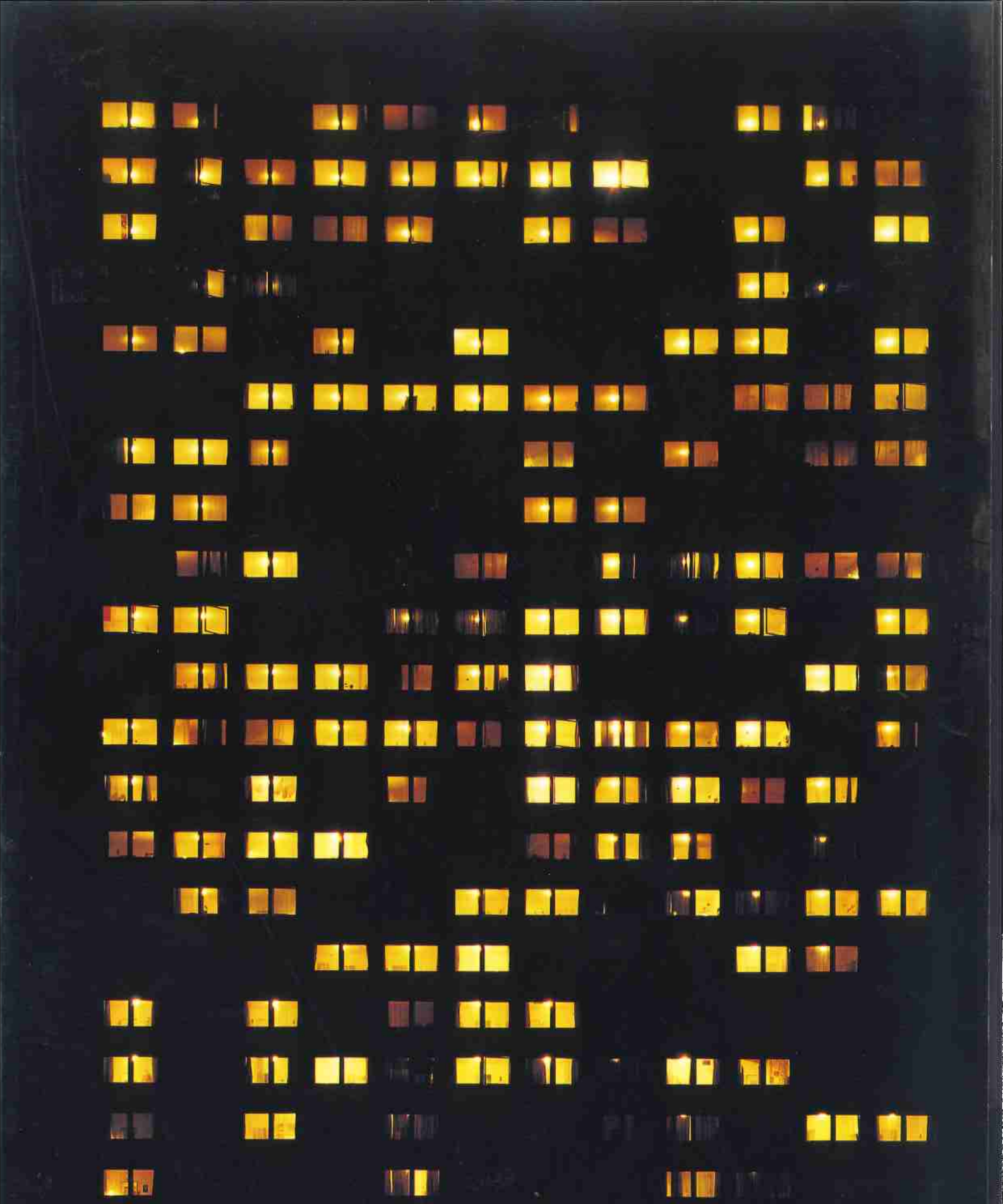
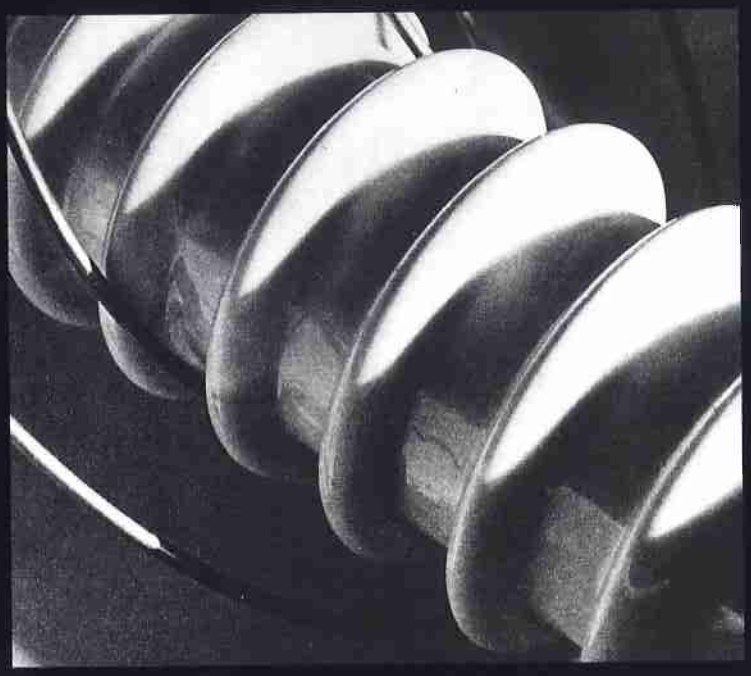


ANNUAL REPORT 1993

ČEZ



■ ČEZ, a.s. is the largest producer of electric energy in the Czech Republic. It was founded in 1992 as one of the newly formed entities from the breakup of the former state-owned Czech Power Works. Having almost fourteen thousand employees and the capacity of 11,000 MW, it is among the medium-sized electricity companies in the world. It manages one nuclear power station, ten fossil power stations and thirteen hydro-electric power stations. One nuclear power station, two pumped-storage hydro-electric power stations and one small-sized hydro-electric power station are presently under construction.

Highlights

		1993	1992
CZECH REPUBLIC			
Maximum load in Czech Republic	MW	9 288	8 690
Day of max. load		1. 12.	9. 12.
Hour of max. load		13.00	13.00
Gross production of electric energy	GWh	58 882	59 293
ČEZ, a.s.			
Installed capacity	MW	10 952	11 143
Gross production of electric energy	GWh	46 445	47 460
– fossil power stations	GWh	32 660	34 054
– nuclear power stations	GWh	12 627	12 250
– hydro-electric power stations	GWh	1 158	1 156
Production of heat	TJ	16 697	15 028
Sales of electricity and heat **	mil. Kč	47 904	33 060
Operating income **	mil. Kč	20 496	16 187
Income before income taxes **	mil. Kč	18 648	14 791
Net income **	mil. Kč	9 177	5 993
Earnings per share **	Kč	171,47	111,97
Construction expenditures **	mil. Kč	20 896	11 487
At year-end **			
Total assets	mil. Kč	97 156	80 114
Number of shares		53 521 026	53 521 026
Number of employees		13 723	16 263
Debt to equity ratio		0,26	0,23
Current ratio		0,72	0,89
Return on total assets	%	9,45	7,48

** 1992 financial results are for the 8 months ended 31 December 1992. 1992 capacity and production statistics are for the entire year.*

*** Based on International Accounting Standards financial Statements.*

Table of contents

Petr KARAS, Ing., CSc.

53 years old, Chairman of the Board of Directors since October 19, 1992

He graduated from ČVUT, the Electrotechnical Department, in 1963, where he also completed a two-year postgraduate study in the field of the operational analysis methods. In 1978, he defended his dissertation and obtained the CSc. title.
He worked in power engineering from 1964 until 1968 as a thermal measurements technician in Northern Bohemian power stations, later as a head of the section and head of the department of maintenance and repair planning in the Počerady Power Station. From 1973 until 1990, he worked as the head of the department of maintenance and repair planning in the management of ČEZ in Prague. He wrote several textbooks on topics concerning the maintenance and repair of power stations. On June 1, 1990, he was appointed General Manager of the Czech Power Works. Since 1991, he has been the Chairman of the Czech Power Engineering Employers Union, and since 1994, he has been a Vice-President of the Union of Industry of the Czech Republic. Since April 30, 1992, he has been a member of the Board of Directors.

Dear friends,

Two years ago, the joint-stock electricity company ČEZ was formed and is the dominant producer of electricity in the Czech Republic. The management of the company had formulated a mission, a business notion, and plans to fulfil this vision.

Our task is to reliably provide our customers with electricity at competitive prices and in an environmentally considerate manner.

We want to be a company that is attractive to shareholders, creditors, and our employees. We want our customers to be satisfied. We want to succeed in European competition.

To accomplish this, we have prepared, and are carrying out, a broad program to improve business operations in every regard.

The 1993 results provide the first information about how successful we have been in fulfilling our vision.

Throughout the past year, we reliably and continuously supplied our customers with electricity. Roughly 80% of the entire consumption of electricity in the Czech Republic was supplied by our company. Approximately one quarter of the total supply of electricity was produced by the Dukovany Nuclear Power Station, almost three quarters by fossil power stations, and 2% by hydro-electric power stations.

The improvement of the technical condition of the power stations was favorably reflected in the efficiency of the production of electricity, which increased by 1.1% from 1992.

The implementation of our environmental program commenced last year. We are constructing eleven sulphur-removal mechanisms at fossil fuel units with the total output of almost 2,000 MW; contracts have been signed to desulphurize another five units with the total output of 800 MW, and more contracts are being prepared.

The construction of the Dlouhé Stráně Pumped-storage Hydro-electric Power Station is proceeding satisfactorily.

Extensive investment is being made to the transmission system and power stations to strategically connect our electrification system to UCPTE. Practical tests prove that ČEZ is capable of meeting the strict criteria for cooperation with Western European electricity companies.

A key role in the revitalization of our power stations is played by the Temelín Nuclear Power Station (2x1,000 MW) which, after being put into operation, will annually save 12 million tons of brown coal and 1 million tons of limestone necessary for desulphurization. This will also lower the total amount of carbon dioxide emissions in the Czech Republic. Last year, the Government of the Czech Republic confirmed its interest in the successful completion of the Temelín Nuclear Power Station by giving the plan full political support and guaranteeing the implementation of the most modern pilot technology.

The cost of the ecological program of our company is very high and it was financed primarily the other out of the Company's own resources in 1993, complemented by the first successful issuance of bonds on the domestic capital market (2.1 billion Kc) and by increasing long–term credits by 2.2 billion Kc. By the end of 1993, sufficient capital was obtained to finance investments for the beginning of 1994.

The shares and bonds of ČEZ, a.s. are among the much sought-after and most marketed in the Czech Republic. The bonds of ČEZ are also a subject of great interest. Despite the decrease in the gross profit to 16.8 billion Kc and the after-tax profit to 7.3 billion Kc, the company is in good financial health.
In order to enter the foreign capital markets, ČEZ asked Standard & Poor's rating agency to assess our financial reliability. Through this assessment, ČEZ received a BBB– investment grade rating, with a positive outlook. This is an excellent evaluation of the company and the strategy of its management which will open the door to a wide spectrum of investors all over the world.
The objective of the broadely-based three year „program of improvement" that is being successfully implemented is to convert ČEZ into a modern, flexible and efficient electricity company.
While many good things were accomplished in 1993, there is a lot of work to be done in order to fulfil the aims adopted at the inception of our company.
The company's good results would not have been possible without the great understanding and support of our employees. My personal thanks go to them all.
My thanks also go to the members of the Board of Directors, especially to those whose immense, devoted work helped to form the strategy of the company and to overcome the most difficult period – to Mr. Stehlík, Mr. Křeček, Mr. Cestr, and Mr. Krenk.

May 10, 1994

Petr KARAS, Ing, CSc.
Chairman,
Board of Directors

Gabriel EICHLER

44 years old, the first Vice-Chairman of the Board of Directors since April 24, 1994

Founder and president of Benson Oak, Inc., an investment and financial advisory company. Born in Bratislava, Czechoslovakia, he is now a citizen of the United States where he has lived since 1968. He studied economics and international relations at Brandeis University, The University of Chicago, and The University of Toronto. For fifteen years, he worked at the Bank of America, his last post was Vice-President and the Chief International Economist at the Bank's headquarters in San Francisco. There he was responsible for the economic forecasts, and country and currency risk evaluation of more than a hundred countries. Before that, he was the General Manager of Bank of America in various European countries for eight years. In 1992, he worked as a Vice-President of the Central European Development Corporation, an investment company operating in Central and Eastern Europe. He has been a member of the Board of Directors since April 13, 1994.

Jan KRENK, Ing.

43 years old, the second Vice-Chairman of the Board of Directors since May 1, 1994

Graduated from ČVUT and completed postgraduate study at VUT in Plzeň. In 1976, he started to work at the Chvaletice Power Station in various operational positions and then at the Dukovany Power Station where he became Director in 1990. On January 1, 1993, he was appointed director of the nuclear power engineering section of ČEZ, and since May 1, 1993, he has been the director of the division of ČEZ's nuclear power stations. He has been a member of the Board of Directors since May 21, 1993. He is also a member of the Board of Directors of ÚJV Řež, a.s. with the consent of ČEZ a.s.

Zdeněk PISTORA, Ing., CSc.

35 years old, a member of the Board of Directors since September 20, 1993

Graduated from ČVUT, the Electrotechnical Department, majoring in the transmission and distribution of electric energy. From 1987, he worked at the Czech Power Works in the field of distribution network development. Since 1989, he has been working in the field of transmission system planning. Since 1990, he has been ČEZ's representative in the study committee of UNIPEDE.

Dalibor MATĚJŮ, Ing.

46 years old, a member of the Board of Directors since September 20, 1993

Graduated from VUT Brno, the Electrotechnical Department. Postgraduate study at VUT Brno, the Machine Department. From 1971, he worked in the Czech Power Works in various operational and technical-economic posts. Since 1993, he has been the director of the quality control section. He is a member of the Board of Supervisors of EGÚ Třebíč, and a Vice-Chairman of the State Testing Committee for Testing Selected Nuclear Power Stations Functions.

Miroslav STEHLÍK, Ing.

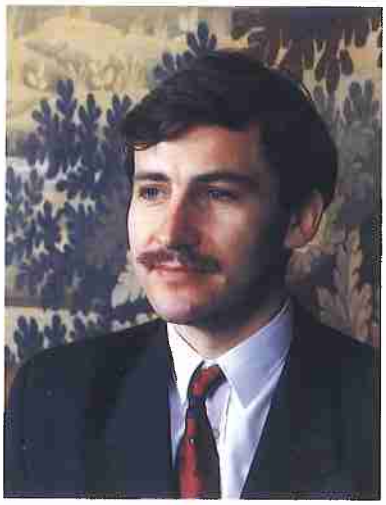
51 years old, the first Vice-Chairman of the Board of Directors until December 31, 1993

Graduated from ČVUT, the Electrotechnical Department, in 1964. Then he worked at the Czechoslovak State Power Central Control, and from 1965 in the general management of the Czechoslovak Power Works. He completed postgraduate training on probability and mathematical statistics at the Department of Mathematics and Physics at Charles University in Prague. From 1970, he worked at the Central Bohemian Power Works, in the financing and accounting section, later, from 1981, he worked in the Prague Power Works as the head of the computing center. At the same time, he was an external lecturer at the Electrotechnical Department of ČVUT. In 1990, he was appointed a deputy to the General Manager of ČEZ for economics and commerce. He was a member of the Board of Directors since April 30, 1992.

Ivan POPEL, Ing.

51 years old, the second Vice-Chairman of the Board of Directors until April 30, 1994

Graduated from ČVUT, the Machine Department, and completed postgraduate study at VUT Brno, majoring in nuclear power station operation. From 1966, he worked in various operational and technical posts at the Ledvice and Počerady power stations, the last being the post of the Chief of the technical department of the Počerady Power Station. From 1982, he was the head designer at the Industrial Construction and Design Institute in Liberec, from 1990, he was the head of the institute.
In 1991, he was appointed a Deputy Manager to the General Manager of the Czech Power Works for production and transmission. In 1992, he completed the „Postgraduate Diploma Course in Management Practice" in Dublin. In 1993, he was appointed a member of the Board of Directors, from October 1993, he was a Vice-Chairman of the Board of Directors.

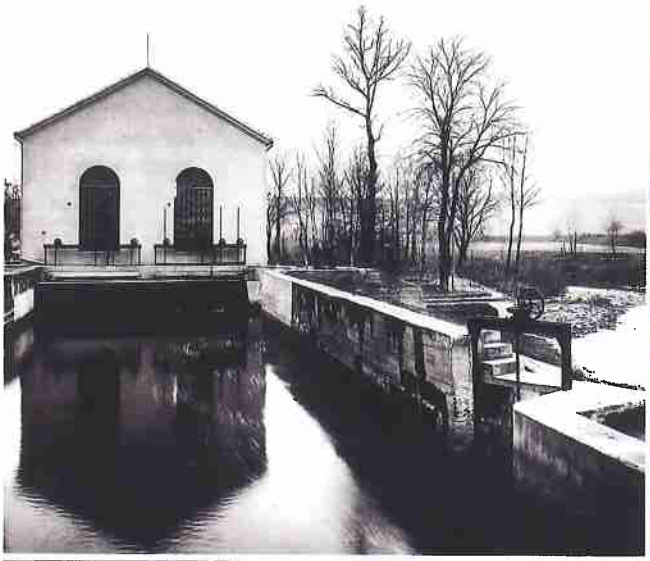


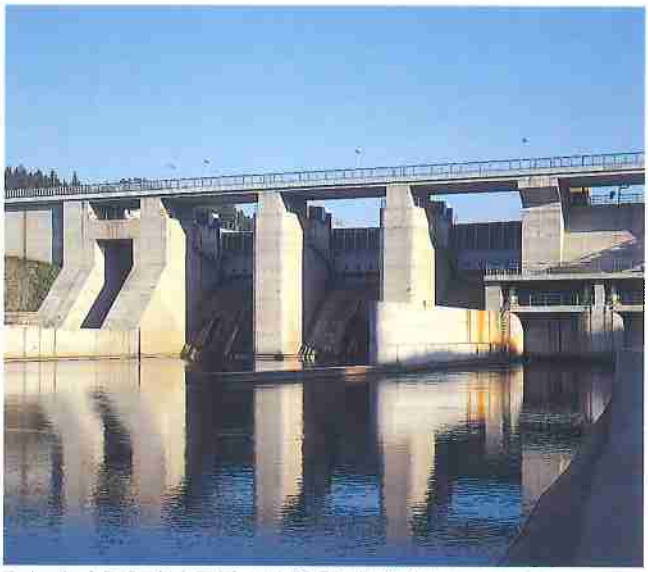
Ivan CESTR, JUDr.

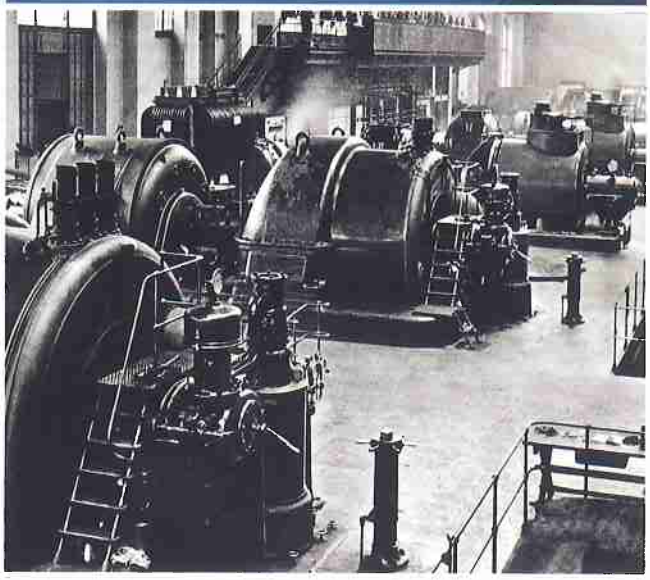
39 years old, a member of the Board of Directors until December 31, 1993

He obtained the JUDr. degree in 1978. Between 1979 and 1980, he worked in the legal-exchange department of the Ministry of Finances of the Czech Republic; between 1980 and 1981, in the Lidové bytové družstvo (Public Housing Cooperative) in Prague as the head of the housing department. From 1981, he worked in Prague Power Works as the head of the legal section. In 1990, he was appointed the head of the organizational, legal, and control section in the management of the Czech Power Works. Since 1991, he has been managing the section of personnel relations and social development.
He completed a two–year postgraduate study at the Law School of Charles University in Prague, focusing on the position of legal entities in commercial-business relationships. In 1991, he passed exams at the Board of Commercial Lawyers of the Czech Republic. He was a member of the Board of Directors since April 30, 1992.

Jiří MAREK, Ing., 48 Chairman	Graduated from ČVUT in 1968. Until 1971, he worked as a research worker in the Institute of Nuclear Research at Řež. Since 1974, he held many positions in the Czech Power Works, in 1992, he left for the Ministry of Industry and Trade of the Czech Republic and is now an adviser to the Minister.
Jiří ŠVAMBERK, 50	Chairman of the North-West regional branch of the Czech Union of Power Engineering Workers.
Petr HŮLA, JUDr., 33	Adviser to the Deputy General Manager of Investiční banka, a member of the Board of Directors of Čechofracht, a.s.
Václav KREJČÍ, 40	Since 1982, he has been employed in the Dukovany Nuclear Power Station, presently in the internal communication section. He is a partner of the firm 1.ARDO s.r.o.
Jan ŠEVR, 46	Head of Operations at the 500 MW unit in the Mělník Power Station.
Václav KUPKA, Ing., CSc., 50	First Deputy Minister of Economy of the Czech Republic.
Petr KOLEK, Ing. CSc., 34	Manager of Harvard Capital and Consulting, a.s. in charge of financial and strategic management, analysis and portfolio management. A member of the Board of Directors of Sklounion a.s. Teplice, MND a.s. Hodonín, Armabeton a.s. Praha, MST a.s. Ostrava, Harvard Capital & Consulting, investment company, a.s., PVT, a.s., and RMS, a.s.
Vítězslav MANDA, Ing., 48	Manager of the Department of Financing of the Profit Sphere of the Ministry of Finances of the Czech Republic.
Zdeněk SPITZER, Ing., 27	Head of the Department of the Power Engineering Economics of the Ministry of Industry and Trade.
Jiří KURKA, Ing., 39	Head of Unit Operation in the Počerady Power Station.
Norbert KRAUS, Ing. elected on Feb 24, 1994	The National Property Fund, the Head of the Departments of Metallurgy, Mining, and Power Engineering.
Josef HOLUB, Ing. elected on Feb 24, 1994	He is an MP, Chairman of the Power Engineering Committee of the Economic Committee of the Parliament.
Václav SRBA, Ing., 53 a member until Feb 24, 1994	Deputy General Manager of Spořitelní investiční společnost, a.s., Chairman of the Board of Directors of Spořitelní privatizační, a.s., ZVU a.s. Hradec Králové, and Lázně Luhačovice (the Luhačovice Spas), a.s.
Josef ŽÁK, Ing., CSc., 51 a member until Feb 24, 1994	Director of the Quality Control Department of the Ministry of Industry and Trade.







1) *The Káčov Hydro-electric Power Station on the Jizera river, whose equipment dates from 1910.*
2) *The Hněvkovice Hydro-electric Power Station was built along with the Kořensko Hydro-electric Power Station in relation to the construction of the Temelín Nuclear Power Station, and was put into operation in 1992.*
3) *The Prunéřov Power Stations are one of the largest producers of electricity and heat in the Czech Republic.*
4) *The Central Prague Power Station in Holešovice (as of 1927).*

■ The electric industry in the Czech lands has a long tradition. The first significant use of electricity occured in the 1880's when direct current electrical lighting was introduced. The construction of the first electric utility was launched in Prague's Žižkov gas works in 1889. The discovery of alternating current and its subsequent transmission enabled the gradual utilization of electricity in industry. By 1918, power plants in 193 enterprises were in operation with a total output of 135 MW. The electrical distribution network, still predominantly direct current, reached 1,731,000 inhabitants. In July 1919, the Act "About State Support at the Beginning of Systematic Electrification" was approved. Throughout the republic, the universal three-phased current system was introduced with parameters that are still used today: a frequency of 50 Hz and a voltage of 380/220 V in local networks. In the territory of Czechoslovakia Republic, twenty-five so-called public utilities were created, with a 60% capital interest by the state. In that way, the state ensured for itself a continuous influence on the management of these corporations.

Between 1918 and 1939, the production of electric energy increased fourfold, which represents 311 kWh per inhabitant/per year. The total installed capacity was 2,000 MW in 1939. During that period of time, seven independent, unconnected large distribution systems existed, along with ten separate small systems. During the war, the installed capacity increased by 500 MW due to the completion of power stations whose construction began before the war, and to the increase in their use. After the war, however, most of the power stations, especially steam power stations, were in poor technical condition.

After 1946, seven national power works were established under the general management of the Czechoslovak Power Works, with regional management for Slovakia. The general management provided a central control for the entire state which was superior to two regional central controls. In 1949, the production of electricity was separated from its distribution. Czech, Moravian, and Slovak electricity companies were created as independent national power works for the production of electric energy. A year later, the two largest electric systems, the Czech and the Moravian-Silesian systems, united. A uniform electrification system was created by connecting the Ostrava region (in Northern Moravia) to Central Slovakia; this also enabled cooperation with foreign countries.

The Czech Power Works, a state enterprise, underwent several organizational changes during the two years before the origin of ČEZ in May 1992. The separation from the company of the distribution and supply of electricity to the final consumers on July 1, 1990 was one of these changes. To accomplish this, eight regional distribution power works (DPW) were created as state enterprises. Today, they are the major consumers of electric energy produced by ČEZ, a.s.

On January 1, 1992 and April 30, 1992, the heating, service, maintenance, and building organizational units were made independent.

■ The joint-stock company ČEZ a.s. was founded on May 6, 1992 by the Czech Republic National Property Fund. It took over the production of electricity and the operation of the high-voltage transmission line system (220 and 400 kV) from the state enterprise, Czech Power Works, becoming the dominant producer of electricity in the Czech Republic. In addition to the production, transmission, import, export and sale of electricity, the company also produces, distributes and sells heat. In this regard, its basic mission does not differ from the mission of the former state enterprise, Czech Power Works. During the process of its privatization, ČEZ, a.s. acquired participation in several

properties. In most cases, these were participations in commercial joint-stock companies with which the Czech Power Works had previous business relations (e.g. Škodaexport). In the course of 1993, ČEZ, a.s. founded several new corporations from these particular entities. This was performed for two reasons: first, to allow the company to liquidate activities not directly involved in the production of electricity; second, to maintain influence in the newly originated corporations. This was made possible by the percentage of the shares of the corporations' equity capital owned by ČEZ, a.s.

By December 31, 1993, ČEZ, a.s. had equity investments in eight joint-stock companies and six limited liability companies (see Table).

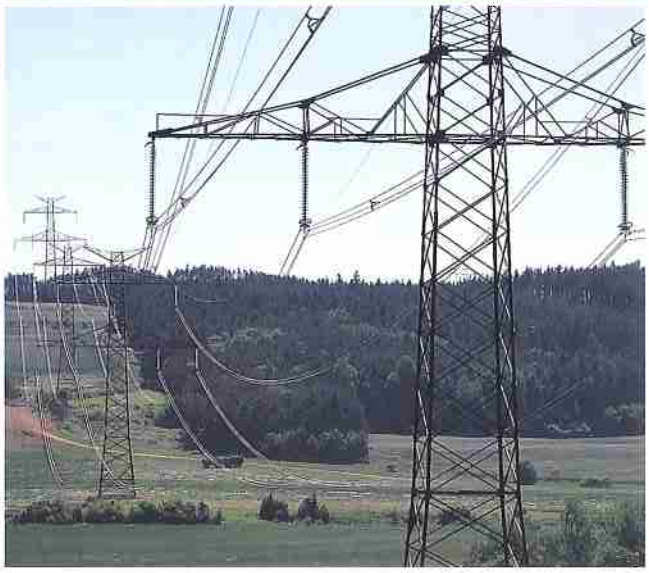
On September 20, 1993, the first ordinary general meeting took place with the shareholders from the first wave of coupon privatization present, representing 79.15% of ČEZ's shares. Among them, the major shareholder is the Czech Republic National Property Fund with a 71.1% holding. The general meeting approved, among other things, the increase of the basic capital by 5, 352 million Kč by increasing the nominal value of a share from 1,000 Kč to 1,100 Kč. It also approved a proposal not to pay dividends and use its 1992 earnings for investments in the environmental and developmental program of ČEZ, a.s.

The Shareholders of ČEZ, a.s. as of September 20, 1993

	Share of equity capital
National Property Fund	71,1 %
Restitution Investment Fund	3,0 %
Investment Funds	22,3 %
Individual shareholders	3,6 %
TOTAL	100,0 %

Equity Investments of ČEZ, a.s. in Other Companies

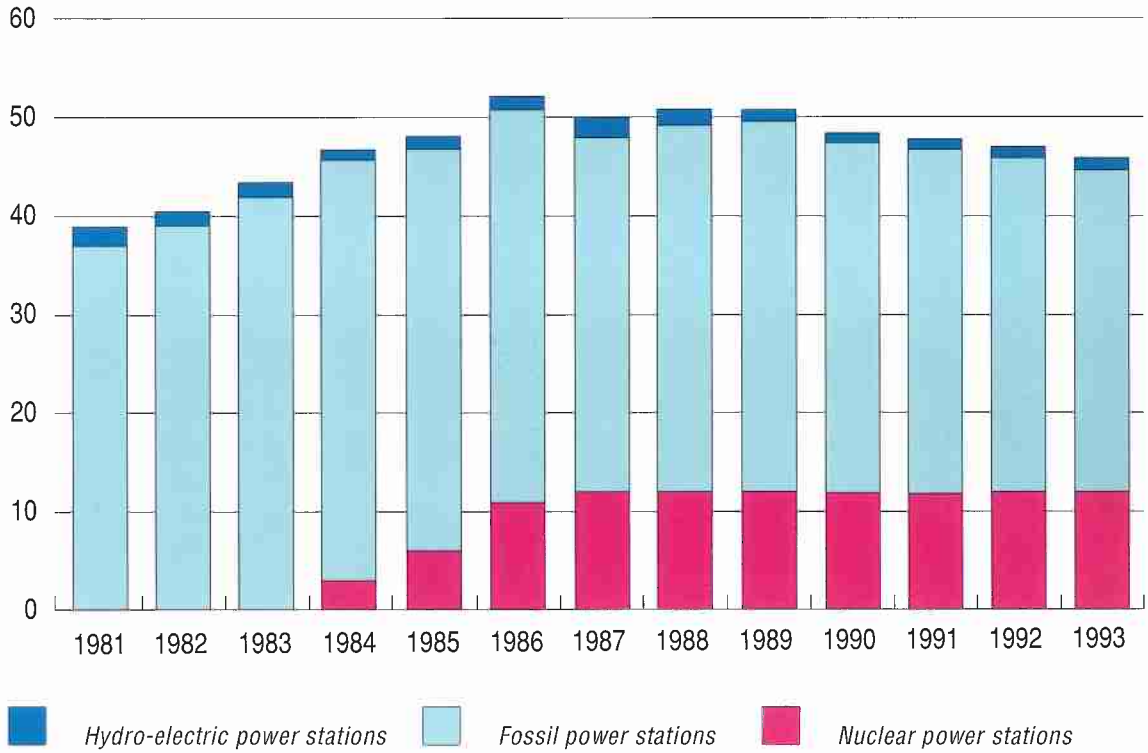
Company	ČEZ's holding Kč	Share	Monetary deposit Kč	Non-monetary deposit Kč
Ekotrans Moravia a.s.	2 500 000	1.67%	2 500 000	0
Energotrade a.s.	1 600 000	53.33%	1 600 000	0
ENES Praha s.r.o.	30 000	30.00%	30 000	0
Hotel Dlouhé Stráně s.r.o.	9 720 000	100.00%	2 600 000	7 120 000
I & C Energo s.r.o.	3 400 000	34.00%	0	3 400 000
Institut vzdělávání energetiky s.r.o.	25 000	25.00%	0	25 000
KNAUF Počerady s.r.o.	6 900 000	40.00%	6 900 000	0
Mělník – Praha a.s.	150 000 000	29.35%	0	150 000 000
Metalimex a.s.	4 500 000	4.15%	1 500 000	0
Škoda – ÚJP, Praha, a.s.	150 000	15.00%	150 000	0
Škodaexport a.s.	13 150 000	10.44%	13 150 000	0
TRADEX	125 000	20.00%	125 000	0
Ústav jaderného výzkumu Řež a.s.	124 780 000	30.00%	Free transfer	
Výcvikové středisko energetiky s.r.o.	966 000	100.00%	100 000	866 000
TOTAL	317 846 000		28 655 000	161 411 000



1) *In 1993, the Mělník I Power Station was transferred to the joint-stock company Mělník-Praha.*
2) *The Dukovany power station is the only nuclear power station presently in operation on the territory of the Czech Republic.*
3) *In 1959 – 1960, the Lipno I power station was put into operation. During its construction, the largest water reservoir in the Czech Republic was created, with an area of almost 50 square km.*
4) *The power company ČEZ owns and operates the 400/220 kV transmission system.*

ČEZ a.s. produces 79% of the electricity in the Czech Republic. In 1993, ČEZ a.s. produced 46,445 GWh, the largest share by fossil power stations. Other sources are nuclear and hydro-electric power stations.

Production of Electricity in TWh (1981 – 1993)



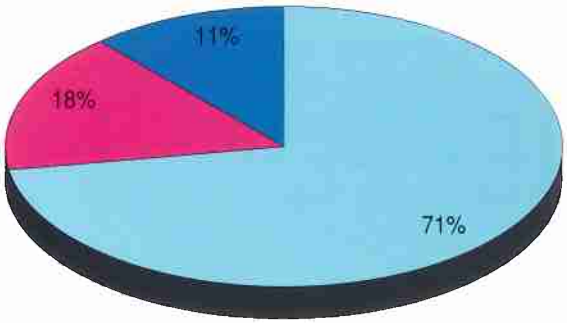
The figures in individual years are presented regardless of the changes in organizational structure.

Installed Capacity in ČEZ's Power Stations in 1986 (by power station type) as of December 1, 1993

Fossil PS 7,332 MW

Nuclear PS 1,760 MW

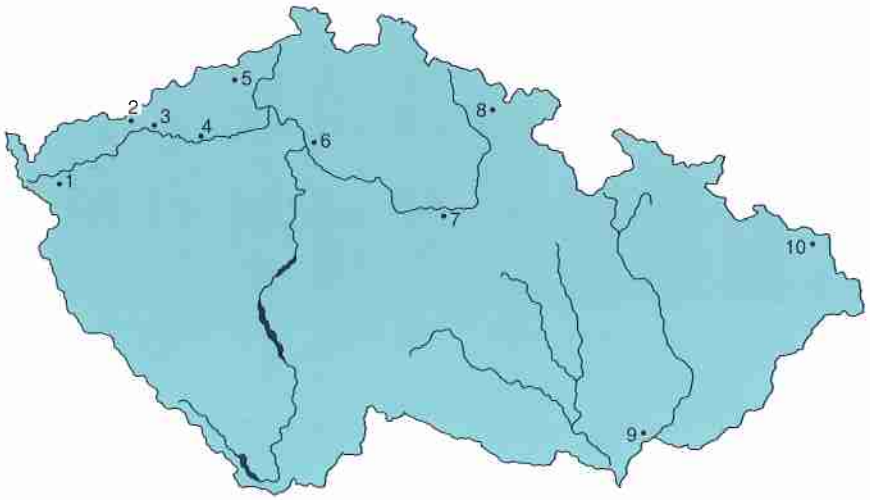
Hydro-electric PS 1,178 MW



FOSSIL POWER STATIONS

■ The classic power stations, burning bituminous or brown (lignite) coal, represent 71% of the total installed capacity in the power stations operated by ČEZ, a.s. Most of these power stations were built close to the coal mines in North-Western Bohemia for economic reasons.
In order to meet the limits of air-pollutant emissions, ČEZ, a.s. initiated the following investment activities in 1993:

– constructions of wet limestone washing sulphur-removal mechanisms are in progress in the Počerady II (2x200 MW), Prunéřov I (4x110 MW) and Prunéřov II (5x210 MW) power stations. Also, preparatory work, consisting of construction approval, bidding proceedings, financing of constructions and arranging of contracts, has taken place for the construction of sulphur-removal mechanisms at the units of the Počerady I, Ledvice, Tušimice II, Tisová, Chvaletice, Dětmarovice, and the Mělník II and III power stations.



1 *Tisová*
2 *Prunéřov*
3 *Tušimice*
4 *Počerady*
5 *Ledvice*
6 *Mělník*
7 *Chvaletice*
8 *Poříčí*
9 *Hodonín*
10 *Dětmarovice*

– in the Tisová, Ledvice, Hodonín, and Poříčí power stations, preparatory work has been completed for the construction of fluidized boilers.
– in the Prunéřov II, Počerady, and Ledvice power stations, electro-filters were reconstructed, or replaced by new, more efficient filters.
– in the Prunéřov I and II, Tušimice II, Počerady, Ledvice, and Chvaletice power stations, burners were converted and the air supply regulated to optimize the burning process and limit the emissions of nitrogen oxides.

By March 31, 1994, as a part of the program to reduce the fossil power stations, the following capacities were taken out of operation:

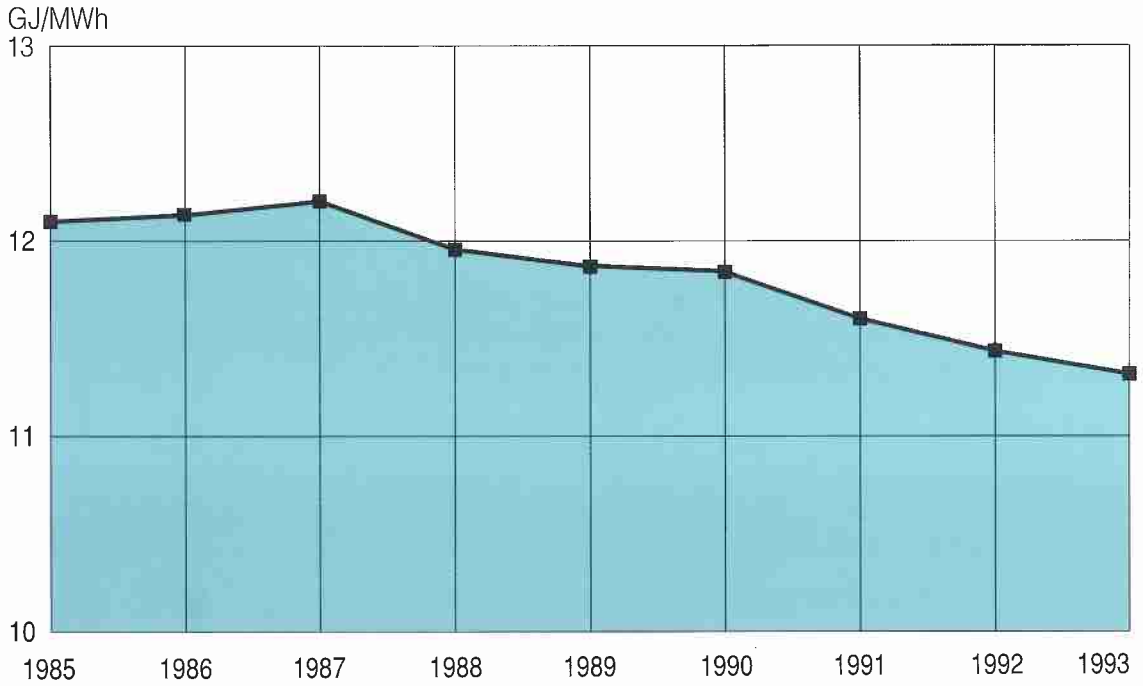
Tušimice I	3 x 110 MW
Prunéřov I	2 x 110 MW
Tisová II	2 x 100 MW
Počerady	1 x 200 MW
Ledvice II	1 x 100 MW
Hodonín	1 x 55 MW

Furthermore, in the Tisová I and Hodonín power stations, the boiler units were taken out of operation to be prepared for desulphurization or replaced by fluidized boilers. By the end of 1994, another unit in the Tušimice I power station will be taken out of operation.

Fossil Power Stations Operated by ČEZ, a.s. (as of March 31, 1994)

Power Station	Type of Fuel	Installed Capacity(MW)	The Beginning of Operation
Prunéřov I	brown coal	4 x 110	1967 – 1968
Prunéřov II	brown coal	5 x 210	1981 – 1982
Tušimice I	brown coal	3 x 110	1963 – 1964
Tušimice II	brown coal	4 x 200	1974 – 1975
Mělník II	brown coal	4 x 110	1971
Mělník III	brown coal	1 x 500	1981
Tisová I	brown coal	2 x 50	1959
		2 x 55	1959
		1 x 12	1960
Tisová II	brown coal	1 x 100	1961
Hodonín	lignite	1 x 55	1954 – 1958
		2 x 50	
Poříčí	bituminous coal	3 x 55	1957 – 1958
Chvaletice	brown coal	4 x 200	1977 – 1978
Dětmarovice	bituminous coal	4 x 200	1975 – 1976
Ledvice I	brown coal	1 x 200	1967
Ledvice II	brown coal	3 x 110	1966 – 1969
Počerady I	brown coal	3 x 200	1970 – 1971
Počerady II	brown coal	2 x 200	1977
TOTAL		7332	

Fuel Consumption in Fossil Power Stations between 1985 and 1993



(the figures are calculated without the Mělník I power station which was transferred to Mělník-Praha, a.s. on October 1, 1993)

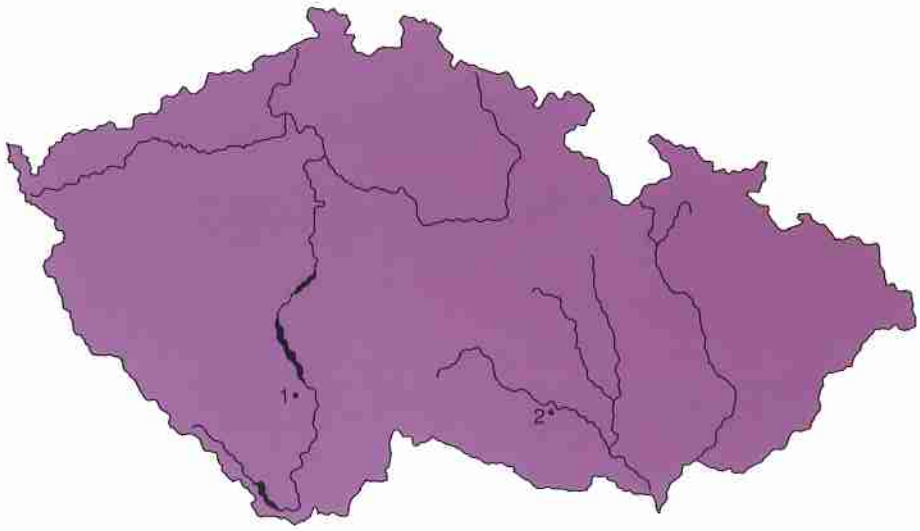
The graph shows the efficiency of the fossil power stations is continually improving. This trend will continue due to improved technological processes.

NUCLEAR POWER STATIONS

■ At present, ČEZ a.s. manages one nuclear power station, Dukovany, whose four 440 MW units were put into operation between 1985 and 1987. In 1993, the installed capacity of the power station represented 18% of the total installed capacity of ČEZ, a.s. At the same time, it represented 27% of the total amount of electricity produced by the company. During 1993, it produced 12,627 GWh and provided 11,843 GWh of electricity to the system; its own consumption was 6.62%. From the beginning of its operation until the end of 1993, it has produced a total of 93.075 TWh of electricity. In 1993, 80.90% of the total installed output of the Dukovany Nuclear Power Station was used.

The final report of the international control mission ASSET was very positive, confirming that the highest European and international standards of nuclear safety were maintained at the Dukovany power station. The report's recommendations and comments were incorporated and applied to the "Program of Technical Development" for the Dukovany power station.

1 *Temelín*
2 *Dukovany*



During 1993, preparation continued for the construction of the in-process storehouse for spent fuel near the power station. Although the project has been approved by the Ministry of the Environment, the District Office in the town of Třebíč did not grant permission for the construction until the end of 1993. The construction of the storehouse for spent fuel was postponed until 1994. Currently, spent nuclear fuel is stored either directly in the power station (while the store basins are being made more compact), or in the storehouse for spent fuel in Jaslovské Bohunice (the nuclear power station in Slovakia). Under an agreement, the spent fuel in Slovakia must be transported back to the Czech Republic beginning in 1995.

The final storage of the spent nuclear fuel is provided for through a long-term strategy of ČEZ. One-tenth Kc per kWh produced by nuclear power stations was provided to finance fuel storage activities. By the end of 1993, more than 1.3 billion Kc had been provided.

■ The second nuclear power station, Temelín, is currently in the final stage of construction. It is estimated that after being put into operation, it will produce, together with the Dukovany power station, almost 50% of the total production of electricity in the Czech Republic. The Temelín Nuclear Power Station will operate as base-load production with a planned annual production for the two units of 12,000 GWh.

The power station will be able to function as a part of the UCPTE network. The first unit of the power station should be put into operation in 1996 – 1997, and the second unit eighteen months later.

The decision to finish the construction of the Temelín power station was based on a thorough evaluation and assessment of the project. The Government of the Czech Republic approved of this decision on March 10, 1993.

On May 14, 1993, ČEZ signed a contract with Westinghouse to supply a pilot system and nuclear fuel. The total value of this contract is about 419 million USD. In a short period of time, more contracts should be signed for 30 million USD to purchase the additional technical equipment necessary to finish the construction of the Temelín Nuclear Power Station. This equipment must comply with criteria imposed by the State Office for Nuclear Safety, and the criteria valid in the United States, where the equipment was produced.

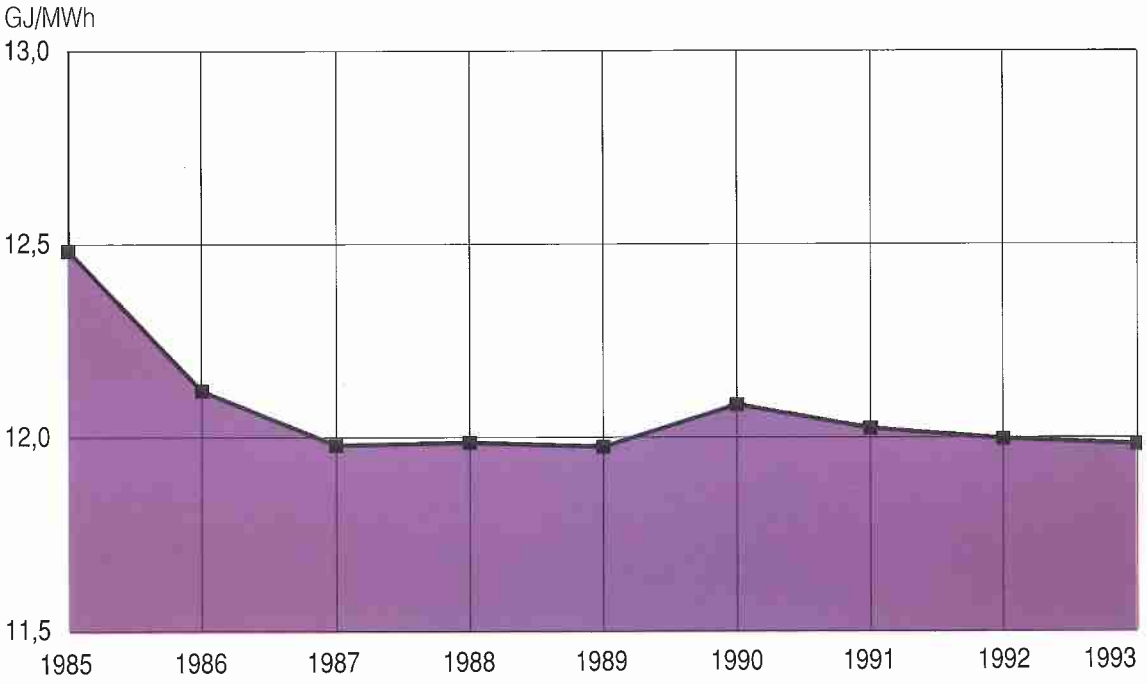
The Temelín Nuclear Power Station – under construction

	Unit 1	Unit 2
Installed capacity (MW)	981	981
construction in progress (%)	95%	75%
technology and infrastructure in progress (%)	40%	20%

The Dukovany Nuclear Power Station

	Unit 1	Unit 2	Unit 3	Unit 4
Installed capacity	440	440	440	440
Type	PWR	PWR	PWR	PWR
Construction began	1978	1978	1978	197
Min. controllabe unit output	12. 2. 1985	23. 1. 1986	28. 10. 1986	1. 6. 1987
Phase connection to the network	24. 2. 1985	30. 1. 1986	14. 11. 1986	11. 6. 1987
Test run began	4. 5. 1985	21. 3. 1986	21. 12. 1986	20. 7. 1987
Permanent run began after the test run wind-up acc. to the then-valid Economic Law	3. 11. 1985	21. 9. 1986	20. 6. 1987	19. 1. 1988

Specific Fuel Consumption for the Supply of Electricity from Nuclear Power Stations between 1985 – 1993



As shown by the graph, there is an effort to gradually reduce fuel consumption and improve the efficiency of the nuclear power stations' operation.

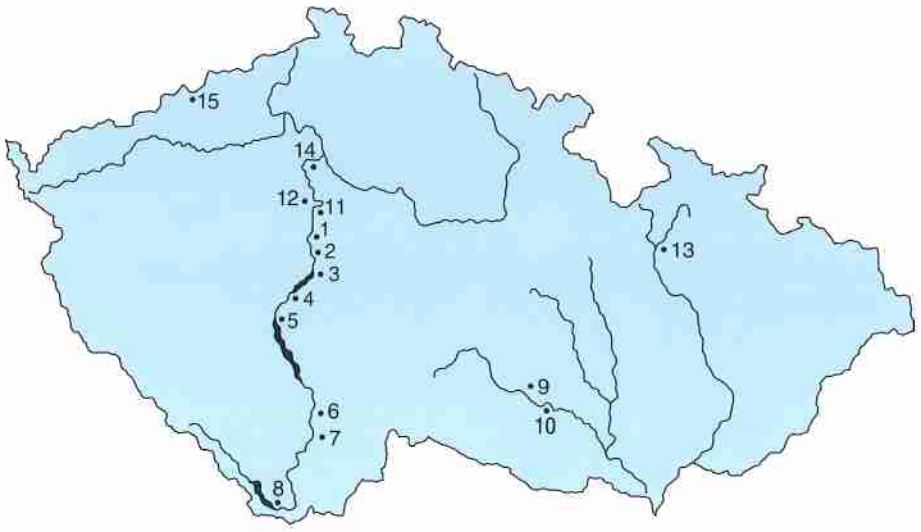
RENEWABLE AND NON-TRADITIONAL SOURCES

■ The hydro-electric power stations specialize in utilizing the primary and secondary hydro-power potential of selected rivers in the Czech Republic as a renewable source of energy. The "Hydro-electric power stations" division, with its installed capacity of 1,177.65 MW, represents 11% of ČEZ's total installed capacity.

The volume of electricity produced by the hydro-electric power stations is not crucial in the basic system load or regulating the daily load. Hydro-electric power stations are crucial for the reliable and safe operation of the system due to their excellent operating characteristics and quickly manipulatable output.

The operation of hydro-electric power stations also allows responsive regulation of the network frequency as required by international cooperation.

Vodní elektrárny, provozované ČEZ, a.s. (1993)



1 *Vraný*
2 *Štěchovice*
3 *Slapy*
4 *Kamýk*
5 *Orlík*
6 *Kořensko*
7 *Hněvkovice*
8 *Lipno*
9 *Dalešice*
10 *Mohelno*
11 *Modřany*
12 *Štvanice*
13 *Dlouhé Stráně*
14 *Obříství*

Větrná elektrárna
15 *Dlouhá Louka*

In 1993, the "Hydro–electric power stations" division, supervised the operation of the hydro-electric power stations listed in Table A, and financed the construction of the Dlouhé Stráně and Štěchovice pumped-storage hydro-electric power stations and the small-sized Obříství hydro-electric power station, which appear in Table B. As part of capital investments, the construction at the Dlouhé Stráně Pumped-storage Hydro-electric Power Station continued. In December, the primary tests of the No. 1 unit transformer were carried out successfully, and the wet tests of the first set began. At the Štěchovice Pumped-storage Hydro-electric Power Station, general site preparation was completed and concreting started which will be followed by the fitting of the suction pipe. The construction of the small-sized hydro-electric power station in Obříství was the first step of the "Hydro-electric power stations" division to obtain a higher utilization of the hydro-power potential of the Labe (Elbe) river.

The accumulation and pumped-storage hydro-electric power stations do not burden the environment with waste and, at the same time, represent a cheap source of electric energy during peak consumption periods.

Table A
Hydro-electric Power Stations and Pumped-storage Hydro-electric Power Stations Operated by ČEZ, a.s. (as of December 31, 1993)

Location	Type	Installed capacity (MW)	Beginning of operation
Dalešice	PHPS	450	1978
Mohelno	SHPS	1.2	1977
Lipno I	HPS	120	1959
Lipno II	SHPS	1.5	1957
Hněvkovice	SHPS	9.6	1992
Kořensko	SHPS	3.8	1992
Orlík	HPS	364	1961–2
Kamýk	HPS	40	1961
Slapy	HPS	144	1954–5
Štěchovice	HPS	22.5	1943–4
Vrané	HPS	13.88	1936
Modřany	SHPS	1.5	1989
Štvanice	SHPS	5.67	1987
TOTAL		1177.65	

legend: *PHPS – pumped-storage hydro-electric power station*
SHPS – small-sized hydro-electric power station
HPS – hydro-electric power station

Table B
Hydro-electric Power Stations and Pumped-storage Hydro-electric Power Stations under Construction by ČEZ, a.s.

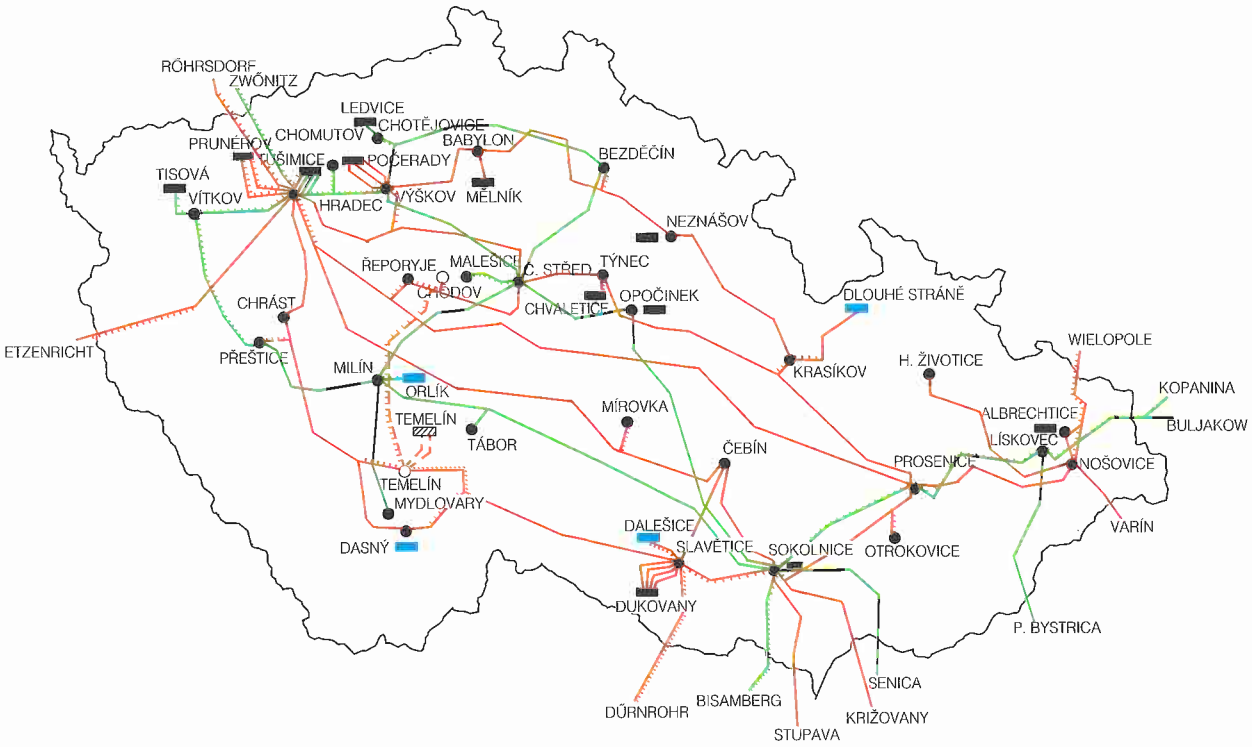
Location	Type	Installed capacity (MW)	Beginning of operation
Dlouhé Stráně	PVE	650	1994
Štěchovice	PVE	46	1995
Obříství	MVE	4	1995
TOTAL		700	

The wind power station, situated in Dlouhá Louka near Osek in the mountain range of Krušné Hory, is a new segment of ČEZ's source structure. It was put into operation in November 1993 and its maximum output is 315 kW. It is anticipated that it will produce approximately 550 MWh of electricity a year, having produced approximately 34,000 kWh in 1993. This wind power station was built as a part of a research-development task contracted in November 1992. The assessment of the preliminary results will be completed in May 1997. Depending on the results, ČEZ will determine its further activities in this field. The results of the tests will also be at the disposal of legislative bodies and interested entrepreneurs so that a serious basis for a quick and effective development of wind power stations can be established.

The 400/220 kV transmission system owned by ČEZ consists of 1,553 km of the 220 kV lines and 2,693 km of the 400 kV lines.
One of the key aims of ČEZ is for its power stations and transmission system to reach Western European standards. This is a necessary prerequisite for the future cooperation of the company as a part of UCPTE.

The Transmission System

■ ČEZ, a.s. owns and operates the 400 and 220 kV transmission line system. This system ensures the transmission of electricity from its generation to consumers. Through connections with foreign systems, it also ensures an international exchange of electricity. ČEZ also operates the transformers that lower the voltage to the figure utilized by the Distribution Power Works (110 kV).



	400 kV	*220 kV*	*under construction*
Single line			
Double line			
Double line (covering equipped)			

	under construction
Fossil power stations	
Hydro-electric power	
Switching stations	

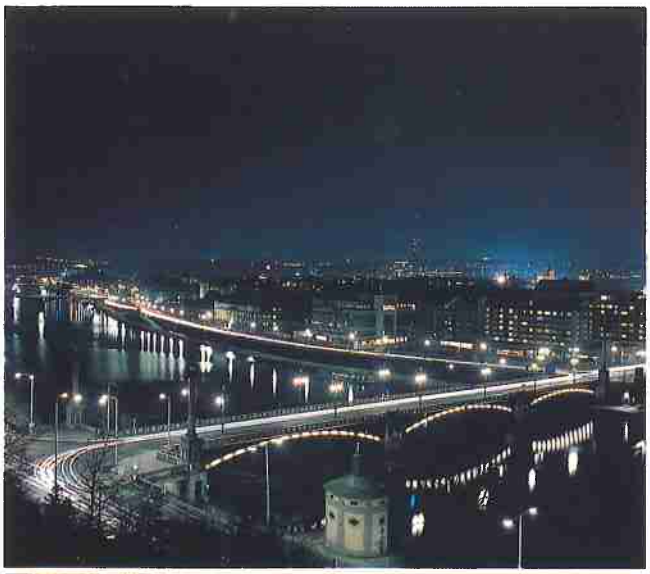
The Central Power Control currently operates as part of the transmission system to manage the operation and coordination of the entire system, including coordination with the systems of neighboring states.

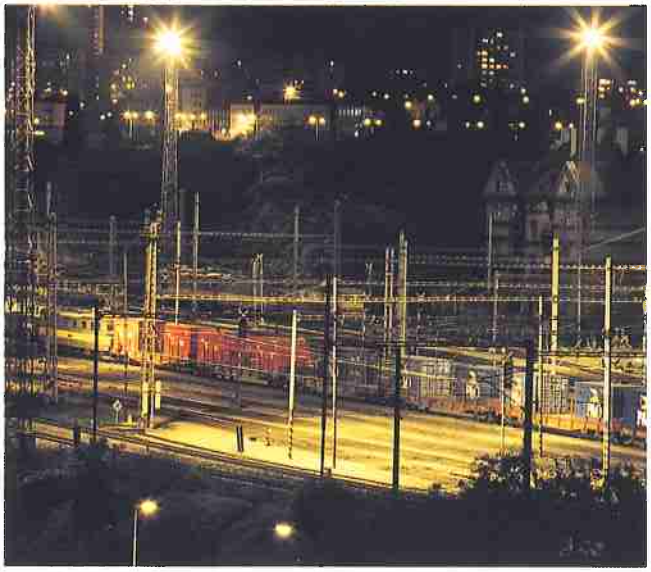
The current configuration is illustrated in the diagram of the transmission system of the Czech Republic and its individual transmission elements. The data given show that the transmission system of the Czech Republic ranks among the first in the the Central European interconnected network, under which it operates, and that it is fully compatible with the transmission system of European countries included in the UCPTE system (the Western European interconnected network).

There is sufficient reserve in the connections to the distribution networks of the distribution companies and the systems of the neighboring states. The output capacity of the transformation connections between the transmission system and the 110 kV distribution networks ensures the supply to the distribution networks. To ensure international cooperation, nine international 400 kV lines are currently in operation and another two are in the design phase (Přeštice – Etzenricht/Germany, Slavětice – Dürnrohr/Austria). There are eight 220 kV lines. The transmission capability of these international lines makes the transmission system of the Czech Republic a reliable partner in providing assistance to neighboring systems in the case of a break-down, especially in mediating various transit services. The extensive interior transmission networks of the Czech Republic are designed for the transit of electricity.

The transmission system together with the Central Power Control of the Czech Republic form an interior organization within ČEZ, a.s. with independent management. The book value of its equipment is about 6 billion Kc. This organizational structure creates conditions for gradually increasing the economic independence of the transmission system and central control activities within ČEZ.

At the present time, constructions of new 400/110 kV transformer houses, Kočín (at Temelín) and Chodov, are being completed and staffed by its own employees to ensure direct operation and maintenance. The "Transmission system" division is responsible for the proper operation and maintenance of the 220 and 400 kV transmission equipment. A plan has been made to establish decentralized workplaces to carry out activities requiring a permanent contact with the local equipment. It is planned to place "Operational controls" in selected distribution stations in order to cover the entire Czech Republic.





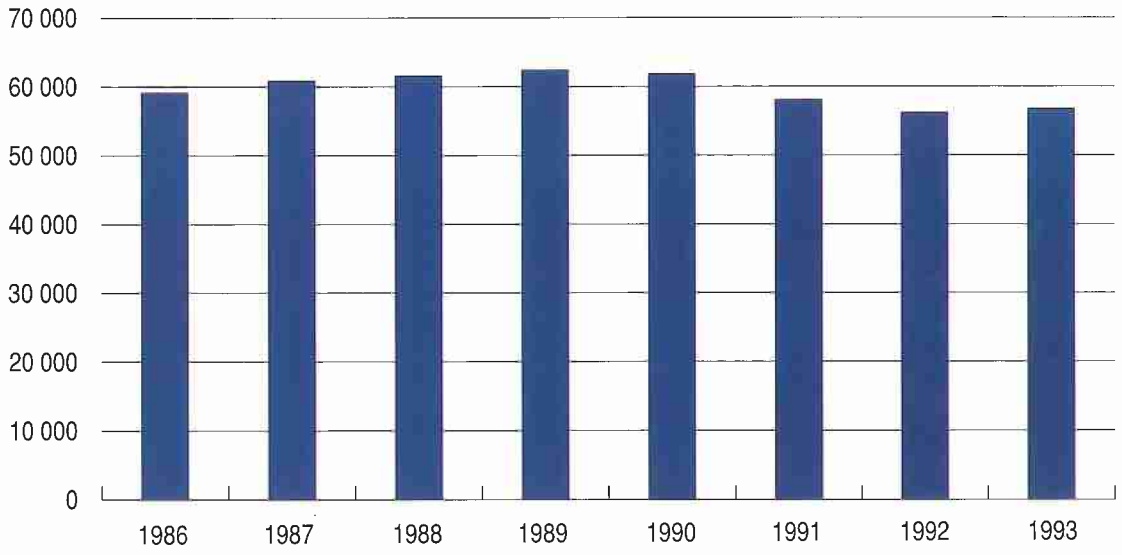
In 1993, ČEZ, a.s. sold 44,134 GWh of electricity for a total of 46,200 million Kc. Its main consumers were the Distribution Power Works.

■ In 1993, the gross consumption of electricity in the Czech Republic totalled 56,800 GWh, approximately 91% of the consumption in 1989.

The system's maximum load of 9,288 MW was reached on December 1, 1993.

Within the Czech Republic's electricity market, ČEZ is the dominant producer and seller of electricity and the sole manager of the 400 kV and 220 kV transmission system. ČEZ produced about 79% of the total amount of electricity produced in the Czech Republic in 1993.

The Development of the Gross Electricity Consumption in the Czech Republic between 1986 – 1993 (in GWh)



In addition to producing electricity, ČEZ purchased electricity from independent producers (The Opatovice Power Stations a.s., Mělník-Praha a.s.), five large industrial enterprises with internal generation, and from abroad.

The Balance of the Energy Obtained and Supplied by ČEZ, a.s. in 1993

	GWh	93/92 [x] %
obtained:		
self-production	46 445	97.9
purchase from independent producers	1 689	85.9
purchase from industry	664	100.5
import	885	89.5
TOTAL	49 683	97.3
supplied:		
distribution power works	41 936	99.7
direct final consumers	96	57.9
export	3 007	74.7
ČEZ's other consumption [xx]	3 737	99.0
losses in ČEZ's networks	907	87.5
TOTAL	49 683	97.3

[x] *the comparison of the presented figures in 1992 and 1993 is not exact as a result of the Mělník I power station's separation from ČEZ, and of the changes in the purchase structure of electricity from independent producers*

[xx] *ČEZ's own consumption for the production of electricity, for the pumping in the pumped-storage hydro-electric power stations, and consumption for other purposes*

The sale of electricity to eight Distribution Power Works that distribute it to the final consumers in the Czech Republic represented the major part of ČEZ's sales. From the total amount of the electricity sold in 1993, sales to the Distribution Power Works represented approximately 95%. The remaining sales were direct sales to the final domestic consumers (six large industrial enterprises), and the export of electricity. The sale of electricity to direct consumers decreased as a result of lower demand (this applies especially to metallurgical enterprises – such as VT Chomutov – and engineering enterprises – such as Škoda Plzeň). These enterprises cover the major part of their consumption from their own sources, and decreased their consumption from ČEZ. In relation to the entire market, however, this group of consumers is negligible.

The noticeable decrease in the export of electricity in comparison with 1992 was caused by terminating supplies to the Slovak Republic on June 30, 1993 (as a result, SEP's consumption in 1993 was only 29% of the consumption in 1992).

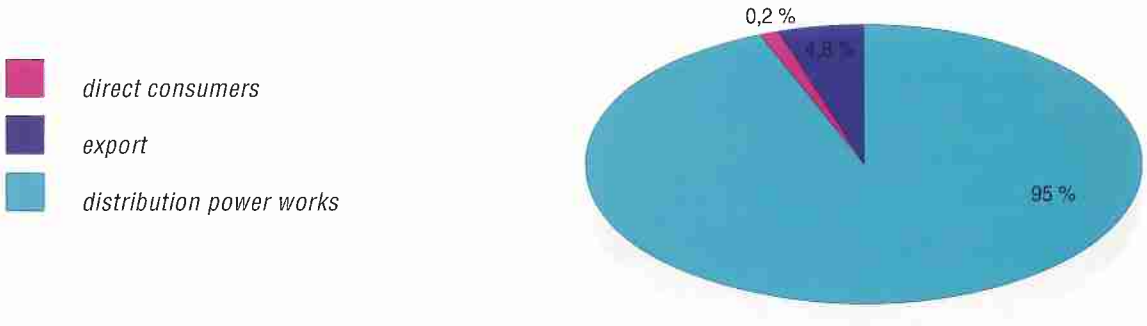
In 1993, ČEZ's net export of electricity without SEP was 1,512 GWh, which represented 2.57% of the total amount of electricity produced in the Czech Republic.

In 1993, ČEZ sold a total of 44,134 GWh of electricity for 46,200 million Kč.

Apart from the income from the sale of electricity, the company's profit from the transit of electricity through the Czech Republic amounted to 160 million Kč.

ČEZ is a significant supplier of heat. In 1993, heat was supplied by twelve power stations and two power-and-heating plants. These were the Tisová, Prunéřov, Tušimice, Počerady, Ledvice, Mělník, Poříčí, Chvaletice, Dětmarovice, Hodonín, Dukovany, and Temelín power stations, and the Dvůr Králové and Náchod power-and-heating plants.

The Structure of ČEZ's Sale of Electricity



In 1993, the distribution from ČEZ's sources was a total of 16.7 million GJ, out of which 13.5 million GJ were for other consumers. The purchase of heat from other sources represented 240,000 GJ.

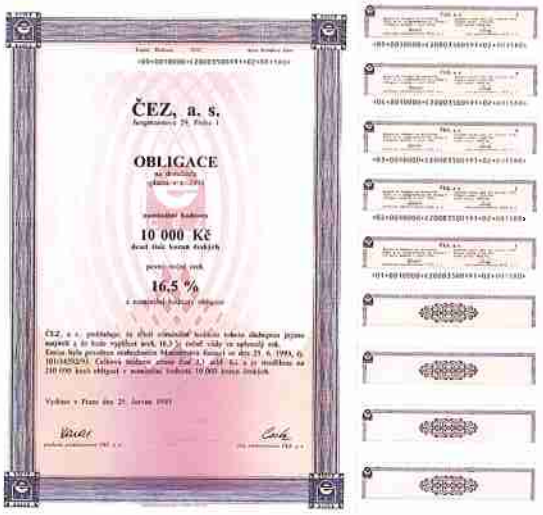
The level of heat supplied is illustrated by consumption sites. In the end of 1993, there were 1,628 sites, with sales of heat exceeding 1 billion Kč.

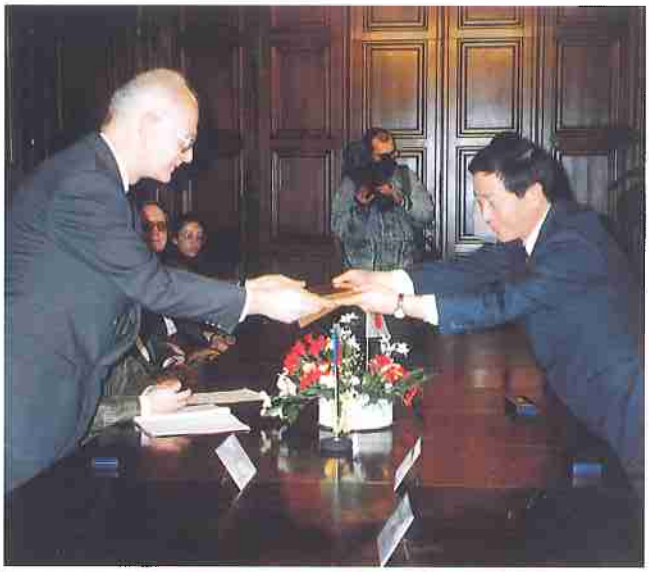
The following table shows the breakdown of heat production and consumption. The largest producer is the Poříčí Power Station, followed by the Tisová Power Station, the Prunéřov Power Stations, the Ledvice Power Station, Hodonín Power Station, and others.

Last year, one major change was made. On October 1, 1993, the Mělník I Power Station was transferred to the management of Mělník-Praha, a.s. for a corresponding share of its equity capital. Since then, ČEZ has arranged for heat supplies from the Mělník II Power Station and the purchase of heat from the Mělník I Power Station from where it is transported to the town of Mělník through a heat pipeline owned by ČEZ.

Breakdown of Heat Consumption from ČEZ's Sources for Consumers Outside the Company (1993)

Consumption kind		1–6/93		7–12/93		1–12/93	
		Number of consump. sites	Heat consump. GJ	Number of consump. sites	Heat consump. GJ	Increase in consump. sites	Heat consump. GJ
Output from the source	residential	0	0	0	0	0	0
	non-residential	41	3 070 721	48	3 091 939	7	6 162 660
	total	41	3 070 721	48	3 091 939	7	6 162 660
Output from primary heat system	residential	653	1 205 936	912	993 665	259	2 199 601
	non-residential	666	2 842 082	519	2 238 809	– 147	5 080 891
	total	1 319	4 048 017	1 431	3 232 475	112	7 280 492
Destination input	residential	36	26 871	48	19 815	12	46 686
	non-residential	65	17 701	66	11 466	1	29 167
	total	101	44 572	114	31 281	13	75 854
TOTAL		1 461	7 163 311	1 593	6 355 695	132	13 519 006





1,4) In June 1993, ČEZ sold bonds for 2,100 million Kč. These bonds became the twelfth most traded security on the Prague Securities Exchange in 1993.

2) The contract to supply the sulphur-removal equipment for the Prunéřov II fossil power station between Mitsubishi Corporation and ČEZ, a.s. was signed on February 25, 1993.

3) N.D.Woodson, the Vice-President of Westinghouse, and P. Karas, Chairman of the Board of Directors of ČEZ, signed a contract for the supply of nuclear fuel and the control system for the Temelín Nuclear Power Station on May 14, 1993.

Discussion and Analysis of Financial Statements Prepared in Accordance With International Accounting Standards

The following factors effect the comparison of 1992 and 1993 operating results:

– As the Company originated in May 1992, the discussion below compares 1993 with annualized 1992 operating results.
– There are certain differences in the International Accounting Standards Financial Statements (see Note 2 to such statements) and the Czech Accounting Standards Financial Statements.
– Compared to 1992, the 1993 gross national product in the Czech Republic dropped by 0.3%, and the consumption of electricity dropped by 0.5%.

Comparison of 1993 to 1992 annualized sales:

The consumption of electricity remained approximately the same as 1992, ČEZ's. prices for electricity supplied to distribution companies decreased by 7% in 1993 in accordance with a directive from the Ministry of Industry and Trade. Total revenues decreased by 2,4 billion Kč (from annualized revenues of 51.3 billion Kč in 1992 to 48.9 billion Kč in 1993). This decrease was principally caused by reduced revenues earned from the electricity distribution companies, offset by a slight increase in heat sales revenues.

Comparison of 1993 to 1992 annualized expenses:

Operating expenses before financial expenses and income taxes rose by 1,4 billion Kč (5,2%) from the annualized 1992 operating expenses of 27.0 billion Kč.

Factors contributing to this increase were:

– Fuel and purchased power expenses increased by 1.1 billion Kč(8,5%) from their 1992 annualized levels. Consumption of fuel decreased by 1.1% in fossil power stations and by 0.1% in the nuclear power station. An increase in fuel prices more than offset the decrease in fuel consumption.

– Reserves for temporary decreases in the carrying value of assets, including a reserve against non-current receivables, of nearly 1.0 billion Kč were recorded in 1993. Additionally, the Company's provision for nuclear decommissioning and fuel storage increased by 0.4 billion Kč from the 1992 annualized level.

– Other operating expenses, including repairs and maintenance, salaries and wages, materials and supplies, and other operating expenses decreased by approximately 1.1 billion Kč due to cost containment efforts by the Company.

In 1993 pre-tax profit reached 18.6 billion Kč; income tax was (9.5 billion Kč, and net profit after income tax was (9.2 billion Kč, which is 3.2 billion Kč more than in 1992 (187.5 million Kč more than the 1992 annualized net after tax profit). Earnings per share was 171.47 Kč in 1993 and was 167.87 annualised for 1992.

A comparative view of the balance sheets at 31 December 1993 and 1992:

The Company's net investment in fixed assets, including nuclear fuel and construction in progress, increased by 15.3 billion Kč (20,9%). The increase was caused by ČEZ's nuclear construction program and its investment in the reconstruction and renovation of generating equipment. The principle investment projects included the Temelín nuclear power station and the continuation of environmental improvement projects.

Cash increased by nearly 1.5 billion Kč. Operating activities contributed 18.3 billion Kč of cash while 20.9 billion Kč were invested in additions to property and equipment. An additional 4.1 billion Kč was raised from new borrowings, net of repayments of debt.

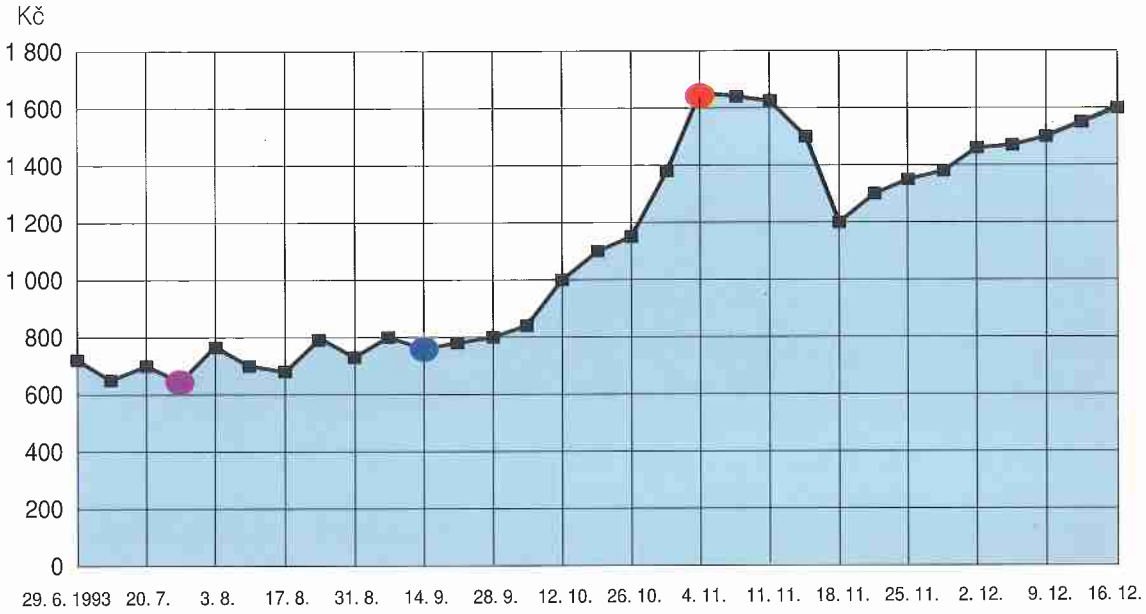
Receivables decreased by 0.5 billion Kč (13.0%), principally as a result of the allowance for doubtful accounts of 0.4 billion Kč recorded in 1993.

Stated capital, as of 31 December1993, was 58.9 billion Kč. This represents a 10% increase as a result of a decision by the shareholders in September 1993 to increase ČEZ's stated capital. The increase in stated capital was transferred from retained earnings.

Short– and long-term borrowings increased by a net of 4.1 billion Kč.

Condensed balance sheet financial ratios were stable between years.

Development in Share Prices of ČEZ, a.s. (Prague Securities Exchange)



Minimum quoted value – 645,– Kč (July 27, 1993)

Increase of the nominal value of a share (September 20, 1993)

Maximum quoted value – 1,655,– Kč (November 4, 1993)

Development in Bond Prices of ČEZ, a.s. 16.5% (Prague Securities Exchange)

1) The Temelín Nuclear Power Station, with its output of 2x981 MW, will be the largest nuclear power station in the Czech Republic.

2) The „clean-the-power-stations" program is a part of the business strategy. As a part of it, there is a sulphur-removal equipment installed in the fifth unit of the Počerady power station which uses wet limestone washing.

3,4) At present, two pumped-storage hydro-electric power stations are under construction. (4) The Dlouhé Stráně power station is situated on the Divoká Desná river. (3) The Štěchovice II power station is situated in the vicinity of the Štěchovice I Hydro-electric Power Station. The picture captures the construction related to fitting the twenty-ton spiral of a Francis turbine.

■ The business activities of ČEZ are based on an analysis of the current business environment and its expected development through the end of the millenium:

– A marked revival in the Czech economy has begun. It will be accompanied by a corresponding increase in the demand for electricity. In about 2000, the demand is expected to approximate the level existing at the beginning of the economy's transformation.

– It is expected that, before 2000, the Czech Republic will become a standard market economy and a member of the European Union. The business environment will be directed towards a standard regulation of the electricity market.

– The business environment for the producers of electricity will be markedly influenced by environmental laws in the upcoming years.

– Presently existing producers of electricity other than ČEZ will probably increase slightly their participation in the electricity market.

In this period of time, ČEZ will achieve the standards of efficiency, competitiveness, and trustworthiness with the public, customers, investors, and authorities of Western European electricity companies. The business activities are based on its mission and business plan which was formulated by the Board of Directors in the end of 1992.

The business plan has these objectives:

– To reach the efficiency of European electricity companies.
– To be an attractive partner for investors and creditors.
– To win the trust and respect of the customers.
– To ensure the competence of its employees.
– To be responsible towards the environment.

The basic programs to accomplish the business plan are:

– A three-year program to improve business activities which was prepared in cooperation with Andersen Consulting and which started in 1992.

– A medium-term program of company development through 2000 assumes, to a moderate degree, the expected use of ČEZ's resources to reliably and economically meet the demand for electricity until 2010.

A concept of quality based on continuously improving the management of all activities according to TQM principles, introducing the quality system in accordance with the international standards ISO 9000, and maintaining the development of the quality system in nuclear power stations in accordance with international standards of nuclear safety (NUSS).

The concept of transforming the quality system according to these programs and the process of its further improvement are included in the company's business plan for major activities between 1994 and 2000. In the preparatory phase, the following steps have been realized so far:

– specialists have been trained and have acquired certification in the field of quality management;
– the procedures have been designed to lead to the introduction of the quality system;
– a management-training course for the company was initiated.

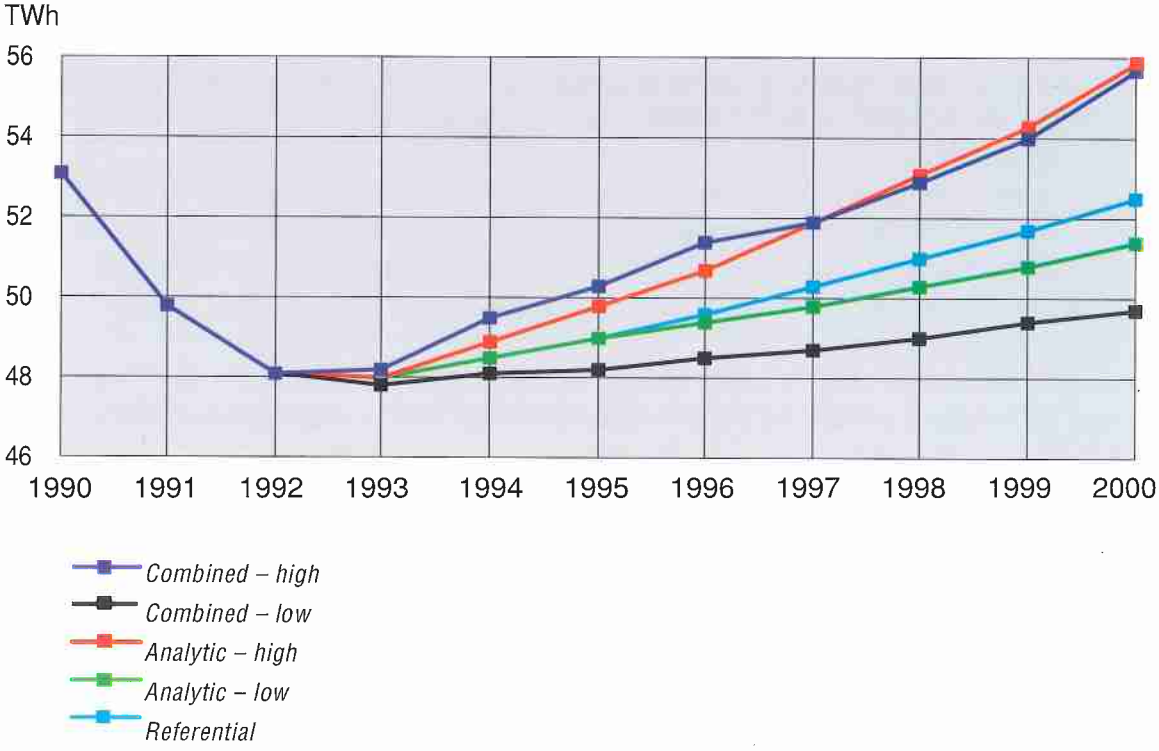
The UTRIN s.p. consulting firm is participating in the transformation of the quality system according to ISO 9000. The cooperation with NOSTA HERTZ assists in mastering the methods of process improvement according to TQM principles. The "know how" of this firm proved effective and, the extension of its activity to other sections of ČEZ in 1994 is under consideration. The program to transform the quality system within the entire company will represent another part of the quality strategy.

According to acquired foreign experience, a three-year period to carry out the "Program to Improve Business Activities" is sufficient to accomplish significant coordinated and inter-connected changes in business activities. At the same time, it is an adequately brief period of time for carrying out urgent changes. The program concentrates predominantly on: the effective management of the electricity supply; the effort to maintain a good partnership with customers, the public, and authorities; the protection of the environment; first-rate technical standards; the education and further development of employees; perfecting the business procedures and making them less complicated; and the utilization of modern computer technology.

The development program until 2000 is based on estimates of the anticipated development in the demand for energy. During the on-going transformation and re-structuring of the economy, it is not possible to make a reliable long-term estimate of the demand for electric energy. Similarly, as in other countries, the estimates are based on scenarios that correspond with the forecasts of economic, social and demographic indicators.

In 1993, two mutually independent approaches were used to predict the demand, with high and low scenarios determined for both. At the midpoint of these scenarios is a referential scenario that was used to create the basic business plan through 2000. The demand in 2000 does not vary in any considerable way from estimates which were carried out by independent agencies and by experts of the World Bank.

Estimate of Future Demand for Electricity in the Czech Republic



In about the year 2000, it will be necessary to have at disposal roughly the same capacity of sources to reliably cover the demand as there was in 1989. These sources, however, must comply with the requirements set by environmental legislation.

The strategic core of ČEZ's business plan through 2000 is:

- completing and putting into permanent operation two units in the Temelín Nuclear Power Station and an in-process storehouse for spent nuclear fuel at the Dukovany Nuclear Power Station. The beginning of the modernization of the Dukovany Nuclear Power Station and the preparation of the construction of the central storehouse for spent nuclear fuel;
- limiting the negative influence of those fossil power stations units which will be in operation after 1998, at least to the limit set by environmental legislation, and meeting the valid deadlines for the temporary emission limits to the extent possible;
- completing the construction and putting into operation the Dlouhé Stráně Pumped-storage Hydro-electric Power Station;
- meeting the requirements for connecting our system to the UCPTE system of Western European countries;
- ensuring the financial stability and trustworthiness of ČEZ.

The completion of two units in the Temelín Nuclear Power Station is the most advantageous economic solution to the source development of the Czech system, both from a short-term and long-term point of view. It also has a significant positive environmental effect because some of the obsolete, coal-burning sources will be replaced therefore, utilization of these fossil power stations, which will still be in operation after 1998, will be partly limited. The construction of the in-process storehouse for spent nuclear fuel is closely connected with ensuring a reliable and safe operation of nuclear power stations, as well as are the modernization of the Dukovany Nuclear Power Station and the preparation of the construction of the central storehouse for spent fuel.

The essential focus on the "cleaning" and gradual renewal of selected fossil power station units is caused predominantly by the strict legal regulation regarding the atmosphere, reinforced in some locations by establishing deadlines for the temporary validity of emission limits. It was not, and it is not, possible to realistically comply with the limits, economically and effectively, in the allotted period of time and with an acceptable level of risk, and with ensuring the reliable operation of the electrification system of the Czech Republic. For example, a "massive liquidation" of current fossil power stations, and their equivalent replacement by new sources based on modern technologies and by the import of electricity are not feasible.

The time period to carry out environmental constructions is based on a lower demand for electricity which has occurred after 1990. The realized measures will enable the "cleaned" sources to compete in the next decade. The table below is divided according to the method used to ensure the further operation of production sources in accordance with the law regarding the atmosphere, and it gives initial and final figures of the installed capacity of individual fossil power stations operated by ČEZ (the anticipated reduction of these sources amounts to 2,280 MW, out of which 1,690 MW is in North-Western Bohemia).

It is anticipated that the installed capacity of the sources by 1999 will increase (compared to 1990) by 351 MW, or 3%. Out of that, 669 MW will be in hydro-electric power stations, 1,962 MW in nuclear power stations, with a decrease of 2,280 MW (or 27%) in fossil power stations. At the same time, the structure of the production base is changing in favor of the sources of peak output.

Development of Installed Capacity of Power Stations Operated by ČEZ, a.s.

	Condition as of	1. 1. 1990	1. 1. 1999	difference
Fossil Power Stations				
a)	desulphurization of units			
	Počerady	1 200 MW	1 000 MW	– 200 MW
	Tušimice I	660 MW	0 MW	– 660 MW
	Tušimice II	800 MW	800 MW	0 MW
	Prunéřov I	660 MW	440 MW	– 220 MW
	Prunéřov II	1 050 MW	1 050 MW	0 MW
	Ledvice	640 MW	220 MW	– 420 MW
	Tisová II	300 MW	100 MW	– 200 MW
	Dětmarovice	800 MW	800 MW	0 MW
	Chvaletice	800 MW	600 MW	– 200 MW
	Mělník II	440 MW	220 MW	– 220 MW
	Mělník III	500 MW	500 MW	0 MW
	TOTAL	7 850 MW	5 730 MW	– 2 120 MW
b)	renovation by fluidized boilers			
	Ledvice	0 MW	110 MW	+ 110 MW
	Hodonín	210 MW	95 MW	– 115 MW
	Tisová I	222 MW	122 MW	– 100 MW
	Poříčí	110 MW	55 MW	– 55 MW
	TOTAL	542 MW	382 MW	– 160 MW
c)	changes in fuel			
	Poříčí	55 MW	55 MW	0 MW
	Teplárna Náchod	17 MW	17 MW	0 MW
	Teplárna Dvůr Králové	18 MW	18 MW	0 MW
	TOTAL	90 MW	90 MW	0 MW
	Total Fossil PS	8 482 MW	6 202 MW	– 2 280 MW
Nuclear Power Stations				
	Dukovany	1 760 MW	1 760 MW	0 MW
	Temelín	0 MW	1 962 MW	+ 1962 MW
	Total Nuclear PS	1 760 MW	3 722 MW	+ 1 962 MW
Hydro-electric Power Stations		1 200 MW	1 869 MW	+ 669 MW
Total ČEZ, a.s. Power Stations		11 442 MW	11 793 MW	+ 351 MW

The development of the transmission system concentrates predominantly on:

- solving the impact of the capacity reduction program of the fossil power stations' units on the supply of electricity to the 110 kV network;
- preparing the interconnection of the system of the Czech Republic with the UCPTE system;
- renovating the telecommunication and operational systems;
- renovating the worn-out and outdated equipment in the 400 kV and especially 220 kV transmission systems;
- modernizing the equipment of the central control and operational technology.

Out of the total investment expenditures, the majority (84%) is concentrated in the generation of power – 44% goes to the development of fossil power stations, 38% to nuclear power stations, and 2% to hydro-electric power stations.

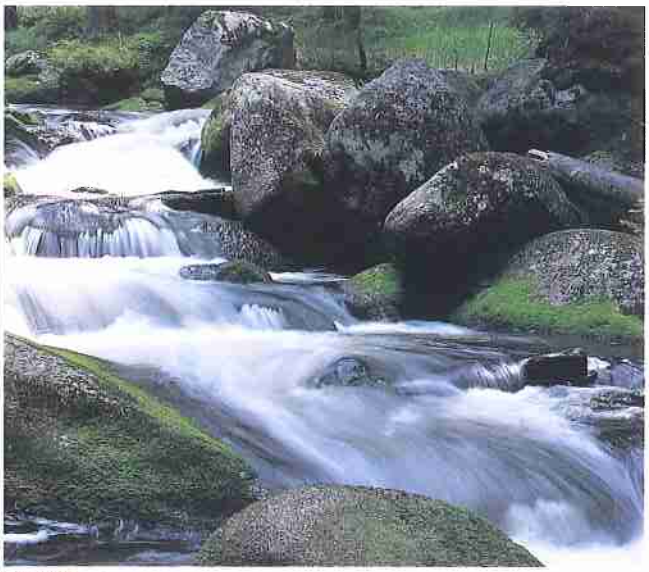
Projected Costs of Implementing ČEZ's Development Program from 1994 to 2000, and Other Capital Expenses:

Investment expenditures 1994 – 2000	in billion Kc
Completion of Temelín Nuclear Power Station	32.8
Completion of in-process storehouse for spent fuel in the Dukovany power station and modernization of Dukovany Nuclear Power Station	13.6
Construction of sulphur-removal units in fossil power stations	27.2
Construction of fluidized boilers to replace the pulverized fuel boilers	6.4
Construction of denitrification equipment and other environmental investments	3.5
Completion of Dlouhé Stráně Pumped-storage Hydro-electric Power Station, and other hydro-electric power station investments	2.8
Modernization and development of 220 kV and 400 kV transmission systems	5.9
Investments to ensure future operation of current power stations	14.6
Other investments	8.7
Budget reserve	10.1
Total investment expenditures	125.6
Other capital requirements:	
Repayments of long-term (investment) debts	25.5
Repayments of bonds	8.9
Repayments of short-term (operational) debts	14.9
Depreciation of accepted grant	0.5
Changes in inventory and receivables (without dividend)	5.4
Total other capital requirements	55.2
ČEZ's total capital requirements in 1994 – 2000	180.8

Anticipated Financing of Capital Expenditures in 1994 – 2000

	billion Kc
Total company revenues	108.7
Borrowings:	
Long-term (investment) borrowings and grant accepted	36.0
Short-term (operational) debt	14.9
Issuance of domestic and foreign bonds	23.7
Total borrowings	74.6
Total financing of capital expenditures	183.3

The major part (66%) of the capital expenditures concentrated in the period between 1994 and 1996 because of the completion of the Temelín Nuclear Power Station and the implementation of the environmental program.



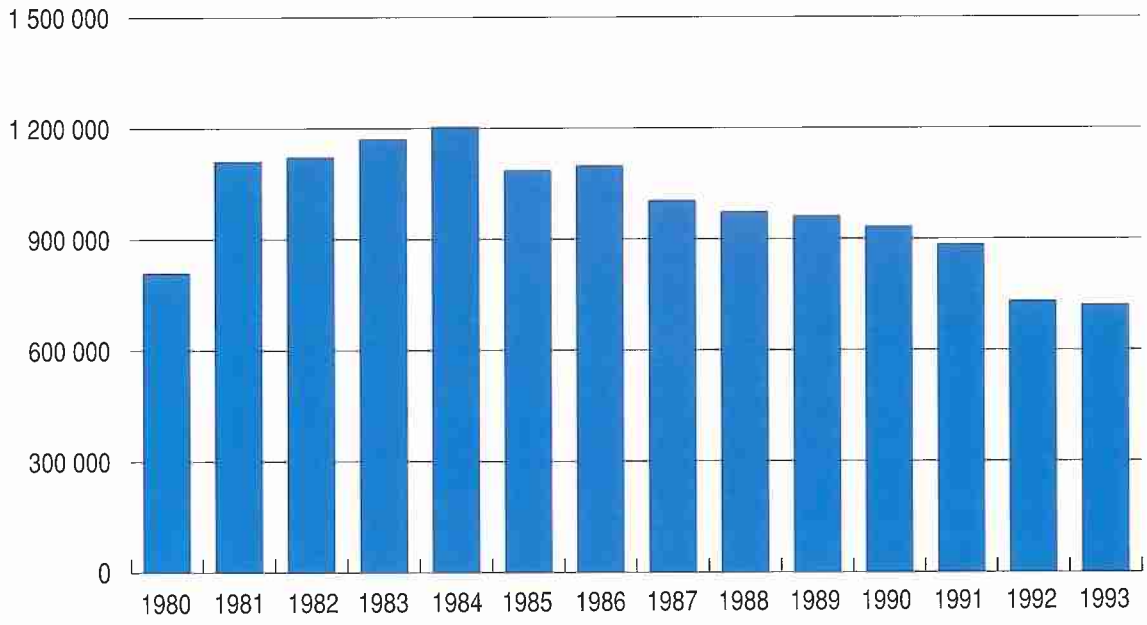
The company spends large amounts of money on the protection of the environment. It is a part of the inherent philosophy of the company to balance the power needs of man with his environment.

■ Taking care of the environment occupies a priority position in ČEZ's developmental program and in its business plan through the year 2000. The most significant investment activities and capacity reduction programs are aimed to comply with the requirements of Act No. 309/91 Coll. regarding the protection of the atmosphere against pollutants, and Act No. 238/91 Coll. regarding wastes. The company carries on the environmental activity launched in 1992.

In 1992, based on Act No. 309/91 Coll., the authorities dealing with atmospheric protection set the emission limits of solid pollutants, sulphur dioxide, nitrogen oxides and carbon monoxide for each unit of the existing fossil power stations and power-and-heating plants of ČEZ. Simultaneously, these authorities have also set deadlines by which the current units, or boilers, have to gradually lower the concentration of these substances to the emission limit figures established for new units. These deadlines were set for a period starting in 1992 and ending on December 31, 1998.

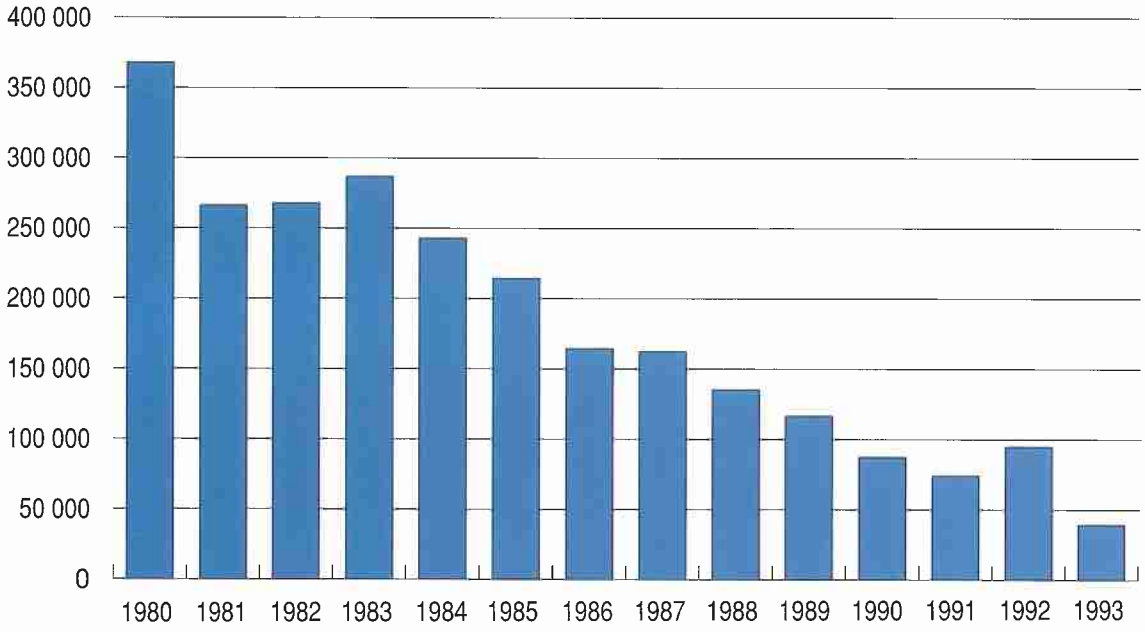
The emissions of sulphur dioxide from ten fossil power stations and two power-and-heating plants owned by ČEZ in 1993 have consistently decreased since 1984. This favorable development has been made possible by burning a coal with lower sulphur contents, by lowering specific fuel consumption, and by gradually removing from operation selected units of fossil power stations. From 1990 until the end of March 1994, ten units of ČEZ's fossil power stations were taken out of operation, whose total installed capacity was 1,060 MW.

Emissions of Sulphur Dioxide from 1980 through 1993 (in tons/year)



The volume of solid pollutant emissions has been decreasing as a result of implementing the long-term program of reconstruction and replacement of electric separators, and optimizing the burning process.

Emissions of Solid Pollutants from 1980 through 1993 (in tons/year)



In 1993, the lowering of emissions was influenced by more fossil power station units being removed from operation, and by reconstructions, or replacement, of some existing electric filters together with the optimization of burning processes.

Another waste product of electricity production is solid ash waste, whose influence on the surrounding environment is minimalized by storage in specifically constructed storage areas, in accordance with Act No.238/91 Coll. ČEZ's storage areas total about 1,300 ha. In 1993, the preparation of a new, more environmentally acceptable way of storing the solid waste was initiated. This method is based on an inert compound made of ash, waste waters and desulphurization products.

At its own expense, ČEZ monitors the influence of its activities on the environment. It informs the environmental authorities, the territorial state authorities and the public about the results of this monitoring. In 1993, an assessment was made of the influence of ČEZ's power stations on the sulphur dioxide air pollution in North-Western Bohemia. It was found that the implementation of the measures to lower these emissions in all of ČEZ's power stations, as required by the Act about the atmosphere, will contribute to lowering the average yearly air pollution in North-Western Bohemia by approximately 35%.

The radiation control of the surroundings of the Dukovany power station is also very important. The results of the monitoring program in 1993 show that the radioactivity in the outlets from the ventilation chimneys and to the water discharge channels did not exceed the limit. In most cases, it did not even approach them.

The Outlets' Draw on the Yearly Limit (%)

	RG	Sr	AE	I	H3	CAFAP
1992	0.027	0.012	0.118	0.015	87.61	4.99
1993	0.103	0.011	0.116	0.023	84.59	20.56

gaseous – *rare gases (RG)*
strontium /Sr^{89+90}/
iodine – both phases (I)
aerosols (AE)

Liquid: *tritium (H_3)*
corrosive and fissonable products (CAFP)

The environmental protection program is not only a ČEZ priority, but a permanent part of its philosophy and strategy.

The company consistently improves the care of its employees. The introduction of supplementary retirement insurance is under preparation, general medical check-ups are ensured, and a social fund was created in 1993.

2) *The exchange of experience with foreign partners is a part of the personnel policy. The visit of employees from a partner company, Houston Industries Incorporated.*

4) *As a part of introducing a new office system, the training of the employees is taking place.*

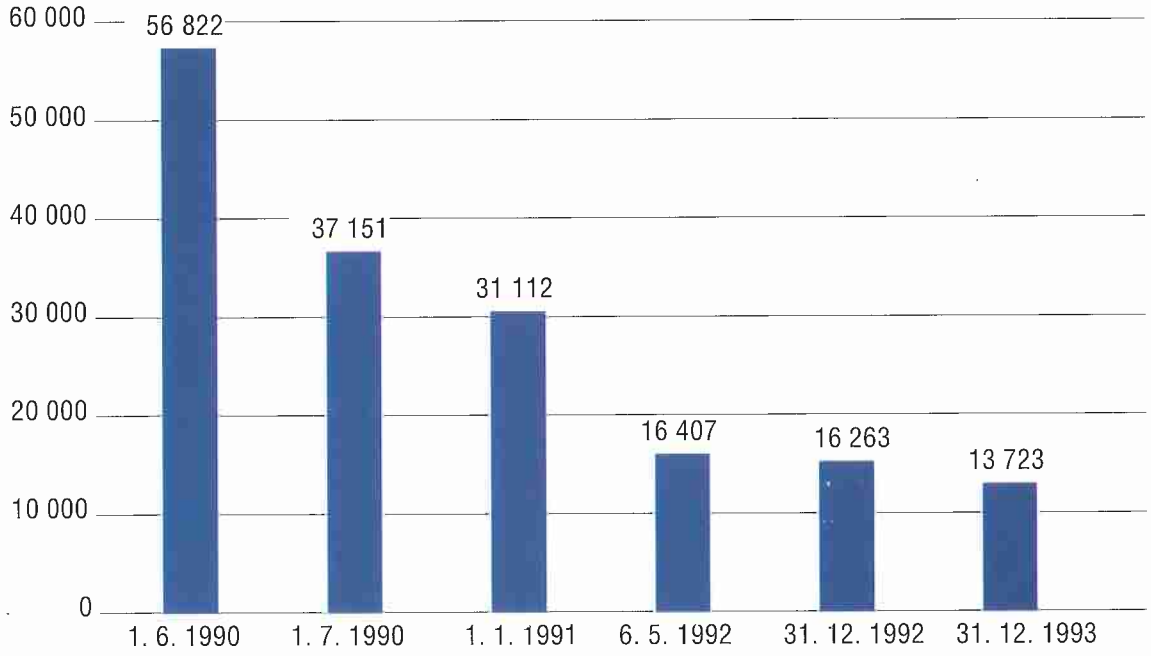
■ At present, the company is engaged in a most demanding reduction program. This program is a part of the business plan.

Decisions regarding the number and structure of employees are oriented towards ensuring the primary strategic activity of ČEZ, and towards the creation of an organization able to apply proven working procedures in order to react promptly to both external and internal impulses from the business environment. The program to gradually narrow existing business activities is a means to achieve this objective. The program and its implementation are aimed towards achieving a final structure and number of employees which would be comparable to similar Western-European electricity companies (with regards to relevant differences ensuing from the source structure, among other things).

The basic intended activities are:

– the planned reduction of the capacity of units in existing fossil power stations;
– the abolition, separation or transfer of some activities to suppliers. These are activities that are not directly connected with the mission of the company, or can be more advantageously acquired in the competitive market;
– the streamlining of activities that will remain in the focus of ČEZ, with the aim to ensure their necessary volume and quality;
– Changes in the structure of employment in favor of better qualified workers.

Development of the Number of Employees of ČEZ, a.s. (until May 6, 1992, the Czech Power Works, state enterprise)

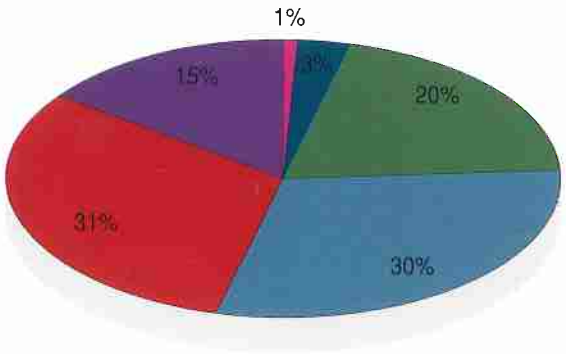


The program strives to achieve a marked improvement in management by creating efficient organizational structures. Also, it focuses on the rational utilization of labor power and working hours, and the decrease in the expenses to cover the activities. Furthermore, it aims to create prerequisites for a gradual introduction of a purposeful and efficient motivation system to determine employees' wages.

The process of reducing the number of employees is sensitively conducted with measures to reduce the negative impact of being released to a minimum, such as help in finding a new job, help in creating new jobs, etc.

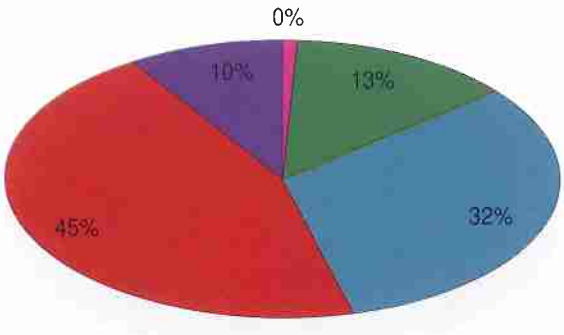
On December 31, 1993, ČEZ had 13,723 employees which was 2,540 fewer than on the same date in 1992. This represents a decrease of 15.62%. In comparison with the figure at the time of the company's origin, employment decreased by 3,235 employees, or 19.08%.

Age Structure of ČEZ's Employees (as of December 31, 1993)



- *Under 20 years: 451*
- *20 – 30 years: 2 709*
- *30 – 40 years: 4 126*
- *40 – 50 years: 4 317*
- *50 – 60 years: -1 993*
- *Over 60 years: - 163*

Educational Background of ČEZ's Employees (as of December 31, 1993)



- *University graduates – 1,817*
- *Secondary school graduates – 4,400*
- *Secondary education with apprenticeship – 6,021*
- *Basic education – 1,428*
- *Incompleted education – 57*

In 1993, as a prerequisite for the successful implementation of the changes, special attention was paid to personnel development. A systematic training of the company's top management employees was launched; another stage of this training, focusing on middle management employees, is under preparation.

Work has begun to create a personnel strategy for ČEZ which includes the formation of professional careers and a system of life-long education for employees. Progress has been made in accepting new employees and first steps have been taken to prepare methods for their selection and evaluation.

Preparation continues for the introduction of a supplementary employees' retirement insurance system. Preventive medical check-ups have been ensured for selected, most vulnerable employees with the priority to detect the risk factors leading to sudden heart failures. In 1993, 7.577 million Kc were provided for non-interest loans to employees to ensure an adequate living environment, to furnish flats, and to accommodate burdensome financial situations. Also in 1993, a social fund of 70 million Kc was created out of which contributions are continually provided for the catering, recreation, children's recreation, medical care and social aid of employees.

1) *Mrs. Olga Havlová, Chairwoman of the Good Will Foundation, and Mr. Petr Karas, Chairman of the Board of Directors of ČEZ, a.s. signed an agreement regarding cooperation to help the medical care sector in Northern Bohemia.*

2,4) *In the end of 1993, an opinion poll regarding the informational and educational program „Energy for Everyone" was carried out showing that this program has raised a wide interest both among teachers and pupils.*

3) *ČEZ organizes competitions for children. In 1993, the Helios competition – eliciting drawings on the topic „Life, That Is Energy" – was among the most successful. The seven winning schools decorated their interiors or surroundings with merry pictures.*

■ ČEZ is one of the Czech companies most closely monitored by the mass media. Its activity is monitored not only by the shareholders, together with the Board of Supervisors, but also by the press, environmental initiatives, the mayors of communities, and a major part of the public. Its every step is carefully watched and evaluated. It strives for an open and outgoing relationship with the public. ČEZ tries to maintain its good name and this care strengthens its position and projects measurable results. A company which does not have serious problems with public opinion, and with carrying out its essential investments, has a chance to obtain more favorable credits from banks, and shorten the time of construction by speeding the public and legal scrutiny of projects. This strategy contributes to the prosperity of the company and guarantees its future.

In 1993, the main aim of the communication activities was to bring ČEZ as close as possible to the people of the Czech Republic and to introduce its effort towards improving the environment. The company also needed to distinguish itself from the other electricity corporations and power works that separated from the former Czech Power Works, so that it could be responsible for its own activities. Therefore, in the beginning of the year, ČEZ decided to change its company symbol and, together with a new company philosophy, introduce it to the public in an advertising and informational campaign. The new symbol of ČEZ symbolizes the new philosophy of the company – a continuous effort to achieve balance. "The Beginning of the Path towards Balance" was the main motto of the campaign. The introductory advertising campaign took place from February to April 1993, and an assessment showed that its main aim was successfully accomplished. Another important fact is that all the following information and communication programs will have a solid basis to build upon.

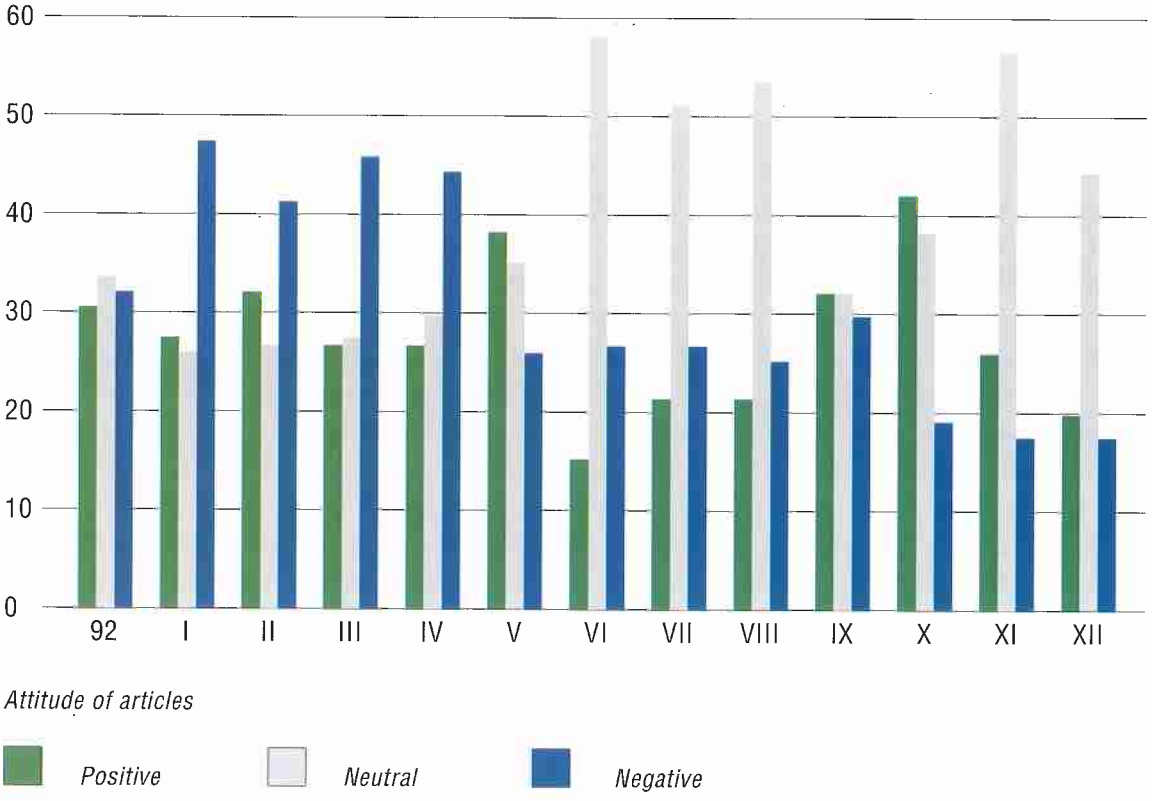
Throughout the entire year, the employees of ČEZ paid special attention to improving communication with the inhabitants and mayors of the communities situated near the Temelín Nuclear Power Station which is now under construction. It was crucial for the inhabitants to be sufficiently informed regarding the advantages of the operation of the Temelín power station, and with all the issues connected to it. Most of the inhabitants of the Czech Republic are in favor of the completion of the Temelín Nuclear Power Station. In Northern Bohemia, approval is more than the state average, and in Southern Bohemia, it is less than the average.

The company helps to sponsor medical care and humanitarian aid. In cooperation with the Olga Havlová Good Will Foundation, the company gave 60 million Kc to support medical care in Northern Bohemia. Thirty-six million Kc were for convalescent stays of children suffering from asthma and allergies, and 24 million were to buy medical technology for centers for prematurely-born children and gynecological-obstetrics departments attending to endangered pregnancies. In addition to this extensive and significant help, the company supported hundreds of other small projects with several million Czech crowns.

Direct financial support of the surrounding area forms a significant part of ČEZ's relationship with the people living near the power stations. In 1993, the company supported ecological projects, health care, education, culture and small-scale sport activities in the communities situated around the power stations owned by ČEZ with over 300 million Kc.

In 1993, journalistic interest concerning ČEZ, a.s. rose and the number of articles increased almost fourfold in comparison with the preceding year. The efforts to establish the best possible relationships with the press resulted in their being more promptly and sufficiently informed. It included the press news, personal contacts and interviews with ČEZ experts, and working tours to obtain additional information. The main aim in this field was to support objective reporting.

Frequency of Positive, Negative, and Neutral Articles in the Press in % (1993)



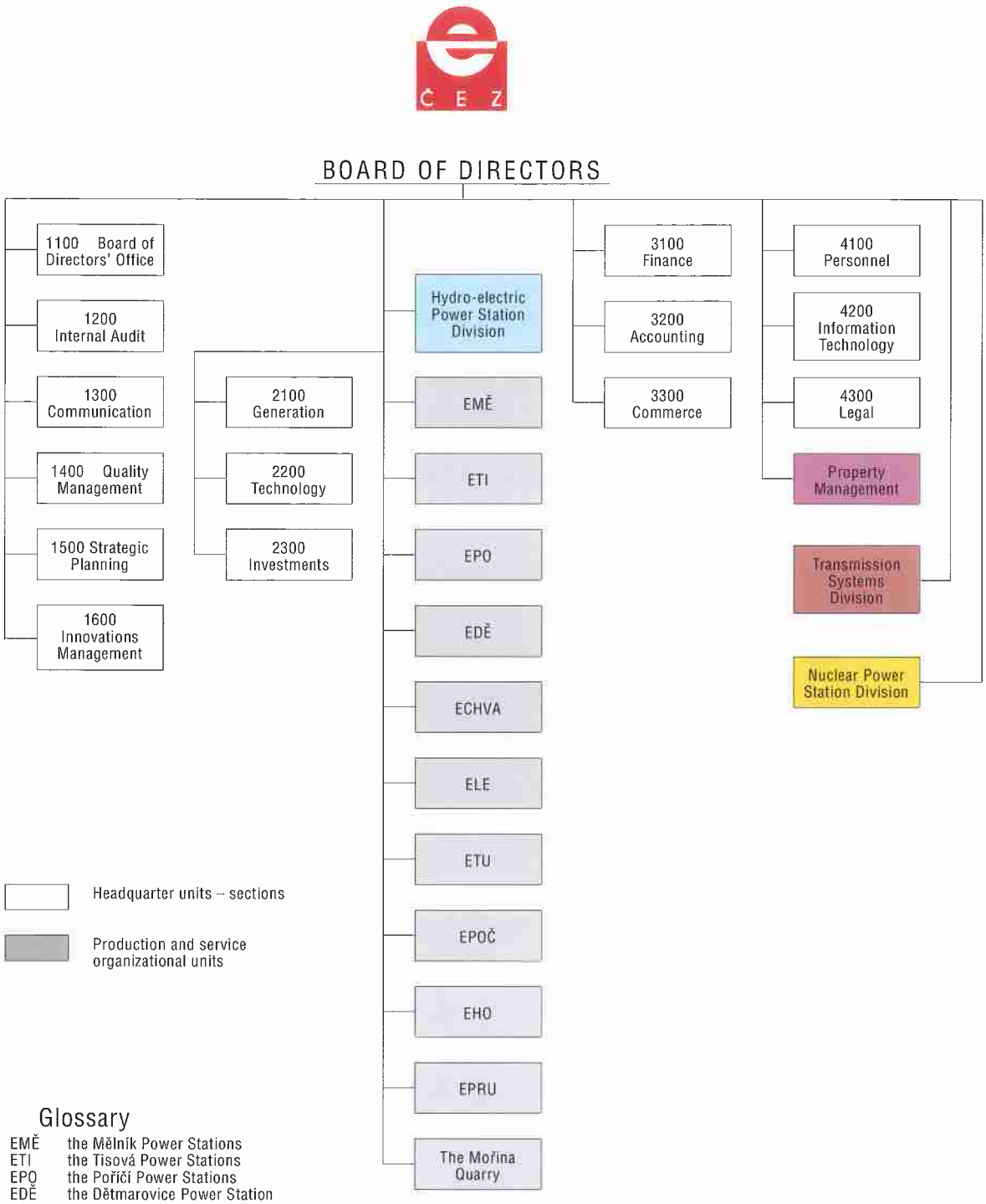
An educational program for schools, called "Energy for Everyone", plays a significant role among the informational activities of ČEZ. It offers all the elementary and secondary schools in the Czech Republic educational programs, informational booklets, video films, and various activities to help increase young people's knowledge about power, power engineering, and the generation and utilization of electricity. The educational program also aims to supplement common textbooks, to help introduce alternative teaching methods, and to contribute to the pupils' understanding of the value of power, the labor of man, and a healthy environment. Even instructors themselves participate in the preparation of the educational programs. Schools are very interested in the offered programs and, according to polls, evaluate them very positively. In 1993, 2,000 schools ordered almost 70,000 printed informational and educational materials. On the basis of the orders, 4,500 video films were sent to 1,071 schools. The demand for the educational dozimetric set even exceeded the offer fourfold.

ČEZ also organizes competitions for children. In 1993, the Helios competition was one of the most successful; it elicited drawings on the topic "Life, That Is Energy". The seven winning schools decorated their interiors or their neighborhood with merry pictures.

The informational centers in Temelín and Dukovany have already been visited by more than 20,000 people. The public is very interested in excursions to nuclear power stations.

The communication inside the electricity company is also important; it relies on the presence of a universal communication policy. The intent is to make employees sufficiently informed about the aims of the company, and convinced about the prospects of their profession.The company newspaper "ZPRAVODAJ ČEZ" ("The ČEZ Bulletin") is an important source of information about events within the company. Research shows that almost all the employees read the newspaper (60% read it regularly, 37% read it occasionally).

Organizational Structure



Glossary

EMĚ	the Mělník Power Stations
ETI	the Tisová Power Stations
EPO	the Poříčí Power Stations
EDĚ	the Dětmarovice Power Station
ECHVA	the Chvaletice Power Station
ELE	the Ledvice Power Station
ETU	the Tušimice Power Stations
EPOČ	the Počerady Power Station
EHO	the Hodonín Power Station
EPRU	the Prunéřov Power Stations

ČVUT	Czech Polytechnical University, Prague
VUT	Polytechnical University
SEP	Slovak Power Works (Slovenský energetický podnik)
ÚJV Řež	The Nuclear Research Institute at Řež
EGÚ	Třebíč The Power Institute at Třebíč

ČEZ, a.s.
FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS AS OF 31 DECEMBER 1993 AND 1992

TOGETHER WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN
ARTHUR ANDERSEN CO. SC
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying balance sheets of ČEZ a.s. (a Czech joint–stock company, "the Company") as of 31 December 1993 and 1992, and the related statements of income and retained earnings and cash flows for the year ended 31 December 1993 and the period from inception (1 May 1992) through 31 December 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. Our audits were made in accordance with International Standards on Auditing and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ČEZ a.s. as of 31 December 1993 and 1992, and the results of its operations and its cash flows for the year ended 31 December 1993 and for the period from inception through 31 December 1992 in conformity with Statements of International Accounting Standards issued by the International Accounting Standards Committee applied on a consistent basis after giving retroactive effect to the change in accounting for nuclear decommissioning and waste fuel disposal costs as described in Note 8.

Arthur Andersen

ARTHUR ANDERSEN S. S R.O.
License No. 77

Ivan Foltman

IVAN FOLTMAN
License No. 1150

15. April 1994
Prague, Czech Republic

Balance sheets as of 31 December 1993 and 1992 (Czech Kč in millions)

	1993	1992
ASSETS		
Property plant and equipment (Note 3):		
Plant in service	75 421	72 545
Less accumulated provision for depreciation	41 048	38 801
	34 373	33 744
Nuclear fuel, at amortized cost	4 159	3 425
Construction work in progress	49 938	36 032
Total property, plant and equipment	88 470	73 201
Other noncurrent assets, net (Note 5)	654	329
Current assets:		
Cash	2 668	1 164
Receivables, net (Note 4)	2 989	3 436
Materials and supplies, net	1 188	1 123
Fossil fuel stocks	946	799
Prepayments	241	62
Total current assets	8 032	6 584
TOTAL ASSETS	97 156	80 114
CAPITALIZATION AND LIABILITIES		
Capitalization (Note 6):		
Stated capital	58 873	53 521
Retained earnings	6 163	2 338
Total capitalization	65 036	55 859
Long-term liabilities:		
Long-term debt, net of amount due within one year (Note 7)	11 748	9 006
Accumulated provision for nuclear decommissioning and fuel storage (Note 8)	9 174	7 843
Total long-term liabilities	20 922	16 849
Commitments and contingencies (Note 10)		
Current liabilities:		
Short-term loans	3 068	1 350
Long-term debt due within one year (Note 7)	1 981	2 245
Accounts payable	2 078	1 304
Accrued and deferred taxes	227	55
Accrued liabilities	3 844	2 452
Total current liabilities	11 198	7 406
TOTAL CAPITALIZATION AND LIABILITIES	97 156	80 114

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

Statements of income and retained earnings for the year ended 31 December 1993 and for the period from inception (1 May 1992) through 31 December 1992 (Czech Kč in millions)

	1993	1992
Revenues:		
Sales of electricity and heat	47 904	33 060
Other	1 010	1 133
Total revenues	48 914	34 193
Expenses:		
Fuel	11 227	6 689
Purchased power	3 209	2 181
Repais and maintenance	2 332	1 566
Depreciation and amortization	3 608	2 765
Salaries and wages	2 044	1 458
Nuclear decommissioning and fuel storage	1 331	636
Materials and supplies	1 163	967
Allowance for doubtful accounts	392	–
Reduction in carrying value of property	594	–
Other operating expenses	2 518	1 744
Total expenses	28 418	18 006
Income before other expense (income) and income taxes	20 496	16 187
Other expense (income):		
Interest on debt, net of capitalized interest (Notes 3 and 7)	571	181
Interest income	– 98	– 52
Other financial expenses	1 375	1 267
Income before income taxes	18 648	14 791
Income taxes (Note 9)	9 471	8 798
Net income	9 177	5 993
Retained earnings, beginning of period	2 338	5 352
Prior period adjustments (Notes 8 and 11)		
Disposal of assets	–	– 1 800
Nuclear decommissioning and fuel storage	–	– 7 207
Retained earnings restated at beginning of period	2 338	– 3 655
Contributions to stated capital	– 5 352	–
Retained earnings, end of period (Note 6)	6 163	2 338

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

Statements of cash flows for the year ended 31 December 1993 and for the period from inception (1 May 1992) through 31 December 1992 (Czech Kč in millions)

	1993	1992
Operating activities:		
Net income	9 177	5 993
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3 608	2 765
Amortization of nuclear fuel	1 173	634
Loss on fixed asset retirements	6	789
Provision for nuclear decommissioning and fuel storage	1 331	636
Allowance for doubtful accounts	392	–
Reduction in carrying value of property	594	–
Changes in current assets and liabilities:		
Receivables	55	– 1 614
Materials and supplies	– 65	– 106
Fossil fuel stocks	– 147	132
Prepayments	– 179	670
Accounts payable	774	521
Accrued and deferred taxes	172	38
Accrued liabilities	1 392	– 336
Net cash provided by operating activities	18 283	10 122
Investing activities:		
Additions to property, plant and equipment	– 20 968	– 11 487
Proceeds from sales of fixed assets	72	34
Total cash used in investing activities	– 20 896	– 11 453
Financing activities:		
Proceeds from borrowings	8 525	2 635
Payments of borrowings	– 4 408	– 980
Total cash provided by financing activities	4 117	1 655
Net increase in cash	1 504	324
Cash at beginning of period	1 164	840
Cash at end of period	2 668	1 164
Supplementary cash flow information		
Cash paid for:		
Interest	1 509	983
Income taxes	9 524	9 481

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

Notes to Financial Statements as of 31 December 1993

1. The Company

■ ČEZ a.s. ("ČEZ" or "the Company") is a Czech Republic joint–stock company which was established 1 May 1992. The Company is owned 71,1 % by the National Property Fund, 22,2 % by mutual funds, 3,7 % by private investors and 3,0 % by the unclaimed land fund. Prior to 1 May 1992, the Company was a state owned enterprise operating in the Czech Republic as České energetické závody s.p. České energetické závody s.p. included several district heating companies and a construction company which were separately privatized upon the creation of the joint–stock company on 1 May 1992. The assets and liabilities transferred to ČEZ a.s. according to the privatization project from České energetické závody s.p. were recorded at their carrying values on 1 May 1992.

ČEZ is an electric generation and transmission company which produced 79 % of the electricity and a minor portion of the district heating in the Czech Republic in 1993. Additionally, the Company has the exclusive rights to import and export electricity and to sell electricity to eight distribution companies and certain large industrial customers in the Czech Republic. The Company operates ten fossil fuel plants, ten hydroelectric plants, one nuclear plant and a transmission grid. In addition, the Company has one nuclear plant and one pumped storage facility under construction.

Retail electricity rates are established by the Ministry of Finance following discussions with ČEZ and the eight regional electricity companies ("REPs"). The anticipated revenue from the retail customers is allocated between ČEZ and the REPs based on annually negotiated individual wholesale contracts between ČEZ and each REP. In the previous three years, the Ministry of Industry and Trade acted as arbiter, assisting ČEZ and the REPs to reach agreement in the negotiations of the revenue split. The revenues allocated to ČEZ in 1993 were approximately 4,4 % lower than the 1992 revenue split.

2. Summary of Significant Accounting Policies

■ Basis of Accounting

ČEZ maintains its books and records in accordance with accounting principles and practices mandated in the Czech Republic pursuant to a new accounting law which came into full effect on 1 January 1993. The accounting policies followed by ČEZ from 1 January 1993 conform substantially with International Accounting Standards issued by the International Accounting Standards Committee (see Notes 6 and 8).

On 1 January 1993, the Czech and Slovak Federal Republic was dissolved. On 8 February 1993, the Czechoslovak Crown was replaced by the Czech Crown (Kč) and the Slovak Crown. The new Czech and Slovak crowns were issued at values equivalent to the former Czechoslovak crown. For purposes of presentation in these financial statements, Kč will be used to define the currency in both 1993 and 1992.

Revenues and Fuel Costs

The Company bills for services rendered through the end of each fiscal period.

Aproximately 91 % of the Company's sales are to eight regional electric distribution companies.

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 1 173 and 634 million Kč for the year ended 31 December 1993 and for the period from 1 May 1992 through 31 December 1992.

Property, Plant and Equipment

Property, plant and equipment is stated at original cost. Original cost of plant in service includes materials, labor, payroll related costs and the cost of debt financing used during construction. The cost of maintenance, repairs, and replacement of minor items of property is charged to maintenance expense. Renewals and betterments are capitalized. Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Depreciation

Under the new Law on Accounting in the Czech Republic, the Company is allowed in 1993 to set depreciation rates based on the expected useful life of the asset. The Company depreciates the original cost of property, plant and equipment by using the straight line method and depreciable lives previously prescribed by Czech accounting principles. The difference between using depriciation lives based on estimated economic lives and those previously prescribed by Czech accountint principles is not material. The depreciation lives used for property, plant and equipment classified in accordance with the Law on Accounting in the Czech Republic are as follows:

	Years
Buildings and structures	30 – 77
Machinery and equipment	8 – 20
Furniture and fixtures	8 – 17
Motor vehicles	6 – 17

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

	Average Life
Hydro plant	
Buildings and structures	52
Machinery and equipment	27
Fossil fuel plants	
Buildings and structures	30
Machinery and equipment	14
Ash storage facilities	5
Nuclear power plants	
Buildings and structures	30
Machinery and equipment	15
Transmission lines	30
Transformer stations	16

Depreciation of plant in service was 3 595 and 2 582 million Kč for the year ended 31 December 1993 and for the period from 1 May 1992 through 31 December 1992, which was equivalent to a composite depreciation rate of 4,8 % and 5, 3 %, respectively.

Cash

Cash includes cash on hand and current accounts with banks. At 31 December 1993 and 1992, the current accounts with banks included foreign currency deposits of 371 and 41 million Kč. Foreign currency deposits are translated at 31 December 1993 and 1992 exchange rates.

Nuclear Fuel

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

Fossil Fuel Stocks

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

Materials and Supplies

Materials and supplies are principally composed of power plant maintenance materials and spare parts. Cost is determined by using standard cost which approximates actual cost. These materials are recorded in inventory when purchased and then expensed or capitalized

to plant, as appropriate, when installed. The Company records a provision for obsolete inventory as such items are identified. A provision of 14 million Kč was charged against inventory in 1993 for obsolete stocks. No provision was recorded in 1992.

Income Taxes

Income taxes are provided on accounting profit as determined under Czech accounting principles at a rate of 45 % and 55 %, for the year ended 31 December 1993 and the eight months ended 31 December 1992 after adjustments for certain items which are not deductible for taxation purposes (see Note 9).

Receivables and Payables

Receivables are reported at net realizable value. Payables are recorded at invoiced values and accruals are reported at expected settlement values.

Accruals and Deferrals

Accruals and deferrals are recorded to recognize revenues and costs as they are earned or incurred.

Translation of Foreign Currencies

Transactions denominated in foreign currencies are translated to Czech crowns by applying the exchange rate existing at the time of the transaction.

Assets and liabilities denominated in foreign currencies at 31 December 1993 and 1992 are translated to Czech crowns at the exchange rate on that date.

Exchange differences arising on settlement of transactions or on reporting foreign currency transactions at rates different from those at which they were originally recorded are included in the statement of income as they occur. Net foreign currency exchange gains of 18,5 and 7,6 million Kč and foreign currency exchange losses of 23,4 and 5,1 million Kč were recorded in other income and financial expenses for the year ended 31 December 1993 and for the period from 1 May through 31 December 1992.

Repairs and Maintenance Accrual

The Company records an accrual for major overhauls of its power plants. An annual provision for estimated future overhaul costs of 100 % of expected major overhaul expenditures for the current year plus 25 % of expected major overhaul expenditures for the following three–year period, is recorded in repairs and maintenance expense. When major overhaul

costs are incurred they are charged against the overhaul accrual. Minor repair and maintenance costs are expensed when incurred.

Leases

As required in the Czech Republic, the Company records leased assets by expensing the period lease payments and capitalizing any residual value of the leased assets when a lease contract expires and a purchase option is exercised. The total required payments on leased assets recorded under the above method at 31 December 1993 was 161 million Kč.

Prior Year Presentation

Certain prior year amounts have been reclassified to conform with the current year presentation.

3. Property, Plant and Equipment

■ Property, plant and equipment at 31 December 1993 and 1992 is as follows (in millions of Kč):

	1993	1992
Land	197	230
Buildings	27 138	25 349
Machinery and equipment	44 877	44 047
Other	3 209	2 919
Total	75 421	72 545
Accumulated depreciation	– 41 048	– 38 801
Net plant in service	34 373	33 744

Property, plant and equipment includes interest capitalized of 1 136 and 852 million Kč for the year ended 1993 and for the period from 1 May to 31 December 1992.

4. Accounts Receivable

■ The composition of accounts receivable is as follows (in millions of Kč):

	1992	1992
Trade receivables	2 706	3 400
Other	675	36
Less allowance for doubtful accounts	– 392	–
Total	2 989	3 436

5. Other Noncurrent Assets

■ Other noncurrent assets consist of the following (in millions of Kč):

	1993	1992
Investments	318	19
Long–term receivables	209	264
Intangible assets	143	55
Less amortization	– 16	– 9
Total	654	329

6. Capitalization

■ The Company's stated capital was 53 521 million Kč with a nominal value of 1 000 Kč per share when the Company was formed on 1 May 1992, and as of 31 December 1992. At the general meeting held on 20 September 1993, the shareholders voted to increase the stated capital of the Company by transferring 5 352 million Kč of 1992 statutory retained earnings to stated capital. This increased the nominal value of one share to 1 100 Kč per share. The shareholders further voted to transfer the remaining amount of 1992 retained earnings of 929 million Kč to the legal reserve (284 million Kč) and to the other reserve funds (645 million Kč) of the Company.

The Czech Commercial Code requires that a reserve fund be created. The Company established a reserve fund equal to 10 % of its stated capital and, in accordance with the Commercial Code, contributed an additional 5 % of after tax income in 1992. In 1993 the Company made an additional contribution of 1992 profit above the 5 % requirement. Each year 5 % of after tax profit must be transferred to the reserve fund until the fund reaches 20 % of stated capital. The board of directors of the Company has the right to decide on the use of this fund. The contribution of the 1993 profit to the reserve will be declared in 1994.

For the purpose of the accompanying financial statements prepared under International Accounting Standards (IAS), the statutory reserve fund is included in retained earnings. A reconciliation of Czech Accounting Standards capital accounts to IAS capital accounts is as follows:

	Stated Capital	Reserve and other Funds	Retained Earnings	Total
	31 December 1992			
Balance per Czech Accounting Standards	53 521	5 793	6 281	65 595
Prior period adjustments (Notes 8 and 11)				
Disposal of assets	–	–	– 1 800	– 1 800
Nuclear decommissioning and waste fuel storage	–	–	– 7 207	– 7 207
Provision for nuclear decommissioning and waste fuel storage	–	–	– 636	– 636
Reclassification of items from retained earnings, net	–	–	– 93	– 93
Reclassification of reserve fund to retained earnings		– 5 793	– 5 793	–
Balance per International Accounting Standards	53 521	–	2 338	55 859
	31 December 1992			
Balance per Czech Accounting Standards	58 873	6 780	7 280	72 933
Prior period adjustments not booked in Czech accounts			– 7 843	– 7 843
Provision for nuclear decommissioning and waste fuel storage	–	–	47	47
Reclassification of items from retained earnings, net	–		– 100	– 100
Reclassification of reserve fund to retained earnings		– 6 780	6 780	–
Balance per International Accounting Standards	58 873	–	6 163	65 036

The effect on net income of differences in IAS and Czech Accounting Standards is as follows (in millions of Kč):

	Year ended 31 December 1993	Eight months ended 31 December 1992
Net income after taxation per Czech Accounting Standards	7 280	6 281
Prior period IAS adjustments booked by the Company in 1993 (Note 11)	1 800	–
Nuclear decommissioning and waste fuel storage costs (Note 8)	47	– 636
Reclassification of items from retained earnings, net	50	348
Net income per accompanying statements of income and retained earnings	9 177	5 993

7. Long–Term Debt

■ Long–term debt at 31 December 1993 is as follows (in millions of Kč):

Non–collateralized long–term bank notes:	
4% and less, due 1996 to 1999	1 886
6% to 9,5% due 1998 to 2007	1 327
13% to 13,5%, due 1995 to 2003	1 134
14% to 15,5%, due 1994 to 2000	402
16%, due 1995 to 2002	5 090
16,5% to 19,4%, due 1994 to 2000	383
Collateralized long–term bank notes:	
8,0 to 16,75% due 1995 to 2000	1 256
16,5% Debentures, due 1998	2 100
Other loans	151
Total long–term debt (2 648 million Kč of which is repayable in foreign currency)	13 729
Less: Current portion	– 1 981
Long–term debt, net of current maturities	11 748

The future maturities of long–term debt are as follows (in millions of Kč):

1994	1 981
1995	1 883
1996	1 529
1997	1 443
1998	3 186
Thereafter	3 707
Total long–term debt	13 729

The Company has received a commitment from the International Bank for Reconstruction and Development ("the Bank") for a USD 246 million loan. To date, USD 13,36 million has been drawn against this commitment. The loan is to be used for specified power and enviromnental improvement projects. The loan agreement contains financial covenants relating to capital expenditure coverage, cash flow coverage and debt service coverage. A commitment charge of 0,75% per annum is assessed on the undrawn principal amount of the loan. Interest on any outstanding borrowing will be at the Bank's cost of qualified borrowings, as defined in the loan agreement (6,93% at 31 December 1993) plus 0,5% and will be payable on 15 February and 15 August in each year. Semiannual principal payments of USD 12,3 million will be payable from 1997 through 2007.

8. Nuclear Decommissioning and Waste Fuel Disposal

■ ČEZ's operating nuclear plant, Dukovany, consists of four 440 MW units which were placed into service from 1985 to 1987. ČEZ is also constructing a 2000 MW nuclear power plant, Temelín (see Note 10). The Company and the Czech government are in the process of defining the roles and obligations for the decommissioning, docontamination and dismantling ("decommissioning") of the Company's two nuclear power plants and the disposal of waste nuclear fuel ("disposal").

Estimated decommissioning of Dukovany, and disposal for Dukovany and Temelin, have been calculated in several technical studies performed by the Company based on estimates from various western nuclear facilities. Pursuant to the new Czech Republic Law on Accounting, as of 1 January 1993 ČEZ began recording, on a prospective basis over the remaining operating period, a provision for decommissioning and disposal costs.

In the accompanying financial statements prepared in accordance with International Accounting Standards (IAS), the provision for those costs has been recorded retroactively to the initial operations of Dukovany.

ČEZ is currently planning to fund its nuclear decommissioning and fuel disposal cost liability beginning in 1995 and continuing to the end of the operating period. The Company has assumed that its decommissioning and disposal funds will accrue interest at a rate of

3% and the amounts to be funded during the operating life plus earnings on the funds until decommissioning and disposal is completed will be adequate to cover the required costs.

In the accompanying financial statements, the costs estimated for decommissioning Dukovany, net of earnings on amounts to be funded beginning in 1995, are being accrued over the useful life of the plant. Dukovany's four units are scheduled to operate until 2015–2017, at which time normal operations will cease and decommissioning will begin. The decommissioning process is expected to take 37 years and cost 26 000 million Kč.

The costs estimated for waste fuel storage for Dukovany and Temelin, net of earnings on amounts to be funded beginning in 1995, are being accrued based on MWhs produced by the nuclear plants. ČEZ estimates the disposal process will be completed in 2069 and cost 74 000 million Kč.

The actual decommissioning and disposal costs may vary from the above estimates because of regulatory requirements, changes in technology, and increased costs of labor, materials, and equipment.

The following is a comparison of the amounts accrued under the Czech Accounting Law and IAS for the year ended 31 December 1993 and the eight months ended 31 December 1992 (in millions of Kč):

	Year–end Accumulated Provision			
	IAS		Czech Law	
Estimate for:	1993	1992	1993	1992
Decommissioning	2 959	2 550	452	–
Waste fuel storage	6 215	5 293	926	–
Total	9 174	7 843	1 378	–

	Current Expense			
	IAS		Czech Law	
Estimate for:	1993	1992	1993	1992
Decommissioning	409	265	452	–
Waste fuel storage	922	371	926	–
Total	1 331	636	1 378	–

9. Income Taxes

■ International Accounting Standards require the recording of deferred taxes. In 1992, to the extent that temporary differences arose from adjustments made to the Czech statutory accounts resulting in a deferred tax asset, no benefit was recognized as there was no reasonable assurance of future realization. In 1993, as a consequence of the issuance of a new

Tax Law which establishes new rates for tax depreciation, a temporary difference has arisen from the excess of tax depreciation over depreciation recorded in the financial statements for which a deferred tax liability has been recorded.

A reconciliation of income taxes calculated at the statutory tax rate and recorded income taxes is as follows (in millions of Kč):

	1993	1992
Income before income tax	18 648	14 791
Adjustments to restate the accounts for presentation in accordance with IAS	– 1 899	975
Permanent differences		
Donation of Mělník pipeline (Note 11)	1 784	–
Non deductible reserves	2 505	–
Other permanent differences	664	231
Total permanent differences	4 953	231
Temporary differences		
Excess of tax over book depreciation	– 428	–
Deductions		
Credit for investment in fixed assets	– 174	–
Gifts	– 423	–
Total deductions	– 597	–
Taxable income	20 677	15 997
Tax rate	45%	55%
Current income tax before tax credits	9 304	8 798
Tax credits	– 2	–
Current income tax	9 302	8 789
Deferred tax (42% of the temporary differences)	180	–
Other	– 11	–
Total income tax	9 471	8 798

10. Commitments and Contingencies

■ Construction Program

The Company is engaged in continuous construction programs, currently estimated to total 30,63 billion Kč in 1994, 29,64 billion Kč in 1995, 22,59 billion Kč in 1996, 1,4 billion Kč in 1997 and 10,88 billion Kč in 1998. These amounts do not include updated estimates

for the ultimate costs to complete the Temelín nuclear power plant, as discussed below. The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. At 31 December 1993 significant purchase commitments were outstanding in connection with the construction program.

Financing for all of the future costs have not yet been secured, and the Company is actively pursuing various financing opportunities. It is the opinion of management that the Company will obtain all necessary financing to complete the construction programs.

Temelin Nuclear Power Plant

The Company is currently constructing a nuclear power plant near Temelín, in the Czech Republic. The plant will consist of two Soviet–designed 1 000 MW units with modifications to upgrade safety and operating systems. The construction and completion of the plant has been approved by the Board of Ministers of the Czech Republic. The investment in the plant at 31 December 1993 is 34 billion Kč.

In December, 1993 ČEZ and its contractors agreed that the previously expected completion date for the first unit would be delayed from late 1995 by approximately 10 to 12 months. Consequently, the first unit is now expected to commence operations in late 1996 and the second unit is expected to commence operations 30 months later. Prior to the delay, the total estimated cost of the Temelín plant was 68,6 billion Kč. The Company is in the process of negotiating with its major suppliers the time schedule and cost to complete the plant based on the revised estimated in–service dates. Additional interest cost to be capitalized will increase the total estimated plant cost to approximately 70,5 billion Kč. Other costs resulting from this delay have not been quantified at this time.

Dlouhé Stráně Pumped Storage Plant

ČEZ is constructing a pumped storage hydroelectric plant in Northern Moravia which will consist of two 325 MW units. The plant is expected to begin operating in 1994. The Company has invested 4 827 million Kč in the project as of 31 December 1993. ČEZ estimates that an additional 2 743 million Kč is required to complete the plant.

Environmental Matters

In 1991 and 1992 , the Czech and Slovak Federal Republic passed a series of environmental acts ("the Federal Acts") which regulate, among other things, waste disposal and atmospheric emissions. The successor Czech Republic has adopted the Federal Acts and has issued additional detailed environmental laws and regulations to supplement the Federal Acts. The aforementioned environmental acts ("the Acts") include a timetable to reduce atmosphreic emissions and impose fines and penalties for not meeting certain emission standards.

The company currently has several environmental improvement projects underway and plans to meet the emission standards set by the government. The estimated cost of these projects is 44 500 million Kč for the years 1994 to 2000.

The Company pays annual fees to local enviromnental authorities related to the disposal of waste ash in the Company's ash storage facilities. ČEZ recorded an expense of 409 and 6 million Kč for the year ended 31 December 1993 and for the eight months ended 31 December 1992. Fees paid by ČEZ are based on the Company's interpretation of the applicable environmental regulations as they relate to ash. The local environmental authorities have the right to review and approve the nature of the Company's ash emissions and the operations of the Company's ash disposal facilities. It is difficult to make an estimate as to whether additonal costs will be incurred by the Company. The Company does not believe, based upon the information available as this time, that such additional costs would be material.

11. Prior Period Disposal of Assets

■ Construction in progress and retained earnings at 1 May 1992 in the accompanying financial statements have been reduced by 1 800 million Kč to write–off the Company's net investment in the Mělník–Prague heat pipeline project. A decision to cancel the project was made by the management on 6 January 1992, prior to the formation of ČEZ a.s. The company donated its net investment in the project to Mělník–Praha a.s. and, in accordance with Czech Accounting Standards, recorded the expense in 1993.

AUDITORS' REPORT

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

We have audited the financial statements of ČEZ, a.s. for the year ended 31 December 1993 in accordance with the Act ČNR No. 524/1992 Sb. on Auditors and the Chamber of Auditors of the Czech Republic and the auditing guidelines issued by the Chamber of Auditors. Our audit included an examination of evidence supporting the financial statements and of the accounting policies and estimates used by management in their preparation. Our audit procedures were carried out on a test basis and with regard to the principle of materiality.

The Board of Directors is responsible for the preparation of the financial statements and for maintaining accounting which is complete, supportable and correct. Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit performed in accordance with this Act and the auditing guidelines.

During our audit, nothing came to our attention that would cause us to believe that the accounting records from which the financial statements were prepared were not complete, supportable and correct, in all material respects.

In our opinion, the financial statements present fairly, in all material respects, the assets, liabilities, equity and financial position of ČEZ, a.s. as at 31 December 1993 and the financial results for the year then ended in accordance with Act No. 5631991 Sb. on Accounting and relevant legislation.

As more fully discussed in Note 2, certain aspects of the Act on Accounting did not become effective until 1993 and are not reflected in the comparative balance sheet. As a result, the accounting principles used to prepare the comparative balance sheet are not consistent with those applied in 1992. The effects of the changes in principles are included in the results for the year ended 31 December 1993.

Arthur Andersen

ARTHUR ANDERSEN S. S R.O.
License No. 77

Ivan Foltman

IVAN FOLTMAN
License No. 1150

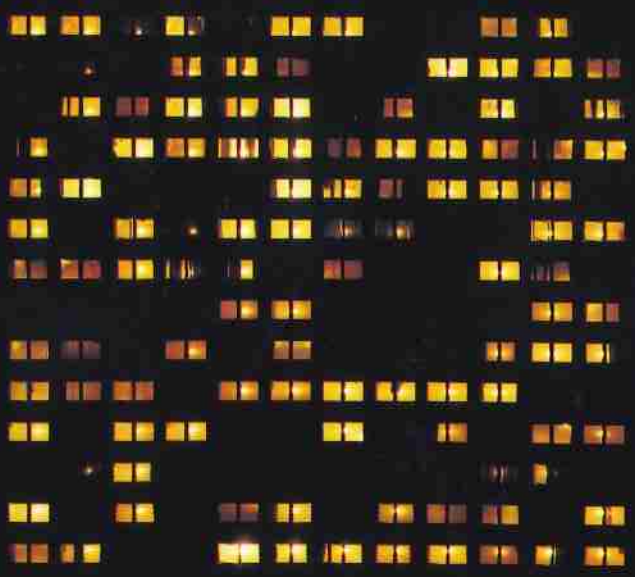
15. April 1994
Prague, Czech Republic

Condensed Balance Sheet

Balance Sheet (in thousands of Kč)	as of 31 December '93	as of 31 December '92
Total Assets	97 231 604	82 696 297
Receivables for issued capital	–	–
Fixed assets	84 959 761	71 913 928
intangible fixed assets	40 357	42 116
tangible fixed assets	84 397 992	71 588 720
financial investments	521 412	283 092
securities and investments in the enterprises within the group	297 421	3 225
other financial investments	223 991	279 867
Current assets	12 171 231	10 775 478
inventory	6 307 596	5 340 012
long-term receivables	97 424	188 715
short-term receivables	3 098 459	4 073 157
financial property	2 667 752	1 173 594
Other assets	100 612	6 891
Total Liabilities	97 231 604	82 696 297
Capitalization	72 933 210	65 595 063
Basic equity capital	58 873 129	53 521 026
capital funds	795 189	31 980
profit funds	5 985 946	5 761 114
economic result of the past years	–	6 280 943
economic result in the regular accounting period	7 278 946	–
Liabilities	23 699 365	17 084 650
Legal statutory reserves	2 824 052	2 261 162
other reserves	1 772 479	191 063
long–term liabilities	2 407 966	947 646
short-term liabilities	2 305 233	1 987 508
loans and shotr-term notes	14 389 635	11 697 271
long-term bank credits	12 525 565	10 232 991
short-term bank credits and aids	1 864 070	1 464 280
Other liabilities - temp. accounts of liabilities	599 029	16 584

Condensed Profit and Loss Statement

Profit and Loss Statement (in thousands of Kč) for the year ended December 31, 1993		
Sales of products		54 499
Expenses of sold products		52 742
Commercial margin		**1 757**
Production		48 559 239
Sales of products and services		48 352 853
Change in the state of self-produced internal inventory		–7 181
Activation		213 567
Production consumption		19 413 585
Added value		**29 147 411**
Personal expenses		2 026 546
Taxes and fees		792 334
Other operational revenues		421 173
Other operational expenses		2 488 248
Depreciation of intangible and tangible fixed assets		3 688 982
Setting of reserves, adjusting items and accrued operational revenues		1 638 401
Creation of reserves, adjusting items and accrued operational expenses		4 710 677
Operational income		**17 500 198**
Financial revenues		137 825
Financial expenses		9 968 146
Creation of reserves and accumulated depreciation for	financial expenses	76 081
Economic result of financial transactions		**–9 906 402**
Deferred income tax		179 917
Income from regular activities		**7 413 879**
Unusual revenues		17 538
Unusual expenses		152 471
Unusual economic result		**–134 933**
Economic result in the accounting period		**7 278 946**



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