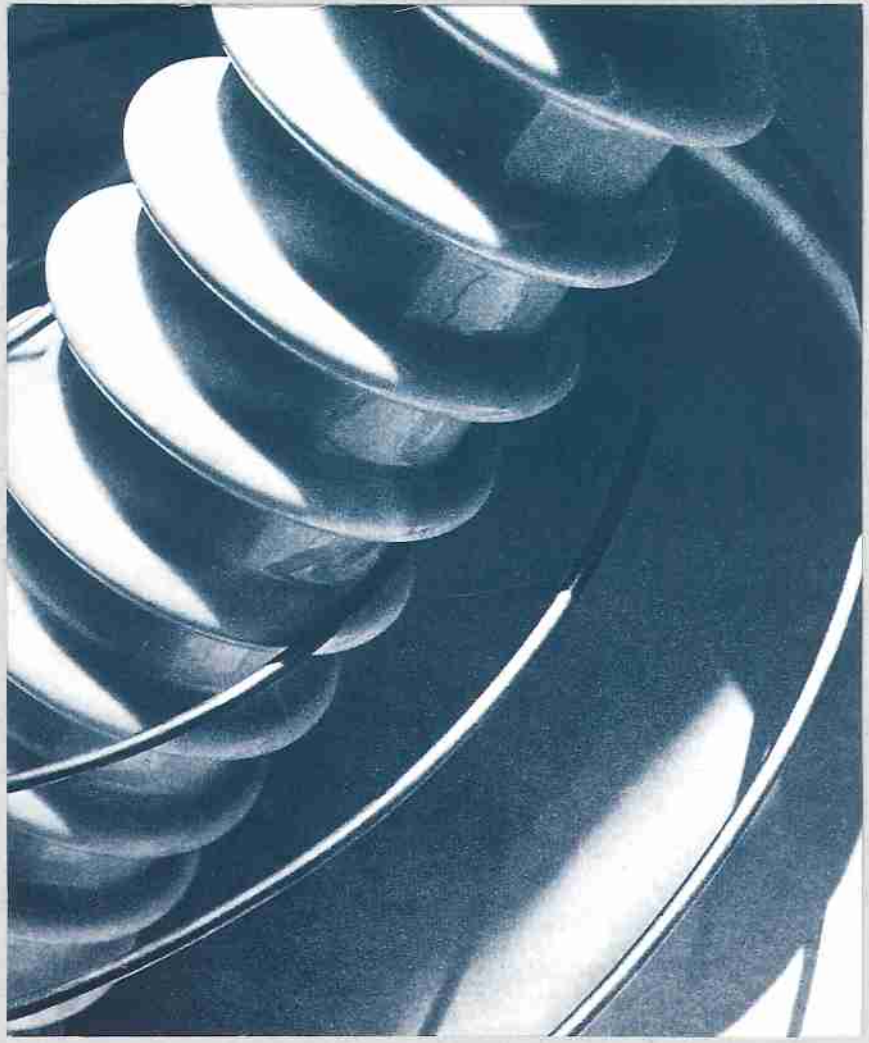
Annual Report 1994



Annual Report 1994

The joint-stock company ČEZ, a. s., was founded on May 6, 1992 as one of the newly formed entities from the breakup of the former state-owned Czech Power Works. It took over the generation of electricity and the operation of the high-voltage transmission line systems (220 and 400 kV). In addition to the production, transmission, import, export, and sale of electricity, the company also produces, distributes, and sells heat. Having twelve thousand employees and the capacity of 10,235 MW, it ranks among the medium-sized electric utilities in the world. It presently operates one nuclear power station, ten fossil power stations, thirteen hydro-electric power stations, and is testing a wind power station. One nuclear power station, two hydro-electric power stations, three wind power stations, and one solar power station are presently under construction.

ČEZ

ON THE PATH TOWARDS EQUILIBRIUM

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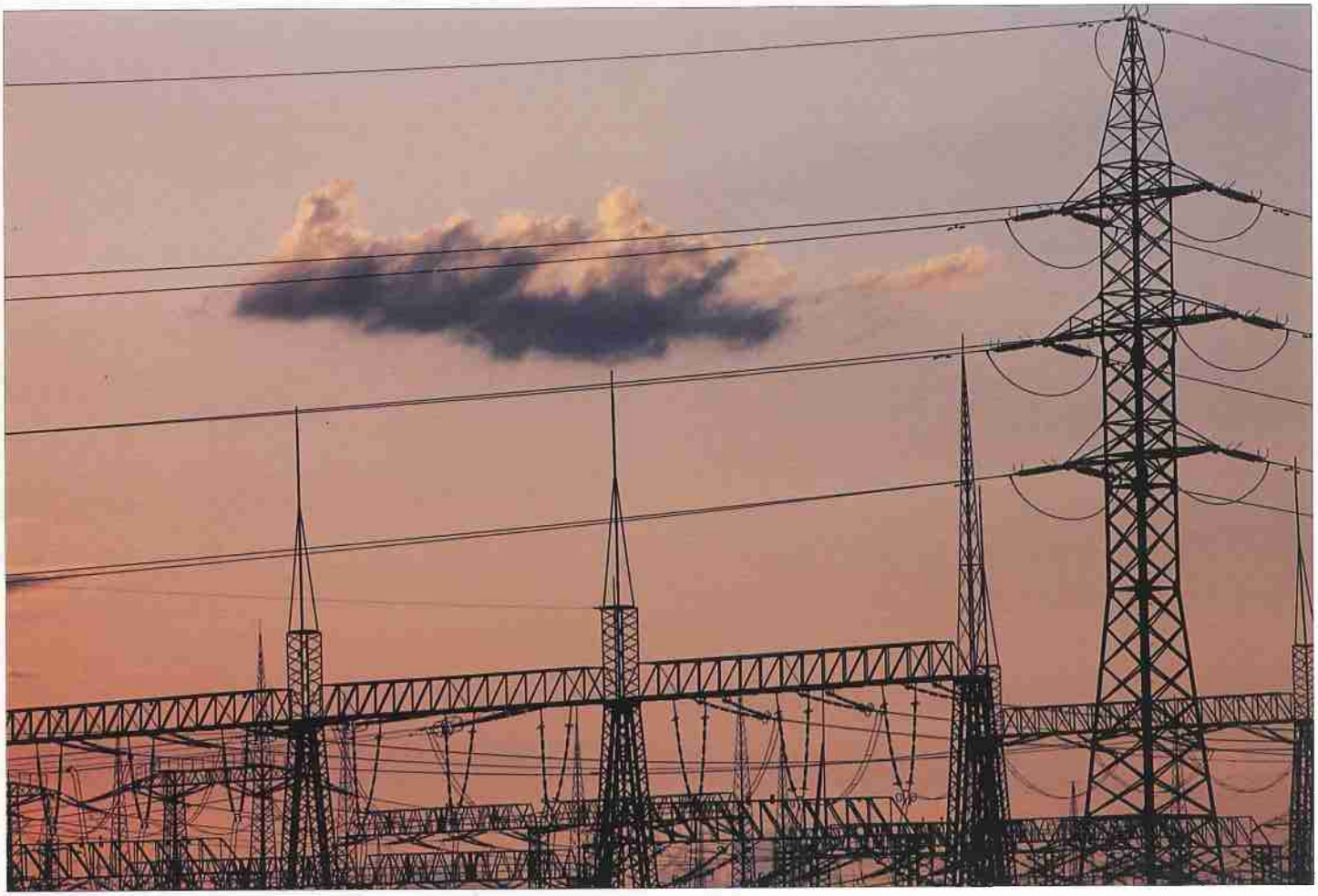


Most of the electricity produced was sold to eight power distribution joint-stock companies which supply to final consumers throughout the Czech Republic. The consumption of electricity by households continued to increase last year, a pattern which began in 1990. The consumption of electricity by other consumers decreased or stagnated. Even so, the total electricity consumption in 1994 increased by 3.2% compared to the previous year.

Selected Results in accordance with IAS

CZECH REPUBLIC	Unit	1994	1993
Installed capacity	MW	13,826	14,285
Maximum load	MW	9,632	9,288
Day of max. load		Dec. 19	Dec. 1
Production of electric energy	GWh	58,705	58,882
ČEZ, a. s.			
Installed capacity	MW	10,235	10,655
Production of electric energy	GWh	45,377	46,445
Production of heat	TJ	15,823	16,697
Total revenues	Kč mln	48,816	48,879
of which, sales of electricity and heat	Kč mln	47,290	47,904
Total expenses	Kč mln	31,278	29,538
Income before Income taxes	Kč mln	17,184	18,648
Net income	Kč mln	9,527	9,177
Earnings per share[1)]	Kč per share	179	171
Construction expenditures	Kč mln	24,301	20,974
At year – end			
Total assets	Kč mln	117,800	97,156
Number of shares		53,812,874[2)]	53,521,026[3)]
Number of employees		12,143	13,723
Price – earning ratio[1)]		7.6	9.4
Debt to equity ratio		0.30	0.26
Current ratio		0.68	0.72
Return on total assets[1)]	%	8.09	9.45

[1)] Based on net income (profit after taxes), share price at year end.

[2)] From that 51,602,380 shares with nominal value 1,100 Kč and 2,210,494 shares with nominal value 1,000 Kč.

[3)] Nominal value 1,000 Kč.

Important note:

All economic results are based on International Accounting Standards (IAS) which means that the results differ from the Czech version of ČEZ Annual Report 1994.

Selected Results in accordance with IAS

Balance sheet

(Czech Kč in Millions)

	1994	1993
Assets		
Total property, plant and equipment	107,433	88,470
Property, plant and equipment	40,466	34,373
Nuclear fuel, at amortized cost	4,450	4,159
Construction work in progress	62,517	49,938
Other noncurrent assets, net	724	654
Total current assets	9,643	8,032
Total assets	**117,800**	**97,156**
Capitalization and liabilities		
Total capitalization	74,297	65,036
Total long-term liabilities	29,260	20,922
Total current liabilities	14,243	11,198
Total capitalization and liabilities	**117,800**	**97,156**

Statement of Income and Retained Earnings

(Czech Kč in Millions)

	1994	1993
Operating revenues	48,816	48,879
Operating expenses	31,278	29,538
Income before income taxes	17,184	18,648
Income taxes	7,657	9,471
Net income	9,527	9,177
Retained earnings, end of period	15,324	6,163
Average number of shares outstanding	53,292	53,521
Net income per share	179	171

Letter from the Chairman of the Board of Directors

Dear friends,

Throughout 1994, our electricity company reliably and economically supplied its customers with electricity. It fulfilled its obligations towards its creditors and suppliers accurately and on time.

The demand for electricity in the Czech Republic increased by 3.2% compared to 1993. The use of electricity rose especially during peak hours. There were also more demands to regulate the supplied output. ČEZ's share of the electricity market decreased by less than 4% compared to 1993. Even so, the quality of our services improved and we continue to fulfil our entrepreneurial mission through concrete action.

The approval of the „Energy Act" on November 2, 1994, was an important step towards stabilizing the business environment in the Czech power industry. This Law, together with amendments currently under preparation, established a solid basis for all those involved in electric power industry.

The overall condition of the company is good, and so is its financial health. Our pre-tax profit last year was 17.2 billion Kč, our net income was 9.5 billion Kč, which is a 3.8 % increase compared with 1993. Total liabilities are 43.5 billion Kč, which represents a 35.4 % increase from the end of 1993. Development projects were funded mostly by the successful second issue of domestic bonds amounting to 4 billion Kč, and from the first international issue of Eurobonds amounting to 150 million USD. ČEZ, a. s., was the first among Central and Eastern European companies to enter the international capital market. Both the shares and bonds of ČEZ, a. s., receive considerable interest and rank among the most marketed on the Prague Securities Exchange.

The trustworthiness of our company is reflected in the assessments of its financial reliability. ČEZ, a. s., received a BBB- investment standard rating from Standard & Poor's, and an A- rating from the Japanese JBRI. These are excellent evaluations which opened the door to a wide spectrum of investors from all over the world.

Total expenses of the company amounted to 31.3 billion Kč in 1994, an increase of 7.4% compared with 1993. This is less than the inflation rate in the Czech Republic. Personnel expenses decreased by 5.1%. An increase in the average wage was more than fully compensated for by reducing the number of employees. Fuel costs, a significant expense item, were minimized by an effective commercial strategy and by the economical use of fuel. These costs increased by 3% compared with 1993. The outlays for repairs and maintenance of the power stations, however, increased by 9.5%, i.e. the same as the inflation rate.

Producing electricity in a environmentally responsible manner continues to be a part of the entrepreneurial mission of our company.

Letter from the Chairman of the Board of Directors

Desulphurization equipments on the 5th and 6th units of the Počerady Power Station have been working successfully since the end of last year. Throughout 1994, work has continued to construct desulphurization equipment in the Počerady, Prunéřov, Tušimice, and Ledvice power stations. Construction progressed on the fluidized bed boilers in the Tisová and Hodonín power stations. By the end of this year, more desulphurization equipment will have been fitted to fossil power station units with a total output of 930 MW.

Tender proceedings to select a supplier of desulphurization equipment for the Dětmarovice and Chvaletice power stations were concluded. The construction of a fluidized bed boiler in the Poříčí Power Station was launched. We anticipate that our company's program to desulphurize, dedust and lower the content of nitrogen oxides will be completed in accordance with the Clean Air Act.

The Temelín Nuclear Power Station plays the key role in the modernization of ČEZ's generation system and its ecological responsibility. The construction of the first unit has been nearly completed, and practically all of the technological equipment has been supplied and for the most part already installed. The layout design and installation of the cabling are in process. Westinghouse's work on the I & C system and the preparations regarding nuclear fuel is proceeding satisfactorily. The delay in the design work will probably set back the completion of the construction by a year. The second unit should be completed 18 months after the first unit, as scheduled.

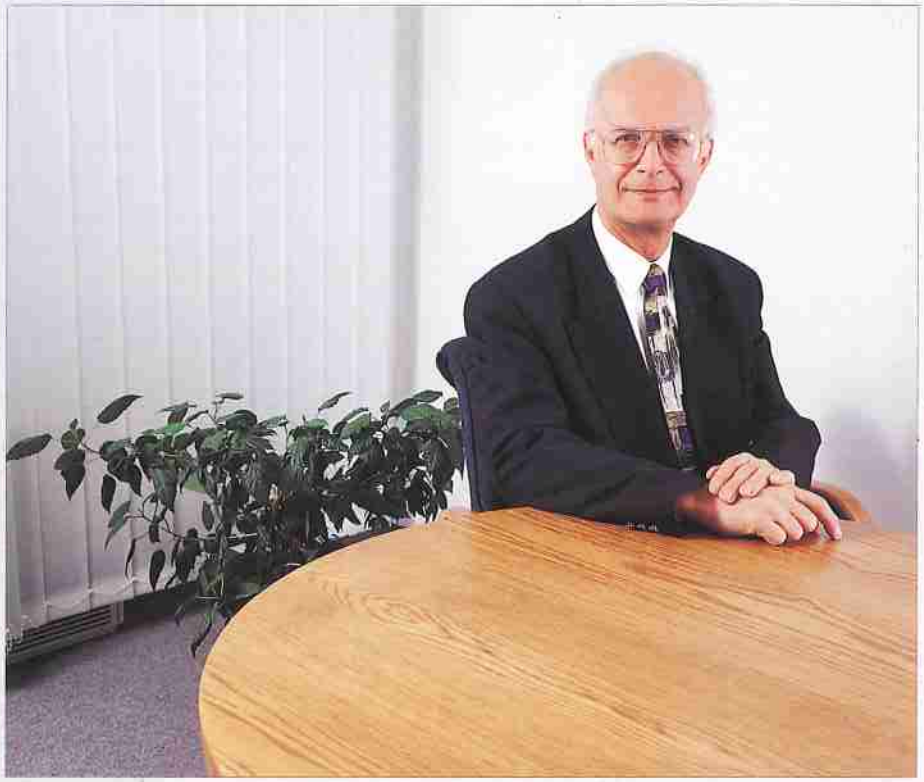
ČEZ's primary concern is quality customer service. We have, therefore, carried out extensive alterations in the power stations, and in the transmission and dispatching systems. We intend to provide our customers with services equalling Western European standards. Attaining these standards will enable the Czech electricity system to work synchronously with Western Europe. Czech power generation will thereby gain new commercial opportunities and expand its possibilities to develop. Our specialists and their foreign colleagues have already accomplished a great deal, and throughout the project our Western European partner companies have been extremely cooperative.

The opinions of our shareholders, customers, and the general public about our company are quite favorable. More and more people are convinced that ČEZ, a. s., is becoming a modern, dynamic electricity company with a European standard, that it has effective environmental programs and strives to diminish negative environmental impacts. We devote considerable effort to inform the public about our activities and plans. Our information and counselling centers were visited by more than thirty thousand people last year.

Within the company, considerable efforts are made to improve managerial and economic activities, and to take full advantage of the great intellectual potential of our employees. That is the key to long-term prosperity.

My thanks go to all our employees.

Petr Karas



Petr Karas

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

Graduated from the Electrotechnical Department of ČVUT in 1963, where he also completed a two-year postgraduate study in the methods of operational analysis. 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 in the technical section, and as 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 Czech Power Works in Prague. He has written 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.

Gabriel Eichler

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

The founder and president of Benson Oak, Inc. investment and consultant company. He was born in Bratislava, but 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 Bank of America, his last post was VicePresident and Chief International Economist at the bank's headquarters in San Francisco. There he was responsible for the economic prognoses and country risk ratings of more than a hundred countries. Before that, he served for eight years as General Manager of Bank of America in various European countries. In 1990, he worked as an Executive VicePresident of the Central European Development Corporation, an investment company operating in Central and Eastern Europe.

Jan Krenk

44 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 ČEZ's Nuclear Power Stations division. He is also a member of the Board of Directors of ÚJV Řež, a.s.

Zdeněk Pistora

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

Graduated from the Electrotechnical Department of ČVUT, 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. He was the Czech Power Works' representative in the study committee of UNIPEDE.

Dalibor Matějů

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

Graduated from the Electrotechnical Department of VUT in Brno. Postgraduate study at the Machine Department of VUT Brno. From 1971, he worked in the Czech Power Works in various operational and technical-economic posts in the Power-and-Heating Plant Brno, the Dukovany Nuclear Power Station, and in the central management of the Czech Power Works. 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.

Vojtěch Kotyza

54 years old, a member of the Board of Directors since October 15, 1994

Graduated from the Machine Department of VUT in Plzeň in 1963, majoring in thermal power-engineering machinery. Then he worked at the former Most power stations (Komořany, Ervěnice). In 1966, he came back to Plzeň and took part in the development of the nuclear power section in the Škoda Works. Between 1972 and 1978, he was a member of the combine development team in the General Management of Škoda.
He completed several postgraduate courses – Sharing Heat, Modern Machine Technologies, System Engineering, and Nuclear Power Engineering. Between 1978 and 1994, he worked at the present Škoda Praha a.s., seven years at the Dukovany Nuclear Power Station, then as head of technical assistance and construction manager at the Nord nuclear power station in the former East Germany, and between 1991 and 1994 as the manager of the nuclear division.

Jan Vacík

44 years old, a member of the Board of Directors since June 15, 1994

Graduated from the Electrotechnical Department of ČVUT in 1975, in 1984 completed postgraduate study at VUT Plzeň, and in 1995 received an MBA from PIBS. From 1976, he worked at the technical section of the EZ Praha, developing industrial automatics. In 1979, he started working at the Energovod Praha Works in various design and technical posts. In 1990, he became Director of the design division of Energovod Praha.
In 1994, he became a member of the Board of Directors of ČEZ, a. s., responsible for all new investments other than the completion of the Temelín nuclear power station.

Members of The Board of Supervisors

Jiří Marek (49)

Chairman of the Board of Supervisors
Graduated from ČVUT. Until 1971, he worked as a research worker in the Institute of Nuclear Research at Řež. After 1974, he held various 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.

Ladislav Petrásek (52)

Vice-Chairman of the Board of Supervisors
Graduated from the Law School of Charles University. From January 1, 1992, he was a member of the executive committee and the head of the equity investment section at the National Property Fund. He is a member of the Board of Directors of Avia Praha, a.s., and the Chairman of the Board of Directors of NIF, a.s. Since May 1, 1995, he has been the head of the equity investment department in Komerční banka.

Petr Hůla (33)

Graduated from the Law School of Charles University. Legal adviser to the Vice-Chairman of the Board of Directors of Investiční a poštovní banka, a.s., a member of the Board of Directors of Čechofracht, a.s., and a member of the Board of Supervisors of Moravan, a.s. Otrokovice.

Livia Klausová (52)

Graduated from the Commerce Department of the School of Economics, majoring in foreign trade. She is the executive secretary of the Czech Economic Society. A member of the Board of Supervisors of Česká spořitelna, a.s., and ZVVZ, a.s., Milevsko.

Peter Kolek (35)

Graduated from the School of Economics. Since April 28, 1995, employed at MEDIATEL, s.r.o.

Václav Krejčí (42)

Graduated from a secondary chemical school. Since 1982, he has been employed in the Dukovany Nuclear Power Station, presently in the internal communication section. He is a partner of the 1.ARDO s.r.o. firm. Elected by employees.

Václav Kupka (51)

Graduated from the Production-economic Department of the School of Economics. First Deputy Minister of Economy of the Czech Republic. Chairman of the Board of Supervisors of Českomoravská záruční a rozvojová banka, a.s., a member of the presiding committee of FNM.

Jiří Kurka (40)

Graduated from the Machine Department of ČVUT. Head of unit operation in the Počerady Power Station. Elected by employees.

Vítězslav Manda (49)

Graduated from the School of Economics. Manager of the Department of Profit Sphere Financing at the Ministry of Finances of the Czech Republic, a member of the Board of Supervisors of ČEPRO, a.s.

Zdeněk Spitzer (28)

Graduated from the Machine Engineering Department of ČVUT. Since February 1, 1995, he has worked as a bank specialist in Československá obchodní banka, a.s. A member of the Board of Supervisors of AGS Bohemiastone, a.s., Hradec Králové since May 12, 1995.

Jan Ševr (48)

Graduated from a secondary machine school. Head of operations at the 500 MW unit in the Mělník Power Station. Elected by employees.

Jiří Švamberk (51)

Graduated from a secondary machine school. Head of the personnel department at the Tisová Power Station. Elected by employees.

The Lipno II Hydro-electric Power Station is a part of the Vltava Cascade

Hydro-electric power stations represent 12% of ČEZ's total installed capacity. They produced 1,287 GWh of electricity in 1994. Pumped-storage hydro-electric power stations are an irreplacable part of the electrification system of the Czech Republic because they cover peak loads during the day. The Dlouhé Stráně and Štěchovice II pumped-storage hydro-electric power stations are currently under construction. When put into operation (1995/96), they will considerably increase the potential to regulate the electrification system of the Czech Republic.

Shareholders of ČEZ, a. s.

ČEZ, a. s., entered 1994 with 58,873 million Kč of common equity capital, with shares at the nominal value of 1,100 Kč.

■ On February 24, 1994, an extraordinary general meeting of shareholders decided to lower the nominal value of a portion of the shares to 1,000 Kč. These shares, amounting to 2,210 million Kč, were held at that time by the National Property Fund of the Czech Republic and were intended to be distributed in the second wave of coupon privatization.

■ The general meeting held on June 16, 1994 approved the distribution of 1993 profits and the proposal not to pay dividends. It also authorized the Board of Directors to increase the company's equity capital up to 2,500 million Kč in cases when the National Property Fund invests privatized property into the company in accordance with the approved amendments to ČEZ's privatization project. Consequently, common equity capital was raised in several stages to 58,973 million Kč.

The Shareholders of ČEZ, a. s.

	as of March 4, 1995	as of October 25, 1994
National Property Fund of the Czech Republic	67.46%	71.13%
Restitution Investment Fund	1.10%	1.05%
Other legal persons	26.53%	24.77%
Total legal persons	**95.09%**	**96.95%**
domestic	82.88%	84.70%
foreign	12.21%	12.25%
Individuals	**4.91%**	**3.05%**
domestic	4.67%	2.79%
foreign	0.24%	0.26%

The table shows the structure of shareholders before and after the second wave of coupon privatization as recorded by the Securities Center on October 25, 1994 and March 4, 1995. The number of shareholders rose during the second wave of coupon privatization from 140,000 to 320,000.

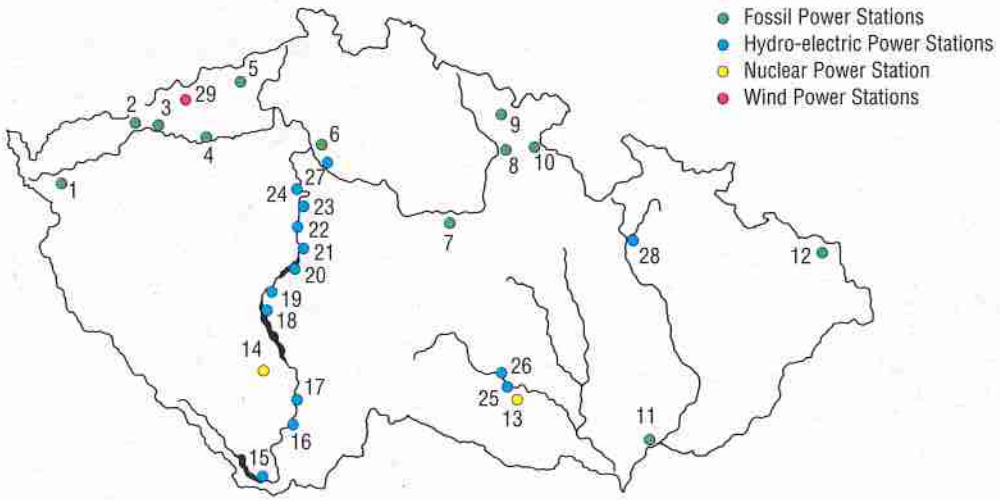
Apart from the National Property Fund and the Restitution Investment Fund, there are seven other significant shareholders of ČEZ, a. s., four of which are foreign. Each holds more than 1% of equity capital, but none of these portions of ownership exceeds 4%.

■ ČEZ's major activity is the generation and distribution of electric power. The electricity is generated in nuclear, fossil, and hydro-electric power stations.

Fossil Power Stations (as of December 31, 1994)			
Power Station	**Type of Fuel**	**Installed Capacity (MW)**	**Beginning of Operation**
Tisová I	brown coal	2 x 50, 2 x 55, 1x 12	1959 – 1960
Tisová II	brown coal	1 x 100	1961
Prunéřov I	brown coal	4 x 110	1967 – 1968
Prunéřov II	brown coal	5 x 210	1981 – 1982
Tušimice I	brown coal	2 x 110	1963 – 1964
Tušimice II	brown coal	4 x 200	1974 – 1975
Počerady I	brown coal	3 x 200	1970 – 1971
Počerady II	brown coal	2 x 200	1977
Ledvice I	brown coal	1 x 200	1967
Ledvice II	brown coal	3 x 110	1966 – 1969
Mělník II	brown coal	4 x 110	1971
Mělník III	brown coal	1 x 500	1981
Chvaletice	brown coal	4 x 200	1977 – 1978
Dvůr Králové[x)]	brown coal	1 x 6, 3 / 1 x 12	1955, 1963
Poříčí	hard coal	3 x 55	1957 – 1958
Náchod[x)]	brown coal	1 x 5 / 1 x 12	1950, 1969
Hodonín	lignite	1 x 55 / 2 x 50	1954 – 1958
Dětmarovice	hard coal	4 x 200	1975 – 1976
Total		**7 257**	

[x)] Power-and-heating plants are a part of the Poříčí Power Stations organizational unit.

1 Tisová I, II
2 Prunéřov I, II
3 Tušimice I, II
4 Počerady I, II
5 Ledvice I, II
6 Mělník II, III
7 Chvaletice
8 Dvůr Králové
9 Poříčí
10 Náchod
11 Hodonín
12 Dětmarovice
13 Dukovany
14 Temelín
15 Lipno I, II
16 Hněvkovice
17 Kořensko
18 Orlík
19 Kamýk
20 Slapy
21 Štěchovice I, II
22 Vrané
23 Modřany
24 Štvanice
25 Mohelno
26 Dalešice
27 Obříství
28 Dlouhé Stráně
29 Dlouhá Louka



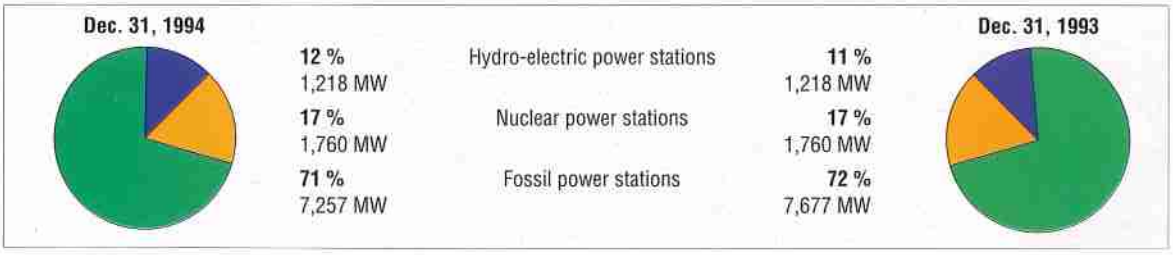
Nuclear Power Station (as of December 31, 1994)	Installed Capacity (MW)	Beginning of Operation
Dukovany	4 x 440	1985 – 1988
Nuclear Power Station under Construction	**Installed Capacity (MW)**	**Beginning of Operation**
Temelín	2 x 981	1st unit – 1997
		2nd unit – 1998

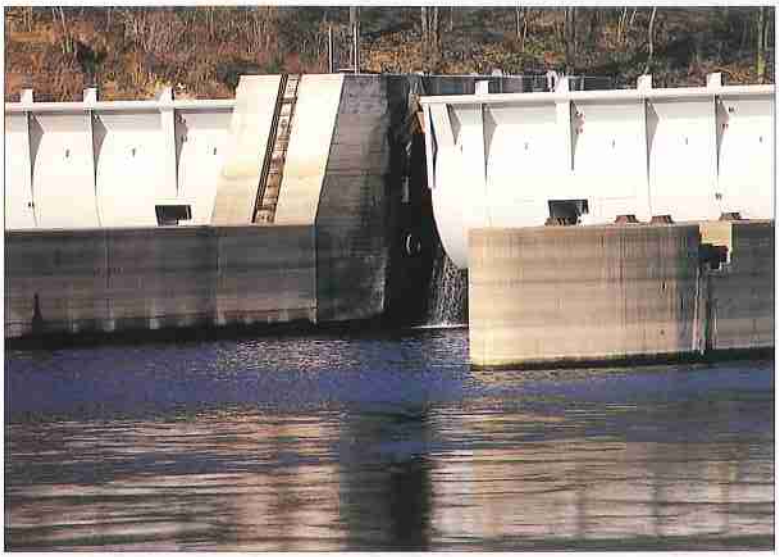
Hydro-electric and Small Hydro-electric Power Stations (as of December 31, 1994)	Installed Capacity (MW)	Beginning of Operation
Lipno I	120	1959
Lipno II	1.5	1957
Hněvkovice	9.6	1992
Kořensko	3.8	1992
Orlík	364	1961 – 1962
Kamýk	40	1961
Slapy	144	1954 – 1955
Štěchovice I	22.5	1943 – 1944
Vrané	13.88	1936
Modřany [1]	1.5	1989
Štvanice [1]	5.67	1987
Mohelno	1.2	1977
total:	**728**	
Pumped-storage Hydro-electric Power Stations		
Štěchovice II [2]	40	1947 – 1948
Dalešice	450	1978
total:	**490**	
Total:	**1,218**	
under construction		
Štěchovice II [2]	45	1995
Obříství	3.4	1995
Dlouhé Stráně	650	1995 – 1996
Total:	**698.4**	

[1] ČEZ, a. s., only operates the power station, it does not own it. [2] Its installed capacity after the reconstruction will be 45 MW.

Wind Power Stations (as of December 31, 1994)	Installed Capacity (MW)	Beginning of Operation
Dlouhá Louka (the Krušné Hory Mountains)	0.315	1994

Installed Capacity in ČEZ's Power Stations



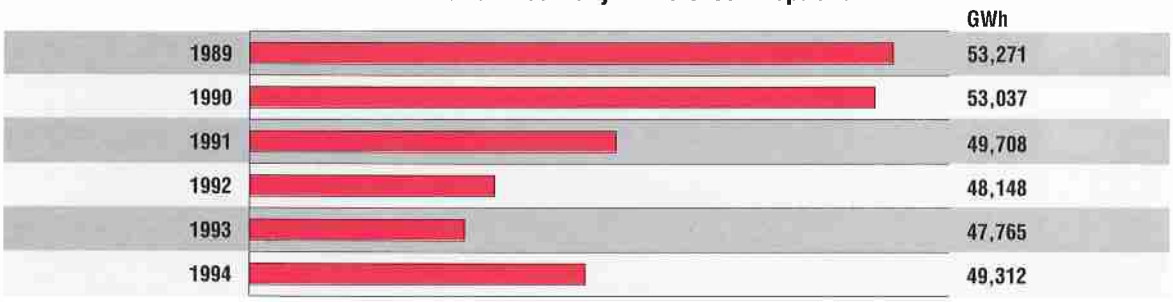


The Kořensko Small Hydro-electric Power Station

The Kořensko Hydro-electric Power Station and the Hněvkovice Hydro-electric Power Station were built as a renewable source of power linked to the construction of the Temelín Nuclear Power Station. Their total installed capacity is 13.4 MW.

■ **The demand for electricity** (i.e. net electricity consumption) in the Czech Republic decreased between 1990 and 1993, as shown in the following table. This downward trend stopped in 1993, and the demand for electricity increased for the first time in 1994

The Demand for Electricity in the Czech Republic

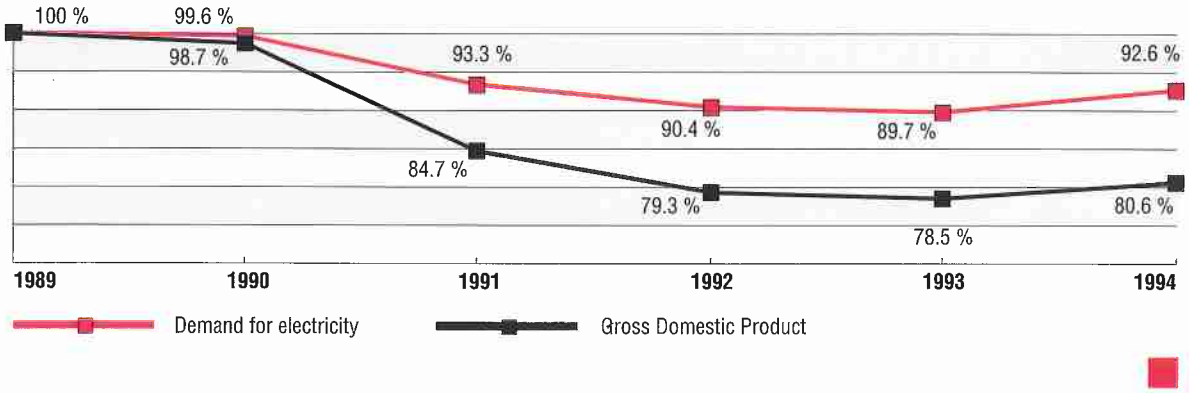


The demand for electricity is closely linked to the developments in the Czech economy. The most significant index of an economy's efficiency is its gross domestic product (GDP). It is, therefore, necessary to follow their parallel development.

The comparison of the two indices shows clearly that the demand for electricity and the GDP are highly corelated. The relative decrease in the GDP, though, was considerably greater than the decrease in the demand for electricity. In 1994, both the GDP and the demand for electricity increased again, and a further increase of both can be expected with the anticipated stabilization of the Czech economy.

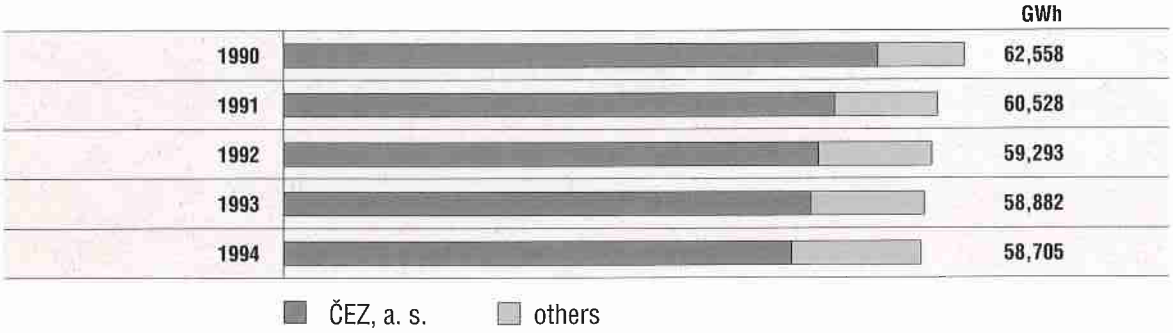
ČEZ, a. s., being the dominant electricity producer in the Czech Republic (producing over three quarters of the electricity) and the operator of the transmission system, has to be adequately prepared for alterations in the future demand.

The Comparison of Development in the Gross Domestic Product and the Demand for Electricity in the Czech Republic



■ Between 1990 and 1993, both the total demand for electricity and the generation of electricity decreased in the Czech Republic. In 1994, the demand for electricity increased, but the domestic electricity production continued to decrease as a result of the lower export and the increased import of electricity.

Development of Total Production of Electricity in the Czech Republic



	1990	1991	1992	1993	1994
The share of ČEZ, a. s.	87.7 %	85.3 %	80.4 %	78.9 %	77.3 %
Index between the years	100.0 %	96.8 %	98.0 %	99.3 %	99.7 %

Production of Electricity in the Czech Republic

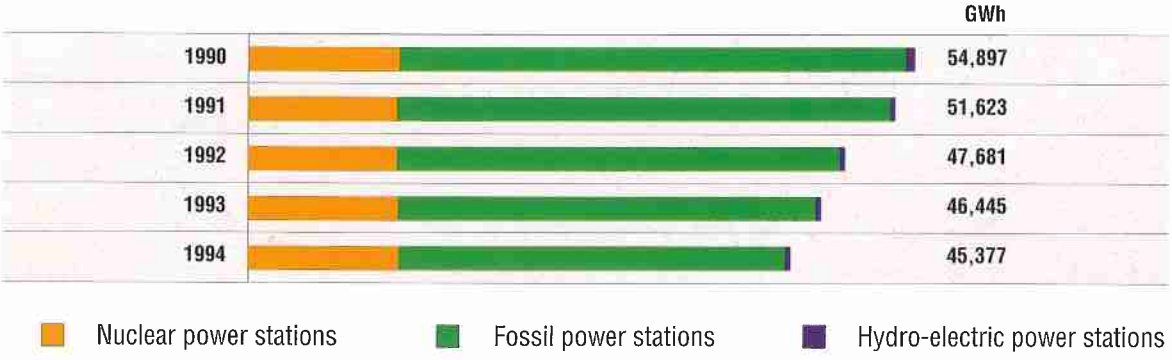
	Unit	1994	1993	Index 94/93
Maximum load in electrification system of Czech Republic	MW	9,632	9,288	103.7%
Day of maximum load		Dec. 19	Dec. 1	
Installed capacity in electrification system of Czech Republic	MW	13,826	14,285	96.8%
of which: ČEZ, a. s.	MW	10,235	10,655	96.1%
	%	74.0	74.6	
Total production of electricity in Czech Republic	GWh	58,705	58,882	99.7%
of which: ČEZ, a. s.	GWh	45,377	46,445	97.7%
	%	77.3	78.9	

As a result of several factors – a decrease in the export of electricity to Slovakia, an increase in the import of electricity for the power distribution joint-stock companies, the separation of the Mělník I power station from ČEZ, a. s., and an increase in the generation of electricity in factory power stations – ČEZ's production of electricity decreased by 2.3% in 1994 compared to the total decrease of production (0.3%). ČEZ, a. s., produced 77.3% of the total amount of electricity produced in the Czech Republic which represents a 1.6% decrease from the original 78.9%.

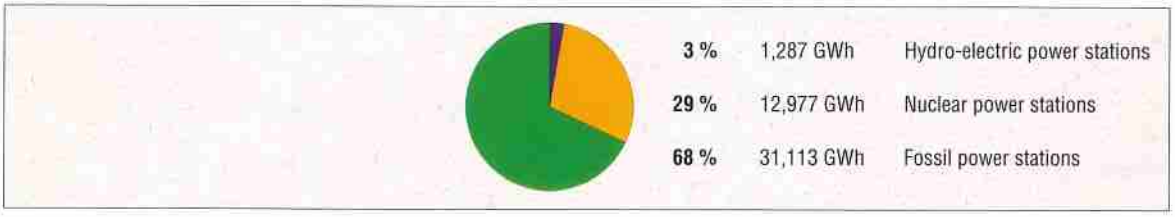
Generation of Electricity

The decrease of ČEZ's total production of electricity is the result of a decreased production in fossil power stations. The production in the nuclear and hydro-electric power stations remains relatively unchanged.

Production of Electricity in ČEZ, a. s.



Breakdown of ČEZ's Production of Electricity in 1994

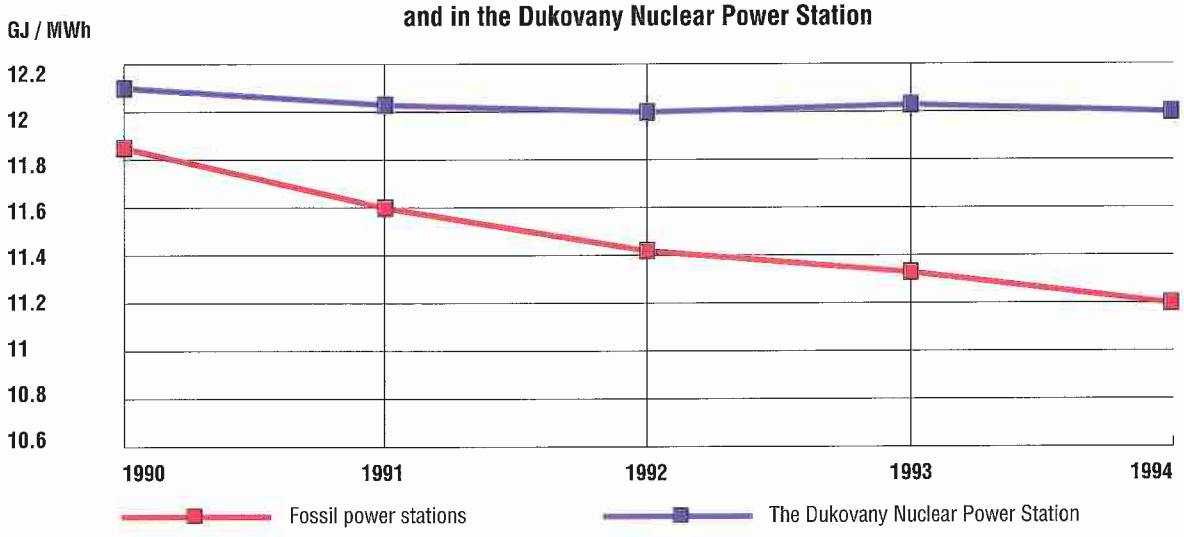


In 1994, 29% of ČEZ's total electricity production was generated by nuclear power stations, 68% by fossil power stations and 3% by hydro-electric power stations.

■ Both the fixed and variable costs of electricity and heat generation have increased over the past few years despite many streamlining measures such as lowering the specific fuel consumption and reducing the number of employees. Major reason for this is the inflationary increase in the primary costs in the production of electricity and heat, and the fact that since 1993, fixed expenses of nuclear power stations have included expense provision for the eventual decommissioning of nuclear power stations and the disposal of spent nuclear fuel.

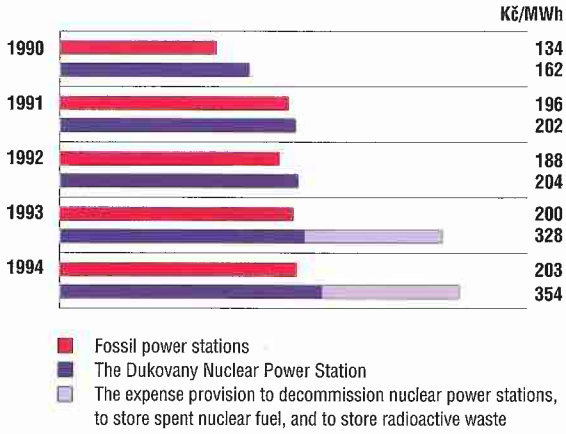
■ In 1994, ČEZ, a. s., continued to use fuel more economically in its power stations. The specific fuel consumption for the supply of electricity in fossil power stations decreased by 6% between 1990 and 1994. This decrease was made possible by several systematic technical adaptations. These included the improved sealing of all thermal cycle elements, the stabilization of the burning process in the boilers, turbine adaptations, the timing and regulating of the engines used to drive large electrical machines, lowering the failure rate, and the quality control of coal. All of these contribute markedly to a more cost-efficient operation, particularly when considering the increased price of fuel, and to a healthier environment with less solid waste and fewer emissions, including carbon dioxide.

Specific Fuel Consumption for the Supply of Electricity in Fossil Power Stations and in the Dukovany Nuclear Power Station

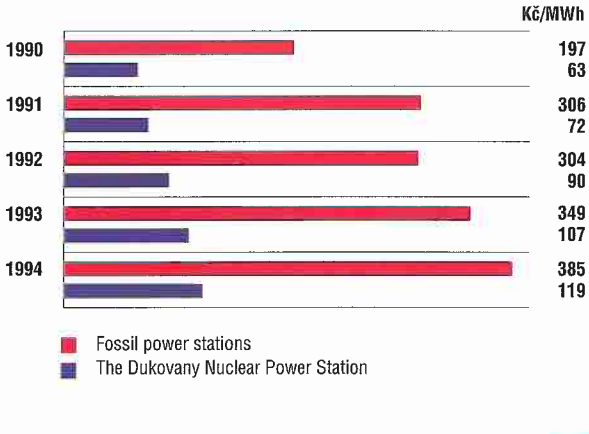


Generation of Electricity

Fixed Specific Costs for the Supply of Electricity in Fossil Power Stations and the Dukovany Nuclear Power Station



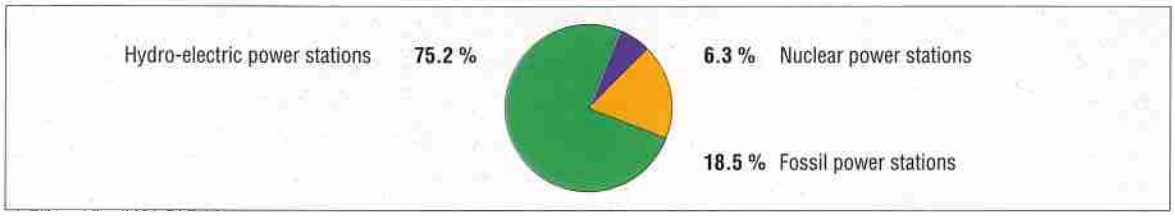
Variable Specific Costs for the Supply of Electricity in Fossil Power Stations and the Dukovany Nuclear Power Station



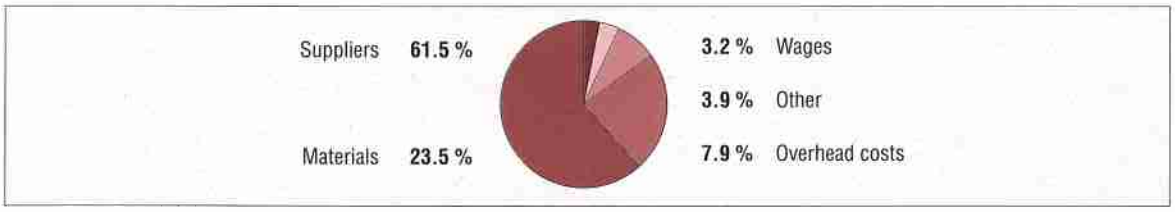
Repairs and Maintenance

■ Repairs and maintenance of ČEZ's power stations were specifically directed to guarantee nuclear safety and reliability, to minimize the environmental impact, and to lower specific fuel consumption.

Share of Total Repairs and Maintenance Expenses of Individual Types of ČEZ's Power Stations in 1994



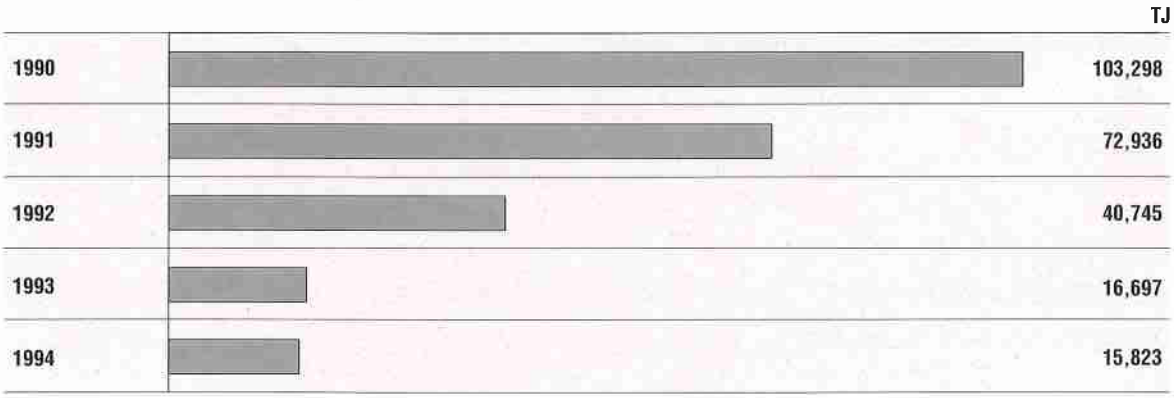
Composition of Repairs and Maintenance Expenses of ČEZ's Power Stations in 1994



Generation of Heat

■ The generation and distribution of heat is a secondary activity of ČEZ, a. s. As part of privatization strategy, major heat suppliers were first separated from the former state-owned company and later from ČEZ, a. s. Consequently, the supply of heat has decreased considerably over the past few years. Even so, ČEZ, a. s., remains a major heat supplier in the Czech Republic. It presently supplies heat from twelve power stations – the Dukovany and Temelín power stations (from gas boiler rooms), the Tisová, Prunéřov, Tušimice, Počerady, Ledvice, Mělník, Poříčí, Chvaletice, Hodonín, and Dětmarovice power stations – and from two power-and-heating plants – Dvůr Králové and Náchod – which are a part of the Poříčí Power Stations organizational unit. ČEZ, a. s., also operates heat distribution networks at the Tisová, Mělník, Chvaletice, Poříčí, Hodonín, and Dětmarovice power stations.

The Development of Heat Supplied by ČEZ, a. s., between 1990 and 1994



The Separation of Individual Heat Suppliers:

1990	The South-Bohemian Power Works
	The West-Bohemian Power Works
1991	The North-Bohemian Power-and-Heating Plants
	The Otrokovice Power-and-Heating Plant
	The Karviná Power-and-Heating Plants
1992	The Praha Power-and-Heating Plants
	The Opatovice Power Station
	The South-Moravian Power Stations
	The Ostrava-Karviná Power Stations
1993	The Mělník I Power Station

The separation of major heat suppliers from ČEZ, a. s., or its legal predecessor, has been completed. ■

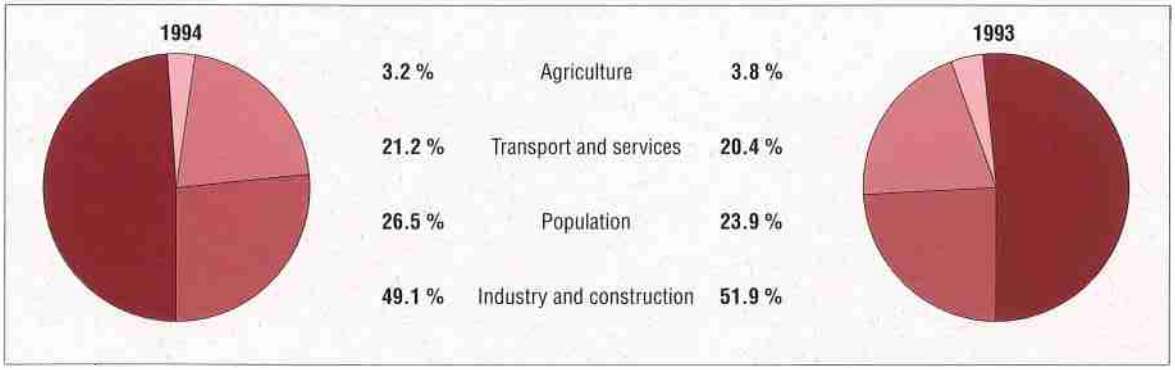
The Development of Electric Power Industry Legislation and ČEZ's Position

■ Throughout 1994, work continued on two fundamental documents which are to establish the legislative boundaries for business in the field of power industry, and will, consequently, influence ČEZ's business activities. The first document, „The Act on the Conditions for Conducting Business and State Supervision in Energy Industries, and on the State Energy Industry Inspection", was completed and approved by the Parliament of the Czech Republic in the beginning of November 1994. It was published as Act No. 222 of 1994 and came into effect on January 1, 1995. This Act established the fundamental guidelines for conducting business in the power industry. Presently, public decrees are being prepared that should give shape to issues such as authorization, regulation, states of emergency, conditions for supplying final consumers, and central control of the electrification system. The principles of a second document, the so-called „Nuclear Act", were outlined by the end of 1994. It will gradually be completed and submitted to the Parliament of the Czech Republic sometime in late 1995.

ČEZ's View on The Prognosis of Development in the Power Industry

■ The demand for electricity is expected to continually increase as the Czech Republic's economy stabilizes, despite the predicted stagnation in electricity consumption in industry and construction. Current forecasts are for the GDP of the Czech Republic to increase annually by an average of 3.5% and the demand for electricity by 2 to 3%, and even more in 1995. Furthermore, it is predicted that by the year 2000, the share of households in total electricity consumption will have increased from 26.5 to 28-30%. The changes in the demand for electricity will considerably alter the diagram of the daily load and create a marked rapid growth in the maximum load of the electrification system (in MW) compared to the total demand for electricity (in GWh). All these changes will require a generation system which can reliably and effectively cover peak-load demands. Such a system should be established even before the year 2000.

The Structure of Net Electricity Consumption in the Czech Republic



The Temelín Nuclear Power Station, with the Hněvkovice Small Hydro-electric Power Station in the front

The construction of the Temelín Nuclear Power Station (back center), along with the program of environmental upgrading of fossil-power stations, is ČEZ's major investment activity. When completed, Temelín will be the most significant source of power in the Czech Republic. Its operation will increase the nuclear power engineering's portion of generated electricity from the present 29% to almost 50%. Temelín will operate at base load, and its parameters will meet the requirements for interconnection to the Western European UCPTE network. The Hněvkovice Small Hydro-electric Power Station (front of picture) was built predominantly as a source of technological water for the Temelín Nuclear Power Station.

ČEZ's Strategic Plans for the Near Future

■ The major goals of ČEZ, a. s., arise from its mission to provide its customers with electricity at competitive prices and to follow in the path of permanently tenable progress.

This means that the company strives to supply electricity reliably, to generate it in an environmentally considerate manner, to gain the respect of its customers, suppliers, shareholders, creditors, its own employees and the general public, and in so doing to eventually attain the standards of successful western electricity companies.

■ These strategic goals should be accomplished through the programs to improve business activities and quality control, through the analysis of the anticipated development of the business environment, and through the growth of efficiency, knowledge, and the abilities of the company's employees.

The Signing of the Final Contracts of the ČEZ, a. s., Eurobond Issue on December 15, 1994

From the left: Petr Karas, Chairman of the Board of Directors of ČEZ, a. s.; Kurt Viermetz, Vice-Chairman of J.P.Morgan and Company, Inc.; Gabriel Eichler, the first Vice-Chairman of the Board of Directors of ČEZ, a. s.; Vladimír Dlouhý, Minister of Industry and Trade of the Czech Republic.

ČEZ, a. s., became the first Eastern European industrial company to issue bonds in European financial markets. The issue of five-year Eurobonds, worth 150 million USD, was introduced to the market by the American investment bank J.P.Morgan Securities Ltd., the lead manager of the issue. Before entering the foreign capital markets, ČEZ's received an investment grade rating of BBB- from Standard & Poor's. Later, the Japanese agency, JBRI, gave ČEZ, a. s., a rating of A-.

At the same time, ČEZ, a. s., continued its activities on domestic capital markets. The second bonds issue, amounting to 4 billion Kč, followed up the very successful 1993 issue. Both of these issues of bonds and shares rank among the most marketed on the Prague Securities Exchange.

All of these activities are included in the Concept of Business Activities of ČEZ, a. s., presented for approval at the general meeting in July 1995. The detailed business plan for 1995 to 2000 (with a prospect through 2005) only confirmed that ČEZ, a. s., follows the general trend of „least cost" development which occurs throughout the

Czech power engineering industry. In September 1994, the Ministry of Industry and Trade proposed an updated Power Engineering Policy of the Czech Republic which included specific developmental activities, and thereby outlined the future development of ČEZ, a. s., It deals particularly with the following projects:

- completing and commencing the operation of the Temelín Nuclear Power Station (2x981 MW) and reducing the use of obsolete fossil power stations;
- modernizing the Dukovany Nuclear Power Station to improve its technical-operational and safety standards, and to extend its service life;
- completing the interim spent-fuel storage project at the Dukovany Nuclear Power Station;
- preparing the construction of the central storage of spent nuclear fuel which should be put into operation by 2004 at the latest;
- reducing by shut-down 2,230 MW of capacity in fossil power stations: 1,225 MW capacity of absolute units was put out of operation by the end of 1994, the remaining 1,005 MW will be decommissioned by the beginning of 1999;
- completing the renovations in fossil power station units, whose total capacity amounts to 6,252 MW, to meet the regulations of the environmental protection acts regarding the operation of such units after January 1, 1999. It will mainly involve the completion of desulphurization equipment to desulphurize the units, or replacing some of the current pulverized-fuel-fired boilers with fluidized boilers, the reduction of nitrogen oxides and fly-ash emissions, the increase in efficiency of thermal cycle elements, and the consequent reduction of carbon dioxide;
- commencing the operation of the Dlouhé Stráně Pumped-storage Hydro-electric Power Station (2x325 MW);
- adapting the configuration, sizing, and increasing the technical standards of the transmission system to prepare for the future connection of the electrification system of the Czech Republic to the UCPTE system in Western Europe.

ČEZ's Investment Program from 1994 to 2000 (in billion Kč)

Investment activities	Total budget 1994 – 2000	Expensed in 1994	Left to spend 1995 – 2000
The Temelín Nuclear Power Station	42.5	8.1	34.4
Desulphurization	21.2	4.7	16.5
Fluidized boilers	5.9	0.9	5.0
In-process storehouse for spent fuel at Dukovany	1.1	0.2	0.9
Waste economy	7.6	1.8	5.8
Operation	12.2	2.3	9.9
Hydro-electric power stations	3.5	1.2	2.3
Transmission system	8.7	1.5	7.2
Other investments including reserves	24.0	3.6	22.7
Total	126.7	24.3	104.7

The Prunéřov Power Stations are one of the largest producers of electricity and heat in the Czech Republic

In 1995, the Prunéřov Power Stations will install desulphurization equipment, becoming the second power station managed by ČEZ, a. s., to do so. Four units with a total capacity of 440 MW will be desulphurized first. The remaining units will be desulphurized by August 1996. A more than 90% decrease in sulphur dioxide emissions will markedly improve the air quality in North-Western Bohemia.

Major Projects Completed in 1994

■ Successful guarantee tests at the 5th and 6th units in the Počerady II Power Station concluded the first stage in lowering the emissions in Northern Bohemia. The first sulphur-removal mechanism, which desulphurized an installed capacity of 2x200 MW, was built by Škoda Praha, a.s., OTES, a.s., and Saarberg-Hölter-Lurgi GmbH (SHL). At the same time, a production line to make drywall construction materials was put into operation in cooperation with the KNAUF firm. It uses the waste of the desulphurization process and prepares it for further use in the building industry.

Other important activities included the completion of the 400 kV Temelín – Řeporyje – Chodov and Dlouhé Stráně – Krasíkov transmission lines, the Želina small hydro-electric power station, activities directed towards lowering nitrogen oxides emissions in the Prunéřov II Power Station, the reconstruction of fly-ash separators in the Počerady Power Station, and 74 other constructions, each with investment costs of over 10 million Kč.

The overall view of the building site of the Temelín Nuclear Power Station

The construction of the Temelín Nuclear Power Station is the largest investment of ČEZ, a. s.; by the end of 1994, 42.1 billion Kč have been invested in the project.

Constructions in Progress

Temelín Nuclear Power Station

■ When finished, the Temelín Nuclear Power Station will be the largest source of power in the Czech Republic and, together with the Dukovany Nuclear Power Station, will increase the nuclear power portion of generated electricity to almost 50%. The operation of the Temelín Nuclear Power Station will help ČEZ, a. s., meet the environmental pollution limits stated in the Environmental Protection Act of 1991. Temelín's units will provide the base load, and their parameters will meet the requirements for connection to the Western European UCPTE network.

As the safety requirements for nuclear power stations continue to increase, the project to build the Temelín Nuclear Power Station underwent expert assessments to determine if it is able to meet the requirements valid in Western Europe and the United States, especially regarding the licensing. This testing was based on the adaptation of a similar power station type in Finland, the Loviisa nuclear power station. The review and project testing process was realized in four successive stages. The most important were the expertise of the International Agency for Atomic Energy Agency (IAEA) and the inspection of the project, including the construction, by an independent international team of experts. The results of the independent inspection showed that if their recommendations are accepted, the Temelín Nuclear Power Station should be able to obtain its license to operate at Western European standards in the mid 1990's.

The major recommendation was to alter the original Russian automatic control system of technological processes (ACSTP) and to upgrade the active zone of the reactor by using a more modern fuel. ČEZ, a. s., accepted these recommendations which were confirmed by the domestic state nuclear safety supervisors. In the bidding proceedings, entered into by well known international companies, ČEZ, a. s., selected Westinghouse Electric Corporation to carry out the recommended alterations in ACSTP and nuclear fuel.

On the basis of the bidding proceedings, ČEZ, a. s., signed four contracts. In May 1993, a contract was signed between Westinghouse, Škoda Praha, a.s., and ČEZ, a. s., to supply the automatic control system of technological processes. Another contract to supply a radiation monitoring system was signed between Westinghouse, Škoda Praha, a.s., and ČEZ, a. s., in March 1994. Also in March 1994, a contract was signed between Westinghouse, Škoda Jaderné strojírenství Plzeň s.r.o., Škoda Praha, a.s., and ČEZ, a. s., to supply a technical diagnostic monitoring system. Finally, a contract to supply nuclear fuel and related services was signed between Westinghouse and ČEZ, a. s., in May 1993.

The alterations in the technical dimension, especially in ACSTP and fuel, required coordination of the original Russian project and Czech regulations with the requirements valid for foreign suppliers. Therefore, Energoprojekt Praha, a.s. amended the original project in cooperation with all the other participants in the construction.

The volume of additional work to be completed exceeds the original schedule, especially regarding cabling, and, therefore, the delivery of fuel will be postponed from the original dates to September 1996 for the 1st unit and March 1998 for the 2nd unit.

According to contracts between ČEZ, a. s., and its partners, the present budgeted cost (including capitalized interest) to build the Temelín Nuclear Power Station amount to 76.1 billion Kč.

The original contracts for the project and supply for the Temelín Nuclear Power Station were signed at a time when Act No. 109 of 1964 as amended, known as the Economic Code were still valid. The legislation was changed during the course of construction, mainly by Act 513 of 1991, known as the Commercial Code. A substantially improved contract governed by the Commercial Code was signed in June, 1995. Significantly, it transfers the ownership of delivered buildings and equipment under construction to ČEZ, a. s.

The financial analysis of the construction shows that at the end of 1994, 42.1 billion Kč had been expensed against the total budgeted costs. Project related loans will provide 11.4 billion Kč of the remaining approximately 34 billion Kč. Additional financing will be provided for from ČEZ's sources of global financing.

An important stage in the licensing process of the Temelín Nuclear Power Station was presently concluded. It was the assessment of the changes in the automatic control system of technological processes. The changes will increase nuclear safety and the operational reliability of the power station compared to the original Russian model, and increase the ability to deal with critical situations. These alterations, however, will not affect the technical layout of the construction, the parameters of the safety zone, the power consumption, water demand, nor the capacity of networks. It is mostly a change in the system of transmission and analysis of information. This change was approved by all the involved authorities. Since the construction changes are minimal, the final judgement on nuclear safety and the ensurance of quality will play the key role. Therefore, the local authorities decided in December 1994 that the changes in ACSTP will be judged as a part of the final nuclear power station inspection before commencing operations. This decision allows for the implementation of the changes without risking administrative delay.

Another important development is a permission obtained to use the water of the Vltava River. The authorization came into effect by a decision of the Ministry of the Environment on April 18, 1994. It allows the future operator of the Temelín Nuclear Power Station to draw water from the Vltava and to release the used water back into the river because it was clearly proved that the used water will not negatively influence the Vltava.

Finally, the management of the project was upgraded by appointing a member of the Board of Management with specific responsibility for the Temelín project.

The Dukovany Nuclear Power Station – an Interim Spent-fuel Storage Project

■ After obtaining of a construction permit, work began on an interim spent-fuel storage project in the area of the Dukovany Nuclear Power Station in June 1994. The storehouse, with the capacity of 600 tons of spent fuel, represents the first step in ČEZ's concept for the final stage of the fuel cycle. The storehouse, designed by the GNS – Nukem consortium, provides for the dry storage of spent fuel and will be put into operation in 1995. The production continued of a transport carriage for the Castor 440/84 containers, as well as work related to the licensing of the containers and safety documentation. Until transported to the in-process storehouse, the spent fuel is kept in store basins which were made more compact in 1994. This has more than doubled the spent fuel storage capacity of each basin situated in the reactor room.

The Central In-Process Storehouse for Spent Nuclear Fuel

■ In 1993, Terplan Praha worked out a variety of locations for the central in-process storehouse for spent nuclear fuel from the Dukovany and Temelín nuclear power stations. Based on investigations carried out in 1994, these locations are presently being evaluated according to several criteria, such as nuclear safety, the requirements of the Construction Law, and Act No. 114 of 1992 regarding the protection of nature and the countryside.

In the beginning of 1995, the number of suitable locations for the central in-process storehouse was narrowed down; it will be necessary to put it into operation by the end of 2004.

The Desulphurization Program

■ The desulphurization program continued in 1994 by the desulphurization of the Prunéřov I and II power stations and the construction of the first fluidized boiler in the Tisová Power Station. The construction of desulphurization equipment at both the Prunéřov I and II power stations is in accordance with the updated time schedule, and is prepared to meet the contracted deadlines. The construction of the first fluidized bed boiler in the Tisová Power Station progresses, despite its demanding nature, according to the construction schedule.

Throughout 1994, preparations continued to build desulphurization equipment at the Mělník, Dětmarovice, and Chvaletice power stations, and at the 6th unit of the Tisová Power Station. Even though the schedule is pushed to the limit, the commencement of operations of these mechanisms in 1997 and 1998 is not yet threatened.

The Dlouhé Stráně Pumped-storage Hydro-electric Power Station

■ Flexible sources of electricity play an important role in the electrification system. Therefore, the Dlouhé Stráně Pumped-storage Hydro-electric Power Station was built. Its construction was completed; however, there was a serious breakdown of the generator during the test run of the 1st unit on June 10, 1994, which postponed this unit's commencement of operations, originally scheduled for 1994, and led to necessary technical adjustments of both units of the power station. The breakdown occurred in the equipment supplied to the company, and the committee investigating the accident confirmed that it was not caused by ČEZ, a. s. The new test run is scheduled in March 1996 for the 1st unit and in August 1995 for the 2nd unit.

Contracts Signed in 1994 to Supply Equipment to Desulphurize Flue Gases Using Wet Limestone Method with more than 90% Desulphurizing Efficiency

Power station	Supplier	Date of signing the contract
The Počerady Power Station, units 2,3,4 (3x200 MW)	Hoogovens Technical Services, Energy and Environment BV, Holland	March 29, 1994
The Ledvice Power Station, units 2,3 (2x110 MW)	Consortium of Austrian Energy and Environment SGP/Waagner-Biro GmbH, Austria, and Vítkovice, a.s., Czech Republic	April 25, 1994
The Tušimice II Power Station, units 1,2,3,4 (4x200 MW)	Consortium of Chiyoda Corporation, Japan, Burmeister and Wain Energi A/S, Denmark, and Marubeni Corporation, Japan	May 27, 1994

Signed Contracts to Supply Fluidized Bed Boilers (1994)

Power station	Supplier	Date of signing the contract
The Hodonín Power Station, 1st and 2nd fluidized boilers (2x170 t/hour)	Austrian Energy and Environment SGP/Waagner-Biro GmbH, Austria	June 7, 1994
The Poříčí Power Station, 1st fluidized boiler (250 t/hour)	CNIM S.A., France, A. AHLSTROM Corporation, Finland, and CdF INGENIERIE, France	September 27, 1994

Other Constructions

■ The other 54 constructions prepared during 1994 included significant and investment-demanding projects as the installations of a new pilot system and electric separators at the Prunéřov Power Stations, and the construction of the 400 kV transmission line from Přeštice to Etzenricht in Germany. The total investment costs of constructions beginning in 1995 and 1996 will exceed 13 billion Kč.

■ One of the company's major objectives is to be with the other CENTREL countries (a group including the Czech Republic, Hungary, Slovakia, Poland) connected to the UCPTE system of Western Europe. Therefore, many technical adaptations are conducted in both the transmission system and individual power stations to attain the technical prerequisites that permit such a connection. During 1994, many of these adaptations were planned, particularly concerning the plans to prevent system disturbances, to increase the dynamic abilities of power station units (primary and secondary regulation of generators), and to create a telecommunication network based on optical fibres between plants and the central controls of the electrification system. The total costs directly related to the connection to the UCPTE system will not exceed 1.2 billion Kč.

■ The fly-ash and nitrogen oxides emissions from ČEZ's power stations were, as planned, gradually being lowered. These measures are carried out to meet the requirements of the Clean Air Act of 1991 to lower the pollutant emissions by the end of 1998.

The program to improve the condition of the environment is one of the major priorities of ČEZ, a. s. The program outlines several ways to attain improvement. These include decommissioning of some power station units, the desulphurization of other units, the use of fluidized technologies for burning, using desulphurization products to make building materials, and the introduction of an ecological manner of storing solid waste from fossil power stations in the form of an inert compound. ČEZ, a. s., spends large amounts of money to significantly lower the pollution caused by its power stations.
In 1991, these power stations contributed 20 to 70% of the pollution in various locations; in 2000, the power station pollution will drop to 5 to 10%.

ČEZ's Attitude towards the Environment

■ The fundamental business strategy of ČEZ, a. s., is to produce electricity and heat in an environmentally responsible manner. The first step to fulfil this strategy is to meet the requirements of environmental legislation. Based on Act 309 of 1991 (the Clean Air Act), the Directive issued by the Federal Environmental Committee on June 23, 1992, determined the emission limits for solid pollutants, sulphur dioxide, nitrogen oxides and carbon oxide (in mg/Nm3). These limits apply to newly built sources of air pollution, to stationary fuel-burning equipment with a nominal thermal output higher than 5 MW. The Atmosphere Protection Departments of the Czech Environmental Inspection set December 31, 1998 as the final deadline by which even ČEZ's older power stations and power-and-heating plants that burn solid fuel must comply with the emission limits for new sources.

The Emission Limits

(mg/Nm^3)

	Pulverized-fuel boilers with heat output of 50 MW up to 300 MW	Pulverized-fuel boilers with heat output over 300 MW	Fluidized boilers
Power stations	Tisová Prunéřov I Tušimice I Ledvice II Mělník II Poříčí Dvůr Králové [xx] Náchod [xx] Hodonín	Prunéřov II Tušimice II Počerady Ledvice I Mělník III Chvaletice Dětmarovice	Tisová (2 x 350 t/h) Ledvice (1 x 350 t/h) Poříčí (2 x 250 t/h) Hodonín (2 x 170 t/h)
Fly-ash	100	100	50
Sulphur dioxide	1,700[x]	500[x]	500[x]
Nitrogen oxides	650	650	400
Carbon oxide	250	250	no limit set

[xx] Power-and-heating plants

[x] There is a set minimum limit of desulphurization efficiency for sulphur dioxide emission limits:

a) for pulverized-fuel boilers – 1,700 mg/Nm^3.....70%
– 500 mg/Nm^3.....85%

b) for fluidized boilers – 500 mg/Nm^3.....75%

Desulphurization equipment installed at the 5th 200 MW unit of the Počerady Power Station

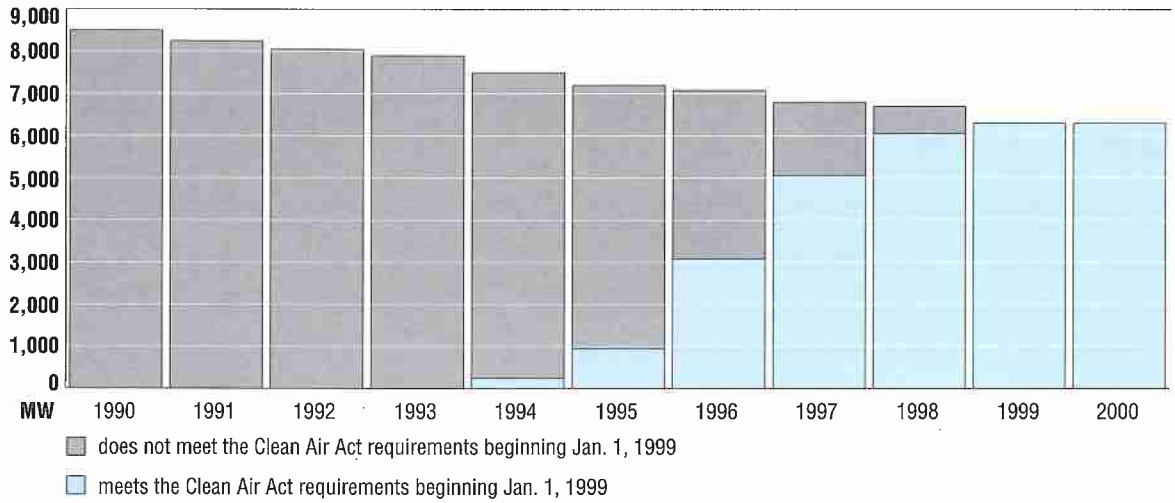
Desulphurization equipment was put into operation on October 27, 1994. It is the first desulphurization equipment installed in the Czech Republic. At the end of 1994, another such equipment was put into operation at the sixth unit. The operation of this equipment has proved more than 95% efficient in desulphurizing waste gases. By the end of 1998, desulphurization equipment will be fitted to fossil power station units totalling 5,840 MW. The use of fluidized technologies of burning is another important part of the environmental program of ČEZ, a. s. These technologies will be employed in the Tisová, Ledvice, Poříčí, and Hodonín power stations. Those fossil power station units whose age and technical condition prevent their effective desulphurization or alteration of the technology of burning, are being gradually phased out of operation.

ČEZ's Program to Reduce Fossil Power Station Units' Capacity

Power station	Unit	Inst. capac. MW	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Mělník II	U 7,8	220										Jan.1,1999
Poříčí	TG 1	55										Jan.1,1999
Chvaletice	U 2	200									Jan.1,1998	
Tisová	TG 4	50									Jan.1,1998	
Hodonín	TG 1	50								Oct.31,1997		
Ledvice	U 1	200								April 15,1997		
Tušimice I	U 4	110								March 31,1997		
Tušimice I	U 5	110								March 31,1997		
Hodonín	TG 2	50						Jan.1,1995				
Hodonín	TG 3*	-40							June 1,1996			
Tušimice I	U 3	110					July 1,1994					
Ledvice	U 5	110					Feb.1,1994					
Počerady	U 1	200					Jan.1,1994					
Tušimice I	U 2	110				June 1, 1993						
Hodonín	TG 3*	55				Jan.1,1993						
Tušimice I	U 1	110			March 31,1992							
Prunéřov I	U 1	110			Jan.1,1992							
Tisová II	U 8	100			Jan.1,1992							
Tušimice I	U 6	110		June 30,1991								
Tisová II	U 7	100		Jan.1,1991								
Prunéřov I	U 2	110		Jan.1,1991								
Accumulated reduction in MW			0	320	640	805	1,225	1,275	1,235	1,705	1,955	2,230

* A new turbo-generator TG 3 (40 MW) is being built in the place of the original TG 3 (55 MW). It will commence operations on June 1, 1996.

Fulfilling the Clean Air Act Requirements by ČEZ's Fossil Power Stations



ČEZ's Concrete Achievements in Environmental Protection in 1994

■ At the end of 1994, only one third of ČEZ's total installed capacity, i.e. 3,378 MW out of 10,235 MW, complied with the conditions of operation which will come into effect as of January 1, 1999. These were 1,760 MW of nuclear power stations, 1,218 MW of hydro-electric power stations, and 400 MW of desulphurized fossil power stations.

Throughout 1994, environmental activities of the company focused particularly on the following:

■ A desulphurization equipment based on wet limestone washing with a minimum 95% efficiency was successfully completed and put into operation at the 5th and 6th units of the Počerady II Power Station (2x200 MW). At the same time, a plant was put into operation which processes desulphurization products from this power station and produces sheets of drywall. This plant was built in cooperation with the German firm KNAUF. By the end of 1994, 400 MW of capacity were desulphurized which represents 5.5 % of the total installed capacity of fossil power stations.

■ Constructions continued of desulphurization equipments in the Prunéřov I (4x110 MW) and Prunéřov II (5x210 MW) Power Stations, and of the first fluidized boiler (350 t/hour) in the Tisová Power Station. After they commence operations, 2,000 MW, or 28% of the total installed capacity of fossil power stations will be desulphurized.

■ Contracts were signed to supply desulphurization equipments for the Tušimice II Power Station (4x200 MW), for the 2nd and 3rd units of the Ledvice II Power Station (110 MW each), for the 2nd, 3rd, and 4th units of the Počerady I Power Station (200 MW each), and to construct fluidized boilers in the Hodonín and Poříčí power stations. After their completion, 3,940 MW, or 54% of the total installed capacity of fossil power stations will be desulphurized.

■ In March 1995, bidding proceedings were concluded to desulphurize the Chvaletice (3x200 MW) and Dětmarovice (4x200 MW) power stations. Preparations continued to construct a fluidized boiler (350 t/hour) and to desulphurize the 6th 110 MW unit in the Tisová Power Station, to desulphurize the Mělník II (2x110 MW) and Mělník III (1x500 MW) power stations, and to construct a fluidized boiler (350 t/hour) in the Ledvice Power Station.

■ A total of 2,230 MW of capacity in obsolete fossil power station units will be gradually phased out of operation by the end of 1999. A total of 1,225 MW has already been put out of operation by the end of 1994; and 1,005 MW are still to be phased out.

■ The exchange of an electric fly-ash separator was completed at the 2nd unit of the Ledvice Power Station, and so was the exchange of the active parts of an electric separator at the 1st unit of the Chvaletice Power Station. The exchange of an electric separator began at the 9th unit of the Mělník II Power Station, and the construction of new filters at the B 3 boiler in the Dvůr Králové Power-and-Heating Plant and at the B 4 boiler in the Náchod Power-and-Heating Plant.

■ Preliminary steps were taken to lower the nitrogen oxides emissions in individual power stations. In 1994, these steps were carried out at selected boilers of the Dětmarovice, Prunéřov I, Prunéřov II, and Tušimice II power stations; in the past, they were implemented in the Chvaletice Power Station (all boilers) and the Ledvice Power Station (two boilers).

The Electricity Conservation Activities

■ Counselling, Distributing Information, and Publishing Activities

The Information and Counselling Center of ČEZ, a. s., was opened at the headquarters of the company, at 29 Jungmannova Street, Prague 1, in October 1994. It houses a permanent exhibition of how to economically utilize electricity in households and in the construction industry, and offers an opportunity to question experts about real problems. A great deal of informative materials is at the disposal of the visitors to help them solve their electricity problems. The Center organizes regular theme days focusing on topics such as solar and ancillary heating, light sources and lighting, small hydro-electric power stations, financial support of power conservation, and thermal measurements.

Also in 1994, the Information Center of the Dukovany Nuclear Power Station and the Counselling Center for Small Hydro-electric Power Stations in Brno were opened.

■ Economical Lighting

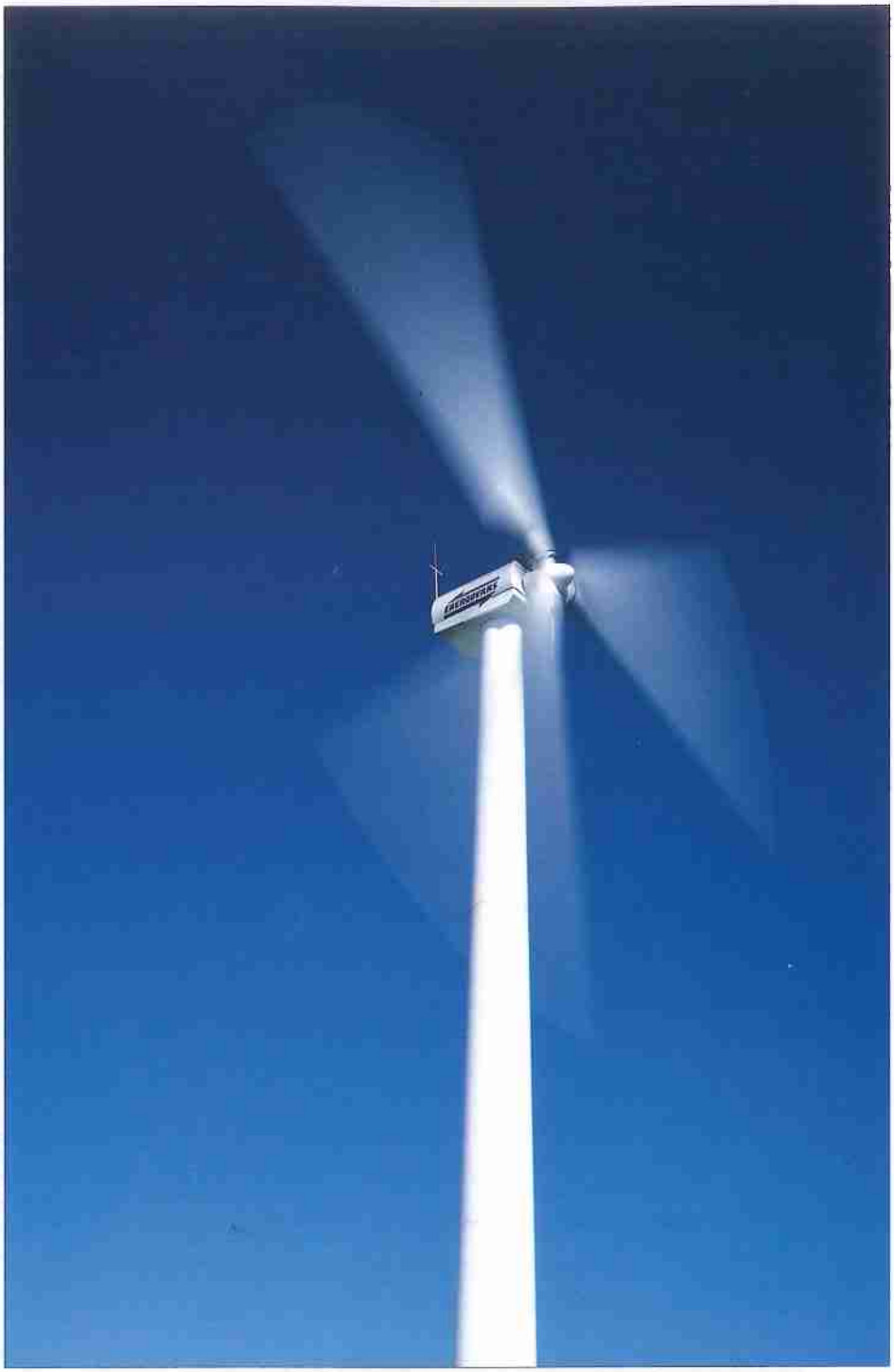
The company, together with the Agency for Power Engineering of the Ministry of Industry and Trade of the Czech Republic, sponsored the sale of 140,000 economical compact fluorescent lamps that can save up to 80% of electricity compared to regular light bulbs. ČEZ, a. s., contributed 10 out of the 16 million Kč necessary to subsidize this activity. According to experts, the full employment of these fluorescent lamps could lower the installed input for lighting by 9 MW and annually save 10,200 MWh of electricity. ČEZ, a. s., organized an experimental project in two highrise buildings in Prague 10 to assess the potential savings in greater detail and to find out if these electricity savings are realistic.

■ Power Usage Inspections

ČEZ, a. s., financed power usage inspections in schools and child care institutions in the environmentally burdened area of Northern Bohemia, in the towns of Most and Litvínov. This inspection intended to promote the economical use of energies, particularly for heating buildings and service water. The results are to be demonstrated through concrete projects in a way fully applicable to similar establishments elsewhere. The conclusions of the inspections, along with proposals for conservation measures, were handed over to the local authorities dealing with the matter.

■ Power Assessment of Electrical Appliances

In 1994, the Electrotechnical Testing Institute carried out tests on 14 types of automatic washing machines. The results were published in the „D Test" monthly. Similar tests have been carried out with electrical hot-water heaters; they should be concluded in 1995. Beginning in 1996, electrical appliances will carry information about their power efficiency. This intends to promote the use of the most electrically efficient appliances.



The wind power station situated in Dlouhá Louka near Osek in the Krušné Hory Mountains

One of the ways in which ČEZ, a. s., helps the environment is the construction of renewable sources of power. In addition to new hydro-electric power stations, this includes solar and wind power stations. ČEZ's first experimental wind power station, Dlouhá Louka near Osek, has been in operation since the end of 1993. In 1995, ČEZ, a. s., will put into operation a farm of wind power stations and a solar power station in the Jeseníky Mountains.

■ Experimental Ecological and Power Engineered House

In the course of 1995, an experimental ecological and power engineered house will be completed in the village of Podolí in the suburbs of the town of Brno. The construction is financed mostly by the Ministry of Industry and Trade of the Czech Republic, ČEZ, a. s., and the Technical University in Brno. The aim of this experimental house is to prove that the latest energy saving technologies are realistic. The building will use hot-water and hot-air solar collectors, photovoltaic cells, underground reservoirs of hot water, underground reservoirs of heat in heated rock, and an accumulator room for storing excess electricity. The building will also house ČEZ's training center, including laboratories and lecture rooms.

Promotion of Renewable and Non-traditional Sources of Power

■ The renewable sources of power are water, biomass, wind and solar radiation. While water is commonly used to generate electricity, other renewable sources are, and in the near future, will remain only supplementary power sources for the Czech Republic and ČEZ, a. s. The company presently operates only one wind power station with the capacity of 315 kW in Dlouhá Louka near Osek (in the Krušné Hory Mountains) which was put into operation in November 1993.

■ A farm of wind power stations with the total capacity of 1,500 kW is presently undergoing tests. It is situated on Mt. Mravenečník in the Jeseníky Mountains near the top reservoir of the Dlouhé Stráně Pumped-storage Hydro-electric Power Station. Nearby, also undergoing tests, is a photovoltaic experimental power station with the peak load of 10 kW. The biomass is presently being tested as an alternative fuel for a selected unit of some of the older fossil power stations, as is the use of gas released from public landfill sites.

■ ČEZ, a. s., Pražská teplárenská, a. s., Pražská Energetika, a. s., and the Běchovice Fuel Research Institute participate in an experimental project that should prove the possibility of utilizing the waste gas from the Dolní Chabry (Prague 8) public landfill site for power engineering purposes. As a part of this project, cogenerating units will be installed which utilize the waste heat from the burning of natural gas, or the heat from exhaust gases of internal combustion engines to generate electricity and heat. The heat will be used to heat buildings in the Ďáblice housing estate of Prague 8. A similar project, using American experience, will be carried out in Modřany, Prague 4.

The 400/110 kV transformer station Kočín (at Temelín)

ČEZ, a. s., also operates transformers which supply the 110 kV networks of the individual distribution power works. The Kočín transformer station, which has been in operation since the beginning of 1995, is a part of the investment program directed to a future synchronous connection to the Western European UCPTE system. The results of practical tests have already confirmed that ČEZ, a. s., is capable of meeting the strict criteria for cooperation with Western European companies.

The Origin of the Transmission System as an Independent Organizational Unit

■ In addition to electricity generation, the transmission of electricity is a fundamental activity of ČEZ, a. s., in accordance with the Energy Act of 1994. ČEZ's transmission system consists of the 400 and 220 kV transmission line systems, the 400/110 kV and 220/110 kV transformer stations, and the dispatching system. The transmission system connects all the significant junctions of the electrification system in the Czech Republic and provides for international cooperation. In 1993, ČEZ, a. s., formed the Transmission System division as an independent organizational unit to specify the role of the transmission system within the company and to comply with the recommendations of the European Union. This division deals with the development, construction, operation, maintenance, and control of the transmission system.

■ During 1994, the organizational structure of this division underwent several major changes to increase the internal economic independence of the transmission system and central controls within the company. On April 1, 1994, the Central Control section was created to replace the former Czech and Slovak Central Power Control which operated the electrification systems of both the Czech and Slovak Republics and which was terminated on March 31, 1994. The new economic section of the division was formed to clearly organize the entire economic agenda related to the transmission system. Also, decentralized operational units of the Operational Controls division were established: „North" at the Hradec near Kadaň 400/220 kV transformer station, „Center" at the Praha – Chodov 400/110 kV transformer station, „South" at the Kočín 400/110 kV transformer station, and „East" in Ostrava. These units daily monitor local technical equipment, indicate necessary maintenance and repairs, find appropriate suppliers for them, and see to their completion. On January 1, 1995, the company purchased the Hradec near Kadaň 400/220 kV transformer station from Severočeská energetika, a. s.

The Capacity of the Transmission System as of December 31, 1994

■ The transmission system consists of 2,817 km of 400 kV lines and 1,553 km of 220 kV lines. There are also 131 km of 110 kV lines supplying electricity to the 110 kV networks.

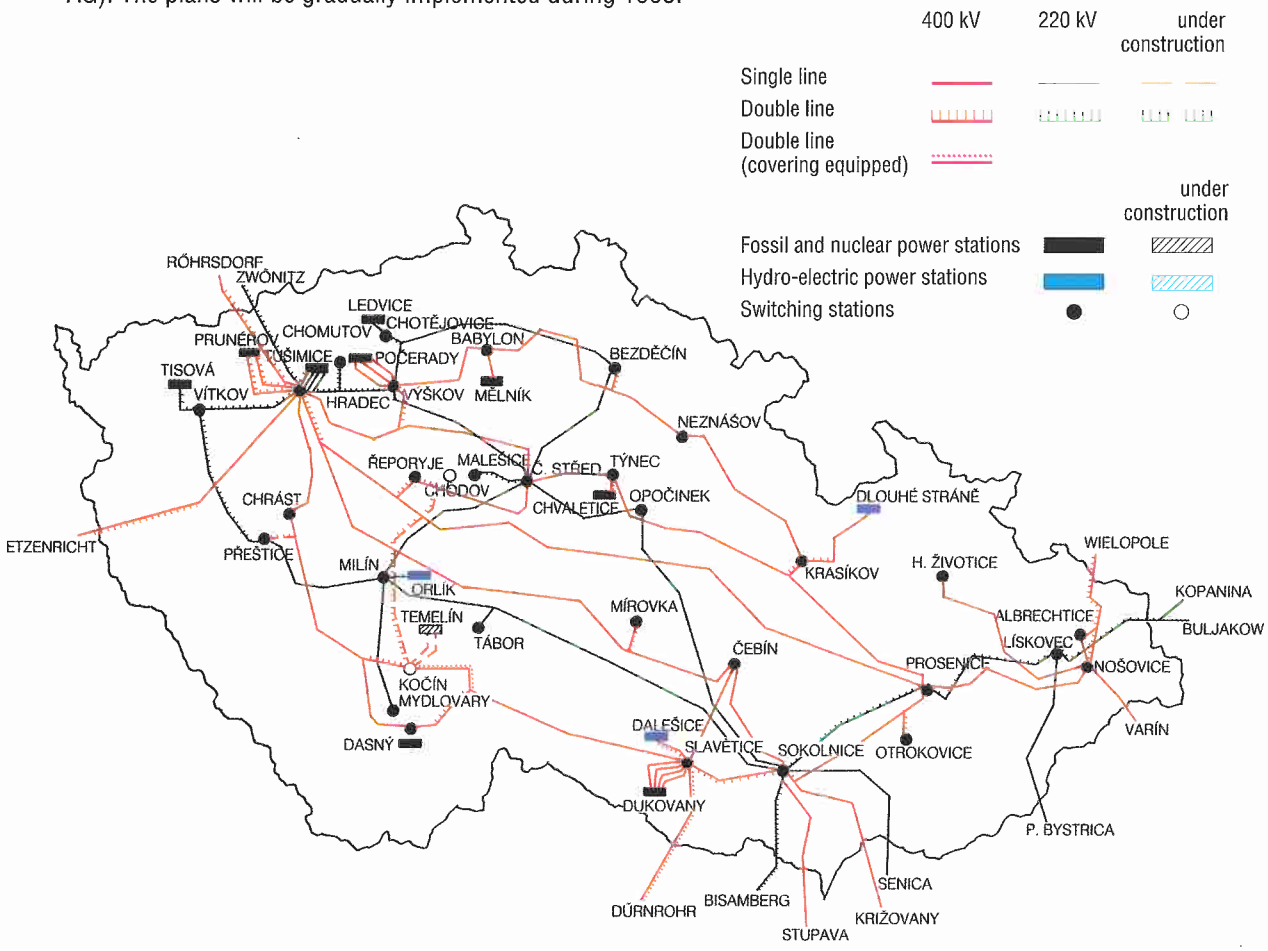
■ The transmission system is fully capable of carrying the year maximum load and reliably supplying domestic customers throughout the entire area. It ranks among the first in comparison to other member states of the Central Control Organization.

■ The capacity of the 400/110 kV and 220/110 kV transformation output at the junction points between the transmission system and the power distribution companies' networks was 12,620 MVA as of December 31, 1994; the system was used to only 50% of its potential. This figure ensures that the load demands of major consumers can be covered with sufficient reserves.

■ The configuration of the system not only provides for international cooperation within the CENTREL power engineering group (the Czech Republic, Hungary, Poland, Slovakia), but it also allows for the future connection to the UCPTE system of Western Europe with whose standards it complies. ČEZ's extensive interior transmission networks and a number of international transmission lines are designed to provide reliable international electricity transit services and an automatic assistance to neighboring systems in the event of a breakdown.

■ During 1994, preparations of the synchronous connection to the UCPTE system continued. By the end of 1994, most technical requirements were met, especially those regarding the primary and secondary regulation of frequency and output. Work is continuing on the „pilot junctions" project related to voltage and reactive power flow regulation, and on the 400 kV line connecting the electrification systems of the Czech Republic and Bavaria (Přeštice - Etzenricht).

■ There were two projects underway in 1994 which are extremely significant for the central control system. The first one is the „Plan to Prevent the Czech Republic's Electrification System from Extensive System Failures", and the second one is the „Plan to Restore the Operation of the Czech Republic's Electrification System in the Event of its Complete Disintegration". These projects were designed in cooperation with the power distribution joint-stock companies, and under the supervision of UCPTE consultants (Electricité de France and Bayernwerke AG). The plans will be gradually implemented during 1995.



■ Preparation and Education of Employees

In 1993, a systematic training of the company's top management employees was launched. In 1994, another stage of training, focusing on middle and low management employees, was planned in detail. This training will begin in September 1995.

ČEZ's employees are continually updated on new computer software, including an automatic financial, management, and information system of the company (AFMIS) which is currently being implemented; language courses are available for both beginning and advanced students; and the company also offers specialized courses to increase the qualifications of investment section employees, secretaries and so on.

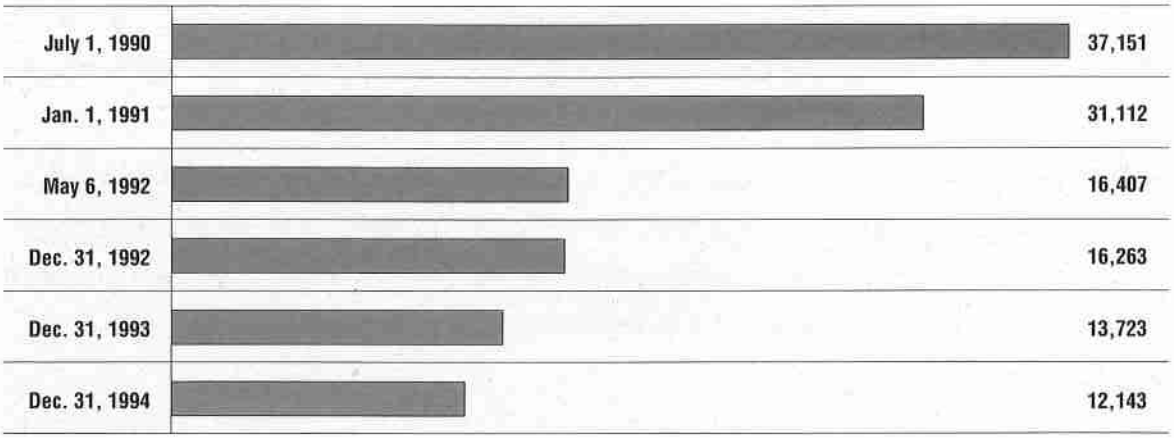
■ Information System

In 1994, the information section installed a universal office system in more than 2,300 workplaces. This is a starting point to create a new integrated information system within ČEZ, a. s. The users of the system underwent training to unify the software and, consequently, to make the data compatible and enable the use of electronic mail.

■ Social Policy

In 1994, a social fund of 126 million Kč was created, out of which 78 million Kč was designated to provide contributions for catering, recreation, medical care, social aid to accommodate burdensome financial situations, and other purposes determined by the rules of the social fund agreed upon in the Collective Agreement. The Board of Directors increased the fund by an additional 26 million Kč designated to bridge time until July 1995 when a proposal regarding the division of 1994 profits will be presented to the general meeting of the shareholders. A further 20 million Kč was earmarked for the supplementary retirement insurance of employees, which was not drawn on in 1994, and has been transferred as a balance to 1995. Two million Kč was designated to contribute to the accommodation and moving expenses of employees. Apart from that, 25 million Kč were permanently set aside to provide for non-interest loans to employees for housing purposes, or to accommodate burdensome financial situations. In the last quarter of 1994, the system of supplementary retirement insurance of employees was completed. Employees can start collecting their contributions beginning in January 1995. According to this system, the employer will contribute to the supplementary retirement insurance of its employees as arranged with the Energie Retirement Fund. This fund, which manages the supplementary retirement insurance of ČEZ's employees, is designated for the public as well and can, therefore, be used by all shareholders of ČEZ, a. s.

The Number of Employees of ČEZ, a. s.



■ The number of employees decreased considerably between 1990 and 1992 due mainly to organizational changes. In 1990, all regional power distribution works were separated from the state-owned Czech Power Works and in 1991, the North-Bohemian Power-and-Heating Plants, Energostroj Chvaletice, the Otrokovice Power-and-Heating Plant, and the Karviná Power-and-Heating Plants were separated. Several others separated from the state enterprise and were privatized in the first wave of the coupon privatization in May 1992: the Praha Power-and-Heating Plants, the Opatovice Power Station, the South-Moravian Power Stations, the Ostrava-Karviná Power Stations, the Teplice Engineering Works, the Brno Power Engineering Works, the Energostrojírny Velké Meziříčí Engineering Works, the Energodílny Pardubice Engineering Works, the Energomontáže Liberec Engineering Works, the Energovod Works, and Orgrez.

■ In 1994, the lowering of the number of employees continued in accordance with the business plan. The objective is to achieve an effective organizational structure comparable to that of the best European companies. To accomplish this task, executive teams were established for individual areas: operational-technical, personnel-administrative, investment, economic, and information activities.

■ All efforts were directed towards the completion of the company's transformation, i. e. towards a further separation of activities that are not directly involved in ČEZ's major activity and whose products can be more economically obtained elsewhere. Even the activities that remain the company's objective were streamlined to ensure a sufficient volume of quality work, and, in the long run, to unify the organizational structure and to carry out changes in the structure of employees.

■ As of December 31, 1994, ČEZ, a. s., had 12,143 employees. The number of employees decreased by 1,580 (or 11.5%) compared to the same date in 1993. The total decrease in the number of employees compared to the time of the company's origin, May 6, 1992, is 4,264 (or 26%).

■ The Concept of Quality Control

In the middle of 1993, measures were prepared to fundamentally change the present interpretation of quality control. The objective of these measures is to reach the level of the leading West-European electricity companies. This strategy uses the ISO 9000 Czech State Norm as the foundation to establish and maintain high quality standards, and to create and adopt an efficient method to continuously improve the management of all activities.

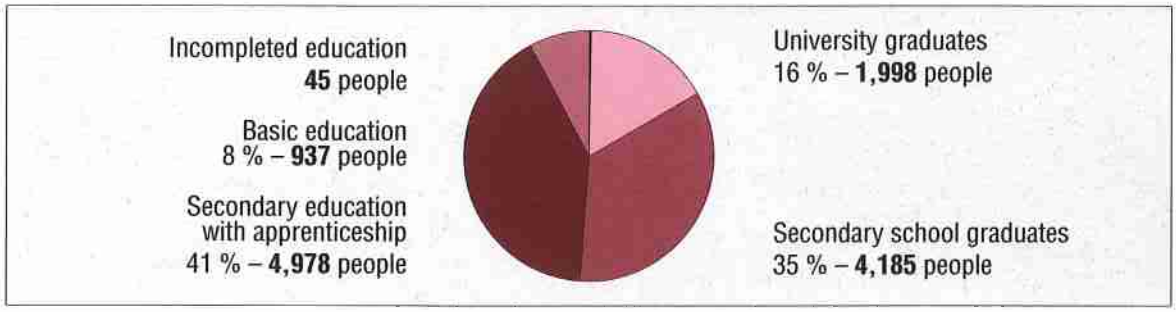
To prepare for this task, a point of departure was established through assessments made in 1993 and 1994. The company organized training courses for its top management employees, and a universal method to improve activities was gradually implemented. The Board of Directors subsequently issued a company-wide program to introduce the quality system which will be a means to achieve its business objectives.

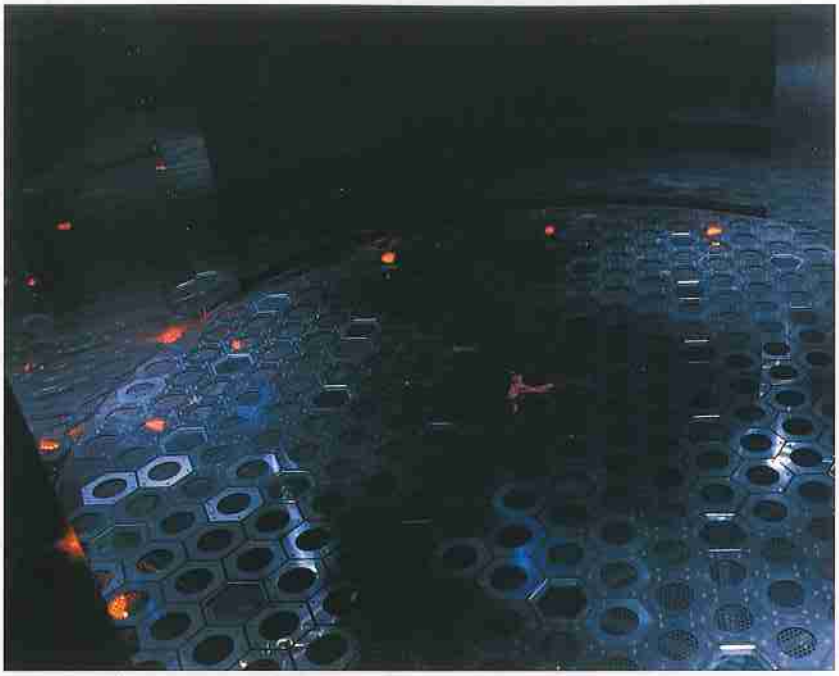
■ The Changes in the Organization Structure

Since the beginning of 1994, there has been a new element in the organization structure of ČEZ, a. s., the Secretariat of the Board of Supervisors. In the course of the year, two new sections were formed, The Electricity Survey and The Nuclear Safety. The Nuclear Power Stations division was dissolved and replaced by two organizational units, The Dukovany Nuclear Power Station and The Temelín Nuclear Power Station, and three sections, The Nuclear Investments, The Operation of Nuclear Power Stations, and The Fuel Cycle of Nuclear Power Stations. The Hydro-electric Power Stations division was dissolved as well and replaced by the Hydro-electric Power Stations organizational unit.

At the turn of 1994 and 1995, the Telecommunications and Control Systems section in the Transmission System division was dissolved, and its activities were transferred to the Headquarters Telecommunications section. At the same time, The Property Management Praha organizational unit was dissolved and its activities were transferred into the newly formed Property Management section and other current Headquarters sections. The new Planning and Analysis section was formed at the Headquarters to deal with the budgetary and medium-term financial stability of the company. The Headquarters also formed The Accounting and Financial Management Information Systems project team to develop and implement accounting and financial systems, and The Temelín Nuclear Power Station Construction project team to manage, coordinate and counsel the construction and commencement of operations of the Temelín Nuclear Power Station.

Educational Background of ČEZ's Employees





A model of a reactor core in the Information Center
at the Dukovany Nuclear Power Station

This model shows a VVER 440 pressurized-water reactor, type V 213. Four such reactors, each with an output of 440 MW, are installed in the Dukovany Nuclear Power Station. The Dukovany Nuclear Power Station together with the Dalešice Pumped-storage Hydro-electric Power Station and the Slavětice switching station form a complete electric power complex. Its quality has been confirmed by its ten years of reliable operation.

The Information Center of the Dukovany Nuclear Power Station

The modern information center opened on November 24, 1994 to promote better public understanding of nuclear power engineering. The Information and Counselling Center was opened last year in ČEZ' headquarters on Jungmannova Street in Prague. The center provides counselling services concerning the economical use of household electricity. Also in 1994, ČEZ, a. s., established the Counselling Center for Small Hydro-electric Power Stations in Brno, serving both laymen and experts. It is the most extensive and specialized counselling center in the Czech Republic. These counselling activities are an integral part of ČEZ's extensive and outgoing communication policy.

An Open and Outgoing Communication Policy

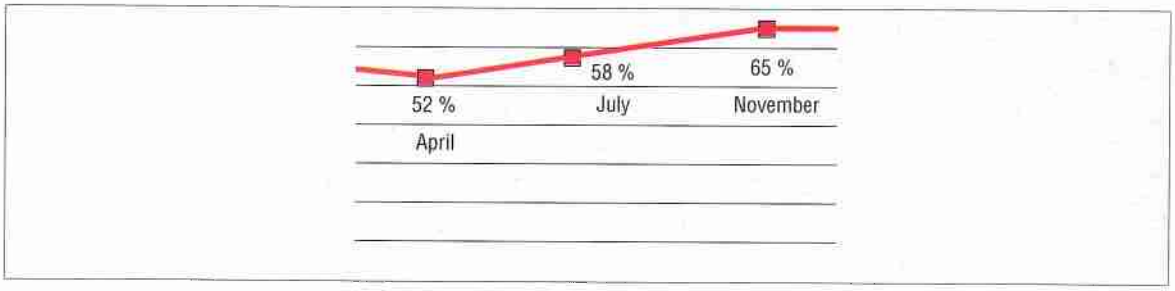
ČEZ's open and outgoing communication policy reflects the public's interest in the company's activities. The attention of shareholders, investors, the media, and environmental organizations provides many opportunities to communicate. „An Answer to All Questions" was a motto of the 1994 communication strategy. The motto was fulfilled both by the company's press department, which issued dozens of press releases and informational materials to journalists, answered hundreds of questions and organized twenty press conferences, and by virtually all the company's employees. ČEZ, a. s., strives to be a trustworthy electricity company that is attractive to shareholders and investors, beneficial to people, considerate to the environment, and that consistently supports the development of regions of the country within its sphere of activity.

In 1994, special attention was paid to nuclear power. A monthly newspaper was published to keep people living in the neighborhood of either nuclear power station well informed and to establish good relationships with them.

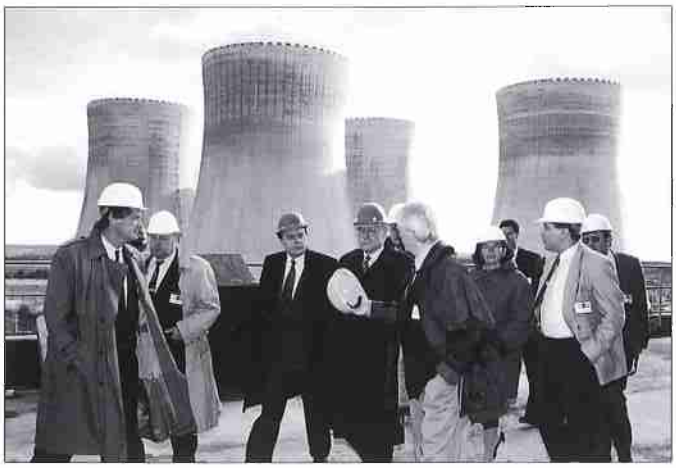
The results of the communication policy are reflected in the opinions of the public regarding nuclear power stations. Support of nuclear power stations increased throughout 1994, and now most citizens of the Czech Republic are in favor of the completion of the Temelín Nuclear Power Station. The public opinion polls also showed a positive shift in the public opinion about the construction of the central in-process storehouse for spent nuclear fuel.

Public Agreement with the Completion of the Temelín Nuclear Power Station

Percent of people questioned in 1994



Information centers are open and available at both the Dukovany and Temelín nuclear power stations for anyone interested in nuclear power engineering. According to experts, the newly opened center at Dukovany ranks among the best of its kind in the world. The nuclear power stations were visited by more than thirty thousand people last year, including several hundred visitors from Austria.



The visit of the Czech Government delegation to the Temelín Nuclear Power Station

On October 27, 1994, the Prime Minister of the Czech Republic, Václav Klaus, the Minister of Industry, Vladimír Dlouhý, and the Minister of the Environment, Václav Benda, visited the Temelín Nuclear Power Station.

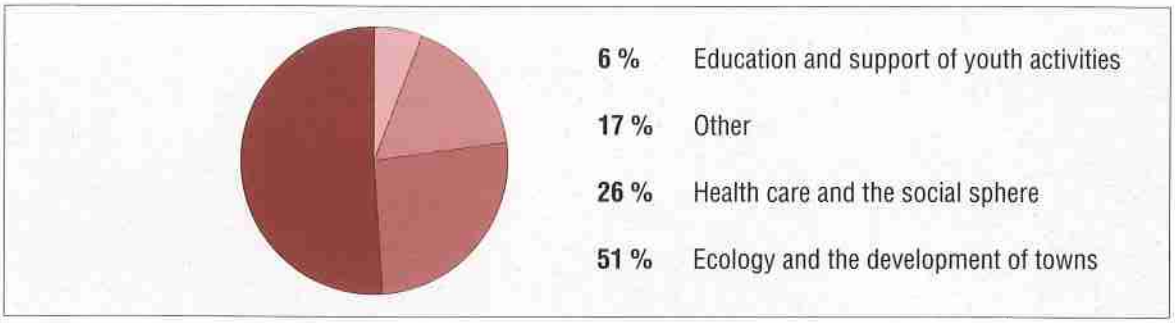
The Sponsorship Program

In 1994, ČEZ, a. s., gave financial contributions to health care organizations, the social sphere, environmental activities, the development of towns, and educational and other projects. ČEZ, a. s., particularly supports the regions which are within the sphere of its activity, and projects which comply with stated company criteria.

■ The largest amount of money was donated to support environmental and health care projects in the surroundings of ČEZ's power stations. In cooperation with the Olga Havlová Good Will Foundation, the company continued its most extensive project, the support of medical care, especially of children, in Northern Bohemia. In 1994, more than 6,000 children went for convalescent stays in the Czech Republic and abroad. ČEZ, a. s., donated 36 million Kč towards these stays, and another 24 million Kč to buy medical equipment. Since the results of this cooperation were very satisfactory, it will continue in 1995.

■ A new contract to provide 45 million Kč towards additional convalescent stays and further aid to North-Bohemian health care was signed in the Počerady Power Station in December 1994.

The Division of ČEZ's Sponsorship Amounting to 278 mln. Kč in 1994



The Support of Education

■ An educational program for schools, called „Energy for Everyone", cooperation with environmental organizations, and participation in various exhibitions play a significant role within the informational activities of ČEZ, a. s. All elementary and secondary schools in the Czech Republic can receive upon request 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. Schools are very interested in the offered programs and, according to polls, evaluate them very positively.

■ In 1994, more than 2,100 schools ordered over 200,000 printed informational materials. On the basis of the orders, 1,755 video films were sent to 1,480 schools. The demand for the Gamabeta educational dozimetric set far exceeded the offer. The schools are also very interested in educational excursions to nuclear power stations.

■ The four-volume program called „Up Three Steps into Life", developed together with the Tereza educational environmental organization, is an example of a modern and successful educational project. The children learn independently and creatively to complete their own projects through energy conservation, waste economy, and planting trees around their schools.

■ „The First Czech Picture Encyclopedia of Energy", which started to come out in 1994 in the form of individual copybook issues, is another example of a successful educational project. This encyclopedia is designed for secondary school students and covers the entire field of power engineering. It can be used not only for teaching purposes but also to inform the general public.

■ ČEZ, a. s., also presents itself and communicates with the public through its participation in exhibitions and fairs. In 1994, ČEZ, a. s., had its own exposition at nine large and two smaller-scale domestic exhibitions, and, as a member of the CENTREL organization, at the Power Gen 94 exhibition abroad. These exhibitions include activities focusing on power engineering, electrical engineering, energy conservation, education, and ecology. At these exhibitions, ČEZ, a. s., had the opportunity to present its educational program for schools and its program to help the environment.

The joint-stock company ČEZ follows in the path supporting permanently tenable progress. The wise use of the gifts of nature is a part of it. Electricity, as a kind of energy, is certainly such a gift. To be happy, we do not need kilowatts and gigajouls. What we need is light, heat, the help of medical instruments, machines, computers, and telephones. That is the human dimension of power engineering.

The company's most significant economic results in 1994 are compared with the 1993 results in the table below.

		Kč mln
Total revenues	1994	48,816
	1993	48,879
Total expenses	1994	31,278
	1993	29,538
Net income	1994	9,527
	1993	9,177

In 1994, ČEZ's **the net income was 9.5 billion Kč** which is 0.3 billion Kč (or 3.8%) more than in 1993. This favorable development was caused mainly by a marked decrease in the income tax base due to an energetic tax policy, a lowered difference between the non-deductible and deductible items with a simultaneous decrease in the income-tax rate from 45% to 42%.

The net income per share was 179 Kč, this represents an increase of 4.7% compared to 1993.

Total revenues were 48.8 billion Kč with expenses amounting to 31.3 billion Kč. Pre-tax profit decreased 7.4% from 18.6 to 17.2 billion Kč due to the increase of expenses.

■ **The total revenues** in 1994 were nearly the same as in 1993.

– **The sales of electricity supplied to domestic customers** were 44.1 billion Kč which is approximately the same as last year, while the volume of the electricity sold in the Czech Republic increased from 42 TWh in 1993 to 42.8 TWh in 1994. The company supplied electricity for prices about 1.6% lower than last year as a result of advantageous rates for electricity supplies exceeding the originally contracted volume. ČEZ, a. s., did not incorporate the 10% increase in household electricity rates which came into effect in July 1994.

– **The sales of exported electricity** decreased to 2.1 billion Kč, reflecting the decrease in the export of electricity.

■ **Total expenses** rose to 31.3 billion Kč which is 1.8 billion Kč (or 5.9%) higher than in 1993.

– **Fuel costs** amounted to 11.6 billion Kč and represented 37% of total expenses; their annualized increase was 0.4 billion Kč (or 3%) despite the decreased production of electricity and lower specific fuel consumption in fossil power stations.

– **Material costs** were 1.4 billion Kč, representing about 5% of total expenses, and their annualized increase was 0.2 billion Kč (or 13%).

– **The expenses to purchase energy** were 4.2 billion Kč, representing about 14% of total expenses. They increased by 1 billion Kč (or 32%), due mainly to the increased purchase of electricity caused by the donation of the Mělník I Power Station to Mělník - Praha joint-stock company in the second half of 1993, and also due to the purchase of electricity from Pražská teplárenská a.s. which in 1993 sold electricity directly to the distribution company.

– **Repairs and maintenance costs** increased to 2.6 billion Kč, representing more than 8% of total expenses; their annualized increase was 0.3 billion Kč (or 9.5%) due mainly to a greater breadth of repairs and the transfer of some maintenance to companies outside ČEZ, a. s. This increase was compensated for by lower material and labour costs.

– **Other operating expenses** were 3.1 billion Kč which represented an annualized increase of 0.5 billion Kč (or 22%).

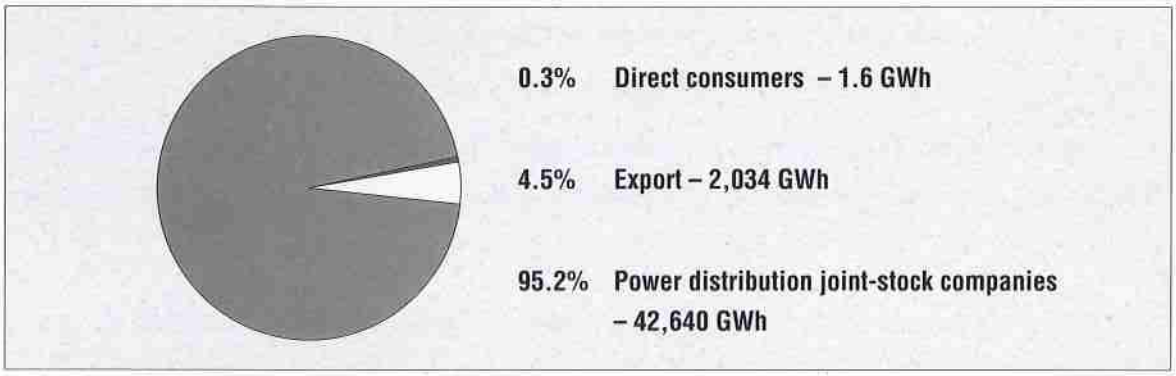
– **Personnel expenses**, amounting to 2.1 billion Kč, slightly decreased in comparision with the last year, representing more than 6% of the total expenses.

– **Depreciation of fixed assets** increased slightly to 3.8 billion Kč (or 5%). This item, which also provides finances for the company's developmental program, remains low (12% of total expenses) due to the relatively low accounting value of the company's fixed assets compared to replacement value.

■ **Net consumption of electricity** in the Czech Republic increased by 3.2% in 1994. The higher demand was met by increasing the import of electricity; the production of electricity remained basically the same as in 1993. In 1993, the net export of electricity, which is the difference between the export and the import, was 2,104 GWh; in 1994, it was only 445 GWh. The main cause for the decrease was that the export to Slovakia decreased by more than 800 GWh. Import of electricity increased due mainly to independent importers importing electricity for power distribution joint-stock companies; this import amounted to 780 GWh, out of which 475 GWh were transmitted by ČEZ's transmission system..

■ **Consumption of electricity increased** during the winter months. It was caused by a marked growth in the direct electrical heating in both households and businesses; of 1,800 MW since 1992, and 1,200 MW in 1994 alone. This is clearly shown in the graph of the development in the week maximum loads of the electrification system. The consumed output in some winter weeks of 1994 reached the figures of 1989, while the 1994 figures outside the heating season are considerably lower than those of 1989. The graph shows the 1993 and 1994 maximum week loads in comparison to the figures of 1989 when the total volume of the electricity consumed (in GWh) was the highest. There is an evident load increase in most weeks of 1994 compared to 1993.

The Structure of ČEZ's Sale of Electricity in 1994



The Balance of the Electricity Obtained and Supplied by ČEZ, a. s.

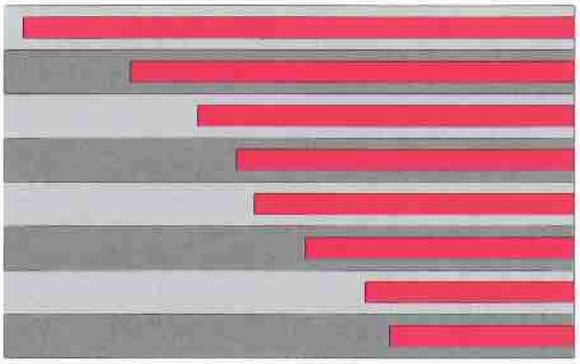
	1994	1993	Index 94 / 93
	GWh	GWh	%
Obtained:			
self-production	45,377	46,445	97.7
purchase from independent producers	2,411	1,689	142.7
purchase from industry	748	664	112.7
import	812	885	91.8
Total:	**49,348**	**49,683**	**99.3**
Supplied:			
power distribution companies	42,640	41,936	101.7
direct final consumers	136	96	141.7
export	2,034	3,007	67.6
ČEZ's other consumption x)	3,736	3,737	100.0
losses in ČEZ's networks	803	907	88.5
Difference in balance	-1	0	0
Total:	**49,348**	**49,683**	**99.3**

x) 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 maximum load in the electrification system of the Czech Republic was reached on December 19, 1994 and it amounted to 9,632 MW. The daily load diagram for this day is provided further on.

Despite **the decrease in the electricity production in 1994**, ČEZ, a. s., remains the dominant producer and seller of electricity in the Czech Republic. It provided 45,377 GWh (or 77.9%) out of the total 58,260 GWh of the gross electricity consumption in 1994. ČEZ, a. s., also operates the transmission system.

The Volume of Electricity Sold to Individual Power Distribution Joint-Stock Companies in 1994 (in GWh)

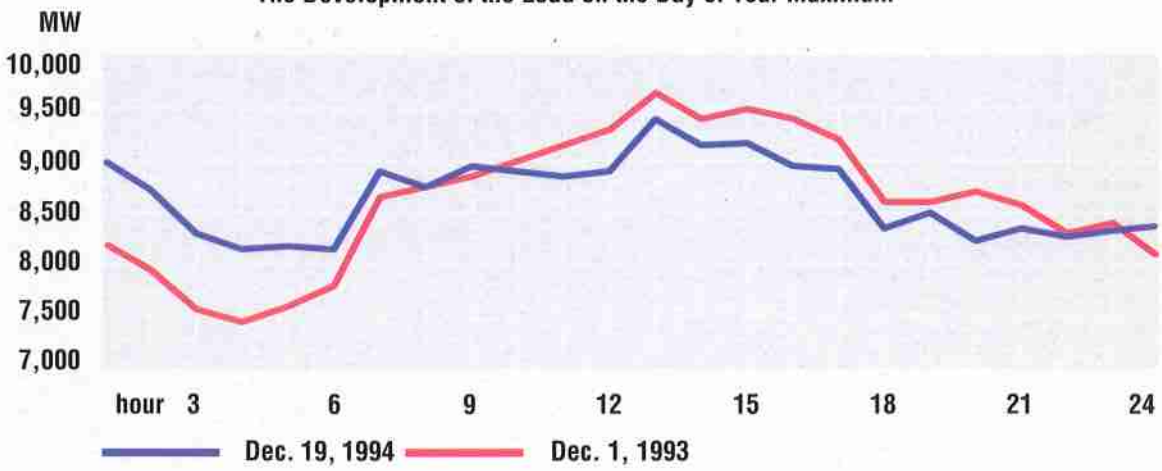


8,731 – Severomoravská energetika, a. s.
7,035 – Jihomoravská energetika, a. s.
5,964 – Středočeská energetika, a. s.
5,349 – Východočeská energetika, a. s.
5,066 – Severočeská energetika, a. s.
4,263 – Pražská energetika, a. s.
3,307 – Západočeská energetika, a. s.
2,925 – Jihočeská energetika, a. s.

■ The major part (95.2%) of the electricity produced by ČEZ, a. s., in 1994 was sold to eight power distribution joint-stock companies which distribute it to the final consumers in the Czech Republic. The remaining sales were the export of electricity (4.5%) and direct sales to the final consumers (0.3%).

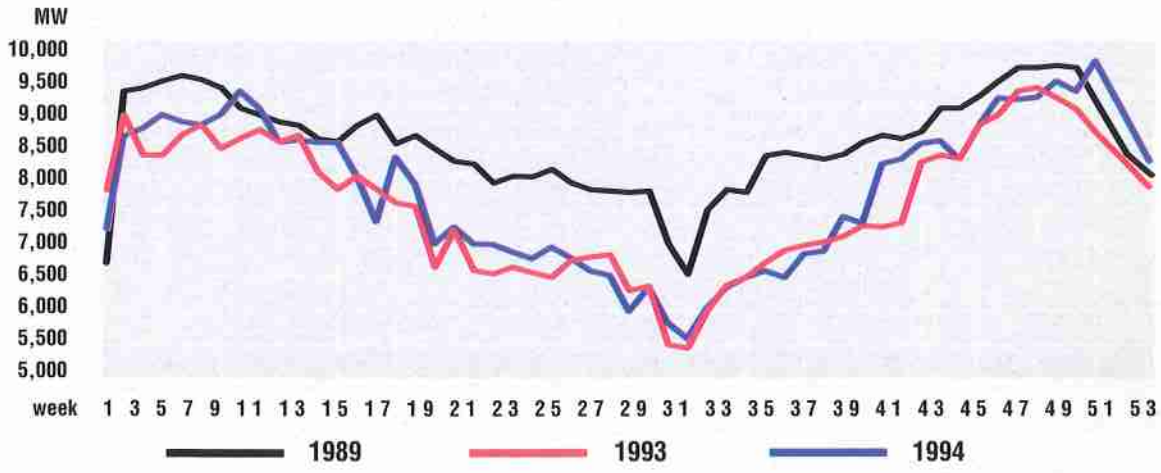
■ There were marked differences in the volume of sales to individual power distribution joint-stock companies. The greatest volume of electricity (8,731 GWh) was sold to Severomoravská energetika, a. s.; it was three times more than the volume sold to the least-supplied consumer, Jihočeská energetika, a. s. (2,925 GWh).

The Development of the Load on the Day of Year Maximum



	Jednotka	1994	1993
Real year maximum	MW	9,632	9,288
Calculated for 50 Hz	MW	9,636	9,340

Week Maximum Loads in Electrification System of Czech Republic



■ ČEZ, a. s., is also a significant supplier of heat. In 1994, it supplied heat from twelve power stations and two power-and-heating plants. These were the Tisová, Prunéřov, Tušimice, Počerady, Ledvice, Mělník, Poříčí, Chvaletice, Hodonín, Dětmarovice, Dukovany, and Temelín power stations and the Dvůr Králové and Náchod power-and-heating plants.

The decrease in the heat supplied to consumers in 1994 was caused mainly by an almost 1 °C higher average temperature in the 1993/1994 heating season than in 1992/1993, and by a lowered heat consumption resulting from the introduction of measuring and regulating devices at consumer locations.

The Balance of the Heat Obtained and Supplied by ČEZ, a. s.

	1994	1993	Index 94/93
	TJ	TJ	
Obtained			
Self-production	15,823	16,697	94.8 %
Purchase from other producers	636	243	261.7%
Total	**16,459**	**16,940**	**97.2%**
Supplied			
Non-residential consumption	10,908	11,191	97.5%
Residential consumption	2,093	2,130	98.3%
Export [x)]	199	198	100.5%
ČEZ's other consumption	2,076	2,122	97.8%
Useful heat supply	15,276	15,641	97.7%
Losses in networks	1,183	1,299	91.1%
Total	**16,459**	**16,940**	**97.2%**

[x)] the supply of heat from the Hodonín Power Station to the town of Holíč in Slovakia

The Breakdown of Heat Supplies from Individual Locations in 1994 (in TJ)

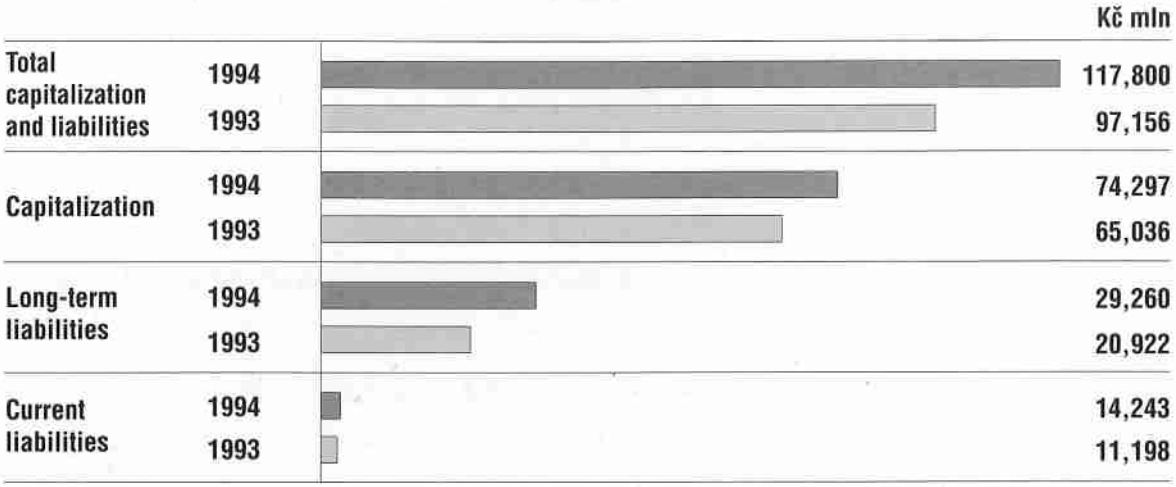
Power station	Obtained from sources	Losses in heat networks	Useful supply
Dukovany	487	0	487
Temelín	229	0	229
Tisová[xx)]	2,118	265	1,853
Prunéřov	2,508	0	2,508
Tušimice	1,402	0	1,402
Počerady	273	0	273
Ledvice	2,078	0	2,078
Mělník[x)]	922	86	836
Chvaletice	200	12	188
Poříčí	3,975	658	3,317
Hodonín	1,437	128	1,309
Dětmarovice	830	34	796
Total	**6,459**	**1,183**	**15,276**

[x)] including the purchase of heat from the Mělník – Praha joint-stock company amounting to 633 TJ

[xx)] including the purchase of heat from the Chemical Works Sokolov amounting to 3 TJ

The Property Structure

The Structure of Capitalization and Liabilities



Long-term liabilities, were 29.3 billion Kč; they increased by 40% compared to the end of 1993. Current liabilities were 14.2 billion Kč, they increased by 27% in comparision to the end of 1993. The assets to equity ratio was 63.07%, in comparision with 66.94% at the end 1993 due to the increasing amount both of long-term and current liabilities.

Financing

During 1994, the finances decreased by about 1 billion Kč. Operating activities provided over 18 billion Kč, financial activities provided over 5 billion Kč. These sources were used to finance investment activities which totalled about 24 billion Kč.

Investments in 1994 amounted to about 24 billion Kč, which is 6 billion Kč less than budgeted. This is the result of changes in the construction of the Temelín Nuclear Power Station, and postponement of contracted deadlines and adjustments in the payment schedules. Major environmental projects, however, proceed as scheduled so the dates of completion are not threatened.

The needs of the company were financed mostly from internaly generated funds. **Funds provided by operating activities**, exceeding 18 billion Kč, consist mainly of the following items:

– net income	approx. 9 bln. Kč
– depreciation of fixed assets	approx. 4 bln. Kč
– amortization of nuclear fuel	approx. 1 bln. Kč
– increase in accounts payable	approx. 3 bln. Kč
– increase in accrued and deffered taxes	approx. 1 bln. Kč

■ The development in the property structure of ČEZ, a. s., in 1994 is best characterized by the changes in the structure of assets and liabilities.

The total assets of the company, i.e. minus the accumulated depreciation and adjusting items, were 117.8 billion Kč which is 21% more than at the end of 1993.

The Structure of Net Assets

		Kč mln
Total assets	**1994**	**117,800**
	1993	**97,156**
Total property, plant and equipment (Fixed assets)	**1994**	**107,433**
	1993	**88,470**
Current assets	**1994**	**9,643**
	1993	**8,032**
Other assets	**1994**	**724**
	1993	**654**

Fixed assets consist of tangible and intangible fixed assets (including incomplete investments and advances on tangible fixed assets) financial investments and nuclear fuel at amortized cost. In 1994, they amounted to 107.4 billion Kč, representing 91.2% of the company's total assets; they increased by 21% compared to 1993.

The fossil stock of fuel materials and prepayments amounted to 2.9 billion Kč, representing more than 30% of the company's current assets. During 1994, this item increased by 23.5%.

By the end of 1994, the **receivables** had risen to 4.9 billion Kč which represents about 51% of the company's current assets. Overdue receivables had decreased to 400 million Kč by the end of the year.

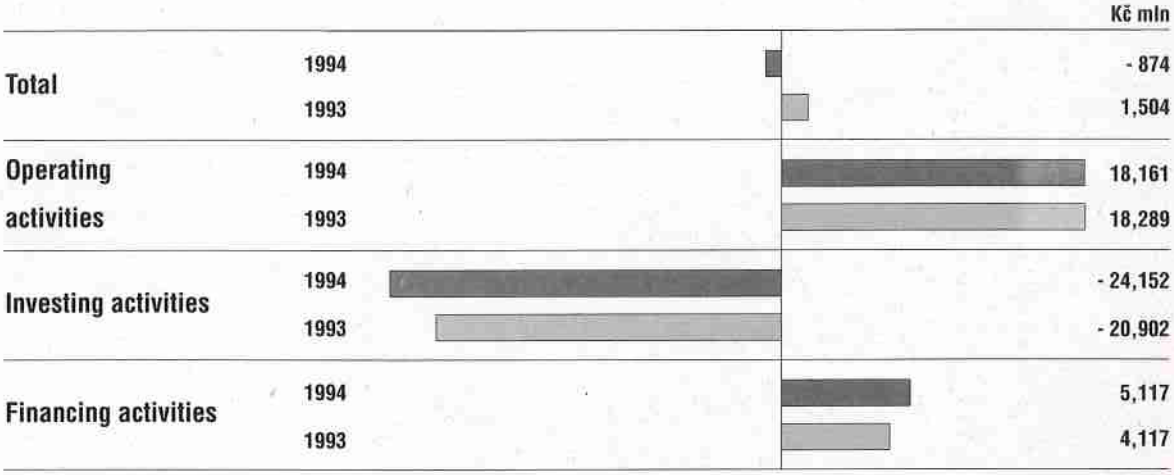
By the end of 1994, **cash** had decreased to 1.8 billion Kč which is sufficient to maintain the company's liquidity while not tying up an excessive part of borrowings. Cash represented 19% of the company's current assets.

The Structure of Liabilities

The total capitalization consists of stated capital, and retained earnings. At the end of 1994, this item was 74.3 billion Kč, representing 63% of the company's capitalization and liabilities. It increased by 9.3 billion Kč, or 14%, compared to 1993.

The stated capital of the company as of December 31, 1994 was almost 59 billion Kč. It increased during the year by 100 million Kč as a result of the privatized property of the former state-owned Czech Power Works being placed into the company's assets by the National Property Fund of the Czech Republic.

Cash Flow



During 1994, long-term debt increased by 7.2 billion Kč, current liabilities by 3 billion Kč. The average interest rate of the borrowings was 12.47%.

■ The 5 billion Kč from **financing activities**, is the difference between 22 billion Kč as proceeds from borrowings and 17 billion Kč as principal repayments. During the 1994, 4 billion Kč were raised by the second domestic bonds issue in January 1994 with a fixed coupon of 14 3/8% and a seven-year term of maturity; and 4.2 billion Kč (150 million USD) by the first issue of Eurobonds in December 1994 with a fixed coupon of 8 7/8% and a five-year term of maturity. To lower financial expenses of the company, 1 billion Kč acquired by issuing bonds was used to pay off some less advantageous long-term loans.

The Investment Standard Rating of the Company

A significant part of ČEZ's developmental strategy is to ensure advantageous financial resources. A marked success in this regard was achieved by acquiring an investment standard rating of the company. ČEZ, a. s., was the first company in the Czech Republic to receive an investment grade rating (BBB-) from Standard and Poor's rating agency in May 1994. In March 1995, the Japan Bond Research Institute (JBRI) gave ČEZ, a. s., an A- rating, identical to the rating given to the Czech National Bank. These ratings help ČEZ, a. s., in its access to financial and capital markets. ■

The development of economic indicators is presented as a comparison of figures from the end of 1993 and the end of 1994, along with figures recommended to ensure the stability of the company.

Indicator	1994	1993
Return on total assets (ROA) [1]	14.89%	19.91%
Sales margin [1]	0.36	0.40
Total assets turnover [1]	0.41	0.50
Return on total assets (ROA) [2]	8.09%	9.45%
Return on equity (ROE) [2]	12.82%	14.11%
Return on capital employed (ROCE) [2]	10.23%	11.95%
Working ratio	53.0%	50.5%
Debt service ratio	5.6	5.9
Cash generation ratio	61%	59%
Earnings per share [2]	179	171
At year-end		
Debt to equity ratio	0.30	0.26
Current ratio	0.68	0.72
Price – earning ratio [2]	7.6	9.4
Dividends to profit ratio [2]	0	0
Market to nominal price ratio [3]	124%	145%

[1] Based on Income before income taxes (Pre-tax profit).

[2] Based on Net income (Profit after taxes).

[3] Shares with nominal value 1,100 Kč.

Return on total assets (ROA), i. e. pre-tax profit to total assets amounted to 14.89%, 25% lower than at the end 1993 due both the lower pre-tax profit (by 9%) and the higher total assets (by 21%).

Sales margin (0.36), i. e. pre-tax profit to the total revenues lowered by 10% due to the same level of revenues, but the higher level of expenses.

Total assets turnover, i. e. total revenues to the total assets amounted to 0.41, 18% lower than at the end 1993 due to the same revenues, but the higher total assets.

All three „return" indicators, based on profit after taxes i. e. ROA, ROE and ROCE decreased slightly due to the same level of net income, but increasing amount of total capitalization, resp. liabilities.

The contract for a World Bank loan also contains the following indices. **The working ratio** states that the ratio of total operational costs and total operational revenues should not exceed 60%. **The debt service ratio** means that the company's net income has to exceed the debt service at least five-fold (3.5-fold in 1995). **The cash generation ratio** states that the company has to create, within its own sources, finances which exceed 40% of the average yearly investment expenses. In 1994, ČEZ, a. s., **met the limits** for all three indices.

Earnings per share amounted to 179 Kč, 4.7% higher than at the end of 1993 due to the increasing profit after tax.

The debt to equity ratio, i. e. all debts to total capitalization with 0.30 increased from 0.26 at the end 1993 mainly due to issue of domestic bonds (January 1994) and Eurobonds (December 1994).

The current ratio was 0.68 in comparision with 0.72 at the end of 1993 did not influence ČEZ's ability to cover its current liabilities with current assets. It is necessary to judge the index of liquidity in relation to the regulation of the cash flows.

Price – earning ratio amounted to 7.6, nearly 20% lower than at the end 1993 due to the decreasing market price (all share prices in Czech republic decreased during 1994) and increasing earnings per share.

Dividends to profit ratio – was still 0, because the extensive investment program (more than 100 bln. Kč from 1995 to 2000) will not permit to pay dividends to the shareholders till 1996.

Market to nominal price ratio amounted to 124%, 14% lower than at the end 1993 due to the decreasing stock prices at the Czech capital market.

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

We have audited the accompanying consolidated balance sheets of ČEZ, a. s., (a Czech joint-stock company, „the Company") as of 31 December 1994 and 1993, and the related consolidated statements of income and retained earnings and cash flows for the years then ended. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of ČEZ, a. s., as of 31 December 1994 and 1993, and the results of its operations and its cash flows for the years then ended, in conformity with Statements of International Accounting Standards issued by the International Accounting Standards Committee applied on a consistent basis.

Prague, Czech Republic
31 March 1995

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 1994 AND 1993
(Czech Kč in Millions)

	1994	1993
Assets		
Property, plant and equipment (Note 3):		
Plant in service	84,502	75,421
Less accumulated provision for depreciation	44,036	41,048
	40,466	34,373
Nuclear fuel, at amortized cost	4,450	4,159
Construction work in progress	62,517	49,938
Total property, plant and equipment	107,433	88,470
Other noncurrent assets, net (Note 5)	724	654
Current assets:		
Cash	1,794	2,668
Receivables, net (Note 4)	4,915	2,989
Materials and supplies, net	1,251	1,188
Fossil fuel stocks	1,083	946
Prepayments	600	241
Total current assets	9,643	8,032
Total assets	**117,800**	**97,156**
Capitalization and liabilities		
Capitalization (Note 6):		
Stated capital	58,973	58,873
Retained earnings	15,324	6,163
Total capitalization	74,297	65,036
Long-term liabilities:		
Long-term debt, net of amount due within one year (Note 7)	18,863	11,748
Accumulated provision for nuclear decommissioning and fuel storage (Note 8)	10,397	9,174
Total long-term liabilities	29,260	20,922
Commitments and contingencies (Note 10)		
Current liabilities:		
Short-term loans	1,527	3,068
Long-term debt due within one year (Note 7)	1,786	1,981
Accounts payable	4,642	2,078
Accrued and deferred taxes	1,039	227
Accrued liabilities	5,249	3,844
Total current liabilities	14,243	11,198
Total capitalization and liabilities	**117,800**	**97,156**

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

Consolidated statements of income and retained earnings for the years ended 31 december 1994 and 1993

(Czech Kč in Millions)

	1994	1993
Revenues:		
Sales of electricity and heat	47,290	47,904
Other	1,526	975
Total revenues	48,816	48,879
Expenses:		
Fuel	11,562	11,227
Purchased power	4,233	3 ,209
Repairs and maintenance	2,553	2,332
Depreciation and amortization	3,797	3,608
Salaries and wages	2,064	2,174
Nuclear decommissioning and fuel storage	1,336	1,331
Materials and supplies	1,408	1,247
Fees for ash storage, air and water pollution	869	716
Provisions for doubtful accounts, environmental claims and fixed assets adjustments	325	1,127
Other operating expenses	3,131	2,567
Total expenses	31,278	29,538
Income before other expense (income) and income taxes	**17,538**	**19,341**
Other expense (income):		
Interest on debt, net of capitalized interest (Notes 3 and 7)	374	571
Interest income	- 246	- 98
Other financial expenses	226	220
Income before income taxes	**17,184**	**18,648**
Income taxes (Note 9)	**7,657**	**9,471**
Net income	**9,527**	**9,177**
Retained earnings, beginning of period	6,163	2,338
Contributions to other funds	- 366	–
Contributions to stated capital	–	- 5,352
Retained earnings, end of period (Note 6)	**15,324**	**6,163**
Average number of shares outstanding	**53,292**	**53,521**
Net income per share	**179**	**171**

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

Consolidated statements of cash flows for the years ended 31 december 1994 and 1993

(Czech Kč in Millions)

	1994	1993
Operating activities:		
Net income	9,527	9,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,981	3,626
Amortization of nuclear fuel	1,356	1,173
Gain on fixed asset retirements	- 35	- 6
Provision for nuclear decommissioning and fuel storage, net	1,223	1,331
Provisions for doubtful accounts, environmental claims and fixed assets adjustments	325	1,127
Changes in current assets and liabilities		
Receivables	- 1,847	55
Materials and supplies	- 76	- 65
Fossil fuel stocks	- 137	- 147
Prepayments	- 332	- 179
Accounts payable	2,798	774
Accrued and deferred taxes	812	172
Accrued liabilities	566	1,251
Net cash provided by operating activities	18,161	18,289
Investing activities:		
Additions to property, plant and equipment	- 24,301	- 20,974
Proceeds from sales of fixed assets	149	72
Total cash used in investing activities	- 24,152	- 20,902
Financing activities:		
Proceeds from borrowings	21,861	8,525
Payments of borrowings	- 16,744	- 4,408
Total cash provided by financing activities	5,117	4,117
Net (decrease) increase in cash	**- 874**	**1,504**
Cash at beginning of period	**2,668**	**1,164**
Cash at end of period	**1,794**	**2,668**
Supplementary cash flow information		
Cash paid for:		
Interest	1,744	1,509
Income taxes	7,568	9,524

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

ČEZ, a. s.,
Notes to Financial Statements
as of 31 December 1994

1. The Company

ČEZ, a. s., („ČEZ, a. s.," or „the Company") is a Czech Republic joint-stock company which was established as of 30 April 1992. Prior to 30 April 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 seperately privatized upon the creation of the joint-stock company. 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. At 31 December 1994 the Czech Republic National Property Fund owned 67% of the Company. The majority of the remaining shares of the Company are owned by mutual funds and by private investors.

ČEZ, a. s., is an electric generation and transmission company which produced 86% of the electricity and a minor portion of the district heating in the Czech Republic in 1994. 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, a. s., and the eight regional electricity companies („REPs"). The anticipated revenue from the retail customers is allocated between ČEZ, a. s., and the REPs based on annually negotiated individual wholesale contracts between ČEZ, a. s., and each REP. The Ministry of Industry and Trade arbitrates and may adjust rates charged by the Company if ČEZ, a. s., and the REPs are unable to reach agreement in negotiations of the revenue split. Based on a May 1993 decision, the revenues allocated to ČEZ, a. s., in 1993 were approximately 7% lower than the 1992 revenue split. The revenue split in 1994 was substantially the same as in 1993, however, ČEZ, a. s., has not been allocated any portion of a 10% residential rate increase approved by the Ministry of Finance, and implemented by the REPs as of 1 June 1994. The Ministry of Industry and Trade had decided that one half of the increase as of 1 June 1994 will be allocated in prices negotiated with REPs for 1995. Contracts between ČEZ, a. s., and the REPs for 1994 expired 31 December 1994 and negotiations for 1995 are still in process.

In November 1994, the Czech Parliament adopted the Act on the Conditions of Business Activities in, and State Administration of, Fields of Energy Industry and the State Energy Inspectorate (the „Energy Law"),

establishing a regulatory framework for the electricity, gas and heat industries in the Czech Republic. The Energy Law, which became effective 1 January 1995, grants the Ministry of Industry and Trade extensive regulatory powers with respect to the business of ČEZ, a. s., including the requirement that such Ministry approve certain new investments by the Company in electricity generating equipment and power lines. The Energy Law does not establish a method for determining electricity prices. Electricity prices for end-users will continue to be established by the Czech Ministry of Finance. Management of the Company expects that electricity prices for sales by ČEZ, a. s., to the REPs will continue to be negotiated as described above.

2. Summary of Significant Accounting Policies

Basis of Accounting

ČEZ, a. s., 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, a. s., from 1 January 1993 conform substantially with International Accounting Standards issued by the International Accounting Standards Committee (see Notes 6 and 8).

Principles of Consolidation

The consolidated financial statements of ČEZ, a. s., include the accounts of ČEZ Finance B.V. (see note 7). All intercompany transactions and accounts have been eliminated in consolidation.

Revenues and Fuel Costs

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

Approximately 93% 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, 356 and 1,173 million Kč for the years ended 31 December 1994 and 1993.

Debt Issuance Costs

Long-term debt discount and issuance costs, amounting to 204.7 million Kč in 1994 and 61.5 million Kč in 1993, are expensed as incurred.

Interest

Under Czech accounting principles interest incurred in connection with borrowings related to specific asset additions, which amounted to 1,210 million Kč in 1994 and 1, 136 million Kč in 1993, must be capitalized. In the accompanying financial statements prepared in accordance with International Accounting

standards, interest costs incurred in connection with the construction program that theoretically could have been avoided if expenditures for the assets had not been made have been capitalized. Such additional capitalized interest costs amounted to 872 million Kč in 1994.

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. Renewal 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

The company depreciates the original cost of property, plant and equipment by using the straight line method and depreciable lives based on estimated economic lives. The depreciation lives used for property, plant and equipment, classified in accordance with Czech accounting principles, 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 plants	
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 plant	
Buildings and structures	30
Machinery and equipment	15
Transmission lines	30
Transformer stations	16

Depreciation of plant in service was 3,781 million Kč and 3, 595 million Kč for the years ended 31 December 1994 and 1993, which was equivalent to a composite depreciation rate of 4.7% and 4.8%, respectively.

Cash

Cash includes cash on hand and current accounts with banks. At 31 December 1994 and 1993, the current accounts with banks included foreign currency deposits of 100 million Kč and 375 million Kč. Foreign currency deposits are translated at 31 December 1994 and 1993 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 amount 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 27 million Kč and 14 million Kč was charged against inventory in 1994 and 1993 for obsolete stocks.

Income Taxes

Income taxes are provided on the accounting profit as determined under Czech accounting principles at a rate of 42% and 45%, for the years ended 31 December 1994 and 1993 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

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

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

Realized exchange gains and losses and unrealized exchange losses are charged or credited, as appropriate, to income of the year. Unrealized exchange gains are not recognized into income until collection or payment of the related foreign currency item occurs. Unrealized exchange rate gains at 31 December 1994 and 1993 were 32.0 million Kč and 31.7 million kč, respectively, and are reflected in accrued liabilities in the accompanying balance sheet. A reserve for exchange rate losses has been recorded in the amount of unrealized exchange rate losses of 46.5 million Kč and 76.1 million Kč at 31 December 1994 and 1993.

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 remaining required payments on leased assets recorded under the above method at 31 December 1994 was 16.6 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 1994 and 1993 is as follows (in millions of Kč):

	1994	1993
Land	299	197
Buildings	34,215	27,138
Machinery and equipment	46,890	44,877
Other	3,098	3,209
Total	84,502	75,421
Accumulated depreciation	- 44,036	- 41,048
Net plant in service	40,466	34,373

Property, plant and equipment includes interest capitalized of 2,082 and 1,136 million Kč for the years ended 31 December 1994 and 1993.

4. Accounts Receivable

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

	1994	1993
Trade receivables	3,719	2,706
Other	1,509	675
Less allowance for doubtful accounts	- 313	- 392
Total	4,915	2,989

5. Other Noncurrent Assets

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

	1994	1993
Investments	510	318
Long-term receivables	148	209
Intangible assets	92	143
Less amortization	- 26	- 16
Total	724	654

6. Capitalization

The Company 's stated capital as of 31 December 1993 was 58, 873 million Kč, consisting of 53,521,026 shares with a nominal value of 1,100 Kč per share.

Stated capital as of 31 December 1994 was as follows:

	Number of shares	Value per share	Total
Series A	51,602,380	1,100	56,762,618
Series B	2,210,494	1,000	2,210,494
Total	**53,812,874**		**58,973,112**

The nominal value of the series A shares was increased in 1993 from 1,000 Kč per share to 1,100 Kč per share, by reducing retained earnings and increasing stated capital, as approved at the September 1993 general meeting. The National Property Fund charged nominal value of the part of its shares and issued the series B shares in February 1994 in preparation for the second wave of voucher privatization in the Czech Republic.

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 1994		
Balance per Czech Accounting Standards	58,973	6,557	16,244	81,774
Accumulated provision for nuclear decommissioning and waste fuel storage (Note 8)	–	–	- 7,683	- 7,683
Interest capitalized net of deferred tax provision	–	–	514	514
Reclassification of items from other funds, net	–	- 308	–	- 308
Reclassification of reserve fund to retained earnings	–	- 6,249	6,249	–
Balance per International Accounting Standards	58,973	–	15,324	74,297

	Stated Capital	Reserve and Other Funds	Retained Earnings	Total
		31 December 1993		
Balance per Czech Accounting Standards	58,873	6,780	7,280	72,933
Accumulated provision for nuclear decommissioning and waste fuel storage (Note 8)	–	–	- 7,796	- 7,796
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 the net income of differences in IAS and Czech Accounting Standards is as follows (in millions of Kč):

	Year ended 31 December	
	1994	1993
Net income per Czech Accounting Standards	8,889	7,280
Prior period IAS adjustment booked by the Company in 1993 (Note 11)	–	1,800
Nuclear decommissioning and waste fuel storage costs (Note 8)	113	47
Interest capitalized, net of deferred tax provision	514	–
Reclassification of items from retained earnings, net	**11**	**50**
Net income per accompanying statements of income and retained earnings	**9,527**	**9,177**

7. Long-term Debt

Long-term debt at 31 December 1994 and 1993 is as follows (in millions of Kč):

	1994	1993
Non-collateralized long-term bank notes:		
4% and less, due 1996 to 1999	1,134	1,886
6% to 9.5%, due 1998 to 2007	3,078	1,327
13% to 15.5%, due 1994 to 2003	432	1,536
16% due 1995 to 2002	4,429	5,090
Collateralized long-term bank notes:		
13.0% to 16.5% due 1995 to 2000	913	1,256
8.875% Eurobonds, due 1999	4,253	–
14.04% Debentures, due 2001	4,000	–
16.5% Debentures, due 1988	2,100	2,100
Other loans	310	151
Total long-term debt (5,069 million Kč of which is repayable in foreign currency)	20,649	13,729
Less: Current portion	**- 1,786**	**- 1,981**
Long-term debt, net of current maturities	**18,863**	**11,748**

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

1995	1,786
1996	1,296
1997	1,589
1998	3,930
1999	5,179
Thereafter	**6,869**
Total long-term debt	**20,649**

On 20 December 1994 ČEZ Finance B.V. (ČEZ F.B.V.) sold USD 150 million 8 7/8% notes which were guaranteed by ČEZ, a. s. On the same date, ČEZ, a. s., borrowed USD 150 million from ČEZ F.B.V. and simultaneously entered into a swap transaction to exchange 97.5 million of its USD liability to 153.3 million German DM. The swap was designed to minimize, or eliminate, currency exchange risks as the Czech crown exchange rate is fixed at a value based 65% on the German deutsch mark and 35% on the U.S. dollar. At 31 December 1994 an unrealized currency exchange loss against the DM was offset by a gain against the USD, and a net unrealized gain of 4.6 million Kč was recorded at year end.

The Company has received a commitment from the International Bank for Reconstruction and Development („the Bank") for a USD 246 million loan. As of 31 December 1994 USD 40.9 million had been drawn against this commitment. This loan is to be used for specified power and environmental improvement projects. The loan agreement contains financial covenants relating to capital expenditure coverage, cash flow coverage and debt service coverage. A commitment charge of .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 1994) plus .5% and will be payable on 15 February and 15 August in each year. Semi-annual 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, a. s., is also constructing a second 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 decommissionong, decontamination and dismantling („decommissioning") of the Company's nuclear power plants and the disposal of nuclear waste and spent nuclear fuel („disposal").

Estimated decommissioning of Dukovany, and disposal for Dukovany and Temelín, 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, a. s., 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, a. s., is currently planning to fund its nuclear decommissioning and fuel disposal cost liability beginning on the valid date of the new Nuclear Law 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 of Dukovany 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 nuclear waste and spent fuel storage for Dukovany and Temelín are being accrued based on MWhs produced by nuclear plants. ČEZ, a. s., estimates the disposal process will be completed in 2069 and cost 66,000 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 years ended 31 December 1994 and 1993 (in millions of Kč):

	Year-end Accumulated Provision			
	IAS		Czech Law	
Estimate for:	1994	1993	1994	1993
Decommissioning	3,386	2,959	949	452
Waste fuel storage	7,011	6,215	1,766	926
Total	10,397	9,174	2,715	1,378

	Current Expense			
	IAS		Czech Law	
Estimate for:	1994	1993	1994	1993
Decommissioning	422	409	497	452
Waste fuel storage	914	922	952	926
Total	1,336	1,331	1,449	1,378

9. Income Taxes

The Company's provision for income taxes for the years ended 31 December 1994 and 1993 is as follows (in millions of Kč):

	1994	1993
Current income taxes	6,871	9,291
Deferred income taxes	786	180
Total income taxes	7,657	9,471

A reconciliation of expected income tax expense to the actual tax expense is as follows (in millions of Kč):

	1994	1993
Income before income taxes	17,184	18,648
Statutory income tax rate	42%	45%
„Expected" income tax expense	7,217	8,392
Add (deduct) tax effect of:		
Czech/IAS accounting differences	- 5	- 855
Prior period adjustment (Note 11)	–	801
Non deductible reserves	511	1,127
Other book/tax differences	- 55	21
Tax credits	- 2	- 2
Difference resulting from using subsequent year tax rate for the calculation of deferred taxes	- 9	- 13
Income taxes	7,657	9,471
Effective income tax rate	45%	51%

10. Commitments and Contingencies

Construction Program

The Company is engaged in continuous construction programs, currently estimated to total 96.6 billion Kč over the next five years, as follows: 29.1 billion Kč in 1995, 26.4 billion Kč in 1996, 20.8 billion Kč in 1997, 11.9 billion Kč in 1998 and 8.4 billion Kč in 1999. In addition to the 96.6 billion Kč, pursuant to its IAS interest capitalization policy (see Note 2) the Company will capitalize approximately 14.5 billion Kč more interest for IAS purposes than under Czech accounting principles. Such additional capitalized interest will result in an increase in the Company's net income and construction expenditures, but will not effect either its cash requirements or its cash flow. The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. The estimated investments include 43.2 billion Kč for nuclear (including the Temelín nuclear power plant) and 23.4 billion Kč for environmental construction projects. At 31 December 1994 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.

Temelín 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 981 MW units with modifications to upgrade safety and

operating systems. The construction and completion of the plant has been approved by the government of the Czech Republic. The investment in the plant at 31 December 1994 is 42 billion Kč.

Management expects that the total investment costs for the construction of the Temelín nuclear power plant will be 75 to 76 billion Kč. As a result of changes to the instrumentation and control system and the change of fuel to be used to enhance the safe performance of Temelín, the time schedule for the completion of the Temelín nuclear power plant has recently been delayed. Following discussions between the Company and the general supplier of technology, Škoda Praha, a.s., and with its suppliers, the Company currently expects that the first unit of the Temelín nuclear power plant will be put into operation (i.e. fuel loading) in July 1997 and the second unit approximately twelve to eighteen months later. As a result of such changes and delays, the general supplier of technology and its respective suppliers requested price increases which have been reflected in the cost described above. Based on the status of the current discussions with the suppliers, the Company does not expect any further construction delays or cost increases, however, no assurances may be given that events beyond the control of the Company might not result in further delays and/or cost increases.

Under Czech law applicable to certain of the existing construction and supply agreements relating to the construction of the Temelín nuclear power plant, a purchaser does not have legal title to an improvement (including machinery) or building being constructed on real property until the contractor has completed the construction and the purchaser has taken possession. Consequently, if any contractors involved in the construction of the Temelín plant were to be declared bankrupt before completion of the plant, ČEZ, a. s., would not have legal title to the buildings and improvements on the Temelín site and, with respect to amounts it has paid such contractor, would be treated as a general unsecured creditor of the contractor.

ČEZ, a. s., is currently engaged in negotiations with Škoda Praha, a.s. („Škoda Praha"), the primary contractor for mechanical parts and electronics systems at Temelín, and its sub-suppliers, in order to replace the respective contracts with new contracts. Such new contracts, if entered into, would be governed by provisions of Czech law pursuant to which ČEZ, a. s., would acquire legal title to all buildings, machinery and improvements constructed or assembled at the Temelín site by Škoda Praha or its sub-suppliers. Management of the Company expects execution of those contracts in mid-1995.

Dlouhé Stráně Pumped Storage Plant

ČEZ, a. s., is constructing a pumped storage hydroelectric plant in Northern Moravia which will consist of two 325 MW units. Construction began in 1978 and the plant is expected to begin operating in 1995. The Company has invested 5,118 million Kč in the project as of 31 December 1994. ČEZ, a. s., estimates that an additional 642 million Kč is required to complete the plant.

Environmental Matters

The Czech Republic has adopted a series of environmental acts and laws and regulations („the Acts") including a timetable to reduce atmospheric 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 Company is also liable under the Acts for past environmental damage. Payments made to state farms, individual farms, cooperatives, other agricultural firms and forests totaled 188 million Kč in 1994 and 72 million Kč in 1993. The Company provided 660 million Kč in 1994 and 199 million Kč in 1993 for pollution damages, and at 31 December 1994 its accumulated provision for past pollution damages totaled 790 million Kč.

It is difficult to make an estimate of the ultimate cost that will be incurred by the Company. The Company does not believe, based upon the information available at this time, that the ultimate outcome of this matter will have a material adverse effect on its financial position.

Insurance Matters

ČEZ, a. s., does not maintain any hazard insurance for any risks (including fire, explosion, flood, etc.) of damage to any of its properties or plants, nor any liability insurance (other than certain insurance required by Czech law for injuries incurred by employees while working) for any potential liability of the Company, including any liability for damages arising from any nuclear accident involving its nuclear power plant or from injury to property resulting from emissions or sulphur and other substances from its coal-fired plants. Under Czech law, ČEZ, a. s., as an operator of a nuclear power plant, is potentially subject to unlimited liability in the Czech Republic in the event of a nuclear accident. The Company intends in the future to attempt to obtain liability insurance for risks associated with its nuclear operations, and hazard and liability insurance with respect to other aspects of its business.

11. Prior Period Disposal of Assets

Construction in progress and retained earnings at as of 1 January 1993 have been reduced by 1,800 million Kč to write-off the Company's net investment in the Mělník – Prague heat pipeline project. The decision to cancel the project was made by the management on 6 January 1992, prior to the establishment as of 30 April 1992 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.

Balance Sheet

	1994 net	1993 net	Index 94/93
	Kč mln	Kč mln	%
Total assets	**116,928**	**97,232**	**120.3**
Fixed assets	**102,835**	**84,960**	**121.0**
Intangible fixed assets	66	40	165.0
Tangible fixed assets	102,111	84,398	121.0
Financial investments	658	522	126.1
Current assets	**14,014**	**12,171**	**115.1**
Inventory	6,855	6,308	108.7
Long-term receivables	149	97	153.6
Short-term receivables	5,215	3,098	168.3
Financial property	1,795	2,668	67.3
Other assets - temporary assets accounts	**79**	**101**	**78.2**
Accrued assets	74	95	77.9
Contingent assets	5	6	83.3

	1994	1993	Index 94/93
	Kč mln	Kč mln.	%
Total liabilities	**116,928**	**97,232**	**120.3**
Capitalization	**81,774**	**72,933**	**112.1**
Staded capital	58,973	58,873	100.2
Capital funds	806	795	101.4
Profit funds	6,557	5,986	109.5
Economic result of past years	6,549		
Economic result in regular accounting period	8,889	7,279	122.1
Loans	**34,020**	**23,699**	**143.6**
Reserves	6,522	4,597	141.9
Long-term liabilities	10,821	2,408	449.4
Current liabilities	5,323	2,305	230.9
Bank credits and aids	11,354	14,390	78.9
Other liabilities - temporary liabilities accounts	**1,133**	**599**	**189.1**
Accrued liabilities	795	256	310.5
Contingent liabilities	338	343	98.5

Profit and Loss Statement

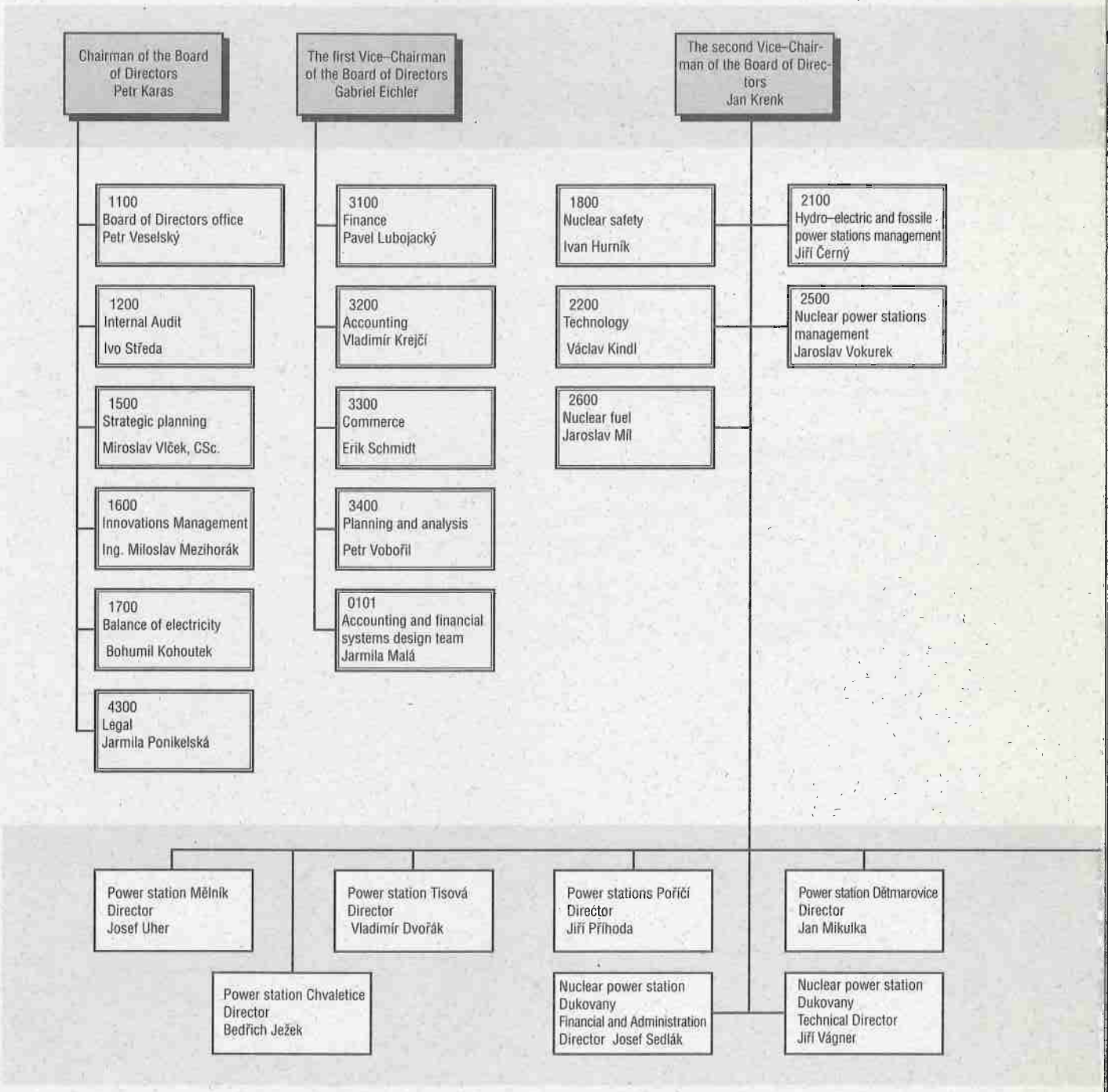
	1994	1993	Index 94/93
	Kč mln	Kč mln	%
Total revenues	**52,162**	**50,829**	**102.6**
Sales of electricity	**46,162**	**46,801**	**98.6**
PDJC*	43,828	43,875	99.9
export	2,090	2,700	77.4
other sales of electricity	244	226	107.5
Sales of heat	**1,129**	**1,060**	**106.5**
Draws on reserves	**2,199**	**1,638**	**134.2**
Other sales	**2,672**	**1,330**	**201.1**
Total expenses	**35,974**	**34,079**	**105.6**
Production consumption	**22,291**	**19,414**	**114.8**
fuel	11,523	11,227	102.6
materials	1,448	1,246	116.2
purchased power	4,748	3,601	131.9
repairs and maintenance	2,407	1,770	136.0
other production consumption	2,165	1,570	137.9
Personnel expenses	**2,029**	**2,026**	**100.1**
Taxes and fees	**1,018**	**792**	**128.5**
Other operational costs	**732**	**2,488**	**29.4**
Depreciation	**3,918**	**3,689**	**106.2**
Creation of reserves	**4,124**	**3,783**	**109.0**
Financial expenses	**1,447**	**647**	**223.6**
Unusual expenses	**125**	**183**	**68.3**
Other expenses	**290**	**1,057**	**27.4**
Pre-tax profit	**16,188**	**16,750**	**96.6**
Income tax	7,299	9,471	77.1
Net income	**8,889**	**7,279**	**122.1**

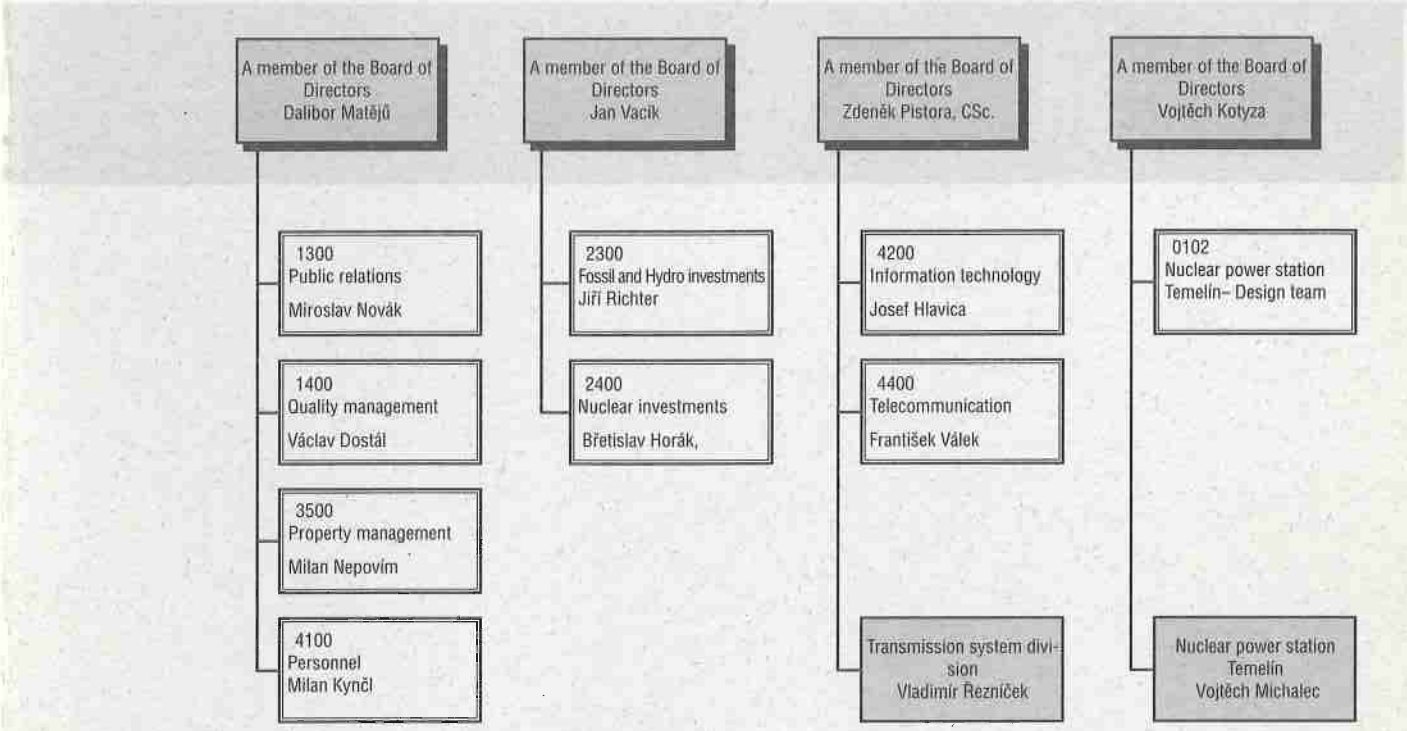
*PDJC - Power distribution joint-stock companies

Cash flow (Kč mln)

	1994	1993
Cash at beginning of year	**2,631**	**1,169**
Net cash provided by current and unusual activities	**13,596**	**16,813**
of that, – accounting economic result	8,889	7,279
– depreciation of fixed assets	3,981	5,535
– changes in reserve balance	1,925	2,144
– changes in receivables	- 2,167	1,057
– changes in current liabilities	1,091	718
– changes in inventory	- 561	- 968
Investing activities	**- 21,612**	**- 19,053**
of that, - attainment of tangible fixed assets	- 21,761	- 19,156
Financing activities	**7,139**	**3,702**
of that, – changes in long-term credits	- 1,109	2,293
– increase in bond liabilities	4,000	2,100
– changes in other long-term liabilities	4,413	- 640
Total changes in cash	**- 877**	**1,462**
Cash at end of year	**1,754**	**2,631**

Organizational Structure of ČEZ, a. s., as of January 1, 1995




A member of the Board of Directors
Dalibor Matějů
A member of the Board of Directors
Jan Vacík
A member of the Board of Directors
Zdeněk Pistora, CSc.
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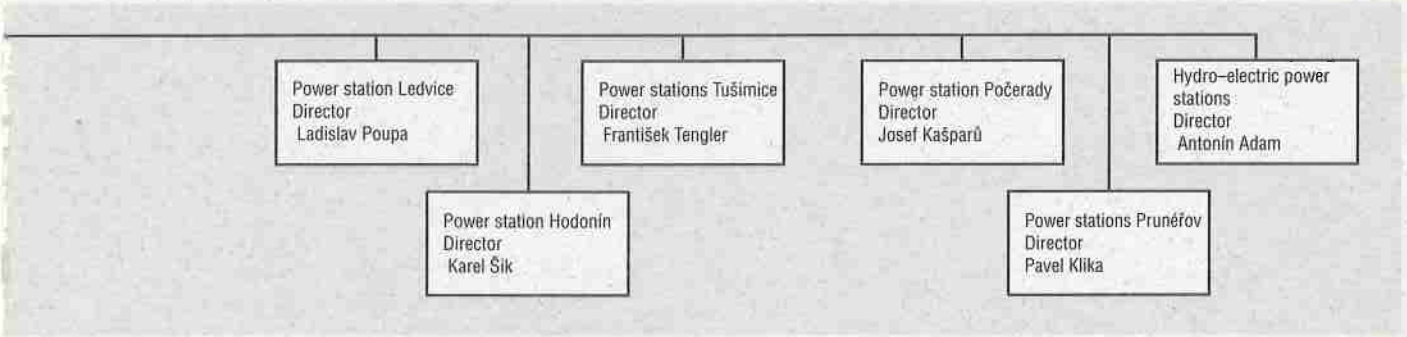
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