

CEZ GROUP BRIEF REPORT FOR THE YEAR 2006

PRELIMINARY NON-AUDITED CONSOLIDATED RESULTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Highlights

- Net income up CZK 6.5 billion (29.1%) to CZK 28.8 billion.
- EBITDA up CZK 14.2 billion (28.4%) to CZK 64.3 billion.
- In December, the shares of ČEZ, a. s. became part of Poland's stock exchange blue chip index, the WIG 20.
- Also in December, a joint venture, NERS d.o.o., was established with the partner Elektroprivreda Republike Srpske (Bosnia and Herzegovina). The aim of the venture is to operate the Gacko mine and power plant (300 MW) and to build a new power plant.

Prague, 22 February 2007

Key Figures

	Units	As of December 31, or 12 months ended December 31, 2006	As of December 31, or 12 months ended December 31, 2005	Index 06/05
Generation of electricity (gross)	GWh	65,532	60,016	109.2%
Sales of electricity	GWh	85,674	74,432	115.1%
Sales of heat	TJ	11,274	9,790	115.1%
Revenues	CZK m	159,580	125,083	127.6%
Operating expenses	CZK m	-95,236	-74,957	127.1%
of which, e.g.: CO ₂ emission permits	CZK m	3,077	1,053	x
EBITDA	CZK m	64,344	50,126	128.4%
of which: Power and production and trading	CZK m	43,777	33,642	130.1%
Distribution and sale	CZK m	13,434	11,239	119.5%
Mining	CZK m	4,363	3,607	121.0%
Other	CZK m	2,769	1,638	169.1%
Depreciation and amortization	CZK m	-24,280	-20,723	117.2%
Operating income (EBIT)	CZK m	40,064	29,403	136.3%
Net income	CZK m	28,756	22,282	129.1%
Return on invested capital (ROIC)	%	11.2	8.6	130.2%
Return on equity (ROE), net	%	14.9	12.3	121.1%
Price earnings ratio (P/E)	1	20.4	20.3	100.5%
EBIT margin	%	25.1	23.5	106.8%
EBITDA margin	%	40.3	40.1	100.5%
Net debt / EBITDA	1	0.27	0.44	62.1%
Net debt / equity	%	9.0	12.4	72.6%
Capital expenditures (CAPEX)	CZK m	22,545	16,851	133.8%
Investments	CZK m	21,925	12,258	178.9%
Operating cash flow	CZK m	62,908	43,895	143.3%
Employee head count	persons	31,162	29,905	104.2%

Revenues, Expenses, Income

CEZ Group net income grew by CZK 6.5 billion (29.1%) and EBITDA was up CZK 14.2 billion (28.4%). The principal factors driving the growth were: higher gross margin on production and sales as a result of record output from ČEZ a. s. generating plants, growth in wholesale prices, and successful optimizing of CO₂ permits and sale of the resulting surplus. Also contributing to the year-on-year income growth was the addition of new members to CEZ Group, and the inclusion of Romania-based Electrica Oltenia S.A. in the Q4 2005 consolidated results. The power plants ELCHO and Skawina in Poland joined the Group, for accounting purposes, in June 2006 and the Varna Power Station and additional newly established companies in Bulgaria, Poland, Serbia and Kosova entered the consolidation as of Q4 2006.

Cash flows

Net cash provided by operating activities totaled CZK 62.9 billion, up CZK 19.0 billion (43.3%) year-on-year as a result of the improved net income. Cash used in investing activities totaled CZK 43.3 billion, up CZK 19.3 billion (80.6%) year-on-year in conjunction with the purchase of two power plants in Poland, the Varna Power Station in Bulgaria, and taking of increased stakes in Severočeské doly and Severočeská energetika. Additions to property, plant and equipment and other non-current assets were up CZK 8.1 billion (51.5%) due, among other factors, to outlays relating to the comprehensive retrofit of the Tušimice II Power Station. Cash used in financing activities decreased year-on-year by

CZK 7.3 billion thanks to placement of the 4th Eurobond issue to retire the 2nd issue and despite a higher dividend pay-out by CZK 3.5 billion.

Capital Expenditures

January 2007 saw approval of the business plan for comprehensive retrofit of the Pruněšov II Power Station to 3 x 250 MW. A consultant was selected to help secure financing for the estimated CZK 40 billion GACKO project (joint venture with local government to invest in upgrading an existing 300 MW power plant, development of a mine, and build-out of a new power plant). Work continues on the comprehensive retrofit of Tušimice II Power Station (4 x 200 MW), with outlays in 2006 totaling CZK 2.6 billion.

Electricity Market

Overall CEZ Group net electricity sales totaled 72.0 TWh. Of this, the wholesale balance was 29.2 TWh (sale 42.8 TWh, purchase 13.6 TWh) and sales to final customers outside CEZ Group totaled 42.9 TWh: of this amount, 42.0 TWh within the distribution and sale segment while 0.9 TWh was sold to ČEPS to cover grid losses (power production and trading segment).

Power Production and Trading Segment

		Generation and Trading		TWh	Generation		TWh	Trading			
		2006	2005		2006	2005		2006		2005	
								domestic	foreign	domestic	foreign
Total revenues	CZK m	102,135	70,248	Electricity generation	65.5	60.0	Electricity purchased	7.4	9.4	5.0	1.2
EBITDA	CZK m	43,777	33,642	of which: nuclear PPs	26.0	24.7	of which: wholesale market	4.2	9.4	4.7	1.2
EBIT	CZK m	29,685	19,734	coal PPs	37.0	33.1	Electricity sold	58.6	17.4	52.1	8.2
Head count	persons	8,759	7,174	hydro and other	2.5	2.2	of which: outside of Group	26.3	17.4	29.5	8.2
							- wholesale market	25.4	17.4	25.5	8.2
							- sale to final customers	0.9	0.0	4.0	0.0
							Balance	51.2	7.9	47.1	7.0

CEZ Group electricity generation was up 9.2% year-on-year, driven by higher production across all plant types. Higher production in coal-fired plants was caused by the inclusion of the Polish power plants ELCHO and Skawina (2.4 TWh) and the Varna Power Station (0.7 TWh) in the figures, both as of the acquisition date. Production in coal-fired plants in the Czech Republic was up 0.8 TWh for the year.

Sales in the power production and trading segment in CEZ Group domestic markets rose by 6.5 TWh (12.5%). Of this amount, 3.6 TWh (6.9%) was in the Czech Republic, where purchased electricity increased by 2.2 TWh (44.4%) to grow the resulting balance by 1.4 TWh. In the Polish domestic market, the companies ELCHO and Skawina sold 2.3 TWh and, in the Bulgarian domestic market, Varna Power Station sold 0.6 TWh (both since the acquisition date). The balance of electricity sales abroad was up 1.0 TWh (14.1%) with import and export growing by 8.2 TWh and 9.2 TWh, respectively.

2006 was characterized by growth in electricity prices throughout the Central European region. This growth was caused primarily by the development of demand and supply in this area and movements in the prices of fuels and CO₂ permits. Demand for electricity is growing steadily in the entire region, as demonstrated by the fact that demand outstripped supply by wide margins in all organized auctions of electricity for the year 2007. At the same time, we are seeing a decline in available generating capacity in the Central European region. Until recently, Germany was the market with the highest prices. However, prices in Hungary and the Balkans are a new phenomenon. High demand in these countries has caused prices to rise far above the level prevailing in Germany. Nor was this development substantially affected by the declining price of CO₂ permits, which fell steeply during the year and continued to decline thereafter (from up to 30 €/t early in the year to 6-7 €/t in late 2006; currently the price is under 2 €/t). ČEZ, a. s. sold most of its anticipated surplus of permits for 2006 and 2007 before the bottom fell out of the market. This had a positive impact on the 2006 net income and will be a favorable factor in the 2007 financial performance as well.

Distribution and Sale Segment

		Total		Czech Republic		Bulgaria		Romania		
		2006	2005	2006	of which: ČEZ Distribuce	2005	2006	2005	2006	2005
Total revenues	CZK m	92,992	75,386	76,945	29,138	63,563	12,211	11,839	10,397	2,599
EBITDA	CZK m	13,434	11,239	9,333	6,604	9,244	2,160	1,729	1,943	266
EBIT	CZK m	8,261	6,579	6,021	3,672	5,766	1,122	749	1,119	63
Sale to final customers outside of CEZ Group	TWh	42.0	36.8	30.0	x	27.9	8.2	7.9	3.9	1.0
Distribution of electricity	TWh	51.4	43.5	33.1	33.1	32.3	9.8	8.0	8.6	3.2
Number of employees	persons	13,090	13,765	5,430	1,150	6,103	4,653	4,693	3,007	2,969

Net electricity demand in the Czech Republic was up 1.7 TWh (2.9%) year-on-year to reach 59.3 TWh. After adjustment to take into account the long-term average temperature, the growth is +3.1%. The growth was highest in the industrial segment (+3.3%), although household consumption grew by the same percentage due to heavy use of air conditioning and cooling in the record-high temperatures seen in the summer months. Retail business consumption was up 2.1%.

ČEZ Prodej, s.r.o. sold 32 TWh in the Czech Republic for final consumption (2 TWh of this amount was within CEZ Group – primarily to ČEZ Distribuce to cover grid losses). In year-on-year terms, this is only a slight (0.6 TWh) decline in sales (some sales to final customers in 2005 went through ČEZ, a. s.). The decline stems from growing competition in the liberalized marketplace. ČEZ Prodej, s. r. o. had a 53.4% share in the final customer market in 2006.

ČEZ Distribuce saw its volume of distributed electricity increase to 33.1 TWh (+2%), which is in line with the overall growth in electricity demand in the Czech Republic.

The distribution companies in Bulgaria and Romania sold a total of 12.1 TWh (up 3.1 TWh, or 34.5%, over 2005), thanks to strong demand in both countries and the fact that Romania was not included in the consolidation group until October 2005 (the growth was 0.2 TWh in Bulgaria and 2.9 TWh in Romania).

Mining Segment

		Mining		thousands of metric tons	Coal sales	
		2006	2005		2006	2005
Total revenues	CZK m	8,932	7,998	Total coal sales	22,461	21,776
EBITDA	CZK m	4,363	3,607	of which: ČEZ	16,775	17,056
EBIT	CZK m	3,369	2,660	plants over 50 MW	2,753	1,736
Head count	persons	3,525	3,554	coal export	287	281
				other plants and traders	2,646	2,703

ČEZ, a. s. Ratings

Standard & Poor's: "A-" with stable outlook

Moody's: "A2" with stable outlook

Other Information

- In November, ČEZ, a. s. expressed interest in participating in a tender for energy projects in Kosova in consortium with AES (American Energy Systems). This consortium is one of the four qualified bidders announced on 28 December 2006.
- WANO inspected the Temelín Nuclear Power Station on December 4 – 8. The inspection concluded that the plant does not diverge from common safety standards. The commission did not evaluate the plant's technical difficulties.
- On December 13, erstwhile member of the ČEZ, a. s. Supervisory Board Martin Kocourek became Chairman of the Supervisory Board.
- On December 15, the shares of ČEZ became part of Poland's stock exchange blue chip index, the WIG 20.
- In January 2007, high winds in the Czech Republic cut off power to 1.1 million customers. CEZ Group workers succeeded in restoring electricity to all customers within four days.
- On 8 January 2007, shares of minority shareholders of Středočeská energetická a.s. passed to the majority shareholder, ČEZ, a. s.
- On 29 January 2007, ČEZ, a. s. announced its intent to merge during 2007 with the companies Středočeská energetická a.s., Severomoravská energetika, a.s., Severočeská energetika, a.s., Východočeská energetika, a.s. and Západočeská energetika, a.s.

ČEZ, a. s. Share Performance Compared to the Prague Stock Exchange's PX Index and the Bloomberg Utilities Index



