ČEZ, A. S., AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS OF DECEMBER 31, 2005 AND 2004

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheet of the CEZ Group ("the Group") as of December 31, 2005 and 2004 and the related consolidated statements of income, equity, cash flows and the related notes for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Board of Directors of ČEZ, a. s. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005 in accordance with International Financial Reporting Standards as adopted by the EU.

Ernst & Young Audit & Advisory, s.r.o.
License No. 401

Ladislav Langr
Auditor, License No. 257

March 8, 2006
Prague, Czech Republic

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2005 and 2004

in CZK Millions

	2005	2004 *)
Assets		
Property, plant and equipment:		
Plant in service	439,416	402,864
Less accumulated provision for depreciation	199,756	182,932
Net plant in service (Note 3)	239,660	219,932
Nuclear fuel, at amortized cost	7,860	7,956
Construction work in progress	11,570	11,308
Total property, plant and equipment	259,090	239,196
Other non-current assets:		
Investment in associates	929	2,011
Investments and other financial assets, net (Note 4)	13,811	26,426
Intangible assets, net (Note 5)	6,046	3,379
Deferred tax assets (Note 25)	524	713
Total other non-current assets	21,310	32,529
Total non-current assets	280,400	271,725
Current assets:		
Cash and cash equivalents (Note 9)	16,791	8,942
Receivables, net (Note 10)	14,792	9,189
Income tax receivable	1,478	26
Materials and supplies, net	3,671	3,333
Fossil fuel stocks	756	724
Emission rights (Note 11)	134	-
Other current assets (Note 12)	6,187	5,311
Total current assets	43,809	27,525
Total assets	324,209	299,250

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2005 and 2004

continued

	2005	2004 *)
Equity and liabilities		
Equity attributable to equity holders of the parent:		
Stated capital	58,237	59,218
Retained earnings and other reserves	118,436	112,879
Total equity attributable to equity holders of the parent (Note 13)	176,673	172,097
Minority interests	14,616	6,350
Total equity	191,289	178,447
Long-term liabilities:		
Long-term debt, net of current portion (Note 14)	30,586	38,140
Accumulated provision for nuclear decommissioning and fuel storage (Note 16)	35,869	29,441
Other long-term liabilities (Note 17)	14,974	14,868
Total long-term liabilities	81,429	82,449
Deferred tax liability (Note 25)	18,555	15,603
Current liabilities:		
Short-term loans (Note 18)	265	240
Current portion of long-term debt (Note 14)	7,888	3,439
Trade and other payables (Note 20)	16,243	12,587
Income taxes payable	630	1,227
Accrued liabilities (Note 21)	7,910	5,258
Total current liabilities	32,936	22,751
Total equity and liabilities	324,209	299,250

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

in CZK Millions

	2005	2004 *)
Revenues:		
Sales of electricity (Note 22)	115,949	92,183
Heat sales and other revenues	9,134	10,487
Total revenues	125,083	102,670
Operating expenses:		
Fuel	9,010	9,305
Purchased power and related services	37,474	26,519
Repairs and maintenance	4,229	4,872
Depreciation and amortization	20,723	19,842
Salaries and wages (Note 23)	13,426	11,368
Materials and supplies	4,020	4,625
Emission rights (Note 11)	(1,053)	-
Other operating expenses (Note 24)	7,851	6,354
Total expenses	95,680	82,885
Income before other expenses (income) and income taxes	29,403	19,785
Other expenses (income):		
Interest on debt, net of capitalized interest (Note 2.7)	1,800	1,823
Interest on nuclear and other provisions (Note 2.22 , 16 and 17)	2,447	2,425
Interest income	(437)	(721)
Foreign exchange rate losses (gains), net	266	(1,765)
Loss on sale of subsidiaries and associates	170	-
Negative goodwill write-off (Note 6)	(1,704)	-
Other expenses (income), net (Note 26)	(343)	244
Income from associates (Note 2.2)	(102)	(722)
Total other expenses (income)	2,097	1,284
Income before income taxes	27,306	18,501
Income taxes (Note 25)	5,024	4,233
Net income	22,282	14,268
Net income attributable to:		
Equity holders of the parent	21,438	13,213
Minority interests	844	1,055
Net income per share attributable to equity holders of the parent (CZK per share) (Note 30)		
Basic	36.3	22.3
Diluted	36.2	22.3
Average number of shares outstanding (000s) (Notes 13 and 30)		
Basic	590,426	592,075
Diluted	592,211	592,211

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

in CZK Millions

	Attributable to equity holders of the parent						
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total	Minority interests	Total Equity
December 31, 2003, as previously reported	59,152	1	(81)	93,552	152,624	7,893	160,517
Effect of consolidation of Severočeské doly (Note 7)	-	-	45	9,328	9,373	1,185	10,558
December 31, 2003, as restated	59,152	1	(36)	102,880	161,997	9,078	171,075
Change in fair value of available-for-sale financial assets recognized in equity	-	-	(147)	-	(147)	(44)	(191)
Available-for-sale financial assets removed from equity	-	-	207	-	207	45	252
Change in fair value of cash flow hedges recognized in equity	-	-	(690)	-	(690)	-	(690)
Cash flow hedges removed from equity	-	-	621	-	621	-	621
Other movements	-	(3)	-	(12)	(15)	-	(15)
Gain and loss recorded directly to equity	-	(3)	(9)	(12)	(24)	1	(23)
Net income	-	-	-	13,213	13,213	1,055	14,268
Total gains and losses for the year	-	(3)	(9)	13,201	13,189	1,056	14,245
Gain on sale of ČEPS, net of tax (Note 29)	-	-	-	2,436	2,436	-	2,436
Effect of acquisition of ŠKODA PRAHA on equity	-	-	-	331	331	-	331
Acquisition of treasury shares	(488)	-	-	-	(488)	-	(488)
Sale of treasury shares	554	-	-	(222)	332	-	332
Dividends declared to shareholders of the parent	-	-	-	(4,738)	(4,738)	-	(4,738)
Dividends declared to minority interests	-	-	-	(1,172)	(1,172)	(261)	(1,433)
Change in minority due to acquisitions	-	-	-	-	-	(3,748)	(3,748)
Share options	-	-	130	-	130	-	130
Share on equity movements of associates	-	-	-	(2)	(2)	-	(2)
Contribution to equity	-	-	-	82	82	225	307
December 31, 2004	59,218	(2)	85	112,796	172,097	6,350	178,447

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

continued

	Attributable to equity holders of the parent						
	Stated Capital	Translation Difference	Fair value and Other Reserves	Retained Earnings	Total	Minority interests	Total Equity
December 31, 2004	59,218	(2)	85	112,796	172,097	6,350	178,447
Change in fair value of available-for-sale financial assets recognized in equity	-	-	(43)	-	(43)	(3)	(46)
Available-for-sale financial assets removed from equity	-	-	18	-	18	1	19
Change in fair value of cash flow hedges recognized in equity	-	-	361	-	361	-	361
Cash flow hedges removed from equity	-	-	(124)	-	(124)	-	(124)
Translation differences	-	(787)	-	-	(787)	(478)	(1,265)
Other movements	-	-	(5)	6	1	3	4
Gain and loss recorded directly to equity	-	(787)	207	6	(574)	(477)	(1,051)
Net income	-	-	-	21,438	21,438	844	22,282
Total gains and losses for the year	-	(787)	207	21,444	20,864	367	21,231
Effect of acquisition of Severočeské doly on equity	-	-	-	(9,068)	(9,068)	-	(9,068)
Effect of acquisition of minority shares in ŠKODA PRAHA on equity	-	-	-	111	111	-	111
Acquisition of treasury shares	(1,312)	-	-	-	(1,312)	-	(1,312)
Sale of treasury shares	331	-	-	(79)	252	-	252
Dividends declared to shareholders of the parent	-	-	-	(5,309)	(5,309)	-	(5,309)
Dividends declared to minority interests	-	-	-	(1,198)	(1,198)	(536)	(1,734)
Change in minority due to acquisitions	-	-	-	-	-	8,435	8,435
Share options	-	-	296	-	296	-	296
Share on equity movements of associates	-	-	-	(60)	(60)	-	(60)
December 31, 2005	58,237	(789)	588	118,637	176,673	14,616	191,289

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

in CZK Millions

	2005	2004 *)
Operating activities:		
Income before income taxes	27,306	18,501
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation, amortization and asset write-offs	20,743	19,979
Amortization of nuclear fuel	3,056	3,391
(Gain) loss on fixed asset retirements, net	86	(1,221)
Foreign exchange rate loss (gain), net	266	(1,765)
Interest expense, interest income and dividend income, net	1,246	871
Provision for nuclear decommissioning and fuel storage	1,061	538
Valuation allowances, other provisions and other adjustments	(937)	(72)
Income from associates	(102)	(722)
Changes in assets and liabilities:		
Receivables	(2,325)	2,436
Materials and supplies	(137)	262
Fossil fuel stocks	(32)	209
Other current assets	(1,023)	2,662
Trade and other payables	325	(1,855)
Accrued liabilities	1,174	489
Cash generated from operations	50,707	43,703
Income taxes paid	(5,946)	(6,898)
Interest paid, net of capitalized interest	(1,540)	(1,433)
Interest received	444	719
Dividends received	230	550
Net cash provided by operating activities	43,895	36,641
Investing activities:		
Acquisition of subsidiaries and associates, net of cash acquired (Note 6)	(12,258)	(18,166)
Proceeds from disposal of a subsidiaries and associates, net of cash disposed of	2,273	-
Additions to property, plant and equipment and other non-current assets, including capitalized interest (Note 2.7)	(15,671)	(16,925)
Proceeds from sale of fixed assets	1,728	5,034
Change in decommissioning and other restricted funds	(42)	(443)
Total cash used in investing activities	(23,970)	(30,500)

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

ČEZ, A. S., AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

continued

	2005	2004 *)
Financing activities:		
Proceeds from borrowings	539	15,083
Payments of borrowings	(4,356)	(10,419)
Proceeds from other long-term liabilities	265	96
Payments of other long-term liabilities	(300)	(372)
Dividends paid to Company's shareholders	(5,291)	(4,724)
Dividends paid to minority interests	(1,716)	(1,443)
(Acquisition) sale of treasury shares	(1,060)	(156)
Total cash used in financing activities	(11,919)	(1,935)
Net effect of currency translation in cash	(157)	(287)
Net increase in cash and cash equivalents	7,849	3,919
Cash and cash equivalents at beginning of period	8,942	5,023
Cash and cash equivalents at end of period	16,791	8,942

Supplementary cash flow information

Total cash paid for interest	2,046	1,985

*) Comparative information has been restated as result of the acquisition of majority share in Severočeské doly a.s. (see Notes 2.2.d and 7).

These financial statements have been authorized for issue on March 8, 2006:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Alan Svoboda
Vice-chairman of Board of Directors
Executive Director for Sale and Trading

Petr Vobořil
Chief Financial Officer

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

1. The Company

ČEZ, a. s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, owned 67.6% at December 31, 2005 by the Czech Republic National Property Fund. The remaining shares of the Company are publicly held. The address of the Company's registered office is Duhová 2/1444, Praha 4, 140 53, Czech Republic.

ČEZ is an electricity generation company, which produced approximately 72% of the electricity and a portion of the district heating in the Czech Republic in 2005. The Company operates ten fossil fuel plants, thirteen hydroelectric plants and two nuclear plants.

The company is a parent company of the CEZ Group ("the Group"), which is primarily engaged in the business of production, distribution, sale of electricity (see Notes 2.2 and 8). The average number of employees of the Company and its consolidated subsidiaries was 27,960 and 22,943, for the year 2005 and 2004, respectively.

In December 2004 Czech Parliament revised The Act on Conditions of Business Activity and State Administration in the Energy Industries (the "Energy Law"). The Energy Law provides the conditions for business activities, performance of public administration and regulation in the energy sectors, including electricity, gas and heat, as well as the rights of and obligations of individuals and legal entities related thereto. The business activities in the energy sectors in the Czech Republic may only be pursued by individuals or legal entities upon the basis of government authorization in the form of licenses granted by the Energy Regulatory Office.

Responsibility for public administration in the energy sector is exercised by the Ministry of Industry and Trade (the "Ministry"), the Energy Regulatory Office and the State Energy Inspection Board.

The Ministry, as the central public administration body for the energy sector, issues state approval to construct new energy facilities in accordance with specified conditions, develops the energy policy of the state and ensures fulfillment of obligations resulting from international treaties binding on the Czech Republic or obligations resulting from membership in international organizations.

The Energy Regulatory Office was established as the administrative office to exercise regulation in the energy sector of the Czech Republic, to support economic competition and to protect consumers' interests in sectors where competition is not possible. The Energy Regulatory Office decides on the granting of a license, imposition of the supply obligation beyond the scope of the license, imposition of the obligation to let another license holder use energy facilities in cases of emergency, to exercise the supply obligation beyond the scope of the license and price regulation based on special legal regulations. The State Energy Inspection Board is the inspection body supervising the activities in the energy sector.

Third-party access started to be introduced gradually from 2002. In 2005 all electricity customers, except for households, were able to purchase electricity from any distributor, eligible generator or trader. From 2006 all customers can select their suppliers of electricity.

2. Summary of Significant Accounting Policies

2.1. Financial Statements

The accompanying consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS). They are prepared under the historical cost convention, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

2.2. Group Accounting

a. Group Structure

The financial statements include the accounts of ČEZ, a. s., its subsidiaries and associates, which are shown in the Note 8. Other investments are excluded from the consolidation because the impact on the consolidated financial statements would not be material. These investments are included in the balance sheet under investments and other financial assets and are stated at cost net of provision for diminution in value (see Note 4).

b. Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has a power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's interest in the fair value of the net assets of the subsidiary acquired is recorded as goodwill. If the Group's interest in the fair value of acquiree's net assets exceeds the cost of business combination ("negative goodwill"), then the Group first reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Any excess remaining after the reassessment is recognized immediately in profit or loss. In case of subsequent acquisition of a minority interest in a subsidiary, which has been already controlled by the Group, the goodwill is measured as the difference between the cost of the additionally acquired shares and the book value of the minority interest acquired.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

c. Associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method the company's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of other post-acquisition movements in equity of associates is recognized directly in equity. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the company's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated impairment losses) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

d. Transactions involving entities under common control

Acquisitions of subsidiaries from entities under common control are recorded using a method similar to pooling of interests.

The assets and liabilities of the acquired subsidiaries are included in the consolidated financial statements at their book values. Financial statements of the Group report results of operations for the period in which the transfer occurs as though the transfer of net assets had occurred at the beginning of the period. Results of operations for that period thus comprise those of the previously separate entities from the beginning of the period to the date the acquisition is completed and those of the combined operations from that date to the end of the period. Financial statements and financial information presented for prior years is restated to furnish comparative information on the same basis.
The cost of acquisition of subsidiaries from entities under common control is recorded directly in equity.

Net gain on sale of a subsidiary or an associated company to an entity controlled by the Group's majority shareholder is recognized directly in equity.

2.3. Change in Accounting Policies

a. New IFRS standards

In 2005 the Group adopted the following International Financial Accounting Standards, which were relevant for the Group:

- IAS 1 (2003) Presentation of Financial Statements
- IAS 2 (2003) Inventories
- IAS 8 (2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (2003) Events After the Balance-Sheet Date
- IAS 16 (2003) Property, Plant and Equipment
- IAS 17 (2003) Leases
- IAS 21 (2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (2003) Related Party Disclosures
- IAS 27 (2003) Consolidated and Separate Financial Statements
- IAS 28 (2003) Investments in Associates
- IAS 32 (2003) Financial Instruments: Disclosure and Presentation
- IAS 33 (2003) Earnings per Share
- IAS 36 (2004) Impairment of Assets
- IAS 38 (2004) Intangible Assets
- IAS 39 (2004) Financial Instruments: Recognition and Measurement
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The principal effects of these changes in policies are discussed below.

Following the adoption of revised standard IAS 1, minority interests are included as part of the Group's equity and not as a separate category on the balance sheet. Presentation of prior year financial statements has been adjusted to conform to the current year classification.

Amongst other matters, the revised standard IAS 8 requires that changes in accounting policies that arise from the application of new or revised standards and interpretations are applied retrospectively, unless otherwise specified in the transitional requirements of the particular standard or interpretation. Retrospective application requires that the results of the comparative period and the opening balances of that period be restated as if the new accounting policy had always been applied.

As of January 1, 2005 the Group adopted IAS 21 (revised). As a result any goodwill arising on the acquisition of a foreign operation and any fair value adjustment to the carrying amount of assets and liabilities arising on the acquisition are now treated as assets and liabilities of the foreign operation and translated at the closing rate. In accordance with transitional provisions of IAS 21 this change is applied prospectively.

IFRS 2 requires that the fair value of all equity compensation plan awards granted to employees and to board members be estimated at grant date and recorded as an expense over the vesting period. Under the Group's previous policy the expense for the share option plan was measured using the intrinsic value of the granted options. The transitional provisions of the standard require companies to apply the new standard with retrospective effect for all awards made after November 7, 2002 which had not yet vested at December 31, 2004. Adoption of IFRS 2 had no effect on previously reported financial statements, because all options granted prior to January 1, 2005 have vested prior that date and therefore the expense related to these options was not re-measured to fair value.

The adoption of new or revised IFRS standards did not have any effect on the opening balance of equity attributable to the Company's shareholders as at January 1, 2004 and 2005, respectively.

b. New IFRS Standards and Interpretations not yet effective

The Group is currently assessing the potential impacts of the new and revised standards that will be effective from January 1, 2006 or January 1, 2007. Most relevant to the Group's activities are IFRS 6 Exploration for and Evaluation of Mineral Resources, IFRS 7 Financial Instruments: Disclosures, Amendments to IAS 1 Presentation of Financial Statements, IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. The Group does not expect that the new and revised standards and interpretations will have a significant effect on the Group's results and financial position, although they may expand the disclosures in certain areas.

c. Comparatives

During 2005 the Company acquired majority share in Severočeské doly a.s. The shares have been acquired from the majority shareholder of the Company and therefore the transaction has been accounted using a method similar to pooling of interests (see Note 2.2.d). Prior year financial information was restated to furnish comparative information (see Note 7).

2.4. Estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2.5. Revenues

The Group recognizes revenue from supplies of electricity and related services based on contract terms. Differences between contracted amounts and actual supplies are settled through the market operator. Revenues are recognized, when it is probable that the economic benefits associated with the transaction will flow to the entity and the revenue can be reliably measured.

Revenue from sale of goods is recognized when the goods are delivered and significant risks and rewards of ownership of the goods have passed to the buyer.
Revenue from services is recognized when the services are rendered.

Connection fees received from customers are deferred and recognized in income over the expected term of the customer relationship, which is currently estimated to be 20 years.

2.6. Fuel Costs

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was CZK 3,056 million and CZK 3,391 million for the years ended December 31, 2005 and 2004, respectively. The amortization of nuclear fuel includes charges in respect of additions to the accumulated provision for interim storage of spent nuclear fuel to the extent they relate to the nuclear fuel consumed during the current accounting period (see Note 16). Such charges amounted to CZK 254 million and CZK 203 million in 2005 and 2004, respectively.

2.7. Interest

The Group capitalizes all interest incurred in connection with its construction program that theoretically could have been avoided if expenditures for the qualifying assets had not been made. The qualifying assets include assets, for which the construction represents a substantial period of time. Capitalized interest costs amounted to CZK 506 million and CZK 552 million, which was equivalent to an interest capitalization rate of 6.3% and 6.5% in 2005 and 2004, respectively.

2.8. Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and valuation allowances. Cost of plant in service includes materials, labor, payroll-related costs and the cost of debt financing used during construction. The cost also includes the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is recognized as a provision under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Government grants received for construction of certain items of property, plant and equipment decrease the acquisition cost of the respective items.

The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense when incurred. Renewals and improvements are capitalized. Upon sale, retirement or replacement of part of an item of property, plant and equipment, the cost and related accumulated depreciation of the disposed item or its replaced part are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group reviews the recoverable amounts of its property, plant and equipment to determine whether such amounts continue to exceed the assets' carrying values. Identified impairment of property, plant and equipment is recognized directly in profit or loss.

Depreciation

The Group depreciates the original cost of property, plant and equipment by using the straight-line method over the estimated economic lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciable lives used for property, plant and equipment are as follows:

	Lives
Buildings and structures	25 – 50
Machinery and equipment	4 – 25
Vehicles	4 – 20
Furniture and fixtures	8 – 15

Average depreciable lives based on the functional use of property, plant and equipment are as follows:

	Average Life
Hydro plants	
Buildings and structures	44
Machinery and equipment	16
Fossil fuel plants	
Buildings and structures	32
Machinery and equipment	14
Nuclear power plant	
Buildings and structures	32
Machinery and equipment	17
Electricity distribution grid	30

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Depreciation of plant in service was CZK 19,573 million and CZK 19,073 million for the years ended December 31, 2005 and 2004, which was equivalent to a composite depreciation rate of 4.6% and 4.8%, respectively.

2.9. Nuclear Fuel

Nuclear fuel is stated at original cost, net of accumulated amortization. Amortization of fuel in the reactor is based on the amount of power generated.

Nuclear fuel includes capitalized costs of related provisions (see Note 2.22). At December 31, 2005 and 2004 capitalized costs at net book value amounted to CZK 106 million and CZK 233 million, respectively.

2.10. Intangible Assets, Net

Intangible assets are valued at their acquisition costs and related expenses. Intangible assets are amortized over their useful lives using the straight-line method. The estimated useful lives of intangible assets ranges from 3 to 15 years.

Intangible assets are tested for impairment whenever facts or changes in circumstances indicate that the carrying amount could be impaired. The recoverable amount of an intangible asset not yet available for use is tested for impairment annually, irrespective of whether there is any indication that it may be impaired.

2.11. Emission Rights

Emission right represents the right of the owner of a facility, which in the course of its operation emits greenhouse gases, to emit during the calendar year equivalent of one ton of carbon dioxide. Based on the National Allocation Plan in 2005 certain companies of the Group have been granted emission rights free of charge. These companies are responsible for determining and reporting the amount of greenhouse gases produced by its facilities in the calendar year and this amount has to be audited by an authorized person.

At April, 30, of the following year, at latest, these companies are required to remit a number of certificates representing the number of tones of CO_2 actually emitted. If a company does not fulfill this requirement and does not remit necessary number of emission rights, then the company has to pay a penalty in the amount of EUR 40 per 1 ton of CO_2.

In the financial statements the emission rights, which were granted free of charge, are stated at their nominal value, i.e. at zero. Purchased emission rights are carried at cost. If the granted allowances are not sufficient to cover actual emissions, the Group recognizes a provision, which is measured at the market value of the missing granted emission rights at the balance sheet date.

The Group also holds emission rights for trading purposes. The portfolio of emission rights held for trading is measured at fair value. The changes in fair value of the emission rights held for trading are recognized directly in profit or loss.

2.12. Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition (see Note 2.2). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.13. Investments

Investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Group, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date. Equity securities classified as available-for-sale and trading investments that do not have a quoted market price in an active market are measured at cost. The carrying amounts of such investments are reviewed at each balance sheet date for impairment.

Gains or losses on measurement to fair value of available-for-sale investments are recognized directly in equity, until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in net profit or loss for the period.

Changes in the fair values of trading investments are included in other expenses (income).

Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

2.14. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, current accounts with banks and short-term bank notes with a maturity of three months or less (see Note 9). Foreign currency deposits are translated at December 31, 2005 and 2004 exchange rates, respectively.

2.15. Cash Restricted in Its Use

Restricted balances of cash, which are shown under non-current financial assets as restricted funds (see Note 4), relate to deposits for waste storage reclamation, funding of nuclear decommissioning liabilities and cash guarantees given to swap transaction partners. The non-current classification is based on the expected timing of the release of the funds to the Group.

2.16. Receivables, Payables and Accruals

Receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. At December 31, 2005 and 2004 the allowance for uncollectible receivables amounted to CZK 2,288 million and CZK 1,746 million, respectively.

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

2.17. Materials and Supplies

Materials and supplies are principally composed of maintenance materials and spare parts for repairs and maintenance of tangible assets. Cost is determined by using weighted average cost, which approximates actual cost. These materials are recorded in inventory when purchased and then expensed or capitalized to plant, as appropriate, when used. The Group records a provision for obsolete inventory as such items are identified. At December 31, 2005 and 2004 the provision for obsolescence amounted to CZK 124 million and CZK 191 million, respectively.

2.18. Fossil Fuel Stocks

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

2.19. Derivative Financial Instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

a. Fair value hedge

Gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortized to profit or loss over the remaining term to maturity.

b. Cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognized in equity. The gain or loss relating to the ineffective portion is recognized in the income statement.

Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recorded to the income statement when the forecast transaction is ultimately recognized. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c. Other derivatives

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2.20. Income Taxes

The provision for corporate tax is calculated in accordance with the tax regulations of the states of residence of the Group companies and is based on the income or loss reported under local accounting regulations, adjusted for appropriate permanent and temporary differences from taxable income. Income taxes are calculated on an individual company basis as the Czech tax laws do not permit consolidated tax returns. For companies located in the Czech Republic current income taxes are provided at a rate of 26% and 28% for the year ended December 31, 2005 and 2004, respectively, after adjustments for certain items which are not deductible, or taxable, for taxation purposes.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are recognized regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. A deferred tax liability is recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associate with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities of Group companies are not offset in the balance sheet.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

2.21. Long-term Debt

Borrowings are initially recognized at the amount of the proceeds received, net of transaction costs. They are subsequently carried at amortized cost using the effective interest rate method, the difference between net proceeds and redemption value is being recognized in the net income over the life of the borrowings as interest expense.

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges.

The carrying amount of long-term debt, which is hedged against the changes in its fair value, is adjusted by the changes in the fair value attributable to the hedged risk. The changes in the fair value of the hedged long-term debt are recognized in profit or loss.

2.22. Nuclear Provisions

The Group has recognized provisions for its obligations to decommission its nuclear power plants at the end of their operating lives, to store the related spent nuclear fuel and other radioactive waste initially on an interim basis and provision for its obligation to provide financing for subsequent permanent storage of spent fuel and irradiated parts of reactors.

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the nuclear plants. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is approximately 4.5% and 2.0% in 2005 and 2006 and the following years, respectively.

The decommissioning process is expected to continue for approximately a sixty-year period subsequent to the final operation of the plants. It is currently anticipated that the permanent storage facility will become available in 2065 and the process of final disposal of the spent nuclear fuel will then continue until approximately 2075 when the process should be finished. While the Group has made its best estimate in establishing its nuclear provisions, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning and fuel storage activities, the ultimate provision requirements could vary significantly from the Group's current estimates.

Since 2004, pursuant to IFRIC 1 changes in a decommissioning liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period. If the adjustment results in an addition to the cost of an asset, the Group performs an impairment review to confirm, whether the value of the asset is fully recoverable.

2.23. Provisions for decommissioning and reclamation of mines and mining damages

The Group has recognized provisions for its obligations to decommission and reclaim its mines at the end of their operating lives (see Notes 7 and 17). The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current balance sheet date. Such cost estimates, expressed at current price levels, are discounted using a long-term real rate of interest of 2.5% per annum to take into account the timing of payments. The initial discounted cost amounts are capitalized as part of property, plant and equipment and are depreciated over the lives of the mines. Each year, the provisions are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized as a component of interest expense. The estimate for the effect of inflation is 2.0% annually.

Changes in a decommissioning liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset. However, to the extent that such a treatment would result in a negative asset, the effect of the change is recognized in the income for the current period.

2.24. Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

2.25. Treasury Shares

Treasury shares are presented in the balance sheet as a deduction from stated capital. The acquisition of treasury shares is presented in the statement of equity as a reduction to equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as an addition to equity.

2.26. Share Options

Board of Directors, members of Executive Committee (advisory body of Chief Executive Officer) and the Supervisory Board members have been granted options to purchase common shares of the Company. Expense related to the share option plan is measured on the date of the grant by reference to the fair value of the share options granted. In case of options, which vest immediately, the expense is recognized directly in profit or loss with a corresponding increase in equity. In all other cases the expense is accrued over the vesting period of the equity instruments granted. The expense recognized reflects the best estimate of the number of share options, which will ultimately vest. In 2005 and 2004 the expense recognized in respect of the share option plan amounted to CZK 296 million and CZK 148 million, respectively.

Prior to adoption of IFRS 2, i.e. till December 31, 2004, an expense related to share option plan was measured on the date of the grant to the extent the quoted market price of the shares exceeded the exercise price of the share options. All options granted before January 1, 2005, had no vesting conditions and could be exercised immediately after the grant. The Company has taken advantage of the transitional provisions of IFRS 2 in respect of equity settled awards. As result the Company has applied IFRS 2 only to share options granted after November 7, 2002, that had not vested on January 1, 2005, i.e. only to share options granted since January 1, 2005.

2.27. Translation of Foreign Currencies

The consolidated financial statements are presented in Czech crowns (CZK), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity for qualifying cash flow hedges.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities held for trading are reported as part of the fair value gain or loss. Translation differences on available-for-sale equity securities are included in equity.

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements items of foreign subsidiaries are translated at average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and are translated at the closing exchange rate.

3. Net Plant in Service

Net plant in service at December 31, 2005 and 2004 is as follows (in CZK millions):

	Buildings	Plant and Equip-ment	Land and Other	Total 2005	Total 2004
Cost - opening balance	139,965	258,168	4,731	402,864	394,296
Plant additions	4,574	9,417	74	14,065	11,125
Retirements	(688)	(3,212)	(21)	(3,921)	(3,541)
Acquisition of subsidiaries	19,404	4,539	384	24,327	604
Disposal of subsidiaries	(52)	(78)	(3)	(133)	8
Change in estimate of decommissioning provisions	-	5,113	(1,615)	3,498	373
Reclassification and other	(287)	228	27	(32)	(1)
Currency translation differences	(984)	(249)	(19)	(1,252)	-
Cost – closing balance	161,932	273,926	3,558	439,416	402,864
Accumulated deprec. and allowances - opening balance	(57,291)	(124,846)	(795)	(182,932)	(165,945)
Depreciation	(4,847)	(14,716)	(10)	(19,573)	(19,073)
Net book value of assets disposed	(233)	(296)	(1)	(530)	(1,100)
Retirements	688	3,212	1	3,901	3,467
Acquisition of subsidiaries	-	-	-	-	-
Disposal of subsidiaries	16	61	45	122	-
Reclassification and other	166	(156)	(4)	6	(19)
Impairment losses recognized	(1,005)	(152)	(10)	(1,167)	(493)
Impairment losses reversed	245	138	3	386	231
Currency translation differences	17	14	-	31	-
Accumulated deprec. and allowances - closing balance	(62,244)	(136,741)	(771)	(199,756)	(182,932)
Net plant in service - closing balance	99,688	137,185	2,787	239,660	219,932

At December 31, 2005 and 2004 plant and equipment included the capitalized costs of nuclear provisions as follows (in CZK millions):

	2005	2004
Cost	20,541	15,428
Accumulated depreciation	(3,820)	(3,466)
Total net book value	16,721	11,962

The carrying value of plant and equipment held under finance lease at December 31, 2005 and 2004 is CZK 270 million and CZK 811 million, respectively (see Note 19).

Group's plant in service pledged as security for liabilities at December 31, 2005 and 2004 is CZK 234 million and CZK 73 million, respectively.

4. Investments and Other Financial Assets, Net

Investments and other financial assets at December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Financial assets in progress, net	164	8,722
Debt securities held-to-maturity	916	989
Debt securities available-for-sale, net	4,400	5,385
Equity securities available-for-sale	2,288	2,354
Restricted funds for nuclear decommissioning	1,921	1,580
Other restricted funds	878	1,177
Long-term receivables, net	3,244	6,219
Total	13,811	26,426

The financial assets in progress represent advances and other consideration paid for shares in subsidiaries and associates, for which the ownership rights have not been transferred to the Company at the year end. At December 31, 2004, the balance includes mainly the investment in three Bulgarian distribution companies.

At December 31, 2005 and 2004 impairment provisions for financial assets available-for-sale amounted to CZK 173 million and CZK 161 million, respectively, impairment provisions for financial assets in progress amounted to CZK 89 million and CZK 77 million, respectively and for long-term receivables amounted to CZK 13 million and CZK 33 million, respectively.

Debt securities at December 31, 2005 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	1,056	210	1,485	2,751
Due in 2 – 3 years	841	53	1,166	2,060
Due in 3 – 4 years	1,274	332	719	2,325
Due in 4 – 5 years	1	321	760	1,082
Due in more than 5 years	72	-	270	342
Total	3,244	916	4,400	8,560

Debt securities at December 31, 2004 are contracted to mature in the following periods after the balance sheet date (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Due in 1 – 2 years	3,174	436	2,706	6,316
Due in 2 – 3 years	994	199	1,340	2,533
Due in 3 – 4 years	745	-	906	1,651
Due in 4 – 5 years	1,271	226	433	1,930
Due in more than 5 years	35	128	-	163
Total	6,219	989	5,385	12,593

Debt securities at December 31, 2005 have following effective interest rate structure (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	3,244	-	462	3,706
From 2.0% to 3.0%	-	365	1,631	1,996
From 3.0% to 4.0%	-	415	1,906	2,321
From 4.0% to 5.0%	-	-	107	107
Over 5.0%	-	136	294	430
Total	3,244	916	4,400	8,560

Debt securities at December 31, 2004 have following effective interest rate structure (in CZK millions):

	Long-term receivables	Debt securities held-to-maturity	Debt securities available-for-sale	Total
Less than 2.0%	6,219	-	-	6,219
From 2.0% to 3.0%	-	-	1,347	1,347
From 3.0% to 4.0%	-	744	2,673	3,417
From 4.0% to 5.0%	-	66	409	475
Over 5.0%	-	179	956	1,135
Total	6,219	989	5,385	12,593

The following table analyses the debt securities at December 31, 2005 by currency (in CZK millions):

	CZK	USD	EUR	Total
Long-term receivables	3,111	124	9	3,244
Debt securities held-to-maturity	916	-	-	916
Debt securities available-for-sale	4,400	-	-	4,400
Total	8,427	124	9	8,560

The following table analyses the debt securities at December 31, 2004 by currency (in CZK millions):

	CZK	USD	EUR	Total
Long term receivables	6,117	102	-	6,219
Debt securities held-to-maturity	989	-	-	989
Debt securities available-for-sale	5,385	-	-	5,385
Total	12,491	102	-	12,593

5. Intangible Assets, Net

Intangible assets, net, at December 31, 2005 and 2004 are as follows (in CZK millions):

	Software	Rights and Other	Goodwill	Total 2005	Total 2004
Cost – opening balance	5,170	503	759	6,432	5,003
Additions	1,449	116	-	1,565	1,164
Retirements	(262)	(32)	-	(294)	(337)
Acquisition of subsidiaries	50	1,196	1,429	2,675	602
Disposal of subsidiaries	(7)	-	(89)	(96)	-
Reclassification and other	1	(1)	-	-	-
Currency translation differences	(3)	(57)	(59)	(119)	-
Cost – closing balance	6,398	1,725	2,040	10,163	6,432
Accumulated amortization – opening balance	(3,796)	(113)	-	(3,909)	(3,502)
Amortization charge for the year	(972)	(178)	-	(1,150)	(769)
Net book value of assets disposed	(5)	(26)	-	(31)	-
Disposals	262	32	-	294	364
Acquisition of subsidiaries	-	-	-	-	-
Disposal of subsidiaries	6	-	-	6	-
Impairment losses recognized	(16)	(3)	-	(19)	(2)
Impairment losses reversed	1	-	-	1	-
Currency translation differences	-	3	-	3	-
Accumulated amortization – closing balance	(4,520)	(285)	-	(4,805)	(3,909)
Net intangible assets – closing balance	1,878	1,440	2,040	5,358	2,523

At December 31, 2005 and 2004, intangible assets presented on the balance sheet include intangible assets in progress in the amount of CZK 688 million and CZK 856 million, respectively.

At December 31, 2005 and 2004 the substantial part of goodwill was allocated to the distribution segment (see Note 28) and there have been no accumulated impairment losses.

The recoverable amount of goodwill of the distribution segment has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by management covering a five-year period. The average discount rate applied to cash flow projections is 10% and cash flows beyond the five-year period are extrapolated using estimated growth rate of 2%.

Key assumptions used by management in calculation of recoverable amount are as follows:
Discount rate – The basis used to determine the value assigned to discount rate is weighted average of cost of capital (WACC) of related subsidiaries.
Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is forecast of market and regulatory environment, where subsidiaries conduct the business.

6. Acquisition of subsidiaries and associates from third parties

Acquisitions of subsidiaries from third parties in 2005

On January 18, 2005 the Company acquired 67% shares in three Bulgarian electricity distribution companies ("BDCs"): Elektrorazpredelenie Pleven EAD, Elektrorazpredelenie Sofia Oblast EAD and Elektrorazpredelenie Stolichno EAD. On September 30, 2005 the Company acquired a 51% share in Romanian electricity distribution company Electrica Oltenia S.A.

The fair values of the identifiable assets and liabilities of the subsidiaries acquired in 2005 at the dates of acquisitions are as follows (in CZK millions):

	BDCs	Electrica Oltenia	Total
Shares acquired in 2005	67.0%	51.0%	
Property, plant and equipment, net	13,758	11,417	25,175
Other non-current assets	925	321	1,246
Cash and cash equivalents	57	3,366	3,423
Other current assets	1,420	1,625	3,045
Long-term liabilities	(815)	(983)	(1,798)
Deferred income taxes	(1,371)	(564)	(1,935)
Current liabilities	(2,823)	(1,960)	(4,783)
Total net assets	11,151	13,222	24,373
Minority interests	(3,680)	(6,479)	(10,159)
Share of net assets acquired	7,471	6,743	14,214
Goodwill (negative goodwill)	1,217	(1,675)	(458)
Total purchase consideration	8,688	5,068	13,756
Less:			
Cash and cash equivalents in subsidiaries acquired	(57)	(3,366)	(3,423)
Cash outflow on acquisition of subsidiaries	8,631	1,702	10,333

The carrying values of the acquired assets and liabilities of the subsidiaries acquired in 2005 immediately before the acquisitions were as follows (in CZK millions):

	BDCs	Electrica Oltenia	Total
Property, plant and equipment, net	7,876	7,953	15,829
Other non-current assets	38	-	38
Cash and cash equivalents	57	3,366	3,423
Other current assets	1,535	1,626	3,161
Long-term liabilities	(815)	(1,135)	(1,950)
Deferred income taxes	(521)	(18)	(539)
Current liabilities	(1,835)	(1,817)	(3,652)
Total book value of net assets	6,335	9,975	16,310

From the date of acquisition, the newly acquired subsidiaries have contributed the following balances to the Group's income statement for the year 2005 (in CZK millions):

	BDCs	Electrica Oltenia	Total
Revenues	11,836	2,599	14,435
Net income	640	289	929

Acquisitions of minority shares in 2005

During 2005 ČEZ purchased further minority shares in 3 of the Czech distribution companies ("REAS") and other companies from various third parties. The following table summarizes the critical terms of the subsequent acquisitions of minority shares during 2005 (in CZK millions):

	Group SME	Other companies	Total
Shares acquired in 2005 from third parties	10.6%		
Share of net assets acquired	1,229	448	1,677
Goodwill	156	56	212
Negative goodwill	-	(28)	(28)
Effect of acquisition of ŠKODA PRAHA recognized directly in equity	-	(111)	(111)
Total purchase price	1,385	365	1,750

The following table summarizes the cash outflows on acquisitions of subsidiaries and minority shares during 2005 (in CZK millions):

Cash outflows on acquisition of subsidiaries	10,333
Cash outflows on purchase of minority shares in REAS and other companies	1,750
Cash outflows on acquisition of Severočeské doly a.s. (see Note 7)	9,068
Change in payables from acquisitions	(179)
Cash paid for financial assets in progress in prior year	(8,714)
Total cash outflows on acquisitions in 2005	12,258

The cash paid for financial assets in progress represents advances and other consideration paid for shares in subsidiaries and associates, for which the ownership rights have not been transferred to the Company at the year end (see Notes 4).

7. Acquisition of Severočeské doly a.s.

In December 2005 the Company purchased a 55.8% share in its mining subsidiary Severočeské doly a.s. ("SD") from the Czech Republic National Property Fund. Total purchase consideration including related expenses was CZK 9,068 million. Through this transaction the Company increased its share to 93.1%. At the time of the transaction Czech Republic National Property Fund was the majority shareholder of the Severočeské doly a.s. This transaction between entities under common control was therefore accounted for using a method similar to pooling of interests. Prior year financial information was restated to furnish comparative information on the same basis as in the current period (see Note 2.2).

The following table summarizes the impact of retrospective consolidation using the pooling of interests method on the previously reported consolidated statement of income for the year ended December 31, 2004 (in CZK millions):

Consolidated statement of income for the year ended December 31, 2004	As previously reported	Results of Group SD	Reversal of previous accounting for SD	Eliminations and other consolida-tion adjustments	As restated
Total revenues	100,165	7,953	-	(5,448)	102,670
Operating expenses:					
Fuel	14,370	-	-	(5,065)	9,305
Purchased power and related services	26,511	629	-	(621)	26,519
Repairs and maintenance	4,420	735	-	(283)	4,872
Depreciation and amortization	18,384	1,478	-	(20)	19,842
Salaries and wages	9,644	1,752	-	(28)	11,368
Materials and supplies	3,769	892	-	(36)	4,625
Other operating expenses	3,912	1,855	-	587	6,354
Total expenses	81,010	7,341	-	(5,466)	82,885
Income before other expenses (income) and income taxes	19,155	612	-	18	19,785
Other expenses (income):					
Income from associates	(734)	(28)	36	4	(722)
Other, net	1,961	389	-	(344)	2,006
Total other expenses (income)	1,227	361	36	(340)	1,284
Income before income taxes	17,928	251	(36)	358	18,501
Income taxes	3,845	72	233	83	4,233
Net income	14,083	179	(269)	275	14,268
Attributable to:					
Equity holders of the parent	13,059	179	(269)	244	13,213
Minority interests	1,024	-	-	31	1,055
Net income per share attributable to equity holders of the parent (CZK per share)					
Basic	22.1				22.3
Diluted	22.1				22.3

The following table summarizes the impact of retrospective consolidation using the pooling of interests method on the previously reported consolidated balance sheet as of December 31, 2004 (in CZK millions):

Consolidated balance sheet as of December 31, 2004	As previously reported	Group SD	Reversal of previous accounting for SD	Eliminations and other consolida-tion adjustments	As restated
Non-current assets:					
Total property, plant and equipment	227,435	11,267	-	494	239,196
Investment in associates	7,474	304	(5,500)	(267)	2,011
Other	23,173	7,761	-	(416)	30,518
Total non-current assets	258,082	19,332	(5,500)	(189)	271,725
Current assets:					
Cash and cash equivalents	7,545	1,397	-	-	8,942
Receivables, net	8,904	939	-	(654)	9,189
Materials and supplies, net	3,184	164	-	(15)	3,333
Other	3,100	2,945	-	16	6,061
Total current assets	22,733	5,445	-	(653)	27,525
Total assets	280,815	24,777	(5,500)	(842)	299,250
Equity:					
Equity attributable to equity holders of the parent	163,689	14,781	(5,072)	(1,301)	172,097
Minority interests	5,282	3	-	1,065	6,350
Total equity	168,971	14,784	(5,072)	(236)	178,447
Long-term liabilities:					
Long-term debt, net of current portion	38,190		-	(50)	38,140
Accumulated provision for nuclear decommissioning and fuel storage	29,441	-	-	-	29,441
Other long-term liabilities	6,098	8,792	-	(22)	14,868
Total long-term liabilities	73,729	8,792	-	(72)	82,449
Deferred tax liability	16,008	44	(428)	(21)	15,603
Current liabilities:					
Trade and other payables	12,409	665	-	(487)	12,587
Income taxes payable	1,021	207	-	(1)	1,227
Other current liabilities	8,677	285	-	(25)	8,937
Current liabilities	22,107	1,157	-	(513)	22,751
Total equity and liabilities	280,815	24,777	(5,500)	(842)	299,250

8. Investments in Subsidiaries and Associates

The consolidated financial statements include the financial statements of ČEZ, a. s., and the subsidiaries and associates listed in the following table:

Subsidiaries	Country of incorporation	% equity [1] interest 2005	% voting interest 2005	% equity [1] interest 2004	% voting interest 2004
Západočeská energetika, a.s.	Czech Republic	100.00%	100.00%	99.13%	99.13%
Východočeská energetika, a.s.	Czech Republic	100.00%	100.00%	98.83%	98.83%
Severomoravská energetika, a. s.	Czech Republic	100.00%	100.00%	89.38%	89.38%
Středočeská energetická a.s.	Czech Republic	97.72%	97.72%	97.72%	97.72%
Severočeská energetika, a.s.	Czech Republic	56.93%	56.93%	56.93%	56.93%
ČEZ Distribuce, a. s. [2]	Czech Republic	90.93%	100.00%	-	-
ČEZ Distribuční služby, s.r.o. [2]	Czech Republic	100.00%	100.00%	-	-
ČEZ Měření, s.r.o. [2]	Czech Republic	100.00%	100.00%	-	-
ČEZ Prodej, s.r.o. [2]	Czech Republic	90.93%	100.00%	-	-
ČEZ Obnovitelné zdroje, s.r.o. [3]	Czech Republic	100.00%	100.00%	98.83%	100.00%
ČEZData, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Logistika, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Zákaznické služby, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZ Správa majetku, s.r.o.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ČEZnet, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
ŠKODA PRAHA a.s.	Czech Republic	100.00%	100.00%	68.88%	68.88%
Severočeské doly a.s. [6]	Czech Republic	93.10%	93.10%	92.66%	92.66%
SD – 1.strojírenská, a.s. [6]	Czech Republic	93.10%	100.00%	92.66%	100.00%
SD – Autodoprava, a.s. [6]	Czech Republic	93.10%	100.00%	92.66%	100.00%
SD – Kolejová doprava, a.s. [6]	Czech Republic	93.10%	100.00%	92.66%	100.00%
Energetické opravny, a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
I & C Energo a.s.	Czech Republic	100.00%	100.00%	100.00%	100.00%
VČE – montáže, a.s.	Czech Republic	100.00%	100.00%	98.83%	100.00%
Energetika Vítkovice, a.s.	Czech Republic	100.00%	100.00%	89.38%	100.00%
ePRIM, a.s., v likvidaci	Czech Republic	100.00%	100.00%	89.38%	100.00%
MSEM, a.s.	Czech Republic	100.00%	100.00%	89.38%	100.00%
STE – obchodní služby spol. s r.o.	Czech Republic	97.72%	100.00%	74.42%	76.16%
Ústav jaderného výzkumu Řež a.s.	Czech Republic	52.46%	52.46%	52.46%	52.46%
CEZ FINANCE B.V.	Netherlands	100.00%	100.00%	100.00%	100.00%
rpg Energiehandel GmbH	Germany	100.00%	100.00%	100.00%	100.00%
Elektrorazpredelenie Pleven EAD [2]	Bulgaria	67.00%	67.00%	-	-
Elektrorazpredelenie Sofia Oblast EAD [2]	Bulgaria	67.00%	67.00%	-	-
Elektrorazpredelenie Stolichno EAD [2]	Bulgaria	67.00%	67.00%	-	-
CEZ Bulgaria EAD [2]	Bulgaria	100.00%	100.00%	-	-
Electrica Oltenia S.A. [2]	Rumania	51.00%	51.00%	-	-
Union Leasing, a.s. [4]	Czech Republic	-	-	89.38%	100.00%
První energetická a.s. [4]	Czech Republic	-	-	87.27%	100.00%
EN-DATA a.s. [5]	Czech Republic	-	-	100.00%	100.00%
HYDROČEZ, a.s. [3]	Czech Republic	-	-	100.00%	100.00%

Associates	Country of incorporation	% equity interest 2005 [1]	% voting interest 2005	% equity interest 2004 [1]	% voting interest 2004
KOTOUČ ŠTRAMBERK, spol. s r.o.	Czech Republic	25.00%	25.00%	64.87%	50.00%
LOMY MOŘINA spol. s r.o.	Czech Republic	51.05%	50.00%	51.05%	50.00%
Plzeňská energetika a.s.	Czech Republic	50.00%	50.00%	49.57%	50.00%
KNAUF POČERADY, spol. s r.o.	Czech Republic	40.00%	50.00%	40.00%	50.00%
Aliatel a.s. [4]	Czech Republic	-	-	26.40%	30.58%
Coal Energy, a.s.	Czech Republic	38.62%	40.00%	38.53%	40.00%

1) The equity interest represents effective ownership interest of the Group.
2) Companies have been found in 2005 or have been included in consolidated group in 2005.
3) In 2005 VČE – elektrárny, s.r.o. has been renamed to ČEZ Obnovitelné zdroje, s.r.o. In the same year ČEZ Obnovitelné zdroje, s.r.o. has merged with HYDROČEZ, a.s., successional company is ČEZ Obnovitelné zdroje, s.r.o.
4) Shares have been sold in 2005.
5) EN-DATA a.s. has been merged with successional company ČEZData, s.r.o. in 2005.
6) The equity interest and voting rights in Severočeské doly a.s. and its subsidiaries as at December 31, 2004 include the shares of the Czech Republic National Property Fund, which were sold in 2005 to ČEZ. The acquisition of Severočeské doly group was accounted using method similar to pooling of interests (see Note 7).

The investments in associates are not listed on any public exchange. The following table illustrates summarized financial information of associates for the year ended December 31, 2005 (in CZK millions):

	Total assets	Total liabilities	Equity	Revenues	Net income
KOTOUČ ŠTRAMBERK, spol. s r.o.	640	249	391	436	19
LOMY MOŘINA spol. s r.o.	415	44	371	189	2
Plzeňská energetika a.s.	1,931	1,161	770	820	466
KNAUF POČERADY, spol. s r.o.	519	63	456	418	40
Coal Energy, a.s.	1,045	854	191	8,714	126
Total	4,550	2,371	2,179	10,577	653

9. Cash and Cash Equivalents

The composition of cash and cash equivalents at December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Cash on hand and current accounts with banks	8,703	1,778
Short-term bank notes	2,932	6,208
Term deposits	5,156	956
Total	16,791	8,942

At December 31, 2005 and 2004, cash and cash equivalents included foreign currency deposits of CZK 5,228 million and CZK 1,210 million, respectively.

The weighted average interest rate on short-term bank notes and term deposits at December 31, 2005 and 2004 was 11.2% and 2.2%, respectively. For the years 2005 and 2004 the weighted average interest rate was 3.4% and 2.1%, respectively. Increase of weighted average interest rate at December 31, 2005, and for the year 2005, respectively, was caused by higher interest rate in Romania.

10. Receivables, Net

The composition of receivables, net, at December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Unbilled electricity supplied to retail customers	3,980	2,203
Received advances from retail customer	(3,634)	(2,020)
Unbilled supplies to retail customers, net	346	183
Trade receivables	15,831	9,582
Taxes and fees, excluding income taxes	309	439
Other receivables	594	731
Allowance for doubtful receivables	(2,288)	(1,746)
Total	14,792	9,189

The information about receivables from related parties is included in Note 27.

11. Emission Rights

In 2005 emission trading scheme was introduced in the European Union. The following table summarizes the movements in the quantity (in thousand tons) and book value of emission rights during 2005 (in CZK millions):

	Quantity	Book value
Granted emission rights:		
Granted emission rights at January 1, 2005	-	-
Emission rights granted in 2005	37,522	-
Emission rights sold	(2,430)	-
Granted emission rights at December 31, 2005	35,092	-
Emission rights held for trading:		
Emission rights for trading at January 1, 2005	-	-
Emission rights purchased	859	550
Emission rights sold	(640)	(410)
Fair value adjustment	-	(6)
Emission rights held for trading at December 31, 2005	219	134

During 2005 total emissions of greenhouse gases made by the Group companies amounted to an equivalent 33,320 thousand tons of CO_2. Because the actual emissions during 2005 were lower than the quantity of granted emission rights at the balance sheet date, the Group did not recognize any provision for missing emission rights (see Note 2.11).

The following table shows the impact of transactions with emission rights on income for the year ended December 31, 2005 (in CZK millions):

	2005
Gain on sales of granted emission rights	1,038
Net gain from emission trading	21
Fair value adjustment to trading allowances	(6)
Net gain related to emission rights	1,053

12. Other Current Assets

The composition of other current assets at December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Debt securities held for trading	1,171	1,193
Debt securities held-to-maturity	1,207	2,740
Debt securities available-for-sale	1,312	155
Equity securities held for trading	42	29
Equity securities available-for-sale	129	113
Advances paid	746	401
Prepayments	617	521
Derivatives	963	159
Total	6,187	5,311

Short-term debt securities at December 31, 2005 have following effective interest rate structure (in CZK million):

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
Less than 2.0%	132	-	132	264
From 2.0% to 3.0%	990	614	606	2,210
From 3.0% to 4.0%	21	527	191	739
From 4.0% to 5.0%	64	139	179	382
Over 5.0%	-	32	63	95
Total	1,207	1,312	1,171	3,690

Short-term debt securities at December 31, 2004 have following effective interest rate structure (in CZK million):

	Debt securities held-to-maturity	Debt securities available-for-sale	Debt securities held for trading	Total
Less than 2.0%	-	-	-	-
From 2.0% to 3.0%	2,719	37	553	3,309
From 3.0% to 4.0%	-	-	107	107
From 4.0% to 5.0%	21	118	173	312
Over 5.0%	-	-	360	360
Total	2,740	155	1,193	4,088

All short-term debt securities are denominated in CZK.

13. Equity Attributable to Equity Holders of the Parent

The Company's stated capital as of December 31, 2005 and 2004 is as follows:

	Number of Shares Outstanding	Par Value per Share (CZK)	Total (CZK millions)
		2005	
Registered shares	592,210,843	100	59,221
Treasury shares	(2,440,000)	100	(984)
Total	589,770,843		58,237
		2004	
Registered shares	592,210,843	100	59,221
Treasury shares	(10,000)	100	(3)
Total	592,200,843		59,218

The Company owned 745,000 treasury shares as of December 31, 2003. During year 2004 the Company acquired 2,355,000 treasury shares and sold 3,090,000 treasury shares. During year 2005 the Company acquired 3,210,000 treasury shares and sold 780,000 treasury shares. The remaining 2,440,000 treasury shares are reflected in the balance sheet at cost as a deduction from stated capital. The profit or loss on sale of treasury shares were included in retained earnings. Treasury shares held by the Company are used to cover the Company's obligations associated with the share option plan (see Note 2.26).

In accordance with Czech regulations, joint stock companies are required to establish an undistributable reserve fund for contingencies against possible future losses and other events. Contributions must be a minimum of 20% of after-tax profit in the first year in which profits are made and 5% of after-tax profit each year thereafter, until the fund reaches at least 20% of stated capital. The fund can only be used to offset losses. As of December 31, 2005 and 2004, the balance was CZK 13,076 million and CZK 11,336 million, respectively, and is reported as a component of retained earnings.

Dividends paid per share were CZK 9.0 and CZK 8.0 in 2005 and 2004, respectively. Dividends from 2005 profit will be declared on general meeting, which will be held till the end of June 2006.

14. Long-term Debt

Long-term debt at December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
7.125% Notes, due 2007 (USD 178 million)	4,406	3,962
7.25% Eurobonds, due 2006 (EUR 200 million)	5,934	6,233
4.625% Eurobonds, due 2011 (EUR 400 million)	11,532	12,101
9.22% Zero Coupon Debentures, due 2009 (CZK 4,500 million)	3,561	3,299
9.22% Debentures, due 2014 (CZK 2,500 million) [1)]	2,495	2,494
3.35% Debentures, due 2008 (CZK 3,000 million)	2,913	2,940
6M PRIBOR + 1.3%, due 2005 (CZK 500 million)	-	500
6M PRIBOR + 0.4%, due 2005 (CZK 1,000 million)	-	1,000
Long-term bank loans:		
2.00% to 2.99% p. a.	2,362	5,975
3.00% to 3.99% p. a.	659	113
4.00% to 4.99% p. a.	2,477	889
5.00% to 5.99% p. a.	949	747
6.00% to 6.99% p. a.	274	324
7.00% to 7.99% p. a.	832	887
8.00% p. a. and more	80	115
Total long-term debt	38,474	41,579
Less: Current portion	(7,888)	(3,439)
Long-term debt, net of current portion	30,586	38,140

[1)] From 2006 the interest rate changes to consumer price index in the Czech Republic plus 4.2%.

The interest rates indicated above are historical rates for fixed rate debt and current market rates for floating rate debt. The actual interest payments are affected by interest rate risk hedging carried out by the Company. For the fair values of interest rate hedging instruments see Note 15.

The future maturities of long-term debt are as follows (in CZK millions):

	2005	2004
Current portion	7,888	3,439
Between 1 and 2 years	6,928	8,035
Between 2 and 3 years	3,680	6,162
Between 3 and 4 years	4,076	3,684
Between 4 and 5 years	469	3,806
Thereafter	15,433	16,453
Total long-term debt	38,474	41,579

The following table analyses the long-term debt at December 31, 2005 and 2004 by currency (in millions):

	2005		2004	
	Foreign currency	CZK	Foreign currency	CZK
EUR	633	18,440	643	19,655
USD	350	8,660	405	9,058
CZK	-	11,374	-	12,866
Total long-term debt		38,474		41,579

In the normal course of business, the financial position of the Group is routinely subjected to a variety of risks, including market risk associated with interest rate movements and with currency rate movements on non-Czech crown denominated liabilities. The Group regularly assesses these risks and has established policies and business practices to partially protect against the adverse effects of these and other potential exposures.

As currency rate movements expose the Group to significant risk, the Group uses sensitivity analyses to determine the impacts that market risk exposures may have on the fair values of the Group's financial instruments. To perform sensitivity analyses, the Group assesses the risk of loss in fair values from the impact of hypothetical changes in foreign currency exchange rates and interest rates on market sensitive instruments and considers the expected costs and benefits of various hedging techniques. The Group will continue to explore cost-effective possibilities to reduce its current exchange rate movement and other market risks.

The Group has entered into a number of derivatives transactions, mainly cross-currency swaps, to hedge its long-term debt denominated in foreign currencies against the currency risk and interest rate risk. These hedges are classified as either fair value hedges or cash flow hedges (see Note 15). As at December 31, 2005 and 2004 a net unrealized loss of CZK 94 million and CZK 70 million, respectively, is included in equity in respect of the cash flow hedges.

Long-term debt with floating interest rates exposes the Group to interest rate risk. The following table summarizes long-term debt with floating rates of interest by contractual repricing dates at December 31, 2005 and 2004 without considering interest rate hedging (in CZK millions):

	2005	2004
Floating rate long-term debt		
with interest rate fixed for 1 month	955	1,152
with interest rate fixed from 1 to 3 months	3,907	4,584
with interest rate fixed from 3 months to 1 year	995	1,242
with interest rate fixed for more than 1 year	2,495	2,494
Total floating rate long-term debt	8,352	9,472
Fixed rate long-term debt	30,122	32,107
Total long-term debt	38,474	41,579

In addition to the hedging of long-term debt against the currency and interest rate risks, the Company also enters into cash flow hedges of future revenues in EUR from sale of electricity and emission rights. The hedging instrument is the liability from the 3rd issue of Eurobonds in the total amount of EUR 400 million. The exchange rate differences on the hedging instrument were reported directly in equity in total amount of CZK 314 million in 2005.

In 1992 the Company has entered into a loan agreement with the International Bank for Reconstruction and Development. The agreement contains financial covenants relating to capital expenditure coverage, cash flow coverage and debt service coverage. In 2005 and 2004 the Company has complied with all required covenants.

15. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, current investments

The carrying amount of cash and other current financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Investments

The fair values of instruments, which are publicly traded on active markets, are estimated based on quoted market prices. For equity instruments for which there are no quoted market prices and which are carried at cost, the carrying amount approximates the fair value of such investments.

Receivables and Payables

The carrying amount of receivables and payables approximates fair value due to the short-term maturity of these financial instruments.

Short-term loans

The carrying amount approximates fair value because of the short period to maturity of those instruments.

Long-term debt

The fair value of long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of long-term debt and other payables with variable interest rates approximates their fair values.

Derivatives

The fair value of derivatives is based upon mark to market valuations.

Carrying amounts and the estimated fair values of financial instruments at December 31, 2005 and 2004 are as follows (in CZK millions):

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets:				
Investments	13,811	13,811	26,426	26,426
Receivables	14,792	14,792	9,189	9,189
Cash and cash equivalents	16,791	16,791	8,942	8,942
Liabilities:				
Long-term debt	(38,474)	(40,085)	(41,579)	(43,798)
Short-term loans	(265)	(265)	(240)	(240)
Accounts payable	(12,032)	(12,032)	(8,412)	(8,412)
Derivatives:				
Cash flow hedges				
Receivables	-	-	-	-
Payables	(787)	(787)	(1,265)	(1,265)
Total cash flow hedges	(787)	(787)	(1,265)	(1,265)
Fair value hedges				
Receivables	25	25	21	21
Payables	(2,045)	(2,045)	(1,900)	(1,900)
Total fair value hedges	(2,020)	(2,020)	(1,879)	(1,879)
Electricity trading contracts				
Receivables	771	771	-	-
Payables	(576)	(576)	-	-
Total electricity trading contracts	195	195	-	-
Other derivatives				
Receivables	160	160	138	138
Payables	(803)	(803)	(1,010)	(1,010)
Total other derivatives	(643)	(643)	(872)	(872)

16. Accumulated Provision for Nuclear Decommissioning and Fuel Storage

ČEZ, a. s. operates two nuclear power plants, Dukovany and Temelín. Nuclear power plant Dukovany consists of four 440 MW units which were put into service from 1985 to 1987. The second nuclear power plant, Temelín, has two 1,000 MW units, which have started commercial operation in 2002 and 2003. Czech parliament has enacted a Nuclear Act ("Act"), which defines certain obligations for the decontamination and dismantling ("decommissioning") of a nuclear facilities and the disposal of radioactive waste and spent fuel ("disposal"). The Act requires that all nuclear parts of plant and equipment be decommissioned following the end of the plant's operating life, currently 2027 for Dukovany and approximately 2042 for Temelín. An updated 2003 Dukovany estimate and a 2004 Temelín decommissioning cost study estimate that nuclear decommissioning will cost CZK 15.6 billion and CZK 13.7 billion, respectively. The Company makes contributions to a restricted bank account in the amount of the nuclear provisions recorded under the Act. These restricted funds are shown in the balance sheet under other non-current financial assets (see Note 4).

Pursuant to the Act, the Ministry of Industry and Trade established the Radioactive Waste Repository Authority ("RAWRA") as the central organizer and operator of facilities for the final disposal of radioactive waste and spent fuel. The RAWRA centrally organizes, supervises and is responsible for all disposal facilities and for disposal of radioactive waste and spent fuel therein. The activities of the RAWRA are financed through a “nuclear account” funded by the originators of radioactive waste (such as the Company). Contribution to the nuclear account was stated by a government resolution in 1997, at 50 CZK per MWh produced at nuclear power plants. In 2005 and 2004, respectively, the payments to the nuclear account amounted to CZK 1,236 million and CZK 1,316 million, respectively. The originator of radioactive waste directly covers all costs associated with interim storage of radioactive waste and spent fuel. Actual costs incurred are charged against the accumulated provision for interim storage of spent nuclear fuel.

The Group has established provisions as described in Note 2.22, to recognize its estimated liabilities for decommissioning and spent fuel storage. The following is a summary of the provisions for the years ended December 31, 2005 and 2004 (in CZK millions):

	Accumulated provisions			
	Nuclear Decommis -sioning	Spent fuel storage		
		Interim	Long-term	Total
Balance at December 31, 2003	8,170	3,131	16,863	28,164
Movements during 2004:				
Discount accretion	202	78	422	702
Effect of inflation	363	141	759	1,263
Provision charged to income statement	-	203	-	203
Effect of change in estimate credited to income statement (Note 2.22)	-	(44)	-	(44)
Effect of change in estimate added to fixed assets (Note 2.22)	359	-	177	536
Current cash expenditures	-	(67)	(1,316)	(1,383)
Balance at December 31, 2004	9,094	3,442	16,905	29,441
Movements during 2005:				
Discount accretion	227	86	423	736
Effect of inflation	409	155	760	1,324
Provision charged to income statement	-	672	-	672
Effect of change in estimate charged to income statement (Note 2.22)	-	50	-	50
Effect of change in estimate added to (deducted from) fixed assets (Note 2.22)	(8)	-	5,121	5,113
Current cash expenditures	-	(231)	(1,236)	(1,467)
Balance at December 31, 2005	9,722	4,174	21,973	35,869

The current cash expenditures for the long-term storage of spent nuclear fuel represent payments to the state controlled nuclear account and the expenditures for interim storage represent mainly the purchase of interim fuel storage containers. In 2005 the effect of change in estimate added to fixed assets relates mainly to the change in the nominal discount rate from 7% to 4.5%.

The actual decommissioning and spent fuel storage costs could vary substantially from the above estimates because of new regulatory requirements, changes in technology, increased costs of labor, materials, and equipment and/or the actual time required to complete all decommissioning, disposal and storage activities.

17. Other Long-term Liabilities

Other long-term liabilities at December 31, 2005 and 2004 are as follows (in CZK millions):

	2005	2004
Provision for decommissioning and reclamation of mines and mining damages	7,203	8,769
Other long-term provisions	736	907
Deferred connection fees	6,344	5,006
Other	691	186
Total	14,974	14,868

The provision for decommissioning and reclamation of mines and mining damages was recorded by Severočeské doly a.s., a mining subsidiary of ČEZ (see Note 7). Severočeské doly a.s. operates an open pit coal mine and are responsible for decommissioning and reclamation of the mine as well as for damages caused by the operations of the mine. These provisions have been calculated using the best estimates of the expenditures required to settle the present obligation at the balance sheet date. The current cost estimates for the decommissioning and reclamation provision have been discounted using estimated real rate of interest of 2.5%.

The following is a summary of the provisions for the years ended December 31, 2005 and 2004 (in CZK millions):

	Mine reclama-tion	Mining damages	Total
Balance at December 31, 2003	7,307	456	7,763
Movements during 2004:			
Discount accretion	175	-	175
Effect of inflation	245	-	245
Provision charged to income statement	302	925	1,227
Effect of change in estimate deducted from fixed assets	(164)	-	(164)
Current cash expenditures	(312)	(165)	(477)
Balance at December 31, 2004	7,553	1,216	8,769
Movements during 2005:			
Discount accretion	148	-	148
Effect of inflation	207	-	207
Provision charged to income statement	30	519	549
Effect of change in estimate credited to income statement	(25)	-	(25)
Effect of change in estimate deducted from fixed assets	(1,615)	-	(1,615)
Current cash expenditures	(215)	(615)	(830)
Balance at December 31, 2005	6,083	1,120	7,203

18. Short-term Loans

Short-term loans at December 31, 2005 and 2004 are as follows (in CZK millions):

	2005	2004
Short-term bank loans	83	129
Bank overdrafts	182	107
Other short-term notes payable	-	4
Total	265	240

Interest on short-term loans is variable. The weighted average interest rate was 2.7% at December 31, 2005 and 3.2% at December 31, 2004. For the years 2005 and 2004 the weighted average interest rate was 2.8% and 4.6%, respectively.

19. Finance Leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows (in CZK millions):

	2005	2004
Within one year	76	60
After one year but not more than five years	26	27
More than five years	5	-
Total minimum lease payments	107	87
Future finance charges on finance leases	(6)	(9)
Present value of finance lease liabilities	101	78

20. Trade and Other Payables

Trade and other payables at December 31, 2005 and 2004 are as follows (in CZK millions):

	2005	2004
Advances received from retail customers	12,118	12,374
Unbilled electricity supplied to retail customers	(11,857)	(11,105)
Received advances from retail customers, net	261	1,269
Trade payables	10,015	5,848
Derivatives	4,211	4,175
Other payables	1,756	1,295
Total	16,243	12,587

The information about payables to related parties is included in Note 27.

21. Accrued Liabilities

Accrued liabilities at December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Provisions	1,924	1,426
Accrued interest	914	928
Taxes and fees, except income tax	1,070	1,059
Unbilled goods and services	2,223	1,024
Contingent liabilities from acquisitions	846	-
Social and bonus funds	326	358
Deferred income	607	463
Total	7,910	5,258

Provisions represent provisions for environmental claims, restructuring and legal cases and are based on the best estimate of the cost needed to settle the related obligations.

22. Sales of Electricity

The composition of sales of electricity for the year ended December 31, 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Sales to distribution companies	16,790	13,541
Sales to end customer through distribution grid	71,973	52,927
Sales to traders	7,577	5,172
Exports of electricity including trade outside the country of CEZ Group member	8,257	10,309
Other sales of electricity	5,650	4,943
Sales of ancillary and other services	6,278	5,291
Change in fair value of derivatives – sale of electricity	(576)	-
Total	115,949	92,183

The change in fair value of derivatives represents losses from revaluation of electricity sales contracts held for trading. The Group expects net settlement of these contracts either in cash or through other market mechanisms, such as through entering into an offsetting contract. The electricity contracts held for trading meet the definition of derivative and are measured at fair value with changes of fair value reported in income. The changes in fair value of electricity purchase contracts held for trading are included in item Purchased power and related services in the statement of income and in 2005 the gains on these contracts amounted to CZK 771 millions.

23. Salaries and Wages

Salaries and wages for the year ended December 31, 2005 and 2004 were as follows (in CZK millions):

	2005		2004	
	Total	Key management personnel [1]	Total	Key management personnel [1]
Salaries	8,788	112	7,762	80
Remuneration of the board members	106	26	88	25
Share options	296	296	148	148
Social and health security	3,306	39	2,710	28
Other personal expenses	930	15	660	39
Total	13,426	488	11,368	320

[1] Key management personnel represent members of Supervisory Board, Board of Directors and members of Executive Meeting (8 members) in 2004 and members of Executive Committee (17 members) in 2005, respectively. Members of Board of Directors are also members of Executive Meeting and Executive Committee.

Share options

At December 31, 2005 the aggregate number of share options granted to members of Board of Directors, Executive Committee (advisory body of Chief Executive Officer) and to Supervisory Board members was 3,325 thousand. The options granted to members of Board of Directors and Supervisory Board do not have any vesting period and can be exercised during the terms of office of the respective Board members and in further 3 months after the end of such period. Share options granted to the members of Executive Committee vest one year after the grant date and the number of options, which can be exercised during the first year of effectiveness of the agreement, is limited. The exercise price for the granted options was usually based on the average quoted market price on the Prague stock exchange in the six-month period preceding the date of the grant. In 2005 and 2004 the Company has recognized compensation expense of CZK 296 million and CZK 148 million related to the granted options. The Company has settled all options exercised using treasury shares. The gain or loss on the sale of treasury shares were recognized directly in equity.

The following table shows changes during 2005 and 2004 in the number of granted share options and the weighted average exercise price of these options:

	Number of share options				Weighted average exercise price (CZK per share)
	Supervisory Board 000s	Board of Directors 000s	Other 000s	Total 000s	
Share options at December 31, 2003	2,750	500	-	3,250	100.95
Options granted	150	1,650	-	1,800	152.84
Options exercised [1]	(2,290)	(800)	-	(3,090)	107.26
Options forfeited	(150)	-	-	(150)	105.78
Share options at December 31, 2004	460	1,350	-	1,810	141.38
Options granted	600	400	1,050	2,050	235.59
Options exercised [1]	(310)	-	-	(310)	147.99
Options forfeited	(150)	-	(75)	(225)	146.96
Share options at December 31, 2005	600	1,750	975	3,325	198.47

[1] In 2005 and 2004 the weighted average share price at the date of the exercise for the options exercised was CZK 430.71 and CZK 186.69 respectively.

The fair value of the options is estimated on the date of grant using the binomial option-pricing model. Because these stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock options.

At the grant dates, the underlying assumptions and the resulting fair values per option were as follows:

	2005
Weighted average assumptions:	
Dividend yield	3.0%
Expected volatility	29.6%
Mid-term risk-free interest rate	2.8%
Expected life (years)	2.1
Share price (CZK per share)	399.4
Weighted average grant-date fair value of options (CZK per 1 option)	174.7

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

On December 31, 2005 and 2004 the exercise prices of outstanding options were in the range from CZK 101.9 to CZK 651.7 and from CZK 101.9 to CZK 185.6 per share, respectively. The options granted to the members of Board of Directors and Supervisory Board, which were outstanding on December 31, 2005 and 2004, respectively, had an average remaining contractual life of 2.3 years and 3.2 years, respectively. The options granted to members of the Executive Committee can be exercised in a period ending 3 months after the end of the membership in the Executive Committee, which is not set for a definite period of time.

24. Other Operating Expenses

Other operating expenses (income), net, for the year ended December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Services	7,418	6,208
Travel expenses	240	211
Loss (gain) on sale of property, plant and equipment	(77)	(650)
Loss (gain) on sale of material	(174)	20
Capitalization of expenses to the cost of fixed assets and change in own inventory	(1,650)	(1,656)
Fines, penalties and penalty interest, net	(49)	(118)
Change in provisions and valuation allowances	305	(918)
Taxes and fees	607	543
Write-off of bad debts and cancelled investment	410	277
Gifts	280	278
Other, net	541	2,159
Total	7,851	6,354

25. Income Taxes

Companies with seat in the Czech Republic calculated corporate income tax in accordance with the Czech tax regulations at the rate of 26% and 28% in 2005 and 2004, respectively. The Czech corporate income tax rate for 2006 will be 24%. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements. However, the risk remains that the relevant financial authorities could take differing positions with regard to interpretive issues, which could have potentially effect on reported income.

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

	2005	2004
Current income tax charge	4,009	2,874
Adjustments in respect of current income tax of previous periods	(186)	154
Deferred income taxes	1,201	1,205
Total	5,024	4,233

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

	2005	2004
Income before income taxes	27,306	18,501
Statutory income tax rate in Czech Republic	26%	28%
"Expected" income tax expense	7,099	5,180
Add (deduct) tax effect of:		
Change in tax rates	(1,731)	(1,042)
Czech/IFRS accounting differences	107	32
Non-deductible provisions, net	56	(158)
Investment tax relief	(7)	(65)
Negative goodwill write-off	(275)	-
Other non-deductible (non taxable) items, net	279	138
Tax credits	(54)	(6)
Adjustments in respect of current income tax of previous periods	(186)	154
Effect of different tax rate in other countries	(264)	-
Income taxes	5,024	4,233
Effective tax rate	18%	23%

Deferred Income Taxes, Net

Deferred income taxes, net, at December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Accumulated provision for nuclear decommissioning and spent fuel storage	7,391	5,925
Financial statement depreciation in excess of tax depreciation	41	14
Revaluation of financial instruments	-	12
Allowances	515	379
Other provisions	1,238	1,791
Tax loss carry forwards	146	110
Other temporary differences	92	69
Total deferred tax assets	9,423	8,300
Tax depreciation in excess of financial statement depreciation	25,908	21,576
Revaluation of financial instruments	62	-
Other provisions	1,413	1,438
Penalty receivables	11	46
Investment in associate	36	92
Other temporary differences	24	38
Total deferred tax liability	27,454	23,190
Total deferred tax liability, net	18,031	14,890

In 2005 the Group charged CZK 53 million of deferred tax directly to equity.

At December 31, 2005 and 2004 the aggregate amount of temporary differences associated with investments in subsidiaries, for which no deferred tax liability was recognized, amounted to CZK 2,339 million and CZK 531 million, respectively.

26. Other Expenses (Income), Net

Other expenses (income), net, for the year ended December 31, 2005 and 2004 consist of the following (in CZK millions):

	2005	2004
Derivative losses (gains), net	(169)	1,630
Gains from sales of financial investments	(7)	(557)
Change in impairment of financial investments	4	(342)
Other, net	(171)	(487)
Total	(343)	244

27. Related Parties

The Group purchases products from related parties in the ordinary course of business.
At December 31, 2005 and 2004, the receivables from related parties and payables to related parties are as follows (in CZK millions):

	Receivables		Payables	
	2005	2004	2005	2004
Associates and other affiliates:				
AHV, s.r.o.	-	-	-	-
AZ Elektrostav, a.s.	21	3	1	2
Coal Energy, a.s.	432	347	-	-
Elektrovod Holding, a.s.	1	7	25	7
ELTRAF, a.s.	2	8	1	-
Energetická montážní společnost Česká Lípa s.r.o.	7	1	1	7
Energetická montážní společnost Ústí nad Labem s.r.o.	10	2	1	3
KNAUF POČERADY, spol. s r.o.	8	6	-	-
KOTOUČ ŠTRAMBERK, spol. s r.o.	8	3	10	9
LOMY MOŘINA spol. s r.o.	1	-	11	11
OSC, a.s.	-	-	22	21
Plzeňská energetika a.s.	34	-	38	12
PRODECO, a.s.	1	7	13	24
SEG s.r.o.	6	5	12	6
SHD - KOMES a.s.	-	-	43	44
SIGMA - ENERGO s.r.o.	-	-	11	10
Others	28	38	40	66
Total associates and other affiliates	559	427	229	222
Companies under the control of Company's majority owner:				
ALIACHEM a.s. [2)]	-	1	-	4
ČEPS, a.s.	271	247	233	123
Česká pošta s.p.	1	1	28	7
České dráhy, a.s.	242	104	171	171
CHEMOPETROL, a.s. [2)]	-	-	-	-
ČESKÝ TELECOM, a.s. [3)]	3	12	-	7
Eurotel Praha, spol. s r.o. [3)]	-	1	-	11
SPOLANA a.s. [2)]	-	5	-	1
Others	-	7	2	(1)
Total companies under the control of Company's majority owner	517	378	434	323
Total	1,076	805	663	545

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (in CZK millions):

	Sales to related parties [1)]		Purchases from related parties [1)]	
	2005	2004	2005	2004
Associates and other affiliates:				
AHV, s.r.o.	-	73	-	-
AZ Elektrostav, a.s.	71	1	173	164
Coal Energy, a.s.	6,392	6,069	1,041	4
Elektrovod Holding, a.s.	2	3	84	10
ELTRAF, a.s.	1	3	83	62
Energetická montážní společnost Česká Lípa s.r.o.	9	-	127	102
Energetická montážní společnost Ústí nad Labem s.r.o.	21	-	82	60
KNAUF POČERADY, spol. s r.o.	70	72	-	-
KOTOUČ ŠTRAMBERK, spol. s r.o.	53	39	91	112
LOMY MOŘINA spol. s r.o.	12	10	130	132
OSC, a.s.	-	1	75	99
Plzeňská energetika a.s.	11	5	450	414
PRODECO, a.s.	18	31	457	199
SEG s.r.o.	49	22	181	109
SHD - KOMES a.s.	4	9	570	530
SIGMA - ENERGO s.r.o.	2	2	59	64
Others	144	202	415	497
Total associates and other affiliates	6,859	6,542	4,018	2,558
Companies under the control of Company's majority owner:				
ALIACHEM a.s. [2)]	4	8	85	97
ČEPS, a.s.	8,264	7,392	7,000	8,518
Česká pošta s.p.	69	61	216	152
České dráhy, a.s.	1,843	1,853	1,766	1,829
CHEMOPETROL, a.s. [2)]	219	151	36	97
ČESKÝ TELECOM, a.s. [3)]	57	51	30	66
Eurotel Praha, spol. s r.o. [3)]	-	113	9	23
SPOLANA a.s. [2)]	249	522	24	27
Others	25	77	25	1
Total companies under the control of Company's majority owner	10,730	10,228	9,191	10,810
Total	17,589	16,770	13,209	13,368

[1)] The information summarized in this table is based on turnovers on accounts receivable and payable and includes value added tax.
[2)] Related party till May 2005.
[3)] Related party till June 2005.

During 2005 and 2004 the majority owner of the Company was the Czech Republic National Property Fund.
In December 2005 the Company purchased a 55.8% share in Severočeské doly a.s. from the Czech Republic National Property Fund (see Note 7).

In 2004 the Company sold its remaining 34% share in ČEPS, a.s. to Ministry of Finance (see Notes 29).

Information about compensation of key management personnel is included in Note 23.

28. Segment Information

The accounting policies of the segments are the same as those described in Note 2. The Group accounts for intersegment revenues and transfers as if the revenues or transfers were to third parties, that is, at current market prices or where the regulation applies at regulated prices. The Group evaluates the performance of its segments and allocates resources to them based on operating income.

Following the sale of the remaining shares in ČEPS, a.s. in 2004 (see Note 29) the Group does not have any electricity transmission activities and therefore the Group discontinued reporting of the transmission segment.

The following table summarizes segment information for the years ended December 31, 2005 and 2004, respectively (in CZK millions):

Year 2005:

	Power Production and Trading	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	47,376	72,906	2,738	2,063	125,083	-	125,083
Intersegment sales	22,872	2,481	5,260	6,591	37,204	(37,204)	-
Total revenues	70,248	75,387	7,998	8,654	162,287	(37,204)	125,083
Operating income	19,734	6,029	2,660	511	28,934	469	29,403
Identifiable assets	177,103	67,497	9,902	4,162	258,664	426	259,090
Goodwill	-	2,022	3	15	2,040	-	2,040
Investment in associate	460	-	287	181	928	-	928
Unallocated assets							62,151
Total assets							324,209
Identifiable liabilities	87,404	19,593	8,311	4,058	119,366	(5,001)	114,365
Unallocated liabilities							18,555
Total liabilities							132,920
Income from associate	73	-	14	15	102	-	102
Depreciation and amortization	13,908	5,229	947	1,090	21,174	(451)	20,723
Change in provisions and allowances	694	503	(482)	(122)	593	(34)	559
Negative goodwill write-off	-	1,675	-	29	1,704	-	1,704
Capital expenditure	5,751	5,866	1,241	2,064	14,922	(64)	14,858

Year 2004:

	Power Production and Trading	Transmission	Distribution and Sale	Mining	Other	Combined	Elimination	Consolidated
Sales other than intersegment sales	42,241	-	54,152	3,092	3,185	102,670	-	102,670
Intersegment sales	22,326	-	3,691	4,805	4,312	35,134	(35,134)	-
Total revenues	64,567	-	57,843	7,897	7,497	137,804	(35,134)	102,670
Operating income	13,096	-	5,971	613	419	20,099	(314)	19,785
Identifiable assets	180,427	-	43,759	11,274	3,924	239,384	(188)	239,196
Goodwill	-	-	759	-	-	759	-	759
Investment in associate	428	-	-	647	936	2,011	-	2,011
Unallocated assets								57,284
Total assets								299,250
Identifiable liabilities	81,610	-	13,031	9,936	5,508	110,085	(4,884)	105,201
Unallocated liabilities								15,602
Total liabilities								120,803
Income (share of loss) from associate	70	780	-	21	(149)	722	-	722
Depreciation and amortization	13,971	-	4,004	1,343	501	19,819	23	19,842
Change in provisions and allowances	(216)	-	(1,012)	561	(48)	(715)	-	(715)
Negative goodwill write-off	-	-	-	-	-	-	-	-
Capital expenditure	5,615	-	4,940	1,299	2,992	14,846	(1,655)	13,191

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

29. Sale of ČEPS, a.s.

On March 11, 2002 the Government decided to purchase from ČEZ a 66% share in its transmission subsidiary ČEPS. General meeting of ČEZ's shareholders held on June 11, 2002, has confirmed the above mentioned decision of the Government. The purchase of ČEPS shares was made by OSINEK, a.s., a company controlled by the Czech Republic National Property Fund, and the Ministry of Labor and Social Affairs. This transaction was carried out on April 1, 2003. Based on the decision of Economic Competition Protection Authority ČEZ has also sold its remaining equity share in ČEPS in September 2004.

Based on the fact that the transaction was carried out between parties under common control of ČEZ's ultimate parent, ČEZ has recorded the net result from the sale directly to equity. The composition of the amount recorded in equity in 2004 is as follows (in CZK millions):

	2004
% of shares sold	34%
Total selling price	7,087
Book value of shares sold	(3,703)
Current income tax related to the sale	(1,721)
Deferred tax related to the sale	773
Effect of sale recognized in equity	2,436

The reconciliation of the proceeds from disposal of a subsidiary as presented in the cash flow statement in 2005 and 2004 is as follows (in CZK millions):

	2005	2004
Total selling price	-	7,087
Cash disposed of	-	-
Change in receivables from the sale of ČEPS	1,416	(7,087)
Proceeds from sale of other associates and subsidiaries	857	-
Total proceeds from disposal of associates and subsidiaries, net of cash disposed of	2,273	-

In 2004 the operations of ČEPS were reported in the transmission segment (see Note 28).

30. Net Income per Share

	2005	2004
Numerator (CZK millions)		
Basic and diluted:		
Net income attributable to equity holders of the parent	21,438	13,213
Denominator (thousands shares)		
Basic:		
Weighted average shares outstanding	590,426	592,075
Dilutive effect of treasury shares	1,785	136
Diluted:		
Adjusted weighted average shares	592,211	592,211
Net income per share (CZK per share)		
Basic	36.3	22.3
Diluted	36.2	22.3

31. Commitment and Contingencies

Investment Program

The Group is engaged in a continuous construction program, currently estimated as of December 31, 2005 to total CZK 155.9 billion over the next five years, as follows: CZK 28.2 billion in 2006, CZK 29.5 billion in 2007, CZK 32.1 billion in 2008, CZK 32.8 billion in 2009 and CZK 33.3 billion in 2010. These figures do not include the expected acquisitions of subsidiaries and associates, which will depend on the number of future investment opportunities, for which the Group will be successful bidder and also considering the recoverability of these investments.

The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At December 31, 2005 significant purchase commitments were outstanding in connection with the construction program.

The Group currently projects that its planned construction expenditures will be funded mainly with cash provided by operating activities.

Environmental Matters

The Czech Republic has adopted series of environmental acts and laws and regulations ("the Acts") including a timetable for the reduction of atmospheric emissions. As of December 31, 1998, all plants operated by the Company had been upgraded to meet the environmental requirements of the Acts.

The Company is also liable under the Acts for past environmental damage. In 2005 and 2004, payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled CZK 3 million and CZK 4 million, respectively. Based on current estimates of its probable future obligations, the Company provided CZK 43 million in 2005 and CZK 40 million in 2004, respectively, for pollution damages and reversed CZK 3 million in 2005 and CZK 40 million in 2004, respectively. Although uncertainties exist due to interpretations of applicable laws, management does not believe, based upon the information available at this time, that the ultimate outcome of these matters will have a material adverse effect on the Company's financial position or results of operations.

Insurance Matters

The Nuclear Act (see Note 16) sets limits for liabilities for nuclear damages by the operator of nuclear installations/licenses. The Nuclear Act provides that operators of nuclear facilities are liable for up to CZK 6 billion per incident. The Nuclear Act limits the liability for damage caused by other activities (such as transportation) to CZK 1.5 billion. The Nuclear Act also requires an operator/licensee to insure its liability connected with the operation of a nuclear power plant up to a minimum of CZK 1.5 billion and up to a minimum of CZK 200 million for other activities (such as transportation). ČEZ has obtained all insurance policies with minimal limits as required by the law. ČEZ concluded about mentioned insurance policies with Czech nuclear pool, a group of insurance companies.

ČEZ has renewed insurance policies covering the assets of its fossil, hydro and nuclear power plants, insurance policies covering non-technological equipment, general third party liability insurance in connection with main operations of the Company and car insurance.

ČEZ and the Group companies have insurance policies covering directors and officers liability. ČEZ also controls other property and liability insurance policies of the Group companies.

32. Events After the Balance Sheet Date

Based on Act no. 178/2005 from April 28, 2005 the activities of the Czech Republic National Property Fund, which was the majority shareholder of the Company, were terminated as of December 31, 2005. All assets and activities of the dissolved Czech Republic National Property Fund have been transferred to Ministry of Finance of the Czech Republic.

These financial statements have been authorized for issue on March 8, 2006:

Martin Roman
Chairman of Board of Directors
Chief Executive Officer

Alan Svoboda
Vice-chairman of Board of Directors
Executive Director for Sale and Trading

Petr Vobořil
Chief Financial Officer