005
	▪ ČEZ Zákaznické služby, s.r.o., Vice-Chairman of the Supervisory	since 2005

	Board	
	▪ ČEZData, s.r.o., Vice-Chairman of the Supervisory Board	since 2004
	▪ ZČE, a.s., Member of the Supervisory Board	since 2004
Former Positions:	▪ McKinsey & Company, Prague, Partner	01/2000-03/2004, 08/1996-03/1998
	▪ Západočeská energetika, a.s., Plzeň, Finance Director and Vice-Chairman of the Board	04/1998-01/2000

Source: ČEZ.

Petr Vobořil

Education:	▪ ČVUT – Czech Technical University, Mechanical Engineering Faculty (environmental technology, Ing.), Prague	completed 1982
	▪ Institute of Technology (now part of the University of West Bohemia in Pilsen; postgraduate course of study), Electrical Engineering Faculty (heat supply development), Plzeň	completed 1987
Current Positions:	▪ ČEZ, Chief Financial Officer	31.1.2005 to date
	▪ ČEZ, Deputy CEO	05/2004 to date
	▪ ČSZE, Member of the Board of Directors	10.12.2003 to date
Former Positions:	▪ ČEZ, Chief Strategic Development Officer, Member of the Board (since 11/2002), Vice-Chairman of the Board (02/2003-11/2003 and 06/2004-12/2005), Acting CEO (11/2003-03/2004), Chairman of the Board (11/2003-02 /2004)	10/2002-12/2004
	▪ ČEZ, Chief Financial Officer, Deputy CEO (since 10/2000), Acting CEO (04/2000-07/2000), 2nd Deputy CEO (since 01/1999)	05/1997-09/2002
	▪ ČEZ, Director of Planning and Analysis Section	01/1995-04/1997
	▪ České energetické závody (predecessor of today's ČEZ completely owned by the Czechoslovakian state), various positions in finance	10/1990-12/1994
	▪ České energetické závody, Head of Internal Audit Department	08/1989-09/1990
	▪ České energetické závody, various positions in thermal energy operations and development	04/1980-07/1989
	▪ Státní energetická inspekce (State Energy Inspection), various positions in Industrial Power Unit	08/1970-02/1980

Source: ČEZ.

Jiří Feist

Education:	▪ CVUT Praha, Electro-technical Faculty	
Current Positions:	▪ ČEZ, Member of Executive Committee	01/2005 to date
	▪ ČEZ, Business Development Director	11/2004 to date
Former Positions:	▪ ČEPS (Czech Transmission System Operator), Dispatching Centre and Strategy Director	1998-2004
	▪ ČEZ, Section Director (Dispatching Centre)	1990-1998
	▪ Czechoslovakian National Dispatching Centre	1986-1990

Source: ČEZ.

Karel Křížek

Education:	University of West Bohemia in Pilsen	1975-1980
	Sheffield Hallam University - MBA	2004-2006
	The Key man Executive Course, School of English Studies Folkestone	2003
	Nuclear Power Plant Control and Instrumentation, International Atomic energy Agency and Government of Germany	2004
	Nuclear Research Institute Trnava - Training of Nuclear Management	2001-2003
Current Positions:	ČEZ, Executive Committee Member	31.1.2005 -to date
	ČEZ, Engineering Director	1.4.2005 -to date
	Nuclear Research Institute, Supervisory Board Member	25.7.2005 -to date
Former Positions:	OSC, Board of Directors	June 2003-June 2006
	Nuclear Research Institute, Board of Directors	June 2003-June 2005
	Engineering Director – ČEZ Nuclear Division	January 2003-March 2005

Source: ČEZ.

Bohumil Mazač

Education:	ČVUT – Czech Technical University, Faculty of Electricity, Prague	
Current Positions:	ČEZ Prodej, s.r.o., Chief Executive Officer	31.03.2005 to date
	Severomoravská energetika, a.s., Member of the Supervisory Board	10/2004 to date
	ČEZ Bulgaria, Member of the Supervisory Board	10/2006 to date
Former Positions:	Contactel, s.r.o., Director for Sales and Marketing	2001-2004
	Eurotel, s.r.o., Sales Director	1993-2000
	J.E.C. s.r.o., Chief Executive Officer	1991-1992

Source: ČEZ.

Josef Sedlák

Education:	VŠE – University of Economics, National Economy Faculty, Prague	
Current Positions:	ČEZ Obnovitelné zdroje, s.r.o., General Manager	1.1.2006 to date
	STE, a.s., Member of the Supervisory Board	23.6.2004 to date
Former Positions:	ČEZ, Renewable Energy Director, Member of EXCO	2005
	ČEZ, Chief Human Resources Officer	1.4.2004-30.4.2005
	ČEZ, Vice-Chairman of the Board of Directors	3.11.2003-26.4.2004
	Severočeské doly, Member of the Board of Directors	2000-2004
	ČEZ, Member of the Board of Directors	4.7.2000-3.11.2003
	ČEZ, Nuclear Division, Director for Finance and Administration	2003-2004
	ČEZ, Dukovany Nuclear Power Station, Director for Finance and Administration	1993-2002
	ČEZ, Dukovany Nuclear Power Station, various positions	1987-1992

	▪ Board of Radioactive Waste Repositories Authority, Member and Chairman of the Board	1997-2005
	▪ Královopolské strojírny Brno – Moravské Budějovice Plant, Enterprise Economist	1982-1987

Source: ČEZ.

Vladimír Schmalz		
Education:	▪ VŠE – University of Economics, Faculty of International Trade, Prague ▪ Hochschule St. Gallen, Switzerland (scholarship programme) ▪ Universität Münster, Germany (scholarship programme) ▪ Internationales Institut für Politik und Wirtschaft Hamburg, Germany (scholarship programme)	
Current Positions:	▪ ČEZ, Director of Mergers & Acquisitions	24.5.2004 to date
	▪ ŠKODA PRAHA, Member of the Supervisory Board	22.6.2005 to date
	▪ EDC Stolichno, Bulgaria, Member of the Supervisory Board	13.1.2005 to date
Former Positions:	▪ SAWBAC, General Director, later Chairman of the Board	1991-2004
	▪ Severočeská energetika, a.s., Member of the Supervisory Board	25.6.2004-10.6.2005

Source: ČEZ.

Michal Skalka		
Education:	▪ VŠE – University of Economics, Faculty of Information Technology, Prague ▪ University of Stirling, Scotland (1 term stage)	
Current Positions:	▪ ČEZ, Director of Trading	1.9.2005 to date
Former Positions:	▪ Deloitte Czech Republic, Energy Risk Group, Manager	2003-2005
	▪ Treasury Capital Markets (Deloitte), Amsterdam, Manager	2001-2003
	▪ Deloitte Czech Republic, Consultant	1998-2001

Source: ČEZ.

Jaroslav Suk		
Education:	▪ University of Economics, Bratislava, Slovakia	
Current Positions:	▪ ČEZ, Executive Finance Director	01/2005 to date
	▪ I & C Energo, a.s., Třebíč, Vice-Chairman of the Supervisory Board	2.5.2005 to date
	▪ ZČE, a.s., Plzeň, Vice-Chairman of the Supervisory Board	9.2.2006 to date
	▪ CEZ Finance B.V., Amsterdam, NL, Managing Director	26.9.2005 to date
	▪ CEZ Silesia B.V., Rotterdam, NL, Directeur	29.5.2006 to date
	▪ CEZ Poland Distribution B.V., Rotterdam, NL, Directeur	29.5.2006 to date
	▪ CEZ Chorzow B.V., Rotterdam, NL, Directeur	29.5.2006 to date
	▪ The Society of International Treasurers, Bristol, UK, Member of	1998 to date

	Council of Advisers	
Former Positions:	ČEZ, Finance Director	1997-2004
	ČEZ, Head of Risk Management Department	1995-1997
	ČEZ, Počerady Power Plant, various positions in finance	1975-1995

Source: ČEZ.

Igor Šmucr

Education:	Electrical Engineering Faculty of the Pilsen School of Mechanical and Electrical Engineering	1985-1990
	Prague International Business School, MBA from Manchester Metropolitan University	1998-2000
	Euromanager (certificate)	1996-1997
Current Positions:	ČEZ Zákaznické služby, s.r.o., Chief Executive Officer	September 2004 - to date
Former Positions:	Západočeská energetika (ČEZ), Member of the Board of Directors	1998-2004
	Západočeská energetika, Sales Director	2003-2004
	Západočeská energetika, Networt Management Director	1993-2003
	Západočeská energetika, Strategy Director	1996-1999
	Západočeská energetika, Engineer	1992-1995

Source: ČEZ.

Lubomír Štěpán

Education:	ČVUT – Czech Technical University, Technical Cybernetics, Prague	
	VŠE – University of Economics, Faculty of Finances (postgraduate study of Banking), Prague	
Current Positions:	ČEZ, ICT Strategy Director (CIO)	1.12.2005 to date
	VČE, a.s., Chief Financial Officer	1.7.1996 to date
	VČE, a.s., Member of the Board	8.4.1997 to date
	ČEZData, s.r.o., Member of the Supervisory Board	22.6.2005 to date
	ČEZnet, a.s., Member of the Supervisory Board	5.6.2006 to date
	ČEZ Měření, s.r.o., Member of the Supervisory Board	8.4.2005 to date
	Eltodo-Citelum, a.s., Member of the Supervisory Board	31.3.1999 to date
Former Positions:	Pragobanka, a.s., Director of the branch	1992-1996
	Municipal Transport comp., Hradec Králové, CIO	1984-1992
	Research Center of Food and Freezing Industry, Hradec Králové, R&D	1980-1984

Source: ČEZ.

Jan Krenk

Education:	ČVUT – Czech Technical University, Electrical Engineering Faculty (heavy current engineering, Ing.), Prague	
	Institute of Technology (now part of the University of West Bohemia in Pilsen; postgraduate course of study), Steam Power Generation, Plzeň	

Current Positions:	▪ ČEZ, Director of Plant Management Section	1.4.2006 to date
Former Positions:	▪ QTA, s.r.o., Consultant	2005-2006, 2000-2002
	▪ APPIAN Group, a. s., Sales Director	2002-2005
	▪ ČEZ, various positions (Executive Director for Production, 1st Deputy CEO, Member and Vice-Chairman of the Board of Directors, Director of the Nuclear Power Section/Division of Nuclear Power Stations, Director of the Dukovany Nuclear Power Station, operating posts at the Chvaletice Power Station)	1976-2000

Source: ČEZ.

Pavel Cyrani		
Education:	▪ VŠE – University of Economics, Faculty of International Trade, Prague	
	▪ Kellog School of Management, Northwestern University, Illinois, USA	
Current Positions:	▪ ČEZ, Planning and Controlling Director	1.5.2006 to date
Former Positions:	▪ McKinsey & Company, Prague, Project Manager	1999-2006

Source: ČEZ.

Figure 72: List of Executive Directors whose Membership Terminated in 2006

Name	Born	Position	Term
Radomír Lašák	1965	Chief Administration Officer	31.1.2005-26.1.2006
Luboš Tejkl	1968	Director, Human Resources	9.5.2005-15.3.2006
Jiří Vágner	1956	Director, Plant Management Section	31.1.2005-31.5.2006
František Sucha	1949	Director, ČEZ Data	31.1.2005-15.2.2006

Source: ČEZ.

Principles of Remuneration of Members of the Board of Directors and Supervisory Board

The terms and conditions for remuneration and provision of benefits to the members of the Board of Directors are set forth in the "Agreement on Acting as a Member of the Board of Directors" entered into between ČEZ and the respective member of the Board of Directors; the said agreement is subject to an approval by the Supervisory Board. The terms and conditions for remuneration and provision of benefits to the members of the Supervisory Board are set forth in the "Agreement on Acting as a Member of the Supervisory Board", which is subject to an approval by the General Meeting. Under the above agreements, members of ČEZ's Board of Directors and Supervisory Board receive the following consideration:

- fixed board member remuneration – paid regularly, in arrears, for each calendar month. In case of illness, the fixed monthly remuneration for the first 30 days is to be paid in full. In case of illness lasting for an uninterrupted period exceeding 30 days, the amount of monthly remuneration following 31st day of such illness to the end thereof shall be determined by the Board of Directors provided that it may not be less than 50% of the full monthly remuneration. If a member of the Supervisory Board is temporarily unable to discharge his or her duties, she or he shall be entitled to remuneration if the Supervisory Board so decides;
- board member bonuses – provided to members of the Board of Directors and Supervisory Board upon a General Meeting decision. The amount of bonuses for individual members of the Board of Directors is set by the Supervisory Board (unless the General Meeting determines the precise allocation directly);

- stock options – members of the Board of Directors are entitled to stock options (i.e., the options to purchase ČEZ shares) under the relevant option agreement. The share price is calculated as the six-month weighted average of the prices achieved in public-market trading prior to the date on which the respective member joined the Board of Directors. The option may be exercised at any time after the agreement becomes effective, for as long as the member serves on the Board of Directors and for a period of up to three months following the end of his or her board membership. The option agreement may not become effective earlier than three months after the beginning of the board member's term of office. ČEZ cancelled the stock options program for members of the Supervisory Board on 20 June 2005;
- company car – members of the Board of Directors are entitled to a company car for business and personal use, subject to the terms and conditions of a special agreement. Vehicles provided for business and personal use are subject to taxation, and fuel consumed for personal use is paid by withholding from pay. Members of the Supervisory Board may receive a company car only for use in their official capacity, not for personal use. If a member of the board uses his or her own car in an official capacity, the costs of such use for business shall be paid for by ČEZ in accordance with applicable laws and regulations;
- insurance – the following types of insurance are taken out, at ČEZ's expense, for members of the Board of Directors and the Supervisory Board:
    - accident insurance to cover injuries suffered in an accident occurring during the course of his or her official duties or in direct relation to them;
    - liability for damage caused to ČEZ or to third parties while discharging his or her duties;
    - capital life insurance which, upon the termination of the board membership or the withdrawal by ČEZ from the capital life insurance policy, is transferred free-of-charge to the board member. Capital life insurance premiums paid by ČEZ are treated as part of the board member's salary and are subject to taxation as such;
- severance pay – the Agreement on Acting as a Board Member is entered into for a specified period of time. Should the agreement be terminated before it is due to expire, ČEZ is obliged to pay a severance pay to the respective member of the Board of Directors. The severance pay shall equal to the aggregate total remuneration that would otherwise have been paid for the months remaining until the end of the board member's term. Persons who resign from the Board of Directors are not entitled to severance pay. Payment terms with respect to the severance pay are set forth in the respective agreements mentioned above;
- reimbursement of travel expenses – when traveling on business, members of the Board of Directors and Supervisory Board are entitled to receive meal allowances and pocket money at rates exceeding those prescribed by the applicable laws and regulations; other expenses and insurance premiums are reimbursed at face value; and
- in accordance with Section 73(3) of the Labor Code, members of the Supervisory Board, who are delegated to serve on the Supervisory Board by a governmental body of which they are an employee, do not receive remuneration. This applied to employees and members of the Presidium, Executive Committee, and Supervisory Board of the National Property Fund in accordance with the provisions of Sections 16 and 17 of Act No. 171/1991 Coll. Neither does ČEZ provide any other benefits not permitted by law to such Supervisory Board members.

Principles of Remuneration of the Management (Division and Section Directors)

The terms and conditions for remuneration of individual members of the management of ČEZ are set forth in a Manager Agreement, which is entered into between ČEZ and the respective manager for an indefinite period of time. This agreement provides the following consideration for managers:

- base monthly salary - paid regularly for each calendar month. The base monthly wage is paid for the amount of time worked, including overtime;
- annual bonuses – paid in addition to the base monthly wage. The bonus amount depends on fulfillment of criteria stipulated in advance. The maximum annual bonus amount is stipulated as a percentage of the annual base wage (sum of the base monthly wages in the given calendar year). The criteria for awarding the annual bonus and the manner in which the annual bonus amount is dependent on their fulfillment are determined for each manager by his or her direct superior;

- company car – managers are entitled to a company car for business and personal use subject to the terms and conditions of a special agreement. Vehicles provided for business and personal use are subject to taxation, and fuel consumed for personal use is paid by withholding from pay. If the manager uses his or her own car in an official capacity, the costs of such use shall be paid for by ČEZ in accordance with applicable laws and regulations;
- insurance – ČEZ enters into capital life insurance at its own expense but for the benefit of selected managers. Upon the manager's termination or withdrawal from the capital life insurance policy by ČEZ, the said insurance is transferred free-of-charge to the manager. Capital life insurance premiums paid by ČEZ are treated as part of the manager's salary and are subject to taxation as such;
- reimbursement of travel expenses – when traveling on business, managers (division directors) are entitled to receive meal allowances and pocket money at rates exceeding those prescribed by the applicable laws and regulations; other expenses and insurance premiums are reimbursed at face value;
- severance pay – paid in accordance with the Labor Code and the terms set forth in the Collective Agreement; and
- cash settlement upon termination of employment – the employer agrees to provide selected managers, upon the termination of their employment, with a cash settlement for a period of six months (as a rule) subject to the fulfillment of conditions set forth in the "No Competition Agreement." The cash settlement is payable monthly in arrears.

Figure 73: Overview of Compensation Paid to Directors and Managers in 2005

CZK ths. (unless stated otherwise)	**Supervisory Board**	**Board of Directors**	**Division Directors**
Information on monetary and non-monetary income			
Basic salary[1)]	1,783	-	64,078
Bonus dependent on company results[1)]	397	-	48,747
Bonus to members of statutory bodies	5,660	4,518	-
Consideration paid to members of Statutory bodies,[2)]	4,133	4,012	-
including severance pay, in 2004	-	-	-
Other monetary income1[3)]	143	234	432
Other non-monetary income1[4)]	10,667	2,781	2,182
Income from entities controlled by the issuer	11,434	3,131	5,483
Information on Shares (as of 31. 12. 2005)			
Number of Shares with option rights *(pcs)*	1,060,000	1,750,000	825,000
average option price *(CZK/share)*	146.47	168.42	298.45
Number of Shares where option right was exercised *(pcs)*	310,000	-	-
average option price *(CZK/share)*	147.99	-	-
non-monetary income resulting theory (taxed by the issuer)	87,643	-	-
Number of options held *(pcs)*	600,000	1,750,000	750,000
average option price *(CZK/share)*	129.78	168.42	303.94
Number of Shares *(pcs)*			
held by members of statutory bodies and management[5)] *(pcs)*	110,414	-	711
held by affiliates[5)] *(CZK/share)*	30	-	-

Notes:
1) *Monetary and some non-monetary income of Supervisory Board members stated herein comes from their employment contracts with ČEZ.*
2) *Presented numbers include consideration paid to members, who were in the statutory bodies in 2005, excluding withheld consideration.*
3) *Travel compensation exceeding the statutory amounts and other compensation related to the issuer's social policy.*
4) *E.g. personal car and capital life insurance.*
5) *Presented information is for persons, who were members of statutory bodies or company management as of 31 December 2005*

Source: ČEZ.

Stock Option Schemes

The general Meeting of ČEZ approved stock option scheme in 2001, with respect to each member of the Board of Directors, Supervisory Board and some senior managers of ČEZ, as part of their compensation package. The stock option scheme was amended several times during the 2001-2006 time period.

On 18 April 2006 amendments to the stock option scheme were approved which allow the new beneficiaries to exercise 1/3 of their options on each anniversary of granting the stock options. The exercise price is based on the weighted average of the ČEZ's prices achieved in public-market trading one month prior to the date of the beneficiary's appointment into the position. The option agreement may not enter into force earlier than three months after the beginning of the beneficiary's term of office. The options may be exercised during 12 months after the beneficiary terminates his or her position. While being in the eligible position the beneficiary must hold at least 10% of Shares acquired by exercising the options. Maximum profit that a beneficiary may generate on his or her options is limited to 100% of the exercise price.

Members of the Board of Directors who are entitled to stock options as beneficiaries under contracts dated before 18 April 2006 have the right to purchase ČEZ's Shares at a price equal to weighted average of the Share prices achieved in public-market trading six months prior to the date of the beneficiary's appointment into the position. The option may be exercised at any time after the agreement enters into force, for as long as the member serves on the Board of Directors and for a period of up to three months following the end of his or her board membership. The option agreement may not enter into force earlier than three months after the beginning of the board member's term of office.

Members of the Executive Committee who are entitled to stock options as beneficiaries under contracts dated before 18 April 2006 have the right to purchase common shares of ČEZ 1/2 of their options on each anniversary of granting the stock options. The exercise price is based on the weighted average of the Share prices achieved in public-market trading six months prior to the date of the Board of Director's decision to grant stock options to a beneficiary. The option may be exercised at any time after the agreement enters into force, for as long as the beneficiary is a member of the Executive Committee and for a period of up to three months following the end of his or her Executive Committee membership. The option agreement may not enter into force earlier than one year after the beginning of the Executive Committee member's term of office.

The company cancelled the stock options program for members of the Supervisory Board on 20 June 2005.
As of 31 December 2005, the aggregate number of share options granted to the members of Board of Directors, Executive Committee (advisory body of the Chief Executive Officer) and to the Supervisory Board members was 3,325 thousand. The options granted to the members of the Board of Directors and the Supervisory Board do not have any vesting period and may be exercised during the terms of office of the respective board members. Share options granted to the members of Executive Committee vest one year after the award date and the number of options, which may be exercised during the first year of effect of the agreement, is limited. The exercise price for the granted options was usually based on the average quoted market price on the Prague Stock Exchange in the six-month period preceding the date of the award.

Figure 74: Changes in the Number of Granted Share Options and the Weighted Average Exercise Price of These Options

	Number of share options				Weighted average exercise price *(CZK per share)*
	Supervisory Board *(ths.)*	Board of Directors *(ths.)*	Other *(ths.)*	Total *(ths.)*	
Share options as of 31 December 2002	1,450	1,400	225	3,075	93.07
Options granted	1,300	350	-	1,650	105.23
Options exercised	-	(1,050)	(140)	(1,190)	89.65
Options forfeited	-	(200)	(85)	(285)	87.45
Share options as of 31 December	2,750	500	0	3,250	100.95

2003					
Options granted	150	1,650	-	1,800	152.84
Options exercised *	(2,290)	(800)	-	(3,090)	107.26
Options forfeited	(150)	-	-	(150)	105.78
Share options as of 31 December 2004	460	1,350	-	1,810	141.38
Options granted	600	400	1,050	2,050	235.59
Options exercised *	(310)	-	-	(310)	147.99
Options forfeited	(150)	-	(75)	(225)	146.96
Share options as of 31 December 2005	600	1,750	975	3,325	198.47

Source: ČEZ.

* *In 2005 and 2004 the weighted average share price at the date of the exercise of the options was CZK 430.71 and CZK 186.69 respectively.*

Figure 75: Overview of Options and Shares Held by Individual Members of Senior Management and Supervisory Board

Name	Number of option shares [1]	*Exercise price (CZK/share)* [2]	Shares held [5]
Roman Martin	750,000	*139.2*	0
Borovec Jiří	290,000	*206.6*	0
Beneš Daniel	75,000	*243.5*	0
	225,000	*594.3*	
Pleskač Tomáš	75,000	*243.5*	0
	225,000	*651.9*	
Svoboda Alan [3]	300,000	*160.9*	0
Pasák Zdeněk	300,000	*828.5*	0
Vobořil Petr	0	-	50,000[6]
Feist Jiří	55,000	*243.5*	370
Křížek Karel	75,000	*274.0*	154
Mazač Bohumil	75,000	*243.5*	0
Sedlák Josef	75,000	*243.5*	0
Schmalz Vladimír	75,000	*243.5*	0
Skalka Michal	75,000	*651.7*	0
Suk Jaroslav	55,000	*243.5*	0
Šmucr Igor	75,000	*274.0*	2,968
Štěpán Lubomír	75,000	*773.7*	0
Krenk Jan	75,000	*752.9*	66
Cyrani Pavel	75,000	*637.4*	0
Hrubý Zdeněk	150,000	*101.9*	54
Suchý Pavel	150,000	*101.9*	0
Ševr Jan	150,000	*213.4*	50,106
Bis Jiří	0	-	0
Cincibus Aleš	0	-	0
Demjanovič Jan	0	-	0
Jedlička Jiří	0	-	143
Kousal Petr	0	-	0
Šimek Drahoslav	0	-	0

Trojan Zdeněk	0	-	0
Židlický Zdeněk	0	-	0

[1] As of 10 October 2006
[2] Until 20 April 2006 average price 6 months prior to becoming eligible; after 20 April 2006 average price 1 month prior to becoming eligible.
[3] Alan Svoboda was a member of the Board of Directors till 21 April 2006.
[5] As of 17 May 2006

Source: ČEZ.

Employees

Number and Breakdown of Employees

The number of employees of ČEZ and its consolidated subsidiaries was 23,098 at the end of 2003, and 22,768 at the end of 2004. As of 31 December 2005, the ČEZ Group had 29,905 employees, approximately 51% of who are members of trade unions. The present Collective Bargaining Agreement between ČEZ and its employees, represented by the trade unions, will expire on 31 December 2006.

At the end of 2005, 22% of the 29,905 employees were employed by ČEZ, 26% in foreign subsidiaries, and the remaining 53% were employed in the remaining companies within the ČEZ Group.

ČEZ does not have a history of strikes or work interruptions and no material labor related claims are pending. There have been no strikes or work interruptions since the foundation of the company in 1992. Although ČEZ has experienced strike alerts in the past, these did not result in actual strikes or work interruptions. Since the date of ČEZ's foundation in 1992, it has reduced the number of employees by approximately 9,500, which represents a 59% reduction from its 1992 level. This reduction has brought the ratio of employees to the installed MW closer to ratios found in advanced European power companies, and resulted in an increase of the average level of education of ČEZ's employees. ČEZ has completed the process of an organizational audit, which resulted in a decrease of the number of its employees, and it is considering other options aimed at further decrease of the number of its employees. Czech law entitles all employees dismissed due to redundancy or organizational changes to a three month notice period and a severance payment in the amount of two months' salary.

Current Litigation Proceedings

Czech Republic

Disputes related to ČEZ

1. Despite the rejection of a number of previous constitutional complaints against ČEZ's actions in connection with an ownership interest in KOTOUČ ŠTRAMBERK, spol. s r.o., the complainant Holcim (Slovakia) a.s. continued to take legal actions aimed to nullify measures taken by ČEZ. Holcim (Slovakia) a.s. also formally withdrew from a 1997 agreement entered into with ČEZ and, subsequently ČEZ filed an action with the Arbitration Court[10] seeking to have the complainant's withdrawal from said agreement declared null and void.

2. There are three active litigations, commenced in 1997, with certain regional electricity distribution companies seeking payment of contractual penalties or late-payment interest:

2.1 In early 2006, the Upper Court in Prague decided an appeal filed by defendant, Pražská energetika, a.s., against a decision of the Municipal Court in Prague ordering it to pay ČEZ CZK 49.2 million. The Upper Court in Prague granted the appeal of Pražská energetika, a.s. and rejected ČEZ's suit. ČEZ intends to appeal this decision to the Supreme Court.

[10] Attached to the Economic Chamber of the Czech Reoublic and the Agrarian Chamber of the Czech Republic in Prague.

2.2 An amicable settlement was reached at the Upper Court in Olomouc between ČEZ and Jihomoravská energetika, a.s. under which the defendant's legal successor, E.ON Česká republika, a.s., paid ČEZ an amount of CZK 38.5 million.

2.3 In a dispute with Severomoravská energetika, a.s., the Upper Court in Olomouc approved an amicable settlement under which Severomoravská energetika, a.s. paid ČEZ CZK 19.3 million.

3. Proceedings ongoing before Austrian courts based on law suits filed by Austrian entities were suspended indefinitely, until the European Court of Justice rules on a preliminary question regarding the jurisdiction of Austrian courts. The European Court of Justice recently (June 2006) issued a ruling that Austrian courts have no jurisdiction over the matters in question. Nevertheless, Austrian Supreme Court ruled that Austrian courts have jurisdiction over this case. Therefore Austrian courts will tackle petition by Upper Austria County asking CEZ to implement measures to prevent ionizing radiation from Temelin Nuclear Power Plant.

4. There is a court dispute in which the complainant, VÍTKOVICE, a.s., sued ČEZ for CZK 36.8 million plus interest. The Upper Court in Prague nullified the initial decision of the Municipal Court in Prague and returned the case to that court for retrial. The subject matter of the dispute is the amount that ČEZ set off against an amount owed to it by the complainant. The amount set off ČEZ represented a contractual penalty that arose from the complainant's failure to provide contractual performance on time.

Disputes related to ČEZ Prodej, s.r.o.

Mr. Milan Grozdík filed a lawsuit with the Regional Court in Hradec Králové for compensation of CZK 1 billion for damage allegedly caused by electricity supply failure. The court is currently examining its jurisdiction in the matter, and no hearing has been set. The respondent considers the suit to be entirely baseless.

Disputes related to I & C Energo a.s.

In 2001, I & C Energo sued Dalkia Morava, a.s. (currently Dalkia Česká republika, a.s.) for failure to pay the amount of CZK 2.1 million representing an unreturned security deposit. Further, Dalkia Morava sued I & C Energo a.s. for CZK 3.1 million and CZK 7.1 million for a failure to comply with agreed parameters and for lost income, respectively. These cases are still pending.

Disputes related to ŠKODA PRAHA a.s.

1. ŠKODA PRAHA a.s. filed a lawsuit against ŠKODA POWER s.r.o. seeking the payment of CZK 30.9 million for defective performance. In 2004, other two lawsuits were filed, for CZK 10.4 million and CZK 15.4 million in damage compensation due to defective performance. On 2 November 2004, an agreement was reached on settlement of all three law suits. Once the conditions stipulated in the agreement are met, the company intends to withdraw the lawsuits.

2. ŠKODA PRAHA a.s. filed lawsuit against ČKD PRAHA DIZ, a.s., seeking CZK 16.0 million for an unpaid loan. The respondent filed a countersuit for CZK 12.4 million, 84% of which is for an alleged unauthorized set-off and the remainder is for unjustified withholding of a security deposit. Currently, proceedings have been suspended temporarily in an attempt to reach an amicable settlement.

3. ENERGO KD s.r.o. (formerly Králodvorské železárny ENERGO s.r.o.) filed a lawsuit against ŠKODA PRAHA a.s. for payment of approximately CZK 51 million, which it later reduced to CZK 48.9 million. ŠKODA PRAHA a.s. considers the claim unjustified.

4. JUDr. Jaroslava Vaňková filed a lawsuit against ŠKODA PRAHA a.s. seeking payment of CZK 4.6 million for legal services. ŠKODA PRAHA filed a lawsuit against JUDr. Jaroslava Vaňková for CZK 20.9 million on the grounds of unjustified enrichment committed by receiving performance under an absolutely invalid contract. The company further proposed that the court reject JUDr. Jaroslava Vaňková's claim.

In January 2006, an interim decision was issued concerning the legal basis of JUDr. Jaroslava Vaňková's suit, affirming her claim.

Disputes related to Středočeská energetická a.s.

1. Středočeská energetická a.s. filed a law suit against Pražská energetika, a.s. for payment of CZK 172 million for electricity transmission and reserved capacity in 2001. The suit is pending.

2. Mr. Roman Minařík and KOR BUSINESS Ltd. have filed a lawsuit against Středočeská energetická a.s. and they request that the court declare the resolution of the General Meeting dated 5 August 2005 to transfer the remaining shares to the majority shareholder null and void. They further request that the court declare a resolution of the General Meeting dated 17 October 2005 on transfer of the "Sales" and "Distribution" parts of the enterprise to ČEZ Prodej, s.r.o. and ČEZ Distribuce, a. s., respectively, as capital contributions null and void.

Romania

1. S.C. VALNEFER Rm. Valcea sued Electrica Oltenia S.A. for RON 23.1 million (approximately CZK 184.8 million) in damages due to a power outage.
2. Electrica Oltenia S.A. appealed against a tax authority decision, which requires a payment of RON 12.8 million (approximately CZK 102.3 million) due to retroactive assessment of development taxes, including interest.
3. Electrica Oltenia S.A. is involved in litigation seeking payment of RON 3.3 million (approximately CZK 25.7 million) owed by company SNIF for electricity. In a similar litigation, it seeks RON 2.1 million (approximately CZK 16.7 million) from company EDILUL Alexandria.

Bulgaria

1. Elektrorazpredelenie Stolichno EAD is involved in litigation against the Bulgarian tax authority concerning a total of BGN 1.4 million (CZK 20.6 million) in back taxes for the years 2000–2002. However, on 31 December 2005 the court ordered it to pay another BGN 0.7 million (CZK 10.2 million) in interest on the back taxes.
2. Elektrorazpredelenie Sofia Oblast EAD is suing the tax authority seeking a refund of BGN 4.0 million (CZK 59.3 million) in VAT for 2004 due to an unclear interpretation of regulation of technological losses.
3. Elektrorazpredelenie Pleven EAD is suing the tax authority for BGN 2.6 million (CZK 38.6 million) in VAT. The tax authority did not recognize work clothing expenditures for tax purposes in the 2002–2003 tax period.

7. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This section contains an explanation and overview of ČEZ's general financial condition and results of operations. When reading the below discussion and analysis, reference to the consolidated financial statements and the related notes for fiscal years 2003, 2004, 2005 and H1 2006 attached at the end of this Prospectus is recommended. ČEZ prepares the consolidated financial statements in accordance with the International Financial Reporting Standards.

Critical Accounting Policies

International Financial Reporting Standards

ČEZ's material accounting policies are set out in full in Note 2 to the consolidated financial statements. In preparing the accounts in conformity with the International Financial Reporting Standards (IFRS), ČEZ's management is required to make estimates and assumptions which impact the reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates. Certain of ČEZ's accounting policies have been identified as the most critical accounting policies, when considering which policies involve particularly complex or subjective decisions or assessments, and these are discussed below. The discussion below should be read in conjunction with the full statement of accounting policies.

Accounting Developments

The International Accounting Standards Board, or IASB, has examined and will continue to critically examine current International Financial Reporting Standards ("IFRS") with a view toward increasing international harmonization of accounting rules. This process of amendment and convergence of worldwide accounting rules resulted in significant amendments to the rules existing on 1 January 2005 in areas such as the accounting for share-based compensation, goodwill and intangibles, marketable securities and derivative financial instruments as well as the classification of certain income statement and balance sheet positions. These are discussed in more detail in Note 2 to the consolidated financial statements.

Nuclear Provisions

ČEZ's nuclear provisions principally relate to the cost of final and interim storage of spent fuel and the cost of decommissioning ČEZ's nuclear power plants.

The provisions recognized in the current balance sheet represent the best estimate of the expenditures required to settle the present obligations as of the date of the current balance sheet. In accordance with IFRS, the initial estimated costs of decommissioning ČEZ's power plants are provided for when the power plants begin their commercial operations and are capitalized as part of the construction costs and depreciated over the same lifetime as the plants. The estimated costs of decommissioning are discounted to reflect the timescale before and during which the work will take place (following closure of the power plant). Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges recognized as a component of interest expense. ČEZ anticipates that after de-fuelling the reactors, dismantling of the reactors will not be possible for at least 50 years after the closure of the relevant power plant.

In 2004 ČEZ adopted IFRIC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1"). Following the interpretation, changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate are added to, or deducted from, the cost of the related asset in the current period. Prior to the application of IFRIC 1 in 2004, ČEZ followed a different accounting policy, under which the changes in the decommissioning liability that resulted from a change in the current best estimate of cash flows required settlement of the obligation or a change in the discount rate was added to (or deducted from) the amount recognized as the related asset to the extent the change related to future periods. To the extent the change related to the current or prior periods, it was reported as income or expense for the current period.

The estimated costs are based on decommissioning studies that are approved by the Nuclear Safety Authority and the Repository Authority. The studies are updated regularly to reflect changes in the estimates. ČEZ must make annual payments to a special escrow account to cover future decommissioning costs. These payments depend on the estimated decommissioning costs, the estimated time of decommissioning and other factors. If these factors change, ČEZ's annual payments can change in the future.

Estimated costs of final storage of spent fuel are based on expected annual payments to the Nuclear Account. The payments are approved by the respective authorities and are made in cash. The estimated cash payments include inflation considerations because these payments will be made for many years. The estimated payments are discounted using the estimated risk free rate. The required annual payments are reviewed by the authorities each year and, therefore, they can change in the future.

Accounting lifetimes of ČEZ's nuclear power plants reflect its current assessment of potential life limiting technical factors and independent engineering assessments. The operating lifetime of a nuclear power plant is limited principally by the lifetime of items, which are not economical to replace such as the boiler and other components inside the reactor pressure vessel. The methodologies and technology used to evaluate the expected lifetimes of nuclear plants is dynamic, resulting in progressively improved measurement capabilities that allow ČEZ to determine whether the safety case for an extended accounting life of a nuclear power plant can be supported. The estimates of plant accounting lives are therefore subjective.

The actual provisions can vary significantly from ČEZ's estimate, and as a result, the liabilities reported by ČEZ in its statements can vary significantly if ČEZ's assessment of these costs changes. Many of the factors that are integral to the estimates made by ČEZ, such as governmental regulations and inflation, are beyond ČEZ's control.

Derivatives

IAS 39, Financial Instruments: Recognition and Measurement, requires every derivative instrument (including certain derivative instruments embedded in other contracts) to be recorded in the balance sheet as either an asset or liability measured at its fair value. IAS 39 requires any changes in the derivative's fair value to be currently recognized in earnings, unless specific hedge accounting criteria are met.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

For fair value hedges, the gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortized to the net profit and loss so that it is fully amortized by maturity.

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss.

The fair value of derivatives is estimated using valuation models. The use of valuation models requires making assumptions and estimates regarding the volatility of underlying instruments and inputs of market data, such as currency rates, interest rate curves, etc. Results of the valuation models could differ significantly from values obtained from other valuation models because of different assumptions, estimates and market data used in those models.

Deferred Tax

ČEZ has significant deferred tax assets and liabilities, which are expected to be realized through the statement of income over an extended period of time in the future. In calculating the deferred tax items, ČEZ is required to make certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the consolidated financial statements and their tax basis. Significant assumptions made include the expectation that:

- future operating performance for subsidiaries will be consistent with historical operating results;
- recoverability periods for tax credits and net operating loss carry-forwards will not change; and
- existing tax laws and rates which ČEZ is subject to will remain unchanged in foreseeable future.

ČEZ believes that it has used prudent assumptions and feasible tax planning strategies in developing the deferred tax balances. However, any changes to the facts and circumstances underlying the assumptions could cause significant change in the deferred tax balances and result in volatility in its operating results.

Impairment of Assets

ČEZ undertakes periodic reviews of the carrying value of its fixed assets compared with the economic value and net realizable value of those assets. In carrying out the economic valuations, an assessment is made of the future cash flows being generated by the assets, taking into account current and expected future market conditions and the expected lives of ČEZ's power plants. In assessing the value, ČEZ primarily takes production capacity as an aggregate unit. The assessment of future market conditions includes, for example, a view of likely overcapacity in the market over a number of years and the likely timing of the market returning to new entrant prices. The actual outcome can vary significantly from ČEZ's future forecasts, thereby affecting ČEZ's assessment of expected future cash flows. The expected future cash flows are discounted at a rate approximating to ČEZ's weighted average cost of capital, as this is the rate most representative of those assets. A provision is created against an asset if its net realizable value is lower than the carrying amount.

Operating Results 2003, 2004 and 2005

The core business area of the ČEZ Group involves the generation of electricity and the subsequent distribution and sale of such electricity. The majority of distributed and sold electricity is generated by ČEZ in its own facilities. However, the significant part of electricity is purchased from third parties.

Figure 76: Volume of Purchased Electricity for Years Ended 31 December 2003, 2004, and 2005

GWh	2003	2004	2005	Index 05/04 (%)
Generated in-house (gross)	61,399	62,126	60,016	96.6
Other purchasing for resale	13,983	11,625	22,912	197.1
Purchased from OTE*	1,009	489	753	154.0
Purchased to cover own consumption	21	11	6	54.5
Purchased outside ČEZ Group home markets**	919	2,129	1,458	68.5
Total	**77,331**	**76,380**	**85,145**	**114.7**

Source: ČEZ.

* *Operátor trhu s elektřinou, a. s., OPCOM S.A. (Electricity Market Operator).*

** *Home markets include markets where the ČEZ Group distributing companies or electricity producing companies are present, i.e., the Czech Republic, Bulgaria and Romania.*

Revenues

The ČEZ Group consists of 93 companies (including ČEZ, as the parent company), 19 of them incorporated outside of the Czech Republic. The consolidation unit as of the date of the last financial statements included 41 companies as: the parent company ČEZ, 35 fully consolidated subsidiary companies and 5 associated companies; the remaining entities are not consolidated.

The significant acquisitions of the ČEZ Group in 2005 include three Bulgarian distribution companies, Severočeské doly a.s., ŠKODA PRAHA a.s. (influencing ČEZ Group results during the entire year 2005) and Romanian distribution company Electrica Oltenia S.A. (influencing ČEZ Group results in the last quarter of 2005). All data for 2005, 2004, and 2003 are presented in conformity with the principle of pooling of interests. Since both ČEZ and Severočeské doly a.s. were controlled by the Czech National Property Fund, the consolidated results are presented as if ČEZ had controlled Severočeské doly a.s. and its subsidiaries in the respective years.

Foreign acquisitions share on ČEZ Group revenues totalling CZK 125 billion, constitued 12% in 2005. New acquisitions, namely Polish power plants Elektrownia Skawina S.A. and Elektrocieplownia Elcho Sp. z o. o. and Bulgarian thermal power plant Varna EAD acquired in 2006, will influence ČEZ Group results for 2006.

The following table sets out the revenues of the ČEZ Group for the years ended 31 December 2003, 31 December 2004, and 31 December 2005:

Figure 77: Revenues for Years Ended 31 December 2003, 2004, and 2005

CZK million	2003	2004	2005	Index 05/04
Revenues	**87,264**	**102,670**	**125,083**	**121.8%**
Sales of electricity:	**78,974**	**92,183**	**115,949**	**125.8%**
End-users sales	21,980	26,748	43,747	163.6%
Sales to distribution companies	16,566	13,542	16,790	124.0%
Domestic traders, market operator*, other	5,200	10,115	13,260	131.1%
Export	13,296	10,309	8,257	80.1%
Change of FV of derivatives-sale of electricity	0	0	-576	-
Ancillary and distribution services	21,931	31,470	34,471	109.5%
Heat sales, sale of coal and other revenues	**8,290**	**10,487**	**9,134**	**87.1%**

Source: ČEZ.

** Operátor trhu s elektřinou, a. s., OPCOM S.A. (Electricity Market Operator).*

Figure 78: Volume of Supplied Electricity for Years Ended 31 December 2003, 2004, and 2005

GWh	2003	2004	2005	Index 05/04
Sold in ČEZ Group home markets	**48,883**	**54,719**	**66,250**	**121.1%**
Sold to non-ČEZ Group electricity distributors	14,107	14,886	16,054	107.8%
Sold to end-customers	30,726	31,670	39,967	126.2%
Sold to market operator*	1,072	565	764	135.2%
Sold to traders	1,935	6,768	8,655	127.9%
Sold to transmission companies to cover losses	719	677	782	115.5%
Other sales	324	153	28	18.3%
Sold outside ČEZ Group home markets**	20,122	12,943	8,183	63.2%
Total	**69,005**	**67,662**	**74,433**	**110.0%**
Other ČEZ Group consumption (incl. in-house consumption)	5,665	5,933	6,031	101.7%
Distribution grid losses	2,661	2,785	4,681	168.1%

Total	77,331	76,380	85,145	111.5%

Source: ČEZ.
** Operátor trhu s elektřinou, a. s., OPCOM S.A. (Electricity Market Operator.).*
*** Home markets include markets where the ČEZ Group distributing companies or electricity producing companies are present, i.e., the Czech Republic, Bulgaria and Romania.*

In 2005, the total revenues of the ČEZ Group were approximately CZK 125 billion, an increase of 21.8% compared to 2004. This increase of approximately CZK 22.4 billion was caused primarily by an increase of sales to end customers amounting to CZK 43.7 billion. On the other hand, exports of electricity, including trade outside the Czech Republic, decreased by CZK 2 billion, as a result of the increased focus on the domestic market and also due to the "allowances arbitrage," whereby the sale of emission allowances ensured ČEZ higher business margin than the electricity export.

In the 2004-2005 period, the sales of ancillary and distribution services grew from CZK 31.5 billion to CZK 34.5 billion. Electricity sales to distribution companies increased by 24.0% (CZK 3.2 billion). Domestic sales to traders, market operator and other sales experienced a steep growth of 31%.

In 2005, ČEZ's revenues from sales of heat, coal, and other revenues amounted to CZK 9.1 billion, representing a decrease of 13% compared to 2004. The decline was primarily attributable to a decline in revenues from goods sold by ŠKODA PRAHA a.s. by CZK 1.0 billion.

Operating Expenses

The following table sets out the ČEZ Group's operating expenses for the years ended 31 December 2003, 2004, and 2005:

Figure 79: Operating Expenses for the Years Ended 31 December 2003, 2004, and 2005 (Restated)

CZK million	2003	2004	2005	Index 05/04
Total operating expenses	**72,216**	**82,885**	**95,680**	**115.4%**
Fuel	9,165	9,305	9,010	96.8%
Purchased power and related services	21,109	26,519	37,474	141.3%
Repairs and maintenance	4,552	4,872	4,229	86.8%
Depreciation and amortization	18,513	19,842	20,723	104.4%
Salaries and wages	9,688	11,368	13,426	118.1%
Materials and supplies	4,472	4,625	4,020	86.9%
Emission rights	-	-	-1,053	-
Other operating expenses	4,747	6,354	7,851	123.6%

Source: ČEZ.

In 2005, ČEZ's operating expenses rose by CZK 12.8 billion (by 15.4%). The main factors were increases in purchases of power and related services (CZK 11.0 billion) and personal expenditures, which increased by CZK 2.1 billion (by 18.1%), corresponding to the growing number of ČEZ Group employees. Another significant factor were CO_2 emissions credits, allowing optimalization of electricity generation, leading to CZK 1.1 billion net sales. Another relevant factor was the reduction of fuel expenses by CZK 0.3 billion (3.2%), because of lower electricity production. The above mentioned higher power purchases were reduced by CZK 0.8 billion, corresponding to a change in the real value of derivatives related to purchases of electricity. Repairs and maintenance expenses were reduced by CZK 0.6 billion (13.2%). Costs of materials were also reduced by CZK 0.6 billion, representing 13.1%. Other operating expenses rose by CZK 1.5 billion, due to other services expenses (increase by CZK 1.2 billion).

Income before Other Expenses and Income Taxes. In 2005, ČEZ's income before other expenses and income taxes amounted to approximately CZK 29.4 billion, representing an increase of 48.6% compared to 2004. The increase of approximately CZK 9.6 billion was a result of an increase of CZK 22.4 billion in revenues and a relatively smaller increase of CZK 12.8 billion in operating expenses.

Other Expenses. In 2005, the total amount of other expenses was approximately CZK 2.1 billion, representing an increase of 63.3%. This was caused mainly by an increase of foreign exchange rate losses, decreased income from associates, and reduced interest income. On the other hand, income from negative goodwill write-off and other income (net) had a positive impact on the other expenses.

In the financial area, the CZK 0.8 billion year-on-year increase in expenses was primarily caused by lower interest income (by CZK 0.3 billion), lower revenues from sold securities and shares by CZK 0.5 billion, lower income from associates (CZK 0.6 billion) and loss on sale from subsidiaries and associates by CZK 0.2 billion. Higher foreign exchange rate losses (by CZK 2.0 billion) were balanced by financial derivates (by CZK 1.8 billion). The negative goodwill write-off contributed positively into income by CZK 1.7 billion.

The resulting income before income taxes amounted to CZK 27.3 billion, representing a growth of 47.6% compared to 2004.

Income Taxes

In 2005, income taxes paid by the ČEZ Group amounted to approximately CZK 5.0 billion, representing an increase of 18.7% compared to 2004. ČEZ's effective corporate income tax rate in 2005 was 18%.

Net Income

In 2005, the net income of the ČEZ Group amounted to approximately CZK 22.3 billion. The net income of the ČEZ Group rose by 56.2% to CZK 22.3 billion, thanks partially to acquisitions; e.g., Severočeské doly a.s. improved profit to the bottom line by CZK 1.7 billion, and Electrica Oltenia S.A. negative goodwill write-off improved the ČEZ Group net income by CZK 1.7 billion. The net income attributable to holders of the parent increased by CZK 8.2 billion (by 62.2%) and the net profit attributable to minority holders decreased by CZK 0.2 billion due to increased shares in subsidiaries of ČEZ.

The net income per share was CZK 36.2 in 2005, representing a year-on-year growth of 62.3% (as a result of the increased net income).

Inflation

The rates of inflation on an annual average basis in the Czech Republic during 2003, 2004 and 2005 were 0.1%, 2.8% and 1.9% respectively. The effects of inflation on ČEZ's operations have not been significant in recent years.

Other

For a discussion of the impact of currency fluctuations on ČEZ's business and hedging or other mechanisms used by ČEZ, please see the Section called "*Risk Factors*".

For a discussion on governmental economic, fiscal, monetary and political policies or factors that have or could material impact on ČEZ's operations, please see the Section called "*Risk Factors*".

Operating Results in H1 2006

Figure 80: Key figures H1 2006 – CEZ Group

	Units	As of June 30, or Six Months Ended June 30, 2006	As of June 30, or Six Months Ended June 30, 2005	Index 06/05
Generation of electricity (gross)	GWh	31,853	30,527	104.3%
Sales of electricity	GWh	41,256	37,094	111.2%
Sales of heat	TJ	6,112	5,694	107.4%
Operating revenues	CZK millions	77,183	61,715	125.1%
Operating expenses (less depreciation and amort.)	CZK millions	43,018	34,118	126.1%
of which, e.g.: CO_2 emission permits	CZK millions	-357	0	x
EBITDA	CZK millions	34,165	27,597	123.8%
of which: power production and trading	CZK millions	22,495	17,844	126.1%
distribution and sale	CZK millions	8,396	7,009	119.8%
mining	CZK millions	1,701	1,927	88.3%
other	CZK millions	1,572	817	192.5%
Depreciation and amortization	CZK millions	10,959	10,037	109.2%
EBIT	CZK millions	23,206	17,560	132.2%
Net income	CZK millions	16,433	11,683	140.7%
Return on equity (ROE), net	%	8.8	6.4	137.1%
Price/earnings ratio (P/E)		17.0	16.3	104.2%
EBIT margin	%	30.1	28.5	105.7%
EBITDA margin	%	44.3	44.7	99.0%
Total indebtedness, provisions excluded	%	32.5	30.0	108.5%
Long-term indebtedness	%	14.3	16.8	85.3%
Capital expenditures (CAPEX)	CZK millions	- 7,050	-6,514	108.2%
Investments	CZK millions	-15,192	-1,506	1008.8%
Operating cash flow	CZK millions	25,568	18,687	136.8%
Employee head count	persons	30,560	27,563	110.9%

Source: ČEZ.

Revenues, Expenses, Income

CEZ Group Net Income grew by CZK 4.75 billion (40.7%), mainly in conjunction with increased EBIT (up CZK 5.6 billion), which was driven by growth in the margin on electricity generation and trading. The "other expenses/income" category (up CZK 0.8 billion) also contributed to the good earnings result, due in particular to the strong Czech currency (the Koruna, or CZK). Other drivers of income included improved performance of the Bulgarian distribution companies and the acquisition of Electrica Oltenia, which was not a Group member in first half 2005. As of June 2006, the consolidation group also includes the Poland-based companies ELCHO and Skawina.

Cash Flows

Net cash provided by operating activities grew by CZK 6.9 billion (36.8%) year-on-year. Total cash used in investing activities was up CZK 18.2 billion (360.8%) in conjunction with the acquisition of the Polish power plants and an increase in our stakes in Severočeské doly and Severočeská energetika in H1 2006. Investments in fixed assets were also up, due to expenditures relating to the retrofit of the Tušimice II Power Station (CZK 1.6 billion). The year-on-year increase in cash flows from financing activities was caused by higher borrowing in H1 2006, mainly to pay for acquisitions.

Capital Expenditures

February 2006 saw the approval of the business plan for a retrofit of the Prunéřov II Power Station (4 x 200 MW), which will follow immediately after completion of the retrofit of Tušimice II Power Station (which has the same capacity). The business plan for the construction of a new 660 MW generating unit in the Ledvice Power Station was approved in May.

Power Production and Trading Segment

Figure 81: Key figures H1 2006 – Power Production and Trading Segment

		Generation and Trading	
		H1 2006	H1 2005
Total revenues	CZK m	47,490	35,082
EBITDA	CZK m	22,495	17,844
EBIT	CZK m	15,600	11,045
Employee Head Count	persons	7,903	7,406

TWh	Generation	
	H1 2006	H1 2005
Electricity generation	31.9	30.5
of which: nuclear PPs	14.0	12.3
coal PPs	16.4	17.1
hydro and other	1.4	1.1

TWh	Trading			
	H1 2006		H1 2005	
	domestic	foreign	domestic	foreign
Electricity purchased	3.6	3.7	2.7	0.1
Electricity sold	28.7	7.5	26.7	3.7
of which: outside CEZ Group	11.7	7.5	15.2	3.7
Balance	25.1	3.8	24.0	3.6

Source: ČEZ.

CEZ Group electricity generation grew 4.3% year-on-year on higher generation in nuclear and hydro power plants and only slightly lower generation in coal-fired plants.

Thanks to the inclusion of the ELCHO and Skawina power plants, ČEZ Group installed generation capacity increased by 830 MW in H1 2006, to 13,132 MW. Of the total, coal accounts for 7,435 MW, nuclear for 3,760 MW, and hydro and alternative for the remaining 1,937 MW.

Sales in the wholesale electricity market were up by a total of 2.0 TWh (7.5%). Of this figure, sales in the Czech Republic accounted for 1.7 TWh (up 6.3%). Here, increased purchasing (by 0.9 TWh, or 31.9%) caused the resulting balance to rise by 0.8 TWh. Another 327 GWh consisted of June sales by the Poland-based companies ELCHO and Skawina in their domestic market. Another newcomer to the segment was a Hungary-based trading company – another addition to the sales offices network ČEZ Group is currently building – which is tasked with supporting trading activities in the region.

The balance of foreign electricity sales grew by 0.2 TWh (5.2%). However, some exports are hidden in sales to domestic traders who export electricity.

The fall in emission permit prices at the turn of April - May will not have any negative impact on CEZ Group financial performance this year, since most positions in this commodity were closed in time. The impact on electricity prices for CEZ Group is also marginal, since most contracts are one-year contracts. At present, the baseload price for 2007 in Germany has returned to above 55 EUR/MWh. Late in H1, the process of contracting for 2007 began in all Central European markets. This process involves auctions, tenders, and bilateral trades. ČEZ, a. s. responds to purchase inquiries as they come in. The main sales campaign for the Czech Republic for next year is expected in Q3 2006, but it also includes an auction of electricity produced by a "virtual power plant" that took place on August 2.

Distribution and Sale Segment

Figure 82: Key figures H1 2006 – Distribution and Sale Segment

		Celkem		Czech Republic			Bulgaria		Romania	
		H1 2006	H1 2005	H1 2006	of which: ČEZ Distribuce	H1 2005	H1 2006	H1 2005	H1 2006	H1 2005
Total revenues	CZK m	48,623	37,087	36,957	15,264	31,094	6,378	5,992	5,288	x
EBITDA	CZK m	8,396	7,009	6,053	4,115	6,002	1,345	1,007	999	x
EBIT	CZK m	5,976	4,774	4,537	2,873	4,249	850	524	589	x
Sales of electricity	TWh	24.4	18.8	18.1	x	14.7	4.3	4.1	2.0	x
of which: outside CEZ Group	TWh	22.0	18.2	15.8	x	14.2	4.2	4.1	2.0	x
Distribution (incl. losses)	TWh	33.1	27.6	21.8	21.8	22.6	5.1	5.0	6.2	x
Employee Head Count	persons	13,505	11,354	5,787	1,119	6,465	4,747	4,889	2,971	x

Source: ČEZ.

Net electricity demand in the Czech Republic grew, driven in particular by ongoing economic growth, by 1.3 TWh (4.3%) year-on-year. Even when adjusted to the long-term sliding average temperature, the growth is still 3.5%. Wholesale consumption (including consumption by power producers) was up 3.6%, while retail customers consumed 6.6% more. Within retail consumption, household consumption grew at a faster pace (7.1%) due to a 1.1°C year-on-year average temperature drop and the extension of the heating season into June.

Revenues were up year-on-year on higher selling margins as well as the inclusion of Romania-based Electrica Oltenia, which was not a member of ČEZ Group in the same period of 2005. ČEZ Group electricity sales in Bulgaria grew year-on-year by 181 GWh, or 4.4%.

Mining Segment

Figure 83: Key figures H1 2006 – Mining Segment

		Mining	
		H1 2006	H1 2005
Total revenues	CZK m	4,222	3,904
EBITDA	CZK m	1,701	1,927
EBIT	CZK m	1,234	1,438
Employee Head Count	persons	3,539	3,617

thousands of tons	Coal Sales	
	H1 2006	H1 2005
Total coal sales	10,431	10,786
of which: ČEZ	7,544	8,565
plants over 50 MW	1,515	971
coal exports	81	71
other plants and traders	1,290	1,179

Source: ČEZ.

Liquidity and Capital Resources

ČEZ expects its principal capital requirements to consist of the following:

- modernization of the Dukovany nuclear power plant, together with its instrumentation and control systems;
- construction (extension) of the interim spent nuclear fuel storage facilities located at ČEZ's nuclear plant sites;
- participation in investment opportunities in the power sector in Central and South-Eastern Europe enabling ČEZ to respond flexibly to developments in demand; ČEZ is prepared to allocate all free cash flow generated until 2009 for acquisitions. The total amount is estimated at EUR 7 billion including potential releveraging;
- investments in subsidiaries, especially into the distribution grid and automated switching equipment that substantially decreases outage times; and
- investments to replace ČEZ's aging brown-coal-fired power plants (at least to the extent of two-thirds of the present installed capacity of such power plants) after 2010, at which time the present power plants will be at the end of their useful lives and will be replaced by newer, more efficient plants.

Historically, ČEZ's liquidity requirements have arisen primarily from the need to fund capital expenditures for the expansion of its business and for working capital requirements. ČEZ expects to continue to incur substantial additional capital expenditures in order to expand and improve the quality of its service, react to market conditions, and to diversify its generating capacity. ČEZ believes that its existing financing together with cash flows provide it with sufficient financial capacity to fund its business and capital expenditure program and represent a source of working capital sufficient to meet its future short-term and long-term financing of ongoing operations.

In 2004, ČEZ's investing expenditures, including additions to property, plant and equipment and other non-current assets (CAPEX) and financial investments into acquisition of subsidiaries and associates totaled approximately CZK 35.1 billion. In 2005, ČEZ's investing expenditures totaled approximately CZK 27.9 billion, being by 20.4% less than in 2004.

Financing Obligations

The following table presents ČEZ's principal financing obligations as at 31 December 2005:

Figure 84: Payments Due By Period

CZK million	Total	Up to 1 Year	1-3 Years	4-5 Years	More than 5 Years
Short-term debt	265	265			
Long-term debt	38,474	7,888	10,608	4,545	15,433
Total	**38,739**	**8,153**	**10,608**	**4,545**	**15,433**

Source: ČEZ.

ČEZ does not have significant obligations resulting from capital and operating lease contracts.

The following table summarizes ČEZ's estimated capital expenditures, including uncommitted amounts, for the next five years:

Figure 85: Expected Capital Expenditures in the Future

CZK billion	Total	2006	2007	2008	2009	2010
Capital expenditures	155.9	28.2	29.5	32.1	32.8	33.3

Source: ČEZ.

These figures do not include the expected acquisitions of subsidiaries and associates; the actual payments for acquisitions will depend on the number of future investment opportunities, for which ČEZ will be a successful bidder and also on the recoverability of these investments.

Sources of Financing

The financing for ČEZ's capital investment program is obtained mainly from cash flows from operating activities and bank financing. The primary sources of financing available to ČEZ are the following:

- cash flow from operating activities;
- financing from banks; and
- the issuance of bonds.

Cash Flow and Liquidity

Net cash generated from ČEZ's operating activities provides ČEZ with a significant source of liquidity. ČEZ's operating activities generated net cash of approximately CZK 38.3 billion in 2003, approximately CZK 36.6 billion in 2004, and approximately CZK 43.9 billion in 2005. The year-on-year increase of CZK 7.3 billion in 2005 was caused, among other things, by an increase in profit by CZK 8.8 billion reduced by changes in receivables and payables. The income tax payments decreased to CZK 5.9 billion, while cash generated from operations rose to CZK 50.7 billion (by 16%) and dividends received decreased to CZK 230 million (by 58%). In 2003, 2004, and 2005, ČEZ generated 100% of its capital investment needs from its operations.

At the end of 2003, the largest portion of ČEZ's receivables, CZK 3.6 billion, was associated with the five REAS (including their affiliated entities), which were part of the ČEZ's consolidated group, and the second largest portion, CZK 3.1 billion, was associated with third parties outside consolidated ČEZ group. At the end of 2004, ČEZ's net receivables amounted to approximately CZK 9.2 billion, an increase of approximately CZK 1.8 billion (24.8%) compared to the level at the end of 2003. At the end of 2005, ČEZ's net receivables accounted for CZK 14.8 billion.

At the end of 2003, ČEZ's cash balances increased to approximately CZK 5.0 billion. Cash balances can fluctuate substantially on the basis of the timing of borrowings and repayments of debt. ČEZ's cash balances increased to approximately CZK 8.9 billion at the end of 2004 and CZK 16.8 billion at the end of 2005.

ČEZ's total consolidated long-term debt (including current portion) increased by 13.8% during 2004 and totaled approximately CZK 41.6 billion at the end of 2004; the total debt from issued bonds increased by CZK 8.6 billion, mainly due to the issue of EUR 400 million bonds; long-term bank loans and other loans (including current portion) decreased by approximately CZK 1.4 billion. ČEZ's total consolidated long-term debt (including current portion) decreased by 7.5% during 2005 and totaled approximately CZK 38.5 billion at the end of 2005; long-term bank loans (including current portion) decreased from CZK 9 billion by approximately CZK 1.4 billion to CZK 7.6 billion; ČEZ had CZK 265 million short-term loans at the end of 2005; and current portion of long-term debt increased to approximately CZK 7.9 billion from CZK 3.4 billion (or by 129.3%) primarily due to the expected maturity of Eurobonds.

Loans and Bonds

Figure 86: ČEZ's Outstanding Long-Term Indebtedness as of 31 December 2005

Creditor	Interest Rate	Currency	Facility Amount *(million)*	Indebtedness as of 31 December 2005[1] *(CZK million)*	Maturity
Citibank International	floating	USD	317	1,402	2007-2008[2,3]
Česká spořitelna	fixed	CZK	50		2007
ČSOB	fixed	CZK	248		2007
Erste Bank AG	fixed/floating	EUR	17	49	2006
Erste (CR) a.s.	fixed	CZK	58		2006
European Investment Bank	fixed	USD	55	832	2013
European Investment Bank	fixed	EUR	44	800	2013
European Investment Bank	floating	CZK	3,441	2,117	2012-2013[4]
Fortis Bank	floating	USD	55	359	2008-2009[2]
IBRD	floating	USD	246	694	2007[2,5]
Komerční banka	fixed	CZK	300		2006
Komerční banka	fixed	CZK	6		2007
Komerční banka	fixed	CZK	10		2006
Komerční banka	fixed	CZK	10		2006
Komerční banka	fixed	CZK	37		2006
Nordic Investment Bank	floating	USD	50	1,076	2007
Total			23,706	7,329	
Balance			16,377		

Source: ČEZ.
[1] Amounts have been transferred into CZK using the CNB Exchange Rate as of 31 December 2005; unless mentioned otherwise the loans are unsecured
[2] State guarantee
[3] 76% of principal currency-hedged
[4] 89% of principal interest-hedged until 15 March 2007
[5] 32% of principal currency-hedged

Figure 87: ČEZ's Outstanding Bonds as of 31 December 2005

Maturity	Interest Rate	Original Nominal Value *(million)*	Indebtedness as of 31 December 2005 *(million)*	Pre-payment	Issue Date
2014	9.22%	CZK 2,500	2,495	-	1999
2009	9.22%, zero coupon[2]	CZK 4,500	3,561	-	1999
2007	7.125%	USD 178 [3]	4,406	-	1997
2006	7.250%	EUR 200 [4]	5,934	-	1999
2011	4.625%	EUR 400	11,532	-	2004
2008	3.350%	CZK 3,000	2,913	-	2003
Total			30,841		

Source: ČEZ.

[1] *Unless mentioned otherwise the bond are unsecured*
[2] *ČEZ realized proceeds of CZK 1,863 million on this zero coupon bond*
[3] *Original nominal value was USD 200 million; ČEZ made open-market purchase in the total amount of USD 22 million; currency- and interest- hedged*
[4] *EUR 175 millions principal hedged*

On 6 October 2006, the issue of ČEZ's 7 year Eurobonds in the amount of EUR 500 million was underwritten. The Eurobonds bear coupon of 4.125% p.a. The issuance date was set on 17 October 2006.

On 8 June 2004, CEZ FINANCE B.V. issued EUR 400 million 4 5/8% guaranteed notes due 2011. These notes are unconditionally and irrevocably guaranteed by ČEZ.

On 3 March 1999, ČEZ began a CZK 5.0 billion domestic commercial paper program with a consortium of banks to cover short-term financing differences of cash inflows and outflows. On 19 April 2000, the domestic commercial program was extended up to CZK 9.0 billion. Out of this total sum CZK 3.0 billion is committed. Six banks are participating in the commercial paper program now. ČEZ had no outstanding indebtedness under this program as of 31 December 2005. The interest rates on indebtedness under this program range from the Prague inter-bank offering rate ("PRIBOR") to PRIBOR plus 0.20%, each 0.01% being a basis point ("b.p.").

Also, ČEZ has several committed short-term credit lines — the syndicated revolving facility for USD 70 million and other credit lines in the amount of CZK 2.5 billion.

On 30 May 2000, ČEZ entered into a syndicated multi-currency EUR 85 million guarantee facility in favor of the European Investment Bank due in 2013. On 24 February 2005, this guarantee was replaced by a new one, which is valid for another 5 years. ČEZ's outstanding indebtedness under this credit facility as of 31 December 2004 was CZK 2.1 billion at a floating interest rate of PRIBOR minus 5 b.p. On February 2005 ČEZ signed the amended and extended syndicated guarantee facility in the amount of CZK 2,1 billion in favor of EIB. The guarantee facility is valid for 5 years and it is for a second tranche of EIB loan. Syndicate of banks consists of Sumitomo, Calyon, EIF, KfW and SanPaolo IMI.

On 20 October 1999, CEZ FINANCE B.V., a wholly owned subsidiary of ČEZ organized under the laws of The Netherlands and acting as a financing vehicle for ČEZ, issued EUR 200 million 7.25 percent Guaranteed Notes due 2006. These notes are unconditionally and irrevocably guaranteed by ČEZ.

On 27 January 1999, ČEZ exercised a call option for CZK 4.0 billion 14.375% bonds. ČEZ repaid the bonds using a portion of proceeds from two bond issues in an aggregate amount of CZK 7 billion, an issue of CZK 4.5 billion domestic discounted bonds (with a zero coupon so that immediate funds due 2009 were obtained in an amount of CZK 1.9 billion), as well as an issue of CZK 2.5 billion domestic 9.22% bonds due 2014 (from 2006 these bonds will bear interest at a variable interest rate defined as CPI + 4.2%). On 7 June 1999, ČEZ issued CZK 3.0 billion domestic 8.75% bonds due 2004 and the proceeds were used to exercise the call option for CZK 3.0 billion 10.9% bonds. On 6 June 2000, ČEZ exercised a call option for CZK 4.0 billion 11.3% bonds. On 27 June 2003, ČEZ exercised a call option for CZK 3.0 billion 11 1/16% bonds. ČEZ repaid these bonds using proceeds from new CZK 3.0 billion domestic 3.35% bonds due 2008 issued on 23 June 2003. On 7 June 2004, ČEZ repaid its domestic 8.75% bonds due on 2004.

On 11 November 1998, ČEZ entered into a syndicated credit facility agreement for an aggregate amount of DEM 280 million with a consortium of thirteen banks with Sumitomo Bank Limited being the Facility Agent. For DEM portion of this facility ČEZ paid an interest of LIBOR plus 50 b.p. and for the CZK portion, PRIBOR plus 50 b.p. The last installment of this facility was paid on 11 November 2003.

On 27 January 1998, ČEZ entered into a credit facility agreement with the Nordic Investment Bank for a total amount of USD 50 million. ČEZ pays an interest of LIBOR plus 50 b.p. on this facility.

On 14 December 1995, ČEZ entered into a long-term multi-currency loan provided by the European Investment Bank in the amount of 200 million ECU (European Currency Unit). On 11 July 1996, ČEZ obtained a guarantee valid until 2003 from a consortium of commercial banks required by the loan agreement with the European Investment Bank allowing ČEZ to draw-down up to EUR 100 million under such agreement. ČEZ has made four draw downs on this loan in denominations and with interest rates as follows: USD 7.05%, DEM 6.33%, EUR 5.17% and CZK PRIBOR minus 15 b.p. A new guarantee was obtained from the manager of the consortium on 8 April 2003 for the next 5 years.

On 3 December 1996, ČEZ entered into two syndicated credit facility agreements to secure financial resources for the completion of the *Temelín* nuclear power plant. The first facility, arranged by Citibank, is for USD 317 million and is guaranteed by the Export-Import Bank of the United States and by the Czech Republic. ČEZ drew down approximately USD 256 million for the information and control systems as well as for fuel for Unit I and II of *Temelín*. In 2001 ČEZ decided to cancel the undisbursed balance of the loan in the amount of USD 61 million (USD 32 million for instrumentation and control system and USD 29 million for fuel). As of 31 December 2004, approximately USD 176 million of the principal had been repaid. The interest rate on this loan is LIBOR plus 30 b.p. The second facility, arranged by Generale Bank (now operating under the name Fortis Bank), is for USD 55 million and guaranteed by the Belgium Office of National du Ducroire and by the Czech Republic. ČEZ drew down altogether approximately USD 45.0 million for the information and control system. As of 31 December 2004, approximately USD 25.7 million of the principal had been repaid and no amount remained to be drawn down under this facility as ČEZ cancelled the undisbursed balance of the loan. The interest rate on this loan is LIBOR plus 50 b.p.

On 17 July 1992, ČEZ entered into a multi-currency loan agreement with the International Bank for Reconstruction and Development for an amount equal to USD 246 million. ČEZ currently has EUR and USD portions outstanding with applicable interest rates of EUR LIBOR plus 50 b.p. and World Bank variable rate plus 50 b.p., respectively. On 31 December 2004, ČEZ's outstanding indebtedness under this multicurrency loan agreement consisted of only the USD portion of approximately USD 29.0 million. This agreement contains several financial covenants relating to, among other things, interest coverage and the revenue/expense ratio. This revenue/expense ratio requires ČEZ to maintain operating costs at a level no higher than 60% of its operating revenues and to furnish on a semi-annual basis to the International Bank for Reconstruction and Development forecasts for the next following year in respect of whether ČEZ expects to comply with the ratio. In the past, ČEZ's operating cost to operating revenue ratio has come close to the 60% level. With the aim of avoiding a breach of this contract, ČEZ successfully requested the International Bank for Reconstruction and Development to waive this revenue/expense ratio requirement for 1999 and 2000. In 2001, 2002, 2003, 2004 and 2005 ČEZ met all of the financial covenants on this loan.

To manage short-term financing differences of cash inflows and outflows, ČEZ utilizes a number of instruments, including commercial paper programs, T-bills, revolving multi-currency credit facilities and bank overdrafts. ČEZ's long-term liquidity depends on the future prices of electricity and on the demand for electricity. With respect to managing long-term liquidity, ČEZ believes that it will be able to secure necessary sources of funding.

As indicated above, certain of ČEZ's loans required the proceeds to be used for the construction of *Temelín* or the refurbishment of some of its coal power plants to meet new environmental laws. In each case, ČEZ has used the proceeds in accordance with the restrictions on use as provided in such loans.

ČEZ holds cash and cash equivalents in EUR, USD, and CZK.

For 2005 ČEZ hedged against foreign currency exchange rate fluctuations affecting its expenses/incomes of operations by using the FX option strategy (zero cost premium). ČEZ believes this is the most effective strategy in situations where accurately predicting the amount and maturity of expenses is impossible. ČEZ also executed several IR swaps to switch part of its floating rate liabilities into fixed rates using the situation of historically low Czech interest rates. For more information on hedging activities, see note 2.19 to the consolidated financial statements included herein.

Types and Volumes of Securities

The following table provides an overview of Shares and outstanding bonds issued by ČEZ, as of 31 December 2005.

Figure 88: Overview of Shares and Outstanding Bonds Issued by ČEZ

Security	ISIN	Date of emission	Interest	Due date	Form	Face value	Volume	Manager	Administrator
Issue shares [1)]	CZ0005112300	2/15/1999	x	x	bearer	100	CZK 59.2 billion	x	x
6th issue of bonds	CZ0003501066	1/26/1999	zero coupon [2)]	2009	bearer	CZK 1,000,000	CZK 4.5 billion	ING Barings Capital Markets	Citibank
7th issue of bonds	CZ0003501058	1/26/1999	9,22% [3)]	2014	bearer	CZK 1,000,000	CZK 2.5 billion	ING Barings Capital Markets	Citibank
9th issue of bonds	CZ0003501348	6/23/2003	3,35% [4)]	2008	bearer	CZK 10,000	CZK 3.0 billion [5)]	ČSOB	ČSOB
2nd issue of Eurobonds	[6)]	10/20/1999	7,25% [7)]	2006	bearer	EUR 1,000; 10,000; 100,000	EUR 200 million	Credit Suisse First Boston	Chase Manhattan Trustees Limited [9)]
3rd issue of Eurobonds	[6)]	6/8/2004	4,625% [7)]	2011	bearer	EUR 1,000; 10,000; 100,000	EUR 400 million	BNP Paribas Merrill Lynch	J.P. Morgan Corporate Trustee Services Limited [9)]
Yankee bonds	[6)]	17/7/1997	7,125% [7)]	2007	bearer	USD 1,000	200 million USD [8)]	J.P. Morgan, Merrill Lynch, Salomon Brothers	The Chase Manhattan Bank [9)]

1) As of 15 February 1999, two previous issues of shares with face values of CZK 1,000 and 1,100 were merged and subsequently split into shares with the face value of CZK 100. Number of issued shares: 592,210,843. Unpaid amount for the issued shares: CZK 0. Shares of ČEZ are traded at the Prague Stock Exchange and the RM-System.
2) The yield is determined by the difference between the issue (CZK 1,862,905,005) and the nominal (CZK 4,500,000,000) value of the bond.
3) Since 2006, the rate of interest-bearing bonds is floating and calculated as CPI + 4.2%.
4) Interest Rate of the bond at issue: 100.05%.
5) Bond program of a maximum volume of CZK 30 billion with a duration of 10 years and the maturity of any issue within the program of maximum 10 years.
6) Issued through CEZ FINANCE B.V., Eurobonds are listed on the Luxembourg Stock Exchange and Yankee bonds are registered with the U. S. Securities and Exchange Commission.
7) In connection with the change of tax regime and the signing of a preliminary price agreement with the Dutch Tax Authority (APA – Advance Pricing Agreement), there was a change in the financing of CEZ FINANCE B.V. Since December 2005, it has been financed by the interest difference between the issued bonds and given loans. This difference is 0.0686% p.a. in the case of all three loans.
8) Buy back (repurchase) by the issuer in the amount of USD 22 million
9) In 2001, Chase Manhattan Trustees Limited merged with The Chase Manhattan Bank. The current name of the administrator is JPMorgan Chase Bank.
Severočeské doly a.s. holds part of the 9th emission in face value of CZK 80 million, and thus the long-term debt reported by ČEZ is lower by this amount.
ČEZ issued no bonds exchangeable for shares.
According to the terms of the issue, the bonds are not guaranteed by the state nor any bank.
No company within the ČEZ Group, except for ČEZ, has outstanding bonds.

Source: ČEZ.

On 6 October 2006, the issue of ČEZ's 7 year Eurobonds in the amount of EUR 500 million was underwritten. The Eurobonds bear coupon of 4.125% p.a. The issuance date was set on 17 October 2006.

Material Commitments for Capital Expenditures

ČEZ's key fixed material commitments for capital expenditures relate to refurbishment of the power plant Tušimice II. The total amount of committed funds for Tušimice II is approximately EUR 700 million.

Trend Information

In 2006, ČEZ will continue to manage its portfolio of power plants by optimizing electricity generation and selling CO_2 emission credits, while using the experience gained in the first year of conducting the operations in this manner. The basis for the 2006 results lies in the electricity sales campaign that took place in the second half of 2005.

For 2006, the goal of the ČEZ Group under the VIZE 2008 project is to complete the reorganization and optimize the activities of the new process-based companies by implementing the best practices. The portfolio of domestic equity holdings will be streamlined and certain activities that are readily available in the market will no longer be sourced within the ČEZ Group.

Acquisitions, of foreign targets in particular, will continue to play a major role in 2006. In the companies that joined the ČEZ Group in 2005 (Bulgarian and Romanian distributors and Severočeské doly a.s. in the Czech Republic), business processes will be gradually aligned with the ČEZ Group's best practices. In May 2006 ČEZ settled acquisition of the Polish black-coal power plants ELCHO and Skawina, the purchase agreements for which were signed in late January 2006. ČEZ added the Varna black-coal power plant in Bulgaria in October 2006 (the share purchase agreement was signed in May 2006 and the deal was settled on 3 October 2006), as well as others arising from ongoing and anticipated tenders in Central and South-Eastern Europe.

In preparation for the renewal of coal power plants in 2006, we expect execution of basic contractual documents for the retrofit of a total of eight 200 MW generating units in the Tušimice II and Prunéřov II power plants. A project for a new 660 MW unit in the Počerady power plant, similar to the already approved project for an identical unit at Ledvice power plant, was submitted for approval in April 2006.

The ČEZ Group expects to incur approximately CZK 23 billion in capital expenditures in 2006, of which slightly less than CZK 10 billion will be incurred by ČEZ, as the parent company. Subsidiaries are planning capital expenditures exceeding CZK 13 billion, of which CZK 3 billion is attributable to foreign companies. Total M&A expenditures will be determined by successes in ongoing and upcoming tenders.

Information on Ongoing and Potential Future Acquisitions

On 19 November 2004, ČEZ entered into an agreement to purchase 67% shares in three distribution companies in Western Bulgaria from the Bulgarian government. On 18 January 2005, ČEZ settled this transaction. ČEZ paid a total of EUR 281.5 million for the three majority stakes. For more information, see Section "Bulgaria" on page 76.

In April 2005, ČEZ entered into an agreement to acquire a 51% majority share in *Electrica Oltenia S.A.*, a Romanian distribution company, from the Romanian government. The transaction was completed in October 2005. The total purchase price of EUR 166.5 million was financed from ČEZ's own internal sources. For more information see Section "Romania" on page 78.

In November 2005, ČEZ, as a short listed investor, submitted the specification of the bid in a tender for Polish Kozienice power plant; the transaction is currently on hold.

On 20 December 2005, ČEZ acquired a 56% stake in Severočeské doly a.s., in addition to its 37% share already held. The acquisition price was CZK 9.046 billion. In June 2006 ČEZ became 100% owner of Severočeské Doly a.s. For more information, please see Section "Acquisition of Severočeské doly a.s." on page 39.

In January 2006, ČEZ agreed with PSEG (as the seller) on the purchase of Polish power plants Skawina and Elcho; the transaction was settled on 29 May 2006.

In March 2006, ČEZ was selected as the winner of a tender for the Bulgarian power plant Varna with the purchase price of EUR 206 million for 100% of Varna´s shares; in addition thereto, ČEZ has also committed to raise the capital of the power plant by 16% through the issue and acquisition of new shares in the amount of EUR 99.8 million and to contribute additional EUR 40 million into an investment fund that will implement projects in the energy sector. The respective share purchase agreement was signed in May 2006. The transaction was settled on 3 October 2006.

Off-balance Sheet Arrangements

ČEZ has not identified any material off-balance sheet arrangements.

8. CAPITALIZATION AND INDEBTEDNESS

The following table sets out the cash and capitalization of CEZ, a. s. as at 31 July 2006, as derived from its non-audited unconsolidated financial statements for January - July 2006.

This table should be read in conjunction with Section called "*Operating and Financial Review and Prospects*", the Issuer's audited consolidated financial statement and the related notes thereto included below in this Prospectus.

Figure 89: Capitalization and Indebtedness

As at 31 July 2006	***CZK million***
Cash and cash equivalents	11,463
Short-term indebtedness	10,990
Current portion of long-term indebtedness	13,996
Total short-term indebtedness	24,986
Interest bearing loans and borrowings	22,273
Accumulated provision for nuclear decommissioning and fuel storage	35,983
Other non current liabilities	152
Total long-term indebtedness	58,408
Stated Capital	57,620
Retained earnings	123,995
Total shareholders' equity	181,615
Total capitalization	265,009

Source: ČEZ.

The Issuer's registered capital as of 31 July 2006, consisted of 592,210,843 ordinary shares, each with a nominal value of CZK 100. On 31 July 2006, ČEZ held 3,065,000 of its own shares.

On 6 October 2006, the issue of ČEZ's 7 year Eurobonds in the amount of EUR 500 million was underwritten. The Eurobonds bear coupon of 4.125% p.a. The issuance date was set on 17 October 2006.

Out of the total indebtedness as at 31 July 2006 loans in the total amount of CZK 629 millions were secured and/or hedged while none of the short term loans was secured; the bonds in the total volume of CZK 12,680 millions were secured and/or hedged; the rest was unsecured and or unhedged.

9. DETAILS OF THE ADMISSION

Admission to Trading and Dealing Arrangements

This Prospectus has been prepared for the purpose of admission of the Issuer´s Shares to listing and trading on the Main Market of the WSE (a regulated market as defined by Council Directive 93/22/EEC of 10 May 1993, on investment services in the securities field). On the date of this Prospectus, the Shares are admitted to listing and trading on the Prague Stock Exchange. To the extent of Issuer's knowledge, the Shares were also introduced by third parties ("unsponsored listings") to trading in Germany, namely on XETRA and Frankfurt, Berlin, Munich and Stuttgart Stock Exchanges.

Application will be made for the Shares to be admitted to listing and trading on the Main Market of the WSE and it is expected that the admission to listing and trading of the Shares (ISIN: CZ0005112300, representing 100% share capital of the Issuer) on the WSE will become effective on or around October 31 2006. Dealing on the WSE is expected to commence on or around November 1 2006 and will be settled through the Polish National Securities Depository (KDPW).

ČEZ contemplates application for admission on the WSE by way of the ordinary procedure under the WSE Rules. No new Shares will be issued and no Shares will be offered by ČEZ. The Shares are aimed to be traded on the Main Market of the WSE.

Polish Securities Market

Introduction
In Poland, there are two regulated markets for trading in shares: the WSE and the MTS-CeTO (the off-exchange market). The operations of the WSE, securities brokers, clearing entities, and other securities markets professionals in Poland are regulated by the Act on Public Offering; Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies; Act on Trading in Financial Instruments; and Act on Capital Market Supervision and by the Polish Securities and Exchange Commission (KPWiG), which is the main regulator of securities markets in Poland, together with the Insurance and Pension Funds Supervisory Commission (KNUiFE) and the General Inspectorate of Banking Supervision (GINB). The regulatory standards of securities markets in Poland, generally comply with the applicable directives and regulations of the European Union.

Warsaw Stock Exchange
Warsaw Stock Exchange (WSE) is the principal market in Poland in which shares, bonds, derivatives and subscription rights are traded. Securities can be traded in either the Main Market (regulated official market) or in the Parallel Market (regulated unofficial market).

As of 30 April 2006, securities representing 254 companies were registered for trading on WSE, and of that, securities representing 241 companies were registered for trading in the Main Market, and 13 in the Parallel Market. The total WSE market capitalization at such date was approximately EUR 125 billion.

WSE is a joint-stock company created by the State Treasury. Its capital amounts to PLN 41,979,000 split into 59,970 registered shares in nominal value of PLN 700 each. Currently, WSE has 38 shareholders, including brokerage houses, banks, issuers of securities and the State Treasury. WSE had 28 members as of 1 September 2006. WSE is regulated by the Law on Public Trading in Securities of 21 August 1997, the Act on Trading in Financial Instruments and its internal rules.

Under Polish law, only WSE members are allowed to trade directly on WSE, either on their own account or on the account of their clients. Non-members can only trade indirectly through a WSE member.

Listing of securities on the WSE is extensively regulated by the Polish Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, which sets out the minimum listing requirements and specifies certain reporting obligations. In addition, the WSE has its own specific listing and reporting rules for each of its markets.

Main Market
In order for a company to have its equity securities admitted to the Main Market of the WSE, the following principal criteria must be ordinarily met:
Principal listing requirements:

- prospectus has been approved by a competent supervisory authority;
- the transferability of the securities is not restricted;
- the issuer is not subject to bankruptcy or liquidation proceedings;
- all issued securities of given type have been covered by the listing application;
- the sum of the number and the projected market price of the shares covered by the application (and if the price cannot be determined, the Issuer´s equity) amounts to at least EUR 1,000,000;
- dispersion of shares; and
- financial statements for the last 3 years have been prepared.

A company admitted to the Main Market is required to make certain financial information publicly available. In particular, such companies must file with the WSE unaudited quarterly, semi-annually, preliminary annual and audited annual financial statements. Further, the company must notify the WSE of certain changes in its financial condition, including:
(i) any 10% change in the company's net assets;
(ii) any dispute involving an amount of 10% or more of the company's assets;
(iii) the declaration of a bankruptcy order against the company;
(iv) any merger, acquisition, take-over or dissolution;
(v) any change in the shareholder structure or holdings by major shareholders; and
(vi) any changes of members of the statutory and/or supervisory body of the company.

PLUS Segment of the Main Market
Within the main market, a PLUS segment has been established, for which, apart from quantitative requirements also qualitative ones must be met, such as observance of all corporate governance rules and proper standards of communication with investors.

Shares admitted to trading on the Main Market may be traded in the PLUS segment of the market, if:
1) the value of shares admitted to trading and held by shareholders holding each no more than 5% of the total number of votes at the general meeting is at least PLN 12,000,000,
2) the shares referred to in (1) above constitute at least 25% of the total number of shares of the company. This requirement is considered to be met if at least 500,000 shares of the company with a value of at least PLN 56,000,000 are held by shareholders referred to in (1) above,
3) at least 300 shareholders hold the shares which have been admitted to exchange trading; this requirement shall not apply to companies whose shares have already been exchange listed.

Parallel Market
The Parallel Market (regulated unofficial market) serves as an alternative market to the Main Market on WSE. Principal listing requirements are:

- prospectus has been approved by a competent supervisory authority;
- the transferability of the securities is not restricted; and
- the issuer is not subject to bankruptcy or liquidation proceedings.

PRIM Segment of the Parallel Market
Within the Parallel Market, a PRIM segment has been established, for which additional requirements concerning communication with investors and publication of more comprehensive financial reports must be met.

Trading
Upon the admission, the Shares will be traded through the WSE and prices will be quoted in Polish Zloty.

The WSE is an electronic exchange and trades are effected through its automated trading system WARSET (Warsaw Stock Exchange Trading System). The exchange trading and information system is based on the automated processing of buy and sell orders entered into the system by member firms.

The WARSET is built as the order-driven system (prices of securities are determined based on buy and sell orders). Quotations of equities are made in a continuous trading system or in a single-price system with two auctions. Additionally, for large blocks of securities, so-called block trades outside of the public order book are possible. Transactions are executed electronically, via the exchange computer system.

Since 17 November 2000, quotations on the WSE have been taking place in the new WARSET system. Such system is also used in Paris, Brussels, Amsterdam, Chicago, and Singapore. WARSET provides full automation of order transfer and transaction execution, efficient access to the trading system for market participants, and a wide range of means for obtaining information about the market situation. Moreover, WARSET gives investors more ways of placing orders. On-line-brokerage IT systems are now so well integrated with the WSE system that the brokers´ role is limited to checking the correctness of orders placed by investors.

In each of the WARSET quotation systems, the transaction unit is one security. A characteristic feature of WARSET is publication of the so-called Indicative Opening Price (IOP) during the pre-opening, pre-closing and balancing phases. This is the price of a security calculated for a given moment. At the moment of opening, i.e. determination of the first price (the last price in case of the closing phase), the price at which the first of these transactions is concluded is the last published IOP.

In establishing the price of a given security, the following objectives are taken into account: (a) maximization of trading volume, (b) minimization of the difference between the numbers of securities in sell and buy orders available for execution at a given price, and (c) minimization of the difference between the determined price and the reference price.

Market Makers
To improve the liquidity of listed securities, brokerage houses may perform the function of a market maker (animator), taking, based on the relevant agreement with the exchange, actions for their own account to support the liquidity of a financial instrument. Also, the market maker (animator) can support the liquidity of a financial instrument under an agreement with the issuer (Issuer's market maker).

Settlement
The National Depository for Securities (KDPW) is the principal institution in Poland authorized to provide depository, clearing and settlement services for all securities in public trading, i.e., including the WSE. The WSE is a major shareholder in the National Depository for Securities (holding 33.33%).

KDPW is the Polish central securities depository responsible for managing and supervising the depository-settlement system, which forms a part of the securities trading system. This trading is based on the highest international standards, including full securities dematerialization.

KDPW, which settles transactions, also performs operations on securities, for example dividend payments, share splits and bond redemptions. Equity transactions are settled in a T+3 cycle, on the third day after the transaction on a delivery versus payment (DVP) basis, payable in Polish Zloty.

The main responsibilities of KDPW include:

- **The clearing and settlement of transactions executed in the public securities market.** KDPW transfers securities between depository accounts of participants in its system and transfers cash between the accounts of participants in the settlement bank. These operations are the result of transactions executed in the market, as well as other operations following which securities title has been transferred.

- **The safekeeping of securities admitted to trading on the regulated market.** KDPW maintains securities accounts on which it registers securities of the depository-settlement system participants. From 1 July 1996 onwards, all securities and financial instruments registered in KDPW are assigned a code according to standards compiled by the International Standard Organization (ISO).

- **Processing of corporate actions.** KDPW performs the following operations on behalf of issuers: dividend and interest payments for securities held in custody, exercises of pre-emptive rights, assimilations of share series, conversions of registered shares to bearer shares, share conversions following company mergers, share splits and exchange of convertible bonds for shares.

- **Reconciliation of the securities issue with the amount of securities found in trading on the regulated market.** KDPW is responsible for supervising the total number of securities registered on participants' accounts, ensuring that it corresponds with the total securities issue.

- **Management of the Settlement Guarantee Fund.** KDPW manages the securities Settlement Guarantee Fund, created from the contributions of its participants. The fund is used to ensure that securities are settled, in situations where there is a shortage of cash necessary to perform transaction settlement.

Global Clearance and Settlement Procedures

The following settlement scheme to accommodate the transfers of shares between the Prague and Warsaw Stock Exchanges will be established: KDPW will be linked to the Czech Securities Center, the ultimate register of all Czech book-entry securities, through Clearstream Banking Luxembourg, which has opened its account with the Czech Securities Center and will use its local custodian Citibank, member of UNIVYC, the settlement system of the Prague Stock Exchange, for the access to UNIVYC. At the time of creation of the Czech Central Depository (by means of a merger between the Czech Securities Center and UNIVYC), an effort will be made to establish a direct link between KDPW and the Czech Central Depository. Clearstream Banking Luxembourg will hold the Shares for the benefit of KDPW at the Czech Securities Center. KDPW will keep records of account of local Polish investors.

Although the KDPW, Clearstream, and Czech Securities Center have agreed, or are expected to agree, to the foregoing procedures in order to facilitate the transfer of the Shares among participants of KDPW and Czech Securities Center, they are under no obligation to perform or to continue to perform such procedures and such procedures may be discontinued at any time. The Issuer, KDPW, Czech Securities Center, WOOD & Company Financial Services a.s. and any of their agents or affiliates will have no responsibility for the performance of such procedures.

Payment of Dividends

Distributions of dividends and other payments with respect to the book-entry Shares held by KDPW through Clearstream and the Czech Securities Center will be carried out by the mandated agent of ČEZ (currently Česká spořitelna, a.s.).

Distributions of dividends and other payments with respect to the book-entry Shares held by KDPW through Clearstream at the Czech Securities Center will be credited, to the extent received by Clearstream, to the cash bank accounts of KDPW participants.

Indices

The WSE calculates and publishes thirteen stock indices. Value of the WIG20, MIDWIG, WIG and TechWIG indices are calculated during continuous trading. The remaining indices are calculated three times during each trading session (after the first and the second auction, and at the end of the session). Apart from sectoral indices, the most important indices are as follows:

The WIG20 index has been calculated since 16 April 1994, based on the value of a portfolio of the 20 largest and most liquid companies on the Main Market. The index base value is 1,000 points. The WIG20 index is a price index, which excludes dividends and subscription rights. Investment funds and more than 5 companies from one sector (based on the exchange sector classification) cannot participate in the WIG20 index.

The MIDWIG index has been calculated since 31 December 1997. It covers a maximum of 40 midsize companies listed on the WSE Main Market. The index base value is 1,000 points. The MIDWIG index is a price index calculated based on transaction prices. The MIDWIG index excludes companies from the WIG20 index and investment funds.

WIG is an index of the 135 biggest and mid-size companies. The WIG index, historically the first index of the WSE, has been calculated since 16 April 1991. The index base value is 1,000 points. The WIG index covers large and mid-size companies from the Main Market (including companies outside the MIDWIG index). In the WIG index, individual company's and individual sector's participation is limited to guarantee diversification. The WIG index is a total return index, which includes dividends and subscription rights.

The TechWIG index has been calculated since 1 January 2000. Its base value is 1,000 points. The TechWIG index covers all companies from the Segment for Innovative Technologies (SiTech). It is a price index. In the TechWIG index calculation the diversification rule is applied and a single company share in the index is limited to 15%. The SiTech includes companies which focus on modern technologies, especially IT, telecom, and electronic goods.

The WIG20, MIDWIG and TechWIG indices constitute underlying instruments for futures contracts, while the WIG20 is also the options underlying asset.

The indices of WSE fall within the responsibility of the WSE Index Committee. The Index Committee is a permanent body, which advises the WSE on index methodology and market statistics. The WSE Management Board established the Committee in October 1997. However, all decisions concerning the composition and possible changes to indices are the sole responsibility of the Warsaw Stock Exchange Management Board. Committee meetings are held before the announcement of adjustments and revisions of index portfolios.

One of the most important factors that the WSE Index Committee takes into consideration for the selection of the index participants and their ranking is the free float factor of the respective stock. The free float factor is a ratio of shares in free float to all outstanding shares of the company.

The following shares are not included in the free float:

- blocks of shares exceeding 5% of company's share capital that are held by one investor or by one holding or a group of related entities;
- shares held by State Treasury; and
- shares owned by the company for a remission.

Free float shares are:

- shares held by investment and pension funds;
- shares held by management funds; and
- shares covered by ADRs and GDRs.

Free float factor for foreign companies listed on the WSE is calculated as an average number of shares in KDPW during last three months.

The MTS-CeTO

The MTS-CeTO is the off-exchange market. MTS-CeTO is licensed to organize and manage the regulated off-exchange market. Simultaneously, the company is entitled to create platforms for electronic trading in securities and financial instruments also on the non-regulated market (i.e., not subject to the supervision of the Securities and Exchange Commission). The WSE is the major shareholder in CeTO S.A. (holding 31.15%).

Polish Securities Commission

The main regulator of the securities market in Poland is the Securities and Exchange Commission (KPWiG). Its mission is to foster investor confidence in the securities market through the protection of investors, the development of the Polish capital markets, and the promotion of public knowledge in this area. The Polish Securities and Exchange Commission is authorized to supervise compliance of the securities market professionals with applicable laws and regulations. The Polish Securities and Exchange Commission issues licenses to professionals operating on the Polish securities market. For instance, a license from the commission is required for the operation of a stock exchange, for the operation of a clearing entity, or in order to provide services as a securities broker.

Any public offer of securities in Poland and any public trading of securities on the WSE must be preceded by the publication of a prospectus describing the offered or listed securities and their issuer. Prior to its publication, if Polish securities are concerned, the Polish Securities and Exchange Commission must approve the prospectus. Only after the prospectus has been approved and published, may the WSE admit the securities for trading. Issuers are liable for any materially misleading statements or material omissions of facts contained in the prospectus and may be held liable for damages arising therefrom.

10. ADDITIONAL INFORMATION

1. The Issuer

ČEZ, is a joint-stock company incorporated and existing under the laws of the Czech Republic, having its registered office and principal place of business at Duhová 2/1444, Prague 4, Postal Code: 140 53, Czech Republic, and the telephone number +420 211 041 111. The Issuer is registered in the Czech Commercial Register, maintained by the Municipal Court in Prague, Section B, File 1581 and its Identification Number is 452 74 649. The Issuer was incorporated on 6 May 1992 for an indefinite period.

2. Share Capital

2.1 As of 31 December 2005, the Issuer's authorized, issued and registered capital has been CZK 59,221,084,300 (fifty-nine billion two hundred twenty-one million eighty-four thousand three hundred Czech crowns). The Issuer's capital is divided into 592,210,843 (five hundred ninety-two million two hundred ten thousand eight hundred forty-three) common shares of the same class with par value of CZK 100 each. All Shares are bearer shares in book-entry form and are fully paid and listed. There is currently no authorized but unissued capital or an undertaking to increase the capital.

2.2 All of the Shares have been created under Czech law and are admitted to trading on the Prague Stock Exchange and the RM System market under ISIN CZ0005112300. The Shares are recorded in the statutory register held by the Securities Center with its registered office at Rybná 14, Prague 1, Postal Code 110 05.

2.3 Since the Shares are bearer shares, there are no restrictions limiting the free transferability of the Shares. There are no shares or participating securities not representing capital in the Issuer.

2.4 There have been no public takeover bids by third parties in respect of ČEZ's equity during the last financial year and the current financial year.

2.5 The Issuer owned 745,000 treasury shares as of 31 December 2003. During 2004, the Issuer acquired 2,355,000 treasury shares and sold 3,090,000 treasury shares. During 2005 the Issuer acquired 3,210,000 treasury shares and sold 780,000 treasury shares. The remaining 2,440,000 treasury shares are reflected in the balance sheet at cost as a deduction from stated capital. The profit or loss on sale of the treasury shares were included in retained earnings. Treasury shares held by the Issuer are used to cover its obligations associated with the share option plan.

2.6 ČEZ has no outstanding convertible securities, exchangeable securities or securities with warrants.

2.7 There was no capital of any member of the ČEZ Group which is under option or, agreed conditionally or unconditionally, to be put under option as of 31 December 2005.

3. ČEZ´s Articles of Association

The following information is a summary of the Issuer's Articles of Association and of Czech law applicable to the Shares. Prospective investors should not rely on the summary provided below and should acquaint themselves with applicable Czech law, especially the Commercial Code, and read the entire Memorandum and Articles of Association, which are available to shareholders for inspection at the General Meetings and which are archived in the Collection of Deeds of the Commercial Register maintained by the Municipal Court in Prague.

3.1 Objects and Corporate Purpose

The main corporate objects of the Issuer are (i) distribution and sale of electricity generation, mainly produced in the Issuer's own resources, (ii) generation, distribution and sale of heat, and (iii) supply of services in support to the above, as they are defined in Article 5 of the Issuer's Articles of Association.

The full scope of business of the Issuer is provided for in Article 5 of the Issuer's Articles of Association, as approved by the General Meeting on 23 May 2006, and comprises of the following activities:

(a) power generation,

(b) power distribution,

(c) power trading,

(d) thermal energy generation,

(e) thermal energy distribution,

(f) design of power equipment,

(g) electronic equipment installation and repairs,

(h) electrical equipment and devices installation and repairs,

(i) automated data processing,

(j) reserved electrical equipment installation, repairs, reviews, and testing,

(k) testing, measuring, and analyses,

(l) reprographic services,

(m) demineralized water production,

(n) oil, water, and coal analysis,

(o) leasing and rental of movables,

(p) purchase of goods for the purpose of their resale, and sale of goods (retail or wholesale),

(q) reserved pressure equipment, boilers, and pressure vessels installation, repairs, reconstruction, reviews, and testing, periodical testing of gas vessels,

(r) metal working,

(s) technical activities in transport,

(t) business, financial, organizational, and economic advisory services,

(u) hazardous waste management business,

(v) plumbing trade,

(w) insulation installations,

(x) software provision,

(y) accommodation services,

(z) catering,

(a1) water and sewage systems operation,

(b1) production and imports of chemicals and chemical agents classified as explosive, oxidizing, extremely combustible, highly combustible, highly toxic, toxic, carcinogenic, mutagenic, toxic for reproduction, environmentally hazardous, and sale of chemicals and agents classified as highly toxic and toxic,

(c1) power industry advisory services,

(d1) ground water sample analysis,

(e1) decontamination works,

(f1) production of construction materials,

(g1) representation in customs proceedings,

(h1) operation of petrol stations with lubricants and fuels, (i1) production and import of chemicals and chemical agents classified as combustible, harmful to health, caustic, irritating, and allergenic,

(j1) organization of expert courses, training, and other educational events, including lecturing,

(k1) psychological advisory services and diagnostics,

(l1) operation of cultural and culturally-educational facilities,

(m1) provision of services in the area of safety and health protection at work,

(n1) technical-organizational activities in the area of fire protection,

(o1) engineering activities in investment construction,

(p1) waste management (save for hazardous waste),

(q1) copying works,

(r1) acting as accountants, bookkeeping, keeping of tax records,

(s1) services in the area of administrative management and services of organizational and economic nature, provided to natural and artificial persons,

(t1) business and service agency,

(u1) acting as insurance brokers in the registry of insurance brokers,

(v1) mounting of meters, and

(w1) advertising activities and marketing.

3.2 Shareholders Rights

3.2.1 Voting Rights and Right to Information

Each shareholder shall be authorized to participate in the Issuer's management by attending its General Meetings and vote thereat. Each Share in the nominal value of CZK 100 represents one vote.

Besides voting rights, each shareholder is also entitled to request and receive explanations related to company-related matters, provided that such explanation is required for assessment of the General Meeting's agenda, and to submit proposals and counterproposals, at the General Meeting. Shareholders shall usually submit such proposals and counterproposals at the General Meeting. In the event of shareholder's counterproposals related to proposals specified in the notice of the General Meeting or in the event a notarial deed must be drawn up in respect of the General Meeting's decision, such shareholder shall be obligated to deliver a written content of its proposal or counterproposal no later than five business days prior to the date of the General Meeting. This shall not apply to proposals for election of specific persons to the Issuer's bodies. The Shareholders shall be equally entitled to explanations in respect of matters related to persons controlled by ČEZ, where such explanations are required for assessment of the General Meeting's agenda.

Each shareholder may also require that the Board of Directors issue a copy of the minutes of the General Meeting or a part thereof for the entire term of the Issuer's existence. Such copies shall be made at the shareholder's expense.

3.2.2 Dividends

Each shareholder shall be authorized, under the terms and conditions set forth in Section 178 of the Commercial Code, to receive a share in the Issuer's profits (dividends), approved by the General Meeting for distribution with a view to the Issuer's economic results. Such a share shall be determined using the ratio of the nominal value of the shareholder's shares to the nominal value of shares held by all shareholders. The right to receive dividends shall pertain to each shareholder registered as the owner of a Share/Shares in the Securities Center as of the date of the General Meeting that decides on the dividend payment. Such date shall be the record date for dividend payment. The General Meeting may decide that the record date shall be a different date but it cannot precede the day on which the General Meeting deciding on the dividend was held and cannot be set later than the due date of the dividend. No shareholder shall be obliged to return to the Issuer any dividend accepted in good faith.

Unless a resolution of the General Meeting determines otherwise, dividends shall be payable within three months of the date on which the General Meeting adopted the relevant resolution. The Board of Directors shall announce the decision of the General Meeting regarding the dividend maturity date, and the place and method of its payment in the manner prescribed for convocation of General Meetings.

3.2.3 Pre-emption Rights

Each shareholder shall have a priority right to subscribe for a proportionate part of new Shares, issued within an increase of the Issuer's registered capital, provided that such shares are being subscribed through monetary contributions. This right may only be restricted or excluded by virtue of the General Meeting's decision, if a significant interest of the Issuer exists in this respect. Such restrictions or exclusion of pre-emption rights apply to the same extent to all shareholders. The Board of Directors shall announce the information regarding the pre-emption rights in the manner prescribed for convening a General Meeting. The pre-emption rights shall pertain to each shareholder registered as the owner of a Share/Shares in the Securities Center as of the day when this right may be exercised for the first time.

3.2.4 Right to Share in Any Surplus in the Event of Liquidation

Upon the Issuer's winding up with liquidation, each shareholder shall be authorized to receive a share in the Issuer's liquidation balance, which shall be distributed among shareholders in proportion (pro rata) to the nominal values of their Shares. The entitlement to payment of a liquidation share arises as of the day when, by order of the liquidator, the Shares were cancelled in the Securities Center.

3.2.5 Right to Challenge Validity of a General Meeting Resolution

Each shareholder may approach a court with a request to declare invalid any resolution of the General Meeting in the event such resolution is in conflict with the laws or the Issuer's Articles of Association. Unless such right is exercised within three months following the date of the General Meeting or unless the General Meeting has been duly convened, such right shall terminate as of the date when such shareholder should have been informed of its convocation, but in any case within one year. Should the justification of the action be that the General Meeting failed to adopt a contended resolution due to its failure to vote thereon, or that the content of the contended resolution does not correspond to the resolution adopted by the General Meeting, such action may be submitted within three months following the date on which the petitioner has been informed of such contended resolution, but no later than one year following the date or contended date of the General Meeting.

3.2.6 Repurchases of Shares

The Issuer may repurchase its own Shares subject to the conditions provided for by Section 161a of the Commercial Code. This Section limits the Issuer's ability to repurchases its own Shares to 10% of its registered capital and makes any repurchase of the shares conditional upon (i) a resolution of the Issuer's General meeting, which shall set forth at least the maximum amount of Shares that may be repurchased, the validity period of such resolution, which shall not exceed 18 months, and the maximum and minimum price for which the Shares may be repurchased, (ii) the Issuer having sources for creation of a special reserve fund for repurchase of the Shares, and (iii) the sum of the registered capital, the subscribed nominal value of Shares not yet registered as capital increase in the Commercial Register, and portions of reserve funds which may not be used for distribution to shareholders, shall not exceed the Issuer's core capital.

The Issuer may also repurchase its own Shares, even without satisfaction of the above conditions, provided that such repurchase is made (a) for prevention of an immediate and substantial damage to the Issuer, (b) for the purposes of decrease of the Issuer's registered capital, as approved by the Issuer's General Meeting, (c) based on statutory obligation or a court decision, (d) in a court auction when enforcing a receivable against a shareholder of the Issuer, or (e) for no consideration.

As regards the statutory obligations to repurchase shares, Czech law provides for repurchases of shares only in certain specific cases, such as, in case of material changes in the position of shareholders due to, for example, a material change of the Issuer's legal form, merger, demerger, delisting of the Issuer's Shares, or acquisition of control over the Issuer. For more information see Section 3.3.7 below; detailed rules and qualifications concerning the above are included in the Commercial Code.

3.2.7 *Selected Statutory Rights and Obligations of Minority/Majority Shareholders*

Pursuant to Section 183b et seq. of the Commercial Code, a shareholder who either solely or jointly by acting in concert with other persons acquires voting rights which enable such shareholder to control the Issuer, shall make a mandatory tender offer to all shareholders of the Issuer.

Pursuant to Section 186a of the Commercial Code, if the Issuer's General Meeting decides on delisting of the Shares, a change of the class of the Shares, or restrictions of the transferability of the Shares, the Issuer is obliged to make a public offer to purchase the Shares from abstaining or dissenting shareholders.

Pursuant to Section 183i et seq. of the Commercial Code, a shareholder who owns at least 90% of Shares or 90% of voting rights may initiate a squeeze-out of minority shareholders.

Pursuant to Section 183h of the Commercial Code, the Czech National Bank may, upon request by a minority shareholder and if justified by significant circumstances, impose to a shareholder who either solely or jointly by acting in concert with other persons holds at least 95% of the Shares the obligation to make an offer to purchase the minority shareholders' Shares.

For detailed rules and qualifications concerning the above, please see the Commercial Code.

3.3 Variation of Rights

Change of rights attached to the Shares requires a resolution of the Issuer's General Meeting. Such resolution of the General Meeting consists in change of the Issuer's Articles of Association and, as such, requires a qualified majority of 2/3 of the shareholders present at the General Meeting. In addition thereto, resolution of the General Meeting on change of a class or type of Shares, change of rights attached to the Shares, or delisting of the Shares require also approval by a qualified majority of ¾ of holders of the affected shares present at the General Meeting. A resolution of the General Meeting on consolidation of Shares requires also approval by all holders of the shares to be consolidated.

3.4 Restriction and Prevention of Change of Control

The Commercial Code does not contain any express provision expressly regulating delay, deferment or prevention a change of control in the Issuer. Nevertheless, the fact that the Issuer's Articles of Association require a qualified (3/4) majority of present shareholders to decide on restriction or exclusion of pre-emption rights, or for approval of a controlling agreement may constitute a possible prevention of a change of control in the Issuer.

3.5 Disclosure of Share Ownership

A person or persons acting in concert which shall acquire or dispose of the share in voting rights related to the Issuer's Shares to the extent of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, and 75% shall submit a written notice to the Issuer and the Czech National Bank. For the purposes of the notification obligations, shares acquired or divested by persons acting in concert shall be summed up. The notification obligation applies also to persons with at least 5% of voting rights in a company whose shares have been admitted for the first time to trading at the regulated market in an EU member state. Detailed statutory rules and qualifications specifying the disclosure obligations are set forth in Capital Market Act.

3.6 More Stringent Provisions

The Issuer's Articles of Association contain certain provisions that are more stringent than conditions required by the Commercial Code. These provisions relate mainly to the changes in the Issuer's registered capital and the obligation to repay the price for subscribed Shares; except as described elsewhere in this Prospectus, this is the case of the following provisions:

If a subscriber of Shares fails to pay the issue price of the subscribed Shares or the due and payable portion thereof, the Board of Directors shall request that subscriber pays the same within 30 days, unlike the statutory period of 60 days. In the event of a breach of the obligation to pay up the issue price of subscribed Shares, the subscriber shall pay default interest of 24% per annum, rather than the statutory rate of 2% per annum.

4. Related Party Transactions

ČEZ purchases products from and sells electricity to related parties in the ordinary course of business.

The following table includes the total amount of transactions that have been entered into by ČEZ, a. s. with related parties for the period of first six months of 2006. The amounts in the table include value added tax. The table does not include data on companies which are not reported in consolidated reports and/or companies where the relevant turnover is negligible. The pattern of these transactions to date has not changed significantly compared to H1 2006 or previous years.

Figure 90: Overview of Transactions with Related Parties in 1-6 2006

CZK milion	Sales to Related Parties	Purchases from Related Parties
Associates and other affiliates:		
AFRAS Energo s.r.o.		8
ČEZ ENERGOSERVIS spol. s r.o.	4	82
OSC, a.s.		7
LOMY MOŘINA spol. s r.o.		76
SIGMA - ENERGO s.r.o.	3	23
Coal Energy, a.s.	2,063	10
KNAUF POČERADY, spol. s r.o.	43	
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	15	2
KOTOUČ ŠTRAMBERK, spol. s r.o.		49
Associates and other affiliates total:	**2,128**	**257**
Other related entities::		
ČEPS, a.s.	3,656	954
Česká pošta s.p.	1	1
České dráhy, státní organizace	10	634
Other related entities total:	**3,667**	**1,589**

Source: CEZ

The following table includes the total amount of transactions that have been entered into with related parties for the relevant financial year and the aggregate amount of which exceeds CZK 100 million. The amounts in the table are based on accounts receivable and payable and includes value added tax.

Figure 91: Overview of Transactions with Related Parties

CZK million	Sales to Related Parties [1]		Purchases From Related Parties [1]	
	2005	2004	2005	2004
Associates and other affiliates:				
AZ Elektrostav, a.s.	71	1	173	164
Coal Energy, a.s.	6,392	6,069	1,041	4
Energetická montážní společnost Česká Lípa s.r.o.	9	-	127	102
KOTOUČ ŠTRAMBERK, spol. s r.o.	53	39	91	112
LOMY MOŘINA spol. s r.o.	12	10	130	132

Plzeňská energetika a.s.	11	5	450	414
PRODECO, a.s.	18	31	457	199
SEG s.r.o.	49	22	181	109
SHD - KOMES a.s.	4	9	570	530
Others	240	356	798	792
Total associates and other affiliates	6,859	6,542	4,018	2,558
Companies under the control of company's majority owner:				
ČEPS	8,264	7,392	7,000	8,518
Česká pošta s.p.	69	61	216	152
České dráhy, a.s.	1,843	1,853	1,766	1,829
CHEMOPETROL, a.s. [2]	219	151	36	97
Eurotel Praha, spol. s r.o. [3]	-	113	9	23
SPOLANA a.s. [2]	249	522	24	27
Others	86	136	140	164
Total companies under the control of company's majority owner	10,730	10,228	9,191	10,810

Source: ČEZ.

[1] *The information summarized in this table is based on turnover of accounts receivable and payable and includes value added tax.*

[2] *Related party until May 2005.*

[3] *Related party until June 2005.*

The ČEZ Group is doing business on the wholesale electricity market with Coal Energy, a.s. and Plzeňská energetika a.s. The ČEZ Group is buying electricity transmission services from ČEPS and, at same time, sells ancillary services to ČEPS. ČEZ supplies electricity to České dráhy and buys railroad transportation services from it. The ČEZ Group buys limestone from Kotouč Štramberk, spol. s r.o. and Lomy Mořina spol. s r.o. Prodeco sells engineering services to Severočeské doly a.s. and SHD – Komes supplies to Severočeské doly significant part of its production material needs. Energetická montážní společnost supplies to ČEZ Group grid maintenance services. Česká pošta supplies mail services to ČEZ Group. ČEZ Group sells electricity also to some of the companies listed above.

Please note that IAS standards changed significantly between 2003 and 2005; the figures reported for 2003 are reported in line with the then valid wording of the IAS 24 standard. As a result thereof, namely section 4d of IAS 24 standard, transactions with companies under the control of the same shareholder (the Czech state) are not included in the overview. Also, data presented for 2003 are based on unconsolidated reports, where in line with IAS 24 section 25, transactions with consolidated entities were eliminated and, as a result of application of pooling of interest methodology, Severočeské doly, a.s. was excluded in 2003 as well.

Figure 92: Overview of Transactions with Related Parties in 2003

CZK million	Sales to Related Parties	Purchases from Related Parties
Aliatel, a.s.	3	-
CEZTel, a.s.	-	1
Coal Energy, a.s.	4,008	27
ČEPS, a.s.[1)]	8,193	754
ČEZ ENERGOSERVIS spol. s r.o.	6	199
Enerfin, a.s.	-	2
ESE, s.r.o. [1)]	3	54
KNAUF POČERADY, spol. s r.o.	65	-
KOTOUČ ŠTRAMBERK, spol. s r.o.	71	123
LOMY MOŘINA spol. s r.o.	-	141
OSC, a.s.	-	127
Pražská energetika, a.s. [1)]	3,918	12
SIGMA - ENERGO s.r.o.	2	64

ŠKODA PRAHA a.s. [2)]	4	1,612
Ústav aplikované mechaniky Brno, s.r.o.	-	10
VLTAVOTÝNSKÁ TEPLÁRENSKÁ a.s.	24	6
WADE a.s.	-	11
Total	**16,297**	**3,143**

Source: ČEZ.

[1)] Shareholdings in Pražská energetika, a.s., ČEPS, a.s., and ESE, s.r.o., were sold in 2004.

[2)] ŠKODA PRAHA a.s. was affiliated in 2003.

5. Material Contracts

Acquisition of 55,6% stake in Severočeské doly from the Czech Government

On 20 October 2005, ČEZ and the National Property Fund of the Czech Republic executed a share purchase agreement through which ČEZ acquired 55.792 % of shares issued by Severočeské doly, a. s. from the National Property Fund. The transaction settled on 19 December 2005 and ČEZ increased its holding in Severočeské doly, a.s. from 37.31% to 93.102%. The purchase price amounted to CZK 9.046 billion.

The acquisition provides fuel procurement certainty for the planned coal plant portfolio renewal.

Based on the above share purchase agreement ČEZ committed to:

- maintain preset extraction volumes;
- maintain the number of employees above 4,385 till 2015 (compared to the then actual number 4900 employees);
- not to sell the shares or transfer shareholders' rights for 10 years;
- maintain representation of the state in the supervisory boards for the next 10 years via one member appointed by the Ministry of Finance; and
- develop Severočeské doly, a.s. in line with the states energy policy.

Acquisition of 51% stake in the Romanian distribution company Electrica Oltenia S.A.

On 5 April 2005, ČEZ entered into a Privatization Agreement with a state-owned electricity and distribution company S.C. Electrica S.A. relating to the acquisition of shares of Electrica Oltenia S.A., a subsidiary of S.C. Electrica S.A., for electricity distribution and supply. Pursuant to this agreement, ČEZ acquired 51% stake in the company.

Based on the above agreement, ČEZ purchased 11,445,150 book-entered registered ordinary shares in the company, each in nominal value of ROL 100,000, representing 24.62% of the share capital of the company at the date of signing. The purchase price was EUR 47,372,550 and it was later adjusted according to a formula referenced in the agreement.

In addition, simultaneously with the purchase of the existing shares of the company, the company's registered capital was increased by issuance of 25,036,265 new book-entered registered ordinary shares in the company, as a result of which, ČEZ paid a subscription price for the newly issued shares in the amount of ROL 2,503,626,500,000.

On the signing date, ČEZ paid 10% of the purchase price. The remainder of the purchase price and the subscription price were paid after satisfaction of various conditions precedent, the most important of which was the approval of the transaction by the Competition Council of Romania. The transfer of the shares took place on 29 September 2005.

ČEZ has agreed to a number of post-closing covenants, which include, among others, obligation to (i) maintain the company's principal business line, the distribution/supply of electricity and related activities and that the company continue to abide by applicable law, and (ii) enable the minority shareholder (S.C. Electrica S.A.) to exercise certain priority rights in respect of the corporate management of the company.

Acquisition of three distribution companies in Western Bulgaria

On 19 November 2004, CEZ entered into a share privatization sale agreement with the Republic of Bulgaria acting through the Privatization Agency of the Republic of Bulgaria. Pursuant to this agreement, CEZ purchased from the Republic of Bulgaria 67% majority shares in three distribution companies in western Bulgaria. In particular, CEZ purchased:

- • 129,176 ordinary shares issued by Elektrorazpredelenie – Stolichno EAD, Sofia, representing 67% of all voting rights in this company, for the purchase price of EUR 188,793,000;
- • 143,983 ordinary shares issued by Elektrorazpredelenie – Sofia Oblast EAD, Sofia, representing 67% of all voting rights in this company, for the purchase price of EUR 35,689,000; and
- • 80,802 ordinary shares issued by Elektrorazpredelenie – Pleven EAD, Pleven, representing 67% of all
- voting rights in this company, for the purchase price of EUR 57,018,000.

On the signing date, ČEZ paid a deposit in the amount of EUR 56,300,000. CEZ paid the remainder of the aggregate purchase price at closing on 18 January 2005, following the satisfaction of various conditions precedent stipulated in the agreement, including approval of the transaction by the Bulgarian Commission on Protection of the Competition. As of 18 January 2005, ČEZ became the owner of the above shares.

ČEZ has provided to the Republic of Bulgaria several post-closing covenants, including, amongst others, ČEZ's obligation not to transfer, with limited exemptions, any of the acquired shares prior to 31 December 2008, and ČEZ's obligation to maintain certain level of labor related expenses. ČEZ has also provided certain warranties and indemnification to the Republic of Bulgaria.

The Republic of Bulgaria provided to ČEZ certain post-closing covenants, including, amongst others, obligation not to transfer any of the unsold shares prior to 31 December 2008, and a right of first refusal with respect to such unsold shares. However, such right of first refusal will be only be effective if Bulgarian law is changed in the future in order to allow for a grant of the right of first refusal by the Republic of Bulgaria. The Republic of Bulgaria also provided certain warranties and indemnification to ČEZ.

Purchase of 100% shares of TPP Varna EAD

On 4 May 2006, ČEZ entered into a Share Privatization Sale Agreement with the Republic of Bulgaria acting through the Privatization Agency of the Republic of Bulgaria. Pursuant to this agreement, ČEZ will purchase from the Republic of Bulgaria a 100% stake in TPP Varna EAD, a company running a black-coal-fired power plant and having its seat in Ezerovo, district of Varna, Republic of Bulgaria.

In particular, ČEZ purchased 572,821 ordinary registered voting shares, each of which has a nominal value of BGN 10. ČEZ received the share certificates representing 100% of the share capital of the company after payment of the purchase price of EUR 206,003,616.23.

In addition, simultaneously with the purchase of the existing shares of the company, the company's registered capital will be increased and as a result, ČEZ will pay a subscription price for the newly issued shares in the amount of EUR 99,879,680.27.

On the signing date, ČEZ paid the first part of the purchase price in the amount of EUR 25,000,000. The remainder of the purchase price and the subscription price has been paid upon settlement of the transaction on 3 October 2006 following the satisfaction of various conditions precedent stipulated in the agreement, including the approval of the transaction by the Bulgarian Commission on Protection of the Competition.

ČEZ has agreed to a number of post-closing covenants, which include, among others, obligation to (i) maintain the company's main business line in accordance with applicable law for a period of three years, and (ii) keep the labor expenses in each of the three years after closing at least at the same level of labor expenses incurred by the company during the year ended 31 December 2005.

Further, in a separate Investment Memorandum concluded between ČEZ and the Ministry of Economy and Energy of the Republic of Bulgaria, ČEZ committed to invest up to EUR 40,000,000 into energy related projects in Bulgaria over a period of four years.

Acquisition of Polish Power Plants Elcho and Skawina

On 31 January 2006, ČEZ executed a share purchase agreement with PSEG Global to acquire 100% stakes in PSEG Distribution BV for a consideration of EUR 180.8 million and in PSEG Silesia BV for a consideration of EUR 202.5 million, which in turn owns approximately 75% of in Elektrownia Skawina S.A. and approximately 89% of Elektrocieplownia Elcho Sp. z o. o. The transaction was settled on 29 May 2006.

Complex refurbishment of the coal power plant Tušimice II

On 27 April, 2006, ČEZ signed the contract a ŠKODA PRAHA Invest, s. r. o. for complex refurbishment of the brown coal power plant Tušimice II 4 x 200 MW. The overhaul will take place between 2007 and 2010. The investment costs will reach nearly CZK 20 billon (EUR 700 million).

The lifetime of the new technology will be 25 years, till 2035, and it will meet stricter future environmental limits. Considering currently valid territorial ecological mining limits, there is sufficient amount of brown coal for the lifetime of the power plant. The quality of coal will worsen mainly with respect to lower heat content and higher content of sulphur. The new equipment will be optimized for these new conditions.

6. Securities Laws

The distribution of this document and the offer of the Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

6.1 European Economic Area

In relation to each member state of the European Economic Area, which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), the Shares may not be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, the Shares may be offered to the public in that Relevant Member State at any time (i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities, (ii) to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year, (b) a total balance sheet of more than Euro 43,000,000, and (c) an annual net turnover of more than Euro 50,000,000, as shown in its last annual or consolidated accounts, or (iii) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the preceding paragraph, the expression "offered to the public" in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase the Shares, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state.

6.2 United States

This Prospectus does not constitute or form part of an offer to sell, or the solicitation of an offer to buy, the Shares to any person in the United States. The New Shares have not been and will not be registered under the Securities Act or under the securities laws or with any securities regulatory authority of any state or other jurisdiction of the United States. The Shares are being offered and sold only outside the United States to non-US persons in offshore transactions in reliance on Regulation S under the Securities Act. The Shares may not be offered or sold in the United States or to US persons absent an exemption from the applicable registration requirements of the Securities Act.

6.3 Other Jurisdictions

No action has been or will be taken by the Issuer to permit offering of the Shares or to permit the possession or distribution of this Prospectus or any publicity materials in Australia, Canada or Japan or any other jurisdiction where action for that purpose may be required. Accordingly, neither this Prospectus, nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

7. Taxation

It is recommended that parties interested in acquiring the Shares consult with their legal and tax advisors with regard to the tax and legal consequences of purchasing, selling or holding the Shares and receiving dividend payments under the tax legislation in effect in the Czech Republic, Poland, and the countries where such parties reside, as well as countries in which proceeds from holding or selling the Shares could be taxed.

7.1 Czech Republic

7.1.1 Dividends

Dividends are subject to taxation at the source by the Issuer. The Czech domestic rate is 15% and may be reduced by the relevant double tax treaty binding the Czech Republic, if any. The qualification of the recipient for the benefits of the treaty must be proved to the Issuer without delay after the decision in dividend distribution is taken by the General Meeting of the Issuer.

Notwithstanding the above, dividend distribution a shareholder with a 10% aggregate holding is generally exempt from taxation at source provided that the Shareholder has held or will be holding its 10% share uninterruptedly for at least 12 calendar months, the Shareholder is a corporate tax payer that is tax resident in an European Union Member State or in Switzerland and is of a legal form specified in the Annex to the EU Parent-Subsidiary Directive (90/435/EEC).

7.1.2 Income Tax on Income from Sale of Shares

Capital gains realized on sale of shares by a Czech tax resident corporate tax payer or by a Czech permanent establishment of a Czech tax non-resident tax payer enter into the standard tax base subject to the standard corporate income tax rate (24% in 2006 and onwards). Potential capital losses on sales of shares should generally be tax deductible under the condition that the shares are marked-to-market, based on the relevant Czech accounting laws. Otherwise, capital losses are tax non-deductible for corporate tax payers.

Capital gains realized on sale of shares by a Czech tax resident individual or a Czech permanent establishment of a Czech tax non-resident individual generally enter into the standard tax base of individuals subject to progressive rate of up to 32%. Potential capital losses on sale are generally tax non deductible. Provided the individual has not included the shares into his/her business property, then capital gains from sale of shares are tax exempt if the sale occurred after the lapse of 6 months following the acquisition of the shares.

Capital gains realized on sale of shares by a Czech tax non-resident seller to a Czech tax resident buyer or to a purchasing Czech permanent establishment of a Czech tax non-resident are generally subject to taxation in the Czech Republic, unless a relevant double tax treaty binding the Czech Republic stipulates otherwise. Provided that the taxation rights are left to the Czech Republic, the Czech resident buyer (or the purchasing Czech permanent establishment, as the case may be) is generally obliged to withhold 1% Czech tax securing from the purchase price at source unless the seller is a tax resident of an European Union or European Economic Area member state. The recipient of the income (non-resident seller) should tax its income in the Czech Republic via filing a tax return (the applicable rate is 24% in 2006 for corporate tax payers and progressive tax rate up to 32% for individuals). The tax securing withheld may be off-set against the final Czech tax liability of the Czech tax non-resident seller in this tax return.

7.2 Poland

7.2.1 Taxation of the Issuer

Depending on the scope of the Issuer's activity in Poland, taxation of the Issuer in Poland may not applicable.

7.2.2. Taxation of the Shareholders

7.2.2.1. Income Tax on Dividends paid by the Issuer

Withholding tax on dividends

According to Article 10.2 of the 1993 Polish-Czech Double Taxation Treaty, dividends paid to Polish residents are subject to the Czech withholding tax, which, however, may not exceed:

(a) 5% of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which holds directly at least 20% of the capital of the company paying the dividends;

(b) 10% of the gross amount of the dividends in all other cases.

To benefit from the reduced rates, the Polish tax resident should present the Issuer with the following documentation: (i) a tax domicile certificate of the recipient issued by the relevant Polish tax authority; (ii) confirmation that the recipient has no permanent establishment in the Czech Republic to which the dividend income is attributable; (iii) an affidavit that the recipient is the beneficial owner of the dividend income, and (iv) confirmation that the recipient fulfils other requirements for the application of the double tax treaty (limitation of benefits if any).

Personal Income Tax – Dividends obtained by Polish Residents being Individuals

According to Article 30a.1 of the 1991 Personal Income Tax Law, income in the form of dividends and other income from the share in the profits of legal persons is subject to a 19% tax. Such income is not combined with income from other sources taxed in accordance with the general rules. Moreover, no tax-deductible expenses can be applied.

The tax on such income paid abroad may be deducted from the above Polish tax. The amount deducted cannot, however, exceed that part of the tax assessed before deduction, which is proportional to the income earned in the Czech Republic.

The income should be reported on a tax return relating to the period in which such income was obtained.

Corporate Income Tax - Dividends obtained by Polish Residents being Legal Persons

According to Article 19.1 in connection with Article 10.1 of the 1992 Corporate Income Tax Law, dividends and other income from the share in the profits of legal persons having their seat in the Czech Republic are subject to corporate income tax if such dividends and profits are obtained by legal persons having unlimited tax liability in Poland. Such income is currently subject to a 19% tax rate.

According to Article 20.1 of the 1992 Corporate Income Tax Law, the amount of tax paid in the Czech Republic can be deducted from the Polish tax on the total amount of all income obtained by the legal person. The amount deducted cannot, however, exceed that part of the tax assessed before deduction, which is proportional to the income earned in the Czech Republic.

If a Polish company, being a legal person, (i) obtains dividends and/or other income from the participation in the profits of a Czech legal person, whose entire income (regardless of where the income is earned) is subject to taxation in the European Union; and (ii) holds directly no less than: (a) 20% (until 31 December 2006), (b) 15% (from 1 January 2007 to 31 December 2008), or (c) 10% (from 1 January 2009) of the shares in the share capital of the Czech legal person, then the tax paid in the Czech Republic by such Czech legal person may also be deducted from the Polish tax, however, only in the proportion corresponding to the share of the Polish legal person in the profit of the Czech legal person.

The total amount of the above deductions cannot exceed the part of tax calculated before deduction, which proportionally corresponds to the income obtained from the said source.

However, the above deduction shall not apply if the payment of dividends (and/or other income from the share in the profits) is a result of the liquidation process of the company paying them out.

In order to take advantage of the deduction, the company receiving dividends and/or other income from the share in the profits of the Czech legal person should directly own the shares in the Czech company for at least two years.

In addition to the above deduction, in accordance with Article 24.3 of the 1993 Polish-Czech Double Taxation Treaty, a Polish company, being a legal person, may also deduct from the Polish tax an amount which would have been payable as the Czech tax ,but has not been for any relief by way of deduction allowed in computing the taxable income or an exemption or a reduction of tax or otherwise under the laws relating to taxation of income in force in the Czech Republic, which would include the exemption from the Czech withholding tax on dividends, available under the 1990 Directive of the EU Council 90/435/EWG (*the so-called Parent-Subsidiary Directive*), as subsequently amended.

The taxable income should be reported on a tax return relating to the period in which such income was obtained. The tax should be paid no later than on the day of submitting the tax return.

7.2.2.2. Taxation of the Income on the Disposal of the Shares

Polish-Czech Double Taxation Treaty

According to Article 13.4 of the 1993 Polish-Czech Double Taxation Treaty, gains from the alienation of shares by shareholders being Polish tax residents are taxable only in Poland.

Personal Income Tax -- Income on the Disposal of Shares obtained by Polish Tax Residents

According to Article 30b.1 of the 1991 Personal Income Tax Law, Income obtained as a result of the sale of shares is subject to 19% tax. The income should be understood as the difference between the sale price of such shares and the costs incurred for their acquisition.

The sale price for the shares should be established at the market level. Otherwise, the tax authorities may assess the appropriate income which should be obtained by the shareholder.

The above income is not combined with other types of income that are taxed in accordance with the general rules.

The income should be reported on a tax return relating to the year in which such income was obtained.

If the sale of shares is within the scope of business activities of the seller, then the selected rules concerning taxation of individuals carrying out business activity would apply.

Corporate Income Tax – Income on the Disposal of Shares obtained by Polish Tax Residents

According to Article 19.1 of the Corporate Income Tax Law, income obtained by Polish legal persons as a result of a disposal of shares is subject to the corporate income tax in accordance with the general rules.

The above income should be understood as the difference between the sale price obtained and the costs incurred in order to acquire the shares.

The sale price for the shares should be established at the market level. Otherwise, the tax authorities may assess the appropriate income which should be obtained by the shareholder.

The currently applicable tax rate is 19%.

7.2.2.3. Tax on Civil Law Transactions

The sale of shares to brokerage houses and banks conducting brokerage activity and sale of shares effected with the intermediation of brokerage houses and banks conducting brokerage activity is exempt from the tax on civil law transactions.

In case the shares are not sold to brokerage houses or banks conducting brokerage activity or with the intermediation of brokerage houses and banks conducting brokerage activity, such transaction will be subject to the 1% tax on civil law transactions. The taxable basis is the market value of the shares sold.

The tax is payable within 14 days from the day the sale agreement was concluded. Within the same deadline the parties to the agreement have to file a joint tax declaration with the relevant tax office.

8. Significant Change

Starting 1 June 2006, the consolidated group will include ČEZ Distribution BV (formerly PSEG Distribution BV) owning approximately 75% stake in Elektrownia Skawina S.A., and ČEZ Silesia BV (ČEZ Silesia BV) owning approximately 89% in Elektrocieplownia Elcho Sp. z o. o.

9. Auditors

The auditors of the Issuer for each of the three financial years ended 31 December 2005, 2004 and 2003 have been Ernst & Young Audit & Advisory, s.r.o., whose registered address is at Karlovo náměstí 10, Prague 2, Zip Code 120 00, Czech Republic. Ernst & Young Audit & Advisory, s.r.o. is the member of the Czech Chamber of Auditors and has audited the consolidated financial statements of the Issuer for the financial years ended 31 December 2005, 2004 and 2003, in accordance with the applicable accounting standards.

Ernst & Young Audit & Advisory, s.r.o., has given and not withdrawn its written consent to the use and the inclusion in the Prospectus of its reports dated 8 March 2006 and 8 April 2005 and to the references to its reports in the Prospectus and to its name in Sections called "*Selected Consolidated Financial Information and Operating Data*" and "*Auditors*" in the form and context in which they appear.

10. Authorization

The Issuer's Board of Directors decided on the listing of the Shares at WSE by its resolution dated 11 May 2006.

11. Advisers

WOOD & Company Financial Services, a.s., as the authorized adviser and WSE listing agent of the Issuer, consents to the issue of this Prospectus, with the inclusion therein of its name and the references to it in the form and context in which they are included. WOOD & Company Financial Services, a.s. considers to subcontract a reputable member of WSE to support the execution of the transaction.

12. ČEZ's Rating

The rating awarded to ČEZ by Standard & Poor's is: "A-", outlook neutral.

Standard & Poor's improved the long-term rating of ČEZ from "BBB+" to single A- and the outlook was modified to "Stable" on 2 October 2006.

The rating awarded to ČEZ by Moody's: is: "A2", outlook neutral

Moody's improved the long-term rating of ČEZ from "A3" to "A2" in September 2005; the outlook remains unchanged.

13. Documents on Display

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and bank holidays excepted) at the registered office of the Issuer, at Duhová 2/1444, Prague 4, Czech Republic, or in electronic form on the website www.cez.cz:

(a) the Memorandum and Articles of Association of the Issuer;

(b) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the Issuer's request any part of which is included or referred to in this Prospectus;

(c) the historical financial information of the issuer or, in the case of a group, the historical financial information for the issuer and its subsidiary undertakings for each of the two financial years preceding the publication of this Prospectus.

14. Date of the Prospectus

The date of this Prospectus is October 13, 2006.

11. INCORPORATION BY REFERENCE

The following documents are incorporated by reference (in whole) into, and form part of, this Prospectus so as to provide some of the information required pursuant to paragraph 20.1 of Annex I. of the Regulation:

1. complete audited financial information for 2004 (non-restated) including the auditors' report; and

2. complete audited financial information for 2003 (non-restated) including the auditors' report.

Copies of the documents incorporated by reference in this document are available at ČEZ and PSE free of charge, upon request.

The documents incorporated by reference in this Prospectus are only current as of their respective dates, and the incorporation by reference of such documents shall not, under any circumstances, create any implication that there has been no change in the affairs of the Issuer and/or its group since the date thereof or that the information contained therein is correct as of any time subsequent to its date. Any statement or information contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement or information contained in this Prospectus modifies or supersedes such statement. Any statement or information so modified or superseded shall not be deemed to constitute part of this Prospectus except as so modified or superseded.

12. DEFINITIONS

Act on Air	Act No. 86/2002 Coll., as amended; replaced the Clean Air Act;
Acts	Waste Act, Atomic Act, Act on Air, etc.;
AP	Auto Producers – producers of electricity whose output is primarily designed for their own consumption
Atomic Act	Act No. 18/1997 Coll., as amended;
b.p.	Basis point(s);
BDC	Bulgarian distribution companies;
Capital Markets Act	Act No. 256/2004 Coll., as amended;
Captive Customers	Customers who are not allowed to choose their electricity supplier;
CENTREL	Regional group of four transmission system operator companies (ČEPS (Czech Republic), SEPS (Slovak Republic), Mavir (Hungary), PSE (Poland))
ČEPS	ČEPS, a.s., with its seat in Praha 10, Elektrárenská 774/2, Zip Code 101 52, Identification No. 257 02 556;
CHP	Cogeneration Heat and Power Plant;
Civil Code	Act No. 40/1964 Coll., as amended;
Clean Air Act	Act No. 309/1991 Coll., as amended;
Commercial Code	Act No. 513/1991 Coll., as amended;
Eligible Customers	Customers who possess the right to access the transmission grid and the distribution grids and the right to choose their electrical energy supplier;
Environment Act	Act No. 17/1992 Coll., as amended;
Environmental Damage	Shall be repaired regardless of whether a private claim for damages has been brought against the person responsible for environmental damage (Environment Act);
Forests Act	Act No. 289/1995 Coll., as amended;
IAES	International Atomic Energy Agency (Czech Republic is a member);
Inspectorate	Czech Energy Inspectorate;
IPPC Act	Act on Integrated Pollution Prevention and Control (including integrated pollution register) 2002;
Labor Code	Act No. 65/1965 Coll., as amended;
Load Factor	Volume of electricity produced at a given period expressed as a portion of total volume that could have been produced had the respective unit operated without any interruption in the same period;
Ministry of Finance	Ministry of Finance of the Czech Republic;
Ministry of Industry and Trade	Ministry of Industry and Trade of the Czech Republic;

NPF	National Property Fund;
NPP	Nuclear Power Plant;
Nuclear Account	Special account funded by the generators of nuclear waste; used for financing the establishment and activities of the Repository Authority;
Office	Energy Regulatory Office;
OSART	Operational Safety Review Team;
Polluter	Person responsible for environmental damage;
Prague Stock Exchange	Burza cenných papírů Praha, a.s., with its seat in Praha 1, Rybná 14/682, Zip Code 110 05, Identification Number: 47115629;
Prospectus	This document. Prepared for the purposes of listing of the shares ISIN CZ0005112300 (the "Shares") of ČEZ, a. s. ("ČEZ" or the "Issuer") on the Main Market of the Warsaw Stock Exchange ("WSE") prepared in accordance with the Capital Markets Act and relevant EU legislation;
RBMK	High-power channel reactor (*reactor bolshoy moshchnosty kanalny*);
Quasi Strict Liability	Applied if the acts of the individual or entity cause damage to another party in the course of its business. Unlike general liability, the claimant does not need to prove fault, which is presumed under Quasi Strict Liability;
REAS	Regional distributors;
Repository Authority	Radioactive Waste Repository Authority;
Securities Center	Středisko cenných papírů (Czech Securities Center), with its seat in Praha 1, Rybná 14, Zip Code 110 05, Identification Number: 48112089;
UCTE	Union for the Co-ordination of Transmission of Electricity - association of transmission system operators in continental Europe;
Vienna Convention	Vienna Convention on Civil Liability for Nuclear Damage;
WANO	World Association of Nuclear Operators (Czech Republic is a member);
Waste Act	Act No. 185/2001 Coll., as amended; and
Water Act	Act No. 254/2001 Coll., as amended.

13. CONSOLIDATED FINANCIAL INFORMATION AND AUDITORS' REPORTS FOR 2003, 2004, 2005

This section includes audited consolidated financial statements of ČEZ for 2005 and the auditors' report and notes, including the audited consolidated financial information for 2004. **The financial results for 2004 have been restated and audited as a result of ČEZ's acquisition of a majority share in Severočeské doly a.s. in 2005 (see Notes 2.2.d and 7).**

This section (page 200) also includes audited consolidated financial statements of ČEZ for 2004 and the auditors' report and notes, including the audited consolidated financial information for 2003. **Please note that the financial results for 2004 presented in 2004/2003 financial statements have not been restated.**

The complete audited financial information for 2003, including auditors' report are available at the registered seat of ČEZ and PSE.

ČEZ Group consists of 93 companies (36 consolidated based on full consolidation method, 5 consolidated based on equivalence method). The most significant acquisition in 2005 includes three Bulgarian distribution companies, Severočeské doly a.s., ŠKODA PRAHA a.s. (influencing ČEZ Group results during the entire year 2005) and a Romanian distribution company Electrica Oltenia S.A. (influencing ČEZ Group results in the last quarter of 2005).

ČEZ, A. S., AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2005 AND 2004

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and the Supervisory Board of ČEZ, a. s.:

We have audited the accompanying consolidated balance sheet of the CEZ Group ("the Group") as of December 31, 2005 and 2004 and the related consolidated statements of income, equity, cash flows and the related notes for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Board of Directors of ČEZ, a. s. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005 in accordance with International Financial Reporting Standards as adopted by the EU.

Ernst & Young Audit & Advisory, s.r.o.
License No. 401

Ladislav Langr
Auditor, License No. 257

March 8, 2006
Prague, Czech Republic

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2005 and 2004

in CZK Millions

	2005	2004 *)
Assets		
Property, plant and equipment:		
Plant in service	439,416	402,864
Less accumulated provision for depreciation	199,756	182,932
Net plant in service (Note 3)	239,660	219,932
Nuclear fuel, at amortized cost	7,860	7,956
Construction work in progress	11,570	11,308
Total property, plant and equipment	259,090	239,196
Other non-current assets:		
Investment in associates	929	2,011
Investments and other financial assets, net (Note 4)	13,811	26,426
Intangible assets, net (Note 5)	6,046	3,379
Deferred tax assets (Note 25)	524	713
Total other non-current assets	21,310	32,529
Total non-current assets	280,400	271,725
Current assets:		
Cash and cash equivalents (Note 9)	16,791	8,942
Receivables, net (Note 10)	14,792	9,189
Income tax receivable	1,478	26
Materials and supplies, net	3,671	3,333
Fossil fuel stocks	756	724
Emission rights (Note 11)	134	-
Other current assets (Note 12)	6,187	5,311
Total current assets	43,809	27,525
Total assets	324,209	299,250

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2005 and 2004

continued

	2005	2004 *)
Equity and liabilities		
Equity attributable to equity holders of the parent:		
Stated capital	58,237	59,218
Retained earnings and other reserves	118,436	112,879
Total equity attributable to equity holders of the parent (Note 13)	176,673	172,097
Minority interests	14,616	6,350
Total equity	191,289	178,447
Long-term liabilities:		
Long-term debt, net of current portion (Note 14)	30,586	38,140
Accumulated provision for nuclear decommissioning and fuel storage (Note 16)	35,869	29,441
Other long-term liabilities (Note 17)	14,974	14,868
Total long-term liabilities	81,429	82,449
Deferred tax liability (Note 25)	18,555	15,603
Current liabilities:		
Short-term loans (Note 18)	265	240
Current portion of long-term debt (Note 14)	7,888	3,439
Trade and other payables (Note 20)	16,243	12,587
Income taxes payable	630	1,227
Accrued liabilities (Note 21)	7,910	5,258
Total current liabilities	32,936	22,751
Total equity and liabilities	324,209	299,250

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s.(see Notes 2.2.d and 7).

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

in CZK Millions

	2005	2004 *)
Revenues:		
Sales of electricity (Note 22)	115,949	92,183
Heat sales and other revenues	9,134	10,487
Total revenues	125,083	102,670
Operating expenses:		
Fuel	9,010	9,305
Purchased power and related services	37,474	26,519
Repairs and maintenance	4,229	4,872
Depreciation and amortization	20,723	19,842
Salaries and wages (Note 23)	13,426	11,368
Materials and supplies	4,020	4,625
Emission rights (Note 11)	(1,053)	-
Other operating expenses (Note 24)	7,851	6,354
Total expenses	95,680	82,885
Income before other expenses (income) and income taxes	29,403	19,785
Other expenses (income):		
Interest on debt, net of capitalized interest (Note 2.7)	1,800	1,823
Interest on nuclear and other provisions (Note 2.22 , 16 and 17)	2,447	2,425
Interest income	(437)	(721)
Foreign exchange rate losses (gains), net	266	(1,765)
Loss on sale of subsidiaries and associates	170	-
Negative goodwill write-off (Note 6)	(1,704)	-
Other expenses (income), net (Note 26)	(343)	244
Income from associates (Note 2.2)	(102)	(722)
Total other expenses (income)	2,097	1,284
Income before income taxes	27,306	18,501
Income taxes (Note 25)	5,024	4,233
Net income	22,282	14,268
Net income attributable to:		
Equity holders of the parent	21,438	13,213
Minority interests	844	1,055
Net income per share attributable to equity holders of the parent (CZK per share) (Note 30)		
Basic	36.3	22.3
Diluted	36.2	22.3
Average number of shares outstanding (000s) (Notes 13 and 30)		
Basic	590,426	592,075
Diluted	592,211	592,211

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

in CZK Millions

	Attributable to equity holders of the parent						
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total	Minority interests	Total Equity
December 31, 2003, as previously reported	59,152	1	(81)	93,552	152,624	7,893	160,517
Effect of consolidation of Severočeské doly (Note 7)	-	-	45	9,328	9,373	1,185	10,558
December 31, 2003, as restated	59,152	1	(36)	102,880	161,997	9,078	171,075
Change in fair value of available-for-sale financial assets recognized in equity	-	-	(147)	-	(147)	(44)	(191)
Available-for-sale financial assets removed from equity	-	-	207	-	207	45	252
Change in fair value of cash flow hedges recognized in equity	-	-	(690)	-	(690)	-	(690)
Cash flow hedges removed from equity	-	-	621	-	621	-	621
Other movements	-	(3)	-	(12)	(15)	-	(15)
Gain and loss recorded directly to equity	-	(3)	(9)	(12)	(24)	1	(23)
Net income	-	-	-	13,213	13,213	1,055	14,268
Total gains and losses for the year	-	(3)	(9)	13,201	13,189	1,056	14,245
Gain on sale of ČEPS, net of tax (Note 29)	-	-	-	2,436	2,436	-	2,436
Effect of acquisition of ŠKODA PRAHA on equity	-	-	-	331	331	-	331
Acquisition of treasury shares	(488)	-	-	-	(488)	-	(488)
Sale of treasury shares	554	-	-	(222)	332	-	332
Dividends declared to shareholders of the parent	-	-	-	(4,738)	(4,738)	-	(4,738)
Dividends declared to minority interests	-	-	-	(1,172)	(1,172)	(261)	(1,433)
Change in minority due to acquisitions	-	-	-	-	-	(3,748)	(3,748)
Share options	-	-	130	-	130	-	130
Share on equity movements of associates	-	-	-	(2)	(2)	-	(2)
Contribution to equity	-	-	-	82	82	225	307
December 31, 2004	59,218	(2)	85	112,796	172,097	6,350	178,447

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

continued

	Attributable to equity holders of the parent						
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total	Minority interests	Total Equity
December 31, 2004	59,218	(2)	85	112,796	172,097	6,350	178,447
Change in fair value of available-for-sale financial assets recognized in equity	-	-	(43)	-	(43)	(3)	(46)
Available-for-sale financial assets removed from equity	-	-	18	-	18	1	19
Change in fair value of cash flow hedges recognized in equity	-	-	361	-	361	-	361
Cash flow hedges removed from equity	-	-	(124)	-	(124)	-	(124)
Translation differences	-	(787)	-	-	(787)	(478)	(1,265)
Other movements	-	-	(5)	6	1	3	4
Gain and loss recorded directly to equity	-	(787)	207	6	(574)	(477)	(1,051)
Net income	-	-	-	21,438	21,438	844	22,282
Total gains and losses for the year	-	(787)	207	21,444	20,864	367	21,231
Effect of acquisition of Severočeské doly on equity	-	-	-	(9,068)	(9,068)	-	(9,068)
Effect of acquisition of minority shares in ŠKODA PRAHA on equity	-	-	-	111	111	-	111
Acquisition of treasury shares	(1,312)	-	-	-	(1,312)	-	(1,312)
Sale of treasury shares	331	-	-	(79)	252	-	252
Dividends declared to shareholders of the parent	-	-	-	(5,309)	(5,309)	-	(5,309)
Dividends declared to minority interests	-	-	-	(1,198)	(1,198)	(536)	(1,734)
Change in minority due to acquisitions	-	-	-	-	-	8,435	8,435
Share options	-	-	296	-	296	-	296
Share on equity movements of associates	-	-	-	(60)	(60)	-	(60)
December 31, 2005	58,237	(789)	588	118,637	176,673	14,616	191,289

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

in CZK Millions

	2005	2004 *)
Operating activities:		
Income before income taxes	27,306	18,501
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	20,743	19,979
Amortization of nuclear fuel	3,056	3,391
(Gain) loss on fixed asset retirements, net	86	(1,221)
Foreign exchange rate loss (gain), net	266	(1,765)
Interest expense, interest income and dividend income, net	1,246	871
Provision for nuclear decommissioning and fuel storage	1,061	538
Valuation allowances, other provisions and other adjustments	(937)	(72)
Income from associates	(102)	(722)
Changes in assets and liabilities:		
Receivables	(2,325)	2,436
Materials and supplies	(137)	262
Fossil fuel stocks	(32)	209
Other current assets	(1,023)	2,662
Trade and other payables	325	(1,855)
Accrued liabilities	1,174	489
Cash generated from operations	50,707	43,703
Income taxes paid	(5,946)	(6,898)
Interest paid, net of capitalized interest	(1,540)	(1,433)
Interest received	444	719
Dividends received	230	550
Net cash provided by operating activities	43,895	36,641
Investing activities:		
Acquisition of subsidiaries and associates, net of cash acquired (Note 6)	(12,258)	(18,166)
Proceeds from disposal of a subsidiaries and associates, net of cash disposed of	2,273	-
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.7)	(15,671)	(16,925)
Proceeds from sale of fixed assets	1,728	5,034
Change in decommissioning and other restricted funds	(42)	(443)
Total cash used in investing activities	(23,970)	(30,500)

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

continued

	2005	2004 *)
Financing activities:		
Proceeds from borrowings	539	15,083
Payments of borrowings	(4,356)	(10,419)
Proceeds from other long-term liabilities	265	96
Payments of other long-term liabilities	(300)	(372)
Dividends paid to Company's shareholders	(5,291)	(4,724)
Dividends paid to minority interests	(1,716)	(1,443)
(Acquisition) sale of treasury shares	(1,060)	(156)
Total cash used in financing activities	(11,919)	(1,935)
Net effect of currency translation in cash	(157)	(287)
Net increase in cash and cash equivalents	7,849	3,919
Cash and cash equivalents at beginning of period	8,942	5,023
Cash and cash equivalents at end of period	16,791	8,942

Supplementary cash flow information

Total cash paid for interest	2,046	1,985

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 67.6% at December 31, 2005 by the Czech Republic National Property Fund. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

ČEZ is an electricity generation company, which produced approximately 72% of the electricity and a portion of the district heating in the Czech Republic in 2005. The Company operates ten fossil fuel plants, thirteen hydroelectric plants and two nuclear plants.

The company is a parent company of the CEZ Group ("the Group"), which is primarily engaged in the business of production, distribution, sale of electricity (see Notes 2.2 and 8). The average number of employees of the Company and its consolidated subsidiaries was 27,960 and 22,943, for the year 2005 and 2004, respectively.

In December 2004 Czech Parliament revised The Act on Conditions of Business Activity and State Administration in the Energy Industries (the "Energy Law"). The Energy Law provides the conditions for business activities, performance of public administration and regulation in the energy sectors, including electricity, gas and heat, as well as the rights of and obligations of individuals and legal entities related thereto. The business activities in the energy sectors in the Czech Republic may only be pursued by individuals or legal entities upon the basis of government authorization in the form of licenses granted by the Energy Regulatory Office.

Responsibility for public administration in the energy sector is exercised by the Ministry of Industry and Trade (the "Ministry"), the Energy Regulatory Office and the State Energy Inspection Board.

The Ministry, as the central public administration body for the energy sector, issues state approval to construct new energy facilities in accordance with specified conditions, develops the energy policy of the state and ensures fulfillment of obligations resulting from international treaties binding on the Czech Republic or obligations resulting from membership in international organizations.

The Energy Regulatory Office was established as the administrative office to exercise regulation in the energy sector of the Czech Republic, to support economic competition and to protect consumers' interests in sectors where competition is not possible. The Energy Regulatory Office decides on the granting of a license, imposition of the supply obligation beyond the scope of the license, imposition of the obligation to let another license holder use energy facilities in cases of emergency, to exercise the supply obligation beyond the scope of the license and price regulation based on special legal regulations. The State Energy Inspection Board is the inspection body supervising the activities in the energy sector.

Third-party access started to be introduced gradually from 2002. In 2005 all electricity customers, except for households, were able to purchase electricity from any distributor, eligible generator or trader. From 2006 all customers can select their suppliers of electricity.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The accompanying consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS). They are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

2.2. Group Accounting

a. Group Structure

The financial statements include the accounts of ČEZ, a. s., its subsidiaries and associates, which are shown in the Note 8. Other investments are excluded from the consolidation because the impact on the consolidated financial statements would not be material. These investments are included in the balance sheet under investments and other financial assets and are stated at cost net of provision for diminution in value (see Note 4).

b. Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has a power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group’s interest in the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the Group’s interest in the fair value of acquiree’s net assets exceeds the cost of business combination (“negative goodwill”), then the Group first reassesses the identification and measurement of the acquiree’s identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss. In case of subsequent acquisition of a minority interest in a subsidiary, which has been already controlled by the Group, the goodwill is measured as the difference between the cost of the additionally acquired shares and the book value of the minority interest acquired.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

c. Associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method the company’s share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of other post-acquisition movements in equity of associates is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the company’s interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group’s investment in associates includes goodwill (net of accumulated impairment losses) on acquisition. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

d. Transactions involving entities under common control

Acquisitions of subsidiaries from entities under common control are recorded using a method similar to pooling of interests.

The assets and liabilities of the acquired subsidiaries are included in the consolidated financial statements at their book values. Financial statements of the Group report results of operations for the period in which the transfer occurs as though the transfer of net assets had occurred at the beginning of the period. Results of operations for that period thus comprise those of the previously separate entities from the beginning of the period to the date the acquisition is completed and those of the combined operations from that date to the end of the period. Financial statements and financial information presented for prior years is restated to furnish comparative information on the same basis. The cost of acquisition of subsidiaries from entities under common control is recorded directly in equity.

Net gain on sale of a subsidiary or an associated company to an entity controlled by the Group's majority shareholder is recognized directly in equity.

2.3. Change in Accounting Policies

a. New IFRS standards

In 2005 the Group adopted the following International Financial Accounting Standards, which were relevant for the Group:

- IAS 1 (2003) Presentation of Financial Statements
- IAS 2 (2003) Inventories
- IAS 8 (2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (2003) Events After the Balance-Sheet Date
- IAS 16 (2003) Property, Plant and Equipment
- IAS 17 (2003) Leases
- IAS 21 (2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (2003) Related Party Disclosures
- IAS 27 (2003) Consolidated and Separate Financial Statements
- IAS 28 (2003) Investments in Associates
- IAS 32 (2003) Financial Instruments: Disclosure and Presentation
- IAS 33 (2003) Earnings per Share
- IAS 36 (2004) Impairment of Assets
- IAS 38 (2004) Intangible Assets
- IAS 39 (2004) Financial Instruments: Recognition and Measurement
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The principal effects of these changes in policies are discussed below.

Following the adoption of revised standard IAS 1, minority interests are included as part of the Group's equity and not as a separate category on the balance sheet. Presentation of prior year financial statements has been adjusted to conform to the current year classification.

Amongst other matters, the revised standard IAS 8 requires that changes in accounting policies that arise from the application of new or revised standards and interpretations are applied retrospectively, unless otherwise specified in the transitional requirements of the particular standard or interpretation. Retrospective application requires that the results of the comparative period and the opening balances of that period be restated as if the new accounting policy had always been applied.

As of January 1, 2005 the Group adopted IAS 21 (revised). As a result any goodwill arising on the acquisition of a foreign operation and any fair value adjustment to the carrying amount of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate. In accordance with transitional provisions of IAS 21 this change is applied prospectively.

IFRS 2 requires that the fair value of all equity compensation plan awards granted to employees and to board members be estimated at grant date and recorded as an expense over the vesting period. Under the Group's previous policy the expense for the share option plan was measured using the intrinsic value of the granted options. The transitional provisions of the standard require companies to apply the new standard with retrospective effect for all awards made after November 7, 2002 which had not yet vested at December 31, 2004. Adoption of IFRS 2 had no effect on previously reported financial statements, because all options granted prior to January 1, 2005 have vested prior that date and therefore the expense related to these options was not re-measured to fair value.

The adoption of new or revised IFRS standards did not have any effect on the opening balance of equity attributable to the Company's shareholders as at January 1, 2004 and 2005, respectively.

b. New IFRS Standards and Interpretations not yet effective

The Group is currently assessing the potential impacts of the new and revised standards that will be effective from January 1, 2006 or January 1, 2007. Most relevant to the Group's activities are IFRS 6 Exploration for and Evaluation of Mineral Resources, IFRS 7 Financial Instruments: Disclosures, Amendments to IAS 1 Presentation of Financial Statements, IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. The Group does not expect that the new and revised standards and interpretations will have a significant effect on the Group's results and financial position, although they may expand the disclosures in certain areas.

c. Comparatives

During 2005 the Company acquired majority share in Severočeské doly a.s. The shares have been acquired from the majority shareholder of the Company and therefore the transaction has been accounted using a method similar to pooling of interests (see Note 2.2.d). Prior year financial information was restated to furnish comparative information (see Note 7).

2.4. Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2.5. Revenues

The Group recognizes revenue from supplies of electricity and related services based on contract terms. Differences between contracted amounts and actual supplies are settled through the market operator. Revenues are recognized, when it is probable that the economic benefits associated with the transaction will flow to the entity and the revenue can be reliably measured.

Revenue from sale of goods is recognized when the goods are delivered and significant risks and rewards of ownership of the goods have passed to the buyer.
Revenue from services is recognized when the services are rendered.

Connection fees received from customers are deferred and recognized in income over the expected term of the customer relationship, which is currently estimated to be 20 years.

2.6. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,056 million and CZK 3,391 million for the years ended December 31, 2005 and 2004, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 16). Such charges amounted to CZK 254 million and CZK 203 million in 2005 and 2004, respectively.

2.7. Interest

The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 506 million and CZK 552 million, which was equivalent to an interest capitalization rate of 6.3% and 6.5% in 2005 and 2004, respectively.

2.8. Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and valuation allowances. Cost of plant in service includes materials, labor, payroll-related costs and the cost of debt financing used during construction. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is recognized as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Government grants received for construction of certain items of property, plant and equipment decrease the acquisition cost of the respective items.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. Identified impairment of property, plant and equipment is recognized directly in profit or loss.

Depreciation

The Group depreciates the original cost of property, plant and equipment by using the straight-line method over the estimated economic lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciable lives used for property, plant and equipment are as follows:

	Lives
Buildings and structures	25 – 50
Machinery and equipment	4 – 25
Vehicles	4 – 20
Furniture and fixtures	8 – 15

Average depreciable lives based on the functional use of property, plant and equipment are as follows:

	Average Life
Hydro plants	
Buildings and structures	44
Machinery and equipment	16
Fossil fuel plants	
Buildings and structures	32
Machinery and equipment	14
Nuclear power plant	
Buildings and structures	32
Machinery and equipment	17
Electricity distribution grid	30

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Depreciation of plant in service was CZK 19,573 million and CZK 19,073 million for the years ended December 31, 2005 and 2004, which was equivalent to a composite depreciation rate of 4.6% and 4.8%, respectively.

2.9. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization. Amortization of fuel in the reactor is based on the amount of power generated.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.22). At December 31, 2005 and 2004 capitalized costs at net book value amounted to CZK 106 million and CZK 233 million, respectively.

2.10. Intangible Assets, Net

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful lives of intangible assets ranges from 3 to 15 years.

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired.

2.11. Emission Rights

Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plan in 2005 certain companies of the Group have been granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

At April, 30, of the following year, at latest, these companies are required to remit a number of certificates representing the number of tones of CO_2 actually emitted. If a company does not fulfill this requirement and does not remit necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 40 per 1 ton of CO_2.

In the financial statements the emission rights, which were granted free of charge, are stated at their nominal value, i.e. at zero. Purchased emission rights are carried at cost. If the granted allowances are not sufficient to cover actual emissions, the Group recognizes a provision, which is measured at the market value of the missing granted emission rights at the balance sheet date.

The Group also holds emission rights for trading purposes. The portfolio of emission rights held for trading is measured at fair value. The changes in fair value of the emission rights held for trading are recognized directly in profit or loss.

2.12. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition (see Note 2.2). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.13. Investments

Investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date. Equity securities classified as available-for-sale and trading investments that do not have a quoted market price in an active market are measured at cost. The carrying amounts of such investments are reviewed at each balance sheet date for impairment.

Gains or losses on measurement to fair value of available-for-sale investments are recognized directly in equity, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.

Changes in the fair values of trading investments are included in other expenses (income).

Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

2.14. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less (see Note 9). Foreign currency deposits are translated at December 31, 2005 and 2004 exchange rates, respectively.

2.15. Cash Restricted in Its Use

Restricted balances of cash, which are shown under non-current financial assets as restricted funds (see Note 4), relate to deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and cash guarantees given to swap transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Group.

2.16. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. At December 31, 2005 and 2004 the allowance for uncollectible receivables amounted to CZK 2,288 million and CZK 1,746 million, respectively.

Payables are recorded at invoiced values and accruals are reported at expected settlement values.

2.17. Materials and Supplies

Materials and supplies are principally composed of maintenance materials and spare parts for repairs and maintenance of tangible assets. Cost is determined by using weighted average cost, which approximates actual cost. These materials are recorded in inventory when purchased and then expensed or capitalized to plant, as appropriate, when used. The Group records a provision for obsolete inventory as such items are identified. At December 31, 2005 and 2004 the provision for obsolescence amounted to CZK 124 million and CZK 191 million, respectively.

2.18. Fossil Fuel Stocks

Fossil fuel stocks are stated at weighted average cost, which approximates actual cost.

2.19. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a. Fair value hedge

Gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortized to profit or loss over the remaining term to maturity.

b. Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in equity. The gain or loss relating to the ineffective portion is recognized in the income statement.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recorded to the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c. Other derivatives

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2.20. Income Taxes

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic current income taxes are provided at a rate of 26% and 28% for the year ended December 31, 2005 and 2004, respectively, after adjustments for certain items which are not deductible, or taxable, for taxation purposes.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associate with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities of Group companies are not offset in the balance sheet.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

2.21. Long-term Debt

Borrowings are initially recognized at the amount of the proceeds received, net of transaction costs. They are subsequently carried at amortized cost using the effective interest rate method, the difference between net proceeds and redemption value is being recognized in the net income over the life of the borrowings as interest expense.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges.

The carrying amount of long-term debt, which is hedged against the changes in its fair value, is adjusted by the changes in the fair value attributable to the hedged risk. The changes in the fair value of the hedged long-term debt are recognized in profit or loss.

2.22. Nuclear Provisions

The Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors.

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is approximately 4.5% and 2.0% in 2005 and 2006 and the following years, respectively.

The decommissioning process is expected to continue for approximately a sixty-year period subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. While the Group has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Group's current estimates.

Since 2004, pursuant to IFRIC 1 changes in a decommissioning liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period. If the adjustment results in an addition to the cost of an asset, the Group performs an impairment review to confirm, whether the value of the asset is fully recoverable.

2.23. Provisions for decommissioning and reclamation of mines and mining damages

The Group has recognized provisions for its obligations to decommission and reclaim its mines at the end of their operating lives (see Notes 7 and 17). The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is 2.0% annually.

Changes in a decommissioning liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period.

2.24. Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

2.25. Treasury Shares

Treasury shares are presented in the balance sheet as a deduction from stated capital. The acquisition of treasury shares is presented in the statement of equity as a reduction to equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as an addition to equity.

2.26. Share Options

Board of Directors, members of Executive Committee (advisory body of Chief Executive Officer) and the Supervisory Board members have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted. In case of options, which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases the expense is accrued over the vesting period of the equity instruments granted. The expense recognized reflects the best estimate of the number of share options, which will ultimately vest. In 2005 and 2004 the expense recognized in respect of the share option plan amounted to CZK 296 million and CZK 148 million, respectively.

Prior to adoption of IFRS 2, i.e. till December 31, 2004, an expense related to share option plan was measured on the date of the grant to the extent the quoted market price of the shares exceeded the exercise price of the share options. All options granted before January 1, 2005, had no vesting conditions and could be exercised immediately after the grant. The Company has taken advantage of the transitional provisions of IFRS 2 in respect of equity settled awards. As result the Company has applied IFRS 2 only to share options granted after November 7, 2002, that had not vested on January 1, 2005, i.e. only to share options granted since January 1, 2005.

2.27. Translation of Foreign Currencies

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss. Translation differences on available-for-sale equity securities are included in equity.

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements items of foreign subsidiaries are translated at average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate.

3. Net Plant in Service

Net plant in service at December 31, 2005 and 2004 is as follows (in CZK millions):

	Buildings	Plant and Equip-ment	Land and Other	Total 2005	Total 2004
Cost - opening balance	139,965	258,168	4,731	402,864	394,296
Plant additions	4,574	9,417	74	14,065	11,125
Retirements	(688)	(3,212)	(21)	(3,921)	(3,541)
Acquisition of subsidiaries	19,404	4,539	384	24,327	604
Disposal of subsidiaries	(52)	(78)	(3)	(133)	8
Change in estimate of decommissioning provisions	-	5,113	(1,615)	3,498	373
Reclassification and other	(287)	228	27	(32)	(1)
Currency translation differences	(984)	(249)	(19)	(1,252)	-
Cost – closing balance	161,932	273,926	3,558	439,416	402,864
Accumulated deprec. and allowances - opening balance	(57,291)	(124,846)	(795)	(182,932)	(165,945)
Depreciation	(4,847)	(14,716)	(10)	(19,573)	(19,073)
Net book value of assets disposed	(233)	(296)	(1)	(530)	(1,100)
Retirements	688	3,212	1	3,901	3,467
Acquisition of subsidiaries	-	-	-	-	-
Disposal of subsidiaries	16	61	45	122	-
Reclassification and other	166	(156)	(4)	6	(19)
Impairment losses recognized	(1,005)	(152)	(10)	(1,167)	(493)
Impairment losses reversed	245	138	3	386	231
Currency translation differences	17	14	-	31	-
Accumulated deprec. and allowances - closing balance	(62,244)	(136,741)	(771)	(199,756)	(182,932)
Net plant in service - closing balance	99,688	137,185	2,787	239,660	219,932

At December 31, 2005 and 2004 plant and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2005	2004
Cost	20,541	15,428
Accumulated depreciation	(3,820)	(3,466)
Total net book value	16,721	11,962

The carrying value of plant and equipment held under finance lease at December 31, 2005 and 2004 is CZK 270 million and CZK 811 million, respectively (see Note 19).

Group's plant in service pledged as security for liabilities at December 31, 2005 and 2004 is CZK 234 million and CZK 73 million, respectively.

4. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Financial assets in progress, net	164	8,722
Debt securities held-to-maturity	916	989
Debt securities available-for-sale, net	4,400	5,385
Equity securities available-for-sale	2,288	2,354
Restricted funds for nuclear decommissioning	1,921	1,580
Other restricted funds	878	1,177
Long-term receivables, net	3,244	6,219
Total	13,811	26,426

The financial assets in progress represent advances and other consideration paid for shares in subsidiaries and associates, for which the ownership rights have not been transferred to the Company at the year end. At December 31, 2004, the balance includes mainly the investment in three Bulgarian distribution companies.

At December 31, 2005 and 2004 impairment provisions for financial assets available-for-sale amounted to CZK 173 million and CZK 161 million, respectively, impairment provisions for financial assets in progress amounted to CZK 89 million and CZK 77 million, respectively and for long-term receivables amounted to CZK 13 million and CZK 33 million, respectively.

Debt securities at December 31, 2005 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	1,056	210	1,485	2,751
Due in 2 – 3 years	841	53	1,166	2,060
Due in 3 – 4 years	1,274	332	719	2,325
Due in 4 – 5 years	1	321	760	1,082
Due in more than 5 years	72	-	270	342
Total	3,244	916	4,400	8,560

Debt securities at December 31, 2004 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	3,174	436	2,706	6,316
Due in 2 – 3 years	994	199	1,340	2,533
Due in 3 – 4 years	745	-	906	1,651
Due in 4 – 5 years	1,271	226	433	1,930
Due in more than 5 years	35	128	-	163
Total	6,219	989	5,385	12,593

Debt securities at December 31, 2005 have following effective interest rate structure (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	3,244	-	462	3,706
From 2.0% to 3.0%	-	365	1,631	1,996
From 3.0% to 4.0%	-	415	1,906	2,321
From 4.0% to 5.0%	-	-	107	107
Over 5.0%	-	136	294	430
Total	3,244	916	4,400	8,560

Debt securities at December 31, 2004 have following effective interest rate structure (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	6,219	-	-	6,219
From 2.0% to 3.0%	-	-	1,347	1,347
From 3.0% to 4.0%	-	744	2,673	3,417
From 4.0% to 5.0%	-	66	409	475
Over 5.0%	-	179	956	1,135
Total	6,219	989	5,385	12,593

The following table analyses the debt securities at December 31, 2005 by currency (in CZK millions):

	CZK	USD	EUR	Total
Long-term receivables	3,111	124	9	3,244
Debt securities held-to-maturity	916	-	-	916
Debt securities available-for-sale	4,400	-	-	4,400
Total	8,427	124	9	8,560

The following table analyses the debt securities at December 31, 2004 by currency (in CZK millions):

	CZK	USD	EUR	Total
Long term receivables	6,117	102	-	6,219
Debt securities held-to-maturity	989	-	-	989
Debt securities available-for-sale	5,385	-	-	5,385
Total	12,491	102	-	12,593

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2005 and 2004 are as follows (in CZK millions):

	Software	Rights and Other	Goodwill	Total 2005	Total 2004
Cost – opening balance	5,170	503	759	6,432	5,003
Additions	1,449	116	-	1,565	1,164
Retirements	(262)	(32)	-	(294)	(337)
Acquisition of subsidiaries	50	1,196	1,429	2,675	602
Disposal of subsidiaries	(7)	-	(89)	(96)	-
Reclassification and other	1	(1)	-	-	-
Currency translation differences	(3)	(57)	(59)	(119)	-
Cost – closing balance	6,398	1,725	2,040	10,163	6,432
Accumulated amortization – opening balance	(3,796)	(113)	-	(3,909)	(3,502)
Amortization charge for the year	(972)	(178)	-	(1,150)	(769)
Net book value of assets disposed	(5)	(26)	-	(31)	-
Disposals	262	32	-	294	364
Acquisition of subsidiaries	-	-	-	-	-
Disposal of subsidiaries	6	-	-	6	-
Impairment losses recognized	(16)	(3)	-	(19)	(2)
Impairment losses reversed	1	-	-	1	-
Currency translation differences	-	3	-	3	-
Accumulated amortization – closing balance	(4,520)	(285)	-	(4,805)	(3,909)
Net intangible assets – closing balance	1,878	1,440	2,040	5,358	2,523

At December 31, 2005 and 2004, intangible assets presented on the balance sheet include intangible assets in progress in the amount of CZK 688 million and CZK 856 million, respectively.

At December 31, 2005 and 2004 the substantial part of goodwill was allocated to the distribution segment (see Note 28) and there have been no accumulated impairment losses.

The recoverable amount of goodwill of the distribution segment has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by management covering a five-year period. The average discount rate applied to cash flow projections is 10% and cash flows beyond the five-year period are extrapolated using estimated growth rate of 2%.

Key assumptions used by management in calculation of recoverable amount are as follows:
Discount rate – The basis used to determine the value assigned to discount rate is weighted average of cost of capital (WACC) of related subsidiaries.
Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is forecast of market and regulatory environment, where subsidiaries conduct the business.

6. Acquisition of subsidiaries and associates from third parties

Acquisitions of subsidiaries from third parties in 2005

On January 18, 2005 the Company acquired 67% shares in three Bulgarian electricity distribution companies ("BDCs"): Elektrorazpredelenie Pleven EAD, Elektrorazpredelenie Sofia Oblast EAD and Elektrorazpredelenie Stolichno EAD. On September 30, 2005 the Company acquired a 51% share in Romanian electricity distribution company Electrica Oltenia S.A.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired in 2005 at the dates of acquisitions are as follows (in CZK millions):

	BDCs	Electrica Oltenia	Total
Shares acquired in 2005	67.0%	51.0%	
Property, plant and equipment, net	13,758	11,417	25,175
Other non-current assets	925	321	1,246
Cash and cash equivalents	57	3,366	3,423
Other current assets	1,420	1,625	3,045
Long-term liabilities	(815)	(983)	(1,798)
Deferred income taxes	(1,371)	(564)	(1,935)
Current liabilities	(2,823)	(1,960)	(4,783)
Total net assets	11,151	13,222	24,373
Minority interests	(3,680)	(6,479)	(10,159)
Share of net assets acquired	7,471	6,743	14,214
Goodwill (negative goodwill)	1,217	(1,675)	(458)
Total purchase consideration	8,688	5,068	13,756
Less:			
Cash and cash equivalents in subsidiaries acquired	(57)	(3,366)	(3,423)
Cash outflow on acquisition of subsidiaries	8,631	1,702	10,333

The carrying values of the acquired assets and liabilities of the subsidiaries acquired in 2005 immediately before the acquisitions were as follows (in CZK millions):

	BDCs	Electrica Oltenia	Total
Property, plant and equipment, net	7,876	7,953	15,829
Other non-current assets	38	-	38
Cash and cash equivalents	57	3,366	3,423
Other current assets	1,535	1,626	3,161
Long-term liabilities	(815)	(1,135)	(1,950)
Deferred income taxes	(521)	(18)	(539)
Current liabilities	(1,835)	(1,817)	(3,652)
Total book value of net assets	6,335	9,975	16,310

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group's income statement for the year 2005 (in CZK millions):

	BDCs	Electrica Oltenia	Total
Revenues	11,836	2,599	14,435
Net income	640	289	929

Acquisitions of minority shares in 2005

During 2005 ČEZ purchased further minority shares in 3 of the Czech distribution companies ("REAS") and other companies from various third parties. The following table summarizes the critical terms of the subsequent acquisitions of minority shares during 2005 (in CZK millions):

	Group SME	Other companies	Total
Shares acquired in 2005 from third parties	10.6%		
Share of net assets acquired	1,229	448	1,677
Goodwill	156	56	212
Negative goodwill	-	(28)	(28)
Effect of acquisition of ŠKODA PRAHA recognized directly in equity	-	(111)	(111)
Total purchase price	1,385	365	1,750

The following table summarizes the cash outflows on acquisitions of subsidiaries and minority shares during 2005 (in CZK millions):

Cash outflows on acquisition of subsidiaries	10,333
Cash outflows on purchase of minority shares in REAS and other companies	1,750
Cash outflows on acquisition of Severočeské doly a.s. (see Note 7)	9,068
Change in payables from acquisitions	(179)
Cash paid for financial assets in progress in prior year	(8,714)
Total cash outflows on acquisitions in 2005	12,258

The cash paid for financial assets in progress represents advances and other consideration paid for shares in subsidiaries and associates, for which the ownership rights have not been transferred to the Company at the year end (see Notes 4).

7. Acquisition of Severočeské doly a.s.

In December 2005 the Company purchased a 55.8% share in its mining subsidiary Severočeské doly a.s. ("SD") from the Czech Republic National Property Fund. Total purchase consideration including related expenses was CZK 9,068 million. Through this transaction the Company increased its share to 93.1%. At the time of the transaction Czech Republic National Property Fund was the majority shareholder of the Severočeské doly a.s. This transaction between entities under common control was therefore accounted for using a method similar to pooling of interests. Prior year financial information was restated to furnish comparative information on the same basis as in the current period (see Note 2.2).

The following table summarizes the impact of retrospective consolidation using the pooling of interests method on the previously reported consolidated statement of income for the year ended December 31, 2004 (in CZK millions):

Consolidated statement of income for the year ended December 31, 2004	As previously reported	Results of Group SD	Reversal of previous accounting for SD	Eliminations and other consolida-tion adjustments	As restated
Total revenues	100,165	7,953	-	(5,448)	102,670
Operating expenses:					
Fuel	14,370	-	-	(5,065)	9,305
Purchased power and related services	26,511	629	-	(621)	26,519
Repairs and maintenance	4,420	735	-	(283)	4,872
Depreciation and amortization	18,384	1,478	-	(20)	19,842
Salaries and wages	9,644	1,752	-	(28)	11,368
Materials and supplies	3,769	892	-	(36)	4,625
Other operating expenses	3,912	1,855	-	587	6,354
Total expenses	81,010	7,341	-	(5,466)	82,885
Income before other expenses (income) and income taxes	19,155	612	-	18	19,785
Other expenses (income):					
Income from associates	(734)	(28)	36	4	(722)
Other, net	1,961	389	-	(344)	2,006
Total other expenses (income)	1,227	361	36	(340)	1,284
Income before income taxes	17,928	251	(36)	358	18,501
Income taxes	3,845	72	233	83	4,233
Net income	14,083	179	(269)	275	14,268
Attributable to:					
Equity holders of the parent	13,059	179	(269)	244	13,213
Minority interests	1,024	-	-	31	1,055
Net income per share attributable to equity holders of the parent (CZK per share)					
Basic	22.1				22.3
Diluted	22.1				22.3

The following table summarizes the impact of retrospective consolidation using the pooling of interests method on the previously reported consolidated balance sheet as of December 31, 2004 (in CZK millions):

Consolidated balance sheet as of December 31, 2004	As previously reported	Group SD	Reversal of previous accounting for SD	Eliminations and other consolida-tion adjustments	As restated
Non-current assets:					
Total property, plant and equipment	227,435	11,267	-	494	239,196
Investment in associates	7,474	304	(5,500)	(267)	2,011
Other	23,173	7,761	-	(416)	30,518
Total non-current assets	258,082	19,332	(5,500)	(189)	271,725
Current assets:					
Cash and cash equivalents	7,545	1,397	-	-	8,942
Receivables, net	8,904	939	-	(654)	9,189
Materials and supplies, net	3,184	164	-	(15)	3,333
Other	3,100	2,945	-	16	6,061
Total current assets	22,733	5,445	-	(653)	27,525
Total assets	280,815	24,777	(5,500)	(842)	299,250
Equity:					
Equity attributable to equity holders of the parent	163,689	14,781	(5,072)	(1,301)	172,097
Minority interests	5,282	3	-	1,065	6,350
Total equity	168,971	14,784	(5,072)	(236)	178,447
Long-term liabilities:					
Long-term debt, net of current portion	38,190		-	(50)	38,140
Accumulated provision for nuclear decommissioning and fuel storage	29,441	-	-	-	29,441
Other long-term liabilities	6,098	8,792	-	(22)	14,868
Total long-term liabilities	73,729	8,792	-	(72)	82,449
Deferred tax liability	16,008	44	(428)	(21)	15,603
Current liabilities:					
Trade and other payables	12,409	665	-	(487)	12,587
Income taxes payable	1,021	207	-	(1)	1,227
Other current liabilities	8,677	285	-	(25)	8,937
Current liabilities	22,107	1,157	-	(513)	22,751
Total equity and liabilities	280,815	24,777	(5,500)	(842)	299,250

8. Investments in Subsidiaries and Associates

The consolidated financial statements include the financial statements of ČEZ, a. s., and the subsidiaries and associates listed in the following table:

Subsidiaries	Country of incorporation	% equity [1] interest 2005	% voting interest 2005	% equity [1] interest 2004	% voting interest 2004
Západočeská energetika, a.s.	Czech Republic	100.00%	100.00%	99.13%	99.13%
Východočeská energetika, a.s.	Czech Republic	100.00%	100.00%	98.83%	98.83%
Severomoravská energetika, a. s.	Czech Republic	100.00%	100.00%	89.38%	89.38%
Středočeská energetická a.s.	Czech Republic	97.72%	97.72%	97.72%	97.72%
Severočeská energetika, a.s.	Czech Republic	56.93%	56.93%	56.93%	56.93%
ČEZ Distribuce, a. s. [2]	Czech Republic	90.93%	100.00%	-	-
ČEZ Distribuční služby, s.r.o. [2]	Czech Republic	100.00%	100.00%	-	-
ČEZ Měření, s.r.o. [2]	Czech Republic	100.00%	100.00%	-	-
ČEZ Prodej, s.r.o. [2]	Czech Republic	90.93%	100.00%	-	-
ČEZ Obnovitelné zdroje, s.r.o. [3]	Czech Republic	100.00%	100.00%	98.83%	100.00%
ČEZData, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Logistika, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Správa majetku, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZnet, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA a.s.	Czech Republic	100.00%	100.00%	68.88%	68.88%
Severočeské doly a.s. [6]	Czech Republic	93.10%	93.10%	92.66%	92.66%
SD – 1.strojírenská, a.s. [6]	Czech Republic	93.10%	100.00%	92.66%	100.00%
SD – Autodoprava, a.s. [6]	Czech Republic	93.10%	100.00%	92.66%	100.00%
SD – Kolejová doprava, a.s. [6]	Czech Republic	93.10%	100.00%	92.66%	100.00%
Energetické opravny, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
I & C Energo a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
VČE – montáže, a.s.	Czech Republic	100.00%	100.00%	98.83%	100.00%
Energetika Vítkovice, a.s.	Czech Republic	100.00%	100.00%	89.38%	100.00%
ePRIM, a.s., v likvidaci	Czech Republic	100.00%	100.00%	89.38%	100.00%
MSEM, a.s.	Czech Republic	100.00%	100.00%	89.38%	100.00%
STE – obchodní služby spol. s r.o.	Czech Republic	97.72%	100.00%	74.42%	76.16%
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46%	52.46%	52.46%	52.46%
CEZ FINANCE B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
rpg Energiehandel GmbH	Germany	100.00%	100.00%	100.00%	100.00%
Elektrorazpredelenie Pleven EAD [2]	Bulgaria	67.00%	67.00%	-	-
Elektrorazpredelenie Sofia Oblast EAD [2]	Bulgaria	67.00%	67.00%	-	-
Elektrorazpredelenie Stolichno EAD [2]	Bulgaria	67.00%	67.00%	-	-
CEZ Bulgaria EAD [2]	Bulgaria	100.00%	100.00%	-	-
Electrica Oltenia S.A. [2]	Rumania	51.00%	51.00%	-	-
Union Leasing, a.s. [4]	Czech Republic	-	-	89.38%	100.00%
První energetická a.s. [4]	Czech Republic	-	-	87.27%	100.00%
EN-DATA a.s. [5]	Czech Republic	-	-	100.00%	100.00%
HYDROČEZ, a.s. [3]	Czech Republic	-	-	100.00%	100.00%

Associates	Country of incorporation	% equity [1] interest 2005	% voting interest 2005	% equity [1] interest 2004	% voting interest 2004
KOTOUČ ŠTRAMBERK, spol. s r.o.	Czech Republic	25.00%	25.00%	64.87%	50.00%
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05%	50.00%	51.05%	50.00%
Plzeňská energetika a.s.	Czech Republic	50.00%	50.00%	49.57%	50.00%
KNAUF POČERADY, spol. s r.o.	Czech Republic	40.00%	50.00%	40.00%	50.00%
Aliatel a.s. [4]	Czech Republic	-	-	26.40%	30.58%
Coal Energy, a.s.	Czech Republic	38.62%	40.00%	38.53%	40.00%

1) The equity interest represents effective ownership interest of the Group.
2) Companies have been found in 2005 or have been included in consolidated group in 2005.
3) In 2005 VČE – elektrárny, s.r.o. has been renamed to ČEZ Obnovitelné zdroje, s.r.o.
In the same year ČEZ Obnovitelné zdroje, s.r.o. has merged with HYDROČEZ, a.s., successional company is ČEZ Obnovitelné zdroje, s.r.o.
4) Shares have been sold in 2005.
5) EN-DATA a.s. has been merged with successional company ČEZData, s.r.o. in 2005.
6) The equity interest and voting rights in Severočeské doly a.s. and its subsidiaries as at December 31, 2004 include the shares of the Czech Republic National Property Fund, which were sold in 2005 to ČEZ. The acquisition of Severočeské doly a.s. group was accounted using method similar to pooling of interests (see Note 7).

The investments in associates are not listed on any public exchange. The following table illustrates summarized financial information of associates for the year ended December 31, 2005 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
KOTOUČ ŠTRAMBERK, spol. s r.o.	640	249	391	436	19
LOMY MOŘINA spol. s r.o.	415	44	371	189	2
Plzeňská energetika a.s.	1,931	1,161	770	820	466
KNAUF POČERADY, spol. s r.o.	519	63	456	418	40
Coal Energy, a.s.	1,045	854	191	8,714	126
Total	4,550	2,371	2,179	10,577	653

9. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Cash on hand and current accounts with banks	8,703	1,778
Short-term bank notes	2,932	6,208
Term deposits	5,156	956
Total	16,791	8,942

At December 31, 2005 and 2004, cash and cash equivalents included foreign currency deposits of CZK 5,228 million and CZK 1,210 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2005 and 2004 was 11.2% and 2.2%, respectively. For the years 2005 and 2004 the weighted average interest rate was 3.4% and 2.1%, respectively. Increase of weighted average interest rate at December 31, 2005, and for the year 2005, respectively, was caused by higher interest rate in Romania.

10. Receivables, Net

The composition of receivables, net, at December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Unbilled electricity supplied to retail customers	3,980	2,203
Received advances from retail customer	(3,634)	(2,020)
Unbilled supplies to retail customers, net	346	183
Trade receivables	15,831	9,582
Taxes and fees, excluding income taxes	309	439
Other receivables	594	731
Allowance for doubtful receivables	(2,288)	(1,746)
Total	14,792	9,189

The information about receivables from related parties is included in Note 27.

11. Emission Rights

In 2005 emission trading scheme was introduced in the European Union. The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights during 2005 (in CZK millions):

	Quantity	Book value
Granted emission rights:		
Granted emission rights at January 1, 2005	-	-
Emission rights granted in 2005	37,522	-
Emission rights sold	(2,430)	-
Granted emission rights at December 31, 2005	35,092	-
Emission rights held for trading:		
Emission rights for trading at January 1, 2005	-	-
Emission rights purchased	859	550
Emission rights sold	(640)	(410)
Fair value adjustment	-	(6)
Emission rights held for trading at December 31, 2005	219	134

During 2005 total emissions of greenhouse gases made by the Group companies amounted to an equivalent 33,320 thousand tons of CO_2. Because the actual emissions during 2005 were lower than the quantity of granted emission rights at the balance sheet date, the Group did not recognize any provision for missing emission rights (see Note 2.11).

The following table shows the impact of transactions with emission rights on income for the year ended December 31, 2005 (in CZK millions):

	2005
Gain on sales of granted emission rights	1,038
Net gain from emission trading	21
Fair value adjustment to trading allowances	(6)
Net gain related to emission rights	1,053

12. Other Current Assets

The composition of other current assets at December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Debt securities held for trading	1,171	1,193
Debt securities held-to-maturity	1,207	2,740
Debt securities available-for-sale	1,312	155
Equity securities held for trading	42	29
Equity securities available-for-sale	129	113
Advances paid	746	401
Prepayments	617	521
Derivatives	963	159
Total	6,187	5,311

Short-term debt securities at December 31, 2005 have following effective interest rate structure (in CZK million):

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
Less than 2.0%	132	-	132	264
From 2.0% to 3.0%	990	614	606	2,210
From 3.0% to 4.0%	21	527	191	739
From 4.0% to 5.0%	64	139	179	382
Over 5.0%	-	32	63	95
Total	1,207	1,312	1,171	3,690

Short-term debt securities at December 31, 2004 have following effective interest rate structure (in CZK million):

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
Less than 2.0%	-	-	-	-
From 2.0% to 3.0%	2,719	37	553	3,309
From 3.0% to 4.0%	-	-	107	107
From 4.0% to 5.0%	21	118	173	312
Over 5.0%	-	-	360	360
Total	2,740	155	1,193	4,088

All short-term debt securities are denominated in CZK.

13. Equity Attributable to Equity Holders of the Parent

The Company's stated capital as of December 31, 2005 and 2004 is as follows:

	Number of Shares Outstanding	Par Value per Share (CZK)	Total (CZK millions)
		2005	
Registered shares	592,210,843	100	59,221
Treasury shares	(2,440,000)	100	(984)
Total	589,770,843		58,237
		2004	
Registered shares	592,210,843	100	59,221
Treasury shares	(10,000)	100	(3)
Total	592,200,843		59,218

The Company owned 745,000 treasury shares as of December 31, 2003. During year 2004 the Company acquired 2,355,000 treasury shares and sold 3,090,000 treasury shares. During year 2005 the Company acquired 3,210,000 treasury shares and sold 780,000 treasury shares. The remaining 2,440,000 treasury shares are reflected in the balance sheet at cost as a deduction from stated capital. The profit or loss on sale of treasury shares were included in retained earnings. Treasury shares held by the Company are used to cover the Company's obligations associated with the share option plan (see Note 2.26).

In accordance with Czech regulations, joint stock companies are required to establish an undistributable reserve fund for contingencies against possible future losses and other events. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit each year thereafter, until the fund reaches at least 20% of stated capital. The fund can only be used to offset losses. As of December 31, 2005 and 2004, the balance was CZK 13,076 million and CZK 11,336 million, respectively, and is reported as a component of retained earnings.

Dividends paid per share were CZK 9.0 and CZK 8.0 in 2005 and 2004, respectively. Dividends from 2005 profit will be declared on general meeting, which will be held till the end of June 2006.

14. Long-term Debt

Long-term debt at December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
7.125% Notes, due 2007 (USD 178 million)	4,406	3,962
7.25% Eurobonds, due 2006 (EUR 200 million)	5,934	6,233
4.625% Eurobonds, due 2011 (EUR 400 million)	11,532	12,101
9.22% Zero Coupon Debentures, due 2009 (CZK 4,500 million)	3,561	3,299
9.22% Debentures, due 2014 (CZK 2,500 million) [1)]	2,495	2,494
3.35% Debentures, due 2008 (CZK 3,000 million)	2,913	2,940
6M PRIBOR + 1.3%, due 2005 (CZK 500 million)	-	500
6M PRIBOR + 0.4%, due 2005 (CZK 1,000 million)	-	1,000
Long-term bank loans:		
2.00% to 2.99% p. a.	2,362	5,975
3.00% to 3.99% p. a.	659	113
4.00% to 4.99% p. a.	2,477	889
5.00% to 5.99% p. a.	949	747
6.00% to 6.99% p. a.	274	324
7.00% to 7.99% p. a.	832	887
8.00% p. a. and more	80	115
Total long-term debt	38,474	41,579
Less: Current portion	(7,888)	(3,439)
Long-term debt, net of current portion	30,586	38,140

1) From 2006 the interest rate changes to consumer price index in the Czech Republic plus 4.2%.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Company. For the fair values of interest rate hedging instruments see Note 15.

The future maturities of long-term debt are as follows (in CZK millions):

	2005	2004
Current portion	7,888	3,439
Between 1 and 2 years	6,928	8,035
Between 2 and 3 years	3,680	6,162
Between 3 and 4 years	4,076	3,684
Between 4 and 5 years	469	3,806
Thereafter	15,433	16,453
Total long-term debt	38,474	41,579

The following table analyses the long-term debt at December 31, 2005 and 2004 by currency (in millions):

	2005		2004	
	Foreign currency	CZK	Foreign currency	CZK
EUR	633	18,440	643	19,655
USD	350	8,660	405	9,058
CZK	-	11,374	-	12,866
Total long-term debt		38,474		41,579

In the normal course of business, the financial position of the Group is routinely subjected to a variety of risks, including market risk associated with interest rate movements and with currency rate movements on non-Czech crown denominated liabilities. The Group regularly assesses these risks and has established policies and business practices to partially protect against the adverse effects of these and other potential exposures.

As currency rate movements expose the Group to significant risk, the Group uses sensitivity analyses to determine the impacts that market risk exposures may have on the fair values of the Group's financial instruments. To perform sensitivity analyses, the Group assesses the risk of loss in fair values from the impact of hypothetical changes in foreign currency exchange rates and interest rates on market sensitive instruments and considers the expected costs and benefits of various hedging techniques. The Group will continue to explore cost-effective possibilities to reduce its current exchange rate movement and other market risks.

The Group has entered into a number of derivatives transactions, mainly cross-currency swaps, to hedge its long-term debt denominated in foreign currencies against the currency risk and interest rate risk. These hedges are classified as either fair value hedges or cash flow hedges (see Note 15). As at December 31, 2005 and 2004 a net unrealized loss of CZK 94 million and CZK 70 million, respectively, is included in equity in respect of the cash flow hedges.

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2005 and 2004 without considering interest rate hedging (in CZK millions):

	2005	2004
Floating rate long-term debt		
with interest rate fixed for 1 month	955	1,152
with interest rate fixed from 1 to 3 months	3,907	4,584
with interest rate fixed from 3 months to 1 year	995	1,242
with interest rate fixed for more than 1 year	2,495	2,494
Total floating rate long-term debt	8,352	9,472
Fixed rate long-term debt	30,122	32,107
Total long-term debt	38,474	41,579

In addition to the hedging of long-term debt against the currency and interest rate risks, the Company also enters into cash flow hedges of future revenues in EUR from sale of electricity and emission rights. The hedging instrument is the liability from the 3rd issue of Eurobonds in the total amount of EUR 400 million. The exchange rate differences on the hedging instrument were reported directly in equity in total amount of CZK 314 million in 2005.

In 1992 the Company has entered into a loan agreement with the International Bank for Reconstruction and Development. The agreement contains financial covenants relating to capital expenditure coverage, cash flow coverage and debt service coverage. In 2005 and 2004 the Company has complied with all required covenants.

15. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Investments

The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices. For equity instruments for which there are no quoted market prices and which are carried at cost, the carrying amount approximates the fair value of such investments.

Receivables and Payables

The carrying amount of receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

Short-term loans

The carrying amount approximates fair value because of the short period to maturity of those instruments.

Long-term debt

The fair value of long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values.

Derivatives

The fair value of derivatives is based upon mark to market valuations.

Carrying amounts and the estimated fair values of financial instruments at December 31, 2005 and 2004 are as follows (in CZK millions):

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets:				
Investments	13,811	13,811	26,426	26,426
Receivables	14,792	14,792	9,189	9,189
Cash and cash equivalents	16,791	16,791	8,942	8,942
Liabilities:				
Long-term debt	(38,474)	(40,085)	(41,579)	(43,798)
Short-term loans	(265)	(265)	(240)	(240)
Accounts payable	(12,032)	(12,032)	(8,412)	(8,412)
Derivatives:				
Cash flow hedges				
Receivables	-	-	-	-
Payables	(787)	(787)	(1,265)	(1,265)
Total cash flow hedges	(787)	(787)	(1,265)	(1,265)
Fair value hedges				
Receivables	25	25	21	21
Payables	(2,045)	(2,045)	(1,900)	(1,900)
Total fair value hedges	(2,020)	(2,020)	(1,879)	(1,879)
Electricity trading contracts				
Receivables	771	771	-	-
Payables	(576)	(576)	-	-
Total electricity trading contracts	195	195	-	-
Other derivatives				
Receivables	160	160	138	138
Payables	(803)	(803)	(1,010)	(1,010)
Total other derivatives	(643)	(643)	(872)	(872)

16. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

ČEZ, a. s. operates two nuclear power plants, Dukovany and Temelín. Nuclear power plant Dukovany consists of four 440 MW units which were put into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1,000 MW units, which have started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act ("Act"), which defines certain obligations for the decontamination and dismantling ("decommissioning") of a nuclear facilities and the disposal of radioactive waste and spent fuel ("disposal"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. An updated 2003 Dukovany estimate and a 2004 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 15.6 billion and CZK 13.7 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds are shown in the balance sheet under other non-current financial assets (see Note 4).

Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority ("RAWRA") as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a “nuclear account” funded by the originators of radioactive waste (such as the Company). Contribution to the nuclear account was stated by a government resolution in 1997, at 50 CZK per MWh produced at nuclear power plants. In 2005 and 2004, respectively, the payments to the nuclear account amounted to CZK 1,236 million and CZK 1,316 million, respectively. The originator of radioactive waste directly covers all costs associated with interim storage of radioactive waste and spent fuel. Actual costs incurred are charged against the accumulated provision for interim storage of spent nuclear fuel.

The Group has established provisions as described in Note 2.22, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2005 and 2004 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommis-sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2003	8,170	3,131	16,863	28,164
Movements during 2004:				
Discount accretion	202	78	422	702
Effect of inflation	363	141	759	1,263
Provision charged to income statement	-	203	-	203
Effect of change in estimate credited to income statement (Note 2.22)	-	(44)	-	(44)
Effect of change in estimate added to fixed assets (Note 2.22)	359	-	177	536
Current cash expenditures	-	(67)	(1,316)	(1,383)
Balance at December 31, 2004	9,094	3,442	16,905	29,441
Movements during 2005:				
Discount accretion	227	86	423	736
Effect of inflation	409	155	760	1,324
Provision charged to income statement	-	672	-	672
Effect of change in estimate charged to income statement (Note 2.22)	-	50	-	50
Effect of change in estimate added to (deducted from) fixed assets (Note 2.22)	(8)	-	5,121	5,113
Current cash expenditures	-	(231)	(1,236)	(1,467)
Balance at December 31, 2005	9,722	4,174	21,973	35,869

The current cash expenditures for the long-term storage of spent nuclear fuel represent payments to the state controlled nuclear account and the expenditures for interim storage represent mainly the purchase of interim fuel storage containers. In 2005 the effect of change in estimate added to fixed assets relates mainly to the change in the nominal discount rate from 7% to 4.5%.

The actual decommissioning and spent fuel storage costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased costs of labor, materials, and equipment and/or the actual time required to complete all decommissioning, disposal and storage activities.

17. Other Long-term Liabilities

Other long-term liabilities at December 31, 2005 and 2004 are as follows (in CZK millions):

	2005	2004
Provision for decommissioning and reclamation of mines and mining damages	7,203	8,769
Other long-term provisions	736	907
Deferred connection fees	6,344	5,006
Other	691	186
Total	14,974	14,868

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ (see Note 7). Severočeské doly a.s. operates an open pit coal mine and are responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. These provisions have been calculated using the best estimates of the expenditures required to settle the present obligation at the balance sheet date. The current cost estimates for the decommissioning and reclamation provision have been discounted using estimated real rate of interest of 2.5%.

The following is a summary of the provisions for the years ended December 31, 2005 and 2004 (in CZK millions):

	Mine reclama-tion	Mining damages	Total
Balance at December 31, 2003	7,307	456	7,763
Movements during 2004:			
Discount accretion	175	-	175
Effect of inflation	245	-	245
Provision charged to income statement	302	925	1,227
Effect of change in estimate deducted from fixed assets	(164)	-	(164)
Current cash expenditures	(312)	(165)	(477)
Balance at December 31, 2004	7,553	1,216	8,769
Movements during 2005:			
Discount accretion	148	-	148
Effect of inflation	207	-	207
Provision charged to income statement	30	519	549
Effect of change in estimate credited to income statement	(25)	-	(25)
Effect of change in estimate deducted from fixed assets	(1,615)	-	(1,615)
Current cash expenditures	(215)	(615)	(830)
Balance at December 31, 2005	6,083	1,120	7,203

18. Short-term Loans

Short-term loans at December 31, 2005 and 2004 are as follows (in CZK millions):

	2005	2004
Short-term bank loans	83	129
Bank overdrafts	182	107
Other short-term notes payable	-	4
Total	265	240

Interest on short-term loans is variable. The weighted average interest rate was 2.7% at December 31, 2005 and 3.2% at December 31, 2004. For the years 2005 and 2004 the weighted average interest rate was 2.8% and 4.6%, respectively.

19. Finance Leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows (in CZK millions):

	2005	2004
Within one year	76	60
After one year but not more than five years	26	27
More than five years	5	-
Total minimum lease payments	107	87
Future finance charges on finance leases	(6)	(9)
Present value of finance lease liabilities	101	78

20. Trade and Other Payables

Trade and other payables at December 31, 2005 and 2004 are as follows (in CZK millions):

	2005	2004
Advances received from retail customers	12,118	12,374
Unbilled electricity supplied to retail customers	(11,857)	(11,105)
Received advances from retail customers, net	261	1,269
Trade payables	10,015	5,848
Derivatives	4,211	4,175
Other payables	1,756	1,295
Total	16,243	12,587

The information about payables to related parties is included in Note 27.

21. Accrued Liabilities

Accrued liabilities at December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Provisions	1,924	1,426
Accrued interest	914	928
Taxes and fees, except income tax	1,070	1,059
Unbilled goods and services	2,223	1,024
Contingent liabilities from acquisitions	846	-
Social and bonus funds	326	358
Deferred income	607	463
Total	7,910	5,258

Provisions represent provisions for environmental claims, restructuring and legal cases and are based on the best estimate of the cost needed to settle the related obligations.

22. Sales of Electricity

The composition of sales of electricity for the year ended December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Sales to distribution companies	16,790	13,541
Sales to end customer through distribution grid	71,973	52,927
Sales to traders	7,577	5,172
Exports of electricity including trade outside the country of CEZ Group member	8,257	10,309
Other sales of electricity	5,650	4,943
Sales of ancillary and other services	6,278	5,291
Change in fair value of derivatives – sale of electricity	(576)	-
Total	115,949	92,183

The change in fair value of derivatives represents losses from revaluation of electricity sales contracts held for trading. The Group expects net settlement of these contracts either in cash or through other market mechanisms, such as through entering into an offsetting contract. The electricity contracts held for trading meet the definition of derivative and are measured at fair value with changes of fair value reported in income. The changes in fair value of electricity purchase contracts held for trading are included in item Purchased power and related services in the statement of income and in 2005 the gains on these contracts amounted to CZK 771 millions.

23. Salaries and Wages

Salaries and wages for the year ended December 31, 2005 and 2004 were as follows (in CZK millions):

	2005		2004	
	Total	Key management personnel [1]	Total	Key management personnel [1]
Salaries	8,788	112	7,762	80
Remuneration of the board members	106	26	88	25
Share options	296	296	148	148
Social and health security	3,306	39	2,710	28
Other personal expenses	930	15	660	39
Total	13,426	488	11,368	320

[1] Key management personnel represent members of Supervisory Board, Board of Directors and members of Executive Meeting (8 members) in 2004 and members of Executive Committee (17 members) in 2005, respectively. Members of Board of Directors are also members of Executive Meeting and Executive Committee.

Share options

At December 31, 2005 the aggregate number of share options granted to members of Board of Directors, Executive Committee (advisory body of Chief Executive Officer) and to Supervisory Board members was 3,325 thousand. The options granted to members of Board of Directors and Supervisory Board do not have any vesting period and can be exercised during the terms of office of the respective Board members and in further 3 months after the end of such period. Share options granted to the members of Executive Committee vest one year after the grant date and the number of options, which can be exercised during the first year of effectiveness of the agreement, is limited. The exercise price for the granted options was usually based on the average quoted market price on the Prague stock exchange in the six-month period preceding the date of the grant. In 2005 and 2004 the Company has recognized compensation expense of CZK 296 million and CZK 148 million related to the granted options. The Company has settled all options exercised using treasury shares. The gain or loss on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2005 and 2004 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options				Weighted average exercise price (CZK per share)
	Supervisory Board 000s	Board of Directors 000s	Other 000s	Total 000s	
Share options at December 31, 2003	2,750	500	-	3,250	100.95
Options granted	150	1,650	-	1,800	152.84
Options exercised [1]	(2,290)	(800)	-	(3,090)	107.26
Options forfeited	(150)	-	-	(150)	105.78
Share options at December 31, 2004	460	1,350	-	1,810	141.38
Options granted	600	400	1,050	2,050	235.59
Options exercised [1]	(310)	-	-	(310)	147.99
Options forfeited	(150)	-	(75)	(225)	146.96
Share options at December 31, 2005	600	1,750	975	3,325	198.47

[1] In 2005 and 2004 the weighted average share price at the date of the exercise for the options exercised was CZK 430.71 and CZK 186.69 respectively.

The fair value of the options is estimated on the date of grant using the binomial option-pricing model. Because these stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock options.

At the grant dates, the underlying assumptions and the resulting fair values per option were as follows:

	2005
Weighted average assumptions:	
Dividend yield	3.0%
Expected volatility	29.6%
Mid-term risk-free interest rate	2.8%
Expected life (years)	2.1
Share price (CZK per share)	399.4
Weighted average grant-date fair value of options (CZK per 1 option)	174.7

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

On December 31, 2005 and 2004 the exercise prices of outstanding options were in the range from CZK 101.9 to CZK 651.7 and from CZK 101.9 to CZK 185.6 per share, respectively. The options granted to the members of Board of Directors and Supervisory Board, which were outstanding on December 31, 2005 and 2004, respectively, had an average remaining contractual life of 2.3 years and 3.2 years, respectively. The options granted to members of the Executive Committee can be exercised in a period ending 3 months after the end of the membership in the Executive Committee, which is not set for a definite period of time.

24. Other Operating Expenses

Other operating expenses (income), net, for the year ended December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Services	7,418	6,208
Travel expenses	240	211
Loss (gain) on sale of property, plant and equipment	(77)	(650)
Loss (gain) on sale of material	(174)	20
Capitalization of expenses to the cost of fixed assets and change in own inventory	(1,650)	(1,656)
Fines, penalties and penalty interest, net	(49)	(118)
Change in provisions and valuation allowances	305	(918)
Taxes and fees	607	543
Write-off of bad debts and cancelled investment	410	277
Gifts	280	278
Other, net	541	2,159
Total	7,851	6,354

25. Income Taxes

Companies with seat in the Czech Republic calculated corporate income tax in accordance with the Czech tax regulations at the rate of 26% and 28% in 2005 and 2004, respectively. The Czech corporate income tax rate for 2006 will be 24%. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have potentially effect on reported income.

The components of the income tax provision are as follows (in CZK millions):

	2005	2004
Current income tax charge	4,009	2,874
Adjustments in respect of current income tax of previous periods	(186)	154
Deferred income taxes	1,201	1,205
Total	5,024	4,233

The differences between income tax expense computed at statutory rate and income tax expense provided on earnings are as follows (in CZK millions):

	2005	2004
Income before income taxes	27,306	18,501
Statutory income tax rate in Czech Republic	26%	28%
"Expected" income tax expense	7,099	5,180
Add (deduct) tax effect of:		
Change in tax rates	(1,731)	(1,042)
Czech/IFRS accounting differences	107	32
Non-deductible provisions, net	56	(158)
Investment tax relief	(7)	(65)
Negative goodwill write-off	(275)	-
Other non-deductible (non taxable) items, net	279	138
Tax credits	(54)	(6)
Adjustments in respect of current income tax of previous periods	(186)	154
Effect of different tax rate in other countries	(264)	-
Income taxes	5,024	4,233
Effective tax rate	18%	23%

Deferred Income Taxes, Net

Deferred income taxes, net, at December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Accumulated provision for nuclear decommissioning and spent fuel storage	7,391	5,925
Financial statement depreciation in excess of tax depreciation	41	14
Revaluation of financial instruments	-	12
Allowances	515	379
Other provisions	1,238	1,791
Tax loss carry forwards	146	110
Other temporary differences	92	69
Total deferred tax assets	9,423	8,300
Tax depreciation in excess of financial statement depreciation	25,908	21,576
Revaluation of financial instruments	62	-
Other provisions	1,413	1,438
Penalty receivables	11	46
Investment in associate	36	92
Other temporary differences	24	38
Total deferred tax liability	27,454	23,190
Total deferred tax liability, net	18,031	14,890

In 2005 the Group charged CZK 53 million of deferred tax directly to equity.

At December 31, 2005 and 2004 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 2,339 million and CZK 531 million, respectively.

26. Other Expenses (Income), Net

Other expenses (income), net, for the year ended December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Derivative losses (gains), net	(169)	1,630
Gains from sales of financial investments	(7)	(557)
Change in impairment of financial investments	4	(342)
Other, net	(171)	(487)
Total	(343)	244

27. Related Parties

The Group purchases products from related parties in the ordinary course of business.
At December 31, 2005 and 2004, the receivables from related parties and payables to related parties are as follows (in CZK millions):

	Receivables		Payables	
	2005	2004	2005	2004
Associates and other affiliates:				
AHV, s.r.o.	-	-	-	-
AZ Elektrostav, a.s.	21	3	1	2
Coal Energy, a.s.	432	347	-	-
Elektrovod Holding, a.s.	1	7	25	7
ELTRAF, a.s.	2	8	1	-
Energetická montážní společnost Česká Lípa s.r.o.	7	1	1	7
Energetická montážní společnost Ústí nad Labem s.r.o.	10	2	1	3
KNAUF POČERADY, spol. s r.o.	8	6	-	-
KOTOUČ ŠTRAMBERK, spol. s r.o.	8	3	10	9
LOMY MOŘINA spol. s r.o.	1	-	11	11
OSC, a.s.	-	-	22	21
Plzeňská energetika a.s.	34	-	38	12
PRODECO, a.s.	1	7	13	24
SEG s.r.o.	6	5	12	6
SHD - KOMES a.s.	-	-	43	44
SIGMA - ENERGO s.r.o.	-	-	11	10
Others	28	38	40	66
Total associates and other affiliates	559	427	229	222
Companies under the control of Company's majority owner:				
ALIACHEM a.s. [2)]	-	1	-	4
ČEPS, a.s.	271	247	233	123
Česká pošta s.p.	1	1	28	7
České dráhy, a.s.	242	104	171	171
CHEMOPETROL, a.s. [2)]	-	-	-	-
ČESKÝ TELECOM, a.s. [3)]	3	12	-	7
Eurotel Praha, spol. s r.o. [3)]	-	1	-	11
SPOLANA a.s. [2)]	-	5	-	1
Others	-	7	2	(1)
Total companies under the control of Company's majority owner	517	378	434	323
Total	1,076	805	663	545

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (in CZK millions):

	Sales to related parties [1]		Purchases from related parties [1]	
	2005	2004	2005	2004
Associates and other affiliates:				
AHV, s.r.o.	-	73	-	-
AZ Elektrostav, a.s.	71	1	173	164
Coal Energy, a.s.	6,392	6,069	1,041	4
Elektrovod Holding, a.s.	2	3	84	10
ELTRAF, a.s.	1	3	83	62
Energetická montážní společnost Česká Lípa s.r.o.	9	-	127	102
Energetická montážní společnost Ústí nad Labem s.r.o.	21	-	82	60
KNAUF POČERADY, spol. s r.o.	70	72	-	-
KOTOUČ ŠTRAMBERK, spol. s r.o.	53	39	91	112
LOMY MOŘINA spol. s r.o.	12	10	130	132
OSC, a.s.	-	1	75	99
Plzeňská energetika a.s.	11	5	450	414
PRODECO, a.s.	18	31	457	199
SEG s.r.o.	49	22	181	109
SHD - KOMES a.s.	4	9	570	530
SIGMA - ENERGO s.r.o.	2	2	59	64
Others	144	202	415	497
Total associates and other affiliates	6,859	6,542	4,018	2,558
Companies under the control of Company's majority owner:				
ALIACHEM a.s. [2]	4	8	85	97
ČEPS, a.s.	8,264	7,392	7,000	8,518
Česká pošta s.p.	69	61	216	152
České dráhy, a.s.	1,843	1,853	1,766	1,829
CHEMOPETROL, a.s. [2]	219	151	36	97
ČESKÝ TELECOM, a.s. [3]	57	51	30	66
Eurotel Praha, spol. s r.o. [3]	-	113	9	23
SPOLANA a.s. [2]	249	522	24	27
Others	25	77	25	1
Total companies under the control of Company's majority owner	10,730	10,228	9,191	10,810
Total	17,589	16,770	13,209	13,368

[1] The information summarized in this table is based on turnovers on accounts receivable and payable and includes value added tax.
[2] Related party till May 2005.
[3] Related party till June 2005.

During 2005 and 2004 the majority owner of the Company was the Czech Republic National Property Fund. In December 2005 the Company purchased a 55.8% share in Severočeské doly a.s. from the Czech Republic National Property Fund (see Note 7).

In 2004 the Company sold its remaining 34% share in ČEPS, a.s. to Ministry of Finance (see Notes 29).

Information about compensation of key management personnel is included in Note 23.

28. Segment Information

The accounting policies of the segments are the same as those described in Note 2. The Group accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices or where the regulation applies at regulated prices. The Group evaluates the performance of its segments and allocates resources to them based on operating income.

Following the sale of the remaining shares in ČEPS, a.s. in 2004 (see Note 29) the Group does not have any electricity transmission activities and therefore the Group discontinued reporting of the transmission segment.

The following table summarizes segment information for the years ended December 31, 2005 and 2004, respectively (in CZK millions):

Year 2005:

	Power Production and Trading	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	47,376	72,906	2,738	2,063	125,083	-	125,083
Intersegment sales	22,872	2,481	5,260	6,591	37,204	(37,204)	-
Total revenues	70,248	75,387	7,998	8,654	162,287	(37,204)	125,083
Operating income	19,734	6,029	2,660	511	28,934	469	29,403
Identifiable assets	177,103	67,497	9,902	4,162	258,664	426	259,090
Goodwill	-	2,022	3	15	2,040	-	2,040
Investment in associate	460	-	287	181	928	-	928
Unallocated assets							62,151
Total assets							324,209
Identifiable liabilities	87,404	19,593	8,311	4,058	119,366	(5,001)	114,365
Unallocated liabilities							18,555
Total liabilities							132,920
Income from associate	73	-	14	15	102	-	102
Depreciation and amortization	13,908	5,229	947	1,090	21,174	(451)	20,723
Change in provisions and allowances	694	503	(482)	(122)	593	(34)	559
Negative goodwill write-off	-	1,675	-	29	1,704	-	1,704
Capital expenditure	5,751	5,866	1,241	2,064	14,922	(64)	14,858

Year 2004:

	Power Produc-tion and Trading	Trans-mission	Distribu-tion and Sale	Mining	Other	Combi-ned	Elimina-tion	Consoli-dated
Sales other than intersegment sales	42,241	-	54,152	3,092	3,185	102,670	-	102,670
Intersegment sales	22,326	-	3,691	4,805	4,312	35,134	(35,134)	-
Total revenues	64,567	-	57,843	7,897	7,497	137,804	(35,134)	102,670
Operating income	13,096	-	5,971	613	419	20,099	(314)	19,785
Identifiable assets	180,427	-	43,759	11,274	3,924	239,384	(188)	239,196
Goodwill	-	-	759	-	-	759	-	759
Investment in associate	428	-	-	647	936	2,011	-	2,011
Unallocated assets								57,284
Total assets								299,250
Identifiable liabilities	81,610	-	13,031	9,936	5,508	110,085	(4,884)	105,201
Unallocated liabilities								15,602
Total liabilities								120,803
Income (share of loss) from associate	70	780	-	21	(149)	722	-	722
Depreciation and amortization	13,971	-	4,004	1,343	501	19,819	23	19,842
Change in provisions and allowances	(216)	-	(1,012)	561	(48)	(715)	-	(715)
Negative goodwill write-off	-	-	-	-	-	-	-	-
Capital expenditure	5,615	-	4,940	1,299	2,992	14,846	(1,655)	13,191

Prices in certain intersegment transactions are regulated by the Energy Regulatory Office (see Note 1).

29. Sale of ČEPS, a.s.

On March 11, 2002 the Government decided to purchase from ČEZ a 66% share in its transmission subsidiary ČEPS. General meeting of ČEZ's shareholders held on June 11, 2002, has confirmed the above mentioned decision of the Government. The purchase of ČEPS shares was made by OSINEK, a.s., a company controlled by the Czech Republic National Property Fund, and the Ministry of Labor and Social Affairs. This transaction was carried out on April 1, 2003. Based on the decision of Economic Competition Protection Authority ČEZ has also sold its remaining equity share in ČEPS in September 2004.

Based on the fact that the transaction was carried out between parties under common control of ČEZ's ultimate parent, ČEZ has recorded the net result from the sale directly to equity. The composition of the amount recorded in equity in 2004 is as follows (in CZK millions):

	2004
% of shares sold	34%
Total selling price	7,087
Book value of shares sold	(3,703)
Current income tax related to the sale	(1,721)
Deferred tax related to the sale	773
Effect of sale recognized in equity	2,436

The reconciliation of the proceeds from disposal of a subsidiary as presented in the cash flow statement in 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Total selling price	-	7,087
Cash disposed of	-	-
Change in receivables from the sale of ČEPS	1,416	(7,087)
Proceeds from sale of other associates and subsidiaries	857	-
Total proceeds from disposal of associates and subsidiaries, net of cash disposed of	2,273	-

In 2004 the operations of ČEPS were reported in the transmission segment (see Note 28).

30. Net Income per Share

	2005	2004
Numerator (CZK millions)		
Basic and diluted:		
Net income attributable to equity holders of the parent	21,438	13,213
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	590,426	592,075
Dilutive effect of treasury shares	1,785	136
Diluted:		
Adjusted weighted average shares	592,211	592,211
Net income per share (CZK per share)		
Basic	36.3	22.3
Diluted	36.2	22.3

31. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2005 to total CZK 155.9 billion over the next five years, as follows: CZK 28.2 billion in 2006, CZK 29.5 billion in 2007, CZK 32.1 billion in 2008, CZK 32.8 billion in 2009 and CZK 33.3 billion in 2010. These figures do not include the expected acquisitions of subsidiaries and associates, which will depend on the number of future investment opportunities, for which the Group will be successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2005 significant purchase commitments were outstanding in connection with the construction program.

The Group currently projects that its planned construction expenditures will be funded mainly with cash provided by operating activities.

Environmental Matters

The Czech Republic has adopted series of environmental acts and laws and regulations ("the Acts") including a timetable for the reduction of atmospheric emissions. As of December 31, 1998, all plants operated by the Company had been upgraded to meet the environmental requirements of the Acts.

The Company is also liable under the Acts for past environmental damage. In 2005 and 2004, payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled CZK 3 million and CZK 4 million, respectively. Based on current estimates of its probable future obligations, the Company provided CZK 43 million in 2005 and CZK 40 million in 2004, respectively, for pollution damages and reversed CZK 3 million in 2005 and CZK 40 million in 2004, respectively. Although uncertainties exist due to interpretations of applicable laws, management does not believe, based upon the information available at this time, that the ultimate outcome of these matters will have a material adverse effect on the Company's financial position or results of operations.

Insurance Matters

The Nuclear Act (see Note 16) sets limits for liabilities for nuclear damages by the operator of nuclear installations/licenses. The Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 6 billion per incident. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 1.5 billion. The Nuclear Act also requires an operator/licensee to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 1.5 billion and up to a minimum of CZK 200 million for other activities (such as transportation). ČEZ has obtained all insurance policies with minimal limits as required by the law. ČEZ concluded about mentioned insurance policies with Czech nuclear pool, a group of insurance companies.

ČEZ has renewed insurance policies covering the assets of its fossil, hydro and nuclear power plants, insurance policies covering non-technological equipment, general third party liability insurance in connection with main operations of the Company and car insurance.

ČEZ and the Group companies have insurance policies covering directors and officers liability. ČEZ also controls other property and liability insurance policies of the Group companies.

32. Events After the Balance Sheet Date

Based on Act no. 178/2005 from April 28, 2005 the activities of the Czech Republic National Property Fund, which was the majority shareholder of the Company, were terminated as of December 31, 2005. All assets and activities of the dissolved Czech Republic National Property Fund have been transferred to Ministry of Finance of the Czech Republic.

CONSOLIDATED FINANCIAL INFORMATION AND AUDITORS' REPORT 2003, 2004

This section includes audited consolidated financial statements of ČEZ for 2004 and the auditors' report and notes, including the audited consolidated financial information for 2003. **Please note that the financial results for 2004 presented in 2004/2003 financial statements have not been restated.**

ČEZ, A. S., AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2004 AND 2003

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and the Supervisory Board of ČEZ, a. s.:

We have audited the accompanying consolidated balance sheet of the ČEZ Group ("the Group") as of December 31, 2004 and 2003 and the related consolidated statements of income, shareholders' equity, cash flows and the related notes for each of the three years in the period ended December 31, 2004, which were prepared in accordance with International Financial Reporting Standards. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements as of December 31, 2003, of Středočeská energetická a.s., Severočeská energetika, a.s., Severomoravská energetika, a. s., and certain other companies of the ČEZ Group, which statements reflect 7% of total consolidated assets as of December 31, 2003, and 33% of total consolidated operating revenues for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the companies not audited by us, is based solely on the reports of the other auditors.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with International Financial Reporting Standards.

Ernst & Young ČR, s.r.o.

April 8, 2005
Prague, Czech Republic

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 and 2003

in CZK Millions

	2004	2003
Assets		
Property, plant and equipment:		
Plant in service	374,731	366,594
Less accumulated provision for depreciation	165,878	149,776
Net plant in service (Note 3)	208,853	216,818
Nuclear fuel, at amortized cost	7,956	9,574
Construction work in progress	10,626	10,204
Total property, plant and equipment	227,435	236,596
Other non-current assets:		
Investment in associates	7,474	10,999
Investments and other financial assets, net (Note4)	19,690	8,642
Intangible assets, net (Note 5)	3,294	1,997
Deferred tax assets (Note 21)	189	288
Total other non-current assets	30,647	21,926
Total non-current assets	258,082	258,522
Current assets:		
Cash and cash equivalents (Note 8)	7,545	4,014
Receivables, net (Note 9)	8,904	7,064
Income tax receivable	26	103
Materials and supplies, net	3,184	3,242
Fossil fuel stocks	739	979
Other current assets (Note 10)	2,335	4,299
Total current assets	22,733	19,701
Total assets	280,815	278,223

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 and 2003

continued

	2004	2003
Shareholders' equity and liabilities		
Shareholders' equity:		
Stated capital	59,218	59,152
Retained earnings and other reserves	104,471	93,472
Total shareholders' equity (Note 11)	163,689	152,624
Minority interest	5,282	7,893
Long-term liabilities:		
Long-term debt, net of current portion (Note 12)	38,190	30,965
Accumulated provision for nuclear decommissioning and fuel storage (Note 14)	29,441	28,164
Other long-term liabilities	5,192	5,206
Total long-term liabilities	72,823	64,335
Deferred tax liability (Note 21)	16,008	15,863
Current liabilities:		
Short-term loans (Note 15)	240	2,320
Current portion of long-term debt (Note 12)	3,439	5,691
Trade and other payables (Note 17)	12,409	20,579
Income taxes payable	1,021	3,203
Accrued liabilities (Note 18)	5,904	5,715
Total current liabilities	23,013	37,508
Total shareholders' equity and liabilities	280,815	278,223

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002

in CZK Millions

	2004	2003	2002
Revenues:			
Sales of electricity (Note 19)	92,748	79,548	52,938
Heat sales and other revenues	7,417	5,268	2,640
Total revenues	100,165	84,816	55,578
Operating expenses:			
Fuel	14,370	14,307	12,894
Purchased power and related services	26,511	21,100	7,328
Repairs and maintenance	4,420	4,226	3,847
Depreciation and amortization	18,384	16,961	11,721
Salaries and wages	9,644	7,994	3,854
Materials and supplies	3,769	3,670	1,838
Other operating expenses (Note 20)	3,912	3,554	2,873
Total expenses	81,010	71,812	44,355
Income before other expenses (income) and income taxes	19,155	13,004	11,223
Other expenses (income):			
Interest on debt, net of capitalized interest (Note 2.9)	1,864	1,714	582
Interest on nuclear provisions (Note 2.23 and 14)	1,965	1,680	1,532
Interest income	(329)	(319)	(149)
Foreign exchange rate losses (gains), net	(1,766)	(1,915)	(3,340)
Other expenses (income), net (Note 22)	227	2,170	1,299
Income from associates (Note 2.3)	(734)	(1,063)	(497)
Total other expenses (income)	1,227	2,267	(573)
Income before income taxes	17,928	10,737	11,796
Income taxes (Note 21)	3,845	1,349	3,375
Income after income taxes	14,083	9,388	8,421
Minority interest	1,024	519	-
Net income	13,059	8,869	8,421
Net income per share (CZK per share) (Note 26)			
Basic	22.1	15.0	14.3
Diluted	22.1	15.0	14.2
Average number of shares outstanding (000s) (Notes 11 and 26)			
Basic	592,075	590,772	590,363
Diluted	592,211	592,211	592,150

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002

in CZK Millions

	Number of Shares (in thousand)	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total Equity
December 31, 2001	590,138	59,050	-	-	77,676	136,726
Additional paid-in capital	123	12	-	-	-	12
Net income	-	-	-	-	8,421	8,421
Acquisition of treasury shares	(1,950)	(181)	-	-	-	(181)
Sale of treasury shares	1,965	160	-	-	17	177
Dividends declared	-	-	-	-	(1,480)	(1,480)
December 31, 2002 as previously reported	590,276	59,041	-	-	84,634	143,675
Change in accounting policy – effect of change in group structure (Note 2.4)	-	-	-	-	609	609
January 1, 2003, as restated	590,276	59,041	-	-	85,243	144,284
Net income	-	-	-	-	8,869	8,869
Change in fair value of available-for-sale financial assets recognized in equity	-	-	-	(101)	-	(101)
Gain on sale of subsidiary ČEPS, net of tax (Note 25)	-	-	-	-	7,162	7,162
Effect of acquisition of REAS on equity (Note 6)	-	-	-	-	(5,023)	(5,023)
Sale of treasury shares	1,190	111	-	-	(5)	106
Dividends declared	-	-	-	-	(2,657)	(2,657)
Returned dividends on treasury shares	-	-	-	-	4	4
Share options	-	-	-	21	-	21
Share on equity movements of associates	-	-	-	-	(25)	(25)
Other movements	-	-	1	(1)	(16)	(16)
December 31, 2003	591,466	59,152	1	(81)	93,552	152,624
Net income	-	-	-	-	13,059	13,059
Change in fair value of available-for-sale financial assets recognized in equity	-	-	-	55	-	55
Change in fair value of cash flow hedges recognized in equity	-	-	-	(690)	-	(690)
Cash flow hedges removed from equity	-	-	-	621	-	621
Gain on sale of subsidiary CEPS, net of tax (Note 25)	-	-	-	-	2,436	2,436
Effect of acquisition of ŠKODA PRAHA on equity (Note 6)	-	-	-	-	331	331
Acquisition of treasury shares	(2,355)	(488)	-	-	-	(488)
Sale of treasury shares	3,090	554	-	-	(223)	331
Dividends declared	-	-	-	-	(4,738)	(4,738)
Share options	-	-	-	130	-	130
Share on equity movements of associates	-	-	-	-	34	34
Other movements	-	-	(3)	-	(13)	(16)
December 31, 2004	592,201	59,218	(2)	35	104,438	163,689

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002

in CZK Millions

	2004	2003	2002
Operating activities:			
Income before income taxes	17,928	10,737	11,796
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation, amortization and asset write-offs	18,522	16,969	11,735
Amortization of nuclear fuel	3,391	3,484	2,071
(Gain) loss on fixed asset retirements, net	(1,137)	(384)	(363)
Foreign exchange rate loss (gain), net	(1,766)	(1,915)	(3,340)
Interest expense, interest income and dividend income, net	1,308	1,054	356
Provision for nuclear decommissioning and fuel storage	538	228	641
Provisions for doubtful accounts, environmental claims and other adjustments	(1,251)	1,602	(53)
Income from associates	(734)	(1,063)	(497)
Changes in assets and liabilities:			
Receivables	2,387	1,137	(282)
Materials and supplies	285	(152)	44
Fossil fuel stocks	240	(343)	39
Other current assets	1,997	1,903	334
Trade and other payables	(1,836)	2,142	353
Accrued liabilities	521	1,103	(363)
Cash generated from operations	40,393	36,502	22,471
Income taxes paid	(6,425)	(44)	(3,395)
Interest paid, net of capitalized interest	(1,478)	(1,601)	(434)
Interest received	327	316	149
Dividends received	1,322	587	210
Net cash provided by operating activities	34,139	35,760	19,001
Investing activities:			
Acquisition of subsidiaries, net of cash acquired (Note 6)	(18,166)	(28,374)	-
Proceeds from disposal of a subsidiary, net of cash disposed of	-	12,208	-
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.9)	(15,783)	(23,942)	(10,419)
Proceeds from sales of fixed assets	4,760	9,585	1,078
Change in decommissioning and other restricted funds	(443)	(407)	(594)
Total cash used in investing activities	(29,632)	(30,930)	(9,935)

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 and 2002

continued

	2004	2003	2002
Financing activities:			
Proceeds from borrowings	15,004	31,284	8,446
Payments of borrowings	(10,419)	(33,736)	(13,864)
Proceeds from other long-term liabilities	96	131	-
Payments of other long-term liabilities	(373)	(66)	-
Dividends paid to Company's shareholders	(4,724)	(2,640)	(1,480)
Dividends paid to minority interests	(117)	(227)	-
Acquisition / sale of treasury shares	(156)	106	(4)
Total cash used in financing activities	(689)	(5,148)	(6,902)
Net effect of currency translation in cash	(287)	(59)	(219)
Net increase (decrease) in cash and cash equivalents	3,531	(377)	1,945
Cash and cash equivalents at beginning of period	4,014	4,225	2,280
Effect of change in group structure on opening balance of cash and cash equivalents	-	166	-
Cash and cash equivalents at beginning of period, as restated	4,014	4,391	2,280
Cash and cash equivalents at end of period	7,545	4,014	4,225

Supplementary cash flow information

	2004	2003	2002
Total cash paid for interest	2,029	2,538	2,562

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 67.6% at December 31, 2004 by the Czech Republic National Property Fund. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic. The average number of employees of the Company and its consolidated subsidiaries was 16,702, 16,093 and 7,806 for the year 2004, 2003 and 2002, respectively.

ČEZ is an electricity generation company, which produced approximately 73% of the electricity and a portion of the district heating in the Czech Republic in 2004. The Company sells majority of its electricity production to eight distribution companies ("REAS") in the Czech Republic which distribute the electricity to end customers (see Note 19). The Company operates ten fossil fuel plants, thirteen hydroelectric plants and two nuclear plants.

The company is a parent company of the ČEZ Group ("the Group"), which is primarily engaged in the business of production, distribution and sale of electricity (see Notes 2.3 and 7).

In December 2004 Czech Parliament revised The Act on Conditions of Business Activity and State Administration in the Energy Industries (the "Energy Law"). The Energy Law provides the conditions for business activities, performance of public administration and regulation in the energy sectors, including electricity, gas and heat, as well as the rights of and obligations of individuals and legal entities related thereto. The business activities in the energy sectors in the Czech Republic may only be pursued by individuals or legal entities upon the basis of government authorization in the form of licenses granted by the Energy Regulatory Office.

Responsibility for public administration in the energy sectors is exercised by the Ministry of Industry and Trade (the "Ministry"), the Energy Regulatory Office and the State Energy Inspection Board.

The Ministry, as the central public administration body for the energy sector, issues state approval to construct new energy facilities in accordance with specified conditions, develops the energy policy of the state and ensures fulfillment of obligations resulting from international treaties binding on the Czech Republic or obligations resulting from membership in international organizations.

The Energy Regulatory Office was established as the administrative office to exercise regulation in the energy sector of the Czech Republic, to support economic competition and to protect consumers' interests in sectors where competition is not possible. The Energy Regulatory Office decides on the granting of a license, imposition of the supply obligation beyond the scope of the license, imposition of the obligation to let another license holder use energy facilities in cases of emergency, to exercise the supply obligation beyond the scope of the license and price regulation based on special legal regulations. The State Energy Inspection Board is the inspection body supervising the activities in the energy sector.

Third-party access is being introduced gradually between 2002 and, at the latest, 2006 at which time all electricity customers will be able to purchase electricity from any distributor, eligible generator, or trader.

On March 11, 2002 the Government decided to sell shares in the eight REAS, which are held by the National Property Fund and Czech Consolidation Agency, to ČEZ and to purchase from ČEZ a 66% share in its transmission subsidiary ČEPS. The transaction was carried out on April 1, 2003 (see Notes 2.3, 6 and 25).

Through this transaction ČEZ has acquired a majority share in five REAS, and a minority share in three REAS. However, the Economic Competition Protection Authority has ruled that ČEZ had to sell its shares in one of the REAS in which it acquired a majority share and in three of the REAS in which it acquired a minority share. The Economic Competition Protection Authority has also decided that ČEZ should sell its remaining equity share in ČEPS. Following the decisions of the Economic Competition Protection Authority, ČEZ has sold in September 2003 its shares in two of the three REAS (Jihočeská energetika, a.s., a Jihomoravská energetika, a.s.), where ČEZ previously acquired minority shares. The shares in Pražská energetika, a.s., and ČEPS, a.s., have been sold during 2004. In March 2005 the Economic Competition Protection Authority canceled its previous decision, which required ČEZ to sell its majority share in one of the acquired REAS. This new decision is conditioned by an obligation of

ČEZ to allow access to its electricity production capacity of total 400 MW for independent subjects in the period 2006 and 2007. The price for the offered production capacity will be result of an auction.

2. Summary of Significant Accounting Policies

2.1. Basis of Accounting

The Company is required to maintain its books and records in accordance with accounting principles and practices mandated by the Czech Law on Accounting. The accompanying consolidated financial statements reflect certain adjustments and reclassifications not recorded in the accounting records of the Company in order to conform the Czech statutory balances to financial statements prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. The adjustments are summarized in Note 29.

2.2. Financial Statements

The accompanying consolidated financial statements of ČEZ are prepared in accordance with International Financial Reporting Standards (IFRS). They are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

2.3. Group Accounting

a. Group Structure

The financial statements include the accounts of ČEZ, a. s., its subsidiaries and associates, which are shown in the Note 7. Other investments are excluded from the consolidation because the impact on the consolidated financial statements would not be material. These investments are included in the balance sheet under investments and other financial assets and are stated at cost net of provision for diminution in value (see Note 4).

b. Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. In case of subsequent acquisition of a minority interest in subsidiary, which has been already controlled by the Group, the goodwill is measured as the difference between the cost of the additionally acquired shares and the book value of the minority interest acquired.

In case of acquisitions of subsidiaries from entities under common control the assets and liabilities of the acquired subsidiaries are initially included in the consolidated financial statements at their book values at the date of acquisition. The difference between the cost of acquisition and the share of the book value of net assets of the subsidiary acquired is recorded directly in equity.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

c. Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the company's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of other post-acquisition movements in equity of associates is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the company's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated impairment losses) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

2.4. Change in Accounting Principle

a. Adoption of IFRIC 1

In 2004 the Company adopted IFRIC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities ("IFRIC 1"). Following the interpretation, changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate are added to, or deducted from, the cost of the related asset in the current period (see Notes 2.23 and 14).

Prior to application of IFRIC 1 in 2004 the Group followed a different accounting policy, under which the changes in a decommissioning liability that resulted from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate were added to (or deducted from) the amount recognized as the related asset to the extent the change related to future periods. To the extent the change related to the current or prior periods, it was reported as income or expense for the current period.

IFRIC 1 has been applied retrospectively and the prior year comparative information has been restated. The effect of the retrospective adoption of IFRIC 1 has been to increase consolidated net income for the year 2003 by CZK 2,937 million with the corresponding increase in capitalized costs of nuclear provisions and the deferred tax liability. Adoption of IFRIC 1 had no effect on the presented income statement for the year 2002.

b. Change in group structure

In 2003 the Company included in the consolidated group certain companies, which previously have not been consolidated, because the impact on the consolidated financial statements was not significant. In previous periods the investments in these companies have been included in other financial assets as available for sale financial investments. The impact of consolidation of the previously unconsolidated subsidiaries and associates was recorded in 2003 directly in equity by adjusting the opening balance of retained earnings (see Note 7). Comparative information has not been restated, because it was impracticable to do so.

c. Comparatives

Certain prior year financial statement items have been reclassified to conform to the current year presentation.

d. New IFRS standards

The International Accounting Standards Board (IASB) introduced many changes to the International Financial Reporting Standards and issued new standards and interpretations during 2003 and 2004 that will be valid from January 1, 2005, or later. Therefore, it is possible that the IFRS financial statements for the year ended December 31, 2005, or later will contain comparative data for the year 2004 that will differ from the data presented in these financial statements. The Company is currently assessing the impact that new or revised standards will have on the Group accounting policies and financial data presented.

2.5. Measurement Currency

Based on the economic substance of the underlying events and circumstances relevant to the Group, the measurement currency of the Group has been determined to be the Czech crown (CZK).

2.6. Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2.7. Revenues

The Group recognizes revenue from supplies of electricity and related services based on contract terms. Differences between contracted amounts and actual supplies are settled through the market operator.

2.8. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,391 million, CZK 3,484 million and CZK 2,071 million for the years ended December 31, 2004, 2003 and 2002, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 14). Such charges amounted to CZK 203 million, CZK 113 million and CZK 82 million in 2004, 2003 and 2002, respectively.

2.9. Interest

The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the assets had not been made. Such capitalized interest costs amounted to CZK 552 million, CZK 937 million and CZK 2,128 million, which was equivalent to an interest capitalization rate of 6.5%, 7.4% and 7.5% in 2004, 2003 and 2002, respectively.

2.10. Property, Plant and Equipment

Property, plant and equipment are recorded at cost net of accumulated depreciation and valuation allowances. Cost of plant in service includes materials, labor, payroll-related costs and the cost of debt financing used during construction. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is recognized as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Government grants received for construction of certain environmental installations decrease the acquisition cost of the respective items of property, plant and equipment.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values.

Depreciation

The Group depreciates the original cost of property, plant and equipment by using the straight-line method over the estimated economic lives. The depreciable lives used for property, plant and equipment are as follows:

	Lives
Buildings and structures	25 – 50
Machinery and equipment	4 – 25
Vehicles	4 – 20
Furniture and fixtures	8 – 15

Average depreciable lives based on the functional use of property are as follows:

	Average Life
Hydro plants	
Buildings and structures	44
Machinery and equipment	16
Fossil fuel plants	
Buildings and structures	32
Machinery and equipment	14
Nuclear power plant	
Buildings and structures	32
Machinery and equipment	17
Electricity distribution grid	30

Depreciation of plant in service was CZK 17,648 million, CZK 16,319 million and CZK 11,375 million for the years ended December 31, 2004, 2003 and 2002, which was equivalent to a composite depreciation rate of 4.7%, 5.3% and 5.6%, respectively.

2.11. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization. Amortization of fuel in the reactor is based on the amount of power generated.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.23). At December 31, 2004 and 2003 capitalized costs at net book value amounted to CZK 233 million and CZK 360 million, respectively.

2.12. Intangible Assets, Net

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful life using the straight-line method. The estimated useful life of intangible assets ranges from 4 to 15 years.

2.13. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition (see Note 2.3). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.14. Investments

Investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the company, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date. Equity securities classified as available-for-sale and trading investments that do not have a quoted market price in an active market are measured at cost. The carrying amounts of such investments are reviewed at each balance sheet date for impairment.

Gains or losses on measurement to fair value of available-for-sale investments are recognized directly in the fair value reserve in shareholders equity, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.

Changes in the fair values of trading investments are included in other expense (income).

Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

2.15. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less (see Note 8). Foreign currency deposits are translated at December 31, 2004 and 2003 exchange rates, respectively.

2.16. Cash Restricted in Its Use

Restricted balances of cash shown under other non-current financial assets as restricted funds (see Note 4) relate to deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and cash guarantees given to swap transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Group.

2.17. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. At December 31, 2004 and 2003 the allowance for uncollectible receivables amounted to CZK 1,653 million and CZK 2,317 million, respectively.

Payables are recorded at invoiced values and accruals are reported at expected settlement values.

2.18. Materials and Supplies

Materials and supplies are principally composed of maintenance materials and spare parts for repairs and maintenance of tangible assets. Cost is determined by using weighted average cost, which approximates actual cost. These materials are recorded in inventory when purchased and then expensed or capitalized to plant, as appropriate, when used. The Group records a provision for obsolete inventory as such items are identified.

2.19. Fossil Fuel Stocks

Fossil fuel stocks are stated at weighted average cost, which approximates actual cost.

2.20. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognized asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a. Fair value hedge

Gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortized to the net profit and loss such that it is fully amortized by maturity.

b. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recorded to the income statement when the forecast transaction is ultimately recognized. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c. Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2.21. Income Taxes

The provision for corporate tax is calculated in accordance with Czech tax regulations and is based on the income or loss reported under Czech accounting regulations, adjusted for appropriate permanent and temporary differences from Czech taxable income. In the Czech Republic, income taxes are calculated on an individual company basis as the tax laws do not permit consolidated tax returns. Current income taxes are provided at a rate of 28%, 31% and 31% for the year ended December 31, 2004, 2003 and 2002, respectively, after adjustments for certain items which are not deductible, or taxable, for taxation purposes.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences, except goodwill for which amortization is not deductible for tax purposes. Deferred tax assets and liabilities of group companies are not offset in the balance sheet.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

2.22. Long-term Debt

Borrowings are initially recognized at the amount of the proceeds received, net of transaction costs. They are subsequently carried at amortized cost using the effective interest rate method, the difference between net proceeds and redemption value is being recognized in the net income over the life of the borrowings as interest expense.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges.

2.23. Nuclear Provisions

Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors.

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is approximately 4.5%, which is based on the current rate of interest on long-term Czech government bonds of approximately 7% and the estimated 2.5% real rate of interest.

The decommissioning process is expected to continue for approximately a sixty-year period subsequent to the final operation of the plants. Furthermore, spent nuclear fuel will be stored on a temporary basis until approximately 2065 when permanent storage facilities are planned to become available. While the Group has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates.

Since 2004, pursuant to IFRIC 1 (see Note 2.4), changes in a decommissioning liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period. If the adjustment results in an addition to the cost of an asset, the Company performs an impairment review to confirm, whether the value of the asset is fully recoverable.

2.24. Leases

a. A Group company is a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

b. A Group company is the lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized over the lease term as finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

2.25. Treasury Shares

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented in the statement of equity as a reduction to equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as an addition to equity.

2.26. Share Options

Board of directors, certain members of management of the Company and the Supervisory Board members have been granted options to purchase common shares of the Company. Employee compensation expense is measured on the date of the grant to the extent the quoted market price of the shares exceeds the exercise price of the share options.

2.27. Translation of Foreign Currencies

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss. Translation differences on available-for-sale equities are included in the revaluation reserve in equity.

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiaries are translated at weighted average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction.

The Group has used the following exchange rates for the translation of monetary items at December 31, 2004 and 2003:

	2004	2003
CZK per EUR	30.465	32.405
CZK per USD	22.365	25.654

3. Net Plant in Service

Net plant in service at December 31, 2004 and 2003 is as follows (in CZK millions):

	Buildings	Plant and Equip-ment	Land and Other	Total 2004	Total 2003
Cost - opening balance	130,406	234,623	1,565	366,594	242,338
Plant additions	4,354	6,123	15	10,492	58,991
Retirements	(1,073)	(1,812)	(74)	(2,959)	(4,081)
Acquisition of subsidiaries	333	257	14	604	83,963
Disposal of subsidiaries	-	-	-	-	(14,617)
Cost – closing balance	134,020	239,191	1,520	374,731	366,594
Accumulated deprec. and allowances - opening balance	(50,677)	(99,027)	(72)	(149,776)	(103,355)
Depreciation	(4,102)	(13,546)	-	(17,648)	(16,319)
Net book value of assets disposed	(667)	(114)	(1)	(782)	(1,309)
Retirements	1,073	1,812	-	2,885	4,036
Acquisition of subsidiaries	(91)	(244)	-	(335)	(40,821)
Disposal of subsidiaries	-	-	-	-	8,087
Impairment losses recognized	(387)	(29)	(17)	(433)	(224)
Impairment losses reversed	31	153	27	211	129
Accumulated deprec. and allowances - closing balance	(54,820)	(110,995)	(63)	(165,878)	(149,776)
Net plant in service - closing balance	79,200	128,196	1,457	208,853	216,818

At December 31, 2004 and 2003 plant and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2004	2003
Cost	15,429	14,892
Accumulated depreciation	(3,467)	(3,128)
Total net book value	11,962	11,764

The carrying value of plant and equipment held under finance lease at December 31, 2004 and 2003 is CZK 811 million and CZK 173 million, retrospectively (see Note 16).

None of the Group's plant in service is pledged as security for liabilities.

4. Investments and Other Financial Assets, Net

Investments at December 31, 2004 and 2003 consist of the following (in CZK millions):

	2004	2003
Financial assets in progress, net	8,722	116
Investments in REAS, net	-	3,401
Financial assets available for sale, net	1,992	2,146
Restricted funds for nuclear decommissioning	1,580	1,245
Other restricted funds	1,177	1,069
Long-term receivables, net	6,219	665
Total	19,690	8,642

In 2003 the investments in REAS represent a 34% share in Pražská energetika, a.s., which based on the decision of the Economic Competition Protection Authority was sold in 2004. Financial assets available for sale include also other majority and minority shareholdings in non-consolidated companies (see Note 2.3).

The financial assets in progress represent advances and other consideration paid for shares in subsidiaries and associates, for which the ownership rights have not been transferred to the Company at the year-end. At December 31, 2004, the balance includes mainly the investment in three Bulgarian distribution companies (see Note 28).

At December 31, 2004 and 2003 impairment provisions for financial assets available for sale amounted to CZK 100 million and CZK 281 million, respectively. Impairment provision for investment in REAS (Pražská energetika, a.s.) was CZK 421 million at December 31, 2003 only. At December 31, 2004 and 2003 impairment provisions for financial assets in progress amounted to CZK 77 million and CZK 615 million, respectively.

5. Intangible Assets, Net

Intangible assets at December 31, 2004 and 2003 were as follows (in CZK millions):

	Software	Rights and Other	Goodwill	Total 2004	Total 2003
Cost – opening balance	4,420	244	-	4,664	2,023
Additions	827	258	-	1,085	834
Retirements	(300)	(1)	-	(301)	(70)
Acquisition of subsidiaries	21	1	759	781	2,086
Disposal of subsidiaries	-	-	-	-	(209)
Cost – closing balance	4,968	502	759	6,229	4,664
Accumulated amortization – opening balance	(3,236)	(30)	-	(3,266)	(1,212)
Amortization charge for the year	(712)	(24)	-	(736)	(642)
Net book value of assets disposed	(6)	(59)	-	(65)	(1)
Disposals	300	1	-	301	70
Acquisition of subsidiaries	(20)	(1)	-	(21)	(1,563)
Disposal of subsidiaries	-	-	-	-	82
Accumulated amortization – closing balance	(3,674)	(113)	-	(3,787)	(3,266)
Net intangible assets – closing balance	1,294	389	759	2,442	1,398

At December 31, 2004 and 2003, intangible assets presented on the balance sheet included intangible assets in progress in the amount of CZK 852 million and CZK 599 million, respectively.

At December 31, 2004, the total amount of goodwill was allocated to the distribution segment cash-generating unit (see Note 24) and there have been no accumulated impairment losses.

The recoverable amount of the distribution cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by management covering a five-year period. The discount rate applied to cash flow projections is 7% and cash flows beyond the 5-year period are considered at constant level.

6. Acquisition of subsidiaries and associates

Acquisitions in 2004

In January 2004 the Company increased its share in ŠKODA PRAHA a.s. from 29.8% to 68.9%. The increase of share capital was repaid by offset of receivables against payables of ŠKODA PRAHA a.s. Through this transaction the Group obtained control over ŠKODA PRAHA a.s. As the shares have been effectively acquired from Czech National Property Fund, an entity under control of ČEZ's ultimate parent (Czech government), ČEZ has accounted for this transaction as an acquisition of subsidiaries under common control (see Note 2.3).

The values of the identifiable assets and liabilities of ŠKODA PRAHA a.s. and other subsidiaries acquired in 2004 are as follows (in CZK millions):

	ŠKODA PRAHA a.s.	Other subsidiaries acquired	Total
Shares acquired in 2004	39.1%		
Property, plant and equipment, net	269	-	269
Deferred income taxes	199	-	199
Other non-current assets	168	-	168
Cash and cash equivalents	249	156	405
Other current assets	1,230	11	1,241
Long-term liabilities	(141)	-	(141)
Deferred income taxes	-	-	-
Current liabilities	(1,363)	(3)	(1,366)
Total net assets	611	164	775
Minority interests	(190)	-	(190)
Share of net assets in associate already recognized using the equity method	(5)	(164)	(169)
Share of net assets acquired	416	-	416
Effect of acquisition of ŠKODA PRAHA recognized directly in equity	(331)	-	(331)
Goodwill	-	-	-
Total purchase consideration	85	-*	85
Less:			
Non-monetary contributions	(85)	-	(85)
Cash and cash equivalents in subsidiaries acquired	(249)	(156)	(405)
Cash outflow on acquisition of subsidiaries	(249)	(156)	(405)

* The amount paid for acquisitions of other subsidiaries in 2004 was less than CZK 1 million.

During 2004 ČEZ purchased further minority shares in 2 of the REAS and other companies from various third parties. The following table summarizes the critical terms of the subsequent acquisitions of minority shares in REAS and other companies during 2004 (in CZK millions):

	Group SME	Group SČE	Other companies	Total
Shares acquired in 2004 from third parties	30.3%	5.9%		
Share of net assets acquired	3,282	434	680	4,396
Goodwill	641	118	-	759

Negative goodwill	-	-	(1)	(1)
Less:				
Non-monetary contributions	-	-	(675)	(675)
Total purchase consideration paid to third parties in cash	3,923	552	4	4,479

The following table summarizes the cash outflows on acquisitions of subsidiaries and minority shares during 2004 (in CZK millions):

Cash outflows on acquisition of subsidiaries	(405)
Cash outflows on purchase of minority shares in REAS	4,479
Change in payables from acquisitions	5,378
Cash paid for financial assets in progress	8,714
Total cash outflows on acquisitions in 2004	18,166

The cash paid for financial assets in progress represents advances and other consideration paid for shares in subsidiaries and associates, for which the ownership rights have not been transferred to the Company at the year-end (see Notes 4 and 28).

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group's income statement for the year 2004 (in CZK millions):

	ŠKODA PRAHA a.s.	Other subsidiaries acquired	Total
Revenues	723	5	728
Income before other expense (income) and income taxes	225	(7)	218
Net income	93	(11)	82

Acquisitions in 2003

On April 1, 2003, ČEZ acquired majority of the voting shares in 5 Czech electricity distribution companies ("REAS") from Czech National Property Fund and Czech Consolidation Agency. Through the acquisition of REAS ČEZ has also gained control over several other companies, which were owned directly by the respective REAS companies. As the REAS companies and their subsidiaries were acquired from the direct parent of ČEZ and an agency under common control of ČEZ's ultimate parent (Czech government), ČEZ has accounted for this transaction as an acquisition of subsidiaries under common control (see Note 2.3).

The book values of the identifiable assets and liabilities of the REAS companies acquired from companies under common control are as follows (in CZK millions):

	Group SČE	Group SME	Group STE
Shares acquired in 2003 from entities under common control	48.05%	48.65%	58.3%
Shares acquired in previous years *	2.95%	10.43%	-
Total shares	51.00%	59.08%	58.3%
Property, plant and equipment, net	7,306	10,523	9,741
Deferred income taxes	189	-	-
Other non-current assets	524	1,069	697
Cash and cash equivalents	76	265	33
Other current assets	3,843	7,222	4,346
Minority interests	(1)	-	(8)
Long-term liabilities	(65)	(2,215)	(256)
Deferred income taxes	-	(1,015)	(835)
Current liabilities	(5,839)	(6,065)	(6,738)
Total net assets	6,033	9,784	6,980
Minority interests	(2,956)	(4,004)	(2,911)
Share of net assets acquired	3,077	5,780	4,069
Effect of acquisition of REAS recognized directly in equity	1,660	1,730	(363)
Total purchase consideration	4,737	7,510	3,706
Less:			
Outstanding payables from acquisition	(1,031)	(1,450)	(866)
Consideration paid for shares in previous periods	(327)	(1,310)	-
Cash and cash equivalents in subsidiaries acquired	(76)	(265)	(33)
Cash outflow on acquisition from entities under common control	3,303	4,485	2,807

* Shares acquired in previous periods have been accounted for as available for sale financial assets in 2002 and 2001, respectively.

	Group VČE	Group ZČE	Total REAS
Shares acquired in 2003 from entities under common control	49.62%	50.26%	
Shares acquired in previous years *	0.45%	-	
Total shares	50.07%	50.26%	
Property, plant and equipment, net	8,553	5,176	41,299
Deferred income tax	-	-	189
Other non-current assets	259	1,892	4,441
Cash and cash equivalents	151	130	655
Other current assets	4,735	4,302	24,448
Minority interests	(1)	(1)	(11)
Long-term liabilities	(109)	(262)	(2,907)
Deferred income taxes	(952)	(502)	(3,304)
Current liabilities	(5,550)	(4,069)	(28,261)
Total net assets	7,086	6,666	36,549
Minority interests	(3,538)	(3,316)	(16,725)
Share of net assets acquired	3,548	3,350	19,824
Effect of acquisition of REAS recognized directly in equity	356	1,640	5,023
Total purchase consideration	3,904	4,990	24,847
Less:			
Outstanding payables from acquisition	(903)	(1,121)	(5,371)
Consideration paid for shares in previous periods	(41)	-	(1,678)
Cash and cash equivalents in subsidiaries acquired	(151)	(130)	(655)
Cash outflow on acquisition from entities under common control	2,809	3,739	17,143

* Shares acquired in previous periods have been accounted for as available for sale financial assets in 2002 and 2001, respectively.

During 2003 ČEZ purchased further minority shares in 3 of the REAS from various third parties. The following table summarizes the critical terms of the subsequent acquisitions of minority shares in REAS during 2003 (in CZK millions):

	Group STE	Group VČE	Group ZČE	REAS total
Shares acquired in 2003 from third parties	39.4%	48.76%	48.87%	
Share of net assets acquired	2,578	3,799	4,854	11,231
Goodwill (negative goodwill)	-	-	-	-
Total purchase consideration paid to third parties	2,578	3,799	4,854	11,231

The following table summarizes the cash outflows on acquisitions of subsidiaries during 2003 (in CZK millions):

Cash outflows on acquisition from entities under common control	17,143
Cash outflows on acquisitions from third parties	11,231
Total cash outflows on acquisitions in 2003	28,374

From the date of acquisition, the REAS companies and their subsidiaries have contributed the following balances to the Group's income statement for the year 2003 (in CZK millions):

	Group SČE	Group SME	Group STE
Revenues	8,055	10,900	7,829
Income before other expense (income) and income taxes	725	520	138
Net income	238	286	256

	Group VČE	Group ZČE	Total REAS
Revenues	7,922	5,388	40,094
Income before other expense (income) and income taxes	193	166	1,742
Net income	183	34	997

7. Investments in Subsidiaries and Associates

The consolidated financial statements include the financial statements of ČEZ, a. s., and the subsidiaries and associates listed in the following table:

Subsidiaries	Country of incorporation	% equity [5)] interest 2004	% voting interest 2004	% equity [5)] interest 2003	% voting interest 2003
Západočeská energetika, a.s.	Czech Republic	99.13%	99.13%	99.13%	99.13%
Východočeská energetika, a.s.	Czech Republic	98.83%	98.83%	98.83%	98.83%
Středočeská energetická a.s.	Czech Republic	97.72%	97.72%	97.72%	97.72%
Severomoravská energetika, a.s.	Czech Republic	89.38%	89.38%	59.08%	59.08%
Severočeská energetika, a.s.	Czech Republic	56.93%	56.93%	51.00%	51.00%
CEZ FINANCE B.V.	the Netherlands	100.00%	100.00%	100.00%	100.00%
ČEZnet, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
Energetické opravny, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
HYDROČEZ, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
I & C Energo a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
rpg Energiehandel GmbH	Germany	100.00%	100.00%	100.00%	100.00%
EN-DATA a.s.	Czech Republic	100.00%	100.00%	99.13%	100.00%
VČE – elektrárny, s.r.o.	Czech Republic	98.83%	100.00%	98.83%	100.00%
VČE – montáže, a.s.	Czech Republic	98.83%	100.00%	98.83%	100.00%
STE – obchodní služby spol. s r.o.	Czech Republic	74.42%	76.16%	74.42%	76.16%
Energetika Vítkovice, a.s.	Czech Republic	89.38%	100.00%	59.08%	100.00%
ePRIM, a.s.	Czech Republic	89.38%	100.00%	59.08%	100.00%
MSEM, a.s. [1)]	Czech Republic	89.38%	100.00%	59.08%	100.00%
STMEM, a.s.[1)]	Czech Republic	-	-	59.08%	100.00%
Union Leasing, a.s.	Czech Republic	89.38%	100.00%	59.08%	100.00%
První energetická a.s.	Czech Republic	87.27%	100.00%	52.99%	62.00%
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46%	52.46%	52.46%	52.46%
ČEZ Správa majetku, s.r.o. [3)]	Czech Republic	100.00%	100.00%	99.99%	50.00%

ČEZData, s.r.o. [4]	Czech Republic	100.00%	100.00%	-	-
ČEZ Logistika, s.r.o. [4]	Czech Republic	100.00%	100.00%	-	-
ČEZ Zákaznické služby, s.r.o. [4]	Czech Republic	100.00%	100.00%	-	-
ŠKODA PRAHA a.s. [2]	Czech Republic	68.88%	68.88%	29.80%	29.80%

Associates	Country of incorporation	% equity interest 2004	% voting interest 2004	% equity interest 2003	% voting interest 2003
ČEPS, a.s.	Czech Republic	-	-	34.00%	34.00%
KOTOUČ ŠTRAMBERK, spol. s r.o.	Czech Republic	64.87%	50.00%	64.87%	50.00%
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05%	50.00%	51.05%	50.00%
Plzeňská energetika a.s.	Czech Republic	49.57%	50.00%	49.57%	50.00%
KNAUF POČERADY, spol. s r.o.	Czech Republic	40.00%	50.00%	40.00%	50.00%
Severočeské doly a.s.	Czech Republic	37.20%	37.20%	37.20%	37.20%
Aliatel a.s.	Czech Republic	26.40%	30.58%	21.10%	29.99%
Coal Energy, a.s.	Czech Republic	20.00%	20.00%	20.00%	20.00%

[1] STMEM, a.s. has merged with MSEM, a.s. during year 2004.
[2] ŠKODA PRAHA a.s. was an associate of ČEZ in 2003.
[3] AB Michle s.r.o. was renamed to ČEZ Správa majetku, s.r.o. and was an associate of ČEZ in 2003.
[4] These companies have been founded in 2004.
[5] The equity interest represents effective ownership interest of the Group.

8. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2004 and 2003 is as follows (in CZK millions):

	2004	2003
Cash on hand and current accounts with banks	1,704	1,264
Short-term bank notes	4,940	2,501
Term deposits	901	249
Total	7,545	4,014

At December 31, 2004 and 2003, cash and cash equivalents included foreign currency deposits of CZK 1,207 million and CZK 869 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2004, 2003 and 2002 was 2.2%, 1.7% and 2.6%, respectively. For the years 2004, 2003 and 2002 the weighted average interest rate was 2.1%, 1.9% and 3.0%, respectively.

9. Receivables, Net

The composition of receivables, net, at December 31, 2004 and 2003 is as follows (in CZK millions):

	2004	2003
Unbilled supplies to retail customers	2,203	-
Received advances from retail customer	(2,020)	-
Unbilled supplies to retail customers, net	183	-
Trade receivables	9,911	9,112
Taxes and fees, excluding income taxes	437	205
Other receivables	26	64
Less allowance for doubtful receivables	(1,653)	(2,317)
Total	8,904	7,064

At December 31, 2004 and 2003, the total receivables included receivables from associates and affiliates in the net amount of CZK 434 million and CZK 1,113 million, respectively.

10. Other Current Assets

The composition of other current assets at December 31, 2004 and 2003 is as follows (in CZK millions):

	2004	2003
Securities held for trading	1,340	1,756
Debt securities held to maturity	81	1,476
Advances granted	259	360
Prepayments	496	477
Derivatives	159	230
Total	2,335	4,299

11. Shareholders' Equity

The Company's stated capital as of December 31, 2004 and 2003 is as follows:

	Number of Shares Outstanding	Par Value per Share (CZK)	Total (CZK millions)
		2004	
Registered shares	592,210,843	100	59,221
Treasury shares	(10,000)	100	(3)
Total	592,200,843		59,218
		2003	
Registered shares	592,210,843	100	59,221
Treasury shares	(745,000)	100	(69)
Total	591,465,843		59,152

During 2003 the Company sold 1,190,000 treasury shares. During year 2004 the Company acquired 2,355,000 treasury shares and sold 3,090,000 treasury shares. The remaining 10,000 treasury shares are reflected in the balance sheet at cost as a deduction from stated capital. The profit or loss on sale of treasury shares were included in retained earnings.

In accordance with Czech regulations, joint stock companies are required to establish an undistributable reserve fund for contingencies against possible future losses and other events. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of profit each year thereafter, until the fund reaches at least 20% of capital. The fund can only be used to offset losses. As of December 31, 2004 and 2003, the balance was CZK 9,913 million and CZK 9,185 million, respectively, and is reported as a component of retained earnings.

Dividends paid per share were CZK 8.0 and CZK 4.5 in 2004 and 2003, respectively. Dividends from 2004 profit will be declared on general meeting, which will be held in June 2005.

12. Long-term Debt

Long-term debt at December 31, 2004 and 2003 is as follows (in CZK millions):

	2004	2003
7.125% Notes, due 2007 (USD 178 million)	3,962	4,545
7.25% Eurobonds, due 2006 (EUR 200 million)	6,233	6,467
4.625% Eurobonds, due 2011 (EUR 400 million)	12,101	-
8.75% Debentures, due 2004 (CZK 3,000 million)	-	3,000
9.22% Zero Coupon Debentures, due 2009 [1)]	3,299	3,057
9.22% Debentures, due 2014 (CZK 2,500 million) [2)]	2,494	2,494
3.35 % Debentures, due 2008 (CZK 3,000 million)	2,990	2,987
6M PRIBOR + 1.3 %, due 2005 (CZK 500 million)	500	500
6M PRIBOR + 0.4 %, due 2005 (CZK 1,000 million)	1,000	1,000
Long-term bank loans:		
less than 2.00%	-	4,852
2.00% to 2.99%	5,975	2,787
3.00% to 3.99%	113	286
4.00% to 4.99%	889	-
5.00% to 5.99%	747	2,365
6.00% to 6.99%	324	382
7.00% to 7.99%	887	1,241
8.00% and more	115	693
Total long-term debt	41,629	36,656
Less: Current portion	(3,439)	(5,691)
Long-term debt, net of current portion	38,190	30,965

1) Nominal value of these zero coupon debentures is CZK 4,500 million
2) From 2006 the interest rate changes to consumer price index in the Czech Republic plus 4.2%.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Group. For fair values of interest rate hedging instruments see Note 13.

The future maturities of long-term debt are as follows (in CZK millions):

	2004	2003
Current portion	3,439	5,691
Between 1 and 2 years	8,035	3,696
Between 2 and 3 years	6,162	8,464
Between 3 and 4 years	3,734	7,012
Between 4 and 5 years	3,806	3,769
Thereafter	16,453	8,024
Total long-term debt	41,629	36,656

The following table analyses the long-term debt at December 31, 2004 and 2003 by currency (in millions):

	2004		2003	
	Foreign currency	CZK	Foreign currency	CZK
EUR	643	19,656	258	8,360
USD	405	9,058	454	11,637
CZK	-	12,915	-	16,659
Total long-term debt		41,629		36,656

In the normal course of business, the financial position of the Group is routinely subjected to a variety of risks, including market risk associated with interest rate movements and with currency rate movements on non-Czech crown denominated liabilities. The Group regularly assesses these risks and has established policies and business practices to partially protect against the adverse effects of these and other potential exposures.

As currency rate movements expose the Group to significant risk, the Group uses sensitivity analyses to determine the impacts that market risk exposures may have on the fair values of the Group's financial instruments. To perform sensitivity analyses, the Group assesses the risk of loss in fair values from the impact of hypothetical changes in foreign currency exchange rates and interest rates on market sensitive instruments and considers the expected costs and benefits of various hedging techniques. The Group will continue to explore cost-effective possibilities to reduce its current exchange rate movement and other market risks.

The Company has entered into a number of derivatives transactions, mainly cross-currency swaps, to hedge its long-term debt denominated in foreign currencies against the currency risk and interest rate risk. These hedges are classified as either fair value hedges or cash-flow hedges (see Note 13). As at December 31, 2004, a net unrealized loss of CZK 69 million is included in equity in respect of the cash-flow hedges.

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2004 and 2003 (in CZK millions):

	2004	2003
Floating rate long-term debt		
with interest rate fixed for 1 month	1,152	1,818
with interest rate fixed from 1 to 3 months	4,584	5,701
with interest rate fixed from 3 months to 1 year	1,242	1,840
with interest rate fixed for more than 1 year	2,494	2,494
Total floating rate long-term debt	9,472	11,853
Fixed rate long-term debt	32,157	24,803
Total long-term debt	41,629	36,656

In 1992 the Company has entered into a loan agreement with the International Bank for Reconstruction and Development. The agreement contains financial covenants relating to capital expenditure coverage, cash flow coverage and debt service coverage. In 2004, 2003 and 2002 the Company has complied with the required covenants.

13. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Investments

The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices. For instruments for which there are no quoted market prices the carrying amount approximates the fair value of such investments.

Receivables and Payables

The carrying amount of receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

Short-term loans

The carrying amount approximates fair value because of the short period to maturity of those instruments.

Long-term debt

The fair value of long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values.

Derivatives

The fair value of derivatives is based upon mark to market valuations.

Carrying amounts and the estimated fair values of financial instruments at December 31, 2004 and 2003 are as follows (in CZK millions):

	2004		2003	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets:				
Investments	7,474	7,474	10,999	10,999
Receivables	8,904	8,904	7,064	7,064
Cash and cash equivalents	7,545	7,545	4,014	4,014
Liabilities:				
Long-term debt	(41,629)	(43,848)	(36,656)	(39,626)
Short-term loans	(240)	(240)	(2,320)	(2,320)
Accounts payable	(8,234)	(8,234)	(17,548)	(17,548)
Derivatives:				
Cash flows hedges				
Receivables	-	-	-	-
Payables	(1,265)	(1,265)	-	-
Total cash flows hedges	(1,265)	(1,265)	-	-
Fair values hedges				
Receivables	21	21	-	-
Payables	(1,900)	(1,900)	-	-
Total fair values hedges	(1,879)	(1,879)	-	-
Other derivatives				
Receivables	138	138	230	230
Payables	(1,010)	(1,010)	(3,030)	(3,030)
Total other derivatives	(872)	(872)	(2,800)	(2,800)

14. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

ČEZ operates two nuclear power plants, Dukovany and Temelín. Nuclear power plant Dukovany consists of four 440 MW units which were placed into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1 000 MW units, which have started commercial operation in 2002 and 2003. Czech Republic has enacted a Nuclear Act ("Act"), which defines certain obligations for the decontamination and dismantling ("decommissioning") of the Company's nuclear power plants and the final disposal of radioactive waste and spent fuel ("disposal"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. An updated 2003 Dukovany estimate and a 2004 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 15.6 billion and CZK 13.7 billion, respectively. The Company makes contributions to a restricted account in the amount of the nuclear provisions recorded under the Act. These restricted funds are shown in the balance sheet under other non-current financial assets (see Note 4).

Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority ("RAWRA") as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a "nuclear account" funded by the originators of radioactive waste (such as the Company). Contribution to the nuclear account was stated by a government resolution in 1997, at 50 CZK per MWh produced at nuclear power plants. Since October 1, 1997, ČEZ has made regular payments to the nuclear account based on its average nuclear MWh generated during the last 5 years. From 2003 ČEZ is making these payments based on the actual quantity of electricity generated in nuclear power plants in the respective period. The originator of radioactive waste directly covers all costs associated with interim storage of radioactive waste and spent fuel. Actual costs incurred are charged against the accumulated provision for interim and long-term spent fuel storage.

The Group has established provisions as described in Note 2.23, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2004, 2003 and 2002 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommis-sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2001	5,398	2,651	13,347	21,396
Movements during 2002				
Discount accretion	144	70	334	548
Effect of inflation	258	126	600	984
Provision charged to income statement	-	82	-	82
Effect of change in estimate credited to income statement (Note 2.23)	-	(82)	-	(82)
Effect of change in estimate added to (deducted from) fixed assets (Note 2.23)	932	-	(59)	873
Capitalized cost of Temelín provisions	619	254	-	873
Current cash expenditures	-	(135)	(673)	(808)
Balance at December 31, 2002	7,351	2,966	13,549	23,866
Effect of change in group structure	142	4	-	146
Movements during 2003				
Discount accretion	187	74	339	600
Effect of inflation	337	133	610	1,080
Provision charged to income statement	-	113	-	113
Effect of change in estimate credited to income statement (Note 2.23)	-	(56)	-	(56)
Effect of change in estimate added to (deducted from) fixed assets (Note 2.23)	153	-	3,661	3,814
Current cash expenditures	-	(103)	(1,296)	(1,399)

Balance at December 31, 2003	8,170	3,131	16,863	28,164
Movements during 2004				
Discount accretion	202	78	422	702
Effect of inflation	363	141	759	1,263
Provision charged to income statement	-	203	-	203
Effect of change in estimate credited to income statement (Note 2.23)	-	(44)	-	(44)
Effect of change in estimate added to (deducted from) fixed assets (Note 2.23)	359	-	177	536
Current cash expenditures	-	(67)	(1,316)	(1,383)
Balance at December 31, 2004	9,094	3,442	16,905	29,441

The current cash expenditures for the long-term storage of spent nuclear fuel represent payments to the state controlled nuclear account and the expenditures for interim storage represent mainly the purchase of interim fuel storage containers.

The actual decommissioning and spent fuel storage costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased costs of labor, materials, and equipment and/or the actual time required to complete all decommissioning, disposal and storage activities.

15. Short-term Loans

Short-term loans at December 31, 2004 and 2003 are as follows (in CZK millions):

	2004	2003
Short-term bank loans	129	2,295
Bank overdrafts	107	17
Other short-term notes payable	4	8
Total	240	2,320

Interest on short-term loans is variable. The weighted average interest rate was 3.2% at December 31, 2004 and 2.1% at December 31, 2003. For the years 2004, 2003 and 2002 the weighted average interest rate was 4.6%, 2.2% and 3.0%, respectively.

16. Finance Leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows (in CZK millions):

	2004	2003
Within one year	60	31
After one year but not more than five years	27	25
More than five years	-	-
Total minimum lease payments	87	56
Future finance charges on finance leases	(9)	(6)
Present value of finance lease liabilities	78	50

17. Trade and Other Payables

Trade and other payables at December 31, 2004 and 2003 are as follows (in CZK millions):

	2004	2003
Received advances from retail customers	12,374	15,855
Unbilled supplies to retail customers	(11,105)	(12,962)
Received advances from retail customers, net	1,269	2,893
Payables from purchase of REAS	-	7,470
Trade payables	5,925	6,251
Derivatives	4,175	3,031
Other payables	1,040	934
Total	12,409	20,579

At December 31, 2004 and 2003, the total payables included payables from associates and affiliates in the amount of CZK 674 million and CZK 1,192 million, respectively.

18. Accrued Liabilities

Accrued liabilities at December 31, 2004 and 2003 consist of the following (in CZK millions):

	2004	2003
Provisions	2,330	2,811
Accrued interest	929	805
Taxes and fees, excluding income taxes	968	864
Unbilled goods and services	929	546
Social and bonus funds	285	254
Deferred income	463	435
Total	5,904	5,715

19. Sales of Electricity

The composition of sales of electricity at December 31, 2004, 2003 and 2002 is as follows (in CZK millions):

	2004	2003	2002
Sales to distribution companies	13,541	19,843	39,230
Sales to end customer through distribution grid	53,492	36,590	-
Exports of electricity including trade outside the Czech Republic	10,309	13,296	10,143
Sales to traders	5,172	1,592	2,010
Revenues capitalized during construction	-	-	(1,373)
Other domestic sales of electricity	4,943	3,893	2,928
Sales of ancillary services	5,291	4,334	-
Total	92,748	79,548	52,938

20. Other Operating Expenses

Other operating expenses (income), net, for the year ended December 31, 2004, 2003 and 2002 consist of the following (in CZK millions):

	2004	2003	2002
Services	5,031	4,411	3,199
Travel expenses	207	147	34
Loss (gain) on sale of property, plant and equipment	(616)	(326)	20
Loss on sale of material	57	73	136
Capitalization of expenses to the cost of fixed assets and change in own inventory	(1,914)	(1,565)	(437)
Fines, penalties and penalty interest, net	(103)	(43)	(258)
Change in provisions and valuation allowances	(1,480)	359	(71)
Taxes and fees	354	448	466
Write-off of bad debts and cancelled investment	239	146	15
Gifts	254	112	49
Other, net	1,883	(208)	(280)
Total	3,912	3,554	2,873

21. Income Taxes

Income Tax Legislation

Corporate income tax is calculated in accordance with Czech tax regulations at the rate of 28%, 31% and 31% in 2004, 2003 and 2002, respectively. The corporate income tax rate for 2005 will be 26%.

The Czech Republic currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value-added tax, corporate tax, and payroll (social) taxes, together with others. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains those relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Income Tax Provision

The components of the income tax provision are as follows (in CZK millions):

	2004	2003	2002
Current income tax charge	2,484	1,007	450
Adjustments in respect of current income tax of previous periods	154	11	254
Deferred income taxes	1,207	331	2,671
Total	3,845	1,349	3,375

The differences between income tax expense computed at statutory rate and income tax expense provided on earnings are as follows (in CZK millions):

	2004	2003	2002
Income before income taxes	17,928	10,737	11,796
Statutory income tax rate	28%	31%	31%
“Expected” income tax expense	5,020	3,328	3,657
Add (deduct) tax effect of:			
Change in tax rates	(1,008)	(1,561)	-
Czech/IFRS accounting differences	1	78	282
Non deductible provisions, net	(158)	123	(30)

Investment tax relief	(57)	(1,010)	(1,181)
Other non deductible (non taxable) items, net	(104)	140	(117)
Tax credits	(5)	(212)	(103)
Additional tax assessments	154	11	254
Withholding tax on dividend	2	42	-
Difference between carrying and tax value of financial asset	-	410	-
Deferred tax on undistributed profits of subsidiary	-	-	613
Income taxes	3,845	1,349	3,375
Effective tax rate	21%	13%	29%

Deferred Income Taxes, Net

Deferred income taxes at December 31, 2004 and 2003 consist of the following (in CZK millions):

	2004	2003
Accumulated provision for nuclear decommissioning and spent fuel storage	5,925	6,641
CASTOR containers write-off	286	338
Other provisions and allowances	650	885
Tax loss carry forwards	110	25
Revaluation of financial assets	11	17
Other temporary differences	71	171
Total deferred tax assets	7,053	8,077
Tax depreciation in excess of financial statement depreciation	13,103	12,102
Capitalized interest	5,032	5,590
Capitalized cost of provisions	2,927	3,395
Repairs and maintenance accrual	1,206	987
Penalty receivables	46	71
Other temporary differences	38	17
Investment in associates	520	1,490
Total deferred tax liabilities	22,872	23,652
Total deferred tax liabilities, net	15,819	15,575

22. Other Expenses (Income), Net

Other expenses, net, for the year ended December 31, 2004, 2003 and 2002 consist of the following (in CZK millions):

	2004	2003	2002
Derivative losses, net	1,630	1,157	1,643
Loss (gain) on sales of financial investments	(509)	9	(385)
Change in valuation allowances to financial investments	(342)	1,426	(31)
Other, net	(552)	(422)	72
Total	227	2,170	1,299

23. Related Parties

The Company purchases products from related parties in the ordinary course of business. Approximately 59% of the brown coal consumption is supplied by Severočeské doly a.s. ("SD"), a company in which ČEZ holds a 37.2% share. In 2004, 2003 and 2002, coal purchases from SD amounted to CZK 5,054 million, CZK 5,177 million and CZK 4,921 million, respectively. Receivables from SD amounted to CZK 10 million and CZK 10 million as of December 31, 2004 and 2003, respectively. Payables to SD amounted to CZK 535 million and CZK 508 million as of December 31, 2004 and 2003 respectively. The prices of fossil fuel supplies from SD do not differ significantly from market prices.

During 2004, 2003 and 2002 the Company granted share options to the Board of Directors, certain members of the management of the Company and Supervisory Board members. The following table shows changes during 2004, 2003 and 2002 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options	Weighted average exercise price (CZK per share)
Share options at December 31, 2001	3,375,000	92.58
Options granted	30,000	73.30
Options exercised	(30,000)	79.38
Options forfeited	(300,000)	96.39
Share options at December 31, 2002	3,075,000	93.07
Options granted	1,650,000	105.23
Options exercised	(1,190,000)	89.65
Options forfeited	(285,000)	87.83
Share options at December 31, 2003	3,250,000	100.95
Options granted	1,800,000	152.84
Options exercised	(3,090,000)	107.26
Options forfeited	(150,000)	105.78
Share options at December 31, 2004	1,810,000	141.38

At December 31, 2004, the aggregate number of share options granted to members of Board of Directors was 1,350,000 and the number of share options granted to Supervisory Board members was 460,000. The options granted do not have any vesting period and can be exercised during the original terms of office of the respective Board members and in case of options granted after annual shareholders' meeting, which was held on June 17, 2003, the options may exercised during the period when the respective Board member is holding office and in three months after their term of office expires. The exercise price for the granted options was based on the average quoted market price on the Prague stock exchange in the six-month period preceding the date of the grant. In 2004 and 2003 the Company has recognized compensation expense of CZK 148 million and CZK 2 million related to the granted options (see Note 2.26). No expense was recognized in 2002. The Company has settled all options exercised using treasury shares. The gain or loss on the sale of treasury shares were recognized directly in equity.

24. Segment Information

On April 1, 2003 ČEZ has sold majority share in its transmission subsidiary ČEPS, a. s. ("ČEPS") and at the same moment ČEZ has acquired majority shares in 5 electricity distribution companies REAS (see Note 1). Following this transaction ČEZ has modified its reporting of business segments by including new distribution segment, which is formed by the 5 majority owned REAS companies. During 2004 ČEZ has sold the remaining shares in ČEPS (see Note 25).

The accounting policies of the segments are the same as those described in Note 2. The Group accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices or where the regulation applies at regulated prices. The Group evaluates the performance of its segments and allocates resources to them based on operating income.

The following table summarizes segment information for the years ended December 31, 2004, 2003 and 2002, respectively (in CZK millions):

Year 2004:

	Power Produc-tion	Trans-mission	Distribu-tion	Other	Combi-ned	Elimina-tion	Consoli-dated
Sales other than intersegment sales	41,223	-	53,156	5,786	100,165	-	100,165
Intersegment sales	22,986	-	5,728	2,896	31,610	(31,610)	-
Total revenues	64,209	-	58,884	8,682	131,775	(31,610)	100,165
Operating income	13,048	-	5,971	353	19,372	(217)	19,155
Identifiable assets	180,425	-	43,759	3,439	227,623	(188)	227,435
Identifiable liabilities	81,571	-	13,066	5,644	100,281	(4,444)	95,837
Investment in associates	356	-	-	7,118	7,474	-	7,474
Income (share of loss) from associates	22	780	-	(68)	734	-	734
Depreciation and amortization	13,969	-	4,004	389	18,362	22	18,384
Change in provisions and allowances	(216)	-	(1,012)	(49)	(1,277)	-	(1,277)

Year 2003:

	Power Produc-tion	Trans-mission	Distribu-tion	Other	Combi-ned	Elimina-tion	Consoli-dated
Sales other than intersegment sales	40,756	3,569	38,373	2,118	84,816	-	84,816
Intersegment sales	14,936	152	657	2,768	18,513	(18,513)	-
Total revenues	55,692	3,721	39,030	4,886	103,329	(18,513)	84,816
Operating income	9,884	758	2,017	90	12,749	255	13,004
Identifiable assets	190,364	-	44,215	2,084	236,663	(67)	236,596
Identifiable liabilities	85,240	-	15,965	2,608	103,813	(1,971)	101,842
Investment in associates	333	2,924	-	7,742	10,999	-	10,999
Income (share of loss) from associates	(23)	630	-	456	1,063	-	1,063
Depreciation and amortization	13,558	476	2,962	220	17,216	(255)	16,961
Change in provisions and allowances	384	4	67	16	471	-	471

Year 2002:

	Power Production	Trans-mission	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	43,651	11,927	-	55,578	-	55,578
Intersegment sales	6,235	441	-	6,676	(6,676)	-
Total revenues	49,886	12,368	-	62,254	(6,676)	55,578
Operating income	9,539	661	-	10,200	1,023	11,223
Identifiable assets	195,747	17,899	-	213,646	(10,219)	203,427
Identifiable liabilities	74,462	3,704	-	78,166	(2,917)	75,249
Investment in associate	-	-	5,880	5,880	-	5,880
Income from associate	-	-	497	497	-	497
Depreciation and amortization	10,869	1,865	-	12,734	(1,013)	11,721
Change in provisions and allowances	10	2	-	12	-	12

The power generation segment sells the major part of its electricity generated to the eight REAS. Prices in certain intersegment transactions are regulated by the Energy Regulatory Office (see Note 1).

25. Discontinuing Operation

On March 11, 2002 the Government decided to purchase from ČEZ a 66% share in its transmission subsidiary ČEPS. General meeting of ČEZ's shareholders held on June 11, 2002, has confirmed the above mentioned decision of the Government. This transaction was carried out on April 1, 2003. Based on the decision of Economic Competition Protection Authority ČEZ has also sold its remaining equity share in ČEPS in September 2004.

The purchase of ČEPS shares was made by OSINEK, a.s., a company controlled by the National Property Fund, and the Ministry of Labor and Social Affairs and the Ministry of Finance. Based on the fact that the transaction was carried out between parties under common control of ČEZ's ultimate parent, ČEZ has recorded the net gain on the sale directly in equity. The composition of the amount recorded in equity in 2004 and 2003 is as follows (in CZK millions):

	2004	2003
% of shares sold	34%	66%
Total selling price	7,087	15,224
Book value of shares sold	(3,703)	(4,453)
Current income tax related to the sale	(1,721)	(4,152)
Deferred tax related to the sale	773	543
Effect of sale recognized in equity	2,436	7,162

The reconciliation of the proceeds from disposal of a subsidiary as presented in the cash-flow statement in 2004 and 2003 is as follows (in CZK millions):

	2004	2003
Total selling price	7,087	15,224
Cash disposed of	-	(3,016)
Change in receivables from the sale of subsidiary or associate	(7,087)	-
Proceeds from disposal of subsidiary, net of cash disposed of	-	12,208

The operations of ČEPS were reported in the transmission segment (see Note 24).

The carrying amounts of total assets and total liabilities attributable to the discontinuing operation at December 31, 2004 and 2003 are as follows (in CZK millions):

	2004	2003
Total asset	-	2,924*
Total liabilities	-	-
Total net assets disposed off	-	2,924

* The amount represents investment in associate only.

The amounts shown above in respect of 2003 do not include the deferred tax liability from consolidation of undistributed retained earnings of ČEPS.

The following items of income, expenses and cash flows can be attributed to the discontinuing operation (in CZK millions):

	2004	2003	2002
Total revenues	-	2,023	5,692
Operating profit	-	1,013	1,684
Income from associate	780	630	-
Income before income taxes	780	1,609	1,531
Income tax expense	-	302	470
Cash flow from operating activities	-	1,055	1,460
Cash flow from investing activities	-	(113)	(477)
Cash flow from financing activities	-	-	-

The income tax expense shown above does not include deferred tax from consolidation of undistributed retained earnings of ČEPS.

26. Net Income per Share

	2004	2003	2002
Numerator - basic and diluted (CZK millions)			
Net income	13,059	8,869	8,421
Denominator (thousands shares)			
Basic:			
Weighted average shares outstanding	592,075	590,772	590,363
Dilutive effect of treasury shares	136	1,439	1,787
Diluted:			
Adjusted weighted average shares	592,211	592,211	592,150
Net income per share (CZK per share)			
Basic	22.1	15.0	14.3
Diluted	22.1	15.0	14.2

27. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2004 to total CZK 105.6 billion over the next five years, as follows: CZK 17.3 billion in 2005, CZK 19.9 billion in 2006, CZK 23.4 billion in 2007, CZK 22.4 billion in 2008 and CZK 22.6 billion 2009. These figures do not include the expected acquisitions of subsidiaries and associates, which in accordance with the estimated free cash flows can amount up to CZK 90 billion in the period 2005 through 2009. The actual payments for acquisitions will depend on the number of future investment opportunities, for which the Company will be successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2004 significant purchase commitments were outstanding in connection with the construction program.

The Company currently projects that its planned construction expenditures will be funded mainly with cash provided by operating activities.

Environmental Matters

The Czech Republic has adopted a series of environmental acts and laws and regulations ("the Acts") including a timetable for the reduction of atmospheric emissions in the period from 1992 through December 31, 1998. As of December 31, 1998, all plants operated by the Company had been upgraded to meet the environmental requirements of the Acts.

The Company is also liable under the Acts for past environmental damage. In 2004, 2003 and 2002, payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled CZK 4 million, CZK 6 million and CZK 9 million, respectively. Based on current estimates of its probable future obligations, the Company provided CZK 40 million in 2004, CZK 40 million in 2003 and CZK 47 million in 2002, respectively, for pollution damages. In 2004, 2003 and 2002 the Company further reversed CZK 36 million, CZK 54 million and CZK 72 million, respectively. Although uncertainties exist due to interpretations of applicable laws, management does not believe, based upon the information available at this time, that the ultimate outcome of these matters will have a material adverse effect on the Company's financial position or results of operations.

Insurance Matters

The Nuclear Act (see Note 14) sets limits for liabilities for nuclear damages by the operator of nuclear installations/licenses. The Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 6 billion per incident. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 1.5 billion. The Nuclear Act also requires an operator/licensee to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 1.5 billion and up to a minimum of CZK 200 million for other activities (such as transportation). ČEZ has obtained all insurance policies with minimal limits as required by the law. ČEZ concluded about mentioned insurance policies with Czech nuclear pool, a group of insurance companies.

ČEZ has renewed insurance policies covering the assets of its fossil, hydro and nuclear power plants, insurance policies covering non-technological equipment, general third party liability insurance in connection with main operations of the Company and car insurance.

ČEZ and the Group companies have insurance policies covering directors and officers liability. ČEZ also controls other property and liability insurance policies of the Group companies.

28. Events After the Balance Sheet Date

On January 18, 2005, ČEZ obtained 67% share in three Bulgarian electricity distribution companies, Elektrorazpredelenie Pleven EAD, Elektrorazpredelenie Sofia Oblast EAD and Elektrorazpredelenie Stolichno EAD. For this acquisition the Company has paid in cash a total of EUR 281.5 million (see Notes 4 and 6). The valuation of assets and liabilities of the acquired companies was not finalized as of the date, when these financial statements have been authorized for issue.

On April 5, 2005, ČEZ signed an agreement about the privatization of a Romanian distribution company Electrica Oltenia. Through this transaction ČEZ will acquire 51% share in the company for a total amount of EUR 151 million.

29. Presentation of Financial Statements

The accompanying consolidated financial statements are presented on the basis of International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board. Certain accounting principles generally accepted in the Czech Republic ("CAS") do not conform to IFRS used in preparing the accompanying consolidated financial statements. A description of the significant adjustments required to conform the Company's statutory balances to consolidated financial statements prepared in accordance with IFRS is set forth in the following tables.

The effect on retained earnings and other reserves of differences in IFRS and CAS is as follows (in CZK millions):

	December 31,	
	2004	2003
Balance per CAS (standalone)	88,523	79,863
Impact of consolidation	1,109	(635)
Balance per CAS (consolidated)	89,632	79,228
Accumulated provision for nuclear decommissioning and spent fuel storage (Note 14)	(14,569)	(14,415)
Capitalized costs of nuclear provisions	12,195	12,125
CASTOR containers write-off	(1,191)	(1,209)
Deferred tax on nuclear provisions, capitalized costs of nuclear provisions and CASTOR containers write-off, net	865	971
Reversal of repairs and maintenance accrual, net of deferred tax	3,647	2,545
Impact of CAS/IFRS accounting differences on the associates, net of deferred tax	(537)	(247)
Interest capitalized, net of deferred tax	17,705	16,829
Depreciation of interest capitalized, net of deferred tax	(3,383)	(2,455)
Grants received, net of deferred tax	(550)	(670)
Gain (loss) on derivatives, net of deferred tax	2	-
Other IAS 39 differences	94	43
Electrometers, net of deferred tax	779	970
Finance leases – lessee, net of deferred tax	102	109
Share options	-	18
Rights, net of deferred tax	(54)	(116)
Revaluation on acquisition	2	(5)
Reclassification of items from retained earnings, net	(246)	(223)
Other differences	(22)	(26)
Balance per IFRS	104,471	93,472

The effect on net income of differences in IFRS and CAS is as follows (in CZK millions):

	Year ended December 31,		
	2004	2003	2002
Net income per CAS (standalone)	12,364	13,931	6,713
Impact of consolidation	1,416	1,648	608
Net income per CAS (consolidated)	13,780	15,579	7,321
Accumulated provision for nuclear decommissioning and spent fuel storage (Note 14)	406	889	413
Capitalized costs of nuclear provisions	(466)	(344)	(261)
CASTOR containers write-off	17	(26)	(63)
Deferred tax on nuclear provisions, capitalized costs of nuclear provisions and CASTOR containers write-off, net	(130)	(266)	(28)
Reversal of repairs and maintenance accrual, net of deferred tax	1,095	179	170
Impact of CAS/IFRS accounting differences on the associates, net of deferred tax	(319)	(10)	91
Interest capitalized, net of deferred tax	876	1,348	1,405
Depreciation of interest capitalized, net of deferred tax	(928)	(835)	(471)
Grants received, net of deferred tax	51	32	34
Gain (loss) on derivatives, net of deferred tax	1,188	(263)	580
Additional foreign exchange rate differences under IAS 39, net of deferred tax	-	-	(577)
Other IAS 39 differences, net of deferred tax	50	(12)	(85)
Electrometers, net of deferred tax	(102)	21	-
Finance leases – lessee, net of deferred tax	(1)	4	-
Share options	(148)	(2)	-
Rights, net of deferred tax	28	(17)	-
Revaluation on acquisition	9	(5)	-
Sale of ČEPS, net of tax	(2,436)	(7,162)	-
(Profit) loss on sale of treasury shares	223	5	(18)
Reclassification of items from retained earnings, net	(232)	(220)	(90)
Other differences	98	(26)	-
Net income per IFRS	13,059	8,869	8,421

14. RESTATED CONSOLIDATED FINANCIAL INFORMATION FOR 2003, 2004, 2005

This section includes audited consolidated financial information of ČEZ, a.s. for 2005, the audited consolidated financial information for 2004 and the non-audited consolidated financial information for 2003.

The financial results of 2004 have been restated and audited as a result of the ČEZ's acquisition of majority share in Severočeské doly a.s. in 2005.

Financial results for 2003 have been restated and added by ČEZ to the audited statements of 2005 and 2004, so that a more thorough historical comparison would be allowed. The 2003 numbers are not audited. Their sole purpose is to enable the comparison with the more recent years, and thus should not be taken as a part of the audited statements.

The complete non-restated audited financial information for 2003 and 2004 including the auditors' report are available at ČEZ, PSE and Czech National Bank.

CONSOLIDATED FINANCIAL STATEMENTS

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2005, 2004, and 2003

in CZK Mil.

	2005	2004	2003
Assets			
Property, plant and equipment:			
Plant in service	439,416	402,864	394,296
Less accumulated provision for depreciation	199,756	182,932	165,945
Net plant in service	239,660	219,932	228,351
Nuclear fuel, at amortized cost	7,860	7,956	9,574
Construction work in progress	11,570	11,308	10,719
Total property, plant and equipment	259,090	239,196	248,644
Other non-current assets:			
Investment in associates	929	2,011	4,808
Investments and other financial assets, net	13,811	26,426	15,769
Intangible assets, net	6,046	3,379	2,102
Deferred tax assets	524	713	582
Total other non-current assets	21,310	32,529	23,261
Total non-current assets	280,400	271,725	271,905
Current assets:			
Cash and cash equivalents	16,791	8,942	5,023
Receivables, net	14,792	9,189	7,362
Income tax receivable	1,478	26	103
Materials and supplies, net	3,671	3,333	3,371
Fossil fuel stocks	756	724	933
Emission rights	134	-	-
Other current assets	6,187	5,311	7,941
Total current assets	43,809	27,525	24,733
Total assets	324,209	299,250	296,638

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2005, 2004, and 2003

continued

	2005	2004	2003
Equity and liabilities			
Equity attributable to equity holders of the parent:			
Stated capital	58,237	59,218	59,152
Retained earnings and other reserves	118,436	112,879	102,845
Total equity attributable to equity holders of the parent	176,673	172,097	161,997
Minority interests	14,616	6,350	9,078
Total equity	191,289	178,447	171,075
Long-term liabilities:			
Long-term debt, net of current portion	30,586	38,140	30,915
Accumulated provision for nuclear decommissioning and fuel storage	35,869	29,441	28,164
Other long-term liabilities	14,974	14,868	14,219
Total long-term liabilities	81,429	82,449	73,298
Deferred tax liability	18,555	15,603	15,228
Current liabilities:			
Short-term loans	265	240	2,320
Current portion of long-term debt	7,888	3,439	5,611
Trade and other payables	16,243	12,587	20,858
Income taxes payable	630	1,227	3,495
Accrued liabilities	7,910	5,258	4,753
Total current liabilities	32,936	22,751	37,037
Total equity and liabilities	324,209	299,250	296,638

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004, and 2003

in CZK Mil.

	2005	2004	2003
Revenues:			
Sales of electricity	115,949	92,183	78,974
Heat sales and other revenues	9,134	10,487	8,290
Total revenues	125,083	102,670	87,264
Operating expenses:			
Fuel	9,010	9,305	9,165
Purchased power and related services	37,474	26,519	21,109
Repairs and maintenance	4,229	4,872	4,552
Depreciation and amortization	20,723	19,842	18,513
Salaries and wages	13,426	11,368	9,688
Materials and supplies	4,020	4,625	4,472
Emission rights	(1,053)	-	-
Other operating expenses	7,851	6,354	4,747
Total expenses	95,680	82,885	72,216
Income before other expenses (income) and income taxes	29,403	19,785	15,048
Other expenses (income):			
Interest on debt, net of capitalized interest	1,800	1,823	2,123
Interest on nuclear and other provisions	2,447	2,425	1,680
Interest income	(437)	(721)	(712)
Foreign exchange rate losses (gains), net	266	(1,765)	(1,915)
Loss on sale of subsidiaries and associates	170	-	-
Negative goodwill write-off	(1,704)	-	-
Other expenses (income), net	(343)	244	2,139
Income from associates	(102)	(722)	(520)
Total other expenses (income)	2,097	1,284	2,795
Income before income taxes	27,306	18,501	12,253
Income taxes	5,024	4,233	2,040
Net income	22,282	14,268	10,213
Net income attributable to:			
Equity holders of the parent	21,438	13,213	9,594
Minority interests	844	1,055	619
Net income per share attributable to equity holders of the parent (CZK per share)			
Basic	36.3	22.3	
Diluted	36.2	22.3	
Average number of shares outstanding (000s)			
Basic	590,426	592,075	
Diluted	592,211	592,211	

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2005, 2004, and 2003

in CZK Mil.

	Attributable to equity holders of the parent						
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total	Minority interests	Total Equity
31 December 2003, as previously reported	59,152	1	(81)	93,552	152,624	7,893	160,517
Effect of consolidation of Severočeské doly	-	-	45	9,328	9,373	1,185	10,558
31 December 2003, as restated	59,152	1	(36)	102,880	161,997	9,078	171,075
Change in fair value of available-for-sale financial assets recognized in equity	-	-	(147)	-	(147)	(44)	(191)
Available-for-sale financial assets removed from equity	-	-	207	-	207	45	252
Change in fair value of cash flow hedges recognized in equity	-	-	(690)	-	(690)	-	(690)
Cash flow hedges removed from equity	-	-	621	-	621	-	621
Other movements	-	(3)	-	(12)	(15)	-	(15)
Gain and loss recorded directly to equity	-	(3)	(9)	(12)	(24)	1	(23)
Net income	-	-	-	13,213	13,213	1,055	14,268
Total gains and losses for the year	-	(3)	(9)	13,201	13,189	1,056	14,245
Gain on sale of ČEPS, net of tax	-	-	-	2,436	2,436	-	2,436
Effect of acquisition of ŠKODA PRAHA on equity	-	-	-	331	331	-	331
Acquisition of treasury shares	(488)	-	-	-	(488)	-	(488)
Sale of treasury shares	554	-	-	(222)	332	-	332
Dividends declared to shareholders of the parent	-	-	-	(4,738)	(4,738)	-	(4,738)
Dividends declared to minority interests	-	-	-	(1,172)	(1,172)	(261)	(1,433)
Change in minority due to acquisitions	-	-	-	-	-	(3,748)	(3,748)
Share options	-	-	130	-	130	-	130
Share on equity movements of associates	-	-	-	(2)	(2)	-	(2)
Contribution to equity	-	-	-	82	82	225	307
31 December 2004	59,218	(2)	85	112,796	172,097	6,350	178,447

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004, and 2003

continued

	Attributable to equity holders of the parent						
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total	Minority interests	Total Equity
31 December 2004	59,218	(2)	85	112,796	172,097	6,350	178,447
Change in fair value of available-for-sale financial assets recognized in equity	-	-	(43)	-	(43)	(3)	(46)
Available-for-sale financial assets removed from equity	-	-	18	-	18	1	19
Change in fair value of cash flow hedges recognized in equity	-	-	361	-	361	-	361
Cash flow hedges removed from equity	-	-	(124)	-	(124)	-	(124)
Translation differences	-	(787)	-	-	(787)	(478)	(1,265)
Other movements	-	-	(5)	6	1	3	4
Gain and loss recorded directly to equity	-	(787)	207	6	(574)	(477)	(1,051)
Net income	-	-	-	21,438	21,438	844	22,282
Total gains and losses for the year	-	(787)	207	21,444	20,864	367	21,231
Effect of acquisition of Severočeské doly on equity	-	-	-	(9,068)	(9,068)	-	(9,068)
Effect of acquisition of minority shares in ŠKODA PRAHA on equity	-	-	-	111	111	-	111
Acquisition of treasury shares	(1,312)	-	-	-	(1,312)	-	(1,312)
Sale of treasury shares	331	-	-	(79)	252	-	252
Dividends declared to shareholders of the parent	-	-	-	(5,309)	(5,309)	-	(5,309)
Dividends declared to minority interests	-	-	-	(1,198)	(1,198)	(536)	(1,734)
Change in minority due to acquisitions	-	-	-	-	-	8,435	8,435
Share options	-	-	296	-	296	-	296
Share on equity movements of associates	-	-	-	(60)	(60)	-	(60)
31 December 2005	58,237	(789)	588	118,637	176,673	14,616	191,289

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004, and 2003

in CZK Mil.

	2005	2004	2003
Operating activities:			
Income before income taxes	27,306	18,501	12,253
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation, amortization and asset write-offs	20,743	19,979	16,969
Amortization of nuclear fuel	3,056	3,391	3,484
(Gain) loss on fixed asset retirements, net	86	(1,221)	(384)
Foreign exchange rate loss (gain), net	266	(1,765)	(1,915)
Interest expense, interest income and dividend income, net	1,246	871	1,054
Provision for nuclear decommissioning and fuel storage	1,061	538	228
Valuation allowances, other provisions and other adjustments	(937)	(72)	1,602
Income from associates	(102)	(722)	(1,063)
Changes in assets and liabilities:			
Receivables	(2,325)	2,436	1,137
Materials and supplies	(137)	262	(152)
Fossil fuel stocks	(32)	209	(343)
Other current assets	(1,023)	2,662	1,903
Trade and other payables	325	(1,855)	2,142
Accrued liabilities	1,174	489	1,103
Cash generated from operations	50,707	43,703	38,018
Income taxes paid	(5,946)	(6,898)	(44)
Interest paid, net of capitalized interest	(1,540)	(1,433)	(1,601)
Interest received	444	719	316
Dividends received	230	550	587
Net cash provided by operating activities	43,895	36,641	37,276
Investing activities:			
Acquisition of subsidiaries and associates, net of cash acquired	(12,258)	(18,166)	(28,374)
Proceeds from disposal of a subsidiaries and associates, net of cash disposed of	2,273	-	12,208
Additions to property, plant and equipment and other non-current assets, including capitalized interest	(15,671)	(16,925)	(23,942)
Proceeds from sale of fixed assets	1,728	5,034	9,585
Change in decommissioning and other restricted funds	(42)	(443)	(407)
Total cash used in investing activities	(23,970)	(30,500)	(30,930)

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2005, 2004, and 2003

continued

	2005	2004	2003
Financing activities:			
Proceeds from borrowings	539	15,083	31,284
Payments of borrowings	(4,356)	(10,419)	(33,736)
Proceeds from other long-term liabilities	265	96	131
Payments of other long-term liabilities	(300)	(372)	(66)
Dividends paid to Company's shareholders	(5,291)	(4,724)	(2,640)
Dividends paid to minority interests	(1,716)	(1,443)	(227)
(Acquisition) sale of treasury shares	(1,060)	(156)	106
Total cash used in financing activities	(11,919)	(1,935)	(5,148)
Net effect of currency translation in cash	(157)	(287)	(59)
Net increase in cash and cash equivalents	7,849	3,919	(1,139)
Cash and cash equivalents at beginning of period	8,942	5,023	4,225
Effect of change in group structure on opening balance of cash and cash equivalents	-	-	166
Cash and cash equivalents at beginning of period, as restated	8,942	5,023	4,391
Cash and cash equivalents at end of period	16,791	8,942	5,023

Supplementary cash flow information

Total cash paid for interest	2,046	1,985	2,538

15. FINANCIAL RESULTS FOR 1ST HALF OF 2006

This section includes non-audited consolidated financial information of ČEZ for the 1st half of 2006, prepared and published by the Issuer.

The financial results for the 1st half of 2005 have been restated as a result of ČEZ's acquisition of a majority share in Severočeské doly, a.s. in 2005 to allow a more thorough historical comparison.

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF 30 JUNE 2006 and 2005

in CZK Mil.

	as of 30.6.05	as of 30.6.06
Assets	**315,472**	**357,129**
Fixed assets	**271,931**	**296,636**
Plant in service	416,461	454,752
Less accumulated provision for depreciation	190,895	209,642
Net plant in service	225,566	245,110
Nuclear fuel, at amortized cost	8,088	7,772
Construction work in progress	13,575	12,577
Investment in associates	1,308	499
Investments and other financial assets, net	17,560	14,930
Intangible assets, net	5,514	15,340
Deferred tax assets	320	408
Current assets	**43,541**	**60,493**
Cash and cash equivalents	19,204	25,134
Receivables, net	9,278	17,088
Income tax receivable	2,818	3,166
Materials and supplies, net	3,953	4,612
Fossil fuel stock	601	794
Emission rights		1,381
Other current assets	7,687	8,318
Equity and liabilities	**315,472**	**357,129**
Equity	**184,303**	**195,767**
Equity attributable to equity holders of the parent	175,703	183,185
Stated capital	58,303	57,542
Retained earnings and other reserves	117,400	125,643
Minority interests	8,600	12,582
Long-term liabilities	**82,848**	**87,251**
Long-term debt, net of current portion	38,170	35,332
Accumulated provision for nuclear decommissioning and fuel storage	29,853	36,101
Other long-term liabilities	14,825	15,818
Deferred taxes liability	**20,129**	**24,486**
Current liabilities	**28,192**	**49,625**
Short-term loans	388	8,406
Current portion of long-term debt	2,144	7,851
Trade and other payables	18,848	24,196
Income tax payable	3	1
Accrued liabilities	6,809	9,171

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE 1st HALF 2006 AND 2005

in CZK Mil.

	1-6/2005	1-6/2006
Revenues	**61,715**	**77,183**
Sales of electricity	57,216	71,645
Heat sales and other revenues	4,499	5,538
Operating expenses	**44,155**	**53,977**
Fuel	4,532	5,240
Purchased power and related services	18,218	24,499
Repairs and maintenance	1,356	1,844
Depreciation and amortization	10,037	10,959
Salaries and wages	5,684	6,581
Materials and supplies	1,810	2,180
Emission rights		-357
Other operating expenses	2,518	3,031
	27,597	**34,165**
Income before other expense/income and income taxes	**17,560**	**23,206**
Other expenses/income	**2,476**	**1,668**
Interest on debt, net of capitalized interest	799	869
Interest on nuclear and other provisions	1,211	946
Interest income	-181	-290
Foreign exchange rate losses/gains, net	651	-489
Gain(-)/Loss on sale of subsidiary/associate	193	237
Negative goodwill write-off	-20	
Other expenses/income, net	-116	460
Income from associates	-61	-65
Income before income taxes	**15,084**	**21,538**
Income taxes	**3,401**	**5,105**
Net income	**11,683**	**16,433**
Net income attributable to:		
Equity holders of the parent	11,128	15,787
Minority interests	555	646

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 1st HALF 2006 AND 2005

in CZK Mil.

	1-6/2005	1-6/2006
Operating activities:		
Income before income taxes	15,084	21,538
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization and asset write-offs	10,040	10,962
Amortization of nuclear fuel	1,503	1,667
(Gain)/Loss in fixed assets retirements	12	103
Foreign exchange rate loss (gain)	651	-489
Interest expense, interest income and dividends income, net	585	551
Provision for nuclear decommissioning and fuel storage	311	105
Valuation allowances, other provisions and other adjustments	550	73
Income from associates	-61	-65
Changes in assets and liabilities:	*-5,400*	*-5,740*
Receivables	-989	-1,624
Materials and supplies	-307	-832
Fossil fuel stocks	123	146
Other current assets	-2,340	-2,101
Trade and other payables	-1,856	-1,217
Accrued liabilities	-31	-112
Cash generated from operations	23,275	28,705
Income taxes paid	-3,848	-2,413
Interest paid, net of interest capitalized	-980	-1,047
Interest received	179	287
Dividends received	61	36
Net cash provided by operating activities	**18,687**	**25,568**
Investing activities:		
Acquisition of subsidiaries and associates, net of cash	-1,506	-15,192
Proceeds from disposal of subsidiaries and associates, net of cash	2,036	352
Additions to property, plant and equipment and other non-current assets	-7,338	-9,425
Loans made		-2
Proceeds from sales of fixed assets	1,011	1,176
Change in decommissioning and other restricted funds	727	-232
Repayments of loans	17	40
Total cash used in investing activities	**-5,053**	**-23,283**

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 1st HALF 2006 AND 2005

Continued
in CZK Mil.

	1-6/2005	1-6/2006
Financing activities:		
Proceeds from borrowings	316	20,465
Payments of borrowings	-2,825	-13,384
Proceeds from other long-term liabilities	105	83
Payments of other long-term liabilities	-68	-194
Dividends paid to Company´s shareholders	30	29
Dividends paid to minority interests		-7
Acquisition/sale of treasury shares	-993	-795
Total cash provided by (used in) financing activities	**-3,435**	**6,197**
Net effect of currency translation in cash	63	-139
Net increase/decrease in cash and cash equivalents	**10,262**	**8,343**
Cash and cash equivalents at beginning of period	8,942	16,791
Effect of change in group structure on opening balance of cash and cash equivalents		
Cash and cash equivalents at beginning of period, as restated	8,942	16,791
Cash and cash equivalents at end of period	19,204	25,134
Supplementary cash flow information		
Total cash paid for interest	1,255	1,289

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