ČEZ Power Company

Annual Report 2002

Color is our means of expression, our fabric and our material, through which we can express our ideas, plans and thoughts, communicate our experiences, create.

Even though there
are many differences,
we all have some
kind of relationship
to color.

Rainbow Power
is the brand name
of the trading program
under which the
company offers
customers
a color-coded palette
of various kinds
of electricity supplies.

The principal business of ČEZ, a. s. is the sale of electricity, most of which it generates in its own facilities, and the related provision of power system ancillary services. The principal business also includes the production, distribution and sale of heat. A more detailed description of the principal business is set forth in the company's Articles of Association, Article 5.

The joint stock company ČEZ ("ČEZ, a. s." or "ČEZ") was founded by the National Property Fund of the Czech Republic, as sole founder, pursuant to a Certificate of Incorporation (containing the founder's decision in accordance with Sections 172(2), (3) and 171(1) of the Act 513/1991 Sb. – the Commercial Code) dated 30 April 1992 and made in the form of a notarial record. The company came into existence on 6 May 1992, when it was registered in the Commercial Register. The majority owner of ČEZ, a. s. is the National Property Fund of the Czech Republic.

Red is considered the most active and most energetic color. It is the color of intense force in motion, the color of vitality.

Orange is a clear, happy and even fiery color. It reminds one of sunsets and sunrises, and of ripe fruit. It symbolizes richness, joy, and the glitter of celebration.

Contents

Performance Highlights

Selected Indicators

	Unit	2000	2001	2002	Index 02/01 (%)
CZECH REPUBLIC					
Installed capacity as of December 31	MW	15,324	15,443	16,311	105.6
Peak requirement	MW	10,128	10,604	11,205	105.7
Date of peak requirement		26 Jan	13 Dec	12 Dec	x
Production of electrical energy	GWh	73,466	74,647	76,348	102.3
ČEZ, a. s.					
Installed capacity as of December 31	MW	10,146	10,146	11,146	109.9
Production of electrical energy	GWh	50,842	52,162	54,118	103.7
Production of heat	TJ	12,868	13,978	13,064	93.5
Number of employees as of December 31 *)	persons	9,278	8,011	7,677	95.8
Earnings per share (face value CZK 100)	CZK/share	12.2	15.5	14.3	92.3
Current ratio	1	0.75	0.65	0.98	150.8
Debt to equity ratio	1	0.43	0.36	0.28	77.8
Return on equity (net) **)	%	5.75	6.86	6.01	87.6

*) ČEZ/ČEPS
**) The shareholders' equity value in the denominator is the average of the year-end values for the previous and the current year.

Consolidated Balance Sheets (CZK millions)

	2000	2001	2002	Index 02/01 (%)
Assets				
Property, plant and equipment:				
Plant in service	177,361	180,252	242,338	134.4
Less accumulated provision for depreciation	84,408	92,614	103,355	111.6
Net plant in service	92,953	87,638	138,983	158.6
Nuclear fuel, at amortized cost	5,764	5,967	7,931	132.9
Construction work in progress	103,591	111,929	56,513	50.5
Total property, plant and equipment	202,308	205,534	203,427	99.0
Investment in associate	5,225	5,518	5,880	106.6
Investments and other financial assets, net	3,232	5,195	5,631	108.4
Intangible assets, net	916	1,144	1,174	102.6
Current assets:				
Cash and cash equivalents	2,922	2,280	4,225	185.3
Receivables, net	4,029	3,933	4,117	104.7
Income tax receivable	3		1,994	
Materials and supplies, net	2,268	2,489	2,464	99.0
Fossil fuel stock	712	657	618	94.1
Other current assets	645	2,277	1,935	85.0
Total current assets	10,579	11,636	15,353	131.9
Total assets	**222,260**	**229,027**	**231,465**	**101.1**
Shareholders' equity and liabilities				
Shareholders' equity:				
Stated capital	59,209	59,050	59,041	100.0
Retained earnings	70,233	77,676	84,634	109.0
Total shareholders' equity	129,442	136,726	143,675	105.1
Long-term liabilities:				
Long-term debt, net of current portion	49,704	43,081	35,729	82.9
Accumulated provision for nuclear decommissioning and fuel storage	20,902	21,396	23,866	111.5
Total long-term liabilities	70,606	64,477	59,595	92.4
Deferred income taxes, net	8,057	9,870	12,541	127.1
Current liabilities:				
Short-term loans	1,104	514		0.0
Current portion of long-term debt	4,703	5,126	4,235	82.6
Trade and other payables	5,035	8,651	8,934	103.3
Income tax payable	643	953	256	26.9
Accrued liabilities	2,670	2,710	2,229	82.3
Total current liabilities	14,155	17,954	15,654	87.2
Total shareholders' equity and liabilities	**222,260**	**229,027**	**231,465**	**101.1**

Selected Data from Consolidated Statements of Income (CZK millions)

	2000	2001	2002	Index 02/01 (%)
Total revenues	**52,431**	**56,055**	**55,578**	**99.1**
of which, e.g.: Sales of electricity	49,675	53,300	52,938	99.3
Total operating expenses	**39,803**	**41,377**	**44,324**	**107.1**
of which: Fuel	12,800	13,220	12,894	97.5
Purchased power and related services	5,436	6,389	7,328	114.7
Repairs and maintenance	3,316	3,476	3,847	110.7
Depreciation and amortization	9,377	9,366	11,721	125.1
Salaries and wages	3,793	3,946	3,854	97.7
Materials and supplies	1,954	1,851	1,838	99.3
Other operating expenses/income, net	3,127	3,129	2,842	90.8
Income before other expenses/income and income taxes	**12,628**	**14,678**	**11,254**	**76.7**
Other expenses/income	**2,027**	**1,386**	**-542**	
of which, e.g.: Interest on debt, net of capitalized interest	1,015	796	582	73.1
Interest on nuclear provisions	1,265	1,463	1,532	104.7
Foreign exchange rate losses/gains, net	216	-2,110	-3,340	158.3
Income from associate	-319	-360	-497	138.1
Income before income taxes	**10,601**	**13,292**	**11,796**	**88.7**
Income taxes	**3,364**	**4,169**	**3,375**	**81.0**
Net income	**7,237**	**9,123**	**8,421**	**92.3**

Selected Data from Consolidated Statements of Cash Flows (CZK millions)

	2000	2001	2002	Index 02/01 (%)
Operating activities:				
Income before income taxes	10,601	13,292	11,796	88.7
Adjustments to reconcile income before income taxes to net cash provided by operating activities	11,770	10,725	10,657	99.4
of which, e.g.: Depreciation and amortization and asset write-offs	9,406	9,429	11,735	124.5
Amortization of nuclear fuel	1,630	1,644	2,071	126.0
Foreign exchange rate loss/gain	216	-2,110	-3,340	158.3
Interest expense, interest income and dividend income, net	785	555	356	64.1
Provision for nuclear decommissioning and fuel storage	398	387	641	165.6
Income from associate	-319	-360	-497	138.1
Changes in assets and liabilities	-461	913	107	11.7
Income taxes paid	26	-1,820	-3,395	186.5
Interest paid, net of interest capitalized	-1,072	-744	-434	58.3
Interest received	189	178	149	83.7
Dividends received	160	131	210	160.3
Net cash provided by operating activities	21,674	21,762	18,983	87.2
Investing activities:				
Total cash used in investing activities	-21,605	-15,943	-9,917	62.2
Financing activities:				
Proceeds from borrowings	12,797	6,737	8,446	125.4
Payments of borrowings	-14,287	-11,776	-13,864	117.7
Dividends paid	–	-1,174	-1,480	126.1
Acquisition/sale of treasury shares	–	-159	-4	2.5
Total cash used in financing activities	-1,490	-6,372	-6,902	108.3
Net effect of currency translation in cash	-14	-89	-219	246.1
Net increase (decrease) in cash and cash equivalents	**-1,435**	**-642**	**1,945**	
Cash and cash equivalents at beginning of period	4,357	2,922	2,280	78.0
Cash and cash equivalents at end of period	2,922	2,280	4,225	185.3

Main Events of 2002 and 2003 up to Annual Report Closing

January 2002

- Gradual process of opening up the Czech Republic electricity market to competition commences (in 2002 for eligible customers with annual consumption over 40 GWh, full competition for electricity generation); third parties are allowed access to the transmission grid.
- Tender for acquirer of National Property Fund's shareholding in ČEZ, a. s. and in six regional distribution companies cancelled.
- Unit One of Temelín Nuclear Power Station reaches 100% of reactor generating capacity.
- Sale of ČEZ, a. s. shareholding in Energotrans, a.s.

February 2002

- Signing of framework agreement on collaboration between ČEZ, a. s. and the Czech Technical University (ČVUT) in Prague; aim is to provide support for the education of the young generation of power engineers.

March 2002

- Unit Two of Temelín Nuclear Power Station loaded with fuel.
- Government approves plan to sell the National Property Fund's majority shareholdings in five regional distribution companies and minority shareholdings in three regional distribution companies to ČEZ, a. s.; at the same time, Government approves sale of 66% of ČEPS, a.s. from ČEZ to a selected company controlled by the National Property Fund and to the Ministry of Labor and Social Affairs.
- ČEZ, a. s. receives award in the principal category, "Information Openness of Czech Corporations", in the Paegas Signum Temporis 2001 competition.
- First place in "100 Most Admired Companies of the Czech Republic" competition organized by the CZECH TOP 100 association in the category "Production and Distribution of Electricity, Water, Gas and Steam".

April 2002

- Mission sent by the Vienna-based International Atomic Energy Agency (IAEA) to the Temelín Nuclear Power Station finds the station's physical protection system up-to-date and fully comparable with systems in Western Europe.

May 2002

- Government issues privatization decision on sale of shareholdings in eight regional distribution companies to ČEZ; sale of ČEZ, a. s. shareholding in ČEPS, a.s. approved.
- Extraordinary General Meeting convened at the request of the majority shareholder, the National Property Fund, does not give its consent to the Board of Directors of ČEZ, a. s. to sell a 66% shareholding in the subsidiary ČEPS, a.s. and to purchase the State's shareholdings in the regional distribution companies.
- Physical start-up of Unit Two of Temelín Nuclear Power Station (controlled fission reaction) commences.

June 2002

- 10th Annual General Meeting of ČEZ, a. s. is held; amongst other items, the meeting approved the sale of a 51% stake in the subsidiary ČEPS, a.s. to OSINEK, a.s., controlled by the National Property Fund, and a 15% stake to the Ministry of Labor and Social Affairs, and approved the purchase of a portion of the State's shareholdings in the businesses of the regional distribution companies from the National Property Fund.
- Commercial operation of Unit One of Temelín Nuclear Power Station commences.
- In a competition organized by CZECH TOP 100, ČEZ is ranked first in the Czech Republic for the year 2001 in terms of corporate earnings, second in terms of value added, and third in terms of revenues.
- Signing of agreements on purchase of shareholdings in eight regional distribution companies from the National Property Fund and the sale of 51% of subsidiary ČEPS, a.s. to OSINEK, a.s.
- ČEZ is granted an EMS certificate by the independent certification company DET NORSKE VERITAS for its coal-fired and hydro power stations, which at 8,385 MW represent 75% of the company's overall installed capacity (Note: Dukovany Nuclear Power Station obtained this certificate in 2001).

July 2002

- Signing of an agreement with the Czech Consolidation Agency (Česká konsolidační agentura) on the purchase of nearly 2% of the shares of Západočeská energetika, a.s.
- Rainbow Power Foundation formed.

August 2002

- Forced shut-down of the Mělník Power Station, a cooling water pumping station at the Ledvice Power Station, and all hydro power stations (except for Lipno and Slapy) due to flooding.
- Signing of agreement with Ministry of Labor and Social Affairs on sale of 15% stake in ČEPS, a.s.
- Sales of “Rainbow Power” products for 2003 commence.

September 2002

- ČEZ wins “Building of the Year” award for its new Head Office in Prague’s Brumlovka district.

October 2002

- Jaroslav Míl, Chairman of the Board and CEO of ČEZ, a. s., is elected chairman of the European Nuclear Council for 2003.

November 2002

- State Office for Nuclear Safety issues a decision permitting the construction of a spent nuclear fuel storage facility in the Dukovany Nuclear Power Station compound.
- The 2001 Annual Report of ČEZ, a. s. takes three first prizes in the categories “Overall”, “Information Value” and “Power Industry”, respectively. It also wins second place for graphic design and for investor relations through the Internet.
- ČEZ is ranked the second best Czech corporation in the competition “100 Best Czech 2002” and wins first place in the category “Pillars of the State Budget”. The competition is organized by COMENIUS – Pan-European Society for Culture, Education and Scientific and Technical Cooperation.

December 2002

- Antitrust Office issues decision permitting acquisition by ČEZ, a. s. of eight regional distribution companies, under certain restrictive conditions.
- Appeal filed against Antitrust Office decision.
- Unit Two of Temelín Nuclear Power Station begins supplying electricity to the distribution grid.
- Power stations of the “Vltava River Cascade” damaged in August flood returned to operation (except for Orlík and Štěchovice).

January 2003

- Electricity market opened up to competition for eligible customers with annual consumption of over 9 GWh.
- ČEZ wins fourteen additional eligible customers as market is opened up further.
- Results of risk study done by South Bohemian Region according to European Union methodology published; according to study results, the risk of a nuclear catastrophe caused by Temelín Nuclear Power Station is negligible and lower than risks inherent in road transport or operation of a winter sports facility.

February 2003

- Extraordinary General Meeting of ČEZ, a. s. approves draft agreement on sale of Náchod Heat Plant, replaces part of the Supervisory Board, and adds to the treasury shares purchase decision for the purpose of fulfilling the option program approved at the General Meeting held on 19 June 2001.

March 2003

- Antitrust Office issues decision on ČEZ’s appeal and terminates an inquiry into whether the transaction constitutes impermissible public support of ČEZ, a. s.
- Signing of agreement on sale of Náchod Heat Plant to Harpen ČR, s.r.o.

April 2003

- Closing of transaction involving acquisition by ČEZ, a. s. of the distribution companies according to the terms set by the Antitrust Office.
- Standard & Poor’s confirms BBB+ rating with change in outlook from “stable” to “positive”.
- Unit Two of Temelín Nuclear Power Station begins commercial operation.

Looking at the development of the power sector in the countries of the European Union, where the Czech Republic is headed, we are convinced that the merging of a large portion of domestic production capacity with distribution, as well as the simultaneous spin-off of electricity transmission, are both steps in the right direction.

Chairman's Message

Dear shareholders,

The past year presented ČEZ a major challenge in the form of the opening up of the Czech electricity market to free competition. As of January 2002, several dozen of the largest electricity customers, representing nearly 30% of total consumption in the Czech Republic, gained the right to choose their electricity supplier. However, an even more important milestone than this was the fact that the regional distribution companies gained the same right to freely choose their supplier, to the extent that they are still obligated to supply electricity to protected customers. The significance of these changes was that the Czech Republic's wholesale electricity market, in which ČEZ sells most of the electricity it generates, was fully – 100% – opened up to competition, not just among domestic producers, but also in the form of imports from other countries.

I am happy to be able to report that ČEZ performed honorably in this important first year of the competitive market. Thanks to our "Rainbow Power" offering, we maintained our position without significant losses. "Rainbow Power" became known as a synonym for low-priced, Czech, reliable, environmentally friendly power, as well as a symbol of the opening up of the domestic electricity market. We not only maintained but actually strengthened our position in the European electricity market, primarily by penetrating new territories. This was accomplished despite the uneven playing field we had to deal with.

We faced an uneven playing field in the domestic market, where the mandatory purchasing of cogeneration power at fixed prices gave our competitors an unfair advantage, even considering the offer of supplemental condensation generation of electricity. A portion of our own cogeneration production from facilities connected to the transmission grid was denied this fixed price. The playing field in foreign markets was also uneven, since administrative barriers and bans remain in effect there despite the ongoing liberalization process. It must be stated that only part of the asymmetry was corrected for this year. Therefore, we consider it our duty to continue to work for the removal of discriminatory elements that put ČEZ at a disadvantage compared to our competition, since that damages not only you, our shareholders, but in the end it also damages customers, since electricity prices do not reflect the lowest possible costs of procurement.

The past year was also a major milestone for the Temelín Nuclear Power Station project. Unit One began commercial operation in June 2002 and, since then, it satisfied its production quotas reliably. Also, Unit Two supplied the grid with its first megawatt-hours, produced during power tests. After those tests were successfully completed, Unit Two was put into commercial operation in April 2003.

For further successful operations in domestic and foreign markets, we will need in particular to have an efficient organization and low production costs. For that reason, we have made and are still making major changes to our organization, the aim of which is to beef up our sales capability and realize the cost-savings potential inherent in centralizing certain functions and in the system for controlling and directing the production process. 2002 saw the formation of a new section dedicated to corporate strategy. In January 2003, the last phase of the internal company changes was begun: after nearly one year of preparations, the Nuclear Power Section was formed and the managements of both of our nuclear facilities were folded into it. The results to-date of our Conventional Power Section clearly confirm that our chosen path of fundamental organizational change was the right one, since it has brought streamlined decision-making processes, more accountability, and cost savings. It is certainly worth mentioning here that, so far, this section has achieved a cost savings of nearly one billion crowns.

Before us, however, stands a no less important goal. That goal is to integrate the regional distribution companies into the ČEZ Group, as decided by last year's Annual General Meeting on the basis of the Government's privatization decision. Looking at the development of the power sector in the countries of the European Union, where the Czech Republic is headed, we are convinced that the merging of a large portion of domestic production capacity with distribution, as well as the simultaneous spin-off of electricity transmission, are both steps in the right direction. That is because they fully respect the electricity market liberalization conditions set by the European Commission in 1996 as well as the amendment thereof, which is under preparation. They also bring the Czech Republic structurally closer to advanced western European countries in which (except for Luxembourg and the Netherlands) electricity generation and distribution are linked together in the production chain. Here it must be emphasized that this power sector model brings substantial benefits to customers.

Earnings after tax are a realistic estimation of the company's financial performance. Net profit of ČEZ itself, according to Czech accounting standards, was CZK 6.7 billion in 2002, up 4.3% from the previous year. Consolidated net profit according to Czech accounting standards totaled CZK 7.3 billion. According to international accounting standards, ČEZ posted a profit of CZK 8.4 billion.

One major contributing factor in the above results was our new sales policy, which enabled us to reach record power generation of over 54 TWh in 2002. Thanks to this policy, we are maintaining a high degree of utilization in our fossil generating facilities. Indeed, in spite of Temelín Nuclear Power Station going on-line, our conventional power generation volumes were higher than before the year 2000. That said, I do not want and am not able to conceal the fact that our successes in sales and strict cost controls were not the only factors contributing to the good results – the development of CZK exchange rates and certain changes in Czech accounting methods also played a role.

An even more important standard of measurement, perhaps, for the company and its shareholders is the company's ability to generate cash reserves. After long years of capital spending on new facilities and upgrades, we now want to bring our behavior more in line with the market principles that govern European power companies by proposing a more attractive dividend policy to the General Meeting.

One of the key tasks of company management is continuous improvement in the company's performance. The organizational changes mentioned above reduced the company's work force to 7,677 at year end 2002, a reduction of 334 employees. In this respect I would like to remind readers that in 1992, when ČEZ was established as a joint-stock company, we had over 16,000 employees, and the company began the year 2000 with 9,749 employees. Material work force cuts will continue in the newly formed Nuclear Power Section in 2003 and 2004, always following a careful analysis of processes and without compromising our high nuclear safety standards. In the company's other sections, however, there is very little leeway for making any more cuts.

ČEZ always meets its statutory obligations towards stakeholders, including employees, creditors, and suppliers. And we must emphasize that, in this respect, ČEZ is one of the pillars of the Czech economy.

The unveiling of our new "Rainbow Power" brand and the reshaping of the company from an exclusively production based firm into one that focuses on both production and sales, selling first and foremost electricity generated in-house, is beginning to bear fruit. At the end of 2002, just like the year before, we had contracted for 90% of planned 2003 production output. According to our calculations, our emphasis on utilization of domestic inputs – everything from fuels and other raw materials to repairs, training and services – provides jobs to over 100,000 workers in companies connected with the power sector. That makes "Rainbow Power" a good buy. Last year, we reduced the price of a "Rainbow Power" by 4% compared to the price level set by the Energy Regulatory Office. For this year we offered our customers prices that are 8% lower than that. That means that the price of electricity offered by ČEZ today is at the level of 1992's price. Unfortunately, not all end customers are able to profit from our prices, and that is one of the reasons why we are advocating a faster opening up of the Czech utilities market (i.e., both electricity and natural gas) to competition, so that our offering can reach the widest possible range of customers.

I am convinced that the 2002 performance results presented in this Annual Report will assure you that we have taken the right path.

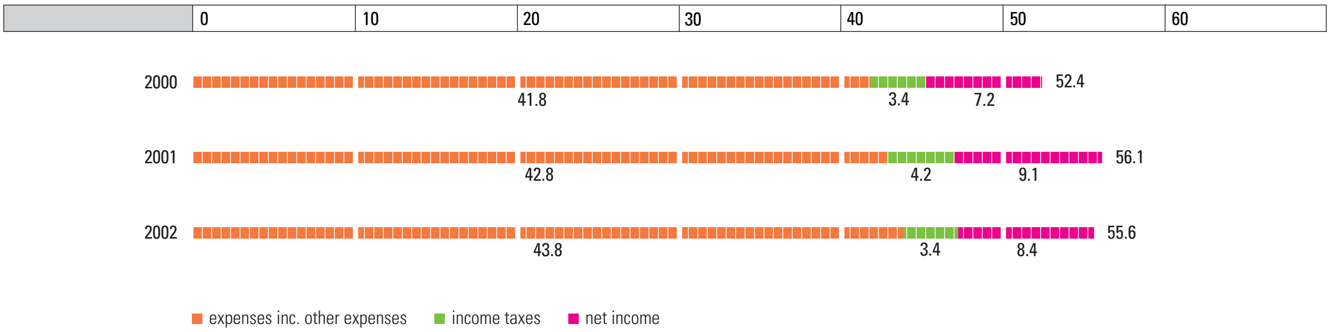
Jaroslav Míl
Chairman of the Board of Directors and CEO

Business Performance

Development of Revenues, Costs and Profit

In 2002 ČEZ attained net profit of CZK 8.4 billion, which represents a yield of CZK 14.3 per share. Operating revenues amounted to CZK 55.6 billion and operating expenses were CZK 44.3 billion.
A significant decline in operating profit in comparison with the past year was partially compensated by exchange rate gains and other factors.
Revenues from electricity sales slightly decreased to CZK 52.9 billion (by 0.7%), despite record output. The main reason was a reduction in prices for the domestic market, represented by competitive offer of "Rainbow Power". Furthermore, the institutional framework of the electricity market started to be completely changed. A newly adopted model for liberalizing the Czech market established or provided for the establishment of new entities such as energy traders, market operator, eligible and protected customers, etc. On the other hand, ČEZ succeeded in marketing its electricity abroad. ČEZ's exports were up 32.1% and the share of exports in total production reached almost 1/3.
In the heat market, we achieved a 6.6% increase in average prices. However, the heat supply decreased by 8.8% mainly as a result of reduced energy use by domestic industries. Heat sales are quite minor and ČEZ's primary focus is on electric power generation and trade.

Formation of Profit (CZK billions)



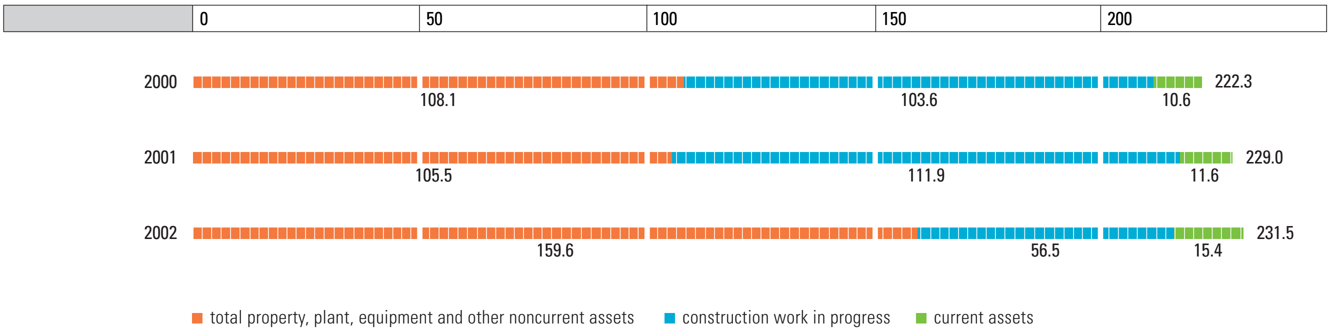
There was an increase in operating expenses (by 7.1%), which was caused mainly by a CZK 2.4 billion increase in depreciation and amortization. This is related to the capitalization of a large amount of tangible assets and nuclear fuel, triggered by the start of commercial operation of Unit One of Temelín Nuclear Power Station.
The cost of purchased power and related services was up by CZK 0.9 billion, demonstrating our focus not only on power generating, but also on power trading. Repairs and maintenance costs increased by CZK 0.4 billion (10.7%).
On the other hand, fuel costs decreased by CZK 0.3 billion (despite an increase in total production) due to a portion of coal plant generation being moved to Unit One of Temelín and increased production by hydro power stations.
Exchange rate gains amounted to CZK 3.3 billion due to the Czech Crown's rapid appreciation during 2002. Of course, there was also a contrary impact to these changes in the form of derivative losses, since the company uses derivatives for hedging purposes. The total contribution of other expenses/income was CZK 0.5 billion on the income side, an improvement of CZK 1.9 billion over the CZK 1.4 billion expense reported in 2001.

Income tax (CZK 3.4 billion) declined by CZK 0.8 billion. The decrease was mainly due to investment tax relief related to the start-up of Temelín (CZK 1.2 billion). On the other hand, the deferred tax expense increased by CZK 0.6 billion to reflect the planned sale of ČEPS in 2003.
Costs were also negatively affected by the flood in August 2002. Some fossil stations and several hydro power stations on the Vltava river sustained serious damage. Two of them are still out of action. Damages to company property amounted to CZK 0.6 billion, but most of this amount is covered by insurance. Lost profit was another impact, connected with lost export opportunities as well as with repurchase agreements, under which ČEZ offered customers to buy back electricity they could not use but had to take delivery of under the "take or pay" system.

Assets Structure

The total net assets of the company amounted to CZK 231.5 billion at the end of 2002, resulting in a 1.1% increase compared to the end of 2001.
Fixed assets, valued at CZK 216.1 billion, decreased year-on-year by a mere 0.6%, but their structure changed significantly. Construction work in progress dropped by 49.5%, valued at CZK 56.5 billion, while net plant in service increased by 58.6%. This change was due to the commissioning of Temelín Unit One and we can expect a similar effect in 2003, when Unit Two is put into commercial operation. Fixed assets comprised 93.4% of total assets at the end of 2002.

Structure of Assets as of 31. 12. (CZK billions)



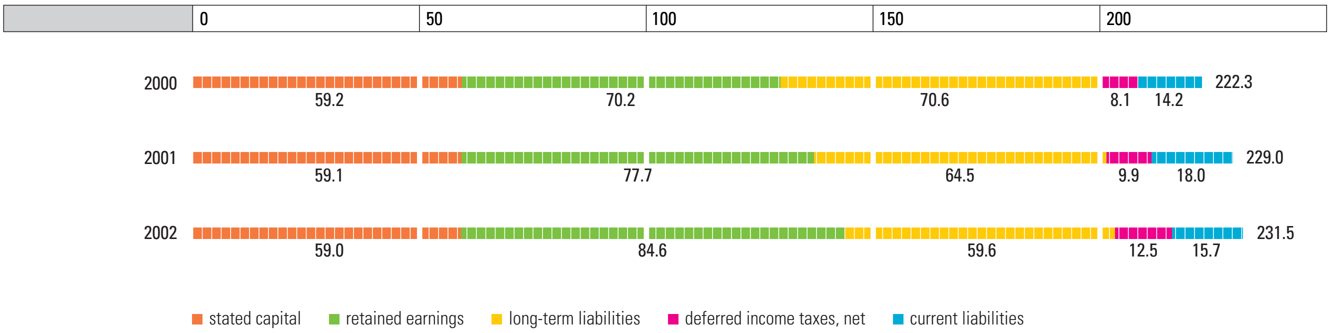
Current assets, consisting of inventory, receivables, and short-term financial assets, reached a net level of CZK 15.4 billion at the end of 2002, which corresponds to a 31.9% increase over year-end 2001. Individual items in the current assets category developed as follows:

- Cash and cash equivalents increased from CZK 2.3 billion to CZK 4.2 billion (by 85.3%) as a result of increased holdings of short-term bank notes. The share of cash rose to 27.5% of current assets.
- Net receivables including those from associates and unconsolidated subsidiaries amounted to CZK 4.1 billion, a 4.7% increase compared to the end of 2001. They represent 26.8% of company's current assets.
- The most important factor in current assets growth is income tax receivable, which amounted to CZK 2.0 billion, mainly due to investment tax relief related to the start-up of Temelín Unit One.
- Materials and supplies slightly decreased by 1.0% and their amount – CZK 2.5 billion – represents 16.0% of the company's current assets.
- Fossil fuel stock decreased from CZK 0.7 billion to CZK 0.6 billion (5.9%) and represents 4.0% of current assets.
- Other current assets, mainly derivatives, amounted to CZK 1.9 billion, down 15.0% from the end of 2001. Fair values of financial instruments were based on market valuations.

Structure of Equity and Liabilities

Shareholders' equity, which consists of the stated capital and retained earnings, amounted to CZK 143.7 billion at the end of 2002, representing 62.1% of the value of company's capitalization and liabilities. Equity increased by CZK 6.9 billion (5.1%) due mainly to growth in retained earnings and, secondarily, to a CZK 12.2 million issue of additional shares. At the end of 2002, the company owned 1,935,000 treasury shares, which are reflected in the balance sheet at cost as a deduction from stated capital.

Structure of Equity and Liabilities (CZK billions)



Long-term liabilities decreased during 2002 by CZK 4.9 billion (7.6%). Their amount, at CZK 59.6 billion, represents only 25.7% of total equity and liabilities. Long-term debt decreased by CZK 8.2 billion, while accumulated nuclear provisioning increased by CZK 2.5 billion. A CZK 0.9 billion decline in the value of bonds outstanding was caused by exchange rate movements, which changed the book value of non-Czech crown denominated liabilities. Long-term bank loans fell by CZK 7.3 billion due in part to repayments of CZK 4.5 billion.

Deferred income taxes increased during 2002 to CZK 12.5 billion, i.e. by CZK 2.7 billion (27.1%), in continuation of a trend established in previous years.

Current liabilities decreased by CZK 2.3 billion and amounted to CZK 15.7 billion, or 6.8% of total equity and liabilities. The company had no short-term loans at the end of 2002. Income tax payable amounted to CZK 0.3 billion, whereas at the end of last year it was CZK 1.0 billion.

Company Debt and Maturity Thereof

The company's overall debt at 31 December 2002 totaled CZK 40.0 billion, of which bonds accounted for CZK 23.0 billion and bank loans CZK 17.0 billion. Outstanding bonds denominated in foreign currencies made up an equivalent of CZK 11.6 billion. In January 2002, ČEZ, a. s. renewed a revolving loan originally entered into in 1996. The loan volume was reduced to USD 70 million. The arranger was Sumitomo Mitsui Banking Corporation.

Long-term Borrowing

Creditor	Currency	Maximum debt amount (millions of currency)	Debt at 31. 12. 2002 (CZK millions)	Maturity
Bank Austria AG	EUR	20	183	2005
Citibank International	USD	317	3,843	2002 – 2008
ČSOB, a.s.	EUR	35	150	2003 – 2004
Erste Bank AG	EUR	20	234	2004 – 2006
European Investment Bank	USD	55	1,403	2013
European Investment Bank	EUR	44	1,198	2013
European Investment Bank	CZK	3,441	2,912	2012 – 2013
Fortis Bank	USD	55	865	2008 – 2009
ING Bank	EUR	27	248	2005
International Bank for Reconstruction and Development	USD	246	2,509	2007
Nordic Investment Bank	USD	50	1,507	2007
Komerční banka, a.s.	CZK	114	10	2003
Konsolidační agentura	CZK	80	55	2003
Sumitomo Mitsui Banking Corporation	EUR	102	659	2003
Sumitomo Mitsui Banking Corporation	CZK	3,115	1,246	2003
Bonds	USD	178	5,336	
Bonds	EUR	200	6,299	
Bonds	CZK	13,000	11,307	
Total long-term debt			**39,964**	
of which: current portion (due by year-end 2003)			4,235	
Long-term debt, net of current portion			**35,729**	

All scheduled loan repayments were made on time and in full.

Also renewed were contracts from August 2000 concerning a bills of exchange program up to CZK 9.0 billion. Participating banks are ABN AMRO Bank N.V., Citibank a.s., Česká spořitelna, a.s., Československá obchodní banka, a. s., ING Bank N.V. and Komerční banka, a.s. Also during 2002 ČEZ, a. s. restored standby lines of credit with Citibank a.s., Československá obchodní banka, a. s., and ING Bank N.V., associated with the bills of exchange program.

Financing of Westinghouse Deliveries for Temelín Nuclear Power Station

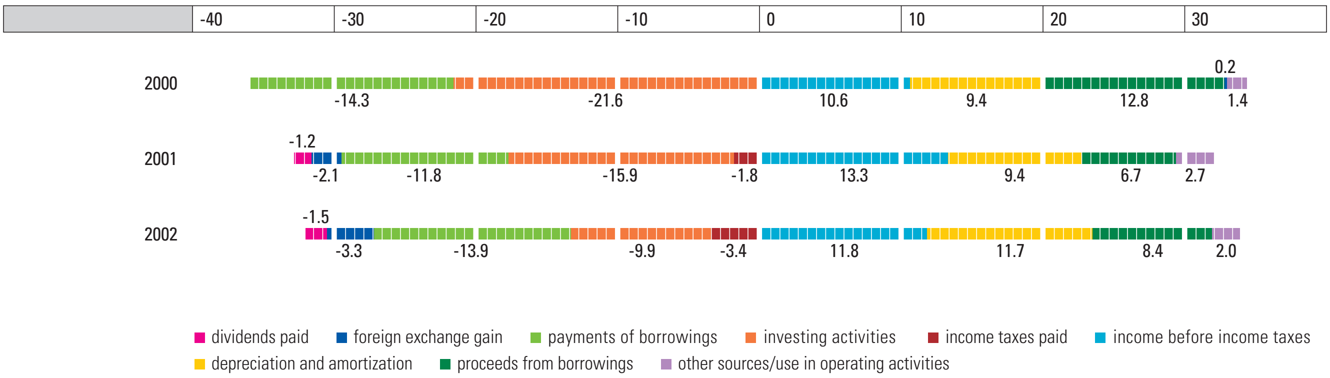
Drawing down of a loan provided by a syndicate of banks led by London-based Citibank was completed in 2001. A total of USD 26.5 million was repaid during 2002. The loan portion relating to fuel and Unit Two was repaid completely in accordance with the loan agreement and repayments of the portion for the control systems of both units continued.

Drawing down continued on a loan from a consortium led by Brussels-based Fortis bank (USD 0.5 million was drawn in 2002). This loan is for the Unit Two control system. USD 4.6 million of principal was repaid on this loan during 2002.

Cash Flows

Operating activities provided CZK 19.0 billion, capital investment requirements amounted to CZK 9.9 billion and total cash used in financing activities was CZK 6.9 billion.

Sources and Uses of Cash (CZK billions)



The main factors that determined operating cash flow were pre-tax profit, which was down CZK 1.5 billion (11.3%), and depreciation and amortization, which was up CZK 2.3 billion (24.5%). Income taxes paid increased by 86.5%, to CZK 3.4 billion. Investment in property, mainly associated with Temelín, amounted to CZK 10.3 billion (decrease of CZK 5.0 billion). Proceeds from sales of fixed assets were CZK 1.0 billion.

Though proceeds from borrowing increased to CZK 8.4 billion, repayments were higher, too, amounting to CZK 13.9 billion. ČEZ, a. s. also raised the dividend paid to shareholders, from a total amount of CZK 1.2 billion in 2001 to CZK 1.5 billion in 2002.

Financial Indicators

Economic indicators express the financial health, economic strength and stability of the company.

Financial Indicators

	Unit	2000	2001	2002
Profitability				
Return on equity (ROE) gross	%	8.4	10.0	8.4
Return on equity (ROE) net	%	5.8	6.9	6.0
Return on total assets (ROA) net	%	3.3	4.0	3.7
Return on capital employed (ROCE) net	%	4.1	5.1	4.7
Sales margin	1	0.20	0.24	0.21
Working ratio	%	60.0	56.9	58.7
maximum level – WB, EIB	%	60.0	60.0	60.0
Indebtedness				
Debt to equity ratio	1	0.43	0.36	0.28
Total indebtedness (provisions excluded)	%	31.2	29.8	26.7
maximum level – EIB, Eurobonds	%	50.0	50.0	50.0
Long-term indebtedness	%	22.5	18.8	15.4
Debt service ratio	1	2.6	2.2	2.9
minimum level – WB	1	2.2	2.2	2.2
minimum level – EIB	1	1.65	1.65	1.65
Liquidity				
Current ratio	1	0.75	0.65	0.98
Operational cash flow to liabilities ratio	%	23.4	23.6	21.6
Total assets turnover	1	0.24	0.25	0.24
Cash generation ratio	%	79.9	90.6	144.0
minimum level – WB	%	40.0	40.0	40.0
Fixed assets				
Coverage of fixed assets	%	98.3	97.1	99.9
Extent of depreciation	%	48	51	43
Capital market				
Earnings per CZK 100 share	CZK/share	12.2	15.5	14.3
Dividend share of profit	%	16.4	16.2	n.a.
Price-earning ratio	1	8.3	5.0	6.5

Several 2000 and 2001 figures differ from those previously reported due to a reclassification of the financial statements (see page 71, Notes to Consolidated Financial Statements, Item 2.3).

Profitability indicators continued at favorable levels, positively influenced by exchange rate movements.
Thanks to both repayments and exchange rate movements, the trend of decreasing debt continued. Lower capital investment and increasing cash flow made it possible to reduce indebtedness.
ČEZ maintains enough liquidity to fulfill its liabilities on time and in full. Non-current assets are sufficiently covered by equity and long-term liabilities.
The drop in extent of depreciation was caused by the commissioning of Temelín Unit One. The increased level of depreciation will have a positive effect on free cash flow in the years to come.

Green is a symbol of stability, firmness, constancy and inertia.

Yellow is the color of eccentric energy, expressing the diffusion of force into space; it stands for change and development. It also symbolizes the Sun, knowledge, and wisdom.

Corporate Governance and Management

In accordance with the Articles of Association of ČEZ, a. s., the General Meeting of ČEZ, a. s. elects and dismisses the members of the Supervisory Board. The Supervisory Board elects and dismisses the members of the Board of Directors. The Board of Directors appoints and dismisses the Chief Executive Officer and other top company executives that report directly to the CEO.

The Board of Directors

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. This combination is a tool for effective communication within the company, in view of the company's size and the distances between various organizational units, and it facilitates finding faster, more practical solutions to problems concerning company management. The separation of the two positions did not have satisfactory results when tried in the past.

The Board of Directors is the company's statutory body, which directs the company's operations and acts on its behalf. The powers and responsibilities of the Board of Directors are set forth in detail in the Articles of Association, which are available for shareholders to inspect at the General Meeting and which are archived in the Collection of Documents of the Commercial Register maintained by the Prague Municipal Court.

Members of the Board of Directors are selected professionals who possess the necessary qualifications for the job and whose expertise contributes to the overall knowledge base of the Board.

The Board of Directors is obligated to meet at least once a month. 43 meetings took place in 2002.

For effective management of inspection and audit processes, the Board of Directors has set up an Audit Committee consisting of two members of the Supervisory Board, two members of the Board of Directors and the head of the Internal Audit department. The Audit Committee met four times in 2002 and six meetings are planned in 2003. Its key activity is to discuss matters relating to the internal and external auditors, including their participation in the audit of the financial statements.

By an order of the Chief Executive Officer, special committees have been set up for sales, production, security, and risks. These committees deal with specific issues relating to the mentioned areas, take positions and submit recommendations to the CEO or the Board of Directors, as appropriate. The Supervisory Board is also kept informed regularly about selected matters.

The list of ČEZ, a. s. employees with access to classified material is on file at the National Security Office.

As an issuer of Yankee bonds in the U.S. capital markets, ČEZ files the Form 20F report with the Securities & Exchange Commission (SEC) and complies with the corresponding rules of the Sarbanes-Oxley Act.

Jaroslav MÍL

Petr VOBOŘIL

Pavel HEJKAL

Josef SEDLÁK

David SVOJITKA

Henning PROBST

Pavel KLIKA

Zdeněk LINHART

Composition of the Board of Directors

Jaroslav MÍL	(* 1958)	Chairman of the Board of Directors and CEO since 4 July 2000

A graduate of the Czech Technical University's Faculty of Electrical Engineering, where he majored in power industry economics and management, and a two-year postgraduate program on nuclear power stations at the Czech Technical University, Mr. Míl was awarded an M.B.A. from the Sheffield Hallam University, UK, in 1998.
He is Chairman of the European Nuclear Council for the year 2003, a member of the board of the Czech Power Industry Employers' Association, a member of the board of the Confederation of Industry of the Czech Republic, a member of the Eurelectric Committee, a member of the international advisory committee of the Strategic Management Society and he represents ČEZ at the International Chamber of Commerce.

Petr VOBOŘIL	(* 1950)	Vice Chairman of the Board of Directors since 24 February 2003, member of the Board of Directors since 6 November 2002

A graduate of the Mechanical Engineering Faculty of the Czech Technical University, where he specialized in environmental technology, and a postgraduate course of study in heat supply development. In 1997, he completed the InterManager European standard management skills course.

Pavel HEJKAL	(* 1958)	Member of the Board of Directors since 4 July 2000

A graduate of the Production Economics Faculty of the Prague University of Economics.

Josef SEDLÁK	(* 1959)	Member of the Board of Directors since 4 July 2000

A graduate of the National Economy Faculty of the Prague University of Economics. Currently is attending the InterManager European standard management skills course. He is Chairman of the Board of the Radioactive Waste Repositories Authority, a member of the Board of Severočeské doly a.s. and a member of the Supervisory Board of Jihomoravská energetika, a.s.

David SVOJITKA	(* 1961)	Member of the Board of Directors since 24 February 2003

A graduate of the Economics Faculty of Julius-Maximilians-Universität in Würzburg, Germany, where he majored in monetary policy and public finance.

List of former members of the ČEZ Board of Directors whose tenure ended in 2002 or by the Annual Report closing date:

Ivan CESTR	■ Member of the Board of Directors from 24 May 2001 to 21 October 2002,
František HEZOUČKÝ	■ Member of the Board of Directors from 5 January 1999 to 24 February 2003.

Notes:

- In 2002, members of the Board of Directors received CZK 177,300 in remuneration for positions they held in companies controlled by ČEZ, a. s.
- The number of ČEZ, a. s. shares held by members of the Board of Directors as of 31 December 2002 was as follows: 440 shares with a total nominal value of CZK 44,000.

Other than the remuneration disclosed above and that set forth in the Notes to Financial Statements as of 31 December 2002, members of the Board of Directors did not receive any additional income or bonuses, either monetary or otherwise, from ČEZ in 2002, nor did they enter into any deals, loans, loan guarantees or other monetary relationships with ČEZ.

The Executive Management

Jaroslav MÍL	(* 1958)	Chairman of the Board of Directors and CEO since 4 July 2000

For personal data, see his entry in the Board of Directors, above.

Petr VOBOŘIL	(* 1950)	Deputy CEO since 1 October 2000, Executive Director Strategic Development since 1 October 2002

For personal data, see his entry in the Board of Directors, above.

David SVOJITKA	(* 1961)	Executive Director Finance and Administration since 16 October 2002

For personal data, see his entry in the Board of Directors, above.

Pavel HEJKAL	(* 1958)	Executive Director Trade since 16 September 2000

For personal data, see his entry in the Board of Directors, above.

Henning PROBST	(* 1957)	Executive Director Distribution since 6 January 2003

A graduate of the Business School at the Braunschweig Technical University and the University of Hamburg (Germany). In 1983–1984 he studied in Boston and Washington, USA.

Pavel KLIKA	(* 1953)	Executive Director Conventional Power since 1 November 2000

A graduate of the Czech Technical University's Faculty of Electrical Engineering, where he majored in Power Industry Economics and Management. In January 2001 he completed a Master of Business Administration (M.B.A.) at the Prague International Business School. He is Chairman of the Board of Directors of CEZTel, a.s., Chairman of the Board of Directors of ČEZnet, a.s., and member of the Supervisory Boards of GAPROM, s.r.o. (in liquidation) and Severomoravská energetika, a.s.

Zdeněk LINHART	(* 1953)	Executive Director Nuclear Power since 1 January 2003

A graduate of the Mechanical Engineering Faculty of the Czech Technical University, specialization Nuclear Power Facilities.

Notes:

- In 2002, members of the company's executive management received CZK 365,000 in remuneration for positions they held in companies controlled by ČEZ, a. s. *)
- The number of ČEZ, a. s. shares held by members of the company's executive management as of 31 December 2002 was as follows: 430 shares with a total nominal value of CZK 43,000. *)

Other than the remuneration disclosed above and that set forth in the Notes to Financial Statements as of 31 December 2002, members of the company's executive management did not receive any additional income or bonuses, either monetary or otherwise, from ČEZ in 2002, nor did they enter into any deals, loans, loan guarantees or other monetary relationships with ČEZ.

Explanatory note:
*) The numbers of shares and income from companies controlled by ČEZ, a. s. for the company's senior executives who are at the same time members of the Board of Directors are included in the figures given for the Board of Directors.

The Supervisory Board

The Supervisory Board of ČEZ, a. s., which is elected and dismissed by the General Meeting, consists of twelve members, four of which (Václav Krejčí, František Haman, Jan Ševr, Zdeněk Židlický) are, in accordance with the provisions of Section 200 of Act 513/1991 Sb., as amended, elected by the employees and are themselves employees of ČEZ, a. s. Two members of the Supervisory Board (Stanislav Kázecký, Jan Demjanovič) serve in companies that are commercially connected with ČEZ, a. s., another two members of the Supervisory Board (Jan Juchelka, Pavel Suchý) represent the majority shareholder, the National Property Fund and the remaining four Supervisory Board members (Zdeněk Hrubý, Jaroslav Košut, Václav Srba, Zdeněk Vorlíček) have no commercial or property-related links to ČEZ, a. s.

The Supervisory Board's powers include the power to elect members of the Board of Directors, to supervise the Board of Directors' exercise of its powers and responsibilities and the company's business activities, to inquire into company financial matters, to review the Report on Relations Among Affiliated Entities, to review the year-end financial statements, including profit allocation proposals, and to grant prior consent for key decisions of the Board of Directors.

In accordance with the company's Articles of Association, the Supervisory Board meets at least once a month. 18 meetings were held in 2002.

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.

Composition of the Supervisory Board

Stanislav KÁZECKÝ	(* 1948)	Chairman of the Supervisory Board since 24 February 2003

A graduate of the Production Economics Faculty of the University of Economics, Prague, specialization Economics and Industrial Management. Since 1994, he has been Chairman of the Board of Directors and CEO of ZVVZ a. s. He is a member of the Supervisory Board of EKOKLIMA akciová společnost. Since April 2001 he has been President of the Confederation of Industry of the Czech Republic.

Zdeněk HRUBÝ	(* 1956)	Vice Chairman of the Supervisory Board since 24 February 2003

A graduate of the Czech Technical University's Faculty of Electrical Engineering, where he majored in cybernetics, Mr. Hrubý is currently a Deputy Minister of Finance. He is Vice Chairman of the Presidium of the National Property Fund and serves on the Boards of Directors of Sokolovská uhelná, a. s. and ČESKÝ TELECOM, a.s.

Václav KREJČÍ	(* 1953)	Member of the Supervisory Board elected by employees since 8 August 2000, Vice Chairman of the Supervisory Board since 20 June 2002

A graduate of the Secondary Industrial School of Chemical Technology, Mr. Krejčí is currently head of the department of human resources development and internal communications of the Nuclear Power Section. He is a member of the Supervisory Board of the Rainbow Power Foundation.

Jan DEMJANOVIČ	(*1953)	Member of the Supervisory Board since 24 February 2003

A graduate of the Mechanical Engineering Faculty of the Institute of Mechanical and Textile Engineering in Liberec. Currently, Mr. Demjanovič is Sales Director and member of the Board of Directors of Severočeské doly a.s. He is Vice Chairman of the Board of Directors of Coal Energy, a.s., a member of the Board of Directors of Teplárna Ústí nad Labem, a.s., Chairman of the Supervisory Board of Severozápadní ENERGO GROUP a.s., and Vice Chairman of the Supervisory Boards of SD - Kolejová doprava, a.s. and SD - Humatex, a.s.

František HAMAN	(* 1958)	Member of the Supervisory Board elected by the employees since 9 November 2000

A graduate of the Secondary Industry School of Building Construction. Since 1992 he is on leave in order to act as Chairman of the Basic Labor Organization at Temelín Nuclear Power Station.

Jan JUCHELKA	(* 1971)	Member of the Supervisory Board since 11 June 2002

A graduate of the Karviná Faculty of Business and Trade of the Silesian University in Opava. Since 1 November 2002, he has been Chairman of the Executive Committee of the National Property Fund. He is a member of the Board of Directors of ČESKÝ TELECOM, a.s. and a member of the Supervisory Board of Komerční banka, a.s.

Jaroslav KOŠUT	(* 1960)	Member of the Supervisory Board since 24 February 2003

A graduate of the Faculty of Mathematics and Physics of the Charles University, Prague. In 1994, he studied economics as part of an M.B.A. program at the U.S. Business School, Prague. He is Chairman of the Boards of Directors of UNIPLET Třebíč,a.s. and ZVI a.s. and a member of the Boards of Directors of SLEZAN Frýdek - Místek a. s. and PSP Engineering a.s.

Václav SRBA	(* 1941)	Member of the Supervisory Board since 11 June 2002

A graduate of the University of Economics, Prague. Since July 2002, he has been a Deputy Minister of Industry and Trade. He is Chairman of the Czech Government's Investment Council, a member of the Presidium of the National Property Fund, a member of the Board of Directors of THERMAL-F, a.s., Chairman of the Supervisory Board of UNIPETROL, a.s. and a member of the Supervisory Boards of ŠKODA HOLDING a.s. and ČEPS, a.s.

Pavel SUCHÝ	(* 1954)	Member of the Supervisory Board since 24 February 2003

A graduate of the University of Economics, Prague, where he majored in Financial Reporting and Auditing. He has been a member of the Executive Committee of the National Property Fund since 1994. In November 2002 he was appointed First Vice Chairman of the Executive Committee of the National Property Fund. He is a member of the Board of Directors of AERO HOLDING a.s. (in liquidation) and a member of the Supervisory Boards of UNIPETROL, a.s. and Konpo,s.r.o. He resigned from the Supervisory Board of Jihomoravská energetika, a.s. on 21 February 2003.

Jan ŠEVR	(* 1947)	Member of the Supervisory Board elected by employees since 9 November 2000

A graduate of the Secondary Industrial School of Mechanical Engineering, Mr. Ševr works at the Mělník Power Station, where he heads up the shift operations management department. He is Chairman of the Mělník Power Station Labor Organization.

Zdeněk VORLÍČEK	(* 1941)	Member of the Supervisory Board since 4 July 2000

A graduate of the Mechanical Engineering Faculty of the Czech Technical University, Mr. Vorlíček also did post-graduate work at the same institution and was named Associate Professor. Since August 1998 he has been with the Czech Ministry of Industry and Trade as Deputy Minister for Economic Policy. He is Chairman of the Czech Republic Council for Quality, Chairman of the Economic Policy Task Force of the Economic and Social Alliance Council, a regular guest of the Government's Research and Development Council, and delegate of the Ministry of Industry and Trade to the Academic Assembly of the Academy of Sciences. He is a member of the Supervisory Board of the Academy of Sciences Grant Agency.

Zdeněk ŽIDLICKÝ	(* 1947)	Member of the Supervisory Board elected by employees since 13 June 2002

A graduate of the Secondary Industrial School of Mechanical Engineering. Since 1993, he has been on leave to act as Chairman of the Prunéřov Power Station Labor Organization. He represents the Czech Labor Union of Northwest Power Engineers in the association of North Bohemian Labor Organizations and in the Inter-regional Labor Council. Currently he serves as Vice Chairman of the second largest labor federation – the Association of Independent Labor Unions. He is a representative of the labor federation for power sector issues in the Economic and Social Alliance Council, where he is a member of the task force for economic policy and a consultative team for privatization of the power sector.

List of former members of the ČEZ Supervisory Board whose tenure ended in 2002 or by the Annual Report closing date:

Josef FLEKAL (* 1945)	▪ Dismissed by the extraordinary General Meeting held on 24 February 2003,
Olga HORÁKOVÁ (* 1964)	▪ Dismissed by the extraordinary General Meeting held on 24 February 2003,
Zdenka NĚMCOVÁ (* 1960)	▪ Dismissed by the Annual General Meeting held on 11 June 2002,
Tomáš POTMĚŠIL (* 1949)	▪ Dismissed by the Annual General Meeting held on 11 June 2002,
Jiří ŠVAMBERK (* 1944)	▪ Term of office expired on 12 June 2002,
Vratislav VAJNAR (* 1944)	▪ Dismissed by the extraordinary General Meeting held on 24 February 2003,
Milada VLASÁKOVÁ (* 1944)	▪ Dismissed by the extraordinary General Meeting held on 24 February 2003,
Oldřich VOJÍŘ (* 1961)	▪ Dismissed by the extraordinary General Meeting held on 24 February 2003.

Notes:

- In 2002, no members of the Supervisory Board received any income or bonuses, monetary or otherwise, from ČEZ or companies controlled by ČEZ, nor did they enter into any deals, loans, loan guarantees or other monetary relationships with ČEZ, beyond what is disclosed in the Notes to Financial Statements as of 31 December 2002.
- The number of ČEZ shares owned by members of the company's Supervisory Board at 31 December 2002: 3,337 shares, representing a total nominal share value of CZK 333,700.

Shareholders and Securities Outstanding

Shareholder Structure

The total amount of ČEZ's stated capital recorded in the Commercial Register at the end of 2002 was CZK 59.211 billion. In conjunction with a transfer of assets from the State-owned enterprise České energetické závody (in liquidation), the Board of Directors decided to increase the company's stated capital by CZK 12.2 million by issuing 122,382 shares of ČEZ, a. s., which the Prague Municipal Court recorded in the Commercial Register. The relevant resolution entered into legal force on 21 August 2002. The decision of the Czech Securities Commission approving the booked share prospectus and assigning the ISIN identification code was received by ČEZ, a. s. on 20 January 2003. Upon being listed with the Securities Center, the shares were transferred to the National Property Fund on 14 February 2003.

The number of ČEZ, a. s. shareholders at 31 December 2002 was 129,751, which represents a year-on-year decrease of 3,395 shareholders. Of the latter number, 3,381 were private individuals (though the aggregate number of shares held by individuals increased by 7,736,000 over the same period) and 14 were legal entities. The number of shares held by asset managers declined by 19,274,000 and the number of shares held by other legal entities grew by 11,538,000 shares.

Shareholder Structure (%)

	as of 31. 12. 2001	as of 11. 6. 2002*)	as of 31. 12. 2002
Legal entities total	**97.02**	**96.09**	**95.71**
National Property Fund	67.61	67.61	67.61
Other legal entities	16.77	17.40	18.71
of which: domestic	5.52	6.08	7.35
foreign	11.25	11.32	11.36
Asset managers	12.64	11.08	9.39
Private individuals total	**2.98**	**3.91**	**4.29**
of which: domestic	2.81	3.74	4.13
foreign	0.17	0.17	0.16

*) Determined as of the date of the 10th Annual General Meeting.

Using a list of the company's shareholders as of 31 December 2002 produced by the Securities Center, it was determined that no other entity besides the National Property Fund has a share of over 10% in the equity of ČEZ, a. s.

Aside from the National Property Fund, no other shareholder was known to hold a share exceeding 5% of the voting rights at the end of 2002.

The asset manager Československá obchodní banka, a. s. administers securities for 84 shareholders with a total value of CZK 5.5 billion and the asset manager Citibank a.s. administers the securities of three shareholders in a total value of CZK 52.2 million of the stated capital of ČEZ, a. s.

Foreign entities (legal entities and private individuals) held 11.52% of ČEZ's basic capital directly at 31 December 2002. ČEZ is not able to determine whether any of the securities that are managed by asset managers are owned by foreign entities.

Shareholder Structure by Number of Shares Held

	as of 31. 12. 2001	as of 11. 6. 2002	as of 31. 12. 2002
1 – 100,000	132,979	131,345	129,581
100,001 – 500,000	109	99	110
500,001 – 1,000,000	24	28	30
1,000,001 – 10,000,000	30	22	28
over 10 million	4	3	2
Total	133,146	131,497	129,751

Shareholder Structure by Participation in Stated Capital

	as of 31. 12. 2001	as of 11. 6. 2002	as of 31. 12. 2002
up to 1%	133,141	131,490	129,743
1% – 5%	4	4	7
5% – 10%	0	2	0
over 10%	1	1	1
Total	**133,146**	**131,497**	**129,751**

The payment of dividends for the 2000 fiscal year in a total amount of CZK 1.2 billion (approximately 16.4% of the after-tax profit posted by the company – CZK 2 per share) is taking place from 1 August 2001 to 31 July 2006 and the payment of dividends for the 2001 fiscal year in a total amount of CZK 1.5 billion (approximately 16.2% of the after-tax profit posted by the company – CZK 2.5 per share) is taking place from 1 August 2002 to 31 July 2007 at all branches of the payment administrator – Česká spořitelna, a.s.

An extraordinary General Meeting of ČEZ, a. s. was held on 20 May 2002. Its agenda consisted of the following two items:
- giving the Board of Directors approval to sell a 66% shareholding in the subsidiary ČEPS, a.s.;
- decision to purchase the State's shareholdings in the regional distribution companies.

Although the extraordinary General Meeting was convened by the Board of Directors at the request of the majority shareholder, the National Property Fund, the General Meeting did not grant its approval for realization of the envisioned transactions.

On 11 June 2002, the company held its 10th Annual General Meeting, which approved, amongst other items:
- realization of sale and purchase of shareholdings in the power sector:
  - sale of a 66% stake in ČEPS, a.s., of which 91,064,240 shares of common stock (51% stake) to OSINEK, a.s. (a subsidiary of the National Property Fund), and 26,783,600 shares of common stock (15% stake) to the Czech Republic, acting through the Ministry of Labor and Social Affairs, and the method for appraising the book value of said shares;
  - purchase of a portion of the State's shareholdings in the regional distribution companies from the National Property Fund for a total price of CZK 32.1 billion and purchase of 31,754 registered shares of Západočeská energetika, a.s., in booked form, from the Czech Consolidation Agency (Česká konsolidační agentura) for CZK 196.3 million;
- allocation of 2001 profits, including payment of dividends and board member bonuses;
- option to issue up to CZK 15 billion in bonds in 2002 and 2003 in conjunction with the restructuring of the power sector, described above;
- a change in the Supervisory Board: Tomáš Potměšil and Zdenka Němcová were dismissed and Václav Srba, Vratislav Vajnar and Jan Juchelka were elected (difference between number of dismissed and newly elected member is caused by the fact that František Brožík, member of the Supervisory Board, resigned from office in July 2001).

On 24 February 2003, an extraordinary General Meeting was held, which:
- approved the draft agreement on the sale of Náchod Heat Plant. Based on a tender organized by C.S. commerce service, a.s., the company Harpen ČR, s.r.o. was selected as buyer;
- dismissed and newly elected members of the Supervisory Board, except for members elected by the employees. The following were dismissed: Josef Flekal, Olga Horáková, Vratislav Vajnar, Milada Vlasáková and Oldřich Vojíř. The following were newly elected: Stanislav Kázecký, Zdeněk Hrubý, Jan Demjanovič, Jaroslav Košut and Pavel Suchý. At the subsequent Supervisory Board meeting, Stanislav Kázecký was elected Chairman, Zdeněk Hrubý was elected Vice Chairman, and existing Vice Chairman Václav Krejčí was confirmed for another term;
- added a resolution on item No. 15 passed at the Annual General Meeting in June 2001, concerning the incentive program of company share options.

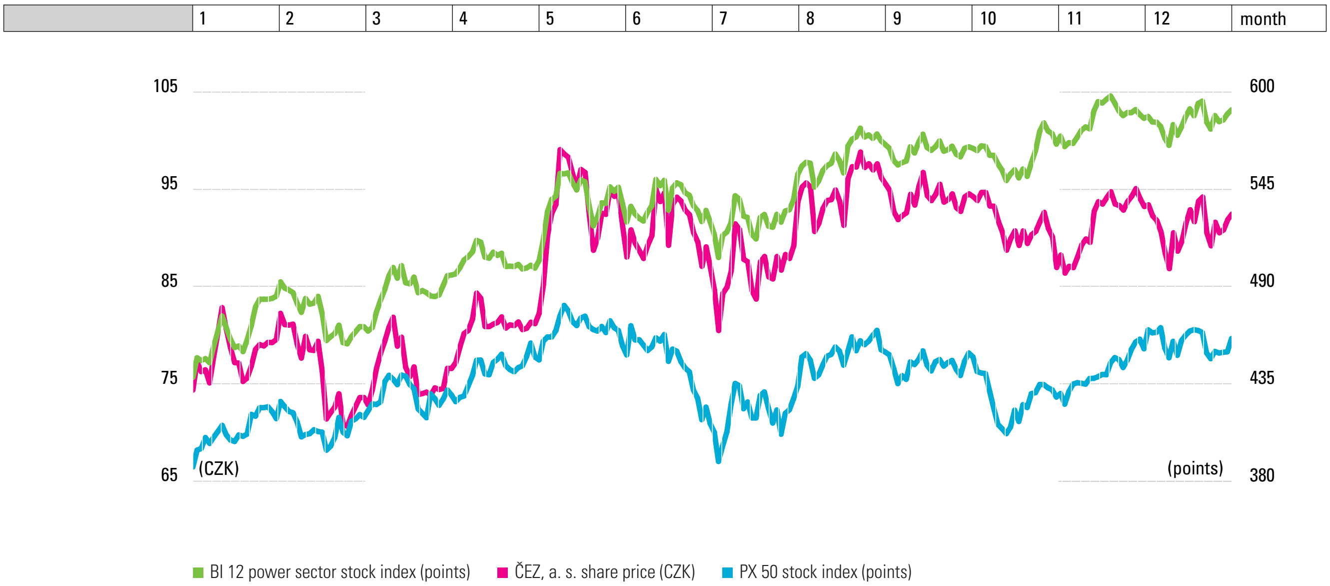
Shareholder Relations

ČEZ, a. s. proceeds in accordance with the provisions of the Commercial Code with respect to protection of shareholder rights. ČEZ, a. s. convenes and runs General Meetings in full compliance with applicable law and ensures that General Meeting resolutions are put into practice. ČEZ, a. s. duly complies with its information disclosure requirements vis-à-vis shareholders.
The company ensures that all shareholders receive equal treatment. The company ensures that investors receive quarterly reports updating them on the company's performance and a list of dates when announcements will be made concerning earnings and General Meetings (convening, conclusions and resolutions), and when securities prospectuses will be made available. The fundamental rules that guide ČEZ, a. s. in disclosing information to investors are credibility, consistency and coherence.
At the Annual General Meeting held on 11 June 2002, a total of 191 shareholders and authorized shareholder representatives were present, representing shares in an aggregate nominal value of CZK 42.039 billion or 71% of the stated capital. Also present at the General Meeting were members of the company's governance bodies and shareholders received an opportunity to ask them questions. A total of 30 questions were raised and answered. When new members of the Supervisory Board are elected, shareholders at the General Meeting are presented with the basic data on the elected members prior to the actual election.

Treasury Shares

The purchase and sale of ČEZ, a. s. treasury shares in 2001 and 2002 served to cover the share option incentive program approved by the General Meeting in 2001. Under option contracts, selected managers, members of the Board of Directors and Supervisory Board have the right to purchase a limited number of shares of the company's common stock (a total number of 3,900,000 shares) at pre-determined price terms. These options serve as an incentive in the long-term interests of the company's future earnings and stability. In all cases, the purchase and sale of shares took place through a securities dealer under a signed contract.
At year end 2001, the company owned 1,950,000 treasury shares which were obtained for an average purchase price of CZK 81.23 per share (lowest price was CZK 75.06, highest price was CZK 85.80). The price of acquiring the treasury shares was CZK 158 million.
In the fourth quarter of 2002, the company sold 1,965,000 treasury shares for an average price of CZK 89.81 (lowest price was CZK 72.48 per share, highest price was CZK 92.00 per share), of which 1,935,000 shares were sold through a securities dealer and 30,000 shares were sold to two beneficiaries who exercised their options for these shares. The total amount received for the sale was CZK 177 million.
In December 2002, 1,950,000 shares were purchased for an average price of CZK 92.44 (lowest price was CZK 89.27, highest price was CZK 95.00). The total cost incurred to purchase these treasury shares was CZK 182 million.
At year end 2002, the company held 1,935,000 treasury shares.

ČEZ Share Price in 2002 and Comparison with PX 50 and BI 12 Indexes



The shares are traded on the Prague Stock Exchange (PSE) and through the RM-System.

The company's Eurobonds are listed on the Luxembourg exchange and its Yankee Bonds are registered with the U.S. Securities and Exchange Commission. The issuer of bonds denominated in foreign currency is CEZ FINANCE B. V.

Credit Rating

On 10 January 2002, Moody's reaffirmed its "Baa1" rating of ČEZ with stable outlook. In its analysis, the rating agency took into account ČEZ's strong position in the domestic market as the principal electricity producer and owner of the transmission grid.

After the privatization process was cancelled and in view of the anticipated decline in wholesale electricity prices in the Czech Republic in conjunction with the liberalization of the electricity market, the rating agency Standard & Poor's reaffirmed ČEZ's "BBB+" rating on 10 January 2002, but changed the outlook from "positive" to "stable". In December 2002, after the Antitrust Office issued its decision, Standard & Poor's confirmed that the "BBB+" rating with stable outlook remained unchanged. The outlook reflected the expectation that the benefits of the completion of Temelín Nuclear Power Station would positively counterbalance the competitive pressures in the electricity market. On 2 April 2003, in conjunction with the acquisition of the State's shareholdings in the regional distribution companies as part of a reintegration of the power sector, Standard & Poor's reaffirmed the BBB+ rating for ČEZ, a. s. with a change in the outlook from "stable" to "positive". The change in outlook reflects the strategic and business gains resulting from improved access to customers and potentially restricted competitive pressures, since they compensate well for the loss of control over the transmission grid.

Classes and Number of Securities Outstanding

Security	ISIN	Issue date	Interest	Maturity	Form
1st share issue [1]	CS0008441952	6. 5. 1992	x	x	booked to bearer
2nd share issue [2]	CZ0005104950	8. 8. 1994	x	x	booked to bearer
share split [3]	CZ0005112300	15. 2. 1999	x	x	booked to bearer [4]
1st bond issue	CZ0003500191	25. 6. 1993	16.50%	1998	documentary
2nd bond issue	CZ0003500233	27. 1. 1994	14 3/8%	2001	documentary
3rd bond issue	CZ0003500423	6. 6. 1995	11.30%	2005	booked to bearer
4th bond issue	CZ0003500654	27. 6. 1996	10.90%	2001	booked to bearer
5th bond issue	CZ0003500662	27. 6. 1996	11 1/16%	2008	booked to bearer
6th bond issue	CZ0003501066	26. 1. 1999	zero coupon [6]	2009	booked to bearer
7th bond issue	CZ0003501058	26. 1. 1999	9.22% [7]	2014	booked to bearer
8th bond issue	CZ0003501090	7. 6. 1999	8 3/4%	2004	booked to bearer
1st Eurobond issue	[8]	15. 12. 1994	8 7/8%	1999	booked to bearer
2nd Eurobond issue	[8]	20. 10. 1999	7.25%	2006	booked to bearer
Yankee bonds	[8]	17. 7. 1997	7 1/8%	2007	booked to bearer

[1] Face value at time of issue CZK 1,000, by decision of the General Meeting of 20 September 1993 raised to CZK 1,100.
Number of shares issued: 51,731,161.
[2] The number of shares issued before and after the registration of Privatization Project supplements was 2,290,665 and 2,304,569, respectively.
[3] As of 15 February 1999, the first and second share issues were split into shares with face value of CZK 100.
Number of shares outstanding: 591,949,421; after stated capital increase: 592,088,461.
[4] All shares are booked to bearer and are listed.
[5] Debtor (ČEZ, a. s.) has early repayment option.
[6] Yield is the difference between value of bond at issue (CZK 1,862,905,005) and face value (CZK 4.5 billion).
[7] Starting in 2006, the bonds will bear interest at a variable rate defined as CPI + 4.2%.
[8] Issued through CEZ FINANCE B.V.
[9] USD 22 million bought back by issuer in first half of 1998.

Amount of share capital remaining to be paid in: 0.
The company has not issued any convertible bonds.
According to the issue conditions, the bonds are not guaranteed by the State or by any bank.

The last column of the table shows the early repayment date for bonds or, for the 5th issue, the early repayment option of the debtor (ČEZ, a. s.). An early repayment option for the creditor is contained in every domestic bond agreement except for the last three, and would be triggered if the debtor were to be unable to retain a minimum installed capacity of 7,500 MW.

Face value	Volume	Manager	Administrator	Early repayment
CZK 1,100	CZK 56.9 billion	x	x	x
CZK 1,000	CZK 2.3 billion	x	x	x
CZK 100	CZK 59.2 billion	x	x	x
CZK 10,000	CZK 2.1 billion	Česká spořitelna	Česká spořitelna	25. 6. 1996
CZK 10,000	CZK 4.0 billion	Česká spořitelna	Česká spořitelna	27. 1. 1999
CZK 10,000	CZK 4.0 billion	ABN-AMRO	Živnostenská banka	6. 6. 2000
CZK 10,000	CZK 3.0 billion	Komerční banka, ING Barings Capital Markets, Česká spořitelna	Komerční banka	27. 6. 1999
CZK 10,000	CZK 3.0 billion	Česká spořitelna, Komerční banka ING Barings Capital Markets	Česká spořitelna	27. 6. 2003 or 27. 6. 2006 [5]
CZK 1,000,000	CZK 4.5 billion	ING Barings Capital Markets	Citibank	x
CZK 1,000,000	CZK 2.5 billion	ING Barings Capital Markets	Citibank	x
CZK 10,000	CZK 3.0 billion	Česká spořitelna	Česká spořitelna	x
USD 10,000	USD 150 million	J.P. Morgan	Citibank	x
EUR 1,000 EUR 10,000 EUR 100,000	EUR 200 million	Credit Suisse First Boston	Chase Manhattan Trustees Limited	x
USD 1,000	USD 200 million [9]	J.P. Morgan, Merrill Lynch, Salomon Brothers	The Chase Manhattan Bank	x

Litigation

The company was not involved in any litigation that could have a material impact on earnings. Constitutional complaints against ČEZ's actions in the matter of an ownership participation in KOTOUČ ŠTRAMBERK, spol. s r. o. were rejected during the period in question.

Proceedings are ongoing before the Constitutional Court in the matter of a constitutional complaint relating to Temelín Nuclear Power Station, and litigation is pending with several regional distribution companies concerning payment of contractual penalties or penalty interest on late payments for electricity in 1996.

At the Linz Court of Appeals, proceedings are pending on an appeal filed by the Province of Upper Austria against a lower court's decision rejecting its suit relating to the operation of Temelín Nuclear Power Station.

At the Prague Municipal Court, proceedings are ongoing in a suit filed by ŠKODA PRAHA a.s. challenging the exercise by ČEZ, a. s. of its right to a contractual penalty for late handing over of industrial process equipment in the course of construction of Temelín Nuclear Power Station.

Dark green is the color of potential energy and vegetative growth. It has a calming effect, and refreshes.

Strategic Objectives

Business Plans and Strategies

The company engages in its business operations in accordance with the Business Strategy approved by the General Meeting in 2001. The Business Strategy states that the mission of ČEZ, a. s. is to satisfy the demand of both traditional and new customers for electrical energy and related services, to operate successfully in the market and reliably supply electricity, predominantly from the company's own generating facilities, that is produced in a safe and environmentally friendly manner. The plan also lays out a summary of the basic preconditions for successful fulfillment of these objectives:

- achieve a sustained reasonable return on invested capital and growth in the company's market value, optimum level of electricity sales, allowing for the effective utilization of the company's own production capacity,
- be a recognized, reliable and sought-after business partner and an attractive employer.

The company's principal business activity continues to be focused on the sale of electricity and related ancillary services. The company's secondary activities include the generation and sale of heat and the processing of electricity generation by-products.

The Business Strategy places emphasis on the transformation of ČEZ, a. s. from a primarily production-oriented company into a production- and sales-oriented company that implements active sales policies focused on traditional and new customers and markets. In the capital area, the company manages its development so as to ensure it possesses a portfolio of production facilities that is optimized for mid-term utilization and at the same time to lay the groundwork for bringing about long-term growth. To ensure that the principal activities are carried out effectively according to the Business Strategy, the company has assembled a reasonably sized team of capable, efficient, and loyal employees willing to carry out the company's business plans and strategies, and an environment suitable for the development of their professional careers. In accordance with the Business Strategy, corporate management focuses on the creation of a transparent environment that stimulates cooperation in keeping the company prosperous over the long term. In the area of external relations, ČEZ, a. s. respects good business practices with the aim of being perceived as a serious and successful company.

ČEZ Strategic Development Objectives

For producers, the Czech Republic electricity market has been fully (i.e., 100%) opened to competition since 1 January 2002. The only exemption from equal competition is the State's support for certain generation techniques that use renewable resources more favorable to the environment and support for combined heat and power generation (cogeneration). Since the deformation of the market environment in conjunction with this support arose primarily due to the form (exclusion of generation facilities connected to the transmission grid, fixed electricity prices) of the support rather than its scope, the form of support is being changed gradually. When subjected to a realistic comparison, the degree to which the corresponding markets in neighboring countries have been opened to competition is lower. Therefore, ČEZ is already showing a high level of competitiveness in performance results, both domestic and export, but we must endeavor intensively to maintain this level of competitiveness.

While international trading volumes are on the rise, the Czech Republic does remain our key market. In the domestic market, ČEZ, a. s. endeavored to acquire the regional distribution companies in order to gain direct access to end customers. This plan was successfully realized 1 April 2003, when ČEZ, a. s. acquired shares in the regional distribution companies.

The regional distribution companies in the ČEZ Group will retain fully their legal personalities and continue to do business separately from their corporate parent. Electricity procurement will be carried out in a transparent manner, with full consideration for the interests of the shareholders in these companies, both majority and minority.

Ownership of both production and distribution combined in a single group is common in the vast majority of electric utilities in both Europe and the USA. It is a precondition for the company's sustainable prosperity and it will make it possible to improve and reinforce ČEZ's commercial position in the liberalized European market.

As of the beginning of 2002, there were 76 eligible customers in the Czech electricity market. In January 2003, their number rose to approximately 350. ČEZ, a. s. is endeavoring to achieve a high degree of effectiveness in its sales and marketing by reaching all the way to the end customer.

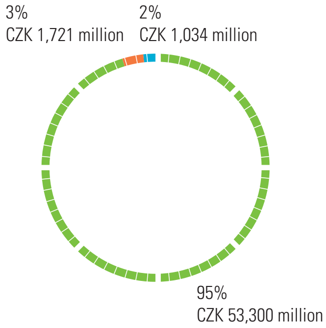
The portfolio of ČEZ, a. s. power stations can be seen as suitably structured, even from a long-term perspective. After Unit One of Temelín Nuclear Power Station was successfully put into commercial operation in June 2002, Unit Two of Temelín joined it, commencing commercial operation in April 2003. This will increase the share of ČEZ, a. s. power generated in nuclear power stations to nearly 50%. Even in the future, however, conventional power generation will be retained, mostly using domestic primary energy resources. After a portion of today's facilities wind up their useful lives early in the next decade, their generating capacity will be renewed in an optimum fashion, both economically and environmentally.

ČEZ, a. s. will continue to put in place systems for quality, safety and environmental management that allows us to sell safe, reliable, and competitive electricity and ancillary services in the liberalized European market. ČEZ, a. s. continues to see the completion of the privatization of the National Property Fund's holdings in the company's stated capital as one of its long-term goals.

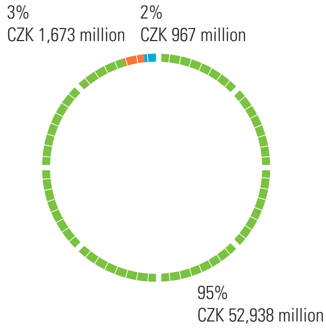
Sales of Electricity, Ancillary Services and Heat

Consolidated Revenues

	in 2001	in 2002



Total revenues CZK 56,055 million

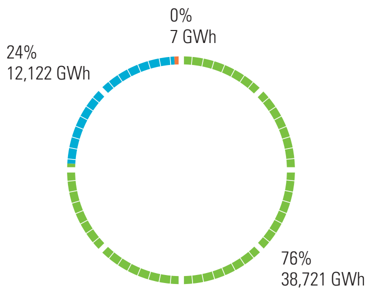


Total revenues CZK 55,578 million

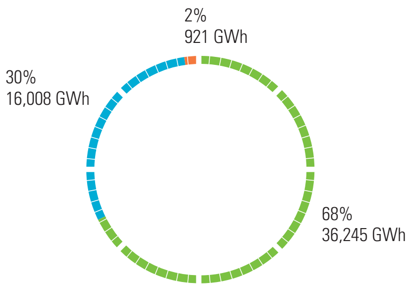
■ electricity ■ heat ■ other

ČEZ, a. s. Electricity Sales

	in 2001	in 2002



Total sales volume 50,850 GWh



Total sales volume 53,174 GWh

■ domestic ■ export ■ trading outside the Czech Republic

ČEZ Electricity Procurement and Supply (GWh)

	2001	2002	Index 02/01 (%)
Procurement:			
Generated in-house	52,162	54,118	103.7
Purchased from other producers	3,274	2,018	61.6
Purchased from OTE – deviations *)		881	x
Purchased from OTE – organized spot trading *)		19	x
Purchased to cover own consumption	17	18	105.9
Purchased outside the Czech Republic	688	1,338	194.5
Total	**56,141**	**58,392**	**104.0**
Supply:			
Sold in the domestic market	38,721	36,245	93.6
Sold to regional distribution companies	36,942	31,466	85.2
Sold to OTE – positive regulation work *)		1,356	x
Sold to OTE – negative regulation work *)		-385	x
Sold to OTE – deviations *)		137	x
Sold to OTE – organized spot trading *)		225	x
Sold to eligible customers		69	x
Sold to traders		2,593	x
Sold to ČEPS to cover losses **)	1,393	598	42.9
Other domestic sales	386	186	48.2
Export	12,122	16,008	132.1
Trading outside the Czech Republic (sales)	7	921	> 200
Other ČEZ consumption	5,231	5,218	99.8
of which: for generation of electricity	4,218	4,245	100.6
for pumping at pumped-storage hydro power stations	556	479	86.2
other consumption by production facilities	457	494	108.1
Losses in ČEZ grids	60		x
Total	**56,141**	**58,392**	**104.0**

*) Operátor trhu s elektřinou, a.s. – OTE (Market Operator).
**) Including regulation work in 2001.

Conditions in the Electricity Market

Beginning on 1 January 2002, in accordance with the "Energy Act", the Czech Republic's electricity market embarked on a process of market liberalization. The market for electrical energy is based on regulated access to the transmission grid and to the distribution grids. Electricity market players include producers, the transmission grid operator, the Market Operator, the commodity exchange, traders, and end customers.

Effective 1 January 2002, the first group of customers (those with annual consumption in excess of 40 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. Starting on 1 January 2002, the only prices regulated by the State are electricity prices for protected customers (i.e. those who, for the time being, are not allowed to choose their electricity supplier) and, further, prices for transmission and distribution of electricity and prices for system services (charged by grid monopolies). The prices for which ČEZ, a. s. supplies electricity to the regional distribution companies were placed in the category of negotiated prices.

ČEZ, a. s. reacted to these new conditions, under which the market was completely open for domestic electricity producers as well as to competing supplies from abroad, by coming out with an entirely new and fundamentally revamped system of electricity sales. Under the "Rainbow Power" brand, ČEZ, a. s. 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 the desired diagram. The complete structure of this offering allows all regional distribution companies to not only fully meet the needs of protected customers to whom they are required by law to supply electricity, but also to fully satisfy additional requirements for electricity supplies from ČEZ, a. s.

In view of the fundamental change in the terms of trading in the Czech electricity market and the difficulty of anticipating how individual market players will behave (especially eligible customers), the seven "Rainbow Power" products were offered to the regional distribution companies gradually, in four offer rounds. Sales commenced on 31 August 2001 with the offering of year-round 24-hour electricity supply ("yellow" electricity). For additional sales of products, ČEZ, a. s. organized a total of three tenders which were open to all qualified bidders, i.e. the regional distribution companies, all eligible customers and traders. Through these offer rounds and tenders, approximately 90% of anticipated 2002 domestic sales of "Rainbow Power" were sold even before the year started.

During 2002, ČEZ, a. s. utilized its free generation capacity to sell electricity both on the Czech Republic spot market, which is organized by OTE, and through bilateral contracts entered into for this purpose. During 2002 four additional products were added to the "Rainbow Power" product range. The first year of electricity trading under the new conditions confirmed the advantages and usefulness of building a trading room in the company's head office in Prague. ČEZ, a. s. also had a hand in the creation of the electricity branch of the Czech-Moravian Commodities Exchange in Kladno. The exchange commenced operations in November 2002.

An important part of ČEZ's trading activity, one that has an impact on the overall amount of electricity sold in 2002, was export. Through diversification in export destinations we were able to mitigate dependence on the German market.

Sales of Electricity to the Regional Distribution Companies in 2002

In view of the change in trading system, direct sales by ČEZ, a. s. to the regional distribution companies declined by 5,476 GWh in 2002, i.e. by 14.8%. However, total ČEZ, a. s. domestic sales were down by only 2,476 GWh, i.e. 6.4%, since some electricity in 2002 was sold to domestic traders and on the OTE's market.

Sales of Ancillary Services

In order to provide system services, ČEPS, a.s., the transmission grid operator, organizes tenders for the purchase of ancillary services and, based on the results, enters into bilateral contracts with providers and also organizes a spot (day-ahead) market for ancillary services. A total of seven entities including ČEZ, a. s. offered ancillary services in 2002.

ČEZ, a. s. bid successfully in the tenders and traded, also successfully, on the spot market for ancillary services.

Sales of Heat

ČEZ's share in total supplies of heat from power plants and heat plants (including industrial facilities) in the Czech Republic was approximately 11%, making the company one of the three largest thermal energy producers in the Czech Republic. Nearly all ČEZ, a. s. heat supplies are based on combined generation of heat and power.
Supplies of heat by ČEZ, a. s. to customers declined by 8.8% from 2001's levels. Given that the number of customers remained practically the same, the lower heat sales were caused by the ongoing decline in demand for heat supplies which is caused, on the household side, by the addition of insulation to buildings and, on the corporate side, especially in industry, by reductions in energy consumption in production processes. The influence of the average temperature, which was higher in 2002, could be seen in all localities.

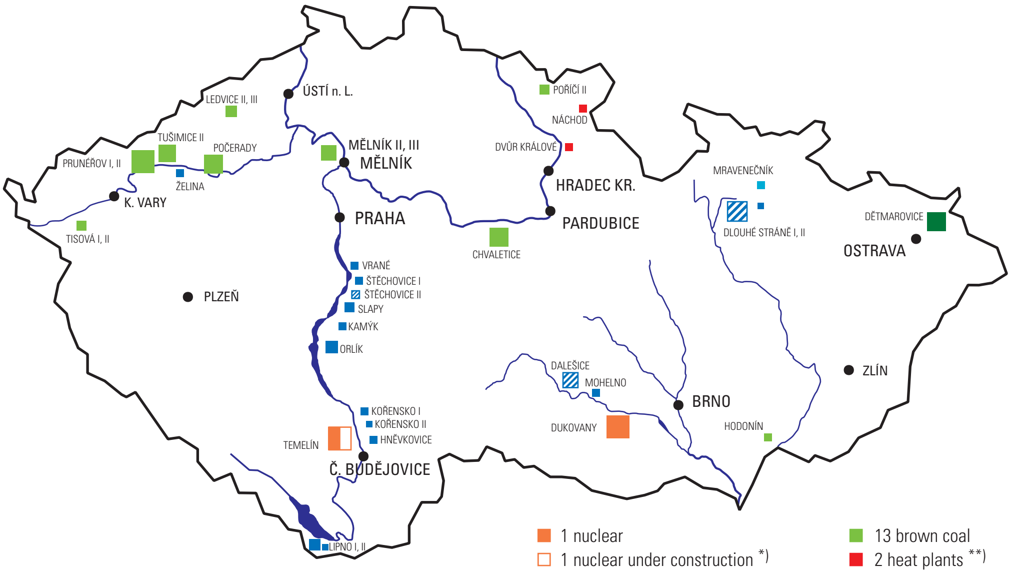
ČEZ Heat Procurement and Supply (TJ)

	2001	2002	Index 02/01 (%)
Procurement:			
Generated in-house	13,978	13,064	93.5
Purchased from other producers	4	2	50.0
Total	13,982	13,066	93.5
Supply:			
Heat plant operators	3,725	3,199	85.9
Heat distributors	1,632	1,509	92.5
Other customers	4,963	4,699	94.7
Export	153	143	93.5
Total sales	10,473	9,550	91.2
ČEZ in-house consumption	2,154	2,162	100.3
ČEZ useful supply	12,627	11,712	92.8
Losses in ČEZ heat supply systems	1,354	1,354	100.0
Total	13,982	13,066	93.5

Generation and Supply of Electricity and Heat

Production Base

Locations of ČEZ, a. s. Production Facilities as of 31 December 2002



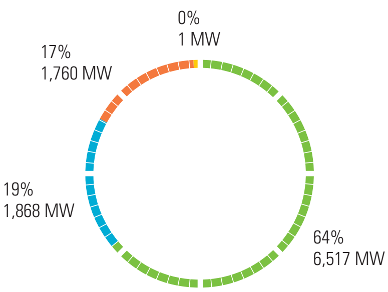
- 1 nuclear
- 1 nuclear under construction *)
- 13 hydro
- 3 pumped-storage
- 13 brown coal
- 2 heat plants **)
- 1 black coal
- 1 wind

*) Unit One of Temelín Nuclear Power Station commenced commercial operation in June 2002, Unit Two followed in April 2003.

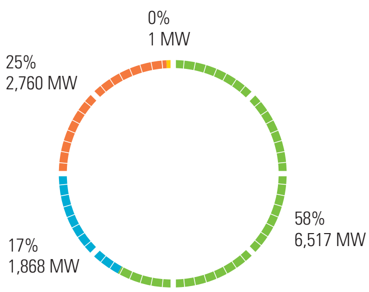
**) Náchod Heat Plant was sold in 2003.

ČEZ Installed Capacity by Facility Type as of 31 December

2001	2002



Total installed capacity 10,146 MW



Total installed capacity 11,146 MW

- fossil power stations
- hydro power stations
- nuclear power stations
- solar and wind power stations

Fossil Power Stations (at 31 December 2002)

Station	Type of fuel	Installed capacity (MW)	Year commissioned	Desulfurized since
Mělník II	brown coal	2 x 110	1971	1998
Mělník III	brown coal	1 x 500	1981	1998
Tisová I	brown coal	2 x 55; 1 x 50; 1 x 12	1959 – 1960	1996 – 1997
Tisová II	brown coal	1 x 100	1961	1997
Poříčí II	black coal, brown coal	3 x 55	1957 – 1958	1996, 1998
Náchod *)	brown coal	1 x 5; 1 x 12	1950, 1969	1997
Dvůr Králové *)	brown coal	1 x 6.3; 1 x 12	1955, 1963	1997
Dětmarovice	black coal	4 x 200	1975 – 1976	1998
Chvaletice	brown coal	4 x 200	1977 – 1978	1997, 1998
Ledvice II	brown coal	2 x 110	1966	1996
Ledvice III	brown coal	1 x 110	1968	1998
Tušimice II	brown coal	4 x 200	1974 – 1975	1997
Počerady	brown coal	5 x 200	1970 – 1971, 1977	1994, 1996
Hodonín	lignite	1 x 50; 1 x 55	1954 – 1958	1996 – 1997
Prunéřov I	brown coal	4 x 110	1967 – 1968	1995
Prunéřov II	brown coal	5 x 210	1981 – 1982	1996
Total	x	**6,517**	x	x

*) Heat plants are part of the Poříčí Power Stations organizational unit and compliance with emissions limits is ensured by using low-sulfur fuel and supplementing it with natural gas. Náchod Heat Plant was sold in March 2003.

Nuclear Power Stations (at 31 December 2002)

Nuclear power station in operation	Installed capacity (MW)	Year commissioned
Dukovany	4 x 440	1985 – 1987
Temelín	1 x 1,000	2002
Nuclear power station total	**2,760**	x

Nuclear power station under construction	Installed capacity (MW)	Year commissioned
Temelín	1 x 1,000	2003
Nuclear power station total	**1,000**	x

Hydro Power Stations (at 31 December 2002)

Accumulation, run-of-river and small-scale hydro power stations	Installed capacity (MW)	Year commissioned
Lipno I	2 x 60	1959
Lipno II	1 x 1.5	1957
Hněvkovice	2 x 4.8	1992
Kořensko I	2 x 1.9	1992
Orlík *)	4 x 91	1961 – 1962
Kamýk	4 x 10	1961
Slapy	3 x 48	1954 – 1955
Štěchovice I *)	2 x 11.25	1943 – 1944
Vrané	2 x 6.94	1936
Mohelno	1 x 1.2; 1 x 0.56	1977; 1999
Dlouhé Stráně II	1 x 0.16	2000
Kořensko II	1 x 0.94	2000
Želina	2 x 0.315	1994
Total	723	x
Pumped-storage hydro power stations		
Štěchovice II *)	1 x 45	1947 – 1949
		overhauled 1996
Dalešice	4 x 112.5	1978
Dlouhé Stráně I	2 x 325	1996
Total	1,145	x
Hydro power stations total	1,868	x

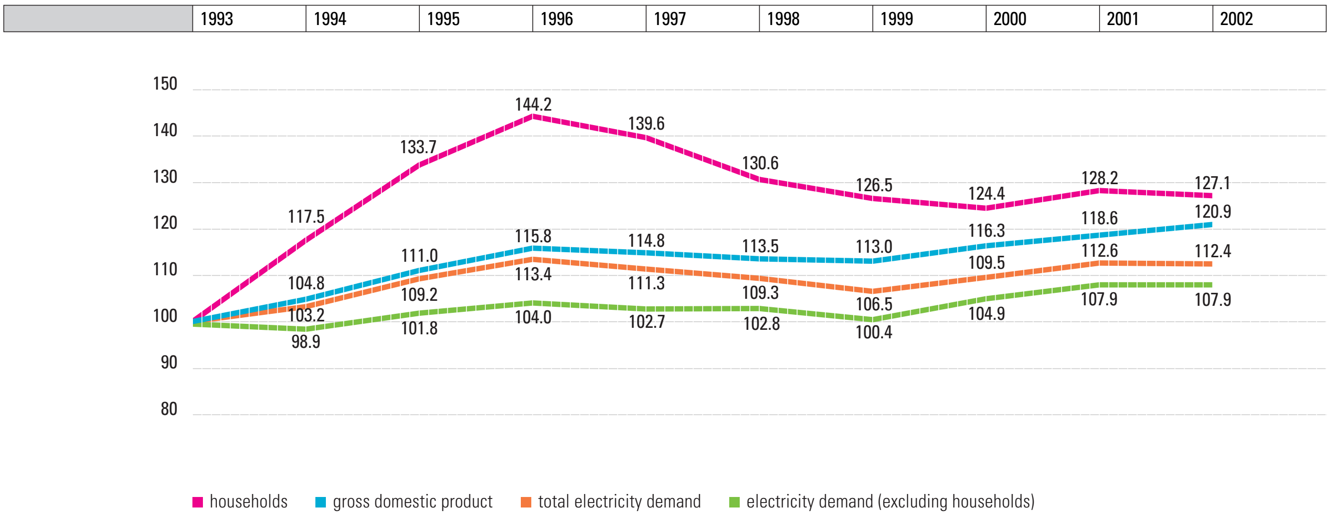
*) At 31 December 2002 temporarily off-line due to August flood damage.

Wind Power Stations (at 31 December 2002)

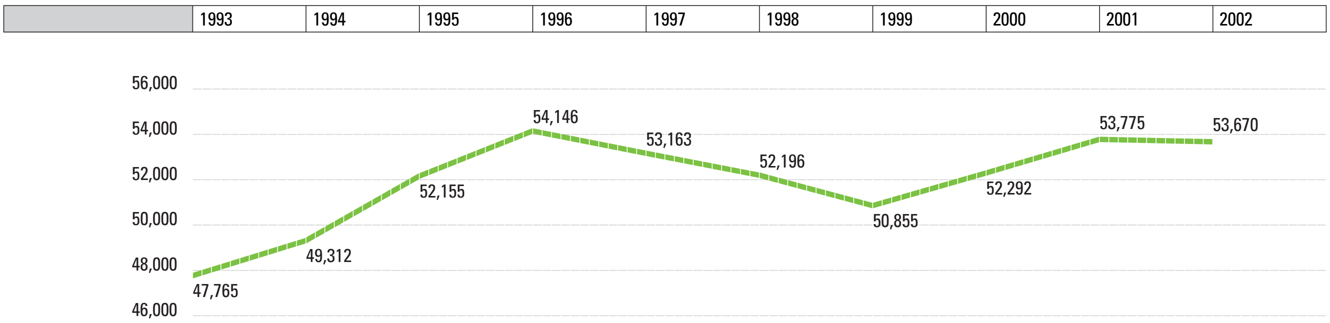
	Installed capacity (MW)	Year commissioned
Mravenečník (Jeseníky Mountains)	1 x 0.220	1998
	1 x 0.315	
	1 x 0.630	
Wind power station total	1.165	x

Czech Republic Electricity Demand

Comparison of Czech Republic GDP and Electricity Demand (%)



Czech Republic Electricity Demand (GWh)



Compared to 2001, demand for electricity in the Czech Republic was down by 105 GWh, i.e. by 0.2%, reaching a level of 53,670 GWh. The following factors contributed to the decrease in demand:

- lower demand in industry (large-scale customers, consumption by power producers and electricity consumed inside generation facility compounds, including those run by industrial companies) by 106 GWh (0.3%),
- lower household consumption by 117 GWh (0.8%), primarily due to lower electricity demand resulting from the average 2002 temperature, which was 1.2 °C above the long-term average, and 0.8 °C above the average temperature in 2001,
- small business electricity consumption, on the other hand, grew by 118 GWh (1.6%).

However, the growth potential in electricity demand was retained, since when the periods in question are adjusted to the long-term temperature average, electricity demand would have grown by 0.4%.

On Thursday, 12 December 2002 at 17:00 a record high power requirement was recorded on the grid: 11,205 MW. This is 601 MW higher than the peak requirement in 2001.

Coverage of Electricity Demand

Electricity Demand and Generation (%)

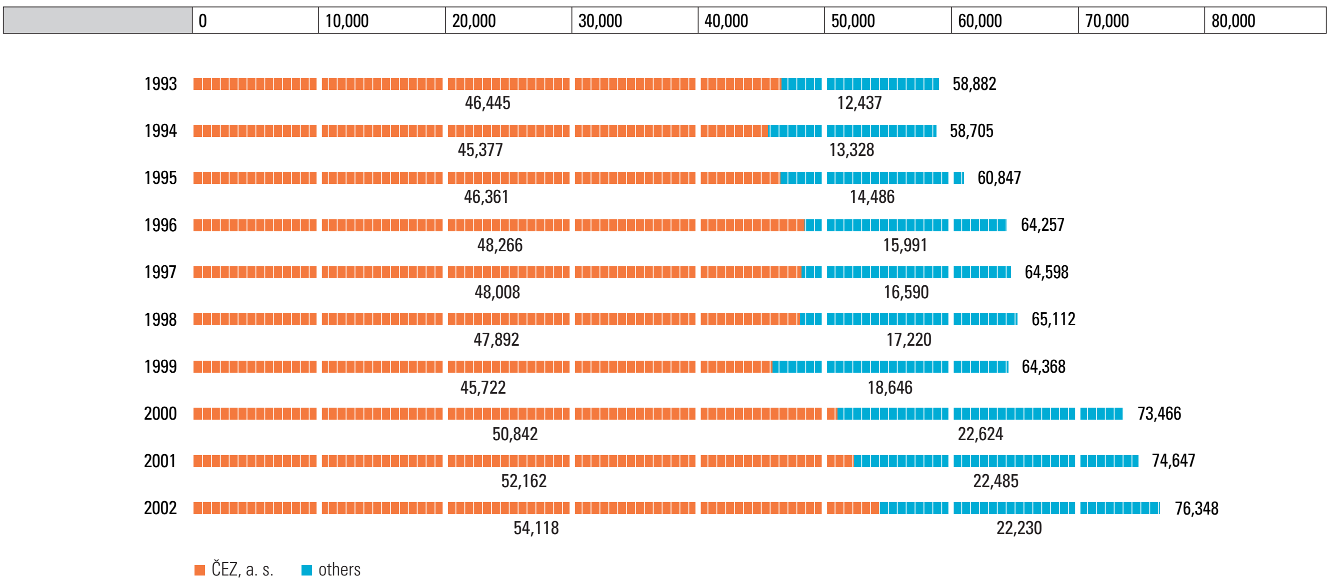
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Year-on-year electricity demand index	99.2	103.2	105.8	103.8	98.2	98.2	97.4	102.8	102.8	99.8
ČEZ-generated electricity share in meeting Czech Republic electricity demand	74.8	73.1	70.9	68.3	67.7	67.1	63.4	57.4	58.9	56.6
ČEZ share in meeting Czech Republic electricity demand	74.3	73.7	76.9	80.0	78.2	76.4	72.9	64.9	65.6	62.4
Year-on-year electricity generation index:										
– Czech Republic	99.3	99.7	103.6	105.6	100.5	100.8	98.8	114.1	101.6	102.3
– ČEZ, a. s.	97.4	97.7	102.2	104.1	99.5	99.8	95.5	111.2	102.6	103.7

Even though the Czech Republic market was already fully open to competition in 2002, ČEZ, a. s. held on to its position, which allowed it to actually increase overall electricity production. The share of ČEZ-generated electricity in meeting overall demand declined from 58.9% to 56.6%, while the share of ČEZ, a. s. in meeting overall demand (including electrical energy purchased by ČEZ from outside suppliers) fell from 65.6% to 62.4%. The decline in ČEZ's domestic sales was caused primarily by importing by traders for the regional distribution companies, the bulk of which in 2002 (nearly 3.5 TWh) went through the transmission grid. (In 2001 the transmission grid was not yet open to regulated third party access.) ČEZ, a. s. made up for the decline in domestic sales by increased exports.

Czech Republic – Electricity Imports and Exports (GWh)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Index 02/01 (%)
Import	903	1,593	2,539	3,090	2,565	2,069	2,431	2,415	2,641	5,193	196.6
Export	3,007	2,038	2,121	3,093	3,753	4,530	5,707	12,432	12,180	16,580	136.1
Balance	-2,104	-445	418	-3	-1,188	-2,461	-3,276	-10,017	-9,539	-11,387	119.4

Generation of Electrical Energy in the Czech Republic (GWh)



Electricity Generation

In 2002, compared to 2001, generation of electrical energy in ČEZ, a. s. facilities grew by 1,956 GWh (3.7%) to a historic record of 54.1 TWh.

The increase in electricity generation in nuclear power stations was 3,989 GWh (27%) in 2002. Prior to beginning commercial operation Unit One of Temelín Nuclear Power Station produced 1,786 GWh and in commercial operation (starting on 11 June 2002) it produced 3,653 GWh, bringing total electricity produced by Unit One to 5,439 GWh. During commercial operation Unit One's load factor was 76.1%.

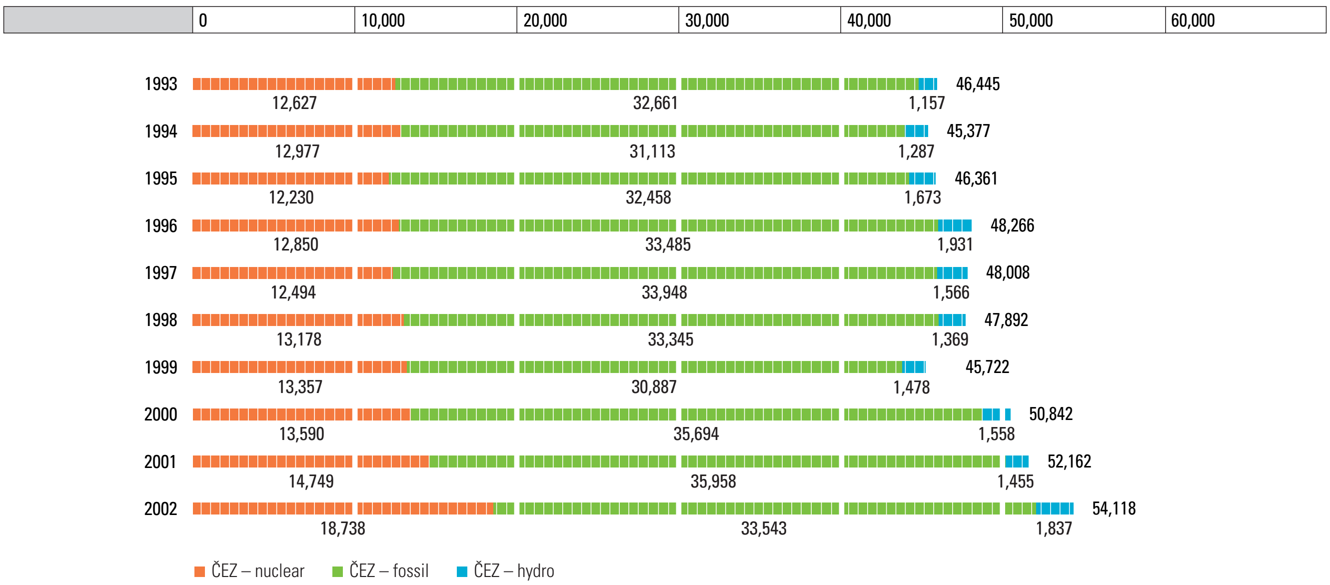
Electricity production at Dukovany Nuclear Power Station was down by 294 GWh (2.2%) for the year; the decline was caused, among other factors, by the use of Dukovany's generating units to provide ancillary services (grid regulation services). Two positive accomplishments were achieved in the operation of Dukovany: a record low failure rate (0.33% of achievable capacity) and a reduction in the duration of planned shut-downs for fuel replacement, which contributed to the achievement of the highest-ever working availability rate (88.27%) for this power station.

Power generation at fossil power stations declined by 2,415 GWh. Production by hydro power stations rose by 382 GWh, due mainly to better hydrologic conditions especially in the first quarter of 2002. The growth in production over the previous year (26.3%) could have been even higher had it not been for damage caused to several hydro stations in the "Vltava Cascade" in the August flooding. The only stations in the Cascade that completely escaped damage were Lipno and Slapy, while the Hněvkovice and Vrané Power Stations sustained only slight damage.

ČEZ, a. s. Production by Facility Type

	2001		2002	
Facility type	GWh	%	GWh	%
Fossil power stations	35,958	69	33,543	62
Hydro power stations	1,455	3	1,837	3
Nuclear power stations	14,749	28	18,738	35
Total	**52,162**	**100**	**54,118**	**100**

Generation of Electrical Energy by ČEZ, a. s. (GWh)



Light blue is the color of harmony, oneness; it is the antithesis of everything that might cause worry or concern.

It corresponds to all types of perceptiveness, and is the companion of sympathy. Blue color gives rise to desire and dreaming.

Capital Investment

Investment, Modernization and Development Policy Objectives

ČEZ's principal capital investment activities continue to be focused on the nuclear stations. The priority is Temelín Nuclear Power Station completion. The implementation of a program designed to bring Dukovany Nuclear Power Station into compliance with nuclear station operating practice common in the European Union (involving in particular a control system upgrade) is creating conditions for the future long-term safe and financially effective operation of this facility. Preparations are also underway for the construction of a new spent nuclear fuel storage facility inside the Dukovany compound.
In the conventional plants, our capital investment activity is focused in particular on facility revamps and overhauls, keeping our existing plants safe and in good operating order with the aim of optimal utilization and with an effort towards further rationalizing and automating their operation. Innovation activity is focused in particular on creating conditions for reliable equipment operation and further improving economies of operation. One example of this was successful combustion tests on a mixture of brown and black coal at Dětmarovice Power Station. Another important area is the creation of conditions for the utilization of power generation by-products in the production of construction materials and in reclaiming fly-ash disposal sites.

Investment Program (CZK billions)

Investment category	1997	1998	1999	2000	2001	2002	Budget 2003
Nuclear power plants	6.9	10.0	11.3	11.1	6.3	3.5	5.8
of which: Temelín	6.1	9.3	10.3	9.4	4.9	2.7	3.2
Environment improvement investments	6.4	2.6	0.8	0.2	0.2	0.1	0.4
of which: desulfurization	3.9	1.1	0.3	0.0	0.0	0.1	0.1
fluidized-bed boilers	1.8	0.5	0.1	0.1	0.0	0.0	0.0
Waste management	1.4	0.6	0.4	0.3	0.4	0.5	0.7
Technical improvements	1.7	1.8	1.1	0.4	0.5	0.3	0.4
Heat supply	0.1	0.0	0.1	0.1	0.0	0.0	0.0
Hydroelectric power plants	0.1	0.1	0.1	0.2	0.1	0.0	0.1
Transmission grid	1.1	1.4	0.9	0.7	0.8	0.5	0.0
Other investments	1.1	1.1	1.2	1.0	0.6	1.5	0.4
Payments for nuclear fuel	1.6	1.4	2.2	4.2	3.4	2.0	2.4
Capitalized interest	2.9	3.1	3.4	2.8	2.4	2.0	0.5
Total	23.3	22.1	21.5	21.0	14.7	10.4	10.7

Company Policy Towards Stakeholders

Plans for new construction projects are discussed in accordance with Act 50/1976 Sb. on Zoning and Construction Rules (the Construction Act), as amended, Act 100/2001 Sb. on Assessing Environmental Impacts and on Amendments to Certain Related Acts, and Act 244/1998 Sb. on Assessing Environmental Impacts. These laws require the plans to be discussed with local government authorities, central government authorities, and citizens' groups. Above and beyond the requirements stipulated by law, ČEZ, a. s. presents planned projects at public hearings in the affected regions as part of the corporate public relations policy.

Investments in Nuclear Power

Temelín Nuclear Power Station

Unit One

The generation start-up process begun in November 2000 continued in January 2002 with the transition into the start-up subphase up to 100% of reactor nameplate capacity. This phase was extended by the delivery time for new fittings and a subsequent temporary shutdown for work on switching out the old fittings for the new ones. After the completion of tests at 100% of capacity and a 144-hour comprehensive test, Unit One received a permit from the State Office for Nuclear Safety to begin commercial operation, which commenced on 11 June 2002.

In late January 2003, a planned two-month shutdown associated with replacing one quarter of the fuel was commenced. After verification of correct fuel loading in the reactor's active zone and depositing of the spent fuel rods in the spent fuel storage pool by inspectors of the International Atomic Energy Agency and the State Office for Nuclear Safety, a guarantee inspection was completed in late April 2003 and commercial operation of Unit One continues.

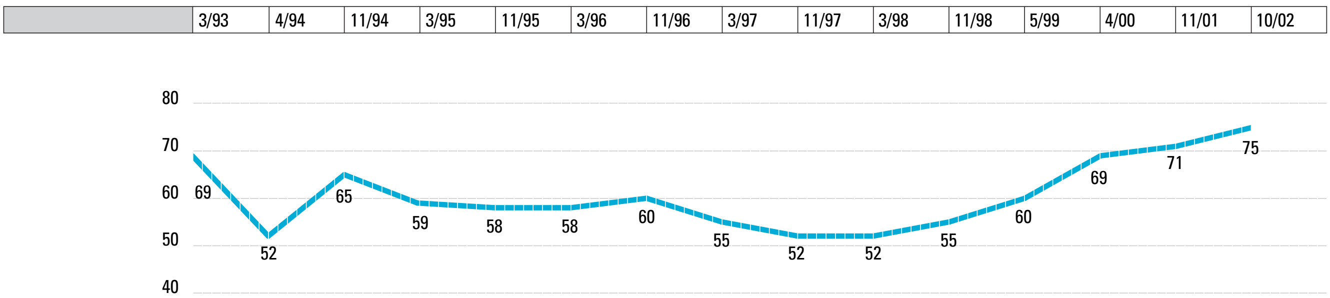
Unit Two

The phase of inactive testing was completed in early 2002. Subsequently, the unit was inspected following the integrated hydrotest and preparations were made for active testing. In March, the State Office for Nuclear Safety issued a permit to begin active testing and, after being loaded with fuel, the reactor was closed and preparatory work and testing necessary for first fuel activation were performed (May). In late June, after successful physical start-up, the generation start-up phase was commenced. During this phase, there were recurring problems with the generator rotor.

The initial connection of the turbo generator and its synchronization with the grid was delayed until 29 December 2002, during the subphase with reactor capacity up to 55% of nameplate. Unit Two went into commercial operation on 18 April 2003.

In terms of fuel, the operation of Temelín Nuclear Power Station in 2002 was covered by imports carried out by Westinghouse Electric Company (USA) in past years. ČEZ's contract with this company covers the station's fuel needs until the 2007 – 2008 year, with an option for additional supplies.

Public Approval of Completion of Temelín Nuclear Power Station (%)



Source: STEM survey, Trends 2001–2002

Dukovany Nuclear Power Station

Among others, 2002 saw the completion of the projects “Electric Wiring Revamp of Diesel Generator Station” and “Recoil Preventers for Water and Steam Feeder Pipes”, which contributed to increased nuclear safety of station operation.
In the course of preparations for the most extensive capital investment project, the “Control Systems Upgrade”, adjustments were made during a shutdown for fuel reloading in Unit Three which will accelerate the installation of two safety systems in 2003. The new equipment, based on the French technology SPINLINE 3, was manufactured by Schneider Electric Industries. The actual installation began in April 2003 and will continue during regular fuel-replacement shutdowns of the various units.
Another project, “Fittings and Equipment of Machine Rooms and Outbuildings – increase pH” was commenced during a planned shutdown of Unit Four during the second half of 2002.

In terms of fuel, the operation of Dukovany Nuclear Power Station in 2002 was covered under long-term contracts between ČEZ, a. s. and the supplier JSC TVEL, by import from the Russian Federation. The station’s needs are contracted for up until 2011. In 2002, a total of four fuel re-loads were imported. All were purchased through the company ALTA, a.s. as part of the deblocking of a portion of the Russian Federation’s debt owed to the Czech Republic.

Spent Nuclear Fuel Storage

Spent Fuel Storage Facility at Dukovany Nuclear Power Station

During 2002, design work continued for building permit proceedings as did collaboration with the container supplier, GNB – Gesellschaft für Nuklear-Behälter mbH (Germany), under a signed contract on supply of containers for spent nuclear fuel. The State Office for Nuclear Safety issued a permit for the facility’s construction in October 2002. Subsequently, in November 2002, ČEZ, a. s. filed to the appropriate authorities for a building permit. In January 2002 a two-round public tender was held for a general contractor to build the facility, on the basis of which HOCHTIEF VSB a.s. was selected. A contract was signed with this company in December 2002.

Spent Fuel Storage Facility at Temelín Nuclear Power Station

Preparations for construction commenced in 2002. In February work began on a feasibility study focusing in particular on finding options for situating the facility within the power station compound and assembling underlying data for drafting further documentation and for the environmental impact assessment process. In October 2002, a public tender was announced to select a contractor to prepare the documentation and provide specialized assistance leading to the issuance of a site permit.

Spent Fuel Storage Facility at Skalka Locality

In accordance with a decision of ČEZ, a. s. management, activities are continuing that are necessary for the possible renewal of preparations for building a storage facility at the Skalka location as a back-up solution for storing spent nuclear fuel.

Investments in Conventional Power

Environmental Investments

In 2002, work either continued or was commenced on technical or biological reclamation of fly-ash disposal sites at all the brown coal power stations with the aim of returning the lands in question to the surrounding ecosystems and renewing their previous importance.

In the Tušimice, Ledvice and Mělník power stations, work began on preparatory documentation for implementation of the "Slag Removal and Dewatering" environmental projects.

Research and Development Expenditures

In 2002, the company did not obtain any patents, either by registering its own inventions or by transfers under contract. No license agreements were entered into or drafted relating to the obtaining or provision of licenses on any intellectual property. No in-house research was carried out.

The benefits of improvement proposals implemented reached an amount of CZK 467 thousand and CZK 79 thousand was paid out as consideration for their utilization in 2002.

Fees Related to Registration of ČEZ Trademarks

Patent agent	CZK 104 thousand
Intellectual Property Office for registering trademarks in the Czech Republic	CZK 58 thousand
International trademark registration	CZK 192 thousand
Total	CZK 354 thousand

Licenses Acquired Under Contract

Software for office systems	CZK 39.4 million
Software for graphics	CZK 0.3 million
Application software	CZK 34.2 million
Database systems	CZK 25.8 million
Network and operating systems	CZK 21.6 million
Total	CZK 121.3 million

Management of Selected Processes

Safety, Environmental Protection and Quality Management System

From 1998 to 2001, ČEZ, a. s. gradually integrated the requirements set forth in the ČSN EN ISO 14001 standard into a system for managing the fossil and hydro power stations and Dukovany Nuclear Power Station. After the system's compliance with the standard's requirements and its functionality were verified in certification audits, Dukovany Nuclear Power Station obtained the internationally recognized EMS (Environmental Management System) certificate in 2001. In 2002, the same certificate was awarded to the Conventional Power Section.

Risk Management Policy

Financial Risk Management

Pursuant to the financial risk management policy, the portion of the investment portfolio that is denominated in foreign currency is hedged against financial risks reflecting possible unfavorable movement of values in the financial markets. ČEZ's risk exposure is quantified based on the results of analyses of the foreign exchange portfolio, related income and expenditures, and forecasts of future movements.

During the first half of 2002, transactions entered into in the financial markets included mainly purchases of foreign currencies for liquidity management purposes and short-term currency hedges to cover planned future payments in foreign currency. For long-term hedging purposes, a partial restructuring of interest rate hedges was carried out on certain deals to bring them into line with international accounting standards.

ČEZ's risk exposure was monitored using predictions of the development of the company's incoming and outgoing cash flows. The methods used are Value at Risk, stress tests, and tests for the breakdown of correlations amongst currencies, which are common in the world of finance. All of these methods are included in the new information system from the Finnish company TietoEnator (Treasury Management System). ČEZ, a. s. is currently migrating to a new, more sophisticated "On-line risk module", which is one of the key elements of the treasury system.

Electricity Trading Risk Management

The liberalization of the electricity market brought with it increased market and credit risks (price, volume) which ČEZ, a. s. addressed by implementing a new system to support trading activities and risk management, dubbed "KW3000", which was developed and adapted for the needs of ČEZ, a. s. by the British company KWI. The system was put into routine operation in June 2002. Its principal task is to aid in assessing incoming credit and market risk and to monitor compliance with stipulated limits. The system covers all electricity transactions to meet record-keeping, audit, risk assessment, position management, and invoicing needs. In order to meet the goals, data on business partners, payment terms, market prices, foreign exchange rates, etc. are entered into the system.

In October, internal directives were issued that defined categories of trading risks and described processes for managing and dealing with them. The aim is to put in place a unified, effective system for protecting the company against the risk of losses relating to sales of electrical energy generated in-house and with other trading transactions involving electrical energy in the Czech Republic and in foreign markets.

Insurance of Property and Casualty Risks

Our fossil and hydro power stations carry insurance coverage for natural hazards and machinery insurance. The lead insurer is Kooperativa pojišťovna, a.s. Insured losses involving damage to assets in seven hydro power stations and the fossil power station Mělník caused by the flood of August 2002 in a total estimated amount of CZK 0.6 billion are being adjusted in cooperation with insurers. The completion of the claims adjustment process is planned in the first half of 2004. The insurer on the property contracts for Temelín Nuclear Power Station and Dukovany Nuclear Power Station is the Czech Nuclear Pool. The Temelín Nuclear Power Station has been insured against property damage since the commencement of fuel loading into Unit One of the station. Construction/installation insurance for Temelín Nuclear Power Station was in effect from 1995 until the moment Unit Two began commercial operation. The lead insurer on this policy was Česká pojišťovna a.s.

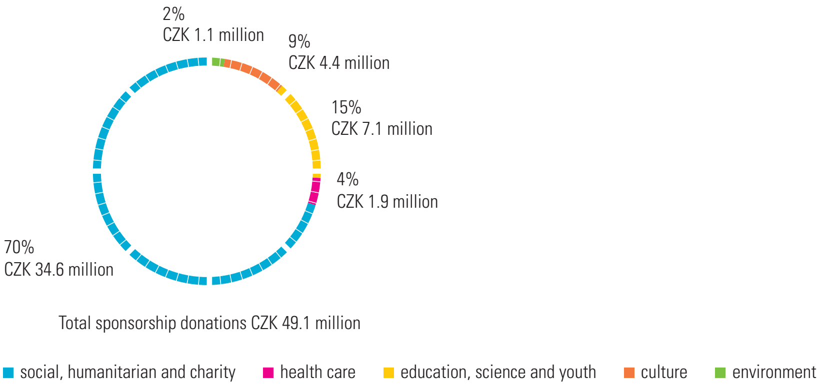
The duty set forth in the "Atomic Energy Act" to insure liability for nuclear damage caused by the operation of a nuclear power station is complied with by insurance policies covering liability for damage caused by the operation of the Dukovany and Temelín Nuclear Power Stations. The company also carries insurance against liability for nuclear damages arising out of the transport of fresh nuclear fuel to Temelín and Dukovany. The insurer on these policies is the Czech Nuclear Pool.
Other important insurance contracts include a third-party liability policy covering the generation, transmission, transit, import and export of electricity and the generation, distribution and sale of heat. Also of significance is liability insurance covering damage caused by members of the Board of Directors, Supervisory Board and by managing directors, which also covers governance bodies of the company's subsidiaries.

Sponsorship Program

A total of CZK 49.1 million was expended on the company's sponsorship program in 2002, nearly CZK 32.4 million of which was donated to areas hit by the flood in August. The funds were transferred either to the Government's flood account or directly to individual municipalities for specific work. Above and beyond the company's sponsorship program, ČEZ, a. s. employees donated nearly CZK 1.6 million to the Government's flood account and CZK 0.4 million to other flood accounts through deductions taken directly from their wages. Other major projects in 2002 included ongoing cooperation with the Office of the UN High Commissioner for Refugees and the Czech Foundation of Jan and Meda Mládek. ČEZ, a. s. also supported the 8th annual František Filipovský Prize for the best dubbing (held in Přelouč), the International Sculpture Symposium in Vejprty, the international tournament "Physically Handicapped Athletes Travelling Cup" in Jánské Lázně and the Foundation for the Development of Nephrology, which is associated with the Central Military Hospital in Prague. Collaboration with nine universities is a permanent part of the sponsorship program. For the fifth year in a row, ČEZ, a. s. supported the Astra 2000 education project which is under the patronage of the Charta 77 Foundation. Non-monetary support consisted mainly of donations of replaced computer equipment to primary and secondary schools and to the Police of the Czech Republic.

Distribution of Sponsorship Donations

in 2002



Rainbow Power Foundation

In July 2002, ČEZ, a. s. established the Rainbow Power Foundation with the aim of supporting social and legal protection of children, utilizing their free time, health-care, drug prevention, sports and cultural projects, research & development, charity and humanitarian aid. The program will also include financial donations to support education, such as equipment for schools and vocational institutes, material support for handicapped students, contributions for selected projects at universities, etc. Since ČEZ's sponsorship program was focused on areas hit by flooding in 2002, the Foundation did not function in 2002; its operations got underway in February 2003.

Relation to the Environment

Clean Air

Since the end of 1998, all of ČEZ's fossil power stations are fitted with emissions reduction equipment whose technical parameters make it possible to comply with emissions limits stipulated by the "Clean Air Act". Compared with 1993 values, ČEZ has achieved substantial reductions in the principal pollutants, thereby making a major contribution to the overall improvement in air quality in the Czech Republic and towards compliance with the Czech Republic's international clean air obligations.

A new "Clean Air Act" was passed in the Czech Republic in 2002 and related regulations were drafted in the process of harmonizing the Czech Republic's laws and regulations with European Union clean air legislation. ČEZ's fossil power stations will ensure that they comply with the "Clean Air Act" emissions ceilings. In order to fulfill other tasks ensuing from the national emissions reduction program, it will be necessary to take technical measures at certain power stations. The extent of these measures will become known after the national program is published in the form of a Government order.

Reduction in Air Pollution Emissions in 2002 Compared With 1993

	Unit of measure	Solid pollutants	Sulfur dioxide	Nitrogen oxides	Carbon monoxide
1993	t	55,393	719,149	122,212	17,099
2002	t	2,988	62,752	62,477	4,577
Reduction	%	94.6	91.3	48.9	73.2
1993	kg/GJ *)	0.1793	2.3281	0.3956	0.0554
2002	kg/GJ *)	0.0097	0.2044	0.2035	0.0149
Reduction	%	94.6	91.2	48.6	73.1

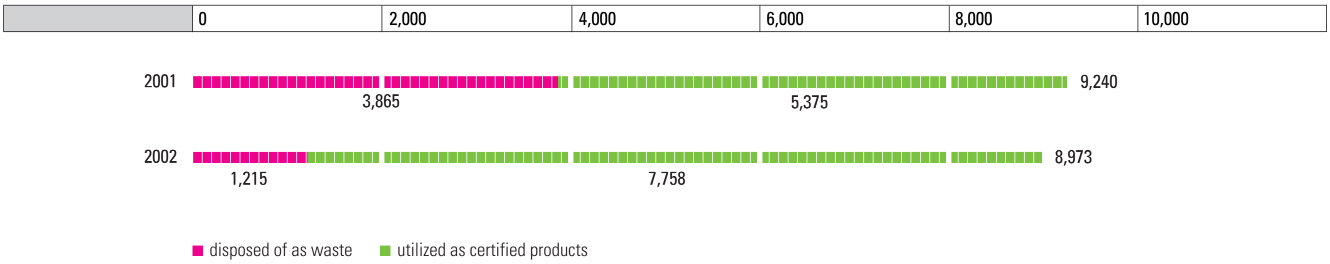
*) Emissions numbers are given per 1 GJ of heat generated in boiler room.

Power Generation By-Product Utilization

In the course of electricity and heat generation in 2002, ČEZ produced a total of approximately 9 million tons of the following by-products: ash, semi-dry desulfurization product, and industrial gypsum produced by the wet limestone scrubbing process. Of the total amount produced, 7.8 million tons (86.5%) was utilized in the form of certified products.

The increased rate of by-product utilization in 2002 compared to 2001 was made possible in particular by the certification of products from the organizational unit Prunéřov Power Stations.

Handling of By-Products, 2001–2002 (thousands of tons)



Ash and semi-dry desulfurization product are used in the reclamation of land affected by coal mining and settling pit sites. Certain ash components are used to produce cement, concrete mixes and asphalt insulation materials. Specially processed ash is used to build waste disposal facilities, where it serves as structural and sealing material in place of natural materials. Industrial gypsum, a product of the limestone scrubbing process, is used in the manufacture of gypsum drywall by KNAUF POČERADY, spol. s r.o. and Rigips, a.s. and in the production of cement as a substitute for natural gypsum.
The remaining 1.2 million tons (13.5%) of unutilized by-products were disposed at ČEZ's own disposal facilities in accordance with the "Waste Act".

Support for Renewable Sources of Energy

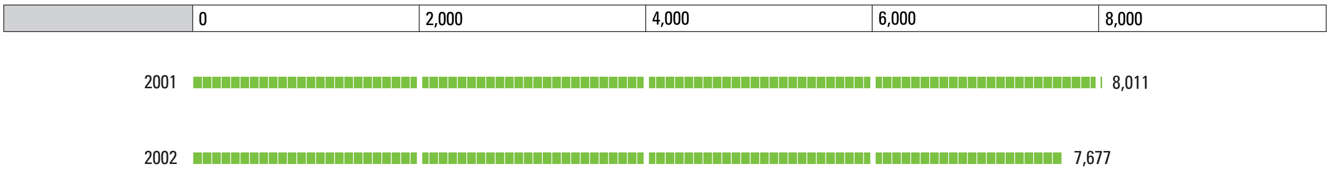
ČEZ's initiatives in support of renewable sources of energy focused in particular on the utilization of hydro energy, wind energy, the conversion of solar power into electricity using photovoltaic cells, and tapping into the energy potential of biomass. ČEZ continues to study new fuel cell technologies and energy accumulation and transformation techniques. Preparations are underway to make the modifications necessary for biomass combustion or, possibly, the use of alternative solid fuels in the form of mixtures with coal in the fluidized-bed boilers installed at the company's generation facilities.
ČEZ, a. s. operates a farm of wind power stations at Mravenečník, which is in demanding mountainous terrain in the Jeseníky Mountains, characterized by frequent weather changes and long-lasting snow cover. The facility consists of three wind power stations with a total installed capacity of 1,165 kW. In 2002 the complex generated 392 MWh of electrical energy. The complex also included a photovoltaic solar power station with 10 kW of installed capacity; in November 2002, this facility was moved to the Dukovany Nuclear Power Station compound. A public presentation of the photovoltaic power station is planned in 2003.
ČEZ, a. s. continued in the process of verifying in practice the possibility of joint combustion of biomass (wood chips) with coal at the Hodonín and Tisová Power Stations. Combustion of biomass is considered to be neutral in terms of "greenhouse gas" emissions. Currently, both power stations are prepared for long-term utilization of a biomass-coal mixture for combustion. However, until now, the utilization of this type of combustion has been prevented by the absence of major regional biomass suppliers capable of supplying biomass for the installed fluidized-bed boilers on a long-term basis at prices that could compete with coal. Starting in 2003, legislation entered into force that gives price advantages to the combustion of biomass/coal mixtures.
Traditionally, ČEZ has been and remains the largest producer of environmentally friendly electricity by utilizing the potential of the Czech Republic's water resources, especially the rivers Vltava, Elbe and Ohře. In 2002, however, this utilization was complicated by the flooding that occurred in August. At that time, ČEZ, a. s. handed over control of the Vltava Cascade to the State-owned enterprise Povodí Vltavy (Vltava River Valley) as required by law and thereafter it had no influence over the situation at the dams and in its hydro power stations. During the state of emergency on the rivers and streams, machine rooms were flooded and other problems were caused at a number of hydro plants along the Vltava Cascade. Of the total amount of electricity generated in ČEZ, a. s. hydro power stations in 2002 (1,837 GWh), 65 GWh was produced by seven small hydro stations (defined as facilities with installed capacity of under 10 MW per locality), which the "Energy Act" classifies as renewable sources of energy.
In addition to the hydro power stations mentioned above, our subsidiary HYDROČEZ,a.s., which operates facilities on the Elbe, Morava and Svratka Rivers with a total installed capacity of 13.8 MW, generated a total of 55 GWh in 2002.

Human Resources

Work Force Size and Composition

Optimization and rationalization processes leading to a reduction in the number of employees were among the key focuses of ČEZ during 2002.

Number of ČEZ and ČEPS Employees (at 31 December)



The number of ČEZ employees was reduced from 7,552 to 7,250 and the number of ČEPS employees from 459 to 427. The ČEZ employees per MW indicator fell from 0.744 to 0.650 during the year, due to the increase in installed capacity by 1,000 MW and a reduction in the number of employees by 302.

Since the establishment of ČEZ as a joint-stock company, the work force qualification structure has changed dramatically. In comparison with 1993, the share of university educated employees (ČEZ and ČEPS) rose from 13% to 25% in 2002 and the share of employees with completed secondary education rose from 32% to 48%.

Social Policy

The total amount budgeted for the social program, which encompasses a wide variety of activities and benefits for employees, was CZK 491 million in 2002.

A total of CZK 76 million was drawn in 2002 from the social fund, primarily for vacation trips and health treatment sojourns, children’s holiday trips, the employee meal plan (mostly in in-house cafeterias), social aid, physical fitness and cultural events organized for employees and their family members, activities of the ČEZ retirees’ club, contributions to blood donors, health care programs, health care not covered by the national health insurance plan, and partial compensation of transitional accommodation costs.

Also through the social program, the employer provided employees with interest-free loans, a contribution upon birth of a child, a contribution for employees and former employees (retirees) towards electricity costs, and preventive medical check-ups.

The Company and the Labor Unions

The ČEZ unionized labor force consists of 3,806 member employees (52.5% of the overall work force) who are organized in 23 independent labor organizations, which in turn are members of three labor unions: the Power Industry Employees Union (13 member organizations), the Union of Northwest Czech Energy Employees (8 member organizations), and the Union of Nuclear Power Station Employees (2 member organizations). Despite the fact that views on problems are sometimes different and negotiations can be tense on occasion, a way to agreement has always been found and the company enjoys long-term labor peace.

Energy Sector Forecast

Development of the Power Industry Legislative Framework

Of fundamental legislative importance for ČEZ's business operations is the Commercial Code, Act 513/1991 Sb., as amended. An extensive amendment of this key piece of legislation, which was passed under Act 501/2001 Sb. and which took effect on 31 December 2001, known as the "technical amendment", was struck down during 2002 by Constitutional Court Decision 476/2002 Sb., dated 2 October 2002, effective 31 March 2003. The reason why Act 501/2001 Sb. was struck down was a complaint raised by a group of senators against the unconstitutional manner in which this act was passed by the Chamber of Deputies, during which that body's previous approval resolution was revoked (it originally included a change proposal put forward by Member of Parliament Ivan Pilip for the deletion of Section 183b(3)(a) of Act 513/1991 Sb., which deals with the obligation to offer to take over shares from all owners when taking control of a target company). With regard to the effective date of the Constitutional Court Decision in question, the Chamber of Deputies passed a law that ensures continuity of the Commercial Code text and fully replaces the "technical amendment" struck down by the Constitutional Court. Furthermore, on 12 March 2003 the Constitutional Court granted a proposal from a group of senators in the matter of the deletion of Section 183b(3)(a) of the Commercial Code and issued a decision (doc. No. Pl. ÚS 38/01) which strikes the provision in question from the Code. According to the Constitutional Court decision, as of now all entities that hold a large enough share in the voting rights of a company that it enables them to take control of the company pursuant to Section 66a of the Commercial Code are obligated to offer minority shareholders to buy their shares. The buy-out offer does not mean the minority shareholders are required to sell, but it does give them the option to decide what to do with their property.
In the power sector, the foundation of the legislative framework is composed in particular of the "Energy Act" (458/2000 Sb.), the "Energy Management Act" (406/2000 Sb.), the "Atomic Energy Act" (18/1997 Sb.) and related secondary and implementing regulations (decrees, orders, directives, etc.). Other legislation already passed in the previous year that has a direct impact on the company's business includes the Act on Assessing Environmental Impact (100/2001 Sb.), the "Waste Act" (185/2001 Sb.), the "Water Act" (254/2001 Sb.), some of which have been subsequently amended.
The period covered by this Annual Report saw the promulgation of additional, supplemental regulations implementing Act 458/2000 Sb. which, in combination with decrees already issued and commented upon in previous ČEZ, a. s. Annual Reports form the necessary legislative framework for the functioning of the power industry in liberalized market conditions. Those regulations include an implementing decree issued by the Ministry of Industry and Trade under 539/2002 Sb., which amends Decree 252/2001 Sb. on methods for purchasing electricity from renewable sources and from combined production of electricity and heat.
Also amended was the "Waste Act" (185/2001 Sb.), by Act 275/2002 Sb., which changed the provisions concerning municipal waste fees. Details of waste management are dealt with by a Decree of the Ministry of Environment (383/2001 Sb.).

Clean air legislation saw extensive change, including changes to related implementing decrees:
- Act 76/2002 Sb. on integrated prevention and mitigation of pollution,
- Act 86/2002 Sb. on air protection and on the amendment of certain other acts (the "Clean Air Act"),
- Government order 354/2002 Sb. stipulating emissions limits and other conditions for waste incineration,
- Government order 350/2002 Sb. setting limits on ground-level concentrations of pollutants and conditions for monitoring, assessing, evaluating and managing air quality,
- Decree of the Ministry of Environment 10/2002 Sb. stipulating the list of hazardous chemicals that can represent a grave danger to human life and the environment,
- Decree of the Ministry of Environment 356/2002 Sb. stipulating the list of pollutants, general emission limits, reporting requirements, methods for determining pollutant discharge amounts, amount of particulate matter in flue gases (darkness of smoke), permissible levels of nuisance odors and intensity of odor,
- Decree of the Ministry of Environment 357/2002 Sb. stipulating fuel quality requirements in terms of clean air,
- Decree of the Ministry of Environment 358/2002 Sb. stipulating conditions for protecting the Earth's ozone layer.

In respect of the Water Act (254/2001 Sb.), the Ministries of Agriculture and Environment promulgated the following implementing regulations:
- Decree of the Ministry of Agriculture 195/2002 Sb. on required components of water management facility rules of use and operation,
- Decree of the Ministry of Environment 236/2002 Sb. on methods and scope for preparing, proposing and stipulating flood plain boundaries,
- Decree of the Ministry of Environment 293/2002 Sb. on fees for discharging wastewater into surface waters,
- Decree of the Ministry of Agriculture 590/2002 Sb. on technical requirements for water management facilities.

During the past year, ČEZ, a. s. also played a substantial role in comment proceedings on legislative drafts of selected laws and regulations which are directly related to the company's business activities in the power industry.

Brief Forecast of Power Industry Development from the Perspective of ČEZ

A draft amendment of the directive on the European Union's internal electricity market envisions, among other things, the opening of the market for all customers except households starting on 1 July 2004, and for all end customers by no later than 1 July 2007. The European Parliament is expected to pass the directive in mid-2003.

In the Czech Republic, the market is open as of 1 January 2003 to all customers with annual consumption exceeding 9 GWh, and from 1 January 2005 it will be open for customers whose consumption exceeds 100 MWh. The last phase, i.e. the full opening of the market to competition, when all customers will become eligible customers, is set to begin on 1 January 2006. In the final stage of market liberalization, all suppliers are to have the right to offer their electricity and all customers are to have the right to choose their electricity supplier at their own free discretion. A draft amendment of the "Energy Act", which envisions an acceleration of electricity market liberalization dates by one year, has passed into the second reading in the Chamber of Deputies, which will take place in June 2003.

In 2002, a new European Union directive on public procurement was drafted. This directive could also be passed in mid-2003. For ČEZ, a. s. it would be an important decision if liberalized activities in general, and the production of and trading in electricity in particular, were to be exempted from the public procurement rules.

On the other hand, it is very likely that CO_2 emissions will be regulated according to the limits set in the Kyoto Protocol and that "emission allowances" for greenhouse gases will be issued and traded starting in 2005. Regulatory support for renewable sources of energy and combined heat and power generation will continue. However, these generation facilities represent only a supplemental means of meeting electricity demand.

Current developments in the American and European markets confirm that electricity is a commodity with unique trading risks requiring, for example, that traders be backed by other links in the supply chain and that regulated and liberalized components of the enterprise be balanced. American corporations, which underestimated the risks of speculative trading, were forced by financial difficulties to abandon investments in Europe and consolidate their positions in the USA, a move which had a negative impact on liquidity in some markets. Therefore, the common practice of bilateral trading will continue to be predominant, while other forms of trading are making inroads only slowly. Another demonstration of the above risks are the difficulties experienced by British Energy, caused by its being restricted to being a production-only link in the supply chain.

The decline in investments in electric power, combined with political restrictions on nuclear power in certain countries, the anticipated growth in electricity consumption and the aging of existing power stations could, however, in the future lead to a decrease in today's excess of production capacity and, in the extreme case, even to a capacity shortage.

ČEZ, for its part, is planning to invest in the construction of new brown-coal power stations (representing at least two-thirds the current installed capacity in this type of power stations) after 2010. By that time, the current power stations will be at the very limits of their useful lives and therefore will be replaced with new, up-to-date facilities with higher efficiency.

In order to increase customers' and investors' trust, the administrations of the European Union and those of individual member and candidate countries, as they form new electricity markets, are not looking just to the speed of market liberalization. They are also taking more care to ensure that the market environment stimulates stability and security of supplies. These imperatives exert opposing influences on price, and the potential for cost reductions through competition will be exhausted in the next few years. Therefore, any further substantial declines in wholesale prices are not likely.
The concentration and consolidation of utility companies as a result of the aforementioned phenomena can be expected to continue. According to preliminary studies, in the USA the simplification and streamlining of supply chains and customer efforts to safeguard their positions could lead in the next few years to a reduction in the number of entities supplying electricity to end customers from today's number of almost ninety to less than ten. Similar development is to be expected in the European Union.
With the Czech Republic's accession to the EU, we can expect to see an end to the groundless and discriminatory Austrian ban on electricity imports from the Czech Republic, as well as the removal of trade barriers in other neighboring countries (Poland, Slovakia).

Anticipated Economic and Financial Situation of ČEZ in 2003

After over ten years of divided production and distribution of electrical energy in the Czech Republic, these two key elements are being partially reintegrated.
The initial decision of the Antitrust Office dated 10 December 2002 fulfilled to some degree the relevant Government resolutions from 2002. According to the resolutions, ČEZ, a. s. is to obtain a majority share in five of the eight regional distribution companies. At the same time, according to the same decision, minority shares acquired by ČEZ, a. s. in three regional distribution companies must be transferred to another owner within twelve months, and this same condition applies to the newly obtained majority stake in one regional distribution company. Unlike the resolutions passed by the Government, however, ČEZ, a. s. is not to retain any stake in its current subsidiary ČEPS, a.s., and must sell even the 34% stake which it was to keep under the original plan. ČEZ, a. s. appealed the Antitrust Office's initial decision. In its appeal, ČEZ expressed disagreement with certain arguments and conclusions reached by the Antitrust Office.
One of the conditions for closing this transaction, i.e. the consent of certain creditor banks, was fulfilled on 10 January 2003. On 20 March 2003, the Antitrust Office's decision on the appeal entered into legal force. This decision partially modified the Antitrust Office's original decision, stipulating that the time periods for transferring ČEZ's stakes in the relevant companies are not to be disclosed to the public. The reason is the price sensitivity of such information, since in selling the shares ČEZ, a. s. could find itself in a disadvantageous negotiating position which might reduce the value of the assets for ČEZ shareholders.
On 28 February 2003, after the already signed group of contracts took effect, the Antitrust Office issued a fully enforceable decision that the acquisition by ČEZ, a. s. of the regional distribution companies does not constitute impermissible public support of ČEZ. In March 2003, the last condition precedent of the transaction was fulfilled – the signing of the "Securities Escrow Agreement".
On 1 April 2003 the deal was closed; all affected shares were transferred to their respective acquirers. By said transfer, which resulted in ČEZ, a. s. taking over five regional distribution companies, ČEZ simultaneously became obligated to offer to buy out minority shareholders of Západočeská energetika, a.s. and Středočeská energetická a.s., since a decision of the Constitutional Court striking down Section 183b(3)(a) of the Commercial Code (513/1991 Sb.), which set forth exemptions from the mandatory share buy-out for selected entities in privatization, entered into legal force on 31 March 2003.

ČEZ, a. s. is prepared to commence negotiations with significant shareholders of the regional distribution companies, all of which are large German power utilities, on consolidation of ownership structures.

This partial reintegration of distribution is not just a partial implementation of one of the most important pillars of the State's energy policy; it is also in line with developments in the business environment of western Europe based on experience gained in the internal liberalization of western European countries over the last decade. Production and distribution are interconnected, in terms of both ownership and technical facilities, in all western European countries except Luxembourg and the Netherlands.

At least partial integration of distribution is necessary for the long-term economic prosperity of both ČEZ and affiliated industries, especially when considering the high degree of the Czech electricity market's openness to competition, including imports. Given all the discussions concerning ČEZ's alleged dominant position in the domestic market, it is necessary to take into account the pan-European dimension: even the "new ČEZ" remains a "minor player" on the liberalized European market, with a market share of around one percent. However, it possesses a competitive advantage in the structure of its production facilities, giving it production flexibility on the one hand and a future advantageous ratio between production and distribution on the other.

In 2003, the market environment in the Czech Republic is being influenced by another deregulatory step. The number of eligible customers which are allowed to choose their electricity supplier grew from 76 in 2002 to approximately 350. One demonstration of the attractiveness of the "Rainbow Power" product line in this respect is the fact that over 90% of planned electricity sales in the domestic market in 2003 were already sold by the end of 2002.

ČEZ's budget anticipates a 3.3% increase in electricity production, to 56 TWh, with ČEZ to cover approximately 60% of overall Czech Republic electricity demand. The increased production compensates for the lower average price, so it can be realistically assumed that sales revenues will remain unchanged in year-on-year terms. In comparison with 2002, the earnings result for 2003 will be affected by the fact that Unit Two of Temelín Nuclear Power Plant was reclassified to fixed assets in April 2003, which will mean an increase in the Temelín Nuclear Power Plant depreciation charge.

The financial results of ČEZ's "ordinary" business in 2003, however, will be substantially impacted by the following factors (expected to increase before-tax earnings):

- sale of the share in ČEPS, a.s.,
- sale of the Jungmannova/Charvátova complex of buildings in Prague,
- the fact that, unlike the 2002 consolidated results, which comprise four companies (ČEZ, a. s., ČEPS, a.s. and CEZ FINANCE B.V. – fully consolidated, and Severočeské doly a.s. consolidated by equity method), the 2003 results will comprise these four companies only for the first three months; in the months April through December the figures will be for the new ČEZ Group, which consists of 31 companies, of which 21 will be fully consolidated and the remaining 10 will be consolidated by the equity method.

Grey – here it is close to white, there it approximates black. It is sensitive to the inductive influence of bright colors. By itself, it doesn't express much but it lets other colors shine forth.

Blue is a calm and serious color. It brings to mind water, the depths of the sea, long distances and ice. It symbolizes faith and faithfulness, control and coolness.

Financial Section

Contents

ERNST & YOUNG

Report of Independent Public Accountants

To the Board of Directors and the Supervisory Board of ČEZ, a. s.:

We have audited the accompanying consolidated balance sheet of ČEZ, a. s. ("the Company") and subsidiaries as of December 31, 2002, and the related consolidated statements of income, shareholders' equity, cash flows and the related notes for the year ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ČEZ, a. s., and subsidiaries as of December 31, 2002, and the results of its operations and its cash flows for the year ended December 31, 2002 in conformity with International Financial Reporting Standards.

The consolidated financial statements of the Company as of December 31, 2001 and 2000 and for the years then ended were audited by other auditors. Those auditors expressed an unqualified opinion on them in their reports dated March 12, 2002 and March 23, 2001.

Ernst & Young

Ernst & Young ČR, s.r.o.

Prague, Czech Republic
February 24, 2003

Consolidated Balance Sheets Prepared in Accordance with International Financial Reporting Standards

Consolidated Balance Sheets as of December 31 (in CZK millions)

	2002	2001	2000
ASSETS			
Property, plant and equipment:			
Plant in service	242,338	180,252	177,361
Less accumulated provision for depreciation	103,355	92,614	84,408
Net plant in service (Note 3)	138,983	87,638	92,953
Nuclear fuel, at amortized cost	7,931	5,967	5,764
Construction work in progress (Note 23)	56,513	111,929	103,591
Total property, plant and equipment	**203,427**	**205,534**	**202,308**
Investment in associate (Note 2.2)	5,880	5,518	5,225
Investments and other financial assets, net (Note 4)	5,631	5,195	3,232
Intangible assets, net (Note 5)	1,174	1,144	916
Total non-current assets	**216,112**	**217,391**	**211,681**
Current assets:			
Cash and cash equivalents (Note 6)	4,225	2,280	2,922
Receivables, net (Note 7)	4,117	3,933	4,029
Income tax receivable	1,994	–	3
Materials and supplies, net	2,464	2,489	2,268
Fossil fuel stocks	618	657	712
Other current assets (Note 8)	1,935	2,277	645
Total current assets	**15,353**	**11,636**	**10,579**
TOTAL ASSETS	**231,465**	**229,027**	**222,260**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity:			
Stated capital	59,041	59,050	59,209
Retained earnings	84,634	77,676	70,233
Total shareholders' equity (Note 9)	**143,675**	**136,726**	**129,442**
Long-term liabilities:			
Long-term debt, net of current portion (Note 10)	35,729	43,081	49,704
Accumulated provision for nuclear decommissioning and fuel storage (Note 12)	23,866	21,396	20,902
Total long-term liabilities	**59,595**	**64,477**	**70,606**
Deferred income taxes, net (Note 16)	**12,541**	**9,870**	**8,057**
Current liabilities:			
Short-term loans (Note 13)	–	514	1,104
Current portion of long-term debt (Note 10)	4,235	5,126	4,703
Trade and other payables (Note 14)	8,934	8,651	5,035
Income taxes payable	256	953	643
Accrued liabilities (Note 15)	2,229	2,710	2,670
Total current liabilities	**15,654**	**17,954**	**14,155**
Commitments and contingencies (Note 23)			
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**231,465**	**229,027**	**222,260**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income Prepared in Accordance with International Financial Reporting Standards

Consolidated Statements of Income for the Years Ended December 31 (in CZK millions)

	2002	2001	2000
Revenues:			
Sales of electricity	52,938	53,300	49,675
Heat sales and other revenues	2,640	2,755	2,756
Total revenues	55,578	56,055	52,431
Operating expenses:			
Fuel	12,894	13,220	12,800
Purchased power and related services	7,328	6,389	5,436
Repairs and maintenance	3,847	3,476	3,316
Depreciation and amortization	11,721	9,366	9,377
Salaries and wages	3,854	3,946	3,793
Materials and supplies	1,838	1,851	1,954
Other operating expenses (income), net (Note 17)	2,842	3,129	3,127
Total expenses	44,324	41,377	39,803
Income before other expense (income) and income taxes	11,254	14,678	12,628
Other expense (income):			
Interest on debt, net of capitalized interest (Note 2.8)	582	796	1,015
Interest on nuclear provisions (Note 2.21 and 12)	1,532	1,463	1,265
Interest income	(149)	(177)	(188)
Foreign exchange rate losses (gains), net	(3,340)	(2,110)	216
Other expenses, net (Note 18)	1,330	1,774	38
Income from associate (Note 2.2)	(497)	(360)	(319)
Income before income taxes	11,796	13,292	10,601
Income taxes (Note 16)	3,375	4,169	3,364
Net income	8,421	9,123	7,237
Net income per share (CZK per share) (Note 22)			
Basic	14.3	15.4	12.2
Diluted	14.2	15.4	12.2
Average number of shares outstanding (000s) (Notes 9 and 22)			
Basic	590,363	591,926	592,088
Diluted	592,150	592,088	592,088

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Equity Prepared in Accordance with International Financial Reporting Standards

Consolidated Statements of Shareholders' Equity for the Years Ended December 31 (in CZK millions)

	Number of Shares (in thousands)	Stated Capital	Retained Earnings	Total Equity
December 31, 1999	**592,088**	**59,209**	**62,996**	**122,205**
Net income	–	–	7,237	7,237
December 31, 2000, as previously reported	**592,088**	**59,209**	**70,233**	**129,442**
Effect of adopting IAS 39 (Note 2.3)	–	–	(496)	(496)
January 1, 2001, as restated	**592,088**	**59,209**	**69,737**	**128,946**
Net income	–	–	9,123	9,123
Acquisition of treasury shares	(1,950)	(159)	–	(159)
Dividends declared	–	–	(1,184)	(1,184)
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	**590,276**	**59,041**	**84,634**	**143,675**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows Prepared in Accordance with International Financial Reporting Standards

Consolidated Statements of Cash Flows for the Years Ended December 31 (in CZK millions)

	2002	2001	2000
Operating activities:			
Income before income taxes	11,796	13,292	10,601
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation, amortization and asset write-offs	11,735	9,429	9,406
Amortization of nuclear fuel	2,071	1,644	1,630
Gain/loss on fixed asset retirements	(363)	50	23
Foreign exchange rate loss (gain)	(3,340)	(2,110)	216
Interest expense, interest income and dividend income, net	356	555	785
Provision for nuclear decommissioning and fuel storage	641	387	398
Provisions for doubtful accounts, environmental claims and other adjustments	(53)	217	92
Income from associate	(497)	(360)	(319)
Changes in assets and liabilities:			
Receivables	(211)	(1,034)	(520)
Materials and supplies	38	48	(246)
Fossil fuel stocks	39	56	85
Other current assets	340	(387)	(70)
Trade and other payables	264	1,809	550
Accrued liabilities	(363)	421	(260)
Cash generated from operations	**22,453**	**24,017**	**22,371**
Income taxes paid	(3,395)	(1,820)	26
Interest paid, net of capitalized interest	(434)	(744)	(1,072)
Interest received	149	178	189
Dividends received	210	131	160
Net cash provided by operating activities	**18,983**	**21,762**	**21,674**
Investing activities:			
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.8)	(10,330)	(15,318)	(21,621)
Proceeds from sales of fixed assets	1,007	163	313
Change in decommissioning and other restricted funds	(594)	(788)	(297)
Total cash used in investing activities	**(9,917)**	**(15,943)**	**(21,605)**
Financing activities:			
Proceeds from borrowings	8,446	6,737	12,797
Payments of borrowings	(13,864)	(11,776)	(14,287)
Dividends paid	(1,480)	(1,174)	–
Acquisition/sale of treasury shares	(4)	(159)	–
Total cash used in financing activities	**(6,902)**	**(6,372)**	**(1,490)**
Net effect of currency translation in cash	(219)	(89)	(14)
Net increase (decrease) in cash and cash equivalents	**1,945**	**(642)**	**(1,435)**
Cash and cash equivalents at beginning of period	**2,280**	**2,922**	**4,357**
Cash and cash equivalents at end of period	**4,225**	**2,280**	**2,922**
Supplementary cash flow information			
Total cash paid for interest	2,562	3,527	4,402

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements as of December 31, 2002

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 67.6% at December 31, 2002 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 7,806 and 8,532 for the year 2002 and 2001, respectively.

ČEZ is an electricity generation and transmission company, which produced approximately 70% of the electricity and a minor portion of the district heating in the Czech Republic in 2002. The Company sells substantial portion of its electricity to eight distribution companies ("REAS") in the Czech Republic (see Note 19). The Company operates ten fossil fuel plants, thirteen hydroelectric plants and two nuclear plants. One unit of the Temelín nuclear plant is still under construction.

In November 2000 the Czech Parliament passed The Act on Conditions of Business Activity and State Administration in the Energy Industries and on State Power Inspection (the "Energy Law") which replaced the previous Energy Law effective from January 1, 1995. 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 agreements and 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 electricity customers will be able to purchase electricity from any distributor, eligible generator, or trader.

On March 11, 2002 the Government decided to sell its 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 purchase would be made by OSINEK, a.s., a company controlled by the National Property Fund, and the Ministry of Labor and Social Affairs. The transactions were approved at the shareholder's meeting of ČEZ, which was held on June 11, 2002 (see Note 21).

It is expected that the transactions will be carried out in the first half of 2003. According to the signed contracts the total purchase price of the shares in REAS will be CZK 32,140 million and the total selling price of ČEPS amounts to CZK 15,039 million. The selling price of ČEPS can be adjusted based on the value determined by an independent valuator.

Through this transaction ČEZ will acquire a majority share in five REAS, and a minority share in three REAS. However, the Antitrust Office has ruled that ČEZ should sell its shares in one of the REAS in which it will hold a majority share and in three of the REAS in which it will hold a minority share. The Antitrust Office has also decided that ČEZ should sell its remaining equity share in ČEPS.

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 24.

2.2. Financial Statements

The accompanying consolidated financial statements of ČEZ are prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. They are prepared under the historical cost convention, except when IFRS requires that certain financial assets and liabilities be stated at fair value (see Note 2.18).

The financial statements include the accounts of ČEZ, a. s., its wholly owned subsidiary, CEZ Finance B.V., incorporated under the law of The Netherlands and its wholly owned transmission subsidiary, ČEPS, a.s. (see Notes 20 and 21), incorporated under the law of the Czech Republic. All significant intercompany transactions and accounts have been eliminated in consolidation. The Company has an ownership interest of 37.21% in Severočeské doly a.s. (see Note 19), which is accounted for using the equity method.

Other investments are excluded from the consolidation because the impact on the consolidated financial statements would not be significant. These investments are included in non-current assets and are stated at cost net of provision for diminution in value (see Note 4).

The financial statements were approved for issue by David Svojitka, Chief Financial Officer of ČEZ, on February 24, 2003.

2.3. Change in Accounting Principle

In 2001 the Company adopted International Accounting Standard IAS 39, Financial Instruments: Recognition and Measurement. Following the introduction of IAS 39, available-for-sale investments are carried at fair value and all derivative financial instruments are recognized as assets or liabilities. The opening balance of retained earnings at January 1, 2001 was adjusted. In accordance with IAS 39, the comparative figures for the years prior 2001 have not been restated.

Certain prior year financial statement items have been reclassified to conform to the current year presentation.

2.4. Measurement Currency

Based on the economic substance of the underlying events and circumstances relevant to the company, the measurement currency of the Company has been determined to be the Czech crown (CZK).

2.5. 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.

2.6. Revenues

The Company recognizes revenue from supplies of electricity and related services based on contract terms. Any differences between contracted amounts and actual supplies are estimated from meter readings and settled through the market operator.
Approximately 72% of the Company's total electricity sales, and 88% of domestic sales, are to the eight REAS (see Note 1).

2.7. 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 2,071 million, CZK 1,644 million and CZK 1,630 million for the years ended December 31, 2002, 2001 and 2000, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel (see Note 12). Such charges amounted to CZK 82 million, CZK 107 million and CZK 97 million in 2002, 2001 and 2000, respectively.

2.8. Interest

The Company capitalizes all interest costs 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 2,128 million, CZK 2,783 million and CZK 3,330 million, which was equivalent to an interest capitalization rate of 7.5%, 7.5% and 8.0% in 2002, 2001 and 2000, respectively.

2.9. Property, Plant and Equipment

Property, plant and equipment are recorded at cost net of accumulated depreciation. 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. In case that during the construction of an asset the constructed asset produces products or services, which are sold, the revenues from such sales are deducted from the original cost of that asset. 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. 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.

The Company periodically reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values.

Depreciation

The Company 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:

The Depreciable Lives Used for Property, Plant and Equipment

	Lives
Buildings and structures	25 – 50
Machinery and equipment	4 – 25
Vehicles	4 – 20
Furniture and fixtures	8

Average depreciable lives based on the functional use of property are as follows:

Average Depreciable Lives

	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
Transmission lines	30
Transformer stations	12

Depreciation of plant in service was CZK 11,375 million, CZK 9,127 million and CZK 9,141 million for the years ended December 31, 2002, 2001 and 2000, which was equivalent to a composite depreciation rate of 5.6%, 5.3% and 5.4%, respectively.

2.10. 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 provisions (see Note 2.21). Such capitalized costs at net book value amounted to CZK 217 million at December 31, 2002.

2.11. Intangible Assets, Net

Intangible assets consist mainly of software and are valued at their acquisition cost 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.

2.12. 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 (see Note 4). 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.

2.13. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less (see Note 6). Foreign currency deposits are translated at December 31, 2002 and 2001 exchange rates, respectively.

2.14. 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 ash 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 Company.

2.15. Receivables, Payables and Accruals

Receivables are stated at the fair value of the consideration given and are carried at original invoice amount less allowance for uncollectable amounts. At December 31, 2002 and 2001 the allowance for uncollectable receivables amounted to CZK 728 million and CZK 715 million, respectively.

Payables are recorded at invoiced values and accruals are reported at expected settlement values.

2.16. Materials and Supplies

Materials and supplies are principally composed of power plant maintenance materials and spare parts. 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 Company records a provision for obsolete inventory as such items are identified.

2.17. Fossil Fuel Stocks

Fossil fuel stocks are stated at weighted average cost, which approximates actual cost.

2.18. Derivative Financial Instruments

Derivative financial instruments that are not designated as effective hedging instruments are classified as held-for-trading and carried at fair value under other current assets and trade and other payables, with changes in fair value included in other expense (income).
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value reported in net profit or loss.

2.19. 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 31% for each of the years ended December 31, 2002, 2001 and 2000, after adjustments for certain items which are not deductible, or taxable, for taxation purposes.
Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. Deferred income taxes are provided on temporary differences between financial statement and taxable income at the subsequent year's tax rate using the liability method. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Income tax rates are published the year preceding their effectiveness and for 2003 the rate will be 31% (see Note 16).
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.
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.

2.20. 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 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.

2.21. Nuclear Provisions

ČEZ 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, 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 2060 when permanent storage facilities are planned to become available. While the Company 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 Company's current estimates.

Since 2002, pursuant to a new interpretation of the International Financial Reporting Interpretation Committee ("IFRIC"), 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 to the extent the change relates to future periods. However, to the extent that such a treatment would result in a negative asset, the effect of the change should be recognized in the income for the current period. To the extent the change relates to the current or prior periods, it is reported as income or expense for the current period. Until 2001 the changes in a decommissioning liability were recognized as income or expense for the period.

2.22. 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.

2.23. 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.

2.24. Translation of Foreign Currencies

Assets whose acquisition or construction costs were denominated in foreign currencies are translated to Czech crowns at the exchange rates prevailing at the date of each acquisition or at the date on which the related items were included in assets.

Foreign currency on hand, bank accounts, receivables and payables denominated in foreign currencies are translated to Czech crowns at the exchange rates existing at the transaction date and are adjusted at year-end to exchange rates at that date as published by the Czech National Bank.

Exchange rate differences arising on settlement of transactions or on reporting foreign currency transactions at rates different from those at which they were originally recorded are included in the Statement of Income as they occur.

3. Net Plant in Service

Net plant in service at December 31, 2002 and 2001 is as follows (in CZK millions):

Net Plant in Service (in CZK millions)

	Buildings	Plant and Equipment	Land and Other	Accumulated Depreciation and Impairment Losses	Net Plant in Service
December 31, 2000	58,831	110,167	8,363	(84,408)	92,953
Plant additions	1,595	1,871	517	–	3,983
Retirements	(384)	(615)	(93)	924	(168)
Depreciation	–	–	–	(9,127)	(9,127)
Change in provisions	–	–	–	(3)	(3)
December 31, 2001	60,042	111,423	8,787	(92,614)	87,638
Plant additions	14,953	46,605	1,785	–	63,343
Retirements	(632)	(541)	(84)	699	(558)
Depreciation	–	–	–	(11,375)	(11,375)
Change in provisions	–	–	–	(65)	(65)
December 31, 2002	**74,363**	**157,487**	**10,488**	**(103,355)**	**138,983**

At December 31, 2002, 2001 and 2000, plant and equipment included the capitalized costs of nuclear provisions with a net book value of CZK 7,565 million, CZK 5,222 million and CZK 5,413 million, respectively (see Note 2.21). Capitalized costs of provisions related to second unit of Temelín nuclear power plant are included in construction work in progress. At December 31, 2002, such capitalized costs amount to CZK 873 million, of which CZK 619 million relates to plant and equipment and CZK 254 million relates to nuclear fuel.

In 2002, 2001 and 2000 the Company capitalized CZK 1,373 million, CZK 922 million and CZK 1 million of revenues, which were earned during the construction of assets (see Note 2.9).

None of the Company's plant in service is pledged as security for liabilities.

4. Investments and Other Financial Assets, Net

Investments at December 31, 2002 and 2001 consist of the following (in CZK millions):

Investments (in CZK millions)

	2002	2001
Investments in REAS, net (see Notes 1 and 19)	1,937	1,946
Other shareholdings, net	1,969	2,115
Restricted funds for nuclear decommissioning	944	–
Other restricted funds	735	1,085
Long-term receivables, net	46	49
Total	5,631	5,195

Investments and other shareholdings consist of majority and minority shareholdings in operationally related companies and minor interests in shares and share rights of certain of the Company's electric distribution company customers. There is currently no active market for any of the equity investments held by the Company. The Company therefore measures those investments at their acquisition cost net of impairment provisions and no changes in fair value of investments have been recognized in equity.

At December 31, 2002 and 2001 impairment provisions for investments in REAS and other shareholdings amounted to CZK 190 million and CZK 221 million, respectively. At December 31, 2002 and 2001 impairment provisions for long-term receivables amounted to CZK 13 million and CZK 13 million, respectively.

5. Intangible Assets, Net

Intangible assets at December 31, 2002 and 2001 were as follows (in CZK millions):

Intangible Assets (in CZK millions)

	Software	Rights	Accumulated Amortization	Net Intangible Assets
December 31, 2000	1,193	32	(633)	592
Additions	521	4	–	525
Retirements	(7)	(1)	4	(4)
Amortization	–	–	(239)	(239)
December 31, 2001	1,707	35	(868)	874
Additions	271	11	–	282
Retirements	(1)	–	1	–
Amortization	–	–	(346)	(346)
December 31, 2002	**1,977**	**46**	**(1,213)**	**810**

At December 31, 2002 and 2001, intangible assets presented on the balance sheet included intangible assets in progress in the amount of CZK 364 million and CZK 270 million, respectively.

6. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2002 and 2001 is as follows (in CZK millions):

Cash and Cash Equivalents (in CZK millions)

	2002	2001
Cash on hand and current accounts with banks	356	750
Short-term bank notes	3,520	1,502
Term deposits	349	28
Total	4,225	2,280

At December 31, 2002 and 2001, cash and cash equivalents included foreign currency deposits of CZK 1,346 million and CZK 933 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2002 and 2001 was 2.6% and 4.2%, respectively. For the years 2002, 2001 and 2000 the weighted average interest rate was 3.0%, 4.8% and 5.1%, respectively.

7. Receivables, Net

The composition of receivables, net, at December 31, 2002 and 2001 is as follows (in CZK millions):

Receivables, Net (in CZK millions)

	2002	2001
Trade receivables	4,374	4,220
Other	471	428
Less allowance for doubtful receivables	(728)	(715)
Total	4,117	3,933

At December 31, 2002 and 2001, the total receivables included receivables from associates and unconsolidated subsidiaries in the net amount of CZK 341 million and CZK 477 million, respectively.

8. Other Current Assets

The composition of other current assets at December 31, 2002 and 2001 is as follows (in CZK millions):

Other Current Assets (in CZK millions)

	2002	2001
Advances granted	178	158
Prepayments	261	153
Derivatives	1,404	1,933
Embedded derivatives	92	33
Total	**1,935**	**2,277**

9. Shareholders' Equity

The Company's stated capital as of December 31, 2002 and 2001 is as follows:

Stated Capital

	Number of Shares Outstanding	Par Value per Share (CZK)	Total (CZK millions)
2002			
Registered shares	592,210,843	100	59,221
Treasury shares	(1,935,000)	100	(180)
Total	**590,275,843**		**59,041**
2001			
Registered shares	592,088,461	100	59,209
Treasury shares	(1,950,000)	100	(159)
Total	**590,138,461**		**59,050**

In November and December 2001 the Company acquired 1,950,000 of its own shares ("treasury shares"). In October 2002 these treasury shares were sold. In December 2002 the Company acquired another 1,950,000 treasury shares and at the same time sold 15,000 treasury shares. The remaining 1,935,000 treasury shares are reflected in the balance sheet at cost as a deduction from stated capital. The profit on sale of treasury shares was 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, 2002 and 2001, the balance was CZK 8,872 million and CZK 8,528 million, respectively, and is reported as a component of retained earnings.

10. Long-term Debt

Long-term debt at December 31, 2002 and 2001 is as follows (in CZK millions):

Long-term Debt (in CZK millions)

	2002	2001
7.125% Notes, due 2007	5,336	6,419
7.25% Eurobonds, due 2006	6,299	6,368
8.75% Debentures, due 2004	2,995	2,990
9.22% Zero Coupon Debentures, due 2009 [1)]	2,832	2,623
9.22% Debentures, due 2014 [2)]	2,493	2,492
11.0625% Debentures, due 2008	2,987	2,984
Long-term bank loans:		
less than 4.00%, due 2003 to 2013	11,550	5,749
4.00% to 4.99%, due 2004 to 2006	13	5,440
5.00% to 5.99%, due 2004 to 2013	1,010	7,038
6.00% to 6.99%, due 2003 to 2013	2,589	553
7.00% to 7.99%, due 2004 to 2013	1,850	5,532
8.00% and more, due in 2003	10	19
Total long-term debt	39,964	48,207
Less: Current portion	(4,235)	(5,126)
Long-term debt, net of current portion	**35,729**	**43,081**

[1)] Nominal value of these zero coupon debentures is CZK 4,500 million.
[2)] From 2006 the interest rate changes to consumer price index 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 fair values of interest rate hedging instruments see Note 11. The future maturities of long-term debt are as follows (in CZK millions):

Future Maturities of Long-term Debt (in CZK millions)

2003	4,235
2004	5,189
2005	2,247
2006	8,461
2007	8,107
Thereafter	11,725
Total long-term debt	**39,964**

The following table analyses the long-term debt at December 31, 2002 and 2001 by currency (in millions):

Long-term Debt by Currency (in millions)

	2002		2001	
	Foreign Currency	CZK	Foreign Currency	CZK
USD	502	15,111	553	20,017
EUR	296	9,325	355	11,330
CZK	–	15,528	–	16,860
Total long-term debt		**39,964**		**48,207**

In the normal course of business, the financial position of the Company 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 Company 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 Company to significant risk, the Company uses sensitivity analyses to determine the impacts that market risk exposures may have on the fair values of the Company's financial instruments. To perform sensitivity analyses, the Company 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 Company 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 currency swap contracts to hedge its long-term debt against currency risk (see Note 11). Although these swaps represent effective economic hedges of the currency risk, the Company elected not to apply hedge accounting for these transactions.

Long-term debt with floating interest rates exposes the Company to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual reprising dates at December 31, 2002 and 2001 (in CZK millions):

Long-term Debt with Floating Interest Rates (in CZK millions)

	2002	2001
Floating rate long-term debt		
with interest rate fixed for 1 month	2,354	6,554
with interest rate fixed from 1 to 3 months	6,941	5,736
with interest rate fixed from 3 months to 1 year	4,517	7,276
with interest rate fixed for more than 1 year	2,493	2,492
Total floating rate long-term debt	16,305	22,058
Fixed rate long-term debt	23,659	26,149
Total long-term debt	**39,964**	**48,207**

11. 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. The management believes that 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, 2002 and 2001 were as follows (in CZK millions):

Carrying Amounts and the Estimated Fair Values of Financial Instruments (in CZK millions)

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Investments	5,631	5,631	5,195	5,195
Receivables	4,117	4,117	3,933	3,933
Cash and cash equivalents	4,225	4,225	2,280	2,280
Liabilities:				
Long-term debt	(39,964)	(42,726)	(48,207)	(49,074)
Short-term loans	–	–	(514)	(514)
Accounts payable	(5,333)	(5,333)	(4,660)	(4,660)
Derivatives:				
Currency swaps				
Assets	1,110	1,110	1,693	1,693
Liabilities	(3,201)	(3,201)	(3,583)	(3,583)
Currency swaps, net	**(2,089)**	**(2,089)**	**(1,890)**	**(1,890)**
Forward currency contracts – liabilities	(12)	(12)	–	–
Interest rate swaps				
Assets	294	294	228	228
Liabilities	(50)	(50)	(43)	(43)
Interest rate swaps, net	**244**	**244**	**185**	**185**
Other interest rate derivatives				
Assets	–	–	12	12
Liabilities	(221)	(221)	(91)	(91)
Other interest rate derivatives, net	**(221)**	**(221)**	**(79)**	**(79)**
Embedded forward currency contracts				
Assets	92	92	33	33
Liabilities	(117)	(117)	(274)	(274)
Embedded forward currency contracts, net	**(25)**	**(25)**	**(241)**	**(241)**

12. Nuclear Decommissioning, Radioactive Waste and Spent Fuel Disposal

ČEZ's fully operating nuclear plant, Dukovany, consists of four 440 MW units which were placed into service from 1985 to 1987. ČEZ is also finalizing construction of a second nuclear power plant, Temelín, where one of the two 981 MW units started commercial operation in June 2002. The 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 2018 for Dukovany and approximately 2033 for Temelín. An updated 2002 Dukovany estimate and a 1999 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 16.2 billion and CZK 11.1 billion, respectively.

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 CZK 50 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. 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.

ČEZ has established provisions as described in Note 2.21, 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, 2002, 2001 and 2000 (in CZK millions):

Summary of Provisions (in CZK millions)

	Accumulated Provisions			
	Nuclear	Spent Fuel Storage		
	Decommissioning	Interim	Long-term	Total
Balance at December 31, 1999	3,130	2,225	13,102	18,457
Movements during 2000				
Discount accretion	79	54	319	452
Effect of inflation	141	97	575	813
Provision charged to income statement	–	97	–	97
Capitalized cost of Temelín provisions	1,695	254	–	1,949
Current cash expenditures	–	(225)	(641)	(866)
Balance at December 31, 2000	5,045	2,502	13,355	20,902
Movements during 2001				
Discount accretion	126	63	334	523
Effect of inflation	227	112	601	940
Provision charged to income statement	–	107	–	107
Effect of change in estimate charged (credited) to income statement (Note 2.21)	–	57	(288)	(231)
Current cash expenditures	–	(190)	(655)	(845)
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 2.21)	–	(82)	–	(82)
Effect of change in estimate added to (deducted from) fixed assets (Note 2.21)	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**

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.

13. Short-term Loans

Short-term loans at December 31, 2002 and 2001 are as follows (in CZK millions):

Short-term Loans (in CZK millions)

	2002	2001
Short-term loans	–	514
Total	**–**	**514**

Interest on short-term loans is variable. The weighted average interest rate was 3.0% at December 31, 2001. For the years 2002, 2001 and 2000 the weighted average interest rate was 3.0% and 4.1%, 8.0%, respectively.

14. Trade and Other Payables

Trade and other payables at December 31, 2002 and 2001 are as follows (in CZK millions):

Trade and Other Payables (in CZK millions)

	2002	2001
Trade payables	4,999	4,156
Other payables	334	504
Derivatives	3,484	3,717
Embedded derivatives	117	274
Total	**8,934**	**8,651**

15. Accrued Liabilities

Accrued liabilities at December 31, 2002 and 2001 consist of the following (in CZK millions):

Accrued Liabilities (in CZK millions)

	2002	2001
Accrued interest	951	1,042
Provision for ash storage reclamation	432	395
Estimated environmental claims (Note 23)	220	254
Social and bonus funds	167	201
Unbilled goods and services	186	232
Other accrued liabilities	273	586
Total	**2,229**	**2,710**

16. Income Taxes

Income Tax Legislation

Corporate income tax is calculated in accordance with Czech tax regulations at the rate of 31% in 2002, 2001 and 2000. The corporate income tax rate for 2003 will be 31%.

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.

The tax authorities have completed audits of income tax returns of the Company through 2000. However, according to Czech legislation the audited periods can be reopened for review by the tax authorities.

Income Tax Provision

The components of the income tax provision are as follows (in CZK millions):

Income Tax Provision (in CZK millions)

	2002	2001	2000
Current income taxes charge	450	2,047	1,572
Adjustments in respect of current income tax of previous periods	254	87	–
Deferred income taxes	2,671	2,035	1,792
Total	**3,375**	**4,169**	**3,364**

The differences between income tax expense computed at statutory rate and income tax expense provided on earnings are as follows (in CZK millions):

Differences Between Income Tax Expense Computed at Statutory Rate and Income Tax Expense Provided on Earnings (in CZK millions)

	2002	2001	2000
Income before income taxes	11,796	13,292	10,601
Statutory income tax rate	31%	31%	31%
"Expected" income tax expense	3,657	4,121	3,286
Add (deduct) tax effect of:			
Czech/IFRS accounting differences	282	17	15
Non deductible provisions, net	(30)	4	109
Investment tax relief	(1,181)	(43)	(79)
Other non deductible (nontaxable) items, net	(117)	62	34
Tax credits	(103)	(79)	(1)
Additional tax assessments	254	87	–
Deferred tax on undistributed profits of subsidiary	613	–	–
Income taxes	**3,375**	**4,169**	**3,364**
Effective tax rate	**29%**	**31%**	**32%**

Deferred Income Taxes, Net

Deferred income taxes at December 31, 2002 and 2001 consist of the following (in CZK millions):

Deferred Income Taxes (in CZK millions)

	2002	2001
Accumulated provision for nuclear decommissioning and spent fuel storage	6,129	5,656
Foreign exchange	–	352
CASTOR containers write off	367	347
Derivatives	8	628
Other provisions	300	292
Other deductible differences	187	202
Total deferred tax assets	**6,991**	**7,477**
Tax depreciation in excess of financial statement depreciation	8,226	7,399
Capitalized interest	6,227	5,808
Capitalized cost of provisions	2,683	2,223
Repairs and maintenance accrual	967	891
Penalty receivables	164	187
Additional foreign exchange rate differences under IAS 39	–	259
Other IAS 39 differences	25	64
Investment in associate	627	516
Investment in subsidiary	613	–
Deferred tax liabilities	19,532	17,347
Total deferred tax liabilities, net	**12,541**	**9,870**

17. Other Operating Expenses (Income), Net

Other operating expenses (income), net, for the year ended December 31, 2002, 2001 and 2000 consist of the following (in CZK millions):

Other Operating Expenses (Income), Net (in CZK millions)

	2002	2001	2000
Services	3,199	2,872	2,793
Costs of ash storage, air and water pollution and environmental claims	365	328	43
Loss on sale of property, plant and equipment	20	52	24
Loss (gain) on sale of material	136	381	(27)
Capitalization of expenses to the cost of fixed assets	(437)	(430)	(505)
Fines and penalties revenue	(260)	(871)	(43)
Change in provisions and valuation allowances	(19)	320	334
Other, net	(162)	477	508
Total	**2,842**	**3,129**	**3,127**

18. Other Expenses, Net

Other expenses, net, for the year ended December 31, 2002, 2001 and 2000 consist of the following (in CZK millions):

Other Expenses, Net (in CZK millions)

	2002	2001	2000
Derivative losses (gains), net	1,643	1,720	–
Loss (gain) on sale of financial investments	(385)	3	–
Other, net	72	51	38
Total	**1,330**	**1,774**	**38**

19. Related Parties

The Company purchases products from related parties in the ordinary course of business. Approximately 60% of the brown coal consumption is supplied by Severočeské doly a.s. (SD), a company in which ČEZ holds a 37% share. In 2002, 2001 and 2000, coal purchases from SD amounted to CZK 4,921 million and CZK 5,416 million, CZK 5,388 million, respectively. Receivables from SD amounted to CZK 11 million and CZK 11 million as of December 31, 2002 and 2001, respectively. Payables to SD amounted to CZK 560 million and CZK 515 million as of December 31, 2002 and 2001, respectively. The prices of fossil fuel supplies from SD do not differ significantly from market prices.
Škoda Praha, a.s. is the Company's general supplier of technology and equipment for the Temelín nuclear power plant and is 55% owned by the National Property Fund. In February and July 1999, the Company purchased 166,122 shares of Škoda Praha, a.s., which represents a 30% interest in the company. The Company's purchases from Škoda Praha, a.s., including value added tax, amounted to CZK 3,461 million, CZK 4,862 million and CZK 8,237 million in 2002, 2001 and 2000, respectively. The purchases from Škoda Praha, a.s., are mainly for construction of Temelín nuclear power plant.
Between 1999 and 2002 the Company acquired minority interests ranging from 0.01% to 10.43% in six out of the eight REAS, the Company's major customers. The interests were purchased at the direction of the Ministry of Industry and Trade to enable the National Property Fund, together with the Company, to regain majority interests for the government in the REAS. During 2002 the Company signed contracts for the purchase of majority shareholdings in five and minority shareholdings in three of the eight REAS (see Note 1).
During 2001 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 2001 and 2002 in the number of granted share options and the weighted average exercise price of these options:

Changes in the Number of Granted Share Options

	Number of Share Options	Weighted Average Exercise Price (CZK per Share)
Share options at December 31, 2000	–	–
Options granted	3,375,000	92.58
Options exercised	–	–
Options forfeited	–	–
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**	**92.15**

At December 31, 2002, the aggregate number of share options granted to management and to members of Board of Directors was 1,625,000 and the number of share options granted to Supervisory Board members was 1,450,000. The options granted do not have any vesting period and can be exercised during the terms of office of the respective Board members and for certain managers during the period ending June 2003. 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 2002 and 2001 the Company has not recognized any compensation expense related to the granted options. The Company has settled options exercised during 2002 using treasury shares. The gain on the sale of treasury shares was recognized directly in equity.

20. Segment Information

ČEZ's generation and transmission activities are accounted for as separate businesses, both operating in the Czech Republic. ČEZ, a. s., forms the generation segment and ČEZ's wholly owned transmission subsidiary ČEPS, a. s. (ČEPS) forms the transmission segment.

The accounting policies of the segments are the same as those described in Note 2. The Company 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 Company evaluates the performance of its segments and allocates resources to them based on operating income.

On June 11, 2002, the Shareholder's Meeting of ČEZ approved the sale of a majority share in ČEPS (see Note 21).

The following table summarizes segment information for the years ended December 31, 2002 and 2001, respectively (in CZK millions):

Segment Information (in CZK millions)

	Power Production	Transmission	Combined	Elimination	Consolidated
Year 2002					
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	9,570	661	10,231	1,023	11,254
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
Cash flow information:					
Cash flow from operating activities	17,523	1,888	19,411	(428)	18,983
Cash flow from investing activities	(9,440)	(477)	(9,917)	–	(9,917)
Cash flow from financing activities	(6,902)	(428)	(7,330)	428	(6,902)
Year 2001					
Sales other than intersegment sales	44,735	11,320	56,055	–	56,055
Intersegment sales	7,193	1,106	8,299	(8,299)	–
Total revenues	**51,928**	**12,426**	**64,354**	**(8,299)**	**56,055**
Operating income	13,042	524	13,566	1,112	14,678
Identifiable assets	197,444	19,323	216,767	(11,233)	205,534
Identifiable liabilities	81,689	4,431	86,120	(3,689)	82,431
Investment in associate	5,518	–	5,518	–	5,518
Income from associate	360	–	360	–	360
Depreciation and amortization	8,584	1,882	10,466	(1,100)	9,366
Cash flow information:					
Cash flow from operating activities	20,055	2,066	22,121	(359)	21,762
Cash flow from investing activities	(15,181)	(762)	(15,943)	–	(15,943)
Cash flow from financing activities	(6,372)	(359)	(6,731)	359	(6,372)

The power generation segment sells the major part of its electricity generated to the eight REAS. The power generation segment charges the cost of power losses in the transmission grid and the supplies of ancillary services to the transmission segment. The transmission segment sells ancillary services and transmission services mainly to the eight REAS.

Prices in certain intersegment transactions are regulated by the Energy Regulatory Office (see Note 1).

21. Discontinuing Operation

On March 11, 2002 the Government decided to purchase from ČEZ a 66% share in its transmission subsidiary ČEPS. The purchase would be made by OSINEK, a.s., a company controlled by the National Property Fund, and the Ministry of Labor and Social Affairs. The sale was approved at the shareholder's meeting of ČEZ, which was held on June 11, 2002.

It is expected that the sale will be carried out in the first half of 2003. According to the signed contracts the total selling price amounts to CZK 15,039 million. The selling price can be adjusted based on the value determined by independent valuator.

The operations of ČEPS were reported in the transmission segment (see Note 20).

The carrying amounts of total assets and total liabilities attributable to the discontinuing operation at December 31, 2002 and 2001 are as follows (in CZK millions):

Total Assets and Total Liabilities Attributable to Discontinuing Operation (in CZK millions)

	2002	2001
Total asset	5,542	4,725
Total liabilities	(1,536)	(1,420)
Total net assets to be disposed off	**4,006**	**3,305**

The amounts shown above do not include the deferred tax liability from consolidation of undistributed retained earnings of ČEPS. This deferred tax liability will decrease as result of the partial disposal of ČEPS and will affect the income tax expense on the transaction.

The following items of income, expenses and cash flows can be attributed to the discontinuing operation (in CZK millions):

Income, Expenses and Cash Flows Attributed to Discontinuing Operation (in CZK millions)

	2002	2001	2000
Total revenues	5,692	4,127	– [1)]
Operating profit	1,684	1,636	721
Income before income taxes	1,531	1,424	398
Income tax expense	470	436	158
Cash flow from operating activities	1,460	1,707	430
Cash flow from investing activities	(477)	(762)	(597)
Cash flow from financing activities	–	–	–

[1)] In 2000 all revenues attributable to discontinuing operation were eliminated in the consolidation.

The income tax expense shown above does not include deferred tax from consolidation of undistributed retained earnings of ČEPS.

22. Net Income per Share

Net Income per Share

	2002	2001	2000
Numerator (in CZK millions)			
Basic/Diluted			
Net income	**8,421**	**9,123**	**7,237**
Denominator (thousands shares)			
Basic:			
Weighted average shares outstanding	590,363	591,926	592,088
Dilutive effect of treasury shares	1,787	162	–
Diluted:			
Adjusted weighted average shares	**592,150**	**592,088**	**592,088**

23. Commitments and Contingencies

Construction Program

The Company is engaged in a continuous construction program, currently estimated as of December 31, 2002 to total CZK 47.2 billion over the next five years, as follows (in CZK billions): 9.6 in 2003, 9.2 in 2004, 9.1 in 2005, 9.4 in 2006 and 9.9 in 2007. These figures do not include the anticipated purchase of shares in the eight REAS (see Note 1). Pursuant to its interest capitalization policy (see Note 2.8), the CZK 47.2 billion includes approximately CZK 0.6 billion of interest in excess of interest capitalized under Czech accounting principles. Such additional capitalized interest results in an increase in the Company's net income and construction expenditures, but does not affect either its cash requirements or its cash flow. The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2002 significant purchase commitments were outstanding in connection with the construction program.

The Company currently projects that its planned construction expenditures will be funded with cash provided by operating activities. To the extent financing is required, the Company has obtained the following credit ratings from Moody's Investors Service: Baa1 and Standard & Poor's: BBB+ with a stable outlook.

Temelín Nuclear Power Plant

The Company is currently finalizing construction of a nuclear power plant near Temelín in South Bohemia, in the Czech Republic. The plant consists of two Soviet-designed PWR 981 MW units with modifications to upgrade safety and control systems to Western standards.

The construction and testing of the first unit was successfully finished in June 2002 and the unit began its commercial operation. The cost of the first unit was transferred from construction work in progress into plant in service and the Company started depreciation of the unit.

Second unit was loaded with fuel in March 2002 and the nuclear reaction was activated in May 2002. The second unit is expected to go into service in the second quarter of 2003. The Company estimates that the remaining costs required to finish the second unit will be approximately CZK 2.7 billion.

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 (see Note 15). In 2002, 2001 and 2000, payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled CZK 9 millions, CZK 7 million and CZK 25 million, respectively. Based on current estimates of its probable future obligations, the Company provided CZK 47 million in 2002, CZK 57 million in 2001 and CZK 83 million in 2000, respectively, for pollution damages. In 2000, based on a successful legal case with the state forest company, the Company reversed CZK 300 million of the accumulated provision for environmental claims. In 2002 and 2001 the Company further reversed CZK 72 million and CZK 84 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 12) 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 and that the reimbursement of such liability up to CZK 6 billion is guaranteed by the state. 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 a nuclear third party liability policy for damages connected with the operation of the Temelín nuclear power plant. Two separate insurance policies for Temelín cover risk connected with transportation and storage of nuclear fuel according to the requirements of the Nuclear Act. ČEZ has a nuclear third party liability policy for damages connected with the operation of nuclear power plant Dukovany, a policy covering transport of nuclear fuel to Dukovany and a property insurance policy for Dukovany covering damages up to CZK 3 billion.

ČEZ and ČEPS have various insurance coverages, including Directors and Officers Liability, a property policy to cover "all risks" associated with the operation of ČEZ's fossil and hydro power plants, general third party liability insurance and risks connected with ČEPS' property and liabilities of the transmission business.

24. 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 of differences in IFRS and CAS is as follows (in CZK millions):

Effect on Retained Earnings of Differences in IFRS and CAS (in CZK millions)

	December 31	
	2002	2001
Balance per CAS	72,087	67,172
Accumulated provision for nuclear decommissioning and spent fuel storage (Note 12)	(9,715)	(10,128)
Deferred tax on nuclear provisions	3,553	3,140
Capitalized costs of nuclear provisions, net of deferred tax	4,226	4,947
Reversal of repairs and maintenance accrual, net of deferred tax	2,152	1,982
CASTOR containers write-off, net of deferred tax	(816)	(772)
Impact of CAS/IFRS accounting differences on the associate, net of deferred tax	(171)	(262)
Interest capitalized, net of deferred tax	15,482	14,076
Depreciation of interest capitalized, net of deferred tax	(1,620)	(1,149)
Other depreciation differences, net of deferred tax	(416)	(450)
Gain (loss) on derivatives, net of deferred tax	–	(1,231)
Gain (loss) on embedded derivatives, net of deferred tax	(17)	(166)
Additional foreign exchange rate differences under IAS 39, net of deferred tax	–	577
Other IAS 39 differences	57	142
Reclassification of items from retained earnings	(168)	(202)
Balance per IFRS	**84,634**	**77,676**

The effect on net income of differences in IFRS and CAS is as follows (in CZK millions):

Effect on Net Income of Differences in IFRS and CAS (in CZK millions)

	Year ended December 31		
	2002	2001	2000
Net income per CAS	7,321	7,801	6,070
Nuclear decommissioning and spent fuel storage costs (Note 12)	413	452	268
Deferred tax on nuclear provisions	413	(140)	521
Capitalized costs of provisions, net of deferred tax	(721)	(132)	(736)
Repairs and maintenance accrual, net of deferred tax	170	252	(441)
CASTOR containers write-off, net of deferred tax	(44)	(86)	(102)
Impact of CAS/IFRS accounting differences on the associate, net of deferred tax	91	(82)	46
Interest capitalized, net of deferred tax	1,405	1,650	1,960
Depreciation of interest capitalized, net of deferred tax	(471)	(290)	(275)
Other depreciation differences, net of deferred tax	34	32	33
Gain (loss) on derivatives, net of deferred tax	431	(1,096)	–
Gain (loss) on embedded derivatives, net of deferred tax	149	(58)	–
Additional foreign exchange rate differences under IAS 39, net of deferred tax	(577)	844	–
Other IAS 39 differences	(85)	127	–
Deferred tax on tax loss carryforward	–	(95)	10
Deferred tax on other provisions	–	–	(71)
Profit on sale of treasury shares	(18)	–	–
Reclassification of items from retained earnings, net	(90)	(56)	(46)
Net income per IFRS	**8,421**	**9,123**	**7,237**

Consolidated Balance Sheets Prepared in Accordance with Czech Accounting Standards

Consolidated Balance Sheet as of 31. 12. (in CZK thousands)

		2002	2001	2000
	TOTAL ASSETS	204,661,084	206,758,748	204,350,663
A.	Stock subscriptions receivable			
B.	**Fixed assets**	**175,732,623**	**180,609,055**	**179,134,500**
B.I.	Intangible assets	1,174,123	1,144,285	916,179
B.II.	Tangible assets	164,478,663	169,456,950	169,796,594
B.III.	Financial investment	3,951,927	4,110,022	2,935,117
B.IV.	Goodwill/Negative goodwill	–	–	–
B.V.	Investment in affiliate	6,127,910	5,897,798	5,486,610
C.	**Current assets**	**28,142,702**	**22,437,035**	**20,516,896**
C.I.	Inventory	15,073,512	15,098,856	13,077,625
C.II.	Long-term receivables	2,230,298	119,824	92,230
C.III.	Short-term receivables	4,934,937	3,853,677	4,128,021
C.IV.	Financial accounts	5,903,955	3,364,678	3,219,020
D.	**Other assets – temporary accounts**	**785,759**	**3,712,658**	**4,699,267**
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	204,661,084	206,758,748	204,350,663
A.	**Shareholders' equity**	**131,128,140**	**126,222,529**	**119,899,286**
A.I.	Stated capital	59,040,794	59,050,449	59,208,846
A.II.	Capital funds	859,551	1,661,341	1,661,544
	of which: Difference from revaluation of assets and liabilities	-799,949	–	–
A.III.	Funds from net profit	9,038,840	8,729,798	8,364,021
A.IV.	Retained earnings	52,489,008	47,078,978	42,947,224
A.V.	Consolidated net income	7,321,214	7,801,377	6,069,503
A.V.1.	Net income	6,962,934	7,387,162	5,757,587
A.V.2.	Equity in earnings of affiliate	358,280	414,215	311,916
A.VI.	Consolidation reserve fund	2,378,733	1,900,586	1,648,148
B.	**Liabilities**	**72,383,997**	**78,541,295**	**82,781,173**
B.I.	Reserves	23,003,501	20,986,618	19,224,331
	of which: Deferred tax liability	6,828,430	5,060,241	3,782,630
B.II.	Long-term liabilities	23,024,517	26,632,337	27,173,082
B.III.	Short-term liabilities	9,333,899	6,434,082	6,360,341
B.IV.	Bank loans and short-term notes	17,022,080	24,488,258	30,023,419
	of which: long-term bank loans	12,786,980	19,131,974	24,662,840
C.	**Other liabilities – temporary accounts**	**1,148,947**	**1,994,924**	**1,670,204**
D.	Minority interests			

Consolidated Statements of Income Prepared in Accordance with Czech Accounting Standards

Consolidated Statements of Income as of 31. 12. (in CZK thousands)

	2002	2001	2000
Revenues from goods sold	8,749	7,352	6,834
Cost of goods sold	6,970	5,626	5,847
+ Sales margin	**1,779**	**1,726**	**987**
Production	55,621,066	56,409,398	52,929,171
Consumption from production	28,975,444	27,746,171	26,251,339
+ Value added	**26,647,401**	**28,664,953**	**26,678,819**
Personnel expenses	3,853,621	3,944,191	3,775,401
Taxes and fees	1,139,778	1,087,280	1,004,669
Amortization of intangibles and depreciation of tangibles	10,932,517	8,863,694	8,889,557
Revenues from sale of long-term assets and materials	531,239	211,776	412,634
Net value of long-term assets and materials sold	686,669	640,023	409,169
Reversal of consolidation difference	–	–	–
Reversal of operating reserves and adjustments	2,332,500	1,497,177	1,566,426
Creation of operating reserves and adjustments	3,729,557	3,117,046	1,635,338
Other operational revenues	450,072	879,220	73,120
Other operational expenses	78	427,210	427,940
*** Consolidated operational income**	**9,618,992**	**13,173,682**	**12,588,925**
Revenues from sales of securities and shareholdings	717,911	5,952	–
Securities and shareholdings sold	315,154	8,619	–
Interest revenues	148,813	176,738	187,863
Interest expenses	2,601,234	3,309,596	3,856,322
Other financial revenues	4,691,018	2,531,106	2,259,530
Other financial expenses	2,864,281	1,689,863	2,759,769
*** Consolidated loss from financial activities**	**-222,927**	**-2,294,282**	**-4,168,698**
Income tax from normal activities	**2,471,733**	**3,427,469**	**2,719,402**
– Due	703,544	2,149,858	1,560,105
– Deferred	1,768,189	1,277,611	1,159,297
**** Consolidated net income from normal activities**	**6,924,332**	**7,451,931**	**5,700,825**
Extraordinary revenues	472,795	34,938	140,708
Extraordinary expenses	433,891	115,983	73,207
Income tax from extraordinary activities	**302**	**-16,276**	**10,739**
– Due	302	-16,276	10,739
– Deferred	–	–	–
*** Consolidated extraordinary income**	**38,602**	**-64,769**	**56,762**
***** Consolidated net income, net of income from associate**	**6,962,934**	**7,387,162**	**5,757,587**
of which: Income net of minority interests	6,962,934	7,387,162	5,757,587
Minority interests	–	–	–
Income from associate	358,280	414,215	311,916
****** Consolidated net income**	**7,321,214**	**7,801,377**	**6,069,503**

Consolidated Cash Flow Statement Prepared in Accordance with Czech Accounting Standards

Consolidated Cash Flow Statement (in CZK thousands)

		2002	2001	2000
P.	**Cash and cash equivalents at beginning of period**	**3,364,678**	**3,219,020**	**4,356,956**
	Operating activities			
Z.	Income before income taxes	9,882,513	11,296,642	8,908,799
A.1.	Adjustments by non-cash transactions	14,463,666	13,635,010	12,197,964
A.1.1.	Depreciation, amortization and writing-off	10,948,045	8,923,477	8,907,081
A.1.1.1.	Depreciation and amortization of fixed assets	10,941,738	8,914,396	8,895,615
A.1.1.2.	Receivables writing-off	6,307	9,081	11,466
A.1.2.	Change in adjustments, reserves and temporary accounts	524,966	1,942,776	-89,097
A.1.2.1.	Change in adjustments	-19,421	325,341	333,993
A.1.2.2.	Change in reserves	248,694	484,676	14,515
A.1.2.3.	Change in temporary accounts of assets and liabilities	295,693	1,132,759	-437,605
A.1.3.	Gain/loss on fixed assets retirements and own shares	-382,931	50,114	23,437
A.1.4.	Interest expenses and revenues	2,452,421	3,132,858	3,668,459
A.1.4.1	Interest expenses	2,601,235	3,309,596	3,856,322
A.1.4.2.	Interest revenues	-148,814	-176,738	-187,863
A.1.5.	Unrealized losses on derivatives	1,279,445	–	–
A.1.6.	Income from associate	-358,280	-414,215	-311,916
A.*	**Net cash provided by operating activities before taxes, changes in working capital and extraordinary items**	**24,346,179**	**24,931,652**	**21,106,763**
A.2.	Change in working capital	349,879	-2,396,218	-3,348,700
A.2.1.	Change in receivables from operational activities	108,488	-783,302	-1,242,973
A.2.2.	Change in short-term payables from operational activities	203,625	138,849	757,315
A.2.3.	Change in inventory	37,766	-1,751,765	-2,863,042
A.**	**Net cash provided by operating activities before taxes and extraordinary items**	**24,696,058**	**22,535,434**	**17,758,063**
A.3.	Interest paid, excl. capitalized interest	-2,477,872	-3,135,622	-3,912,995
A.4.	Interest received	148,577	178,313	188,734
A.5.	Income taxes paid	-3,394,971	-1,820,696	26,306
A.6.	Revenues and expenses related to extraordinary items	44,210	-74,310	89,942
A.***	**Net cash provided by operating activities**	**19,016,002**	**17,683,119**	**14,150,050**
	Investing activities			
B.1.	Fixed assets acquisition	-6,537,419	-10,103,637	-14,415,460
B.1.1.	Additions to tangible fixed assets	-6,146,342	-8,670,263	-13,754,581
B.1.2.	Additions to intangible fixed assets	-339,335	-400,604	-403,045
B.1.3.	Change in financial investment	33,902	-641,536	-581,078
B.1.4.	Change in payables from investing activity	-87,166	-394,255	284,594
B.1.5.	Change in payables from investing activity (arising out of exchange rate differences)	1,522	3,021	38,650
B.2.	Proceeds from sales of fixed assets	1,078,454	107,890	542,916
B.2.1.	Proceeds from sales of tangible fixed assets	466,877	156,366	313,102
B.2.2.	Proceeds from sales of intangible fixed assets	3	-4	4
B.2.3.	Proceeds from sales of financial investment	540,562	5,952	–
B.2.4.	Change in receivables from sales of fixed assets	71,012	-54,424	229,810
B.***	**Total cash used in investing activities**	**-5,458,965**	**-9,995,747**	**-13,872,544**
	Financing activities			
C.1.	Change in long-term liabilities and short-term loans	-9,413,417	-6,075,906	-1,283,815
C.1.1.	Change in long-term bank loans	-6,344,994	-5,530,866	2,861,530
C.1.2.	Change in short-term bank loans and notes	-1,121,184	-4,295	359,931
C.1.3.	Change in long-term bonds payable	–	–	-4,000,000
C.1.4.	Change in other long-term liabilities	-1,947,239	-540,745	-505,276
C.2.	Impact of changes in equity by cash	-1,604,343	-1,465,808	-131,627
C.2.1.	Monetary donations and subsidies to equity	–	–	–
C.2.2.	Direct payments debited to funds	-109,572	-123,866	-131,627
C.2.3.	Paid-out dividends and profit shares	-1,490,432	-1,183,545	–
C.2.4.	Purchase/sale of own shares	-4,339	-158,397	–
C.***	**Net cash from financing activities**	**-11,017,760**	**-7,541,714**	**-1,415,442**
F.	**Net increase/decrease in cash**	**2,539,277**	**145,658**	**-1,137,936**
R.	**Cash and cash equivalents at end of period**	**5,903,955**	**3,364,678**	**3,219,020**

Balance Sheets Prepared
in Accordance with Czech Accounting Standards

Assets as of 31. 12. (in CZK thousands)

		2002			2001	2000
		Gross	Adjustments	Net	Net	Net
	TOTAL ASSETS	290,976,700	-92,102,506	198,874,194	202,373,315	202,223,562
A.	Stock subscribtions receivable	–	–	–	–	–
B.	**Fixed assets**	**261,096,802**	**-91,382,482**	**169,714,320**	**174,452,554**	**173,362,673**
B.I.	**Intangible assets**	**2,160,199**	**-1,141,270**	**1,018,929**	**1,030,775**	**892,888**
B. I. 1.	Expenses of foundation and organization	–	–	–	–	–
2.	Research and development	–	–	–	–	–
3.	Software	1,793,954	-1,128,678	665,276	758,384	560,441
4.	Patents, rights and royalties	22,509	-12,592	9,917	6,812	9,729
5.	Other intangibles	–	–	–	–	–
6.	Intangibles in progress	343,636	–	343,636	264,578	322,569
7.	Advances for intangibles	100	–	100	1,001	149
B.II.	**Tangible assets**	**246,837,261**	**-90,038,443**	**156,798,818**	**161,367,111**	**161,588,022**
B. II. 1.	Land	699,955	–	699,955	663,093	670,902
2.	Buildings, halls and structures	62,737,222	-24,984,764	37,752,458	27,125,687	27,835,405
3.	Separate movable items and groups of movable items	138,441,873	-65,053,679	73,388,194	42,171,735	46,647,517
4.	Permanent growth	–	–	–	–	–
5.	Livestock	–	–	–	–	–
6.	Other tangible assets	13,679	–	13,679	13,854	13,797
7.	Tangibles in progress	38,344,336	–	38,344,336	84,291,167	72,826,563
8.	Advances for tangibles	6,600,196	–	6,600,196	7,101,424	13,593,669
9.	Adjustment to acquired property	–	–	–	151	169
B.III.	**Financial investment**	**12,099,342**	**-202,769**	**11,896,573**	**12,054,668**	**10,881,763**
B. III. 1.	Majority shareholdings and participating interests (shareholdings > 50%)	5,709,769	–	5,709,769	5,791,117	5,018,809
2.	Substantial shareholdings and participating interests (shareholdings of 20% – 50%)	4,386,664	-189,869	4,196,795	4,268,536	4,493,444
3.	Other securities and deposits	1,693,844	–	1,693,844	1,078,664	440,392
4.	Intergroup loans	–	–	–	–	–
5.	Other financial investments	302,239	-12,900	289,339	916,351	929,118
6.	Financial investment in progress	6,826	–	6,826	–	–
7.	Advances for financial investment	–	–	–	–	–
C.	**Current assets**	**29,127,360**	**-720,024**	**28,407,336**	**24,230,211**	**24,015,108**
C. I.	**Inventory**	**15,004,638**	**-264**	**15,004,374**	**15,037,254**	**13,022,059**
C. I. 1.	Materials	15,001,080	-264	15,000,816	15,027,712	13,003,024
2.	Work in progress and semi-finished production	1	–	1	1	–
3.	Finished products	–	–	–	–	–
4.	Livestock	–	–	–	–	–
5.	Goods	–	–	–	–	–
6.	Advances for inventory	3,557	–	3,557	9,541	19,035
C. II.	**Long-term receivables**	**2,220,730**	–	**2,220,730**	**2,681,601**	**1,812,804**
C. II. 1.	Trade receivables	15,947	–	15,947	76,586	30,913
2.	Receivables from partners and associations	–	–	–	–	–
3.	Receivables from related companies (shareholdings > 50%)	2,137,732	–	2,137,732	2,565,278	1,742,105
4.	Receivables from related companies (shareholdings of 20% – 50%)	–	–	–	–	–
5.	Other receivables	67,051	–	67,051	39,737	39,786
C. III.	**Short-term receivables**	**8,073,206**	**-719,760**	**7,353,446**	**4,238,128**	**6,107,666**
C. III. 1.	Trade receivables	3,978,281	-669,059	3,309,222	3,662,381	3,396,598
2.	Receivables from partners and associations	–	–	–	–	–
3.	Receivables from social security	–	–	–	–	–
4.	Receivables from taxes	1,993,614	–	1,993,614	3,439	95
5.	Receivables from related companies (shareholdings > 50%)	464,546	–	464,546	479,170	1,955,529
6.	Receivables from related companies (shareholdings of 20% – 50%)	1,430	-1,430	–	–	670,122
7.	Other receivables	1,635,335	-49,271	1,586,064	93,138	85,322
C. IV.	**Financial accounts**	**3,828,786**	–	**3,828,786**	**2,273,228**	**3,072,579**
C. IV. 1.	Cash	3,128	–	3,128	3,287	3,511
2.	Bank accounts	2,341,093	–	2,341,093	1,445,532	551,234
3.	Short-term financial assets	1,484,565	–	1,484,565	824,409	2,517,834
4.	Short-term financial assets in progress	–	–	–	–	–
D.	**Other assets – temporary accounts**	**752,538**	–	**752,538**	**3,690,550**	**4,845,781**
D. I.	**Temporary accounts of assets**	**246,815**	–	**246,815**	**3,615,838**	**4,771,927**
D. I. 1.	Prepaid expenses	246,495	–	246,495	2,180,422	2,490,519
2.	Unbilled revenues	320	–	320	1,237	151,982
3.	Exchange rate losses	–	–	–	1,434,179	2,129,426
D. II.	**Contingencies**	**505,723**	–	**505,723**	**74,712**	**73,854**

Shareholders' Equity and Liabilities as of 31. 12. (in CZK thousands)

			2002	2001	2000
		TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	198,874,194	202,373,315	202,223,562
A.		**Shareholders' equity**	**128,194,872**	**123,897,070**	**118,940,762**
A. I.		**Stated capital**	**59,040,794**	**59,050,449**	**59,208,846**
A. I.	1.	Stated capital	59,221,084	59,208,846	59,208,846
	2.	Treasury shares	-180,290	-158,397	–
	3.	Changes in stated capital	–	–	–
A. II.		**Capital funds**	**859,551**	**1,661,341**	**1,661,544**
A. II.	1.	Share premium	–	–	–
	2.	Other capital funds	1,659,500	1,661,341	1,661,544
	3.	Revaluation of assets and liabilities	-799,949	–	–
	4.	Revaluation from transformations	–	–	–
A. III.		**Funds from net profit**	**9,038,840**	**8,729,798**	**8,364,021**
A. III.	1.	Legal reserve fund	8,872,094	8,528,479	8,082,811
	2.	Indivisible fund	–	–	–
	3.	Statutory and other funds	166,746	201,319	281,210
A. IV.		**Retained earnings**	**52,542,282**	**48,021,040**	**43,960,937**
A. IV.	1.	Retained earnings of previous years	52,542,282	48,021,040	43,960,937
	2.	Retained losses of previous years	–	–	–
A. V.		**Profit/loss of current accounting period**	**6,713,405**	**6,434,442**	**5,745,414**
B.		**Liabilities**	**69,541,823**	**76,445,796**	**81,613,612**
B. I.		**Reserves**	**20,937,062**	**19,675,889**	**18,143,411**
B. I.	1.	Legal reserves	7,646,252	6,419,671	5,128,480
	2.	Reserve for income tax	–	–	–
	3.	Other reserves	8,528,819	8,370,079	8,293,351
	4.	Deferred tax liabilities	4,761,991	3,749,559	2,701,732
	5.	Reserve for exchange rate losses	–	1,136,580	2,019,848
B. II.		**Long-term liabilities**	**23,024,517**	**26,632,337**	**27,173,082**
B. II.	1.	Long-term payables to related companies (shareholdings > 50%)	11,685,098	13,450,117	13,527,867
	2.	Long-term payables to related companies (shareholdings of 20% – 50%)	–	–	–
	3.	Long-term deposits received	–	182,220	645,215
	4.	Bonds payable	11,339,419	13,000,000	13,000,000
	5.	Long-term notes payable	–	–	–
	6.	Other long-term payables	–	–	–
B. III.		**Short-term liabilities**	**8,558,164**	**5,649,312**	**6,273,700**
B. III.	1.	Trade payables	4,501,163	4,037,764	5,142,501
	2.	Payables to partners and associations	10,255	10,255	–
	3.	Payables to employees	154,885	146,678	2,993
	4.	Social security payables	98,612	96,316	108,632
	5.	Taxes payable and subsidies	256,715	1,124,010	844,723
	6.	Payables to related companies (shareholdings > 50%)	–	–	–
	7.	Payables to related companies (shareholdings of 20% – 50%)	–	–	–
	8.	Other payables	3,536,534	234,289	174,851
B. IV.		**Bank loans and short-term notes**	**17,022,080**	**24,488,258**	**30,023,419**
B. IV.	1.	Long-term bank loans	12,786,980	19,131,974	24,662,840
	2.	Short-term bank loans	4,235,100	5,356,284	5,360,579
	3.	Short-term notes	–	–	–
C.		**Other liabilities – temporary accounts**	**1,137,499**	**2,030,449**	**1,669,188**
C. I.		**Accruals**	**805,668**	**1,543,656**	**1,112,942**
C. I.	1.	Accruals	802,536	815,889	842,136
	2.	Deferred income	3,132	202,669	105,104
	3.	Exchange rate gains	–	525,098	165,702
C. II.		**Contingencies**	**331,831**	**486,793**	**556,246**

Statements of Income Prepared in Accordance with Czech Accounting Standards

Statements of Income as of 31. 12. (in CZK thousands)

			2002	2001	2000
I.		Revenues from goods sold	8,749	7,352	47,047
A.		Costs of goods sold	6,970	5,626	46,060
+		**Sales margin**	**1,779**	**1,726**	**987**
II.		**Production**	**49,919,670**	**52,276,354**	**53,636,588**
II.	1.	Revenues from finished products and services	49,492,738	51,851,799	53,134,882
	2.	Changes in inventory of own production	–	–	–
	3.	Capitalization (of own work)	426,932	424,555	501,706
B.		**Consumption from production**	**26,029,665**	**26,256,579**	**28,538,132**
B.	1.	Consumption of material and energy	19,178,491	19,250,312	19,618,548
B.	2.	Services	6,851,174	7,006,267	8,919,584
+		**Value added**	**23,891,784**	**26,021,501**	**25,099,443**
C.		**Personnel expenses**	**3,622,573**	**3,727,581**	**3,573,338**
C.	1.	Wages and salaries	2,496,682	2,446,154	2,507,271
C.	2.	Bonuses to board members	10,552	9,571	8,972
C.	3.	Social insurance	891,912	879,482	905,948
C.	4.	Other social expenses	223,427	392,374	151,147
D.		Taxes and fees	1,126,929	1,085,934	1,003,534
E.		Amortization of intangibles and depreciation of tangibles	10,080,930	8,079,961	8,220,768
III.		Revenues from intangibles, tangibles and material sold	488,561	195,902	427,940
F.		Net book value of intangibles, tangibles and material sold	661,149	643,676	457,598
IV.		Reversal of reserves and prepaid expenses	1,764,694	1,187,146	1,520,358
G.		Creation of reserves and prepaid expenses	3,150,015	2,555,065	1,402,230
V.		Reversal of adjustments	559,264	309,231	46,068
H.		Creation of adjustments	568,524	553,439	228,722
VI.		Other operational revenues	406,459	878,356	72,895
I.		Other operational expenses	386,013	409,567	401,868
VII.		Transfer of operational revenues	–	–	–
J.		Transfer of operational expenses	-420,500	–	–
*		**Net operating results**	**7,935,129**	**11,536,913**	**11,878,646**
VIII.		Revenues from sale of securities and deposits	717,911	5,952	–
K.		Sold securities and deposits	315,154	8,619	–
IX.		**Revenues from financial investments**	**210,054**	**131,160**	**160,234**
IX.	1.	Revenues from securities and deposits in group	183,053	112,753	155,800
	2.	Revenues from other securities and deposits	27,001	18,407	3,941
	3.	Revenues from other financial investments	–	–	493
X.		Revenues from short-term financial assets	–	1,282	–
L.		Costs of financial assets	–	–	–
XI.		Revenues from revaluation of securities	–	–	–
M.		Costs of revaluation of securities	–	–	–
XII.		Reversal of financial reserves	1,136,580	2,019,848	1,887,087
N.		Creation of financial reserves	–	1,136,580	2,019,848
XIII.		Reversal of adjustments	31,006	–	–
O.		Creation of adjustments	–	73,408	141,467
XIV.		Interest revenues	302,492	385,379	503,627
P.		Interest expenses	2,601,235	3,309,596	3,856,180
XV.		Other financial revenues	3,436,932	444,158	328,830
Q.		Other financial expenses	2,860,939	539,313	531,177
XVI.		Transfer of financial revenues	–	–	–
R.		Transfer of financial expenses	–	–	–
*		**Net results from financial activities**	**57,647**	**-2,079,737**	**-3,668,894**
S.		**Income taxes on normal activity**	**1,317,973**	**2,958,234**	**2,510,113**
S.	1.	– Due	305,541	1,910,407	1,560,105
	2.	– Deferred	1,012,432	1,047,827	950,008
**		**Net results after taxes from normal activity**	**6,674,803**	**6,498,942**	**5,699,639**
XVII.		Extraordinary revenues	472,795	26,038	123,615
T.		Extraordinary expenses	433,891	105,944	67,101
U.		**Income tax on extraordinary activity**	**302**	**-15,406**	**10,739**
U.	1.	– Due	302	-15,406	10,739
	2.	– Deferred	–	–	–
*		**Net results from extraordinary activity**	**38,602**	**-64,500**	**45,775**
W.		Income distribution to partners	–	–	–
***		**Net profit (loss) for the accounting period**	**6,713,405**	**6,434,442**	**5,745,414**
		Profit (loss) before income taxes	**8,031,680**	**9,377,270**	**8,266,266**

Cash Flow Statements Prepared in Accordance with Czech Accounting Standards

Cash Flow Statements (in CZK thousands)

		2002	2001	2000
P.	**Cash and cash equivalents at beginning of period**	**2,273,228**	**3,072,579**	**4,043,666**
	Operating activities			
Z.	Pre-tax profit from normal activity	7,992,776	9,457,176	8,209,752
A.1.	Adjustments by non-cash transactions	13,782,762	13,114,330	11,521,069
A.1.1.	Depreciation, amortization and write-offs	10,096,458	8,139,744	8,238,227
A.1.1.1.	Depreciation and amortization of fixed assets	10,090,151	8,130,663	8,226,761
A.1.1.2.	Receivables write-offs	6,307	9,081	11,466
A.1.2.	Change in adjustments, reserves and temporary accounts	486,731	1,992,648	-97,891
A.1.2.1.	Change in adjustments	-21,897	317,599	324,103
A.1.2.2.	Change in reserves	248,741	484,651	14,633
A.1.2.3.	Change in temporary accounts of assets and liabilities	259,887	1,190,398	-436,627
A.1.3.	Gain/loss on fixed assets retirements and treasury shares	-378,615	57,721	28,180
A.1.4.	Interest expenses and revenues	2,298,743	2,924,217	3,352,553
A.1.4.1	Interest expenses	2,601,235	3,309,596	3,856,180
A.1.4.2.	Interest revenues	-302,492	-385,379	-503,627
A.1.5.	Other non-cash transactions	1,279,445	–	–
A.*	**Net cash provided by operating activities before taxes, changes in working capital and extraordinary items**	**21,775,538**	**22,571,506**	**19,730,821**
A.2.	Change in working capital	947,189	-2,012,486	-2,704,270
A.2.1.	Change in receivables from operational activities	667,402	-45,733	237,802
A.2.2.	Change in short-term payables from operational activities	234,485	-221,024	-65,543
A.2.3.	Change in inventory	45,302	-1,745,729	-2,876,529
A.**	**Net cash provided by operating activities before taxes and extraordinary items**	**22,722,727**	**20,559,020**	**17,026,551**
A.3.	Interest paid, excl. capitalized interest	-2,477,872	-3,135,622	-3,912,995
A.4.	Interest received	301,575	535,104	495,191
A.5.	Income taxes paid	-3,021,191	-1,816,557	28,072
A.6.	Revenues and expenses related to extraordinary items	44,210	-77,645	78,955
A.***	**Net cash provided by operating activities**	**17,569,449**	**16,064,300**	**13,715,774**
	Investing activities			
B.1.	Fixed assets acquisition	-6,034,629	-9,420,704	-13,806,961
B.1.1.	Additions to tangible fixed assets	-5,674,804	-7,907,714	-13,138,918
B.1.2.	Additions to intangible fixed assets	-304,236	-381,919	-390,457
B.1.3.	Change in financial investment	33,902	-639,536	-605,178
B.1.4.	Change in payables from investing activity	-91,639	-493,930	289,074
B.1.5.	Change in payables from investing activity (emerging from exchange rate differencies)	2,148	2,395	38,518
B.2.	Proceeds from sales of fixed assets	1,038,498	98,767	535,542
B.2.1.	Proceeds from sales of tangible fixed assets	437,086	134,960	305,728
B.2.2.	Proceeds from sales of intangible fixed assets	3	-4	4
B.2.3.	Proceeds from sales of financial investment	540,562	5,952	–
B.2.4.	Change in receivables from sales of fixed assets	60,847	-42,141	229,810
B.***	**Total cash used in investing activities**	**-4,996,131**	**-9,321,937**	**-13,271,419**
	Financing activities			
C.1.	Change in long-term liabilities and short-term loans	-9,413,417	-6,075,906	-1,283,815
C.1.1.	Change in long-term bank loans	-6,344,994	-5,530,866	2,861,530
C.1.2.	Change in short-term bank loans and notes	-1,121,184	-4,295	359,931
C.1.3.	Change in long-term bonds payable	–	–	-4,000,000
C.1.4.	Change in other long-term liabilities	-1,947,239	-540,745	-505,276
C.2.	Impact of changes in equity by cash	-1,604,343	-1,465,808	-131,627
C.2.1.	Monetary donations and subsidies to equity	–	–	–
C.2.2.	Direct payments debited to funds	-109,572	-123,866	-131,627
C.2.3.	Paid-out dividends and profit shares	-1,490,432	-1,183,545	–
C.2.4.	Purchase of own shares	-4,339	-158,397	–
C.***	**Net cash from financing activities**	**-11,017,760**	**-7,541,714**	**-1,415,442**
F.	**Net increase/decrease in cash**	**1,555,558**	**-799,351**	**-971,087**
R.	**Cash and cash equivalents at end of period**	**3,828,786**	**2,273,228**	**3,072,579**

Organization Chart

General Meeting, Supervisory Board

Corporate Administration and Management

board of directors

internal audit

Company Management

chief executive officer

executive director finance and administration

executive director strategic development

CEO's office

finance and administration section

strategic development section

Organizational Units

services group

subsidiaries

executive director conventional power

executive director nuclear power

executive director trade

executive director distribution

conventional power section

nuclear power section

trade section

distribution section

Directory of Organization Units and Information Centers

Head Office

Jaroslav Míl, CEO
ČEZ, a. s.
Duhová 2/1444, 140 53 Praha 4
tel.: +420/271 131 111, fax: +420/271 132 001

ČEZTrade

Vladimír Tošovský, Director
ČEZ, a. s.
Duhová 2/1444, 140 53 Praha 4
tel.: +420/271 131 111, fax: +420/271 132 001

Nuclear Power Section

Zdeněk Linhart, Executive Director
ČEZ, a. s.
Dukovany Nuclear Power Station
675 50 Dukovany
tel.: +420/568 811 111, fax: +420/568 866 360

Dukovany Nuclear Power Station

Ivo Kouklík, Director
ČEZ, a. s.
Dukovany Nuclear Power Station
675 50 Dukovany
tel.: +420/568 811 111, fax: +420/568 866 360

Temelín Nuclear Power Station

Jiří Vágner, Director
ČEZ, a. s.
Temelín Nuclear Power Station
373 05 Temelín – elektrárna
tel.: +420/385 781 111, fax: +420/385 782 298

Information Center

Veronika Vespalcová
ČEZ, a. s.
Dukovany Nuclear Power Station
Information Center
675 50 Dukovany
tel.: +420/568 815 327, fax: +420/568 814 960
e-mail: infocentrum.edu@mail.cez.cz
Opening Hours: 9:00 – 16:00 seven days a week,
excepting state holidays.
Closed first Monday of each month.

Milan Malík
ČEZ, a. s.
Temelín Nuclear Power Station
Information Center
373 05 Temelín – elektrárna
tel.: +420/385 782 639, fax: +420/385 784 900
e-mail: infocentrum.ete@mail.cez.cz
Opening Hours: 9:00 – 16:00 seven days a week;
July and August: 9:00 – 17:30.
On state holidays by telephone appointment,
larger groups and visits inside the power station compound
by telephone appointment only.

Conventional Power Section

Pavel Klika, Executive Director
ČEZ, a. s.
Duhová 2/1444, 140 53 Praha 4
tel.: +420/271 131 111, fax: +420/271 132 001

Hydro Power Stations

Aleš Tomec, Director
ČEZ, a. s.
Hydro Power Stations
Prof. Vl. Lista 329, 252 07 Štěchovice
tel.: +420/257 740 088, fax: +420/257 740 308

Information Center

Jan Kynčl, Head of Quality Control and Safety Dept.

Štěchovice run-of-river and pumped storage hydro power station

ČEZ, a. s.
Hydro Power Stations
Information Center
Prof. Vl. Lista 329, 252 07 Štěchovice
tel.: +420/603 769 197 – appointments Jan Frouz
Opening Hours: May 1 – August 31:
Fridays, 14:00 – 16:00;
Saturdays and Sundays, 10:00 – 15:30;
other days and during off-season by appointment only
(closed on state holidays).

Dalešice pumped storage hydro power station

Tours arranged by:
ČEZ, a. s.
Dukovany Nuclear Power Station
Information Center
675 50 Dukovany
tel.: +420/568 815 327, fax: +420/568 814 960
e-mail: infocentrum.edu@mail.cez.cz
Opening Hours: May 1 – June 30:
Monday through Friday, 9:00 – 16:00,
July 1 – August 31:
Monday through Sunday, 9:00 – 16:00,
September 1 – April 30: by appointment only,
Monday through Friday, 9:00 – 16:00.
Closed on state holidays and on Saturday and Sunday
from September to June.

Dlouhé Stráně pumped storage hydro power station

Tours arranged by:
Energotis, s. r. o.
Žižkova 5, 787 01 Šumperk
tel.: +420/583 235 091 – appointments Ms. Trnečková
Opening Hours: May 1 – August 31:
Monday through Friday, 8:00 – 15:00,
Saturday–Sunday, 8:00 – 12:00 (by appointment only).
Entrance fee CZK 25 (private property – protected area),
during off-season by appointment only (closed on state holidays).

Mělník Power Station
Jiří Černý, Director
ČEZ, a. s.
Elektrárna Mělník, 277 03 Horní Počaply
tel.: +420/315 611 111, fax: +420/315 626 840

Tisová Power Station
Jaroslav Souček, Director
ČEZ, a. s.
Elektrárna Tisová, P.O. BOX 98, 356 69 Sokolov 1
tel.: +420/352 651 111, fax: +420/352 624 035

Poříčí Power Stations
Jan Žižka, Director
ČEZ, a. s.
Elektrárny Poříčí, 541 37 Trutnov
tel.: +420/499 806 111, fax: +420/499 806 199

Dětmarovice Power Station
Lumír Jendryščík, Director
ČEZ, a. s.
Elektrárna Dětmarovice, 735 71 Dětmarovice
tel.: +420/596 582 111, fax: +420/596 550 326

Chvaletice Power Station
Jaroslav Kužel, Director
ČEZ, a. s.
Elektrárna Chvaletice, 533 12 Chvaletice
tel.: +420/466 831 111, fax: +420/466 833 600

Ledvice Power Station
Josef Kašparů, Director
ČEZ, a. s.
Elektrárna Ledvice, 418 48 Bílina
tel.: +420/417 801 111, fax: +420/417 801 501

Tušimice Power Stations
Otakar Tuček, Director
ČEZ, a. s.
Elektrárny Tušimice, 432 01 Kadaň
tel.: +420/474 321 111, fax: +420/474 323 880

Počerady Power Station
Jan Mikulka, Director
ČEZ, a. s.
Elektrárna Počerady, 439 44 Počerady
tel.: +420/415 751 111, fax: +420/415 782 040

Hodonín Power Station
Ludvík Trávník, Director
ČEZ, a. s.
Elektrárna Hodonín
U elektrárny 1, 695 23 Hodonín
tel.: +420/518 300 111, fax: +420/518 353 814

Prunéřov Power Stations
Jiří Šinágl, Director
ČEZ, a. s.
Elektrárny Prunéřov, 432 01 Kadaň
tel.: +420/474 301 111, fax: +420/474 332 697

Explanation of Terms, Methods Used to Calculate Key Indicators, Units, Technical Standards and Names of Government Agencies

Glossary of Terms

Term	Explanation
Achievable capacity	Power station nameplate capacity less outages caused by changes that are permanent in character.
Alternative (renewable) sources	Sources of energy that renew themselves in a natural manner. Examples are solar energy, wind energy and biomass.
Ancillary services	Activities carried on by private individuals and/or legal entities to provide for system services.
Automated Control System (ACS)	An automated system for controlling technical processes – a system for managing generating units.
Available capacity	Maximum active capacity for generation of electrical energy and supply of heat that can be achieved by a given generation facility when considering internal technical and operational conditions but disregarding external ones. Equals achievable capacity less selected basic shut-downs (for overhauls, extended overhauls, upgrades, guarantee repairs, routine repairs) and technical failure rate. Used to calculate working availability.
BI 12	Index of power industry stocks on the Prague Stock Exchange.
CEZTel, a.s.	(also referred to as CEZTel) A 100% subsidiary of ČEZ that provided telecommunications services for its founder and its founder's subsidiary (ČEPS, a.s.). These activities passed over to ČEZnet, a.s. during 2002.
Czech Nuclear Pool	A consortium of insurance companies insuring nuclear facilities.
ČEPS, a.s.	(also referred to as ČEPS) A 100% subsidiary of ČEZ (until 31 March 2003) that owns and operates the transmission grid – inception October 1998.
ČEZnet, a.s.	(also referred to as ČEZnet) A 100% subsidiary of ČEZ that provides telecommunications services for its founder and its founder's subsidiary (ČEPS, a.s.) and also competes on the telecommunications market – inception November 2001.
Desulfurization/ Desulfurization Equipment	A type of technology used to reduce SO_2 emissions from powder-coal fired boilers.
Distribution grid	A mutually interconnected system of 110 kV lines and equipment, with the exception of 110 kV lines and equipment that are part of the transmission grid, and lines and equipment at the 0.4/0.23 kV, 3 kV, 6 kV, 10 kV, 22 kV and 35 kV voltage levels that are used to distribute electricity within the territory of the Czech Republic, including metering, protective, control, safety, information and telecommunications systems.
Electricity Demand	Total electricity generated by domestic sources less electricity consumed by power stations less network losses less electricity used for pumping at pumped-storage hydro power stations plus balance of foreign electricity trade.
Electricity importer	Private individual or legal entity that holds an electricity trading license and purchases electricity abroad for re-sale in the home market.
Electricity producer	Private individual or legal entity that produces electricity and holds a license to produce electricity.
Electricity production	Overall electricity generated, as measured from generator terminals over the period in question.
Electricity supply	Overall production of electricity less own consumption and losses associated with generation processes.
Electricity trader	Private individual or legal entity who holds a license to trade in electricity and who purchases electricity for the purpose of resale.
Eligible customer	An end customer who has the right to choose its electricity supplier from among market players licensed to produce and/or trade in electricity. May also procure electricity directly on the market organized by the OTE.
Emission ceilings	Maximum allowed aggregate emissions of pollutants or stipulated groups of pollutants resulting from human activity, expressed in units of mass per year from all sources of air pollution, from defined groups of sources, or from individual sources of air pollution within a defined geographical area.
Emission limits	Maximum allowed concentrations of pollution released into the atmosphere.
Energy Regulatory Office	Administrative agency for regulation of the energy industry; has its own section in the State budget. Based in Jihlava. The Energy Regulatory Office's powers and responsibilities include supporting competition and protecting the interests of consumers in those areas of the energy sectors in which competition is not possible, with the aim of satisfying all reasonably justifiable demands for energy supply.

Term	Explanation
Fluidized-bed boiler	Boiler in which coal combustion takes place in a rising column of air. Flue gas desulfurization takes place by adding ground limestone to the fuel. This renders unnecessary the desulfurization equipment used with more common powder-coal boilers.
Final consumer	Customer who consumes all electricity purchased; does not trade in electricity.
IFRS (International Financial Reporting Standards)	International Accounting Standards (formerly known as IAS).
Installed capacity	Sum of generator name-plate capacities, including generators for in-house consumption. The only capacities that are not counted are those of generators that have been permanently decommissioned and generators whose drive motor has been permanently removed and therefore are serving as compensators.
International Atomic Energy Agency (IAEA)	The International Atomic Energy Agency (IAEA), based in Vienna, Austria.
Large-scale Electricity Customer	A customer who purchases electricity from the high- and medium-voltage grids.
Liberalization of the electricity market	The process of creating a competitive, market environment. For natural reasons, monopolies remain in the electricity industry particularly in the use of the transmission grid and the distribution grids, including the provision of system services. Electricity generation and the sale of electricity and related ancillary services are being liberalized. For the time being, the organization of the short-term/spot electricity market in the Czech Republic is a State monopoly.
OTE – Operátor trhu s elektřinou, a.s. (Market Operator)	A joint-stock company established by the State which is tasked with organizing the electricity market in the Czech Republic, monitoring actual and agreed supplies and purchases of electricity by market players, acting as a clearing house for deviations between agreed and actual supply values and organizing an electricity spot/short-term market.
Peak requirement	Highest load on the grid measured during a given period.
Power System	The Czech Republic Power System is a mutually interconnected system of equipment for the generation, transmission, transformation, and distribution of electricity, including electrical hook-ups of buildings and direct lines, as well as metering, protective, control, safety, information and telecommunications equipment.
Privatization	Transfer of State ownership to a private entity.
Protected customer	A private individual or legal entity that is entitled to hook-up to the distribution grid and to be supplied electricity in the stipulated quality and for regulated prices.
PSE	Prague Stock Exchange.
PX 50	The official stock index of the Prague Stock Exchange. The index is set using the method recommended by the IFC (International Finance Corporation) for calculation of indexes in emerging markets. From analyses it was decided to create a base consisting of 50 stocks. Currently the number of base stocks is variable, but it may not exceed 50. Equity securities of investment funds and holding companies founded by transformation of investment funds are not included in the index base. The date 5 April 1994 was chosen as the index start date, and the initial value of the PX 50 on that date was set at 1,000 points.
Rainbow Power	A new marketing strategy by which ČEZ is offering to its customers several types of color-coded electricity supplies:
Yellow	All year, seven-days a week Uninterrupted supply of the same amount of electricity, 24 hours a day, 365 days a year.
Green	All year, business days only All-year electricity supply with constant hourly capacity, 24 hours a day on all business days of the year.
Red	Month-to-month, seven-days a week Supply of electricity in individual calendar months, 24 hours a day on all days of the given month.
Blue	Month-to-month, business days only Supply of electricity in individual calendar months, 24 hours a day on all business days of the given month.
Orange	All-year, business days from 8:00 to 20:00 Supply of electricity on all business days of the year from 8:00 to 20:00 each day.
Light-blue	Month-to-month, business days from 8:00 to 20:00 Supply of electricity on all business days from 8:00 to 20:00 each day, for individual calendar months.

Term	Explanation
White	Residual diagram – An additional amount of electricity in the form of a pre-set annual volume that is gradually written into daily supply diagrams according to actual energy consumption.
Violet	Time-band supply of electricity with constant capacity at all hours of all Saturdays, Sundays and State holidays during the period from May 1 to December 20.
Grey	Time-band supply of electricity with constant capacity at all hours of all Saturdays, Sundays and State holidays in a given month, starting in May. In December, time-band electricity supply lasts until December 20. Differing values of time-band supply may be chosen for various months and it is also possible to purchase electricity only in particular months.
Brown	Time-band electricity supply with constant capacity on all business days during the period from May 1 to December 20, from 00:00 to 08:00 and from 20:00 to 24:00 on each given day.
Dark-green	Time-band electricity supply with constant capacity on all business days of a given month, starting in May, from 00:00 to 08:00 and from 20:00 to 24:00 on each given day. In December, time-band electricity supply lasts until December 20.
Regional distribution companies	(sometimes referred to by Czech abbreviation “REAS”) Eight regional electric utility companies that distribute electricity to final consumers and may also trade in electricity.
Regulated third-party grid access	Under this principle, anyone who satisfies the stipulated technical conditions has the right to access grids (at regulated prices) in order to engage in electricity trades. Unlike negotiated access, prices for regulated third-party access are set by a regulator (the Energy Regulatory Office) and are made public.
Small electricity customer	Businesses – all customers connected to the low-voltage grid (1 kV and under) who do not qualify as household customers (see below). Households – customers that are connected to the low-voltage grid consuming only for the customer’s personal use (households), for personal use by household members and other persons in the household, provided these customers are citizens or permanent residents of the Czech Republic.
State Energy Inspection (SEI)	An organization in charge of exercising State supervision in the power sector.
System services	Activities carried on by the transmission grid operator (ČEPS, a.s.) and distribution grid operators to ensure reliable operation of the Czech Republic Power System with consideration for the operation of interconnected power systems.
“Take or Pay”	A type of contract based on payment for an agreed amount of electricity regardless of whether or not the entire amount was actually used.
Transmission grid	A mutually interconnected system of 400 kV, 220 kV lines and equipment and selected lines and equipment of the 110 kV grid, which serves the purpose of electricity transmission throughout the entire Czech Republic and that of interconnection with power systems of neighboring countries, including metering, protective, control, safety, information and telecommunications equipment; the transmission grid is built and operated in the public interest.
Working availability	The degree to which electricity generating equipment is available to produce electricity and heat. Available capacity expressed as a percentage of achievable capacity.

Method Used to Calculate Key Indicators

Indicator	Calculation
Return on equity (ROE) gross	Income before income taxes/Shareholders' equity *)
Return on equity (ROE) net	Net income/Shareholders' equity *)
Return on total assets (ROA) net	Net income/Assets *)
Return on capital employed (ROCE) net	Net income/(Shareholders' equity *) + Long-term debt net of amount due within one year *) + Long-term revolving loans *))
Sales margin	Income before income taxes/Revenues
Working ratio **)	Operating expenses/Revenues
Debt to equity ratio	Debt/Equity
Total indebtedness with provisions excluded	(Long-term liabilities + Current liabilities + Deferred income taxes - Accumulated provision for nuclear decommissioning and fuel storage - Accrued liabilities)/Assets
Long-term indebtedness	(Long-term debt net of amount due within one year + Long-term revolving loans)/Assets
Debt service ratio **)	(Operating revenues + Other income - Operating expenses - Income tax due)/Debt service requirements
Current ratio	Current assets/Current liabilities
Operational cash flow to liabilities ratio	Net cash provided by operating activities/Liabilities
Assets turnover	Revenues/Assets *)
Cash generation ratio **)	Cash generated from own sources/Average yearly investment expenditures
Coverage of fixed assets	(Long-term liabilities + Equity)/Fixed Assets
Extent of depreciation	1 - (Net plant in service/Plant in service)
Earnings per share CZK 100	Net income/Stated capital
Dividend share of profit	Dividends paid from the profit of current year/Net income of current year
Price/earnings ratio	Price of share CZK 100 on Prague Stock Exchange x Number of shares CZK 100/Net income

*) average of values at end of last year and end of given year
**) according to CAS

Explanation of Units Used in This Document

Unit	Explanation
kV	kV = 10^3 V, V = unit of electrical potential (voltage)
MW	MW = 10^6 W = 10^3 kW, W = unit of capacity
GWh	GWh = 10^9 Wh = 10^3 MWh = 10^6 kWh, Wh = 3,600 Ws
TJ	TJ = 10^{12} J = 10^3 GJ = 10^6 MJ, J = Ws = unit of work (energy)
SO_2	Sulfur dioxide
NO_x	Oxide(s) of nitrogen
CO	Carbon monoxide
CO_2	Carbon dioxide

List of Technical Standards Mentioned

Number of standard	Full name
Directive 96/92/EC	Directive of the European Parliament and the Council of Europe number 96/92EC dated 19 December 1996, relating to common rules for the internal electricity market.
ISO 14 001	Environmental management system.
ČSN EN ISO 14 001	Specification of ISO 14 001 standard with instructions for its use.

Governmental Bodies

Name used in text	Full name
Antitrust Office	Office for the Protection of Competition
Chamber of Deputies	Chamber of Deputies of the Parliament of the Czech Republic
Constitutional Court	Constitutional Court of the Czech Republic
Government	Government of the Czech Republic (i.e., the Cabinet)
Ministry of Culture	Ministry of Culture of the Czech Republic
Ministry of Education	Ministry of Education of the Czech Republic
Ministry of Environment	Ministry of Environment of the Czech Republic
Ministry of Finance	Ministry of Finance of the Czech Republic
Ministry of Labor and Social Affairs	Ministry of Labor and Social Affairs of the Czech Republic
National Property Fund	Fund of National Property of the Czech Republic
Parliament	Parliament of the Czech Republic
Senate	Senate of the Parliament of the Czech Republic

Information for Shareholders

Events Calendar

Preliminary, unaudited unconsolidated financial performance figures for 2002 according to Czech Accounting Standards (CAS)	late February 2003
Extraordinary General Meeting of ČEZ, a. s.	24. 2. 2003
– Press conference on 2002 performance figures	28. 2. 2003
– 2002 Financial Performance Summary (CAS unconsolidated, Czech version)	28. 2. 2003
Report on Relations among Affiliated Entities (Czech version only)	31. 3. 2003
2002 Financial Performance Summary (IFRS, English version)	second half of April 2003
Unaudited financial performance figures for 1st quarter 2003	
– Press conference	5. 5. 2003
– Financial Performance Summary (CAS unconsolidated, Czech version)	5. 5. 2003
– Financial Performance Summary (IFRS, English version)	5. 5. 2003
Publishing of 2002 Annual Report (Czech version)	30. 4. 2003
Publishing of 2002 Annual Report (English version)	June 2003
11th Annual General Meeting of ČEZ, a. s.	17. 6. 2003
ČEZ, a. s. Half-year Report (Czech version only)	31. 7. 2003
Unaudited financial performance figures for 1st half 2003	
– Press conference	late July 2003
– Financial Performance Summary (CAS unconsolidated, Czech version)	late July 2003
– Financial Performance Summary (IFRS, English version)	late August 2003
Unaudited financial performance figures for 1st – 3rd quarters 2003	
– Press conference	late October 2003
– Financial Performance Summary (CAS unconsolidated, Czech version)	late October 2003
– Financial Performance Summary (IFRS, English version)	late November 2003

Contacts

ČEZ, a. s. Press Spokesperson	Ladislav Kříž	krizxl1.hsp@mail.cez.cz	+420/271 132 383
Temelín Nuclear Power Station Press Spokesperson	Milan Nebesář	nebesm1.ete@mail.cez.cz	+420/385 782 415
Dukovany Nuclear Power Station Press Spokesperson	Petr Spilka	spilkp1.edu@mail.cez.cz	+420/568 815 400
ČEZTrade Sales Department	Luděk Horn	hornxl1.hsp@mail.cez.cz	+420/271 132 381
Investor Relations	Petra Šleprová	investor.relations@mail.cez.cz	+420/271 132 572
Website	Michaela Sabolovičová	sabolm1.hsp@mail.cez.cz	+420/271 132 754
Rainbow Power Foundation	Petra Schmalzová	schmap1.hsp@mail.cez.cz	+420/271 136 720

ČEZ, a. s.
Duhová 2/1444
140 53 Praha 4
Czech Republic

Registered in the Commercial Register
of the Prague Municipal Court,
Part B, Entry No. 1581

Year established: 1992
Legal form: Joint-stock company

Corporate ID: 452 74 649
Tax ID: 004 – 452 74 649

Bankers:
Komerční banka Praha 1
Account no.: 71504 – 011, bank code 0100

Telephone: +420/271 131 111
Fax: +420/271 132 001

Internet: http://www.cez.cz
http://www.duhovaenergie.cz
E-mail: info@mail.cez.cz

Consulting of content, design and production: