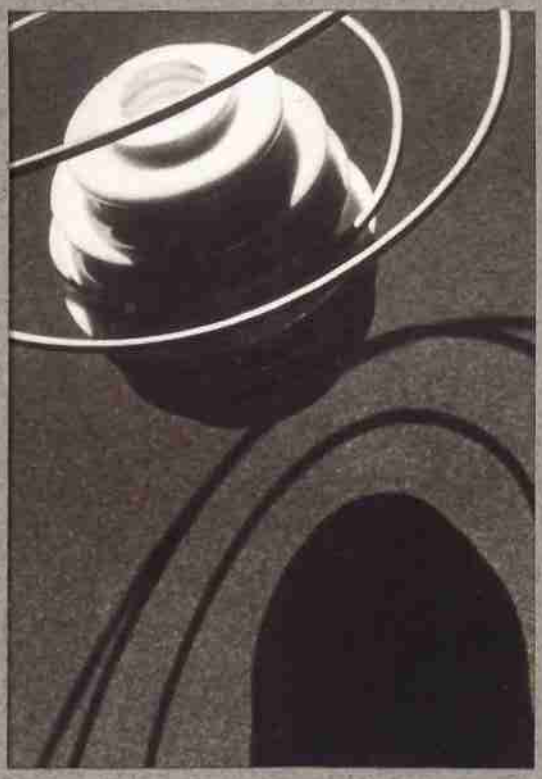
# ANNUAL REPORT



1995

CEZ

ČEZ, a. s.
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Czech Republic

# Annual Report

of the ČEZ, a. s. Electric Power Company

# Czech Power

ČEZ is a Czech electric power generation and transmission utility, established on May 6, 1992. The utility was set up as a new legal entity on the basis of property assets of České energetické závody (Czech Power Works), from which it took over power generation and operation of the high-voltage 220 kV and 440 kV grid. At present, its share in the generation of electric power in the Czech Republic is more than 76%. It supplies electric power to eight regional distribution utilities and directly to several large industrial enterprises. In addition to electric power it also supplies heat. It operates 10 fossil power plants, 14 hydro power plants, 1 nuclear power plant and 1 pilot wind power plant. Under construction is one nuclear power plant, two hydro power plants, one solar power plant and a wind power plant farm. ČEZ strives to produce energy economically with the least possible impact on the environment. High priority in the development program of ČEZ, is devoted to care of the environment.

# Table of Contents

On October 18, 1995 the transmission grid of the Czech Republic - a component part of CENTREL, the Central-European Power System Association - was connected for pilot operation to the West-European UCPTE electric system within the framework of which it now operates. One of the main business objectives for the 1994 to 2000 period was thus fulfilled.

# Selected Results

## (including financial information in accordance with IAS)

| CZECH REPUBLIC | Unit | 1995 | 1994 | 1993 |
|---|---|---|---|---|
| Installed capacity | MW | 13,793 | 13,826 | 14,227 |
| Peak load | MW | 10,415 | 9,632 | 9,288 |
| Date of peak load | | 6. 12. | 19. 12. | 1. 12. |
| Production of electric energy | GWh | 60,847 | 58,705 | 58,882 |
| | | | | |
| ČEZ, a. s. | | | | |
| Installed capacity | MW | 10,184 | 10,235 | 10,655 |
| Production of electric energy | GWh | 46,361 | 45,377 | 46,445 |
| Production of heat | TJ | 15,764 | 15,823 | 16,697 |
| Operating revenues | Kč mln | 50,639 | 48,816 | 48,879 |
| of which, sales of electricity and heat | Kč mln | 48,685 | 47,290 | 47,904 |
| Operating expenses | Kč mln | 33,476 | 31,278 | 29,538 |
| Profit before taxation | Kč mln | 16,808 | 17,184 | 18,648 |
| Net Profit | Kč mln | 9,305 | 9,527 | 9,177 |
| Earnings per share | Kč per share | 173 | 178 | 171 |
| Construction expenditures | Kč mln | 29,259 | 24,301 | 20,974 |
| | | | | |
| At year - end | | | | |
| Total assets | Kč mln | 140,592 | 117,800 | 97,156 |
| Number of shares | | 53,958,062[4] | 53,812,874[3] | 53,521,026[2] |
| Number of employees | | 11,664 | 12,143 | 13,723 |
| Price - earning ratio[1] | | 5.6 | 7.6 | 9.3 |
| Debt to equity ratio | | 0.39 | 0.30 | 0.26 |
| Current ratio | | 0.54 | 0.68 | 0.72 |
| Return on total assets[1] | % | 6.62 | 8.09 | 9.45 |

*[1] Based on net profit.*

*[2] Nominal value 1,100 Kč*

*[3] Of this 51,602,380 shares with nominal value Kč 1,100 and 2,210,494 shares with nomimal value Kč 1,000.*

*[4] Of this 51,731,161 shares with nominal value Kč 1,100 and 2,226,901 shares with nominal value Kč 1,000.*

**Important note:**

**All economic results are based on International Accounting Standards (IAS), which results differ from the Czech version of the 1995 ČEZ Annual Report.**

(including financial information in accordance with IAS)

**Balance Sheets**

(Kč mln)

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| **Assets** | | | |
| Total property, plant and equipment | 129,947 | 107,433 | 88,470 |
| Property, plant and equipment, net | 46,393 | 40,466 | 34,373 |
| Nuclear fuel, at amortized cost | 4,656 | 4,450 | 4,159 |
| Construction work in progress | 78,898 | 62,517 | 49,938 |
| Other noncurrent assets, net | 1,005 | 724 | 654 |
| Total current assets | 9,640 | 9,643 | 8,032 |
| **Total assets** | **140,592** | **117,800** | **97,156** |
| **Capitalization and liabilities** | | | |
| Total capitalization | 83,521 | 74,297 | 65,036 |
| Total long-term liabilities | 34,892 | 29,260 | 20,922 |
| Total current liabilities | 22,179 | 14,243 | 11,198 |
| **Total capitalization and liabilities** | **140,592** | **117,800** | **97,156** |

**Statements of Income and Retained Earnings**

(Kč mln)

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| Operating revenues | 50,639 | 48,816 | 48,879 |
| Operating expenses | 33,476 | 31,278 | 29,538 |
| Income before income taxes | 16,808 | 17,184 | 18,648 |
| Income taxes | 7,503 | 7,657 | 9,471 |
| Net income | 9,305 | 9,527 | 9,177 |
| Retained earnings, end of period | 24,390 | 15,324 | 6,163 |
| Average number of shares outstanding | 53,885 | 53,667 | 53,521 |
| Net income per share | 173 | 178 | 171 |

## Main Events in 1995

| | |
|---|---|
| **March** | Japan Bond Research Institute grants ČEZ an A- rating. |
| **April** | Launching of pilot operation of a newly installed instrumentation and control system of the # 2 unit at the Počerady Power Station. |
| **May** | Signing of a contract for the supply of desulphurisation equipment for the Dětmarovice Power Station. |
| **June** | Signing of a contract with the Škoda Praha, the general supplier of technology for the Temelín Nuclear Power Station.<br>Signing of a contract for the supply of desulphurisation equipment for the Chvaletice Power Station.<br>Floating the third issue of domestic bonds.<br>Signing of a three-year loan contract with a bank consortium headed by the Sumitomo Bank. |
| **July** | Signing of a contract for the supply of the second fluidized-bed boiler for the Tisová Power Plant.<br>Standard and Poor's improves ČEZ's rating to BBB with a positive outlook.<br>Launching of preliminary comprehensive tests of the 325 MW turbine-generator set # 2 of the Dlouhé Stráně Pumped-Storage Hydro Power Station |
| **September** | Moody's grants a Baa1 rating to ČEZ.<br>Signing of a contract for the supply of desulphurisation equipment for the 100 MW unit of the Tisová II Power Station. |
| **October** | Interconnection of the CENTREL power system with the UCPTE system.<br>Signing of a contract for the supply of desulphurisation equipment for the Mělník II and the Mělník III Power Stations.<br>Commissioning of the low- and medium-active nuclear waste permanent storage facility at the Dukovany Nuclear Power Station.<br>Launching of pilot operation of a new instrumentation and control system of the # 22 unit of the Prunéřov II Power Station. |
| **November** | The Japan Bond Research Institute confirms ČEZ A- rating.<br>Launching of pilot operation of a newly installed instrumentation and control system of the # 24 unit of the Tušimice II Power Station. |
| **December** | Launching of pilot operation of desulphurisation equipment at the Prunéřov I Power Station.<br>Launching of tests of the first fluidized-bed boiler at the Tisová I Power Station.<br>Signing of a loan contract with the European Investment Bank.<br>Launching of pilot operation of the interim spent fuel storage facility at the Dukovany Nuclear Power Station. |

Dear Friends,

ČEZ has reliably and economically supplied electricity and ensured other services connected therewith to its customers throughout 1995. It also met its obligations with respect to creditors and suppliers promptly and accurately. We have progressed in fulfilling our business mission. Nevertheless, in accordance with our long term plan we are not yet able to fulfil our commitments with respect to our shareholders as we are not proposing to pay a dividend even this year.

In the the year just passed, the demand for electric energy increased by 5.8 % as against 1994, and reached a total of 52.2 TWh. This power consumption closely approaches the historical maximum attained in 1989. Demands placed on regulation services of our power units increased significantly. Under the extreme conditions of the 1995/1996 winter period we performed excellently.

A significant, and in fact historical, event was the synchronous interconnection of ČEZ's network with the West-European interconnected UPCTE system on October 18, 1995. This opened new co-operation opportunities and created new entrepreneurial possibilities a full two years earlier than we had anticipated. The entrepreneurial and legal environment in the Czech Republic, regulated by Act # 222/1994 Coll. of Laws (the Energy Law), is being gradually formed in a complex manner by supplementary public decrees and solution of practical cases.

Operating expenses amounted to 33.5 billion Czech crowns, an increase of (7%) as against the previous year. This increase was affected by the continuing rise in the prices of the inputs, particularly fuel maintenance and increased depreciation. Even though the rise in costs corresponds to the development of the entire economy of the Czech Republic, we have succeeded in lowering them as against the original presumptions of production costs.

Operating revenues followed the rise in costs to a much lesser degree and attained 50.6 billion Czech crowns, which is only 3.7% more than in the preceding year. The revenue of the Company is thus not growing at the same rate as the costs increase. This is given by the regulation of electricity prices for final users. It mainly concerns household prices which do not cover the whole chain of generation, transmission and distribution costs, and are cross-subsidised by revenues from the industrial and commercial customers. The substantially more rapid growth of household consumption (13.8 % in 1995) thus reduces the effect of price increases on the income of distribution companies and makes it impossible to project at least a part of the increasing costs of our company into prices.

We have fulfilled the requirements of our most important customers - the distribution utilities - absolutely reliably despite the fact that difficult price and contractual negotiations were conducted practically an year long and were concluded only with the assistance of the Ministry of Industry and Trade of the Czech Republic at the end of 1995.

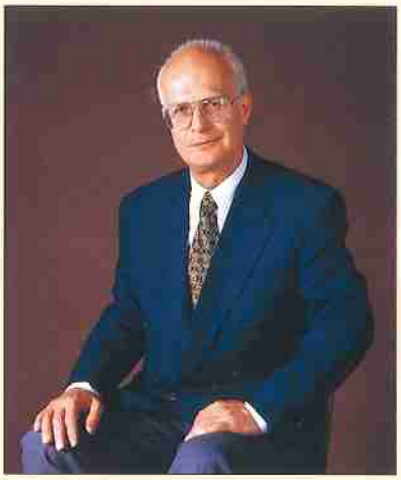
The management of ČEZ is currently endeavoring to conclude mutually advantageous long-term contracts with the distribution utilities. We have already concluded two such contracts in 1996.

The overall state of the Company and its financial situation are good. Profit before taxation amounted to 16.8 billion Czech crowns, that is 2.2% less than in 1994. Profit after taxation reached 9.3 billion Czech crowns. The trend in the drop of profit is in accordance with our long-term anticipations and is, among other things, connected with the growing depreciation and operational costs. However, the drop in 1995 was greater than we have anticipated. Our ability to absorb a substantial part of the inflation affecting our costs is practically exhausted.

At the end of 1995, the debt to equity ratio grew during 1995 from 0.30 to 0.39. During all of 1995,

financing of the Company was continuously ensured. Contributing to this was another successful, floating of domestic bonds. This issue, valued at 4 billion Czech crowns, was, in the Czech market, the first of its kind with a ten-year maturity. Of importance for managing the liquidity needs of the Company was a multicurrency revolving credit facility of US$ 100 million from a consortium of banks, headed by the Sumitomo Bank. This facility was the first of its kind in the Czech Republic. At the end of 1995, yet another important loan contract was signed with the European Investment Bank, valued at 2 x ECU 100 million with an 18-year maturity. This loan is intended for financing Company needs in the coming years.
A considerable interest in the shares and bonds of ČEZ among investors continues. These shares and bonds rank among the most traded on the Prague Stock Exchange. Our securities are also successfully traded on foreign capital markets. The credibility of the Company is also expressed by recent investment credit assessment. During the course of last year, the Standard and Poor's rating agency improved our assessment by one point to a "BBB" rating with a positive outlook. ČEZ continues to hold a "Baa1" rating from the Moody's agency and an "A-" rating from the Japanese JBRI agency. These excellent ratings enable the Company to obtain economically external funds for its extensive capital investment program.
Part and parcel to the Company's business mission is the generation of electricity in an environmentally friendly manner. Late last year desulphurisation equipment was put into pilot operation at the Prunéřov I Power Station (rated at 440 MW). The total desulphurised capacity of ČEZ's fossil power plants has now reached 840 MW, which represents almost 12% of the installed capacity of all our coal-fired stations. At the end of 1995, a fluidized-bed boiler was placed into pilot operation at the Tisová Power Station, the largest of its kind in the Czech Republic. The waste depositing method is also undergoing a gradual change. The by product of desulphurisation - gypsum - will be used mainly in the building industry.
Of key importance from the point of view of the environment, as well as modernisation of our production facilities, is the construction of the Temelín Nuclear Power Station. A new contract for the completion of this facility was signed in June 1995 between ČEZ and the general supplier Škoda Praha. Last year we spent 6 billion Czech crowns on its construction, which is less than anticipated. This was connected with a one-year postponement of its completion. The delay is related, among other things, to improvement of the instrumentation and control system and nuclear safety, which is of prime importance in facilities such as the Temelín Nuclear Power Station. A critical point of the construction continues to remain the design and the instalation of cabling.
The Company's management devotes considerable attention to creating an effective internal control system, an important part of which is internal audit. Timely recognition of weaknesses gives the Company an opportunity to react in time and effectively to potential threats.
Positive changes within our Company would not be possible without active participation of our employees at all management levels. To them I owe my thanks.

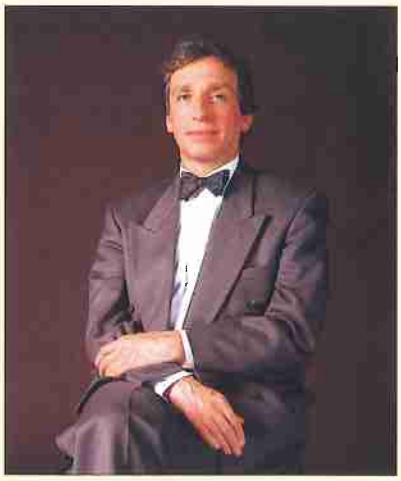
Petr Karas



### *Petr Karas*

Born in 1941, Chairman of the Board of Directors since October 19, 1992

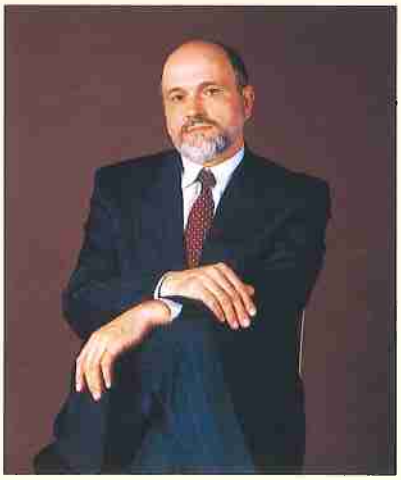
Mr. Karas graduated from the Department of Electrical Engineering of the Czech Technical University. He has been employed in the power-industry field since 1964. Mr. Karas is the author of a number of textbooks on the maintenance and repair of power station equipment. Since 1991 he has been Chairman of the Association of Employers in the Czech Power Industry and, since 1994, Vice Chairman of the Association of Industry of the Czech Republic. In 1995, Mr. Karas was awarded the Manager of the Year Award by the Czech Managerial Fund.



### *Gabriel Eichler*

Born in 1950, Vice Chairman of the Board of Directors since April 24, 1994

Mr. Eichler studied economics and international relations at Brandeis University, the University of Chicago and the University of Toronto. For 15 years he was with Bank of America, of which for 8 years he was its General Manager in several European countries and regions and later its Chief International Economist in San Francisco. Mr. Eichler is the founder and partner of the investment and cosultancy firm Benson Oak.



### *Vojtěch Kotyza*

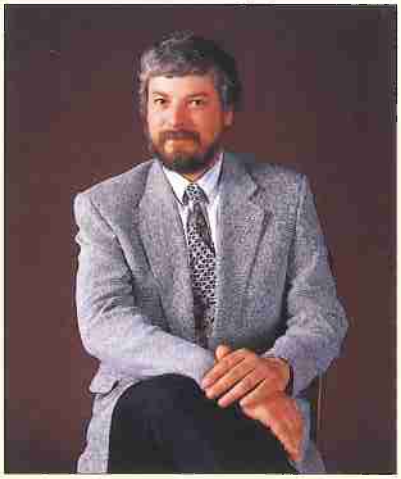
Born in 1941, Member of the Board of Directors since October 15, 1994

Mr. Kotyza is a graduate of the Mechanical Engineering Department of the Pilsen Technical University. From 1966 he participated in the development of nuclear power engineering in the Škoda Works of Pilsen. From 1978 to 1994 he was with today's Škoda Praha, where for 7 years he headed commissioning of the Dukovany Nuclear Power Station, was the Head of the Technical Assistance Department, Manager of the Nuclear Division (1991 to 1994) and manager of the construction of the Nord Nuclear Power Station (in the former German Democratic Republic).

### *Ludmila Petráňová*

Born in 1946, Member of the Board of Directors since February 22, 1996

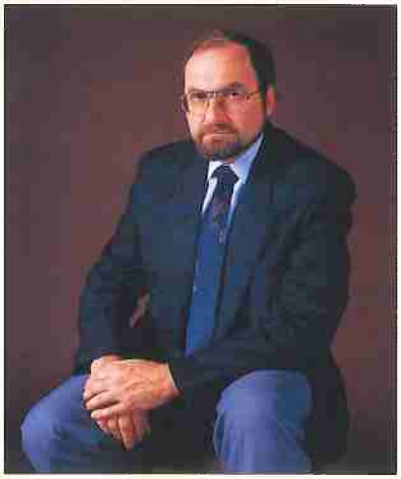
Ms. Petráňová is a graduate of the Nuclear and Physical Engineering Department of the Czech Technical University. After graduation she served in the information field. From 1993 to 1994 she held the post of Manager of the Change Management Department of ČEZ and thereafter until 1996 as Manager of the Marketing Department of the Savings Investment Society. During the 1994-to-1995 period, she served as a Member of the Board of Directors of Sklo Union Teplice (and in 1995 as the Chairman of the Board of Directors), Transakta and Energovod.



### *Aleš Tomec*

Born in 1957, Member of the Board of Directors since February 22, 1996

Mr. Tomec is a graduate of the Electrical Engineering Department of the Czech Technical University. From 1983 to 1990 he was employed in the Control Center of Czech Power Works, whereupon he moved to the Czechoslovak Control Center. After organisational changes in May 1994 he became Manager of the Central Control Center. As of April 1996 he holds the post of Executive Director of the Transmission Division. He is a member of working groups organised within the framework of CENTREL.



### *Jan Vacík*

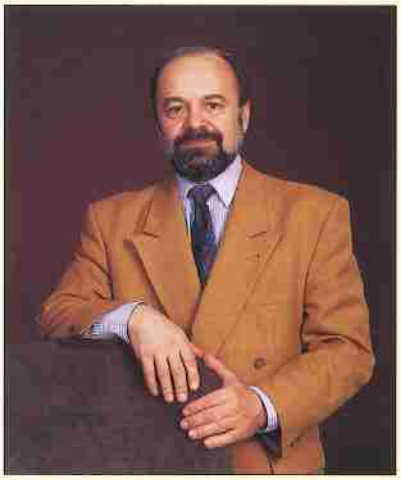
Born in 1951, Member of the Board of Directors since June 15, 1994

Mr. Vacík is a graduate of the Electrical Engineering Department of the Czech Technical University and attended the MBA course at the Prague Internal Business School. As of 1976, he worked in the Engineering Department of Elektromontážní závody Praha on the development of industrial automation equipment. In 1979 he moved to Energovod Praha where he became Manager of the Design Division in 1990. In 1994 he was appointed as a member of the Board of Directors of ČEZ and is now responsible for capital construction, with the exception of the completion of the construction of the Temelín Nuclear Power Station.

### *Jan Krenk*

Born in 1951, Second Vice Chairman of the Board of Directors until February 22, 1996

Mr. Krenk is a graduate of the Czech Technical University and graduate studies at the Pilsen Technical University.In 1976 he took a job with the Chvaletice Power Station, where he worked in various operating posts. Thereupon he moved to the Dukovany Nuclear Power Station and in 1990 became its Manager. From 1993 to 1994 he served as Manager of ČEZ's Nuclear Power Department and later as Manager of the Company's Nuclear Power Division.



### *Dalibor Matějů*

Born in 1948, Member of the Board of Directors until February 22, 1996

Mr. Matějů is a graduate of the Electrical Engineering Department of the Brno Technical University. As of 1971 he worked for the Czech Power Works in different operating, engineering and economic posts. In 1993 he became Manager of the Quality Assurance Sector. At present he is the Vice Chairman of the State Examination Commission for selected posts in nuclear power stations.

### *Zdeněk Pistora*

Born in 1959, Member of the Board of Directors until February 22, 1996

Mr. Pistora is a graduate of the Electrical Engineering Department of the Czech Technical University, the Power Systems Concepts Course, organised by the American Electric Power Corporation (USA). As of 1987 he was employed by the Czech Power Works in the field of distribution network development. Since 1990 he represented the Company in a UNIPEDE Study Committee. Since 1994 he is attending an MBA course at the Sheffield Hallam University. Mr Pistora significantly participated in launching pilot operation of the Czech power system interconnection with the West-European UCPTE system.

On pages 10 and 11 are existing members of the Board of Directors
and on page 12 are members of the Board of Directors who held this post until February 1996.

# Supervisory Board

***Ladislav PETRÁSEK***

Born in 1943, Chairman of the Supervisory Board

Mr. Petrásek is a graduate of the Law School of Charles University. Since January 1, 1992 he has served at the National Property Fund of the Czech Republic as Member of the Executive Council and Head of the Capital Participation Section. Mr. Petrásek is Vice Chairman of the Supervisory Board of Komerční banka (Commercial Bank), Member of the Board of Directors of AVIA, and Chairman of the Board of Directors of NIF.

***Jiří MAREK***

Born in 1946, Executive Vice Chairman of the Supervisory Board

Mr. Marek is a graduate of the Czech Technical University. Up to 1971 he was a research worker at the Nuclear Research Institute in Řež. Since 1974 he held many posts in Czech Power Works. In 1992 Mr. Marek left for the Ministry of Industry and Trade of the Czech Republic, where he currently serves as a consultant to the Minister.

***Petr HŮLA***

Born in 1962, Member of the Supervisory Board

Mr. Hůla is a graduate of the Law School of the Charles University. He is a legal adviser of the Vice Chairman of the Board of Directors of Investiční a poštovní banka, (Investment and Postal Bank), Member of the Board of Directors of Čechofracht and Member of the Supervisory Board of Moravan, Otrokovice.

***Livia KLAUSOVÁ***

Born in 1943, Member of the Supervisory Board

Mrs. Klausová is a graduate of the Commercial Department of the university-level School of Economics. She is the Executive Secretary of the Czech Economic Society. Mrs. Klausová is a Member of the Supervisory Board of Česká spořitelna (Czech Savings Bank) and ZVVZ Milevsko.

***Lubomír KLOSÍK***

Born in 1951, employee - elected Member of the Supervisory Board since July 13, 1995

Mr. Klosík is a graduate of the Chemical Department of a Technical High School. Since 1985 he is employed at the Dětmarovice Power Station. Since, where since 1990 he is Chairman of the local trade union. Since 1992 he is Member of the Presidium of the Power Industry Trade Union.

***Václav KREJČÍ***

Born in 1953, employee - elected Member of the Supervisory Board

Mr. Krejčí is a graduate of the Chemical Department of a Technical High School. As of 1982 he is an employee of the Dukovany Nuclear Power Station. At the present time, he serves as manager of internal communication. He is a business partner of I. ARDO Company.

***Václav KUPKA***

Born in 1944, Member of the Supervisory Board
Mr. Kupka is a graduate of the Production and Economy Department of the university-level School of Economics. He is First Deputy of the Minister of Economics of the Czech Republic, Chairman of the Supervisory Board of Českomoravská záruční a rozvojová banka (Czech-Moravian Warranty and Development Bank) and Member of the Presidium of the National Property Fund of the Czech Republic.

***Vítězslav MANDA***

Born in 1946, Member of the Supervisory Board
Mr. Manda is a graduate of the university-level School of Economics. He is the Director of the Profit Sphere Financing Department of the Ministry of Finance of the Czech Republic and Member of the Supervisory Board of ČEPRO.

***Josef PETŘÍK***

Born in 1952, Member of the Supervisory Board since July 13, 1995
Mr. Petřík is a graduate of the Czech Technical University. He is employed by the National Property Fund of the Czech Republic as Head of the Light, Chemical and Woodworking Industries Department. As of 1994 he is Member of the Supervisory Board of KAOLIN Hlubany.

***Zdeněk SPITZER***

Born in 1967, Member of the Supervisory Board
Mr. Spitzer is a graduate of the Mechanical Engineering Department of the Czech Technical University. Since February 1995 he is a banking specialist at Československá obchodní banka (Czechoslovak Commercial Bank). Mr. Spitzer is a Member of the Supervisory Board of AGS Bohemiastone, Hradec Králové.

***Jan ŠEVR***

Born in 1947, employee-elected Member of the Supervisory Board
Mr. Ševr is a graduate of the Mechanical Engineering Department of a Technical High School. He is the Chief Operator of the 500 MW unit at the Mělník Power Station.

***Jiří ŠVAMBERK***

Born in 1944, employee-elected Member of the Supervisory Board
Mr. Švamberk is a graduate of the Mechanical Engineering Department of a Technical High School. He is employed as the Head of the Personnel Department of the Tisová Power Station.

***Peter KOLEK***

Born in 1960, Member of the Supervisory Board until July 13, 1995
Mr. Kolek is a graduate of the university-level School of Economics. At the present time, he is an employee of MEDIATEL.

***Jiří KURKA***

Born in 1955, Member of the Supervisory Board until July 13, 1995
Mr. Kurka is a graduate of the Mechanical Engineering Department of the Czech Technical University. He is the Chief Operator of a unit at the Počerady Power Station.

On January 1, 1995 the so-called Energy Act (Act # 222/1994 defining conditions for carrying on business and state administration in the energy industry and on State energy inspection) became effective. This long-awaited Act is aimed at reflecting the principles of the European Energy Charter into the Czech legal system. However, its full effectiveness will manifest itself only after the issuance of all the pertinent implementing decrees.

*Photograph: Building of the House of Parliament of the Czech Republic*

ČEZ began the year 1995 with stated capital of 58,973 million Czech crowns. During the year, the Board of Directors exercised the power delegated to them by the Shareholders General Meeting (which took place May 3, 1993) and raised the shareholder equity by deposits made by the National Property Fund of the Czech Republic in accordance with approved amendments of the Privatisation Project of ČEZ. As a result of this move, ČEZ concluded the year 1995 with a stated capital of 59,131 million Czech crowns.

**Shareholder structure**

| | 6. 7. 1995* | 31. 12. 1995 |
|---|---|---|
| National Property Fund of the Czech Republic | 67.46% | 67.46% |
| Restitution Investment Fund | 1.10% | 1.10% |
| Other legal persons | 26.70% | 26.92% |
| **Total legal persons** | **95.26%** | **95.48%** |
| of these: domestic | 83.06% | 80.85% |
| foreign | 12.20% | 14.63% |
| **Total physical persons** | **4.74%** | **4.52%** |
| of these: domestic | 4.51% | 4.30% |
| foreign | 0.23% | 0.22% |

** According to the list of shareholders required for the July 13, 1995 Shareholders General Meeting.*

As of December 31, 1995 ČEZ had 283,163 shareholders, which represented a drop of 22,723 since the last Shareholder General Meeting in July 1995.

In addition to the National Property Fund of the Czech Republic and the Restitution Investment Fund, there are eight other legal persons holding more than 1% of the stated capital, of which four are foreign legal persons. The share of none of these exceeds four percent. The share of foreign nationals (legal persons as well as physical persons) in the stated capital of ČEZ has increased and as of December 31, 1995 amounts to almost 15%.

The Westinghouse Electric Corporation is ensuring - within the framework of the construction of the Temelín Nuclear Power Station - the supply of an automatic instrumentation and control system and nuclear fuel for the general supplier of technology Škoda Praha. The station will meet all requirements placed on nuclear safety. In the construction of the power station, prime emphasis is being placed on safety and reliability. After its commissioning, the Temelín plant will become ČEZ's largest power station.

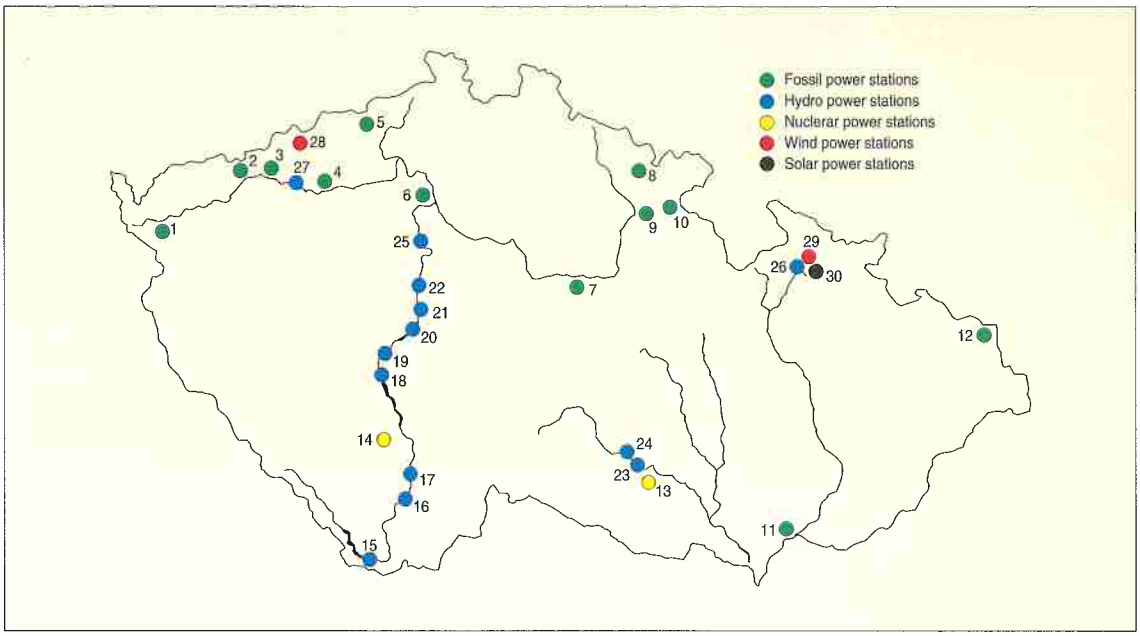
ČEZ's basic activity is the generation of electricity in nuclear, coal - fired and hydro power plants and its supply to customers via its own transmission network. The share of the individual types of capacities in the total installed capacity of the Company as of December 31,1994 and as of December 31, 1995 follows from the diagram shown below.

**The installed capacity of ČEZ according to the type of capacity**


More detailed information on all power stations operated by ČEZ is shown in individual tables below.

| | | | | | |
|---|---|---|---|---|---|
| 1 Tisová I, II | 6 Mělník II, III | 11 Hodonín | 16 Hněvkovice | 21 Štěchovice I, II | 26 Dlouhé Stráně |
| 2 Prunéřov I, II | 7 Chvaletice | 12 Dětmarovice | 17 Kořensko | 22 Vrané | 27 Želina |
| 3 Tušimice I, II | 8 Poříčí | 13 Dukovany | 18 Orlík | 23 Mohelno | 28 Dlouhá Louka |
| 4 Počerady I, II | 9 Dvůr Králové * | 14 Temelín | 19 Kamýk | 24 Dalešice | 29 Mravenečník |
| 5 Ledvice I, II | 10 Náchod * | 15 Lipno I, II | 20 Slapy | 25 Štvanice | 30 Mravenečník |

** The district-heating plant comes under the Poříčí organizational unit*



| Fossil power plants (as of December 31, 1995) | | | |
|---|---|---|---|
| *Not desulphurised* | | | |
| **Power plant** | **Type of fuel** | **Installed capacity in MW** | **In operation since** |
| Tisová I | Brown coal | 2 x 50 / 2 x 55 / 1 x 12 | 1959 - 1960 |
| Tisová II | Brown coal | 1 x 100 | 1961 |
| 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 |
| 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 |
| Poříčí | Hard coal | 3 x 55 | 1957 - 1958 |
| Dvůr Králové * | Brown coal | 1 x 6.3 / 1 x 12 | 1955, 1963 |
| Náchod * | Brown coal | 1 x 5 / 1 x 12 | 1950, 1969 |
| Hodonín | Lignite | 1 x 55 / 1 x 50 | 1954 - 1958 |
| Dětmarovice | Hard coal | 4 x 200 | 1975 - 1976 |
| **Total** | **x** | **6,367** | **x** |

** This district-heating plant comes under the Poříčí organizational unit*

| *Desulphurised* | | | |
|---|---|---|---|
| **Power plant** | **Type of fuel** | **Installed capacity in MW** | **In operation since** |
| Prunéřov I | Brown coal | 4 x 110 | 1967 - 1968 |
| Počerady II | Brown coal | 2 x 200 | 1977 |
| **Total** | **x** | **840** | **x** |

| **Nuclear power plant (as of December 31, 1995)** | **Installed capacity in MW** | **In operation since** |
|---|---|---|
| Dukovany | 4 x 440 | 1985 - 1988 |

| **Nuclear power plant under construction(as of December 31, 1995)** | **Installed capacity in MW** | **In operation since** |
|---|---|---|
| Temelín | 2 x 981 | unit # 1 - 1998 |
| | | unit # 2 - 1999 |

The contractual date for loading the first unit of the Temelín Power Station is September 1997 and for the 2nd unit 18 months later.

| Hydro power plants (as of December 31, 1995) | Installed capacity in MW | In operation since |
|---|---|---|
| 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 |
| Štvanice * | 5.67 | 1987 |
| Mohelno | 1.2 | 1977 |
| Želina | 0.63 | 1994 |
| **Small and large hydro power plants** | **727** | **x** |
| Štěchovice II ** | 40 | 1947 - 1948 |
| Dalešice | 450 | 1978 |
| **Pumped-storage hydro power plants** | **490** | **x** |
| **Total** | **1,217** | **x** |

| Hydro power plants under construction (as of December 31, 1995) | Installed capacity in MW | In operation since |
|---|---|---|
| Štěchovice II ** | 45 | 1996 |
| Dlouhé Stráně | 650 | 1996 |
| **Total** | **695** | **x** |

** ČEZ is only the operator, not the owner of the power plant*

*** At the present time, the power station is under reconstruction; after completion of the reconstruction, the installed capacity will increase from 40 MW to 45 MW*

As of September 1, 1995, ČEZ discontinued operation of the Modřany Hydro Power Station (1.5 MW) in accordance with the lease contract with the residual state enterprise České energetické závody (Czech Power Works). On the basis of the result of a public tender, this power station was turned over to the new owner.

| Wind power plants under construction (as of December 31, 1995) | Installed capacity in MW | In operation since |
|---|---|---|
| Dlouhá Louka (Krušné hory - Ore Mts.) | 0.315 | 1996 |
| Mravenečník (Jeseníky Mts.) | 1.165 | 1997 |
| **Total** | **1.480** | **x** |

| Solar power plants under construction (as of December 31, 1995) | Installed capacity in MW | In operation since |
|---|---|---|
| Mravenečník (Jeseníky Mts.) | 0.010 | 1996 |

## Business Conception of ČEZ

In July 1995, the Shareholders General Meeting adopted a Business Conception which was derived from an analysis of the external and internal business environment and which defines business activities as well as strategic initiatives, the realisation of which is the condition for maintaining the mission of ČEZ and achieving its business vision. This conception is based on the finding that ČEZ will be able to continuously ensure sustainable development under the condition that it will transform itself in time into a competitive company, oriented upon meeting the expectations of its customers. Furthermore, that it will convince partners of its intention to carry on business on the principle of equality of partnership and that it will rank among Europe's most successful and ethically operating electrical utilities, and will have the confidence of its shareholders and creditors, the public and, last but not least, its own employees.

Transformation of ČEZ into a company capable of effectively carrying on its business and holding its own in a competitive environment in the generation market will be challenging long-term process. To this end, ČEZ deemed it important to adopt the Business Conception and its consistent realisation. Achievement of these strategic goals will, undoubtedly, depend on the use of competitive, reliable and safe technology. But, in the first place, it will depend on people who are prepared to take on and manage the risks and uncertainties of social transformation and will actively contribute to their minimisation. The Board of Directors feels the need to change, the strategic management of the Company, and considers attainment of an accord between the management system of the Company and the expectations of its employees, the market and shareholders as its primary task. ČEZ is aware of its responsibility with respect to its shareholders, commercial and financial partners as well as employees and has commited to manage risks connected with the process of transforming the Company by systematic fulfilment of the Conception of Risk Management as approved by the Board of Directors.

## Development Strategy of ČEZ up to the year 2000

The development strategy of ČEZ up to the year 2000 is based on objectives formulated in 1992 in the Privatisation Plan, namely to:

- Ensure a reliable supply of electricity via the transmission system and cover demand (including auxiliary and ancillary services) at competitive prices in an environmentally friendly manner;
- Create conditions for parallel co-operation of the Czech power system with the West-European UCPTE (Union pour la Coordination de la Production et du Transport de l'Electricité);
- Fulfil conditions for continued operation of fossil - fired power stations after 1998, stipulated mainly by the law on protection of the atmosphere;
- Maintain ČEZ's share in the generation market after the year 2000 by long-term competitiveness of the technological production base and the structure of the electric power sources;
- Create conditions for attracting foreign capital for financing the extensive developmental program under the most advantageous conditions;
- Maintain the financial soundness of the Company.

From these objectives tasks were developed by ČEZ up to the year 2000:

- Reduction of the capacity of fossil power stations by 2,030 MW between the years 1990 and 1998;
- Completion and commissioning of two 981 MW units at the Temelín Nuclear Power Station and of two 325 MW units at the pumped-storage Dlouhé Stráně power station;
- Preparation of the construction of a central interim storage facility for spent nuclear fuel;
- Restoration of 6,452 MW capacity in fossil power plants which will enable their operation after 1998, in accordance with laws on protection of the environment;
- Activities related to attaining and permanently maintaining conditions for synchronous interconnection of the Czech power system with the West-European UCPTE integrated system;
- Adaptation of the configuration and capacity of the transmission system to structural changes of the production base.

The strategic plan is also directed at the best possible agreement with developments in electricity demand so as to preclude its later, financially demanding corrections. The development strategy was gradually verified and confirmed by business plans worked out during the 1993 to 1995 period.

### Monitoring and Analysis of the Fulfilment of the Strategy of Business Activities

The Board of Directors is aware of the responsibility which it has with respect to shareholders for proper handling of the Company's property and achieving the best economic results. To this end, the Company is developing and intensifying an internal accounting system, with the aim of improving care for the Company's property and its protection against destruction, damage or disposal and to ensure good economy when expending the Company's financial means. In addition to checks performed by leading Company employees within the framework of their duties, the Internal Audit Department also plays an important role. It operates on the principle of objectivity and independence of the unit the activities of which it is investigates and verifies. Its task is to assess the functionality and efficiency of the internal control system, the correctness, usefulness and effectiveness of processes used in the Company, the suitability and effectiveness of control procedures and organisational methods. The auditors study whether activities, processes and the employed procedures are in accord with generally valid legal norms, technical norms and standards as well as with internal rules of the Company. The auditors also investigate whether adherence to internal rules requires activities which are unnecessary or an end in itself. Furthermore, they check whether the method of carrying out the checked activities and procedures do not create in the Company obvious or latent risks which can be obviated or if squandering of Company means is not taking place. The audit thus creates conditions for timely adoption of measures for limiting or precluding risks and for continuous improvement of auditing activities. The results of the audit as well as proposed corrective measures for remedying the determined shortages and weak or risk points are regularly discussed with the Company Management. In 1995 the following were the most important internal auditing activities:

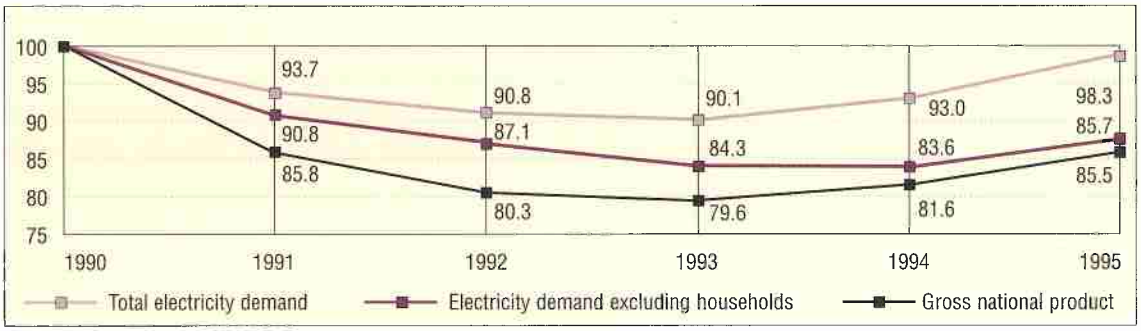
- An audit at the Dětmarovice Power Station, which evaluated in a comprehensive manner the method of management and ensuring all main activities of the power plant;
- An audit of the management of the Company's information system;
- An audit of tender methods and procedures for desulphurisation equipment for the Chvaletice Power Station;
- An audit of processes used in concluding business contracts in the I & C Energo, company a partly owned by ČEZ.

An important component of internal audits is close co-operation with ČEZ's external auditor and participation in selected check and test actions carried out by the external auditor.

## Development of Electricity Demand

The overall indicator of the national economy performance is the gross national product, cleared of price effects for comparison purposes. Statistic monitoring has shown that the development of electricity demand is closely linked with the development of the above indicator.

**Comparison of the Development of Gross National Product and Electricity Demand in the Czech Republic (in %)**




The drop in the gross domestic product begun in 1990 and continued until 1993. In 1994, the gross national product rose for the first time in line with the overall demand for electric power. The reason for the growth of the overall demand for electricity did not, however, concern the industrial and commercial but rather a growth of residental demand. The trend confirming the diminishing electricity demand character of the national economy continued also in 1995, when the 4.8% increase of the gross national product was substantially higher than the increase in the electricity demand in sectors generating the gross national product (2.5%). In 1995, the growth of the overall electricity demand (5.8%) was greater than the growth of the gross national product to which, however, the significant 13.8% growth of residental demand contributed .

**Development of Electricity Demand in the Czech Republic (in GWh)**

## Covering Electricity Demand

**Development in Electricity Demand and Generation**

| | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|
| Interannual electricity demand index, in % | 96.9 | 99.2 | 103.2 | 105.8 |
| Interannual electricity generation index | | | | |
| in the Czech Republic, in % | 98.0 | 99.3 | 99.7 | 103.6 |
| in ČEZ, in % | 92.4 | 97.4 | 97.7 | 102.2 |

As against the electricity demand, where the growth appeared in 1994, generation of electricity didn't mark a growth until 1995. Whereas in 1994 practically the whole increase in demand was covered by increased imports, in 1995 the share of domestic sources in covering the increased demand was two-thirds and imports one-third. The increase in the demand was covered as follows:

(a) from domestic sources 2,027 GWh (3.7%)
of which : from ČEZ 947 GWh (2.2%)
from other utilities 1,080 GWh (8.6%)
(b) from imports 947 GWh (68.1%).

ČEZ's share in meeting the total 1995 demand (52,155 GWh) amounted to 76.9 %, which is a drop as against 1994 - when its share was 79.4% - was caused by increased imports and supplies from other domestic generators.

Czech imports of electricity in 1995 exceeded exports for the first time in history.

**Exports and Imports of Electricity (in GWh)**

| | 1992 | 1993 | 1994 | 1995 | Index 95/94 |
|---|---|---|---|---|---|
| Imports | 987 | 903 | 1,390 | 2,337 | 168.1% |
| Exports | 4,023 | 3,007 | 1,835 | 1,919 | 104.6% |
| Foreign-trade balance | -3,036 | -2,104 | -445 | +418 | x |

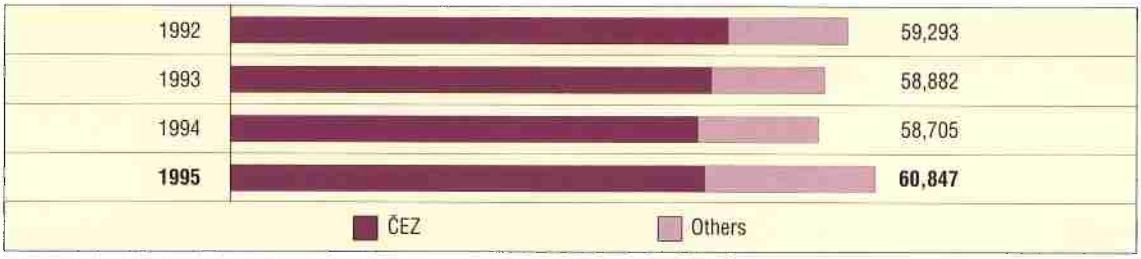
## Development of Electricity Generation

**Development of the installed capacity electricity generation in the Czech Republic and the ČEZ**

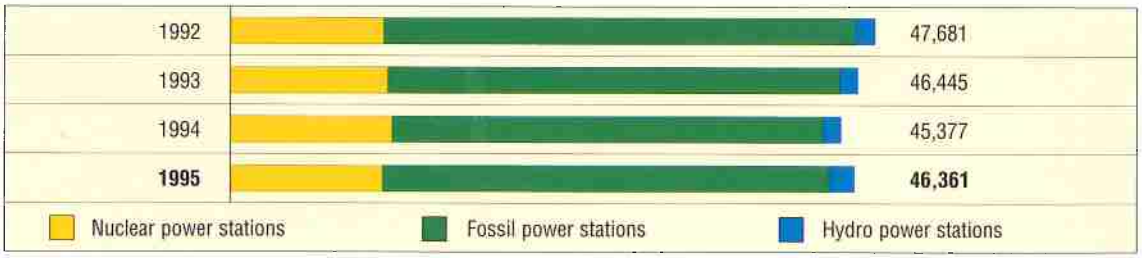
| | Unit | 1992 | 1993 | 1994 | 1995 | 95/94 index |
|---|---|---|---|---|---|---|
| Peak load of the Czech power system | MW | 8,690 | 9,288 | 9,632 | 10,415 | 108.1% |
| Date of peak load | x | 9. 12. | 1. 12. | 19. 12. | 6. 12. | x |
| Installed capacity in the Czech power system as of Dec 31 | MW | 14,489 | 14,227 | 13,826 | 13,793 | 99.8% |
| of this: The ČEZ | MW | 11,150 | 10,655 | 10,235 | 10,184 | 99.5% |
| | % | 77.0 | 74.9 | 74.0 | 73.8 | x |
| Total electricity production in the Czech Republic | GWh | 59,293 | 58,882 | 58,705 | 60,847 | 103.6% |
| of this: The ČEZ | GWh | 47,681 | 46,445 | 45,377 | 46,361 | 102,.2% |
| | % | 80.4 | 78.9 | 77.3 | 76.2 | x |

In 1995, a reduction of 0.2% in the installed capacity of Czech electricity sources took place.
In 1995, generation of electricity in all sources increased by 2,142 GWh (3.6%) and reached a level of 60,847 GWh, of which electricity generation by ČEZ increased by 984 GWh (2.2%) to 46,361 GWh and that by other utilities by 1,158 GWh (8.7%) and reached a level of 14,486 GWh.

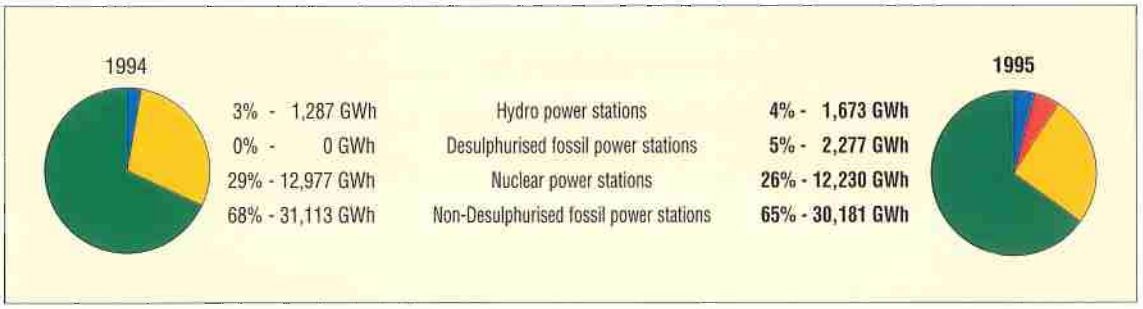
**Electricity generation in the Czech Republic (in GWh)**




**Generation of electricity by ČEZ (in GWh)**



**Structure of electricity generation by ČEZ**



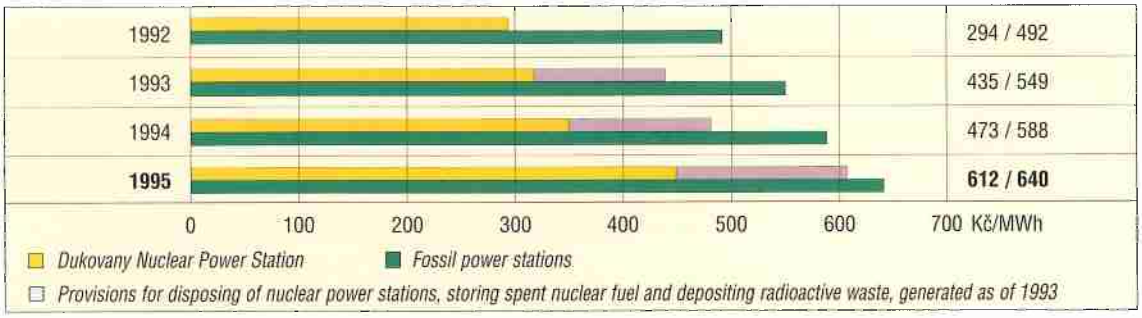

The share of environmentally friendly electricity generation increased from 28% in 1992 to 35% in 1995 (with nuclear power stations share being 26%, that of desulphurised fossil power stations 5% and that of hydro power stations 4%). In 1995, as in previous years, fossil power stations covered the dominant share in total production. Generation of electricity by hydro power stations, however, increased markedly thanks to the very favourable hydrological conditions in 1995. The drop in electricity generated by the Dukovany Nuclear Power Station is closely related to ensuring the power balance during the 1995/1996 winter period: in the summer of 1995, one 220 MW turbo-generator (half of the output of one of the four power station's units) was taken out of service for almost four months. The purpose of this was to enable postponement of shutting down the nuclear reactor for fuel replacement from January 1996 to a period with a lower demand. For this reason, electricity generation at the Dukovany Nuclear Power Station in 1995 was 667 GWh lower than in 1994.

## Development of Generation Costs

Despite a number of measures focused mainly on reducing the specific heat consumption, on reducing the number employees, and so on, the development of generation costs, marked a growing trend, mainly for the following reasons:

(a) The overall inflationary rise in prices of basic inputs (mainly services) for the generation of electricity and heat;
(b) The inclusion of provisions for the future disposal of nuclear power stations and spent nuclear fuel into the fixed costs of nuclear power stations as of 1993;
(c) The increase in depreciation, linked with completion of major projects.

**Per-unit Costs for the Supply of Electricity by Fossil Power Stations and in the Dukovany Nuclear Power Station**

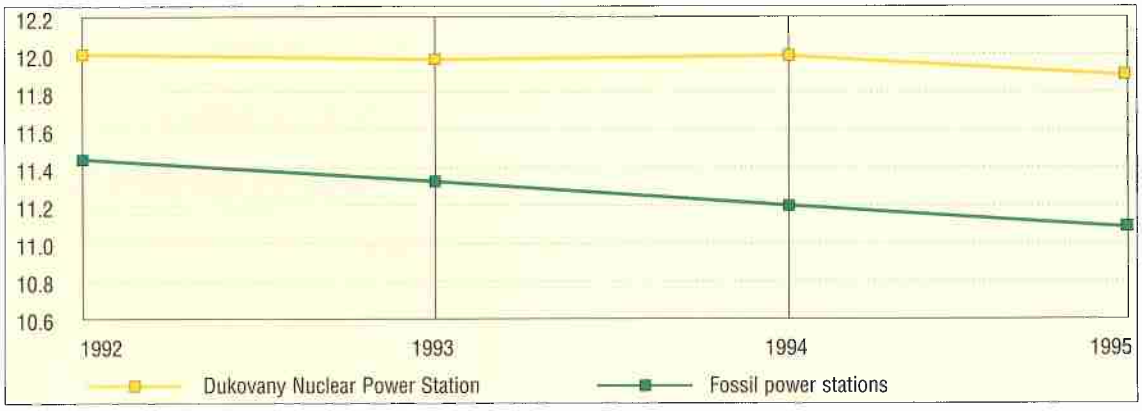



## Development of Efficiency Indicators of Electricity Generation

The favourable trend in reducing the specific heat consumption in electricity generation continued in 1995. As against 1992, the reduction amounted to approx. 2.4% and in nuclear power stations to 0.15%. This represents a contribution both from the economic point of view as well as from the point of view of the environment (less solid waste as well as emissions, including $CO_2$). The drop is the result of a number of technical improvements in the operated power-production units, mainly the following:

- Improving the sealing of all of the heat-cycle elements, mainly the boilers;
- Stabilizing the combustion process in the boilers;
- Completing modifications of the turbines;
- Introducing the speed control of motors powering large electric-power consuming equipment;
- Reduction of the outage rate;
- Narrowing down the variability of coal parameters so as to meet the design requirements of combustion equipment.

**Development of specific heat consumtion in fossil power stations and in the Dukovany Nuclear Power Station (in GJ/MWh)**

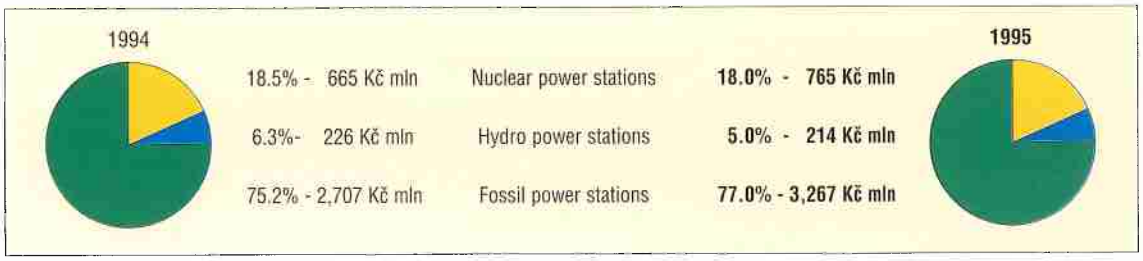



In the coming years, no further reduction is anticipated due to the impact of desulphurisation equipment operation.

## Main Results Achieved in Repairs and Maintenance

In the repair and maintenance of generating equipment, ČEZ focused mainly on nuclear safety, reliability and quality, a considerate attitude to the environment and reduction of specific heat consumption at the most advantageous costs.

**Share of Individual Types of ČEZ's Power Stations in Total Repair and Maintenance Costs**




**Structure of Repairing and Maintenance of ČEZ's power stations**

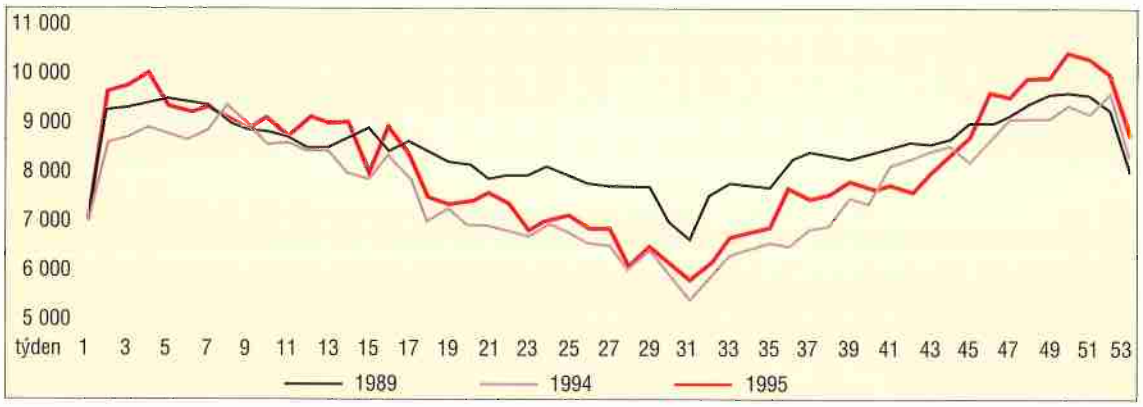

**Most important general overhauls performed in ČEZ's power stations in 1995**

| Power station | Equipment | Costs (Kč mln) |
|---|---|---|
| Tušimice II | Unit 24 | 193 |
| Prunéřov I | Unit 6 | 68 |
| Prunéřov II | Unit 22 | 304 |
| Ledvice | Unit 4 | 21 |
| Počerady I | Unit 2 | 38 |
| Mělník II | Units 9, 10 | 439 |
| Chvaletice | Unit 2 | 65 |
| Dětmarovice | Unit 2 | 229 |
| Dukovany | Units 1, 2, 3, 4 | 42 |
| Kamýk | Turbine-generator set 1 | 21 |
| Slapy | Turbine-generator sets 2, 3 | 50 |
| Lipno I | Turbine-generator set 2 | 10 |

## Electricity Trade

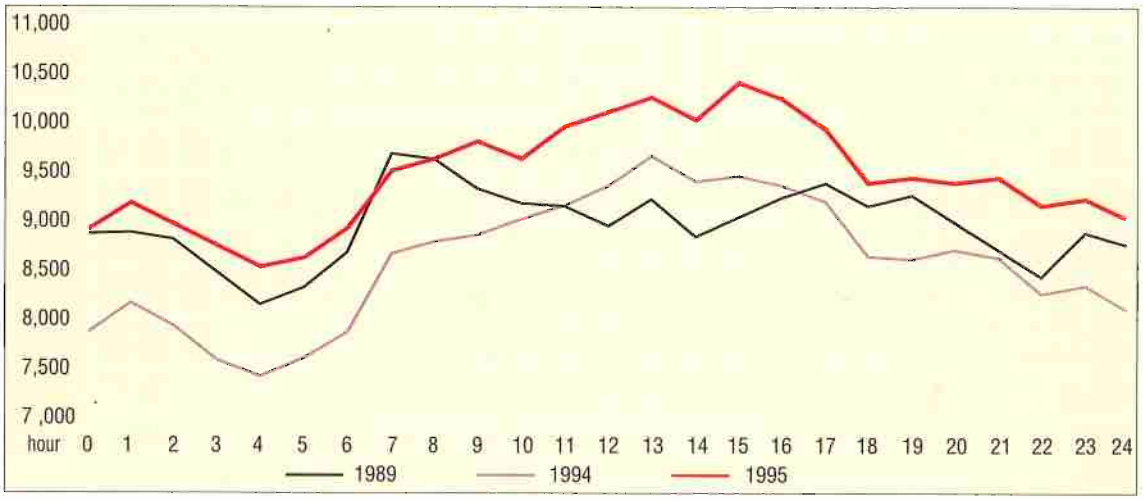
As in 1994, the increase in electricity consumption was concentrated into the winter months. The main reason for this phenomenon was a substantial increase in the installed capacity of direct space heating of households as well as commercial enterprises of approx. 2,200 MW since 1992. The diagram shown below illustrates the development of weekly peak loads of the Czech power system, where the load during some winter weeks exceeded the 1989 values, while the 1995 values attained outside the winter season were lower than during the equivalent period in 1989. With the exception of a few weeks, in 1995 the increase in the load in comparison with 1994 figures took place practically the year round.

**Weekly peak loads (in MW)**




The peak load of the Czech power system of 10,415 MW took place at 3 p.m. on December 6, 1995. As against 1994 this represents an increase of 783 MW (8.1%). For this day the load diagram is shown below. The diagram also includes - for comparison purposes - curves for the peak load day of in 1989 and 1994.

**Load diagram for the day of the annual peak (hourly load averages, in MW)**



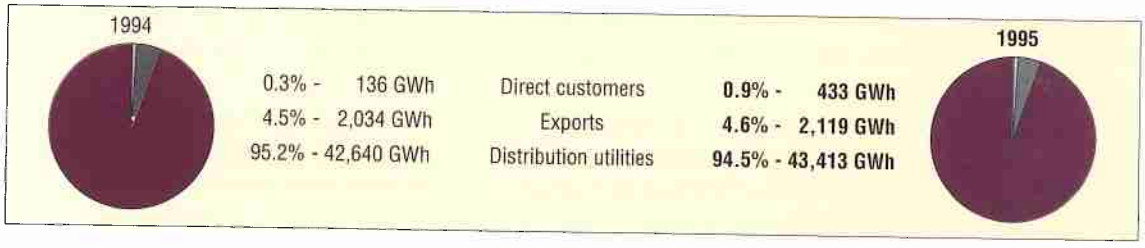
**Balance sheets of electricity procured and supplied by ČEZ**

| | 1992 GWh | 1993 GWh | 1994 GWh | 1995 GWh | 95/94 index % |
|---|---|---|---|---|---|
| Procured by: | | | | | |
| Own generation | 47,681 | 46,445 | 45,377 | 46,361 | 102.2 |
| Purchase from independent power producers | 1,513 | 1,689 | 2,411 | 2,646 | 109.7 |
| Purchase from industrial producers | 661 | 664 | 748 | 880 | 117.6 |
| Import | 987 | 885 | 812 | 588 | 72.4 |
| **Total** | **50,842** | **49,683** | **49,348** | **50,475** | **102.3** |
| Supplied to: | | | | | |
| Distribution utilities | 41,812 | 41,936 | 42,640 | 43,413 | 101.8 |
| Final customers | 165 | 96 | 136 | 433 | 318.4 |
| Exports | 4,023 | 3,007 | 2,034 | 2,119 | 104.2 |
| House consumption of ČEZ * | 3,812 | 3,737 | 3,736 | 3,707 | 99.2 |
| Losses in ČEZ's transmission lines | 1,030 | 907 | 802 | 803 | 100.1 |
| **Total** | **50,842** | **49,683** | **49,348** | **50,475** | **102.3** |

** House consumption in electric power generation, pumping consumption in pumped-storage hydro power stations and consumption for other purposes*

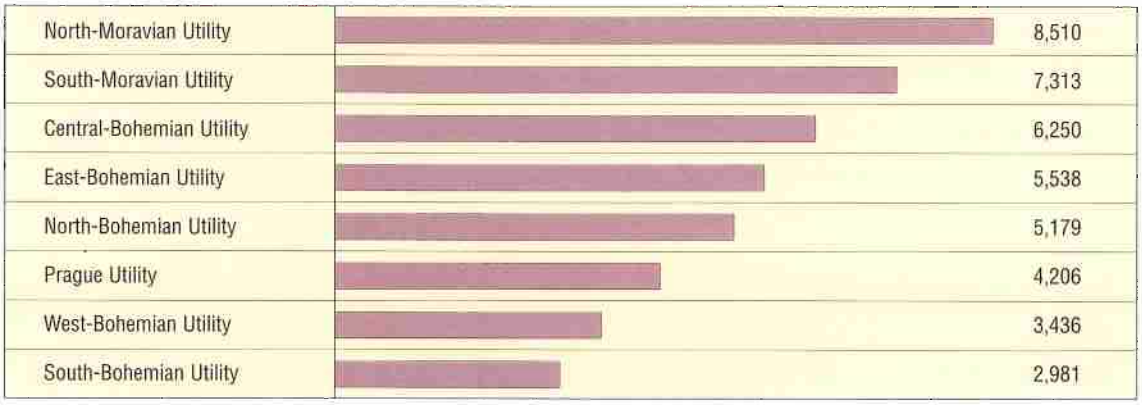
Despite a drop in its share for covering the overall electricity demand, ČEZ,- with its 76.9% share - continues to be the dominant electricity generating and trading enterprise in the Czech Republic.

**Sales structure of electricity procured by ČEZ in 1995**




The majority of electricity procured by ČEZ in 1995 (94.5%) was sold to eight distribution utilities which ensure the supply of electricity to final customers in the Czech Republic. The remainder went for exports (4.6%) and deliveries to direct final customers (0.9%). The direct final customer group marked the greatest interannual sales rise.The more than three fold sales to this customer group was made possible by concluding contracts with new customers (such as Výstavba dolů Ostrava (Mine Construction, Ostrava) and Lignit Hodonín, which formerly were customers of distribution utilities), and the increased power consumption of the largest existing customer - VT Energetika Chomutov. Thanks to the effect of acquiring a significant new customer - Výstavba dolů Ostrava with a high utilisation ratio of purchased capacity, it was possible to reduce the average price for direct final consumers.

**1995 Sale of Electricity to Distribution Utilities (in GWh)**




The sales volume of individual electricity distribution utilities differs considerably. The volume sold in 1995 to the North-Moravian utility was almost three fold of the smallest customer - the South-Bohemian utility. The volume sold to the individual power distribution utilities depends on many factors, of which the most important ones are:

- The share of energy-demanding, mainly industrial, customers of electric power;
- The size of the population;
- The purchase of electricity from other suppliers (imported electricity, independent power producers).

The price at which power distribution utilities sell electricity to their customers is regulated and does not suffice for covering developmental needs of either the distribution utilities or their main supplier - ČEZ.

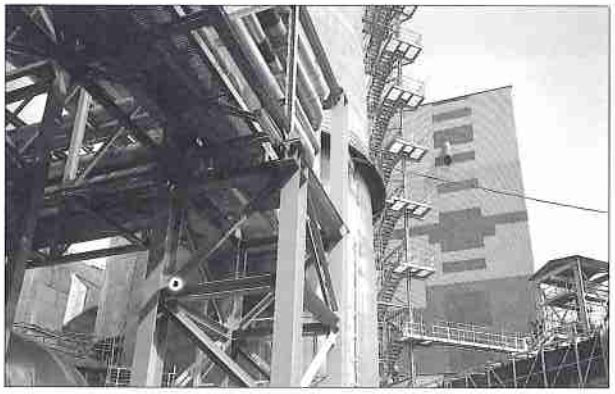
Therefore, with the state regulatory body continuously missing it was difficult in 1995 to negotiate contractual conditions for the purchase of electric power; this mainly concerned fixing the price between ČEZ and the distribution utilities. The price negotiations consisted of two steps. In the first place it was necessary to negotiate an average price for supplied electricity between ČEZ and distribution companies as a whole and after that to carry out the necessary differentiation of the thus fixed average price between individual distribution utilities. During the year ČEZ achieved an agreement only with the North-Bohemian utility. With the remaining distribution utilities ČEZ did not succeed in arriving at an agreement during the year and, therefore, these always defrayed the purchased electricity monthly at a negotiated temporary price. The contractless relation between ČEZ and the distribution utilities had, a destabilising effect on the reliability of the Czech power system operation. Contracts with the remaining distribution utilities were concluded only at the end of 1995 on the basis of a decision made by the Ministry of Industry and Trade about the level of these prices. Financial settlement at the stipulated price level was made simultaneously with invoicing electricity supplied in December 1995.

## Heat Generation

At the present time, ČEZ is supplying heat from twelve power stations and two district - heating plants. Heat is supplied from the Tisová, Mělník, Chvaletice, Poříčí, Hodonín and Dětmarovice power stations and from the Dvůr Králové and Náchod district - heating plants to customers via heat pipelines operated by ČEZ. From the Prunéřov, Tušimice , Ledvice and Temelín power stations, heat is supplied to customers via heat pipelines operated by other enterprises. The Počerady and Dukovany power stations ensure heat supplies only for their own use and for third parties within the area of these power stations.

In 1995, heat supplied by ČEZ remained practically at the 1994 level. The sales trend was adversely affected by a drop in heat consumption, mainly in regions supplied from the Tisová, Tušimice, Poříčí and Hodonín power stations. The main reason why some customers failed to consume the contracted amount of heat was not only their restricted production as against the anticipated volume, but also heat savings resulting from the introduction of measuring and control gear.

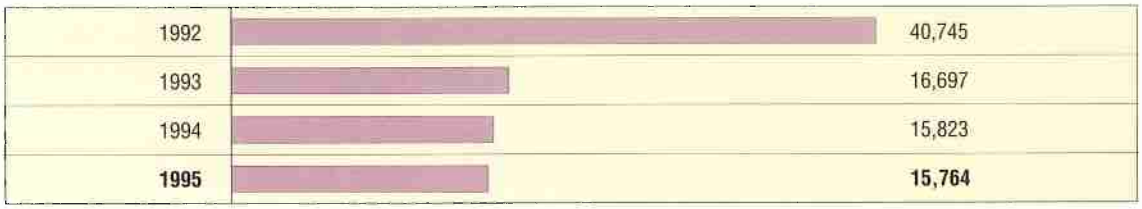
**The Prunéřov I Power Plant**



The Prunéřov I Power Plant is one of ČEZ's most important suppliers of heat. At the end of 1995, desulphurisation equipment was placed into operation on four of the units of this power plant of a total rating of 440 MW. The Prunéřov facility is the second ČEZ facility, after the Počerady Power Station, at which such equipment has been commissioned.Total desulphurised capacity is now 840 MW, which represents almost 12% of the installed capacity of fossil power stations. The sulphur - dioxide emissions from this source will drop by more than 90%. By the end of 1997, all fossil power plants in North Bohemia will be desulphurised in this way with the exception of one third of capacity at the Ledvice Power Station, where a fluidized-bed boiler will be placed into operation in 1998.

As of 1993, the Mělník I Power Plant is an integral part of Energotrans, a company, which supplies the city of Prague and its surroundings with heat. ČEZ holds a capital share in the said enterprise. The signing of a contract for desulphurising all three units of the Mělník II and the Mělník III power plants completed the contractual end of the ČEZ flue gas desulphurization (FGD).

**Heat supplied by ČEZ (in TJ)**




**Balance sheets of heat procured and supplied by ČEZ**

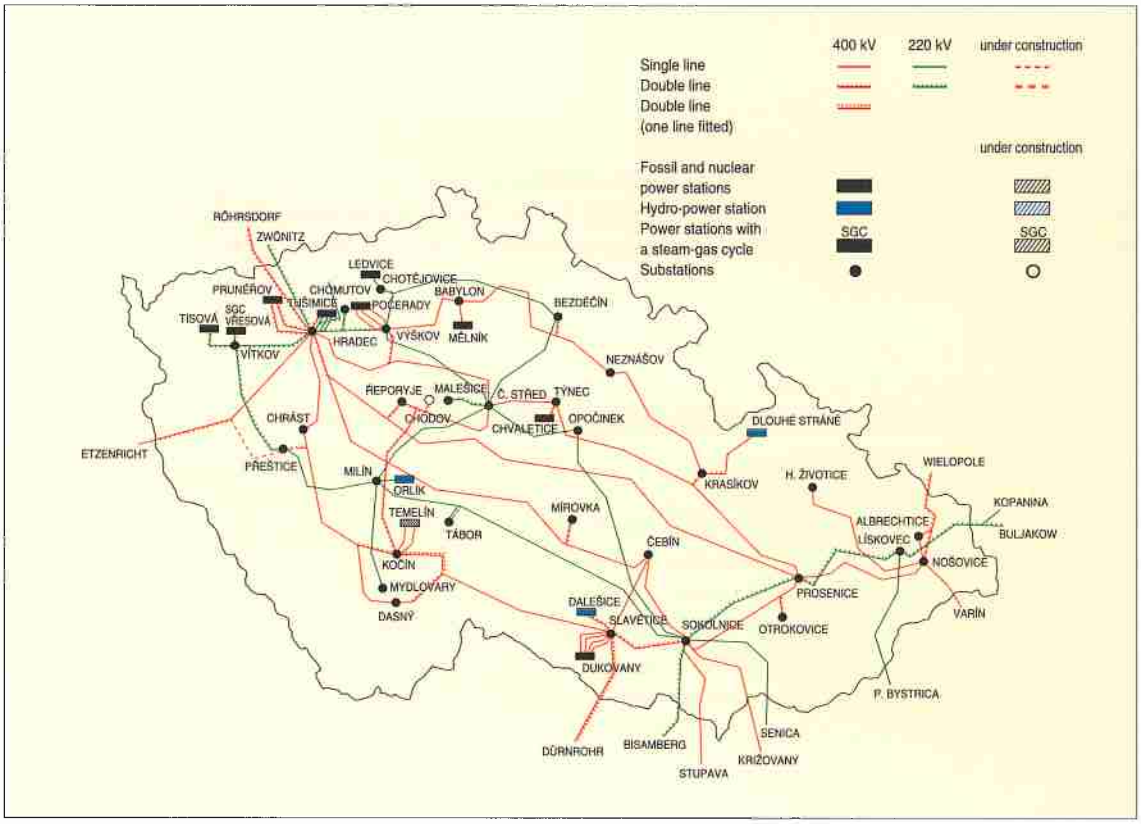
| | 1994 TJ | 1995 TJ | 95/94 index % |
|---|---|---|---|
| **Procured by:** | | | |
| Self generation | 15,823 | 15,764 | 99.6 |
| Purchase from other producers | 636 | 698 | 109.7 |
| **Total** | **16,459** | **16,462** | **100.0** |
| | | | |
| **Supplied to:** | | | |
| Non-household customers | 10,908 | 10,705 | 98.1 |
| Households customers | 2,093 | 2,188 | 104.5 |
| Export* | 199 | 189 | 95.0 |
| House consumption of ČEZ | 2,076 | 2,207 | 106.3 |
| Subtotal | 15,276 | 15,289 | 100.1 |
| Losses in net works | 1,183 | 1,173 | 99.2 |
| **Total** | **16,459** | **16,462** | **100.0** |

** Heat supply from the Hodonín Power Station to the town Holíč in Slovakia*

In March 1995, the Ministry of Industry and Trade entrusted ČEZ's Central Control Center with provisionally performing tasks of the Czech Republic Central Electric Energy Control Center (envisioned by the new Energy Act to be in the future an independent body) in view of the fact that ČEZ's Control Center is fully able to handle the control of the whole power system of the Czech Republic. Part and parcel to the whole power system of the Czech Republic is ČEZ's 400/220 kV transmission system.

## Establishment of the Transmission System Division

During the course of 1995, reshaping of the Transmission System Departments and the Control Center was completed within the framework of ČEZ into an internal organisational unit - the Transmission System Division.




In 1995, considerable attention was also devoted to the development of dislocated operational units (for ensuring operation and well property management), the so - called Operative Administrations, namely:

- "North" located in the the area of the Hradec near Kadaň 400/220 kV Substation, which on January 1, 1995 was transferred to the ownership of the Transmission System Division;
- "Center" located in the area of the Praha Chodov 400/110 kV Substation;
- "South" located in the area of the Kočín 400/110 kV Substation;
- "East" with headquarters in Ostrava.

On the basis of the existing experience and in order to achieve faster accessibility of the equipment, the "East" Operative Administration will be divided into two, namely the "Moravia-North" and the "Moravia-South" Operative Administrations.

### Description of the Transmission Network and Transformer Capacities

The configuration of the Czech transmission system is capable to ensure a reliable supply of electricity to all domestic customers, and its parameters rank it among the most developed transmission systems in Europe. The transmission system's number of interstate lines and the density of the domestic network also provide necessary conditions for ensuring international co-operation. It is suited to ensuring reliable service for international electricity trading and to rendering mutual assistance to neighboring systems in case of outages.

The transmission system of ČEZ is a sub - system of the power system of the Czech Republic, which interconnects all important operators engaged in the power system , and ensures the decisive share of foreign co-operation. ČEZ's transmission system consists of all 400 kV and 220 kV grid equipment, that is 31 substations, 2,860 km of 400 kV and 1,555 km of 220 kV transmission lines. The transmission system also includes 135 km of 110 kV transmission lines via which ČEZ's output is fed directly into the 110 kV network.

The 400/110 kV and 220/110 kV transformation capacity at transfer points between ČEZ's transmission system and networks of the distribution utilities (which as of December 31, 1995 was 13,970 MVA at a utilisation ratio of 51%) renders the transmission system a sufficient reserve to fully cover the power demand of the main customers.

During the course of the 1994 - to - 1995 period, two projects were drawn up in connection with the planned tie - in with the UCPTE, namely the "Protective Plan of the Czech Power System against the Rise and Spread of Extensive System Outages" and the "Plan for the Renewal of Operations of the Czech Power System after a Complete Fall - out of the System". These projects were prepared in co - operation with the distribution utilities under the guidance of consultants from Electricité de France and Bayernwerke AG, who fully appreciated the technical standard of these documents. At the present time, these documents are being elaborated in detail.

### Control of the Power System

In March 1995, the Ministry of Industry and Trade of the Czech Republic entrusted - in the sense of Act # 222/1994 ČEZ's Central Control Center with provisionally performing the tasks of the future independent "Czech Republic Central Electric Energy Control Center". The technical and professional outfitting of the ČEZ's Central Control Center and the operational discipline and co - operation of control center workstations of all decisive enterprises active in the power system of the Czech Republic (namely ČEZ, distribution utilities, independent producers and significant self producers) form a precondition for its proper operation in a situation when the Czech Republic Central Electric Energy Control Center has not yet been officially established.

The course of immediate loading of the power system shows significant fluctuations, up to the order of hundreds of MW, which are due to the market behavior of individual customers at the instant of tariff zone changes. These load fluctuations make it difficult to control the power system, mainly after its tie - in with the UCPTE system, where it is necessary to maintain substantially stricter principles of international co - operation. The predominant share of regulation is borne by units of ČEZ which leads to an increase in operational costs.

### Tie - In with the UCPTE

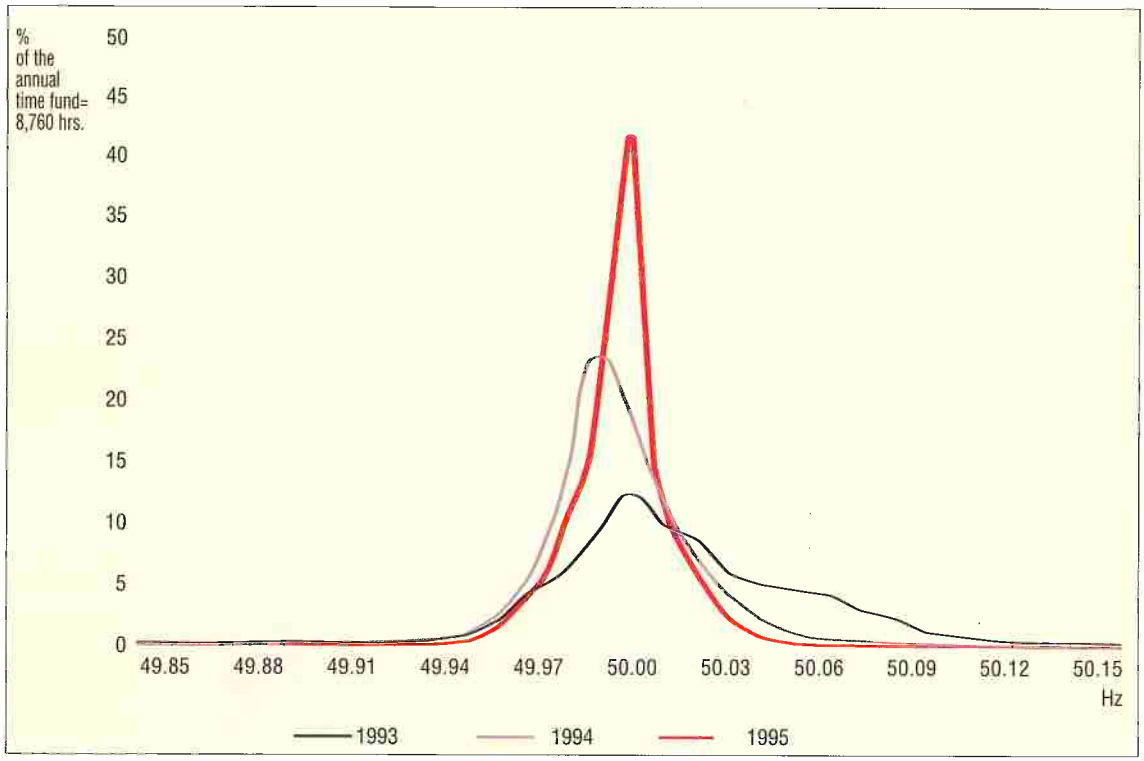
The tie - in of the CENTREL group (consisting of the power systems of the Czech Republic, Slovakia, Hungary and Poland) into synchronous operation with the UCPTE system, associating the power systems of Portugal, Spain, France, Belgium, the Netherlands, Luxembourg, Germany (as of September 13, 1995 including also the New Federal Lands), Switzerland, Austria, Italy, Yugoslavia and Greece.

**Prague Meeting of the UCPTE and CENTREL**


On the occasion of the integration of the association of Central European countries CENTREL with the West European interconnected system UCPTE, ČEZ hosted participants in the ceremonial UCPTE - CENTREL meeting. Discussions of prominent persons of the European power industry took place at the recently reconstructed historical premises of ČEZ Headquarters.
Photograph: Speaker - Executive Director of the MVM Rt. Hungary, Mr. Lengyel, sitting - Deputy Minister of Industry and Trade of the Czech Republic, Mr Tvrzník.

The actual tie - in with the UCPTE took place via the power system of the Czech Republic on October 18, 1995. This launched a one-year pilot operation, during which power utilities associated in the CENTREL group will have to demonstrate ability to operate their power systems in accordance with the substantially stricter UCPTE rules. The main object of the interconnection is to increase the reliability of system operation with the possibility to take advantage - in the event of need - of stand - by capacities in neighboring power systems and to maintain a stable, nominal frequency level which will enable customers to make better use of the purchased electricity. Hitherto results of synchronous operation of the CENTREL power systems with the UCPTE system show that CENTREL has fully complied with requirements of the UCPTE operating standards and was acknowledged as a fully compatible partner.

**Evaluation of frequency deviation from the nominal value of 50 Hz**




The "Evaluation of frequency deviation from the nominal value of 50 Hz" diagram shows the purposeful improvement of frequency stability within the framework of the preparations for tying - in with the UCPTE system. These preparations took place gradually in the following steps:

- Disconnection from the CDO system in November 1993 and subsequent isolated operation of the CENTREL group;
- Gradual introduction of primary output and frequency control of power systems of the CENTREL group;
- Synchronous interconnection of the CENTREL group with the UCPTE system in October 1995.

At the present time, ČEZ is carrying out an extensive capital construction program aimed at electricity and heat generation in an environmentally friendly manner. This involves two basic capital investment projects, namely completion of the construction of the Temelín Nuclear Power Station and the realisation of environmental investments (primarily flue gas desulphurisation - FGD - and fluidized - bed boilers - FBB) which are time restricted (by the law on protection of the atmosphere, and the contractual deadline for completion of the Temelín Nuclear Power Station) to roughly 1998.

**Investment program of ČEZ for the 1995 to 2000 period (in Kč billion)**

| Investment project | Total budget 1995 - 2000 | Expenditures in 1995 | To be spent in 1996 - 2000 |
|---|---|---|---|
| Nuclear power | 46.8 | 7.1 | 39.7 |
| Temelín | 34.6 | 6.0 | 28.6 |
| Environment | 25.4 | 9.7 | 15.7 |
| FGD | 16.5 | 6.9 | 9.6 |
| FBB | 6.8 | 2.3 | 4.5 |
| Waste management | 7.0 | 1.8 | 5.2 |
| Refurbishment | 13.8 | 3.5 | 10.3 |
| Transmission system | 6.4 | 1.5 | 4.9 |
| Hydro power stations | 1.4 | 0.9 | 0.5 |
| Other capital investments and provision | 9.2 | 4.8 | 4.4 |
| **Total** | **110.0** | ***29.3** | **80.7** |

** According to the Czech Accounting Standards only Kč 25.1 bln, the difference is due to a higher amount of capitalized interests and payments for nuclear fuel.*

In 1995, ČEZ invested Kč 29.3 billion into fixed assets. Most of this (Kč 9.7 billion, i.e. 33.1%) was used for investments into protection of the atmosphere (FGD, FBB etc.) and for the construction of the Temelín Nuclear Power Station (Kč 6.0 billion, i.e. 20.5% of total capital investment).

## Temelín Nuclear Power Station

After difficult and drawn-out negotiations, a "Contract for the general supply of the set of machines and equipment for the IV. B construction stage of the Temelín Nuclear Power Station (VVER-1000 units # 1 and # 2)" was signed between ČEZ and Škoda Praha. The contract, which was originally concluded in accordance with the Economic Code, was redrawn in accordance with the recently passed Commercial Code. The contract now includes new sections concerning quality assurance, warranties for timely and high-quality completion of the project and the method of placing the power station into operation. Signing of the new transformed contract is an important milestone in the Temelín Nuclear Power Station construction process.

The most complicated problem was transforming the system contracts concerning the technology part of the delivery. This involves a complex system of about 15 contracts between the general supplier and the individual sub - contractors, the sum of which had to be reflected in the general supply contract between Škoda Praha, and ČEZ. A problem was posed mainly by questions of deadlines and corresponding prices, as well as warranties for complying with contractual conditions.

At the present time, the main participants in the project are the following:
- Škoda Praha (the general supplier of technology);
- Vodní stavby Bohemia (the general supplier of the construction);
- Energoprojekt Praha (the general designer).

The general supplier - Škoda Praha - is bound by the contract to begin loading nuclear fuel into the first unit in September 1997 and into the second unit eighteen months later.

The budget of the project covers costs according to the new, transformed contracts for the supply of technology equipment as well as the construction and direct investor supplies. The contract contains a relatively strict linkage between payments and milestones of the construction line diagram. This type of payment makes for an effective tool for managing the construction and in the end leads to the necessity to correct the need of funds and to more consistent planning and evaluating the construction process in financial terms.

**Overview of expenditures (in Kč mln)**

| | Total budget | Drawn on | | Remaining to be expended |
|---|---|---|---|---|
| | | in 1995 | since the beginning of construction up to Dec. 31, 1995 | |
| Investments | 70,260 | 5,721 | 43,440 | 26,820 |
| Interest | 5,600 | 222 | 3,890 | 1,710 |
| Insurance | 105 | 42 | 42 | 63 |
| **Total** | **75,965** | **5,985** | **47,372** | **28,593** |

Insurance of risks was one of the least elaborated questions in the Temelín Nuclear Power Station project. To this end, ČEZ set a goal to conclude a construction and erection insurance policy by the end of 1995 and to begin negotiating the insurance of nuclear operation risks (including the Dukovany Nuclear Power Station) in 1996. A construction and erection insurance policy was negotiated late in 1995 on the basis of a risk study prepared in co - operation with Marsh & McLennan, with a consortium of insurance companies, headed by Česká pojišťovna (Czech Insurance Corp.). The established Czech pool is preparing insurance conditions for material and liability risks of the nuclear installation operator. The nuclear liability insurance limits will be fixed by the "Atomic Act".

A supplement was issued in October 1995 to the preliminary safety report and deals with the effect of the main changes in the project on the safety of the power station. This supplement was handed over for assessment to the State Commission for Nuclear Safety.

Part and parcel of the nuclear safety culture are the following:

- Issuing the "Nuclear safety strategy of ČEZ Temelín Nuclear Power Station", prepared in accordance with recommendations of the International Atomic Energy Agency in Vienna;
- A proposed Safety Committee which will act as an independent advisory body to the board of directors on questions concerning nuclear safety of the Temelín and Dukovany nuclear power stations.

### Interim storage facility for spent nuclear fuel at the Dukovany Nuclear Power Station

Construction of an interim storage facility for spent nuclear fuel was successfully completed in Dukovany during the course of 1995. ČEZ accepted the facility from the GNS - Nukem consortium and immediately launched pilot operation of the whole installation (including the nuclear equipment). By the end of 1995 the first two containers were filled with spent nuclear fuel, of which one container was partly filled with nuclear fuel brought back from the Jaslovské Bohunice Nuclear Power Station in Slovakia where it has been temporarily stored.

### Other Investments in the Dukovany Nuclear Power Station

At the turn of 1994 - 1995, a facility for processing radioactive waste was placed into pilot operation.

In October 1995, a low- and a medium - radioactive waste deposition site was placed into full operation.

The planned 1995 summer shut - down was made use of to reconstruct the 0.4 kV sectionalising house-consumption switchgear of the first unit; this was a significant contribution to improving the safety of this unit.

### Central Interim Storage Facility for Spent Nuclear Fuel

Early in 1995, the second stage of investigating proposed sites for a central interim storage facility was completed and is followed by the third stage, comprising a detailed investigation into the territorial and technical as well as environmental conditions for locating the intermediate storage facility at three sites outside the region of the Dukovany and Temelín nuclear power plants. One of these sites makes it

In September 1995, ČEZ opened a facility for interim storage of up to 600 tons of spent nuclear fuel on the premises of the Dukovany Nuclear Power Station. By the end of 1995, two Castor containers were filled with spent nuclear fuel.

possible to locate the interim store either underground or on the ground, the second site is suited only to a ground solution and the third site is suited only to placing the store underground.

Results of the second and the program of the third investigation stage were confirmed by an expertise carried out by a group of independent experts of the International Atomic Energy Agency in Vienna.

During the course of 1995, a preliminary tender was announced for supplying the construction and equipment ends of the interim storage facility, on the basis of which the best storage technology, as well as the suppliers coming under consideration, were selected.

### Environment

The goal of installing FGDs and FBBs is to meet by 1998 the pollution emission limits fixed by Act # 309/1991, as later amended. This goal was contractually ensured late in 1995 for all capacities which are earmarked for operation after 1998, with the exception of the fluidized - bed boiler for the Ledvice Power Station and the second fluidized - bed boiler for the Poříčí Power Plant. The tender procedure for selecting a supplier for the fluidized - bed boiler, rated at 350 tons of steam per hour, for the Ledvice Power Station was in its last stages at the end of 1995.

### Desulphurisation

After commissioning desulphurisation equipment for two 200 - MW units at the Počerady Power Station in 1994, the program of reducing flue gas emission from fossil power plants of ČEZ continued with the successful placing into pilot operation of four desulphurisation equipments at the Prunéřov I Power Station at the end of 1995.
The equipment was supplied by the German BISCHOFF company in co - operation with Czech subcontractors within the contractual deadline. According to preliminary results it is anticipated that the on - going pilot operation and warranty tests will also confirm a good quality of these equipments.

In 1995, construction of FGD continued at the Prunéřov II Power Station (supplier: MITSUBISHI - ZVÚ), the Ledvice Power Station (supplier: AEE - Vítkovice), the Počerady Power Station - units # 2, # 3 and # 4 (supplier: Hoogovens) and the Tušimice II Power Station (supplier: Chiyoda) as did the construction of FBBs at the Hodonín Power Station (supplier: AEE) and the Poříčí Power Station (supplier: Foster Wheeler - CNIM - CdF). Despite partial problems and delays on some of the construction sites, the respective contractors of all projects which are to be completed in 1996 confirmed that they will hand them over within the contractual deadlines.

**In 1995, ČEZ concluded contracts and launched the construction of FGD in the following power stations:**

| | |
|---|---|
| Dětmarovice Power Station | |
| Installed capacity | 4 x 200 MW |
| Suppliier | Mitsubishi Corp. (Japan) + Mitsubishi Heavy Ind. Ltd (Japan) + Ansaldo Indust. SPA (Italy) + CIFA Progetti SPA (Italy) |
| Chvaletice Power Station | |
| Installed capacity | 4 x 200 MW |
| Suppliier | IVO International Ltd (Finland) + Hitachi Ltd (Japan) + Itochu Corp. (Japan) |
| Mělník Power Station | |
| Installed capacity | 1 x 500 MW + 2 x 110 MW |
| Suppliier | Austrian Energy and Environment SGP/Waagner - Biro GmbH (Austria) |
| Tisová II Power Station | |
| Installed capacity | 1 x 100 MW (unit # 6) |
| Suppliier | Steinmüller, GmbH (Germany) |

## Fluidized - Bed Boilers (FBBs)

Part and parcel of reducing the emission of pollutants is also the construction of two fluidized - bed boilers at the Tisová Power Station, each of which is rated at 350 tons of steam per hour.

In the case of the first boiler its supplier, Vítkovice, succeeded - despite serious problems in the final construction phase - in launching tests late in 1995. However, the contractual deadline calling for the conclusion of pilot operation by the end of n 1995 was not achieved.

In 1995, ČEZ concluded a contract and began the construction of the second fluidized - bed boiler in this power station. Its supplier is the German firm LLB Lurgi Lentjes Babcock Energietechnik GmbH.

## Emission Monitoring

An important project related to the program for reducing emissions was the completion of an automatic scheme for continuous monitoring and evaluation of emissions polluting the atmosphere in all fossil power stations (EMON).

**Conversion of Fossil Power Stations of ČEZ earmarked for operation after January 1, 1999, to environmentally friendly facilities**

| | Installed capacity (in MW) | | | |
|---|---|---|---|---|
| | FGD | FBB | Total | Year of commissioning |
| **North-West Bohemia** | **3,610** | **282** | **3,892** | **x** |
| of which: Tisová I | x | 172 | 172 | 1996 - 1997 |
| Tisová II | 100 | x | 100 | 1997 |
| Prunéřov I | 440 | x | 440 | 1995 |
| Prunéřov II | 1,050 | x | 1,050 | 1996 |
| Tušimice II | 800 | x | 800 | 1997 |
| Počerady I | 600 | x | 600 | 1996 |
| Počerady II | 400 | x | 400 | 1994 |
| Ledvice II | 220 | 110 | 330 | 1996 - 1998 |
| **Other localities** | **2,320** | **240** | **2,560** | **x** |
| of which: Mělník II | 220 | x | 220 | 1998 |
| Mělník III | 500 | x | 500 | 1998 |
| Chvaletice | 800 | x | 800 | 1997 - 1998 |
| Poříčí | x | 110 | 110 | 1996 - 1999 |
| Dvůr Králové | x | 18 | 18 | 1996 |
| Náchod | x | 17 | 17 | 1996 |
| Hodonín | x | 95 | 95 | 1996 - 1997 |
| Dětmarovice | 800 | x | 800 | 1997 |
| **Total** | **5,930** | **522** | **6,452** | **x** |

### Kočín 440/110 kV Substation

In the transmission grid, construction of the Kočín 400/110 kV Substation was completed. In the future, this transformer substation will mainly serve for feeding the output of the Temelín Nuclear Power Station into the power system of the Czech Republic. At the same time, it will improve the reliability of electric power supplies in the South-Bohemian region.

### Dlouhé Stráně Pumped-Storage Hydro Power Station

After failure of the first turbine - generator set during the course of pilot operation (in 1994) at the construction site of the Dlouhé Stráně Pumped-Storage Hydro Power Station, the joint efforts of the contractors and ČEZ succeeded in launching pre - complex tests of turbine - generator set # 2 in July

1995. Also repairs of the # 1 turbine - generator set continued successfully. During the phase of pilot operation, the output of the power station contributed significantly to the power system of the Czech Republic.

**Dlouhé Stráně pumped-storage hydro power station**

At the end of 1995, the # 2 turbine - generator set of the Dlouhé Stráně hydro power station was ready for placing into full operation. This 325-MW unit will play a major role in the operation of the Czech power system which urgently needs this peak capacity. In 1996, the # 1 turbine - generator set of the same rating should be commissioned.

### Obříství Hydro Power Station

The Obříství Hydro Power Station (3.34 MW, investment cost Kč 407 mill.) - placed into pilot operation in August 1995 - will be a contribution of ČEZ to electricity generation from renewable sources. After completion ČEZ will invest it as a non - monetary deposit into its subsidiary company, HYDROČEZ.

### Chvaletice Power Station - Coal Tipper

An important investment to reduce operating costs of ČEZ is a coal tipper and related equipment completed in 1995 at the Chvaletice Power Station, which will enable replacement of combined coal transport (railway - boat) by railway transport. Pilot operation was launched in agreement with the concluded contract late in 1995.

### Exchange of Instrumentation and Control Systems of Some Units

Among the most important constructions completed in 1995 was an exchange of the instrumentation and control systems of some units of the Tušimice II, the Počerady and the Prunéřov II power stations, which will contribute to improving the reliability and economic effectivity of operation.

On other units of the above power stations as well as of the Chvaletice and Dětmarovice power stations and of hydro power stations, these reconstructions are in a preparatory or realisation stage with a target to complete them all by 2000. Also launched in 1995 was pre-project reconstruction of the instrumentation and control system of the Dukovany Nuclear Power Station.

In 1995, work continued also on other projects, such as:

- Reconstruction of the Štěchovice Pumped-Storage Hydro Power Station which will increase its existing 40 MW capacity to 45 MW;

- Reconstruction of the chemical water-treatment equipment at the Mělník Power Station;

- Reconstruction of flue ash handling equipment at the Ledvice, Tušimice and Prunéřov Power Stations. Reconstruction of the ash handling system will replace the existing wet method by the dry method which will make it possible to deposit the ashes and slag in a stabilised form, more considerate to the environment.

In the 1995/1996 winter, reconstruction of cooling equipment was launched at the Dukovany Nuclear Power Station and will suspend the use of environmentally unacceptable freons.

**After concluding the respective contracts, ČEZ launched, among others, also the following projects in 1995:**

| | |
|---|---|
| Tisová Power Station | Comprehensive transition to dry depositing<br>Waste water disposal |
| Dětmarovice Power Station | Reconstruction of the instrumentation and control system |
| Mělník Power Station | Reconstruction of the # 11 turbine-generator<br>Reconstruction of the # 10 unit - 2nd stage<br>Railway siding |
| Počerady Power Station | Cinder transport and dewatering<br>Exchange of the instrumentation and control system of the # 4 and # 5 units |
| Prunéřov Power Station | Ash recovery equipment in the boiler house |
| Chvaletice Power Station | Reconstruction of the instrumentation and control system |

## Environmental Policy

A component part of the strategic initiatives in the Business Conception of ČEZ is a responsible approach to the environment, based on improving the control process for its protection, clear, directed and perceptive communication with state administration bodies and the general public. The ultimate objective is to achieve generation and supply of electricity and heat in an environmentally friendly manner.

In relation to the subject of its business, ČEZ aims are the following:

- To achieve a material and time accord with stipulations of the laws relating to the environment, cleanliness of the atmosphere and water, waste management, etc. in its primary entrepreneurial activities (generation and transmission of electricity).
- To partially replace smaller local heat sources with low smokestacks by secondary operations (mainly by supplying heat from power stations fitted with equipment for reducing emissions which pollute the air) and, thereby contribute to improving cleanliness of the atmosphere.

The business vision envisages such a relation and approach to the protection of the environment as will favourably affect the image of the Company, improve its authority and increase its appeal to business partners, shareholders and creditors.

The overall aim of the Company is to achieve synergic effects by reducing emissions in the year 2000 as against 1993 by the following percentages:

- Approximately 90% in the case of sulphur dioxide and flue ash;
- Approximately 60% in the case of nitrogen oxides.

## Achievements in the Protection of the Environment

**Development of air-polluting emissions from ČEZ power stations**

| | | Flue ash | $SO_2$ | $NO_x$ | CO |
|---|---|---|---|---|---|
| 1994 | tons | 17,663 | 644,831 | 77,386 | 12,196 |
| 1995* | tons | 12,882 | 605,203 | 73,243 | 10,964 |
| 95/94 index | | 72.9 | 93.9 | 94.6 | 89.9 |

** Preliminary data*

### Reducing Pollution by Solid Particle Emissions (Flue ash)

Emission of solid polluting particles from fossil power stations and district heating plants of ČEZ have been radically reduced already before 1995. Even so, in 1995 they were further reduced as against the previous year by almost 5,000 tons thanks to replacements, reconstructions and repairs of electrostatic precipitators at the Počerady Power Station (replacement at unit # 2), the Prunéřov II Power Station (reconstruction at unit # 22), the Dětmarovice Power Station (replacement of active components of the electrostatic precipitator at unit # 2) and the Mělník II Power Station (repair at unit # 9). Finally, new sleeve - type separators were installed at the Náchod and Dvůr Králové district - heating plants.

### Reducing sulphur dioxide emissions

In the 4th quarter of 1995 one year had already passed since the first desulphurisation equipment was commissioned at two 200 MW units of ČEZ's Počerady Power Station. Both units operate reliably on the principle of wet limestone scrubbing with a minimum desulphurising efficiency of 95%. The sulphur dioxide emission values of each desulphurised unit are below 200 mg/Nm$^3$ of flue gas.

At the Počerady Power Station, the desulphurisation product is "industrial gypsum", which after processing into calcinated form is used by Knauf Počerady (a joint venture of the ČEZ and KNAUF) for the production of plaster boards.

Late in 1995, FGD equipment at four 110 MW units of the Prunéřov I Power Station was commissioned. This power station also desulphurises flue gas by the wet limestone scrubbing method which produces industrial gypsum. The sulphur dioxide emission value of each of the 4 desulphurised units is less than 400 mg/Nm$^3$ of flue gas. In December 1995, ČEZ together with a German partner - the firm ProMineral, GmbH - founded a joint venture - the Gaprom - which will process gypsum from the Prunéřov I Power Station. The product manufactured by the joint enterprise will be alpha plaster, a high - grade type of plaster usable in the building industry.

As of December 31, 1995, a total of six brown coal - fired units of ČEZ of a total capacity of 840 MW - have been furbished with FGD equipment. This represents 22% of the installed capacity in North-Western Bohemia, or 13% of the total installed capacity of fossil power stations which will be operated by ČEZ after 1998.

At the end of 1995, construction of the first fluidized - bed boiler, rated at 350 tons of steam per hour, was close to completion at the Tisová Power Station.

### Reducing nitrogen oxide emissions

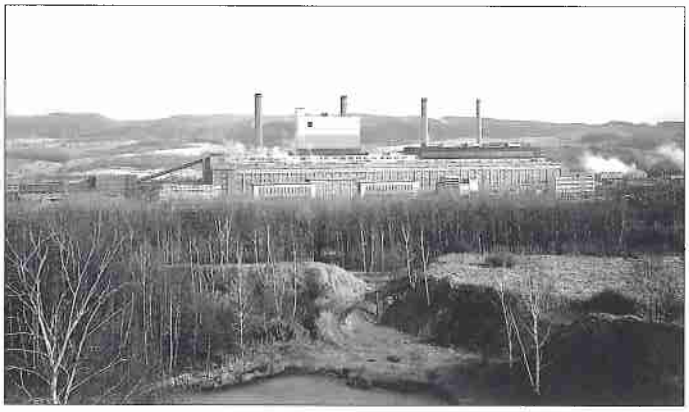
ČEZ reduces the emission of nitrogen oxides from its power stations and district heating plants by implementing primary measures on existing pulverised - coal boilers and by installing new fluidized - bed boilers.
In 1995, primary measures for reducing the emission of nitrogen oxides were completed on unit # 9 of the Mělník II Power Station, on unit # 6 of the Prunéřov I Power Station, on unit # 24 of the Tušimice II Power

Station, on the # 2 unit of the Dětmarovice Power Station and on unit # 22 of the Prunéřov II Power Station.

## Introduction of Continuous Emission Monitoring at Fossil Power Stations

During the course of 1995, ČEZ installed at all fossil power stations - in agreement with the respective legal regulations - equipment for continuous measurement of solid polluting particles (flue ash), $SO_2$, $NO_X$ and CO (EMON - Emission Monitoring - system). These facilities make it possible to continuously monitor the above parameters and to maintain the stipulated emission limits.

**Tisová Power Station**



In October 1995, a fluidized - bed boiler - rated at 350 tons of steam per hour - was placed into pilot operation at the Tisová Power Station. The fluidized - bed boiler is the first of its kind within the framework of ČEZ. These boilers feature a better fuel combustion efficiency, desulphurising flue gases directly in the boiler and diminish generation of nitrogen oxides. In 1997, another boiler of the same rating will be added at the Tisová Power Station.

## Correction of the Phasing-Out Program of ČEZ Fossil Power Plants

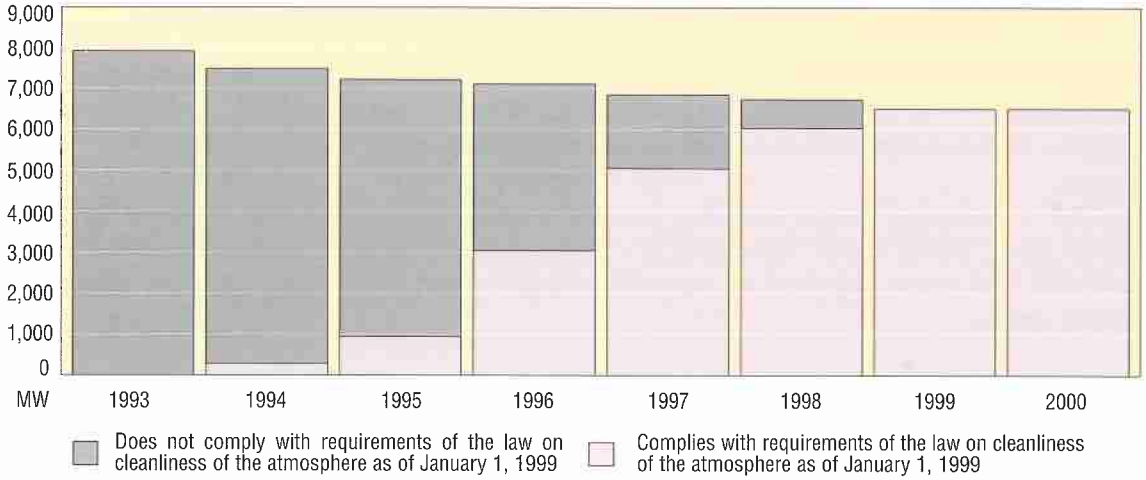
In view of the substantial increase in the demand for electricity as against the originally anticipated figures, during the course of 1995 ČEZ decided on some corrections in the phasing-out program of fossil power plants. The most important change involves the decision taken on 200 MW unit # 2 of the Chvaletice Power Station which, according to the original plan, was to be shut down at the end of 1997. Instead, the unit is to be furbished with FGD equipment together with the remaining three units of this power station and operated after 1998.

**Phasing-out program of ČEZ fossil units**

| Power station | Unit | Capacity, in MW | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Mělník II | B 7,8 | 220 | | | | | | | | | 1.1. 1999 | |
| Poříčí | TG 1 | 55 | | | | | | | | | 1.1. 1999 | |
| Tušimice I | B 4 | 110 | | | | | | | | | 1.1. 1999 | |
| Tušimice I | B 5 | 110 | | | | | | | | | 1.1. 1999 | |
| Ledvice | B 1 | 200 | | | | | | | | | 1.1. 1999 | |
| Tisová | TG 4 | 50 | | | | | | | | 1.1. 1998 | | |
| Hodonín | TG 1 | 50 | | | | | | | 31.10.1997 | | | |
| Hodonín | TG 2 | 50 | | | | | 1.1. 1995 | | | | | |
| Hodonín | TG 3* | -40 | | | | | | 1.6. 1996 | | | | |
| Tušimice I | B 3 | 110 | | | | 1.7. 1994 | | | | | | |
| Ledvice | B 5 | 110 | | | | 1.2. 1994 | | | | | | |
| Počerady | B 1 | 200 | | | | 1.1. 1994 | | | | | | |
| Tušimice I | B2 | 110 | | | 1.6. 1993 | | | | | | | |
| Hodonín | TG 3* | 55 | | | 1.1. 1993 | | | | | | | |
| Tušimice I | B 1 | 110 | | 31.3. 1992 | | | | | | | | |
| Prunéřov I | B 1 | 110 | | 1.1. 1992 | | | | | | | | |
| Tisová II | B 8 | 100 | | 1.1. 1992 | | | | | | | | |
| Tušimice I | B 6 | 110 | 30.6. 1991 | | | | | | | | | |
| Tisová II | B 7 | 100 | 1.1. 1991 | | | | | | | | | |
| Prunéřov I | B 2 | 110 | 1.1. 1991 | | | | | | | | | |
| **Phased-out total, in MW** | | | **320** | **640** | **805** | **1,225** | **1,275** | **1,235** | **1,285** | **1,335** | **2,030** | **2,030** |

* In the place of the original # 3 turbine - generator set (55 MW) a new 40 MW turbine - generator set # 3 is being installed.

**Development of the gradual fulfilment of requirements called for by the law on cleanliness of the atmosphere at fossil power stations operated by ČEZ**



### Impact of the operation of the Dukovany Nuclear Power Station on the Environment

From the point of view of its impact on the environment in 1995, operation of the Dukovany Nuclear Power Station may be deemed to be safe. The power station met all standards of gaseous emissions (aerosols, iodine and rare radioactive gases as well as liquid waste including tritium and active corrosive products).

### Support of Renewable Energy Sources

During the past years, activities of ČEZ in the field of renewable energy sources were mainly directed toward utilising wind power, photovoltaic conversion of solar energy and combustion of biomass.

Simultaneously studies are being devoted to new energy accumulation and conversion methods.

ČEZ placed its first wind power station, rated at 315 kW, into pilot operation in November 1993 in the Krušné hory (Ore Mts.). In 1995, a number of tests and measurements were performed on this demonstration facility, such as the effect of air turbulence on the power output, the effect of frost and atmospheric electricity on the operation of the power station, ecological effects of the power station on the surroundings, optimisation of operation, etc.

In 1995, preparations continued for placing a farm of wind power units - consisting of three, rated at 220 kW, 315 kW and 630 kW - into operation at Mravenečník near Dlouhé Stráně. An integral part of this complex will be a solar power plant, rated at 10 kW.

In 1995, studies were also completed concerning the utilisation of biomass in the area of the Tušimice I Power Station.

### Consultancy, Exhibitions, Training, Publication and Promotion Activities

In 1995, the Information and Consultancy Center of ČEZ rendered cost-free consultations directed at long-term education of heat and electricity users in their economic use. By December 31, 1995, 9,200 interested persons - from the professional community as well as the general public - had visited the Center.

In 1995, a permanent didactic exhibition, including a model of a building with simulated electricity consumption, was also opened. Other exhibitions held in 1995 included power - saving electric household appliances, heat pumps, solar heat and electricity generators, standard household appliances and electric heating systems.

Thematic days - directed at heat insulation of buildings, utilisation of industrial waste heat, small hydro power stations, solar heating and supplementary heating, as well as project economics and financing - were held within the framework of the Center's consulting activities and with participation of specialsts from other companies.

Lectures were intended mainly for students of secondary and university - level schools, secondary - school teachers of physics and mayors of communities.
In 1995, preparations were concluded for a paid course - intended for energy advisors and managers, i. e. for employees of consultancy centers, energy consumption managers of big industrial consumers and employees of local and district councils - aimed at giving support to their energy policies. The first courses are to be held in Spring and Autumn of 1996.

In 1995, educational materials were published and audio - visual program (PC and video) were prepared on subjects dealing with energy conservation, and promotional features were broadcast by the Czech TV.

### Activities Aimed at Electricity Savings

- A special demonstration project, tying in on the subsidised sale of 140,000 compact power-saving fluorescent lamps, was materialised in two large residential buildings in Prague, where electricity consumption was measured. In one of them power - saving fluorescent lamps were installed, while in the other conventional light bulbs were used. Summer and winter measurements confirmed that the contribution of these light sources lies mainly in electricity savings during long-term use when combined with non-subsidised prices of electricity. The utilisation ratio of these power - saving lamps was most of the time less than 0.1, which, from the point of view of electricity demand to be supplied by the Czech power system is of minor importance.

- In 1995, ČEZ directed its attention at checking how rationally its customers - mainly health care facilities - use electricity. Thus, energy audits were carried out at the Prague Jedličkův ústav (Jedlička Institute for Handicapped Children) and at a hospital in Pelhřimov. Preliminary audits were also made at the Prague 8 Hospital and Polyclinic and at the Regional Hospital in České Budějovice. The aim of these audits, carried out with the assistance of specialized firms, was to remedy any shortcomings and to ensure an optimal energy management system, particularly in the health facilities.

- In accordance with the draft of the Energy Management Act and the practice now being introduced in member countries of the European Union, energy efficiency tests continued to be performed on other groups of electrical appliances as well. This led to testing storage - type water heaters (the difference in specific heat losses was of the order of 200 to 300%) and laundry driers (with a difference in the consumption of energy of up to 30%). Tests were begun on dish washers. Special energy efficiency plates were proposed by which these appliances should be marked in the future.

## Staff Development

**Staff Development in ČEZ**

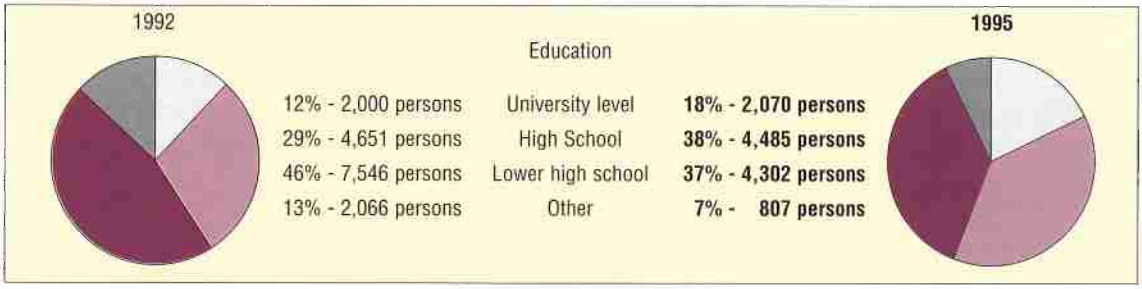
| | |
|---|---|
| 6. 5. 1992 | 16,407 |
| 31. 12. 1992 | 16,263 |
| 31. 12. 1993 | 13,723 |
| 31. 12. 1994 | 12,143 |
| **31. 12. 1995** | **11,664** |

In keeping with the plan to organise ČEZ so as to achieve performance of the most efficient European electric power companies, a reduction in the number of employees continued in 1995. Teams established for different types of activities - operation, personnel and administrative, capital investment, economics and IT - continued in analysis of activities not directly connected with the main activity of the Company that can be economically provided in the market. At the same time, activities which are to remain within the scope of ČEZ were rationalised in such a way as to ensure their necessary extent and required quality.The process of gradual integration of the organisation structure and purposeful changes in the structure of the labour force continued.

As of December 31,1995 ČEZ had a total of 11,664 employees which represents an interannual drop of 479 persons, that is 3.9%. The overall reduction in the number of employees since the establishment of the Company totals 4,743 persons, that is 28.9%.

The target of the personnel policy is to streamline the staff to between 9,000 and 9,500 employees by the year 2000.

**Changes in the educational structure of ČEZ Staff**




From the above diagram showing the development of the staff structure according to education level follows that during the 1992 - to - 1995 period the number of employees with a lower high school or lower education diminished, while the number of employees with university - level and high school level education remained practically stable. However, this favourable development of the employee structure from the qualification point of view was accompanied by a less favourable development in the age structure of the staff. A more significant drop in the number of staff took place only in the younger age groups, while the drop in the older age groups was much smaller.

**Changes in the age structure of ČEZ Staff**


## Training and Education Policy

Employment in the power engineering field requires comprehensively educated and specially trained employees at all levels. To this end, ČEZ places great emphasis on the selection, preparation and education of its employees.

In 1995 ČEZ spent approximately Kč 75 mln on the training and education of its employees. Of this, Kč 3.8 mln went in 1995 for completing the first training stage for employees in investment construction.

Systematic training of top managers of ČEZ - launched in 1993 - continued in top management courses, and communication and management skills. Prepared for launching are courses for higher and middle managers. Employees were acquainted on a running basis with new software products, especially with the automatic financial, management and information system (AFMIS) of the Company, now under preparation. In the developmental stage is a concept for training operational personnel of fossil power stations. ČEZ continues to support foreign language training of its employees. This is carried out in individual and group courses of English and German, including language training abroad. Attention is also devoted to individual improvement of employee skills in the form of graduate studies, MBA, residentials, etc.

## Informatics (IT)

At the beginning of 1995, the IT infrastructure was stabilised and its reliability improved. At the same time, the number of PC users increased and the rendered services were expanded. During the course of 1995, the computer network was connected to the Internet system. At the present time, all users of ČEZ's interoffice E - mail (about 4,000 persons) have access to the Internet postal service. In 1995, a fax network service was installed which enables all users to send fax messages directly from their PC.

### Changes in the Organisation Structure

During the course of 1995, changes were made only in the competencies of departments of the Company headquarters. Effective as of January 1, 1995 the Board of Directors took the following decisions:

- To set up a Planning and Analysis Division with responsibility for ensuring the budgetary as well as medium-term stability of the Company;

- To establish a Temelín Nuclear Power Station Project Team with responsibility for management, co-ordination and consultancy activities connected with placing the power plant into operation;

- To set up an Accounting and Financial System Project Team with responsibility for introducing and developing financial, accounting and information systems;

- To establish a Risk Management Sub - department within the framework of the Financial Department the task of generating and introducing a comprehensive risk management program within ČEZ. The objective of this Department will be protection of the human, property and financial resources of ČEZ against the risk of accidental losses by pointing out the risks and reducing their impact on the financial health of the Company at the expenditure of minimum costs. Another awareness goal calls for an increase in the level of apprehending and understanding the risk management policy within the entire organization and for providing a methodology for identification, analysis and evaluation of the risks and for adopting suitable measures against the monitored risks;

- To set up a new Compensation Management Sub - department within the framework of the Legal Department, with headquarters in Mělník. This Sub - department will centrally resolve the question of compensating losses caused by $SO_2$ emissions to agricultural and forestry production;

- To abolish the Prague Property Administration Unit and to transfer its activities to a newly established Property Administration Department and to other Departments at Company headquarters;

- To transfer the Telecommunications and Control Systems Department of the Transmission System Division to the Headquarters of the Company.

Three departments at the Company headquarters, namely the Change Management, Nuclear Safety and Quality Control Departments were abolished as of May 15, 1995. On the same day a new department was set up, namely the Quality Assurance Department which took over the responsibilities of the abolished three department with the exception of the responsibility for coordinating the preparation and implementation of the Improved Business projects, which was transferred to the Strategic Planning Department.

## Social Policy

In 1995, Kč 110 mln were appropriated to the Social Fund (in accordance with the Agreement with trade union) to cover its expenses. Of this, Kč 85 mln were divided between the individual organisational units (i.e. 1.3% of the anticipated net profit of the Company) for contributions to employee catering, health services, recreational sojourns, transportation to work, social assistance and other purposes stipulated by rules for drawing from the social fund or negotiated in the Agreement with Trade Union.

The remaining Kč 25 mln were earmarked for contributions to additional employee retirement insurance, employer contributions to employee accommodation and relocation costs. Similar to previous years, interest - free loans were also rendered in 1995 to ČEZ employees for housing purposes and for overcoming difficult financial situations.

Early in 1995, the Company began to render financial contributions to employees for retirement insurance concluded by them with the Penzijní fond Energie (Energy Retirement Fund) with monthly amounts differentiated according to seniority.

## Development of the Power Industry Legal Framework and the Position of ČEZ

1995 was a turning point for carrying on business in the power industry in view of the fact that on January 1, 1995 Act # 222/1994, covering conditions for carrying on business in and State Administration of energy industries and on the State Energy Industry Inspection - the so-called "Energy Law", became effective. This law replaced the earlier 1957 law, conceived for conditions in a centrally - planned economy.

Passing of the "Energy Law" was favourably considered by a number of rating agencies when assessing ČEZ. However, thus far its effect on the business environment has not been felt overly.
The short period of the law's effectiveness and frequently also its content cause, different interpretations of some of the articles, which will be overcome only by court practice.

The Act requires the issuing of implementing decrees by the Ministry of Industry and Trade of the Czech Republic, of which some - important to delimiting the by commercial environment in the power industry have not been published by the end of 1995. This mainly concerns the following:

- Stipulating the procedures of the regulatory body;
- Regulating the central control center of the power system of the Czech Republic;
- Providing for procedurs in case of emergency to the stability of the national power system.

It is anticipated that these implementation provisions will be issued in 1996.

Accession of the Czech Republic to the Vienna Convention on civil - law liability for nuclear damages and to the Joint Protocol, concerning the Vienna and Paris Conventions, are important from the point of view of liability for nuclear damages. Tying in on the above Conventions, the Ministry of Industry and Trade of the Czech Republic was entrusted by the Government with preparing the draft of an "Atomic Law". On June 28, 1995 the Government accepted a draft of principles for the above law, whereupon work began on its full text.

In the interim period it was necessary to resolve the supply of components for nuclear power plants by rendering a Government promise of indemnity which, however, was not acceptable to all nuclear plant contractors (in that it did not vest exclusive responsibility on the operator and was not addressed to a specific legal entity).On the basis of a detailed legal analysis, this legislative deficiency was overcome either by specifying a foreign legal regulation for the respective contracts (which makes it possible to waive the right to indemnity in advance) or by issuing a company indemnity declaration in the event of a nuclear accident.

In October 1995 an Association Agreement was signed, thereby establishing the Association of Suppliers and Producers of Electricity of the Czech Republic which is to establish "Czech Republic Central Electric Energy Control Center" and thus fulfil one of the provisions of the "Energy Law".

Within the framework of the above, ČEZ creates its own strategy because it is fully aware of the competition risks (now arising and which will probably be substantially greater in the future) in the electricity market to its permanently sustainable development. The basic pillar of this strategy - approved by the Regular Shareholders General Meeting on July 13, 1995 - is the Conception Business Activities.

### Brief Prognosis of Development in the Power Industry Sector from the point of view of ČEZ

Assumptions for the medium - term development of the power industry sector of the Czech Republic up to the year 2000 are mainly contingent on the following two factors:

- Acceleration of the demand for electricity, which began during the 1994 - to - 1995 period (mainly in the residential sector). An increase is anticipated in the overall demand from the present (1995) 52.155 TWh to between 60 and 63 TWh and in peak load from 10,415 MW (in 1995) to 12,000 MW by the year 2000.

- Regulation of end - user electricity prices by the State (the Ministry of Finance of the Czech Republic) determines the development of the price of electricity supplied by ČEZ to its main customers - the distribution utilities.

By means of its Business plan, ČEZ annually reviews its ability to fulfil the set down development plan, i.e. its funding and the Company's financial stability under ever increasing pressure of the increasing competitive environment in the power industry.

ČEZ's plan has repeatedly confirmed the following:

- That the planned and to a great degree already materialised development of ČEZ up to the year 2000 is an integral part the long - term solution of the development of the Czech electricity and heat generating system, based on the least cost principle. As such, it makes it possible to keep its dominant share of the electricity supply in the Czech Republic.

- That the planned development of ČEZ as well as its debt service up to the year 2000 are financially feasible and enable the Company to keep its indebtedness within acceptable limits without extreme pressure on electricity prices.

ČEZ anticipates a gradual decline in profits in response to rising costs without substantially limiting internal financing.
The business plan anticipates that ČEZ will start to pay dividends in the near future and their gradual increase depending on the development of end - user electricity prices and electricity prices between ČEZ and the distribution utilities.

## Communication Strategy

The manner in which ČEZ is perceived these days by the general public differs in many respects from the time when the Company was established. Today, most people view ČEZ as a modern, dynamic company striving to attain high European standards, a Company with a trustworthy management and a sound environmental program, dedicated to purposefully reducing air pollution. However, it is continuously seen as a company which pays little regard to the interests of the general public and few people feel sufficiently informed about the Company's future plans.
Therefore, one of the main tasks of the Company's public relations in the future is to improve the image of ČEZ and present it as a company which provides adequate information about itself, is considerate to the environment and behaves as a reliable partner to its surroundings.

**Comparison of the initial, current and ideal image of ČEZ**

| 1992 | 1995 | 2000 (?) |
|---|---|---|
| Is "undesirably" big | Is big and strong | Is strong and adequately big |
| Is petrified | Is turning modern and dynamic | Is modern and of a European standard |
| Little is known about it | Is sufficiently known | Is well known |
| Has a low credibility | Has a trustworthy management | Is trustworthy |
| Pollutes the environment | Reduces environmental pollution | Is considerate of the environment |
| Renders no information | Informs insufficiently of its goals | Renders adequate information about itself |
| Is arrogant | Pays little regard to public interests | Behaves as a partner |

At the beginning of 1995, ČEZ began regular publication - in Czech and English - of brief quarterly reports on its business performance, the English version is elaborated according to international accounting standards (IAS). These reports are sent to banks, rating agencies and institutional investors. They are also handed out to the press at regular press conferences. By publishing the latest data on the company's business, ČEZ hopes to improve its credibility in the capital markets as well as with the public.
At specialised conferences - at home as well as abroad - ČEZ employees answer numerous inquiries concerning not only the Company but also the entire power industry.

## Sponsoring Policy

The keystone of ČEZ's sponsoring policy - centrally materialised for the whole Company - is support of health services, the educational system and the humanitarian sphere. In all, Kč 268 mln was donated to sponsor activities in 1995.
A new program initiated in 1995 was support to schools training future experts for work in the power industry.
An important project continued to be co - operation with the Good Will Committee - the Olga Havlová Foundation.
In 1995, Kč 45 mln was assigned to support the development of health services in Northern Bohemia and health sojourns for children of this region. Over eleven thousand children participated in these programs in 1995.
Another part of ČEZ's sponsoring program is devoted to the support of regions in which the Company operates, that is in the localities of its various power stations and district heating plants.

## Co-operation with Municipalities in the Surroundings of Power Stations - Partnership and Mutual Support

The following activities contributed to improving relations with representatives of municipalities in the surroundings of power stations:

- Frequent formal and informal meetings with representatives of local and district councils or significant organisations for the purpose of an exchange of information and opinion, for seeking mutual points of interest and ways of their fulfilment (these meetings are of particular importance in the surroundings of nuclear power stations and related projects).

- The Sponsoring Program of ČEZ is directed at supporting the above communities or the support of larger regional health and environmental programs.

Also contributing to good relations and public information in the case of nuclear power stations are newspapers published by the power stations (the Temelínské noviny (Temelín News) and the Zpravodaj - Jaderná elektrárna Dukovany (Dukovany Nuclear Power Station Reporter)) and information centers for the public with the possibility of visits to power stations. From the first experiments and provisional measures in 1990, this communication form matured to the existing likeness and is now comparable with similar information programs in other developed countries in the world.

In the coming years, the support of the power station surroundings to take place not only by direct financial donations but also by other services which ČEZ can render.

## Relations with the Mass Media

Ever since 1991, relations with the mass media have been based on the assumption that the overwhelming majority of reporters are interested in presenting objective information. Therefore, ČEZ endeavors to render the media as much information as possible.

Witness to the gradually improving image of ČEZ are the results of press analyses. During the past years, a substantial drop has taken place in unfavorable articles on ČEZ from almost 50% in 1993 to approximately 30% in 1995. At that, the predominant part of unfavorable publicity concerns the Temelín Nuclear Power Station and the central interim storage of spent fuel, which are controversial issues. The Company's goal in relations with the press is to maintain good and frequent contacts with a broad range of reporters and to achieve a balanced state, in an ideal case a slight predominance of slightly favourable articles. However, ČEZ is aware of the fact that the nuclear power station continues to have and will have opponents and will attract opponents aiming at being more visible in the media. Despite this, according to results of public opinion polls, completion of the construction of the Temelín facility has a long-term stable support of the the majority of the Czech Republic's population.

**Agreement of the general public with completion of the Temelín Nuclear Power Station (in %)**

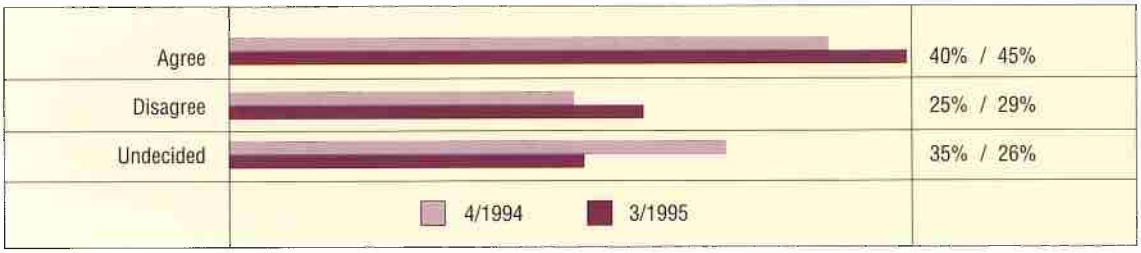

*) As against all other polls made by the AISA agency, the present poll was made by the IVVM agency.

The originally adverse relations between ČEZ and the public regarding fossil power stations are gradually improving thanks to the modernisation of fossil units and intensified co-operation with communities, organisations and individuals in their surroundings.

## Public Opinion on the Environmental Program of ČEZ

Question:
"Does ČEZ have good environmental programs and does it purposefully work on reducing air pollution?"

**Public opinion on the environmental program of ČEZ**




The reaction of the general public to the decision to complete the construction of the Temelín Nuclear Power Station and projects for storing spent nuclear fuel is very sensitive. These projects have a number of opponents. At first the problem concerned the construction of a central interim storage facility in the area of the Dukovany Nuclear Power Station. First the problem was discussed at the regional level between the Power Station and representatives of local communities. Later the problem expanded and grew to a nation - wide level. In 1992 a Government decision time - limited the capacity of the interim store at the Dukovany Power Station to about the year 2004 and charged ČEZ with finding another location for the central interim store outside the nuclear plant's premises. In time, the situation in the surroundings of the Dukovany Nuclear Power Station calmed down and culminated in the signing of an agreement on co - operation between the power station and the Dukovany local council.

At the end of 1993, the public reacted in a predominantly negative way to launching surveys for establishing a central interim store in ten different pointed - out localities. In view of the large number of these localities and their spread over a wide area, the ensuing discussions were of a nation - wide character. During the course of 1994 and mainly in 1995 the interest of nation - wide media declined and the coverage attained a predominantly neutral form. The emotionally charged situation in the proposed localities also calmed down, thanks to the undertaken information activities and offers of sponsorship.

## Energy for Everyone Information Program

The Energy for Everyone information and education program has become an integral part of ČEZ's image in the eyes of not only school teachers but also the general public. ČEZ's offer of teaching projects, information pamphlets, video features and various activities is available to all elementary and high schools throughout the Czech Republic to help broaden young people's knowledge and understanding of energy, power industry and the generation and use of electricity.

At the present time, some 45,000 to 50,000 persons annually visit Information Centers at the Dukovany and Temelín Nuclear power stations, with an increase in the number of visitors anticipated. The newspapers published by the two power stations have a total of more than 150,000 readers monthly.

*Photograph: Information Center at the Dukovany Power Station*

The aim of this program - the only one of its kind in the Czech Republic - is to contribute to improving the general knowledge of power industry issues. Interest of teachers in this program is best documented by the fact that almost 100,000 copies of educational pamphlets were sent to Czech schools in 1995.

An important part of public presentations of ČEZ are exhibitions. In 1995, the Company participated in 12 larger specialised exhibitions where it presented its environmental program, educational program and energy saving program.

**Appreciation of ČEZ's Annual Report**

The clearly formulated program, detailed description of all activities and openess, together with a new graphic layout of ČEZ brought about pronounced success and appreciation. Thus, in the 1994 Best Annual Report Competition, ČEZ won the first prize for the content as well as elaboration. Mr. Karel Dyba, Minister of Economy, is presenting the prize to Mr. Gabriel Eichler, Vice Chairman of ČEZ.

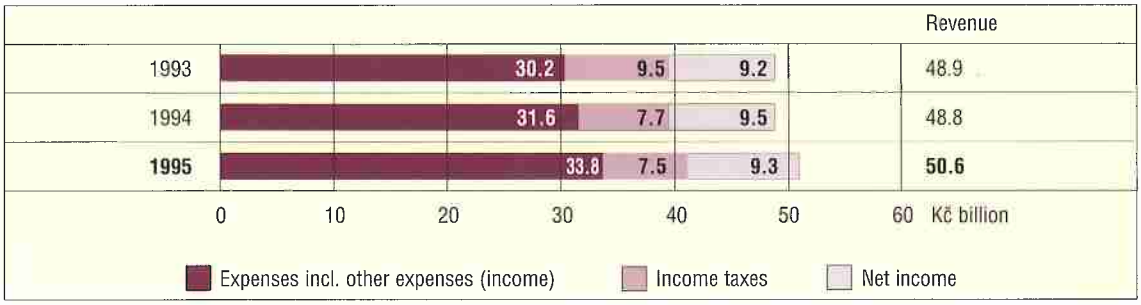
In June 1995, ČEZ floated its third issue of domestic bonds having a total value of 4 billion Czech crowns, due to mature in 2005. ČEZ thus became the first in the Czech market to issue bonds of such a long maturity. Since 1993, ČEZ has floated in the domestic market bonds having a total value of 10.1 billion Czech crowns, and has been successful in placing Eurobonds in West - financial markets world wide with a total value of US$ 150 million.

*Photograph: Building of the Prague Stock Exchange*

## Development of Revenue, Costs and Profit

The following diagrams present the most important economic results achieved by ČEZ in 1995 and compares them with the results of 1994 and 1993.

**Formation of profit**




In 1995, ČEZ's **the net income was Kč 9.3 billion** which is Kč 0.2 billion (or 2.3%) less than in 1994. This development was caused mainly by a slower growth of revenue (3.7%) with respect to costs (7.0%).

**The net income per share** was Kč 173, which represents a decrease of 2.8% compared with 1994.

**Total revenue was Kč 50.6 billion with expenses (including other expenses) amounting to Kč 33.8 billion. Pre-tax profit decreased 2.2% from Kč 17.2 to 16.8 billion.**

- **Total revenue** in 1995 was by 3.7% higher than in 1994. Its increase was achieved mainly by greater revenue for sold electric power (Kč 47.4 billion), which is an increase of Kč 1.3 billion (2.7%) as against 1994.

- **Revenue from electric power supplied to domestic customers** of Kč 45.4 billion increased in 1995 by Kč 1.3 billion (by 3%). Electricity sold in the Czech Republic increased from 43.0 TWh in 1994 to 44.1 TWh in 1995 but the average price increased only by 0.5% in accordance with a decision of the Ministry of Industry and Trade of the Czech Republic made late in 1995 on limiting the transfer prices for power supplied to distribution utilities.

- **Revenue from export of electricity** (Kč 2 billion) dropped slightly as against 1994 (by 2.5%) despite the fact that electric power exports increased by 4.2%. The result is an interannual reduction in average sale prices of exported electric power of 6.4% because of shorter term nature of the new contracts.

- In 1995, **revenue from heat supplies** were 11.8% (Kč 0.1 billion) higher than in 1994. As the amount of sold heat increased by only 0.1%, the achieved increase in revenue was mainly due to an average price increase for heat of 11.7%.

**Overall expenses including other expenses** rose to Kč 33.8 billion which is Kč 2.2 billion (7.0%) more than in the previous year.

- **Fuel costs**, of Kč 12 billion which accounts for 35.6% of the overall expenses, increased interannually by Kč 0.5 billion (by 4.0%), while the supply of electricity produced by ČEZ increased by 2.2%. The interannual increase in the price of fuels and a change in the structure of electricity supplies in favor of fossil power stations (which use more expensive fuel) were reduced by increased supply of electricity from hydro power stations and a reduction in the consumption of per-unit energy (contained in the fuel) in the case of both fossil and nuclear power plants. The reduction of electricity generated by the Nuclear Power Station Dukovany was caused by the need to secure the power balance of the 1995/1996 winter season.

- **Costs of electricity purchase** amounted to Kč 4.4 billion (13.0% of total expenses) and increased by Kč 0.2 billion (by 4%).

- In 1995, **repair and maintenance costs**, which make up 9.4% of total expenses, increased to Kč 3.2 billion as against the previous year by Kč 0.6 billion (by 24.2%) mainly due to the greater material extent of repairs in the maintenance of plants and general overhauls of units. The goal of long-term planned and ensured overhauls is increased operating reliability, achieving a considerate approach to the environment and a reduction of the energy required for generating electric power and heat.

- **Depreciation and amortization** grew to Kč 4.6 billion, i.e. by 21.2%. This item, which at the same time forms one of the sources for financing the Company's development program, continues to be low (despite an interannual increase from 12.0% to 13.6% of total expenses) due to the historically low book value of fixed assets in relation to their reproduction value.

- **Personnel costs** of Kč 2.4 billion, which represent 7.1 % of total expenses, increased interannually by Kč 0.4 billion (by 17.1%) in accordance with the budget which took into account a 22.5% increase in wage tariffs (in accordance with the Agreement with the Trade Union) as of April 1, 1995. Abolition of wage regulation in mid - 1995 did not affect wage costs, because the increase in wages was regulated by the procedure agreed upon in the Agreement with the trade union. During the reviewed period, the number of company employees dropped to 11,664 persons (interannually by 3.9%).

- **Nuclear decommissioning and spent fuel storage** provisions increased by Kč 0.6 billion (45.6%). It

follows from higher provisions for deccommissioning of nuclear power plants in accordance with the draft proposal of the Nuclear Law.

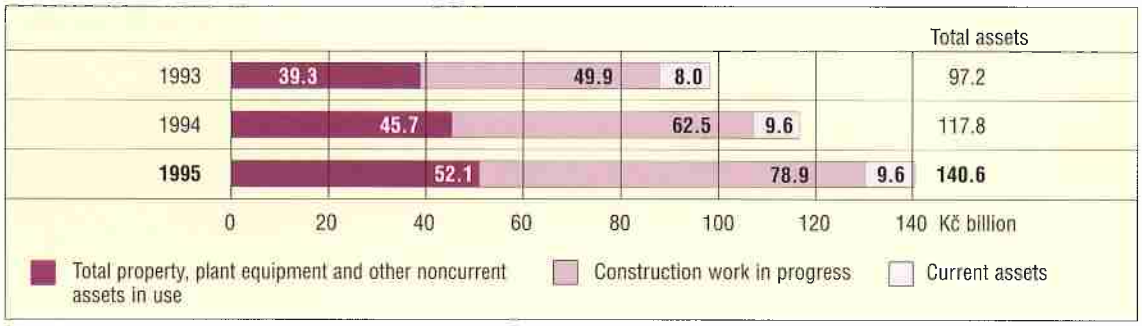
- **Other material costs** of Kč 1.3 billion (4% of the total expenses) dropped interannually by Kč 0.1 billion (i. e. by 8.5%).

- **Costs of ash storage, air and water pollution and environmental claims** decreased by Kč 0.6 billion (37%) due to reduced claims compared with the previous year.

## Asset Structure

The development of the asset structure of ČEZ in 1995 can be characterised by a change in the structure of assets and liabilities. **The overall net assets** of the Company, i. e. reduced by accumulated depreciation and adjustment, reached Kč 140.6 billion at the end of 1995, which is 19.3% more than at the end of 1994.

**The Structure of Net Assets**




**Fixed assets** valued at Kč 131 billion comprise tangible property and intangible assets (including investments under construction and advance payments) and financial investments. Their share in the total assets is 93.2% and as against last year increased by 21.1%. **Investments under construction and advance payments** increased interannually by 26.2% to Kč 78.9 billion and their share in the total assets increased from 53.1% at the end of 1994 to 56.1% at the end of 1995. The increased share of projects under construction in the overall value of assets is related to the culminating construction of FGD and to the construction of the Temelín Nuclear Power Station. More detailed data are presented in the Investment Program chapter.

**Current assets,** comprising inventory, receivables and financial assets reached net Kč 9.6 billion at the end of 1995, which is the same as at the end of 1994. Individual items of the current assets developed in the following way:

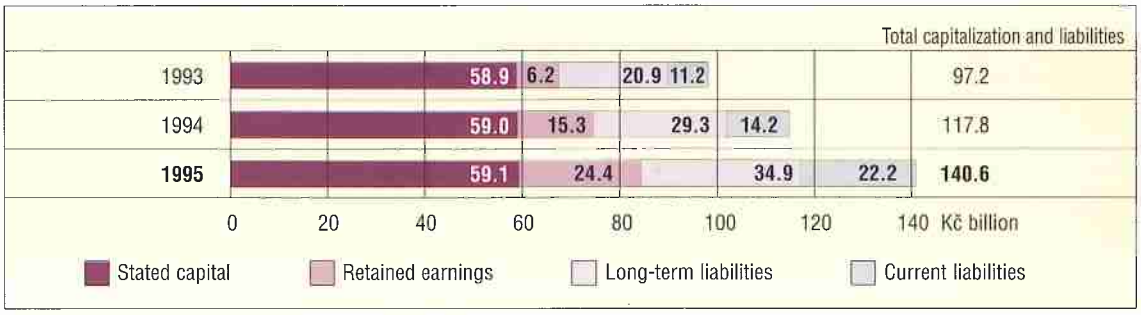
- At the end of 1995, the **Company's cash** rose temporarily to Kč 2.4 billion. A part of these funds not indispensable for financing the immediate needs of the Company (Kč 1.4 billion) was deposited in short-term accounts.

- At the end of 1995 net **receivables** dropped by 14.2% as against the figures at the end of 1994 to Kč 4.9 billion, which represents about 43.7% of the Company's current assets. At the same time, a significant reduction of gross **overdue receivables** occured, an interannual drop of Kč 0.6 billion to Kč 0.7 billion. Another significant reduction of overdue receivables took place in the first weeks of 1996 as a result of defrayment of outstanding receivables by distribution utilities.

- **The stock of fossil fuel, materials and supplies including advance payments** amounted to Kč 3.0 billion, representing more than 30% of the Company's current assets. During 1995, this item increased only by 2%.

As of December 31, 1995, the Company's **stated capital** was Kč 59.1 billion; during the course of the year it increased by Kč 158 million as assets formerly owned by the state enterprise Czech Power Works were transferred by the National Property Fund of the Czech Republic into the Company.

**The Structure of Capitalization and Liabilities**



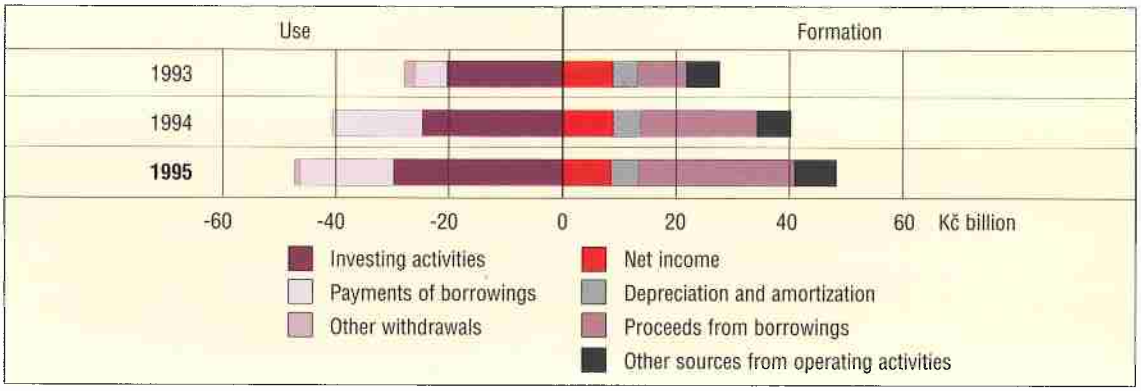

**Capitalization**, which comprises - in addition to the stated capital - retained earnings, reached Kč 83.5 billion by the end of 1995, which represents 59.4% of the Company's capitalization and liabilities. The capitalization increased interannually by Kč 9.2 billion (by 12.4%) by the growth of accumulated undivided profit (retained earnings) of the past years.

**Long-term liabilities** increased during 1995 by Kč 5.6 billion mainly due to the issue of domestic bonds in June 1995 (Kč 4.0 billion) and increased amount of accumulated provisions for nuclear decommissioning and fuel storage (by Kč 1.9 billion). It corresponds with provisions formed for decommissioning of nuclear power plants in accordance with the proposed Nuclear Law.

**Short-term loans** increased by Kč 7.6 billion to Kč 9.2 billion mainly due to increased usage of annually revolving loans which, have a final repayment in the year 2004.

## Company Financing

**Sources and uses of cash by ČEZ**




During 1995, cash increased by Kč 0.6 billion. Operating activities provided over Kč 19 billion, financial activities provided over Kč 10 billion. These sources were used to finance investment activities. Investments in 1995 amounted to about Kč 29 billion, which is Kč 4 billion less than budgeted.

The lower rate of drawing on the planned investment funds are connected with a one-year postponement of the completion date of the Temelín Nuclear Power Station construction associated with the conversion of the original economic contract to a contract for technological equipment and supplies signed in June 1995. During the year only Kč 6.0 billion - i. e. 62% of the anticipated fulfilment - was actually payed out for this project. The new contract calls for loading the nuclear fuel into the first unit in September 1997, and into the second unit 18 months later.

The budget for other investment projects (without the Temelín Nuclear Power Station) was fulfilled by 97%. The slightly lower drawing on investment funds in the case of this group of projects was caused by negotiating more precise deadlines after the signing of new contracts, by the postponement of the tender procedure for a fluidized-bed boiler for the Ledvice Power Station and by an amendment to the existing contracts for a fluidized-bed boiler for the Hodonín Power Station.

In the field of essential environmental projects, there are no notable indications which would endanger adherence to the deadlines.

The needs of the Company were financed mostly from internaly generated funds. **Funds provided by operating activities,** exceeding Kč 19 billion, consist mainly of the following items:

| | |
|---|---|
| Net income | approx. Kč 9 bln. |
| Depreciation of fixed assets | approx. Kč 5 bln. |
| Amortization of nuclear fuel | approx. Kč 1 bln. |
| Increase in provisions | approx. Kč 2 bln. |
| Increase in accrued liabilities, accrued and deferred taxes | approx. Kč 2 bln. |
| Decrease in receivables | approx. Kč 1 bln. |

During 1995, long-term debt increased by Kč 4 billion, short-term loans by more than Kč 7 billion. The average interest rate of the long-term borrowings was 11.1%. The overall average interest rate decreased more significantly due to advantageous refinancing activities.

In June 1995, a contract was concluded with a bank consortium, headed by the Sumitomo Bank of London, for a syndicated multi-currency revolving facility of US$ 100 million. Late in November 1995, a medium-term loan contract was signed with the Commerzbank AG for Kč 1 billion with a 3-year maturity. In December 1995, negotiations were concluded with the European Investment Bank and loan contracts were signed for a total sum of ECU 200 million (approximately Kč 6.8 billion) with the possibility of drawing on the loan over a period of 4 and 3/4 years and an overall maturity of 18 years. This loan will reduce the Company's involvement in the field of debentures and is intended mainly for funding environmentally directed projects.

Floating of the third issue of Kč 4 billion worth of domestic bonds with a fixed coupon of 11.3 % and maturing in 2005 with an option of early redemption every year from the year 2000. This issue made it possible to prepay a part of long-term loans and their replacement with more advantageous loans. Postponement of the completion of the construction of the Temelín Nuclear Power Station and the related drawing on investment funds led to the deferral of the next bond issue from the originally anticipated second half of 1995 to 1996 or later.

### Changes in Investment Ratings

In March 1995, ČEZ was assigned a preliminary A- rating by the Japan Bond Research Institute (JBRI) rating agency. In November of the same year, the above agency confirmed this preliminary credit rating. In July 1995, the American rating agency Standard and Poor's improved its rating of ČEZ from BBB- to BBB with a positive outlook. In September 1995, Moody's announced that it was granting ČEZ the Baa1 indicative rating, the same rating as granted by this agency to the Czech National Bank. The achieved rating will make it possible for ČEZ to obtain considerably better conditions in acquiring external funds, be it loans, or debentures.

## Financial Indicators

The development of financial indicators may be characterised by comparing the figures achieved by the end of 1995 with the following:

- Figures achieved at the end of 1994 and of 1993;
- Values recommended with regard to good company stability.

| Indicator | 1993 | 1994 | 1995 |
|---|---|---|---|
| Sales margin * | 0.39 | 0.35 | **0.33** |
| Total assets turnover | 0.49 | 0.41 | **0.36** |
| Return on total assets (ROA) ** | 9.45% | 8.09% | **6.62%** |
| Return on equity (ROE) ** | 14.11% | 12.82% | **11.14%** |
| Return on capital employed (ROCE) ** | 11.95% | 10.23% | **8.77%** |
| Working ratio | 50.5% | 53.0% | **54.0%** |
| Debt service ratio | 5.9 | 5.6 | **6.1** |
| Cash generation ratio | 59.0% | 68.9% | **48.3%** |
| Earnings per share | 171 | 178 | **173** |
| At year-end | | | |
| Debt to equity ratio | 0.26 | 0.30 | **0.39** |
| Current ratio | 0.72 | 0.68 | **0.54** |
| Price - earning ratio ** | 9.3 | 7.6 | **5.6** |
| Market to nominal price ratio (share Kč 1,100) | 145% | 124% | **88%** |
| Market to nominal price ratio (share Kč 1,000) | - | 100% | **81%** |

* Based on Income before income taxes (Pre-tax profit).
** Based on Net income (Profit after taxes).

**Sales margin** (0.33), i. e. pre-tax profit to the total revenues lowered by 6% due to the higher level of expenses acceleration (by 7%) than of revenues (by 3.7%).

**Total assets turnover**, i. e. total revenues to the total assets amounted to 0.36, 12% lower than at the end 1994 due to the lower growth of revenues (by 3.7%), than of total assets (by 19%).

**Return on total assets ROA**, (profit after tax to total assets) amounted to 6.62%, 20% lower than at the end 1994 due to both the lower net income (by 2.3%) and the higher total assets (by 19%).

**Return on equity ROE** (profit after tax to total capitalization) lowered by 13% due to the lower level of net income and the higher total capitalization (by 12.4%).

**Return on capital employed ROCE** (profit after tax to the sum of total capitalization plus long-term debt, net of amount due within one year) amounted to 8.77%, 14% lower than at the end 1994 due to the lower level of net income and higher capital employed by 13.8%.

The contract for a World Bank loan contains the following conditions:
**The working ratio** states that the ratio of total operational expenses to 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 until 1994, 3.5 - fold in 1995 and 2.2 since 1996. **The cash generation ratio** states that the Company has to create, from its own sources, finances which exceed 40% of the average yearly investment expenditures. In 1995 ČEZ **met the limits** for all three conditions.

**Earnings per share** amounted to Kč 173, 2.8% lower than in 1994 due to the decreasing profit after tax.

**Debt to equity ratio** (all debt to total capitalization) of 0.39 increased from 0.30 at the end 1994 mainly due to issue of domestic bonds (June 1995) and increasing amount of both long and short term loans.

**Current ratio** (current assets to current liabilities) was 0.54 in comparison with 0.68 at the end of 1994. It shows ČEZ's ability to cover its current liabilities with current assets.

**Price - earning ratio** (share market price to earnings per share) amounted to 5.6, nearly 26% lower than at the end 1994 mainly due to the decreasing market price of nearly all share prices in the Czech Republic during 1995.

**Market to nominal price ratio** (share market price to its nominal value) for shares with nominal value Kč 1,100 amounted to 88%, resp. 81% (shares with nominal value Kč 1,000), i. e. 29%, resp. 19% lower than at the end 1994 due to the prevailing decrease of share prices at the Czech capital market.

# Report of Independent Public Accountants

ARTHUR ANDERSEN

ARTHUR ANDERSEN & Co SC

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 1995 and 1994, 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 1995 and 1994, 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.

Arthur Andersen

Prague, Czech Republic
29 March 1996

**Consolidated balance sheets as of 31 December 1995 and 1994**
(Czech Kč in Millions)

| | 1995 | 1994 |
|---|---|---|
| **Assets** | | |
| Property, plant and equipment (Note 3): | | |
| Plant in service | 94,195 | 84,502 |
| Less accumulated provision for depreciation | 47,802 | 44,036 |
| | 46,393 | 40,466 |
| Nuclear fuel, at amortized cost | 4,656 | 4,450 |
| Construction work in progress | 78,898 | 62,517 |
| Total property, plant and equipment | 129,947 | 107,433 |
| Other noncurrent assets, net (Note 5) | 1,005 | 724 |
| Current assets: | | |
| Cash | 2,431 | 1,794 |
| Receivables, net (Note 4) | 4,217 | 4,915 |
| Materials and supplies, net | 1,311 | 1,251 |
| Fossil fuel stocks | 840 | 1,083 |
| Prepayments | 841 | 600 |
| Total current assets | 9,640 | 9,643 |
| **Total assets** | **140,592** | **117,800** |
| **Capitalization and liabilities** | | |
| Capitalization (Note 6): | | |
| Stated capital | 59,131 | 58,973 |
| Retained earnings | 24,390 | 15,324 |
| Total capitalization | 83,521 | 74,297 |
| Long-term liabilities: | | |
| Long-term debt, net of amount due within one year (Note 7) | 22,605 | 18,863 |
| Accumulated provision for nuclear decommissioning and fuel storage (Note 8) | 12,287 | 10,397 |
| Total long-term liabilities | 34,892 | 29,260 |
| Commitments and contingencies (Note 11) | | |
| Current liabilities: | | |
| Short-term loans (Note 9) | 9,161 | 1,527 |
| Long-term debt due within one year (Note 7) | 655 | 1,786 |
| Accounts payable | 3,748 | 4,642 |
| Accrued and deferred taxes | 2,309 | 1,039 |
| Accrued liabilities | 6,306 | 5,249 |
| Total current liabilities | 22,179 | 14,243 |
| **Total capitalization and liabilities** | **140,592** | **117,800** |

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

**Consolidated statements of income and retained earnings**
**for the years ended 31 December 1995 and 1994**
(Czech Kč in Millions)

| | 1995 | 1994 |
|---|---|---|
| **Revenues:** | | |
| Sales of electricity and heat | 48,685 | 47,290 |
| Other | 1,954 | 1,526 |
| Total revenues | 50,639 | 48,816 |
| **Expenses:** | | |
| Fuel | 12,029 | 11,562 |
| Purchased power | 4,404 | 4,233 |
| Repairs and maintenance | 3,170 | 2,553 |
| Depreciation and amortization | 4,601 | 3,797 |
| Salaries and wages | 2,417 | 2,064 |
| Nuclear decommissioning and fuel storage | 1,945 | 1,336 |
| Materials and supplies | 1,289 | 1,408 |
| Costs of ash storage, air and water pollution and environmental claims | 968 | 1,531 |
| Other operating expenses | 2,653 | 2,794 |
| Total expenses | 33,476 | 31,278 |
| **Income before other expense (income) and income taxes** | **17,163** | **17,538** |
| **Other expense (income):** | | |
| Interest on debt, net of capitalized interest (Notes 3 and 7) | 283 | 374 |
| Interest income | (136) | (246) |
| Other financial expenses | 208 | 226 |
| **Income before income taxes** | **16,808** | **17,184** |
| **Income taxes (Notes 10)** | **7,503** | **7,657** |
| **Net income** | **9,305** | **9,527** |
| Retained earnings, beginning of period | 15,324 | 6,163 |
| Contributions to other funds | (239) | (366) |
| **Retained earnings, end of period (Note 6)** | **24,390** | **15,324** |
| **Average number of shares outstanding** | **53,885** | **53,292** |
| **Net income per share** | **173** | **178** |

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

**Consolidated statements of cash flows for the years ended 31 December 1995 and 1994**
(Czech Kč in Millions)

| | 1995 | 1994 |
|---|---|---|
| **Operating activities:** | | |
| Net income | 9,305 | 9,527 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,621 | 3,981 |
| Amortization of nuclear fuel | 1,247 | 1,356 |
| (Gain)/Loss on fixed asset retirements | 49 | (35) |
| Provision for nuclear decommissioning and fuel storage | 1,889 | 1,223 |
| Provisions for doubtful accounts, environmental claims and fixed assets adjustments | 79 | 325 |
| Changes in current assets and liabilities: | | |
| Receivables | 925 | (1,847) |
| Materials and supplies | (50) | (76) |
| Fossil fuel stocks | 243 | (137) |
| Prepayments | (241) | (332) |
| Accounts payable | (450) | 2,798 |
| Accrued and deferred taxes | 1,270 | 812 |
| Accrued liabilities | 591 | 566 |
| Net cash provided by operating activities | 19,478 | 18,161 |
| **Investing activities:** | | |
| Additions to property, plant and equipment and other non current assets | (29,259) | (24,301) |
| Proceeds from sales of fixed assets | 154 | 149 |
| Total cash used in investing activities | (29,105) | (24,152) |
| **Financing activities:** | | |
| Proceeds from borrowings | 27,729 | 21,861 |
| Payments of borrowings | (17,465) | (16,744) |
| Total cash provided by financing activities | 10,264 | 5,117 |
| **Net increase (decrease) in cash** | **637** | **(874)** |
| **Cash at beginning of period** | **1,794** | **2,668** |
| **Cash at end of period** | **2,431** | **1,794** |
| **Supplementary cash flow information** | | |
| Cash paid for: | | |
| Interest | 2,550 | 1,744 |
| Income taxes | 6,238 | 7,568 |

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

**ČEZ, a. s.,**
**Notes to Financial Statements as of 31 December 1995**

## 1. The Company

ČEZ, a.s. („ČEZ" or „the Company") is a Czech Republic joint-stock company which was established as of 30 April 1992. At 31 December 1995 the Czech Republic National Property Fund owned 67.5% of the Company. The majority of the remaining shares of the Company are owned by mutual funds and by private investors.

ČEZ is an electric generation and transmission company which produced 76% of the electricity and a minor portion of the district heating in the Czech Republic in 1995. The Company sells substantially all of its electricity to eight distribution companies ("REAS") and to certain large industrial customers in the Czech Republic. The Company operates ten fossil fuel plants, twelve 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. The anticipated revenue from the retail customers is allocated between ČEZ and the REAS based on annually negotiated individual wholesale contracts between ČEZ and each REAS. In the previous four years, the Ministry of Industry and Trade (Ministry) acted as arbiter between ČEZ and the REAS in their negotiations of the revenue split. Contracts for 1995 between ČEZ and the REAS, which should have been signed before year end 1994, were ultimately finalized in December 1995 following arbitration activities by the Ministry. Although no 1996 contracts had been signed by year end 1995, in the first quarter of 1996 ČEZ signed ten-year contracts with two of the eight REAS. Electricity prices under these contracts are determined by a pre-agreed formula.

On 1 January 1995 the Act on Conditions of Business Activity and State Administration in the Energy Industries and on State Power Inspection (the "Energy Law") became effective. The Energy Law, which applies to the electricity, gas and heat industries in the Czech Republic, grants the Ministry of Industry and Trade extensive regulatory powers with respect to the business of ČEZ including the requirement that such Ministry approve certain new investments by the Company in electricity generating equipment and power lines. More explicit powers of the Ministry are to be quantified in a separate decree which has not yet been issued. 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 to the REAS will continue to be negotiated as described above. The law also provides for the creation of a central dispatching function, with dispatching rules to be stipulated by a decree to be issued by the Ministry. It is not possible at this time to determine when such a function might begin activities or the effect of such a central dispatching function on ČEZ's current dispatching operations.

## 2. Summary of Significant Accounting Policies

### Basis of Accounting

ČEZ maintains its books and records in accordance with accounting principles and practices mandated by the Czech Republic Law on Accounting. The accounting policies followed by ČEZ 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 95% 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 Kč 1,247 and 1,356 million for the years ended 31 December 1995 and 1994.

### Debt Issuance Costs

Long-term debt discount and issuance costs, amounting to Kč 34 million in 1995 and Kč 204.7 million in 1994, are expensed as incurred.

### Interest

Under Czech accounting principles interest incurred in connection with borrowings related to specific asset additions must be capitalized. Under International Accounting Standards, all interest costs incurred in connection with a construction program that theoretically could have been avoided if expenditures for the assets had not been made are capitalized. Such capitalized interest costs amounted to Kč 2,603 million in 1995 and Kč 2,082 million 0in 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. Renewals and betterments are capitalized. Upon sale or retirement of

property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the determination of net income.

Depreciation

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:

| | 1995 Years | 1994 Years |
|---|---|---|
| Buildings and structures | 25-50 | 30-77 |
| Machinery and equipment | 4-20 | 8-20 |
| Furniture and fixtures | 8 | 8-17 |
| Motor vehicles | 4-20 | 6-17 |

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

| | 1995 Average Life | 1994 Average Life |
|---|---|---|
| Hydro plants | | |
| Buildings and structures | 45 | 52 |
| Machinery and equipment | 25 | 27 |
| Fossil fuel plants | | |
| Buildings and structures | 29 | 30 |
| Machinery and equipment | 13 | 14 |
| Ash storage facilities | 5 | 5 |
| Nuclear power plant | | |
| Buildings and structures | 28 | 30 |
| Machinery and equipment | 14 | 15 |
| Transmission lines | 30 | 30 |
| Transformer stations | 16 | 16 |

In 1995 ČEZ simplified its asset classifications by reducing the number of classes of depreciable assets. Changes in average asset lives increased 1995 depreciation expense by approximately Kč 600 million.

Depreciation of plant in service was Kč 4,573 and 3,781 million for the years ended 31 December 1995 and 1994, which was equivalent to a composite depreciation rate of 5.1% and 4.7%, respectively.

Cash

Cash includes cash on hand and current accounts with banks. At 31 December 1995 and 1994, the current accounts with banks included foreign currency deposits of 492 and 100 million Kč. Foreign currency deposits are translated at 31 December 1995 and 1994 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 Kč 17.7 million and Kč 27.5 million was charged against inventory in 1995 and 1994 for obsolete stocks.

Income Taxes

Current income taxes are provided on the accounting profit as determined under Czech accounting principles at a rate of 41% and 42%, for the years ended 31 December 1995 and 1994 after adjustments for certain items which are not deductible for taxation purposes. Deferred income taxes are provided on temporary differences in financial statement and taxable income at the subsequent year's tax rate; 39% for 1995 deferred tax expense (see Note 10).

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 of 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.

Realized exchange gains and losses and unrealized exchange losses are charged or credited, as appropriate, to income of the year. Unrealized exchange rate gains are not recognized into income until collection or payment of the related foreign currency items occurs. Unrealized exchange rate gains at 31 December 1995 and 1994 were Kč 111.9 million and Kč 32.0 million, respectively, and are reflected in accrued liabilities in the accompanying balance sheets. A reserve for exchange rate losses has been recorded in the amount of unrealized exchange rate losses of Kč 119.8 million and Kč 46.5 million at 31 December, 1995 and 1994.

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 less the provision already created for the current year during three previous years 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 1995 was Kč 13.0 million.

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 1995 and 1994 is as follows (in millions of Kč):

| | 1995 | 1994 |
|---|---|---|
| Land | 503 | 299 |
| Buildings | 38,618 | 34,215 |
| Machinery and equipment | 51,359 | 46,890 |
| Other | 3,715 | 3,098 |
| Total | 94,195 | 84,502 |
| Accumulated depreciation | (47,802) | (44,036) |
| Net plant in service | 46,393 | 40,466 |
| Nuclear fuel, at amortized cost | 4,656 | 4,450 |
| Construction work in progress | 78,898 | 62,517 |
| **Total property, plant and equipment** | **129,947** | **107,433** |

Construction work in progress includes interest capitalized of Kč 2,603 million and Kč 2,082 million for the years ended 1995 and 1994.

## 4. Accounts Receivable

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

| | 1995 | 1994 |
|---|---|---|
| Trade receivables | 3,613 | 3,719 |
| Other | 698 | 1,509 |
| Less allowance for doubtful accounts | (94) | (313) |
| **Total** | **4,217** | **4,915** |

## 5. Other Noncurrent Assets

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

| | 1995 | 1994 |
|---|---|---|
| Investments | 722 | 510 |
| Long-term receivables | 124 | 148 |
| Intangible assets | 212 | 92 |
| Less amortization | (53) | (26) |
| **Total** | **1,005** | **724** |

## 6. Capitalization

The Company's stated capital as of 31 December 1995 and 1994 was as follows:

| | 1995 | | |
|---|---|---|---|
| | Number of Shares | Value per share | Total |
| Series A | 51,731,161 | 1,100 | 56,904 |
| Series B | 2,226,901 | 1,000 | 2,227 |
| **Total** | **53,958,062** | | **59,131** |

| | 1994 | | |
|---|---|---|---|
| | Number of Shares | Value per Share | Total |
| Series A | 51,602,380 | 1,100 | 56,763 |
| Series B | 2,210,494 | 1,000 | 2,210 |
| **Total** | **53,812,874** | | **58,973** |

Series A shares were initially issued at a nominal value of Kč 1,000 per share. Subsequently, the nominal value of the Series A shares was increased from Kč 1,000 to Kč 1,100. The Series B were issued in 1994 for the second wave of voucher privatization in exchange of a part of Series A shares owned by the National Property Fund.

A reconciliation of Czech Accounting Standards capital accounts to IAS capital accounts is as follows:

| | 31 December 1995 | | | |
|---|---|---|---|---|
| | Stated Capital | Reserve and Other Funds | Retained Earnings | Total |
| Balance per Czech Accounting Standards | 59,131 | 7,136 | 24,026 | 90,293 |
| Accumulated provision for nuclear decommissioning and waste fuel storage (Note 8) | - | - | (7,606) | (7,606) |
| Interest capitalized net of deferred tax provision | - | - | 1,747 | 1,747 |
| Depreciation of interest capitalized net of deferred tax provision | - | - | (8) | (8) |
| Reclassification of items from retained earnings, net | - | - | (462) | (462) |
| Reclassification of items from other funds, net | - | (443) | - | (443) |
| Reclassification of reserve fund to retained earnings | - | (6,693) | 6,693 | - |
| Balance per International Accounting Standards | **59,131** | **-** | **24,390** | **83,521** |

| | 31 December 1994 | | | |
|---|---|---|---|---|
| | Stated Capital | Reserve and Other Funds | Retained Earnings | Total |
| 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** |

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

| | Year ended 31 December | |
|---|---|---|
| | **1995** | **1994** |
| Net income per Czech Accounting Standards | 8,064 | 8,889 |
| Nuclear decommissioning and waste fuel storage costs (Note 8) | 76 | 113 |
| Interest capitalized, net of deferred tax provision | 1,234 | 514 |
| Depreciation of interest capitalized net of deferred tax provision | (8) | - |
| Reclassification of items from retained earnings, net | (61) | 11 |
| **Net income per accompanying statements of income and retained earnings** | **9,305** | **9,527** |

## 7. Long-term Debt

Long-term debt at 31 December 1995 and 1994 is as follows (in millions of Kč):

| | 1995 | 1994 |
|---|---|---|
| Non-collateralized long-term bank notes: | | |
| 6.0% and less, due 1996 to 2007 | 724 | 1,134 |
| 6.0% to 9.5%, due 1998 to 2007 | 5,889 | 3,078 |
| 13.0% last year to 16.5%, due 1996 to 2001 | 1,437 | 4,861 |
| Collateralized long-term bank notes: | | |
| 13% to 16.5% | - | 913 |
| 8.875% Eurobonds, due 1999 | 4,244 | 4,253 |
| 11.3% Debentures, due 2005 | 4,000 | - |
| 14.375% Debentures, due 2001 | 4,000 | 4,000 |
| 16.5% Debentures, due 1998 | 2,100 | 2,100 |
| Other loans | 866 | 310 |
| Total long-term debt (Kč 6,712 million of which is repayable in foreign currency) | 23,260 | 20,649 |
| Less: Current portion | (655) | (1,786) |
| Long-term debt, net of current maturities | **22,605** | **18,863** |

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

| | |
|---|---|
| 1996 | 655 |
| 1997 | 1,484 |
| 1998 | 4,793 |
| 1999 | 5,402 |
| 2000 | 1,143 |
| Thereafter | 9,783 |
| **Total long-term debt** | **23,260** |

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. On the same date, ČEZ 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 German DM 153.3 million. 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 1995 an unrealized currency exchange loss against the DM was substantially offset by a gain against the USD, and a net unrealized gain of Kč 8.1 million was recorded at year end.

The Company has entered into a loan agreement ("Agreement") with the International Bank for Reconstruction and Development („the Bank") for a USD 246 million loan to be drawn on through June 1997. As of 31 December 1995 USD 90.0 million had been drawn under the Agreement. The loan is to be used for specified power and environmental improvement projects. The 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 Agreement (7.07% at 31 December 1995) 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 15 August 1997 through 2007.

## 8. Nuclear Decommissioning and Waste-Fuel Disposal

ČEZ's operating nuclear plant, Dukovany, consists of four 440 MW units which were placed into service from 1985 to 1987. ČEZ is also constructing a second nuclear power plant, Temelín (see Note 11). The Company and the Czech government are in the process of defining roles and obligations for the decontamination and dismantling („decommissioning") of the Company's nuclear power plants and the final disposal of radioactive waste and spent fuel ("disposal"). Such roles and obligations will be established after final approval of a proposed new Nuclear Law.

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 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.

Prior to 1995 ČEZ had planned to fund its nuclear decommissioning and disposal cost liability beginning as of the effective date of a new Nuclear Law and continuing to the end of the plant operating period. The Company had assumed that its decommissioning and disposal funds would accrue interest and the amounts to be funded during the operating life plus earnings on the funds until decommissioning and disposal was completed would be adequate to cover the required costs. The currently proposed new Nuclear Law does not require the establishment of a separate fund to provide for decommissioning, therefore, in 1995 ČEZ began providing the gross costs required for decommissioning, on the straight line basis over the remaining operating period 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 approximately 70 years and cost Kč 26,000 million.

The costs estimated for waste fuel storage for Dukovany and Temelín, net of earnings on amounts to be funded, are being accrued based on MWhs produced by the nuclear plants. ČEZ estimates the disposal process will be completed by 2070 and cost Kč 74,000 million. The proposed Nuclear Law would require the Czech government to assume responsibility for final disposal of waste and spent nuclear fuel and require that ČEZ pay the government a fee based on nuclear generation. The Company will adjust its disposal cost provision after the Nuclear Law becomes effective.

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 1995 and 1994 (in millions of Kč):

| | Year-end Accumulated Provision | | | |
|---|---|---|---|---|
| | IAS | | Czech Law | |
| Estimate for: | **1995** | **1994** | **1995** | **1994** |
| Decommissioning | 4,414 | 3,386 | 2,087 | 949 |
| Waste fuel storage | 7,873 | 7,011 | 2,595 | 1,766 |
| **Total** | **12,287** | **10,397** | **4,682** | **2,715** |

| | Current Expense | | | |
|---|---|---|---|---|
| | IAS | | Czech Law | |
| Estimate for: | **1995** | **1994** | **1995** | **1994** |
| Decommissioning | 1,028 | 422 | 1,138 | 497 |
| Waste fuel storage | 917 | 914 | 883 | 952 |
| **Total** | **1,945** | **1,336** | **2,021** | **1,449** |

## 9. Short-term Loans

Short-term loans at 31 December 1995 and 1994 are as follows (in millions of Kč):

| | **1995** | **1994** |
|---|---|---|
| Revolving credit agreements | 6,499 | 400 |
| Short-term commercial paper | 1,733 | - |
| Short-term loans | 929 | 1,127 |
| **Total** | **9,161** | **1,527** |

ČEZ has in place the following revolving credit facilities:

| Credit Agreement | Balance 31 December 1995 | Credit Agreement Limit | Term |
|---|---|---|---|
| Multicurrency | 1,495 | USD 100 million | 3 years |
| Domestic | 4,604 | Kč 5,129 million | 9 years |
| Domestic | 400 | Kč 400 million | 1 year |
| **Total** | **6,499** | | |

Interest on these loans is variable and averaged 12.9% in 1995.
At 31 December 1995 100 million USD would have been equivalent to Kč 2,660.2 million.

## 10. Income Taxes

The Company's provision for income taxes is as follows (in millions of Kč):

| | 1995 | 1994 |
|---|---|---|
| Current income taxes | 6,338 | 6,871 |
| Deferred income taxes | 1,165 | 786 |
| **Total income taxes** | **7,503** | **7,657** |

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

| | 1995 | 1994 |
|---|---|---|
| Income before income taxes | 16,808 | 17,184 |
| Statutory income tax rate | 41% | 42% |
| "Expected" income tax expense | 6,891 | 7,217 |
| Add (deduct) tax effect of: | | |
| Czech/IAS accounting differences | (6) | (5) |
| Non deductible reserves | 869 | 511 |
| Other non deductible items | (158) | (55) |
| Tax credits | (1) | (2) |
| Adjustment of prior year deferred taxes | (33) | - |
| Difference resulting from using subsequent year tax rate for the calculation of deferred taxes | (59) | (9) |
| Income taxes | **7,503** | **7,657** |
| Effective tax rate | **45%** | **45%** |

## 11. Commitments and Contingencies

Construction Program

The Company is engaged in continuous construction programs, currently estimated to total Kč 86.2 billion over the next five years, as follows: Kč 24.4 billion in 1996, Kč 23.3 billion in 1997, Kč 17.8 billion in 1998, Kč 12.2 billion in 1999 and Kč 8.6 billion in 2000. In addition to the Kč 86.2 billion, pursuant to its IAS interest capitalization policy (see Note 2) the Company will capitalize approximately Kč 16.1 billion 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 Kč 40 billion for nuclear (including the Temelín nuclear power plant) and Kč 16.4 billion for environmental construction projects. At 31 December 1995 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. In connection therewith, the Company has obtained the following credit ratings: Moody's Investors Service - Baa1, Standard & Poor's - BBB and The Japan Bond Research Institute - A-. It is the opinion of management that the Company will be able to 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 Temelín nuclear power plant at 31 December 1995 is Kč 47.5 billion.

In mid 1995, the Company entered into new contracts with the primary Temelín contractor and with various sub-contractors. Some additional contract modifications will be required to reflect final design changes which are still in process. The new contracts reflect cost increases resulting from previous changes in construction requirements and delays in the construction schedule. The new contracts also provide for legal title to ČEZ, under current Czech Law, for all Temelín expenditures. Management expects that the total investment costs for the construction of the plant will be Kč 76 billion.

Initial testing of certain non-nuclear systems is scheduled to begin in the fall of 1996. With successful results, and subject to timely final approval of the proposed new Nuclear Law (see Note 8), the Company currently expects that the first unit of the Temelín nuclear power plant will begin fuel loading and related testing in the fall of 1997 and will be fully operational in the summer of 1998. The second unit should go into service approximately twelve to eighteen months later. Based on the current status of the plants construction, the Company does not expect 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.

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 Kč 77 million in 1995 and Kč 188 million in 1994. The Company provided Kč 305 million in 1995 and Kč 660 million in 1994 for pollution damages. At 31 December 1995 and 1994 its accumulated provision for past pollution damages totaled Kč 1,018 million and Kč 790 million, respectively.

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

In 1995 ČEZ entered into an agreement to insure Temelín construction and erection risks. The Company does not maintain insurance for any other risks (other than certain insurance required by Czech law for injuries incurred by employees while working). Under current Czech law, ČEZ, 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. Based on the results of risk inspections and studies now underway, and once appropriate legislation and a Czech insurance market are in place, the Company intends to obtain liability insurance for risks associated with its nuclear operations, and hazard and liability insurance with respect to other aspects of its business.

## Balance Sheets

| | 1995 Net Kč mln | 1994 Net Kč mln | 1993 Net Kč mln | 95/94 index % |
|---|---|---|---|---|
| **Total assets** | **138,174** | **116,928** | **97,232** | **118.2** |
| **B. Fixed assets** | **122,696** | **102,835** | **84,960** | **119.3** |
| B.I. Intangible fixed assets | 159 | 66 | 40 | 240.9 |
| B.II. Tangible fixed assets | 121,691 | 102,111 | 84,398 | 119.2 |
| B.III. Financial investments | 846 | 658 | 522 | 128.6 |
| **C. Current assets** | **15,347** | **14,014** | **12,171** | **109.5** |
| C.I. Inventory | 8,047 | 6,855 | 6,308 | 117.4 |
| C.II. Long-term receivables | 142 | 149 | 97 | 95.3 |
| C.III. Short-term receivables | 4,727 | 5,215 | 3,098 | 90.6 |
| C.IV. Financial property | 2,431 | 1,795 | 2,668 | 135.4 |
| **D. Other assets - temporary assets accounts** | **131** | **79** | **101** | **165.8** |
| D.I. Accrued assets | 124 | 74 | 95 | 167.6 |
| D.II. Contingent assets | 7 | 5 | 6 | 140.0 |

| | 1995 Kč mln | 1994 Kč mln | 1993 Kč mln | 95/94 index % |
|---|---|---|---|---|
| **Total liabilities** | **138,174** | **116,928** | **97,232** | **118.2** |
| **A. Capitalization** | **90,294** | **81,774** | **72,933** | **110.4** |
| A.I. Stated capital | 59,131 | 58,973 | 58,873 | 100.3 |
| A.II. Capital funds | 1,208 | 806 | 795 | 149.9 |
| A.III. Profit funds | 7,136 | 6,557 | 5,986 | 108.8 |
| A.IV. Retained earnings | 14,754 | 6,549 | | 225.3 |
| A.V. Net income | 8,064 | 8,889 | 7,279 | 90.7 |
| **B. External sources** | **46,005** | **34,020** | **23,699** | **135.2** |
| B.I. Reserves | 8,668 | 6,522 | 4,597 | 132.9 |
| B.II. Long-term liabilities | 15,318 | 10,821 | 2,408 | 141.6 |
| B.III. Current liabilities | 4,916 | 5,323 | 2,305 | 92.4 |
| B.IV. Bank credits and aids | 17,103 | 11,354 | 14,390 | 150.6 |
| **C. Other liabilities - temporary liabilities accounts** | **1,875** | **1,133** | **599** | **165.6** |
| C.I. Accrued liabilities | 1,097 | 795 | 256 | 138.1 |
| C.II. Contingent liabilities | 778 | 338 | 343 | 230.2 |

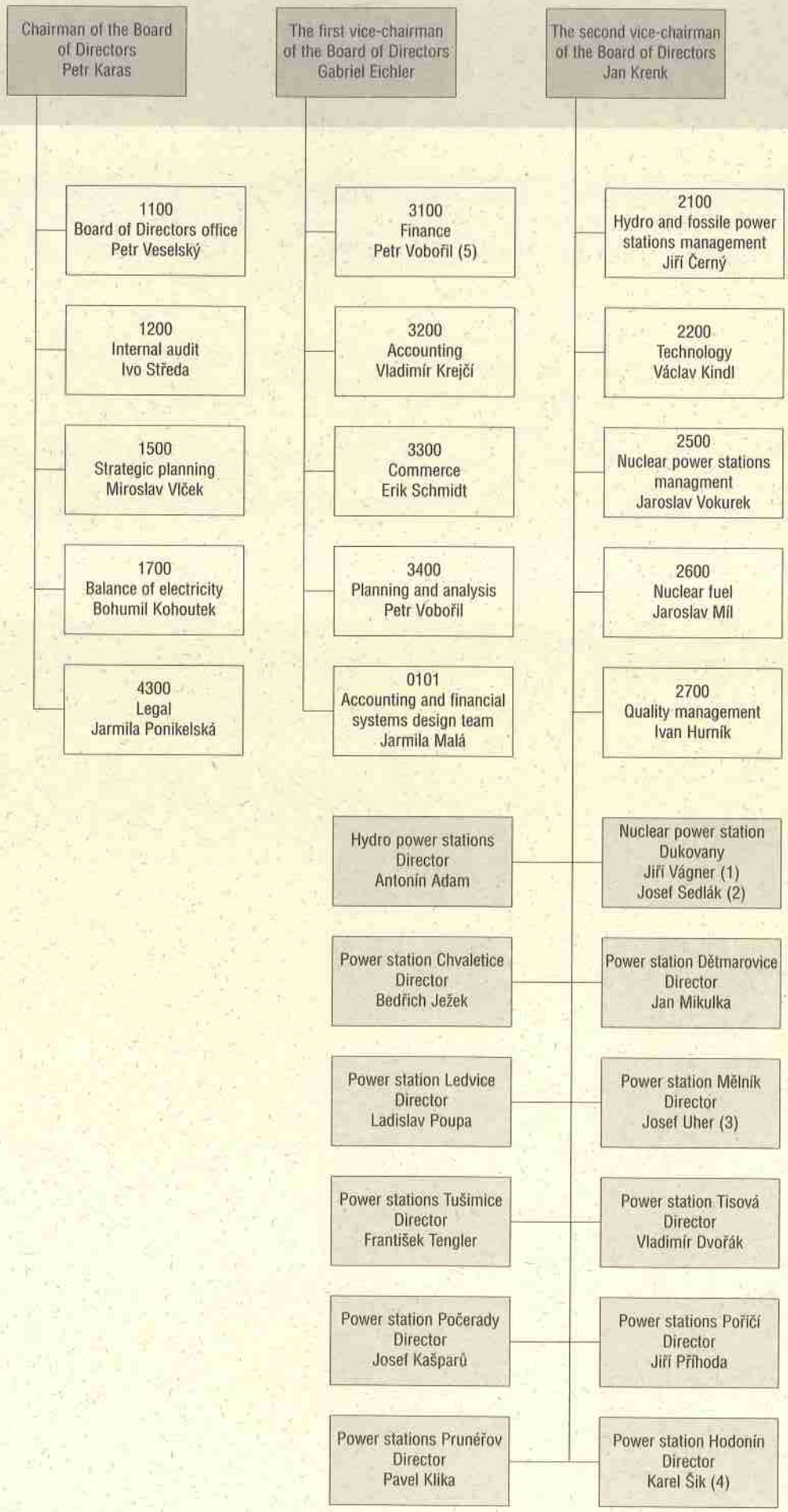
## Profit and Loss Statements

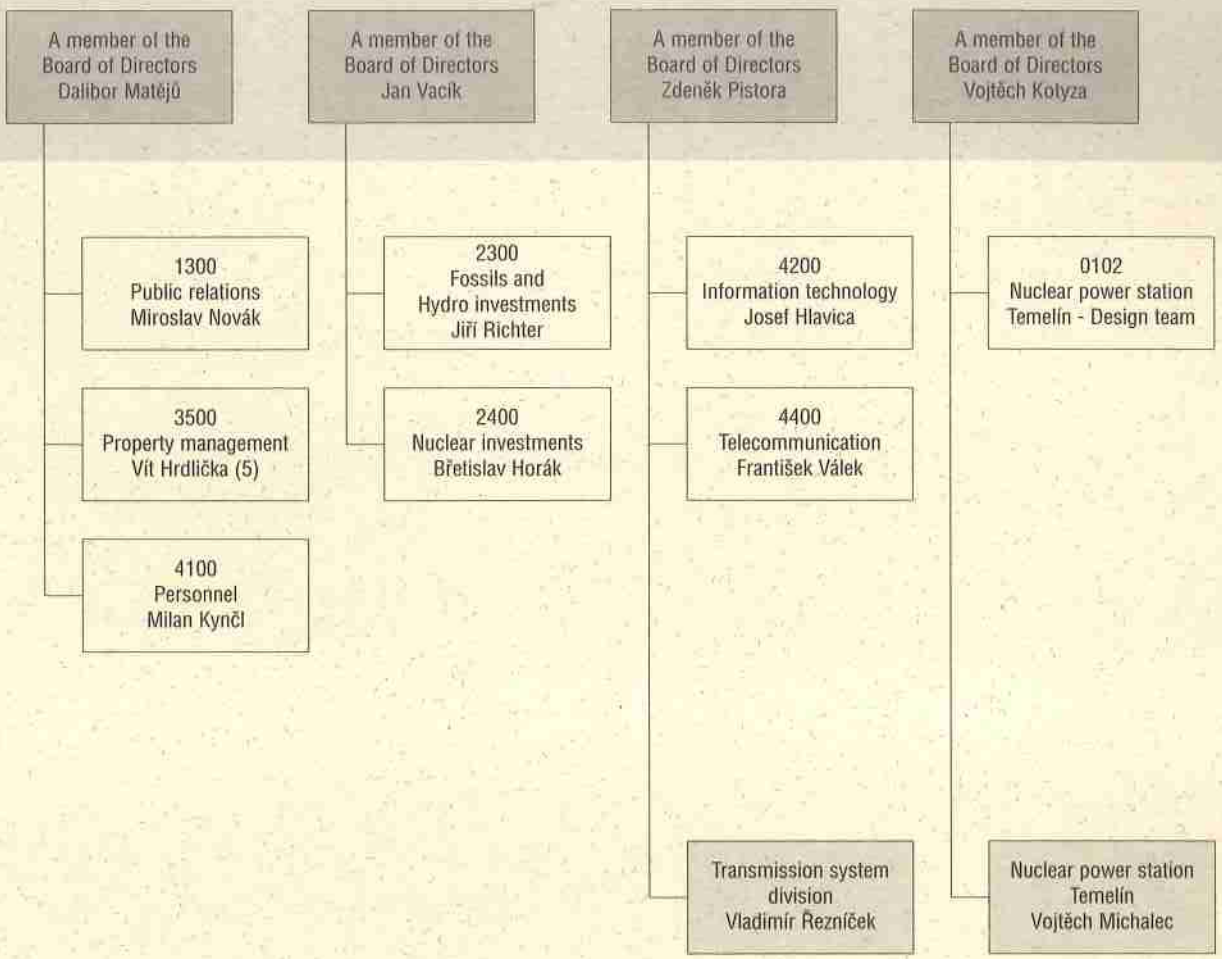
| | 1995 | 1994 | 1993 | 95/94 index |
|---|---|---|---|---|
| | Kč mln | Kč mln | Kč mln | % |
| **Total revenues** | **54,096** | **52,162** | **50,829** | **103.7** |
| **Sales of electricity** | **47,423** | **46,162** | **46,801** | **102.7** |
| Power distribution joint-stock companies | 44,851 | 43,828 | 43,875 | 102.3 |
| export | 2,039 | 2,090 | 2,700 | 97.6 |
| other sales of electricity | 533 | 244 | 226 | 218.4 |
| **Sales of heat** | **1,262** | **1,129** | **1,060** | **111.8** |
| **Draws on reserves** | **2,102** | **2,199** | **1,638** | **95.6** |
| **Other sales** | **3,309** | **2,672** | **1,330** | **123.8** |
| | | | | |
| **Total expenses** | **39,313** | **35,974** | **34,079** | **109.3** |
| **Production consumption** | **23,786** | **22,291** | **19,414** | **106.7** |
| fuel | 11,993 | 11,523 | 11,227 | 104.1 |
| materials | 1,326 | 1,448 | 1,246 | 91.6 |
| purchased power | 4,985 | 4,748 | 3,601 | 105.0 |
| repairs and maintenance | 3,291 | 2,407 | 1,770 | 136.7 |
| other production consumption | 2,191 | 2,165 | 1,570 | 101.2 |
| **Personnel expenses** | **2,405** | **2,029** | **2,026** | **118.5** |
| **Taxes and fees** | **715** | **1,018** | **792** | **70.2** |
| **Other operational costs** | **680** | **732** | **2,488** | **92.9** |
| **Deprecitation** | **4,598** | **3,918** | **3,689** | **117.4** |
| **Creation of reserves** | **4,250** | **4,124** | **3,783** | **103.1** |
| **Financial expenses** | **2,593** | **1,447** | **647** | **179.2** |
| **Unusual expenses** | **51** | **125** | **183** | **40.8** |
| **Other expenses** | **235** | **290** | **1,057** | **81.0** |
| | | | | |
| **Pre-tax profit** | **14,783** | **16,188** | **16,750** | **91.3** |
| Income tax | 6,719 | 7,299 | 9,471 | 92.1 |
| **Net income** | **8,064** | **8,889** | **7,279** | **90.7** |

**Statements of Cash Flows (Kč mln)**

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| **P. Cash at beginning of year** | **1,754** | **2,631** | **1,169** |
| **A. Net cash provided by current and unusual activities** | **21,214** | **13,596** | **16,813** |
| of that, - Net income | 8,064 | 8,889 | 7,279 |
| - Depreciation of fixed assets | 4,608 | 3,981 | 5,535 |
| - Changes in reserve balance | 2,147 | 1,925 | 2,144 |
| - Change in receivables | 495 | (2,167) | 1,057 |
| - Changes in current liabilities | 6,285 | 1,091 | 718 |
| - Changes in inventory | (1,192) | (561) | (968) |
| **B. Investment activities** | **(24,448)** | **(21,612)** | **(19,053)** |
| of that, - Purchase of tangible fixed assets | (24,467) | (21,761) | (19,156) |
| **C. Financial activities** | **3,910** | **7,139** | **3,702** |
| of that, - Changes in long-term credits | (944) | (1,109) | 2,293 |
| - Increase in bond liabilities | 4,000 | 4,000 | 2,100 |
| - Increase in other long-term liabilities | 497 | 4,413 | 0 |
| **A. + B. + C. - Total changes in cash** | **676** | **(877)** | **1,462** |
| **R. Cash at end of year** | **2,430** | **1,754** | **2,631** |

# Organizational Structure of ČEZ, a. s., as of December 31, 1995






*(1) Technical Director*
*(2) Financial and Administration Director*
*(3) until December 31, 1995 - since January 1, 1996 Karel Šik*
*(4) until December 31, 1995 - since January 1, 1996 Ludvík Trávník*
*(5) temporarily in charge of*

Annual Report

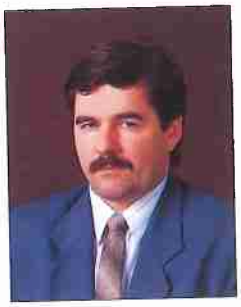
# Directory of Organizational Units

**Headquarters:**

ČEZ, a. s.
Hlavní správa
Jungmannova 29
111 48 Praha 1
Tel.: 42-2/2408 1111
Fax: 42-2/2408 2440

**Transmission System Division:**
Director Aleš Tomec

ČEZ, a. s.
Divize přenosové soustavy
Jungmannova 29
111 48 Praha 1
Tel.: 42-2/2408 1111
Fax: 42-2/2408 2266



**Dukovany Nuclear Power Station:**
Technical Director Jiří Vágner
Financial and Administration Director Josef Sedlák

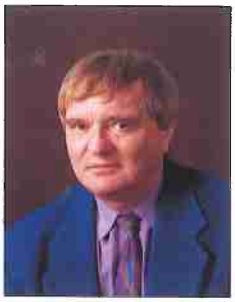
ČEZ, a. s.
Jaderná elektrárna Dukovany
675 50 Dukovany
Tel.: 42-509/601111
Fax: 42-509/922390

**Temelín Nuclear Power Station:**
Director Vojtěch Michalec

ČEZ, a. s.
Jaderná elektrárna Temelín
373 01 Temelín
Tel.: 42-334/422 1111
Fax: 42-334/227 90

**Hydro Power Stations:**
Director Antonín Adam

ČEZ, a. s.
Vodní elektrárny
252 07 Štěchovice
Tel.: 42-2/994 1088 - 90
Fax: 42-2/994 1308



**Tisová Power Station:**
Director Vladimír Dvořák

ČEZ, a. s.
Elektrárna Tisová
Poštovní přihrádka 98
356 69 Sokolov 1
Tel.: 42-168/623 271 - 4
Fax: 42-168/624 035

**Mělník Power Station:**
Director Karel Šik

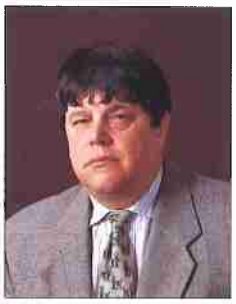
ČEZ, a. s.
Elektrárna Mělník
277 03 Horní Počaply
Tel.: 42-206/61 1111
Fax: 42-206/62 6840

**Prunéřov Power Stations:**
Director Pavel Klika

ČEZ, a. s.
Elektrárny Prunéřov
432 01 Kadaň
Tel.: 42-398/631 111
Fax: 42-398/2795

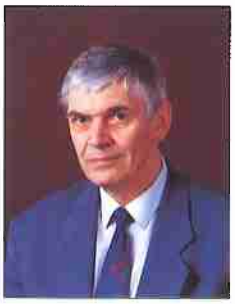
**Chvaletice Power Station:**
Director Bedřich Ježek

ČEZ, a. s.
Elektrárna Chvaletice
533 12 Chvaletice
Tel.: 42-40/683 1111
Fax: 42-40/683 2600



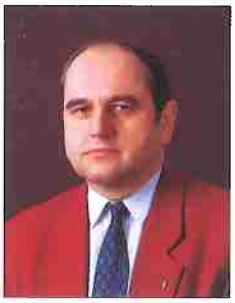
**Tušimice Power Stations:**
Director František Tengler

ČEZ, a. s.
Elektrárny Tušimice
432 01 Kadaň
Tel.: 42-398/62 1111
Fax: 42-398/62 3880



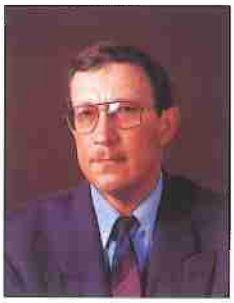
**Poříčí Power Stations:**
Director Jiří Příhoda

ČEZ, a. s.
Elektrárny Poříčí
541 37 Trutnov
Tel.: 42-439/806 111
Fax: 42-439/806 199



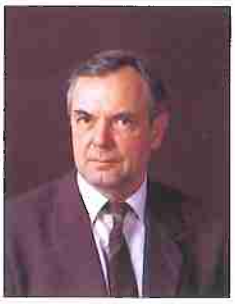
**Počerady Power Station:**
Director Josef Kašparů

ČEZ, a. s.
Elektrárna Počerady
439 44 Počerady
Tel.: 42-397/3080 - 9
Fax: 42-397/4573



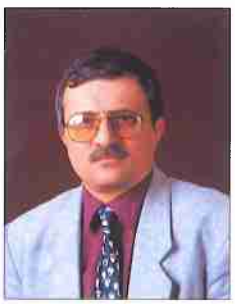
**Hodonín Power Station:**
Director Ludvík Trávník

ČEZ, a. s.
Elektrárna Hodonín
U elektrárny 1
695 23 Hodonín
Tel.: 42-628/529 111
Fax: 42-628/238 14



**Ledvice Power Station:**
Director Ladislav Poupa

ČEZ, a. s.
Elektrárna Ledvice
418 48 Bílina
Tel.: 42-417/925 461 - 5
Fax: 42-417/925 644



**Dětmarovice Power Station:**
Director Jan Mikulka

ČEZ, a. s.
Elektrárna Dětmarovice
735 71 Dětmarovice
Tel.: 42-69/6582 111
Fax: 42-69/6511 301