ANNUAL REPORT 1997

ČEZ POWER COMPANY

1997

ČEZ is a Czech electrical power company whose primary activities involve the production and transmission of electricity. Its secondary activities include the production and distribution of heat and processing of secondary products generated during the production of electricity and heat.

Within the framework of ČEZ's business activities, the company has initiated a series of other pursuits significantly related to the main activities (energy sales, alternative resources, design and development activities, advisory and consulting activities, etc.).

The core business of electricity production accounts for 93.2% of ČEZ's revenues, whereas revenues from heat-related activities account for 2.3%.

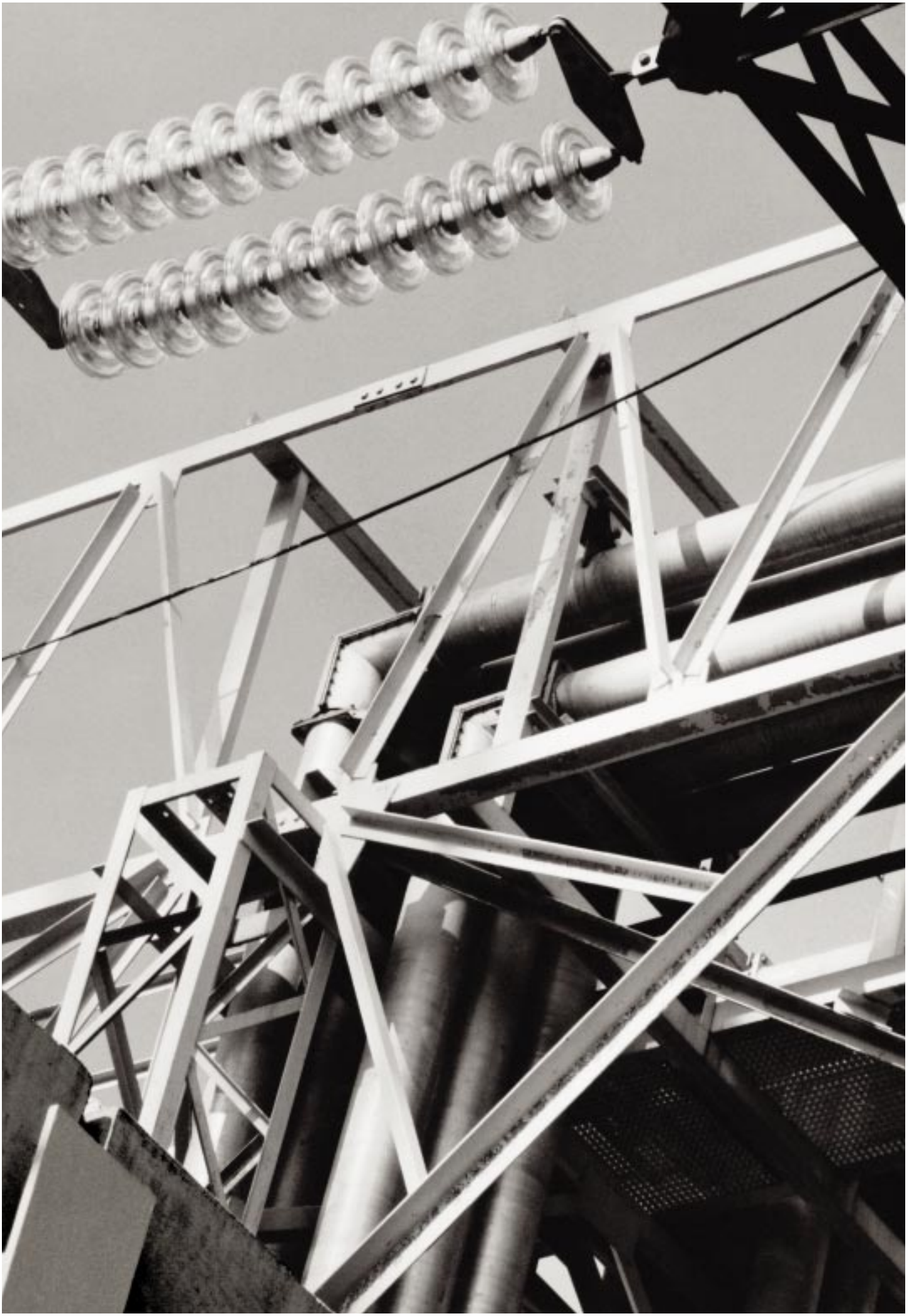
ČEZ has a dominant position within the local market in the generation of electricity (74.3% of overall electricity production) and a natural monopoly on its distribution through ČEZ's transmission system.

ČEZ's share in fulfilling total electricity demand in the Czech Republic decreased from 80% in 1996 to 78.2% in 1997.

The export of electrical energy (6.9% of total provided electricity) is based on three long-term contracts, supplemented by short-term and one-off exports. On an international scale, ČEZ does not rank among prominent exporters.

The import of electrical energy (2.9% of total provided electricity) is undertaken based on electrical system requirements, such as meeting demand during winter months.

A predominant proportion of electrical supply is directed to regional distribution companies (92.1%), which subsequently deliver it to the end users. The proportion of electrical energy supplied directly to customers is less than 1%.



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GRAPHIC SUPPLEMENT

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CZECH REPUBLIC	Unit	1995	1996	1997
Installed capacity as of Dec. 31	MW	13,793	14,937	15,073
Peak loading	MW	10,415	10,814	10,814
Date of peak loading		6. 12.	25. 1.	7. 1.
Production of electrical energy	GWh	60,847	64,257	64,598
ČEZ, a. s.				
Installed capacity as of Dec. 31	MW	10,184	10,999	10,999
Production of electrical energy	GWh	46,361	48,266	48,008
Production of heat	TJ	15,764	16,447	15,112
Operating revenues	Kč mln	50,639	55,385	54,991
of which, sales of electricity and heat	Kč mln	48,685	53,494	52,797
Operating expenses	Kč mln	33,476	39,280	42,150
Income before taxation	Kč mln	16,808	15,646	9,475
Net income	Kč mln	9,305	9,707	5,256
Earnings per share	Kč per share	173	180	97
Construction expenditures	Kč bln	29.3	27.1	23.6
At year - end				
Total assets	Kč mln	140,592	163,478	177,722
Number of employees		11,664	11,280	11,157
Price - earnings ratio *		5.6	5.4	11.5
Debt to equity ratio		0.39	0.43	0.47
Current ratio		0.48	0.54	0.68
Return on equity *	%	11.79	10.99	5.49

** Based on net income*

Important note:

All economic results are based on International Accounting Standards (IAS); the results thus differ from the Czech version of the 1997 ČEZ Annual Report.

Balance Sheet (Kč mln)

	1995	1996	1997
Assets			
Total property, plant and equipment	129,947	149,592	163,965
Net plant in service	46,393	67,757	84,486
Nuclear fuel, at amortized cost	4,656	4,721	4,599
Construction work in progress	78,898	77,114	74,880
Other noncurrent assets, net	1,005	1,226	1,737
Total current assets	9,640	12,660	12,020
Total assets	**140,592**	**163,478**	**177,722**
Equity and liabilities			
Total equity	83,521	93,150	98,445
Total long-term liabilities	37,022	46,880	61,633
Total current liabilities	20,049	23,448	17,644
Total equity and liabilities	**140,592**	**163,478**	**177,722**

Statements of Income and Retained Earnings (Kč mln)

	1995	1996	1997
Operating revenues	50,639	55,385	54,991
Operating expenses	33,476	39,280	42,150
Income before income taxes	16,808	15,646	9,475
Income taxes	7,503	5,939	4,219
Net income	9,305	9,707	5,256
Retained earnings, end of period	24,390	33,994	39,250
Average number of shares outstanding	53,885	53,970	53,977
Net income per share	173	180	97

Important note:

All economic results are based on International Accounting Standards (IAS); the results thus differ from the Czech version of the 1997 ČEZ Annual Report.

Dear Friends,

ČEZ power company last year celebrated the fifth anniversary of its establishment. Throughout this period we have fulfilled our main mission - to provide our customers with electrical energy and other related services in a reliable and economically feasible manner. This reliability was not affected by the tragic July flooding, which struck Moravia and the eastern part of Bohemia, despite its negative effects on ČEZ's operations. Our commitment towards creditors and suppliers has been met duly and exactly. We have advanced significantly in the fulfillment of our entrepreneurial objectives. Our investment program, related to coal-powered stations and focused on the construction of desulphurization facilities and the overall upgrading of these resources, is striding towards its completion. Already more than three-quarters of electricity produced by the company originates from sources which comply with air protection law requirements. By year end, all of our power stations will be in compliance with these requirements.

The Company's financial results during 1997 were significantly influenced by two significant changes. The first was that demand for electricity decreased after three years of increases. The other factor was the abrogation of the fixed exchange rate regime for the Czech Crown, followed by its depreciation.

Electricity demand in the Czech Republic during 1997 decreased 1.8 % compared to 1996, to a level of 53.2 TWh. This was caused by a relatively low increase in the gross domestic product of the Czech Republic, as well as by warmer than normal weather. ČEZ was well prepared for long-lasting periods of temperatures below freezing, as was the case during previous years. Actual electricity consumption in industrial sectors was 2.3 % lower than forecasted, and 4.3 % lower in households, largely due to temperature effects.

ČEZ successfully completed the pilot operation of the synchronous interconnection to the western European system UCPTE in September 1997. The UCPTE general assembly approved the long-term interconnection of ČEZ's networks at the end of April 1998. Based on previous positive results, the company filed an official application to become part of the UCPTE system. As a result, our customers in the Czech Republic are provided with electricity of the same quality as that obtained by western European customers and ČEZ became part of the European power field.

The overall condition of the Company and its financial state are good. The Company's finances could, however, be negatively influenced if final electricity prices and other system service prices for ČEZ's customers are not established quickly enough by the regulatory body. Profit before taxes was 9.5 billion CZK. Profit after taxes reached the value of 5.3 billion CZK, 46 % less than in 1996. A profit decrease is in line with our long-term predictions and is directly related to increasing depreciation and amortization costs, as well as other factors, but this big decrease represents a warning. We have reacted to this development by lowering operating costs and saved approximately 3.5 billion CZK in comparison with the annual budget. However, a negative development in the financial area, namely the depreciation of the Czech Crown, has practically offset this step. We have created a reserve in the amount of 2.1 billion CZK during the last year for unrealised exchange rate losses.

Total expenses were 42.2 billion CZK and increased by approximately 7.3 % when compared to the previous year. This was due to the creation of reserves for unrealised exchange rate losses, continuing increase of input prices, taxes and fees. The increase in depreciation and amortization costs, related to the start of operation of new investments, is very favorable from the point of view of available financial resources. Their amount is still very low, because of the historically low book value of fixed company assets in relation to their replacement value.

Total revenues reached 55 billion CZK, which is 0.7 % less than in the previous year. This was caused by lower electricity consumption in the Czech Republic and the long-term, inappropriately low regulated electricity prices between ČEZ and the distribution companies. This problem, which is not being addressed, continues to burden the management of ČEZ, as well as the distribution companies. The transfer price between ČEZ and distribution companies increased by less than 2% since 1994, when it was at its lowest value, and reached an average value of 1,048 CZK / MWh in 1997.

Strides have been made in relationships with our valued customers - distribution companies. Agreements with these customers were reached before the end of the third quarter of 1997. This meant that for several months we were supplying electricity to a group of our customers without a proper contractual arrangement. This, however, did not affect the quality of supply . Compared to previous years, this can be considered a significant improvement. A large part of this accomplishment was due to the increased effort of both parties responsible for the establishment of prices, the Ministry of Industry and Trade of the Czech Republic and the Ministry of Finance of the Czech Republic, since they had established the regulated transfer prices for 1997 already in April 1997.

Total indebtedness at the end of 1997 was 33.8 % of total assets, whereas long-term indebtedness was 24.1 %. Company financing was ensured gradually during the entire course of 1997. This was partially caused by ČEZ's second successful foray into the international capital markets. An issue of bonds on the American market

(so-called Yankee Bonds) with a value of 200 million USD, with a 10-year maturity period, took place in July. At the same time, ČEZ hedged this issue to protect against exchange rate and interest rate risks. ČEZ thus became the first enterprise located in Central and Eastern Europe with a fully registered bond issue on this market. The remaining financing of the Temelín Nuclear Power Plant construction was succesfully completed with a USD 372 million loan. The loan was obtained from a consortium of banks led by Citibank London and Generale Bank Brussels, guaranteed by the EXIM Bank of the United States of America, Belgian Office National du Decroire and the Czech government. This loan was signed in 1996 but was only drawn down in the first half of 1997.

The creditworthiness of ČEZ has been verified by the confirmation of credit ratings equal to BBB+ with a positive outlook from Standard and Poor's and Baa1 from Moody's. This excellent evaluation allows ČEZ to obtain external financial resources for its extensive investment program.

We can report another successful entrepreneurial year by meeting our entrepreneurial objective: being an environmentally friendly electrical energy producer. In 1997, our desulphurization and upgrade program advanced far enough to allow us to produce more than three-quarters of electricity in an environmentally-friendly manner. Sulphur dioxide emissions have been lowered by more than 60 % compared to 1992. All of the remaining power stations, which will continue to be in operation after 1998, will be desulphurized during this year. We will fully meet all requirements of the air pollution control law.

The interim spent-fuel storage facility with a capacity of 600 tons in the Dukovany Nuclear Power Station has been successfully completed. Spent fuel is presently safely and reliably stored in the facility. Thousands of visitors have been convinced that the chosen storage method is of a high safety level.

The completion and operation of the Temelín Nuclear Power Station plays a significant role in the improvement of the environment and the modernization of Czech power stations. The challenging nature of this project, due to the requirement to increase the overall nuclear safety level of the future plant, continues to cause delays of individual construction deadlines. This results in the delay of the construction completion, accompanied by increasing pressure on the suppliers' budget. The last budgetary and time schedule analyses for the completion of construction of the Temelín Nuclear Power Station were carried out in the spring of 1998. At the same time, negotiations between ČEZ and sub-contractors took place with the objective of reaching a contractual agreement on the completion date and final expenditures. According to the above analyses, the expenditures related to the construction of the Temelín Nuclear Power Station will reach 98.6 billion CZK and the date for nuclear fuel charging into the 1st unit was set for August 2000. If the above resolution is achieved, the commercial operation of the 1st unit could be initiated in May 2001. The interval between the start of operation of the 1st and 2nd unit is 18 months. Analyses are being developed in order to evaluate the possibility of a shorter interval.

The protection of individual new facilities through insurance agreements is related to the manner in which the facilities are put into operation. During 1997, ČEZ completed its negotiations in the area of property and damage insurance. An agreement, valid as of June, was finalised for the insurance of coal and hydro power station property, whereas the damage insurance agreement will be valid as of July. The transmission system property insurance agreement was negotiated in November. With respect to the so-called "Nuclear Law", an agreement with the Czech Nuclear Pool, signed in December, relates to the insurance of legal liability for damages related to the operation of the Dukovany Nuclear Power Station. Agreements for the insurance of liability risks during the transportation of nuclear materials have been gradually negotiated with the Czech Nuclear Pool. These steps have significantly contributed to the protection of company property against damages, increasing the confidence of company shareholders.

In January 1998, an extraordinary general meeting took place by request of the National Property Fund, which is the majority shareholder of ČEZ. The ratified modification of Company statutes strengthened the direct influence of shareholders on Company management and completed the activities of previous company bodies. A new Board of Directors and Supervisory Board were selected during the shareholder meeting. The Board of Directors decided to make changes in Company management and transferred the executive directorship in its full extent onto the General Director and his deputies.

I would like to express my sincere thanks to all members of the previous Board of Directors, members of the Supervisory Board, as well as all Company employees. None of the above achievements would have been possible without their hard work and commitment.

Petr Karas

MAIN EVENTS OF 1997

January

Equalization with the year 1996 of the highest load on the Czech power system in history - 10,814 MW
Signed a 20-year contract with RIGIPS joint stock company regarding the supply of gypsum from the Mělník Power Station for the production of drywall sheets

March

Launched a pilot operation of desulphurization equipment on all four units of the Tušimice II Power Station (four 200 MW units)
Launched a pilot operation of the first fluidized-bed boiler in the Poříčí Power Station
Attained a permit for permanent utilization of the interim storage facility for spent nuclear fuel in the Dukovany Nuclear Power Station

April

The Czech Ministry of Finance issued an assessment, specifying the differentiated electricity delivery prices in the tariff structure for 1997 between ČEZ and individual distribution companies
Hosted the CENTREL meeting
Established the Central Electrical Energy Control Center of the Czech Republic with 16 independent producers, eight regional distribution companies and the Czech Ministry of Industry and Trade
Introduced a cash-pooling system for payments in foreign currencies in co-operation with CITIBANK

May

Established the positions of ČEZ General Director and Executive Directors
Celebrated the fifth anniversary of the establishment of ČEZ
Initiated transportation of nuclear fuel to the Temelín Nuclear Power Plant

June

Signed insurance contract for ČEZ coal power stations and hydro-electric power stations

July

Issued 10-year bonds (Yankee Bonds) on the American stock market in the amount of 200 million USD, becoming the first Central and Eastern European company with a fully-registered issue

August

Launched a pilot operation of the second fluidized-bed boiler in the Hodonín Power Station
Launched a pilot operation of the second fluidized-bed boiler in the Tisová I Power Station

September

Launched a pilot operation of the desulphurization facility of unit No. 6 (100 MW) in the Tisová II Power Station

October

Concluded a two-year pilot operation and initiated the permanent operation of the CENTREL and UCPTE interconnected systems. At the same time, ČEZ filed a UCPTE membership application.
Opened the Temelín Nuclear Power Station's new information center located in the reconstructed Vysoký Hrádek castle
Signed a 10-year contract for the supply and consumption of electricity between Vřesová Steam-Gas Power Station and Sokolovská uhelná, a.s.
Connected to money and stock markets through REUTERS

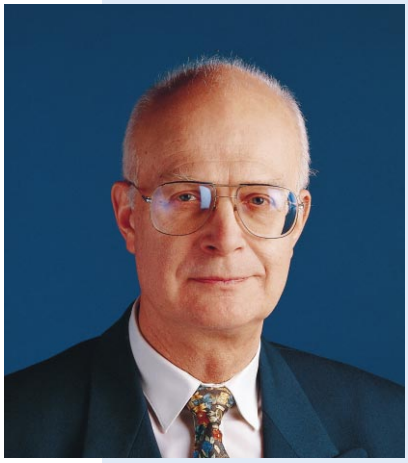
November

Signed an insurance contract for the transmission system

December

Signed a long-term contract for future purchase contracts on the supply of lignite with Severočeské doly, a. s.
Signed insurance contract with the Czech Nuclear Pool regarding legal liability for nuclear damages of the Dukovany Nuclear Power Station
Launched a pilot operation of the desulphurization facility of units No. 3 and 4 (two 200 MW units) in the Chvaletice Power Station

Ing. Petr KARAS, CSc.



born 1941
Chairman of the Board of Directors since October 19, 1992. Chief Executive Officer of ČEZ from May 1, 1997 until January 29, 1998

A graduate of the Faculty of Electrical Engineering at the Czech Technical University, Mr. Karas studied organization, economics and management of the power industry. He did his postgraduate studies in methods of operational analysis and held a scientific research post in the generation and distribution of electric energy. He worked for 10 years in operation, maintenance and operation economics at the Tušimice and Počerady Power Stations, and 16 years in planning and power-station system-maintenance economics at the General directorate of the Czech Power Company. He has been General Director of the Czech Power Company since 1990. He is Vice-Chairman of the Czech Confederation of Power Industry Employers and Vice-President of the Confederation of Industry of the Czech Republic. He was awarded the title "Manager of the year" in 1994. As of December 31, 1997 he owned 30 ČEZ shares with a nominal value of 1,100 CZK.

Gabriel EICHLER

born 1950
Vice-Chairman of the Board of Directors since April 24, 1994, since January 1, 1997 he has not been part of the executive management of the Company.

Mr. Eichler is a graduate of Brandeis University, the University of Chicago and the University of Toronto, studying economics and international relations. He worked for 15 years at the Bank of America. During this time he was General Manager in several countries and regions of Europe, as well as Vice President and Chief International Economist with the Bank's operations in San Francisco, USA. He served as Vice-President for one year at the Central European Development Corporation. He is also the founder and Managing Director of the investment and consultancy company Benson Oak. Mr. Eichler served as Vice-Chairman of the Supervisory Board of Československá obchodní banka from June 6, 1994 until May 26, 1997. He is a member of the Supervisory Board of Česká pojišťovna and the member of the Board The Institute for East West Relations.. As of December 31, 1997 he was not a holder of any ČEZ shares.

Ing. Jan VACÍK, MBA

born 1951
Member of the Board of Directors since June 15, 1994. Vice-Chairman from January 20, 1997 until January 29, 1998. Since January 29, 1998 he has been a member of the Board of Directors and the Chief Executive Officer of ČEZ.
From May 1, 1997 to January 29, 1998, Mr. Vacík acted as Executive Director of ČEZ, responsible for development and capital construction (with the exception of the Temelín Nuclear Power Plant), data management and telecommunications.

Mr. Vacík is a graduate of the Faculty of Electrical Engineering of the Czech Technical University where he studied heavy-current electrical engineering and did postgraduate study in the transmission and distribution of electric energy. In 1995 he finished an MBA program at the Prague International Business School. Mr. Vacík worked for three years in the Technical Division of Electromontážní závody Praha in the development of industrial automation equipment. He spent 11 years in various posts in the Design and Technical Divisions at Energovod Praha. In 1990 he became Manager of the Design Division at Energovod Praha. As of December 31, 1997 he was not a holder of any ČEZ shares.

JUDr. Petr FIŠER

born 1964
Member of the Board of Directors since January 29, 1998 and current Vice Chairman since February 25, 1998

Mr. Fišer is a graduate of the Law School of Charles University in Prague. From 1990 to 1993 he worked at the Ministry of the Administration of National Property and its Privatization of the Czech Republic, initially as the Director of the Restitution Division and later as the Director of the Juridical and Restitution Division. After the dissolution of the Ministry of the Administration of National Property and its Privatization of the Czech Republic, Mr. Fišer took a post at the Ministry of Finance, where he was employed in the position of Chief Director and later, till February 1998, was Deputy Finance Minister. Mr. Fišer is a member of the Supervisory Board of the Restitution Investment Fund. As of December 31, 1997 he was not a holder of any ČEZ shares.

Ing. Vladimír MENŠÍK

born 1955
Member of the Board of Directors since January 29, 1998

Mr. Menšík is a graduate of the Electrical Engineering Faculty at the Czech Technical University, where he specialized in the field of economics and also management of the energy industry. He worked at ČKD Elektrotechnika as the Director of the Computer Center and later at Komerční banka. He was also the Director of the Third Health Center in Prague 10. Since 1995 he has been working at the National Property Fund as a Director of a regional department. Mr. Menšík was not a holder of ČEZ shares as of December 31, 1997.

Ing. Ondřej SCHNEIDER

born 1964
Member of the Board of Directors since January 29, 1998

Mr. Schneider is a graduate of the University of Economics in Prague and Cambridge University in Great Britain in the economics field. From 1989 he was a research worker at the Forecast Institute of Czechoslovak Academy of Sciences, later known as the National Economy Institute of the Czech Academy of Sciences. From October 1994 until June 1996, Mr. Schneider worked as an advisor to the Minister of Economy in the field of Public Finances and Deregulation of Telecommunications. Between August 1996 and February 1998 he was an advisor to the Minister of Industry and Trade in the field of macroeconomics, public finances and regulation of network industries. Mr. Schneider lectures at the Institute of Economic Studies at the Faculty of Social Sciences since 1996. He is a member of the Czech Economic Society and a member of the European and American Economic Association. As of December 31, 1997 he was not a holder of any ČEZ shares.

Vít ŠTĚPÁNEK

born 1961
Member of the Board of Directors since January 29, 1998

Mr. Štěpánek is a graduate of the University of Economics in Prague and completed postgraduate studies at the Economics Institute of the Czechoslovak Academy of Sciences. Since 1984, Mr. Štěpánek worked for seven years as a research worker at the Economics Institute of the Czechoslovak Academy of Sciences. Then he spent one year at the Ministry of Economic Policy and Development of the Czech Republic as an advisor / personal assistant to the Minister. Between 1992 and 1996 Mr. Štěpánek worked at the Ministry of Economy of the Czech Republic as a Director of the Minister's Office. He has been active as an independent consultant since September 1996. Mr. Štěpánek is a member of the Board of Directors of the investment fund CORUS Progres investiční společnost and the Chairman of the Board of Directors of agency Metropolis Media. As of December 31, 1997 he was a holder of 20 shares of ČEZ, with a nominal value of 1,100 CZK.

Ing. Vojtěch KOTYZA

born 1941
Member of the Board of Directors from October 15, 1994 until January 29, 1998. Since May 1, 1997 he has been Executive Director of ČEZ in the division for the construction of the Temelín Nuclear Power Station and Vice Director until March 31, 1998.

Mr. Kotyza is a graduate of the Mechanics Faculty at Mechanical Engineering College, where he studied thermal power equipment. He did four postgraduate studies focusing on heat transmission, modern engineering technology, systems engineering and nuclear power. Mr. Kotyza worked for three years at the Most Power Stations (Komořany, Ervěnice) as a machine room technician. He spent six years at the Pilsen Škoda Works, first as a calculation analyst and later as a designer at the nuclear power station works. From 1972 to 1978, he worked with Škoda General Management as a member of the team for the comprehensive development of the enterprise. From 1978 to 1994 he worked with Škoda Praha, where he headed the commissioning of the Dukovany Nuclear Power Station for seven years as Head of the Technical Assistance Department and Director of the Nord Nuclear Power Station construction in former East Germany. He also served as Director of the Nuclear Division from 1991 to 1994. As of December 31, 1997 he was the owner of 10 ČEZ shares with a nominal value of 1,000 CZK.

Ing. Jan KRENK

born 1951
Second Vice-Chairman of the Board of Directors from May 1, 1994 to February 22, 1996. Re-elected as a member of the Board of Directors on July 24, 1996. He ended his activities on the Board of Directors on January 29, 1998. Since May 1, 1997 he has been Executive Director of ČEZ for Production and Company Vice Director.

Mr. Krenk is a graduate of the Nuclear and Physical Engineering Faculty at the Czech Technical University, where he studied nuclear reactors. He did postgraduate studies in the operation of classic power stations. He worked for six years in various operational posts at Chvaletice Power Station and eight years at Dukovany Nuclear Power Station where he became Director in 1990. From 1993 to 1994 he was Director of ČEZ's Nuclear Power Section and later became Director of the Nuclear Power Division. Mr. Krenk has been member of the Supervisory Board of the Kotouč Štramberk company. As of December 31, 1997 he was the owner of six ČEZ shares with a nominal value of 1,100 CZK.

Ing. Ludmila PETRÁŇOVÁ

born 1946
Member of the Board of Directors from February 22, 1996 to January 29, 1998. Since May 1, 1997 she has been Executive Director of ČEZ for Commerce and Company Vice Director.

Ms. Petráňová is a graduate of the Nuclear and Physical Engineering Faculty at the Czech Technical University. Ms. Petráňová worked at Kancelářské stroje for 13 years as a programmer. Thereafter she headed the data management and organization section at the Prague Power Works. From 1993 to August 1994 she worked at ČEZ as head of the Change Management Department. From September 1994 to March 1996 she worked at the Savings Investment Company as head of the Marketing Department.
In 1994 she sat on the Board of Directors at Sklo Union Teplice, and in 1995 became Chairwoman of that Board. From 1994 to 1995 she was a member of the Board of Directors at Transakta. Since December 1997 she has been a member of the Supervisory Board at Energovod and from January 1998 a member of the Supervisory Board of Directors of the Kotouč Štramberk company. As of December 31,1997 she owned 23 ČEZ shares with a nominal value of 1,100 CZK.

Ing. Aleš TOMEC

born 1957
Member of the Board of Directors from February 22, 1996 to January 29, 1998. Since May 1, 1997 he has been Executive Director of ČEZ in the Transmission System Division and Company Vice Director.

Mr. Tomec is a graduate of the Electrical Engineering Faculty of the Czech Technical University, where he studied electric machine construction. Mr. Tomec worked for two years at the Škodaexport foreign trade organization as an independent trade officer. In 1983 he started working at the Czech Power Works State Enterprise Control Center. He progressed through all the departments there from network and product preparation, to protection and automation, and on to evaluation and analysis. From 1991 he worked at the Czechoslovak Control Center, first as head of the Operations and Foreign Collaboration Department and from 1993 as head of the Operations Department. From May 1994 he was Manager of the Central Control Center. Since April 1996 he has held the post of Executive Director of the Transmission System Division. He is a member of the Operation Board and Council of CENTREL, as well as President of the CDO. As of December 31, 1997 he owned 500 ČEZ shares with a nominal value of 1,100 CZK.

Ivan CELIZNA

born 1952
Since May 1, 1997 he has been Executive Director of ČEZ for Human Resources and Company Vice Director

Mr. Celizna is a graduate of a Secondary School of Mechanics. At the present time he is attending distance education as part of the Open University Foundation in Prague. Since 1971 Mr. Celizna worked in Technoplast Chropyně as an independent designer. In 1976 he was employed by the Chvaletice Power Station. During the first 15 years, he worked in various positions in continuous operation and since 1991, in the position of Chairman of the Labor Union. Between 1992 and 1993 he was at the same time a member of the Supervisory Board of ČEZ, elected by company employees. In 1993 he became Director of the Human Resources Division in the Chvaletice Power Station. In 1996 he was named Director of the Human Resources Department. Since 1996 Mr. Celizna has been Chairman of the Supervisory Board of VSE - Tušimice. As of December 31, 1997 he owned 35 ČEZ shares with a nominal value of 1,100 CZK and five ČEZ shares with a nominal value of 1,000 CZK.

Ing. Petr VOBOŘIL

born 1950
Since May 1, 1997 he has been Executive Director of ČEZ for Economics and Company Vice Director.

Mr. Vobořil is a graduate of the Mechanical Engineering Faculty at the Czech Technical University in the field of work space technology. His postgraduate studies are in heat distribution development. In 1997 he attended a management course on the InterManager European standard level. Since 1980 Mr. Vobořil has been employed by České energetické závody (Czech Energy Enterprise), where he worked for 10 years in the field of operation control and heat industry development. After 1990 he acted in several economic divisions in various posts. From January 1, 1995 he was Director of the Planning and Analysis Section. He is the Chairman of the Board of Directors of Penzijní fond Energie and a member of the Supervisory Board at Hydročez. As of December 31, 1997 he owned 30 ČEZ shares with a nominal value of 1,100 CZK and 10 ČEZ shares with a nominal value of 1,000 CZK.

Ing. Ladislav RAFAJ

born 1943
Director of Construction Division of the Temelín Nuclear Power Station since April 1, 1998

Mr. Rafaj is a graduate of the Mechanical Engineering faculty of the Slovak Technical University (SVTŠ) in Bratislava where he studied energy. In 1974, he successfully finished graduate studies in nuclear energy at the Czech Technical University in Prague. After completing his studies at SVTŠ, Mr. Rafaj worked for three years at the Vojany Power Station and from 1970 to 1981 in the Jaslovské Bohunice Nuclear Power Station. Between 1980 and 1990 he worked in various posts in the Nuclear Energy Research Institute in Trnava and in Škoda Prague on the construction of the Mochovce Nuclear Power Station. From 1990 to 1994 Mr. Rafaj was active as Director of this power station. In 1994 he became Director of the Jaslovské Bohunice Nuclear Power Station. In the same year he became a member of the Board of Directors of Slovenské elektrárny (Slovak Power Stations), where he also worked as the Chief Director of Maintenance and Operations until the end of 1995. Mr. Rafaj worked as Assistant Deputy involved in the nuclear safety advancement section of the Jaslovské Bohunice Nuclear Power Station from 1996 to 1998, when he was named Executive Director of the Temelín Nuclear Power Plant Construction Division. As of December 31, 1997 he was not a holder of any ČEZ shares.

Ing. Jiří RICHTER

born 1947
Executive Director of Development since March 1, 1998

Mr. Richter is a graduate of the Nuclear Engineering Faculty at the Czech Technical University in the field of physics and nuclear reactor technology. He also completed his graduate studies at the same faculty in the field of experimental neutron physics. Mr. Richter worked for 10 years in various investor posts in Energoinvest Prague. He also worked at the investor / engineering organization of České energetické závody (Czech Energy Enterprise), with focus on the construction preparation of the Dukovany and Temelín Nuclear Power Stations. From 1983 to 1992, when ČEZ was established, he worked at the General Directorate of České energetické závody (state enterprise). He was involved mainly in the preparation of the Temelín Nuclear Power Station, the completion of the construction of the Dukovany Nuclear Power Station and the interim spent fuel storage facility. Mr. Richter also worked on the stabilization of investment construction and developing a program intended to help lower pollutant emissions from coal power stations. Mr. Richter has been Director of the Investment Section of ČEZ since 1992, responsible for the preparation and coordination of the investment program in the area of classic energy sources. As of December 31, 1997 he owned 12 ČEZ shares with a nominal value of 1,100 CZK.

Notes:

- *No member of the ČEZ Board of Directors or of Company Executive Management has been convicted of a criminal offense involving property.*
- *Unless stated otherwise, the members of the Board of Directors and Executive Directors did not carry on any business activity outside ČEZ in 1997. None of them as individuals received any further remuneration in money or in kind, or royalties from ČEZ or from a company in which ČEZ has a majority share. Nor did any of them perform any transaction with ČEZ involving trade, credits, credit guarantees or other financial relations.*
- *On the basis of agreements that were concluded with insurance companies, ČEZ arranged in 1997 capital life insurance for those members of the Board of Directors who expressed agreement with such insurance.*
- *Members of the Board of Directors and Company Executive Management have the option of being provided with a company vehicle for business and personal needs.*
- *Members of the Executive Management have the option of being provided with an employee allowance for the consumption of electricity.*

Ing. Ivan NOVÁK, CSc. *- born 1958*
Member of the Supervisory Board since June 13, 1996. Vice-Chairman of the Supervisory Board from July 17, 1996 to Jan 29, 1998. Re-elected as member of the Supervisory Board on January 29, 1998 and Chairman of the Supervisory Council since March 11, 1998

Mr. Novák graduated from the Nuclear and Physical Engineering Faculty at the Czech Technical University where he also successfully completed his postgraduate scientific research. He worked for two years as an independent designer at Škoda Plzeň, and spent five years as Designer-in-Chief at Energoprojekt Praha. Since 1993 he has been working at the Ministry of Trade and Industry of the Czech Republic, currently as Chief Executive of the Nuclear Power Department.
As of December 31, 1997 he owned 11 ČEZ shares with a nominal value of 1,100 CZK.

JUDr. Ladislav PETRÁSEK *- born 1943*
Member and Vice Chairman of the Supervisory Board since June 16, 1994. Chairman of the Supervisory Board from July 20, 1995 to December 19, 1997 and member of the Supervisory Board since December 19, 1997. Re-elected as member of the Supervisory Board on January 29, 1998. Vice Chairman of the Supervisory Board since March 11, 1998

Mr. Petrásek is a graduate of Charles University Law School. He worked for five years as Designer-in-Chief at Stavební stroje Zličín and 13 years as head of production at Strojinvestav Praha. He spent 11 years at Stavební stroje Brno as a company lawyer, trade deputy and manager of a subsidiary plant. From January 1, 1992 he served at the National Property Fund of the Czech Republic as Head of the Capital Participation Section and from May 1, 1995 he has been employed at Komerční banka (Commercial Bank) currently as Chief Executive in the administration section of the financial group. He is a member of the Board of Directors of Imperiál Karlovy Vary, Pražské pivovary (Prague Breweries) and Sanitas.
As of December 31, 1997 he owned 15 ČEZ shares with a nominal value of 1,100 CZK.

Ing. Josef PETŘÍK *- born 1952*
Member of the Supervisory Board since July 13, 1995

Mr. Petřík is a graduate of the Mechanical Engineering Faculty at the Czech Technical University. He worked for eight years as a technician at AVIA Praha, four years as Section Head for the Technical Preparation of Production at the General Management of Czechoslovak Automobile Works, two years as an independent specialist officer at the Head Office of Control, and four years as Production Manager at AVIA Praha. Since 1994 he has been working at the National Property Fund of the Czech Republic, currently as Section Manager of Capital Participation. He is a member of the Supervisory Board at KAOLÍN Hlubany. He has been a member of the Board of Directors of Pražské vodovody a kanalizace (Prague Water and Sewer Systems) since December 22, 1997.
As of December 31, 1997 he did not own any ČEZ shares.

Ing. Jiří VOJTA *- born 1945*
Member of the Supervisory Board since January 29, 1998

Mr. Vojta is a graduate of the University of Economics in Prague, where he also completed his post-graduate studies.
He worked at the Federal Price Control Office from 1973 to 1990, at first in the section of chemical industry prices and later in the area of fuel and energy prices. After the dissolution of this Office he became employed at the Federal Ministry of Finance, where he worked as Director of the Fuel, Energy and Industrial Prices Department. He has been working as Director of Regulation of Fuel, Energy and Industrial Prices Department at the Ministry of Finance since January 1, 1993. He is a member of the Supervisory Board of Jihočeská plynárenská.
As of December 31, 1997 he did not own any ČEZ shares.

Václav KREJČÍ *- born 1953*
Member of the Supervisory Board elected by the Company employees from February 23, 1993 till January 29, 1998. Re-elected as a member of the Supervisory Board on April 6, 1998

Mr. Krejčí is a graduate of the Secondary Chemical School. He worked for seven years as a technician at the Litvínov Chemical Works. Since 1981 he has been employed at the Dukovany Nuclear Power Station, where he is currently Chief Officer for Internal Communications.
As of December 31, 1997 he owned five ČEZ shares with a nominal value of 1,100 CZK.

Jiří ŠVAMBERK *- born 1944*
Member of the Supervisory Board elected by the Company employees from February 23, 1993 till January 29, 1998. Re-elected as a member of the Supervisory Board on April 6, 1998

Mr. Švamberk is a graduate of a Secondary Mechanical School. He has worked at the Tisová Power Station since 1962, currently in the position of Head of the Human Resources Department.
As of December 31, 1997 he did not own any ČEZ shares.

JUDr. Petr HŮLA *- born 1962*
Member of the Supervisory Board from October 16, 1992 to January 29, 1998

Mr. Hůla is a graduate of Charles University Law School. He worked for four years as a lawyer at the State Research Institute for the Protection of Materials. Since 1991 he has been employed at the Investiční a Poštovní banka (Investment and Post Office Bank), where he served as an advisor to the Vice-Chairman of the Board of Directors for 1997. At the present time he is Director of Human Resources. He was member of the Supervisory Board of ČECHOFRACHT in 1997. He is a member of the S.I.B. Board of Directors, a member of the Supervisory Board of Vojenské stavby (Military Constructions) and a member of the Ferona Board of Directors.
As of December 31, 1997 he did not own any ČEZ shares.

Ing. Livia KLAUSOVÁ, CSc. *- born 1943*
Member of the Supervisory Board from June 16, 1994 to January 29, 1998

Mrs. Klausová is a graduate of the Commercial Faculty at the University of Economics where she studied foreign trade. She did her postgraduate studies in economic sciences, specializing in world economics. She worked for one year at PZO Centrotex, and 26 years at the Economics Institute of the Czechoslovak Academy of Sciences as a specialist and later a scientific specialist. She is now employed as Executive Secretary at the Czech Economics Society. She is a member of the Supervisory Boards at Česká spořitelna (Czech Savings Bank) and ZVVZ Milevsko.
As of December 31, 1997 she did not own any ČEZ shares.

Lubomír KLOSÍK *- born 1951*
Member of the Supervisory Board elected by the Company employees from June 12, 1995 to January 29, 1998

Mr. Klosík is a graduate of the Secondary Chemical School. He worked as a laborer at NHKG Ostrava for one year. Since 1975 he has been employed at the Dětmarovice Power Station as a shift foreman. Since 1990 he has held the post of Chairman of a Trade Union.
As of December 31, 1997 he owned two ČEZ shares with a nominal value of 1,000 CZK and three shares with a nominal value of 1,100 CZK.

Ing. Václav KUPKA, CSc. *- born 1944*
Member of the Supervisory Board since May 21, 1993 and Chairman of the Supervisory Council from December 19, 1997 to January 29, 1998

Mr. Kupka is a graduate of the Production Faculty at the University of Economics. He completed his scientific postgraduate work at the Czechoslovak Academy of Sciences. He worked for 17 years as a scientific specialist at the Economics Institute of the Czechoslovak Academy of Sciences, six years as the Head of the Analysis Section at the Government Presidium Office and six years at the Ministry of the Economy in the post of Deputy Minister. Since 1996 he has been Deputy Minister of Trade and Industry of the Czech Republic. He is Chairman of the Supervisory Board of the Českomoravská záruční a rozvojová banka (Czech-Moravian Warranty and Development Bank) and a member of the Supervisory Board of Konsolidační banka (Consolidation Bank), a national monetary institution.
As of December 31, 1997 he owned six ČEZ shares with a nominal value of 1,100 CZK and two shares with a nominal value of 1,000 CZK.

Ing. Vítězslav MANDA *- born 1946*
Member of the Supervisory Board from September 20, 1993 to January 29, 1998

Mr. Manda is a graduate of the Production-Economic Faculty at the University of Economics. He worked for 18 years in various posts at the Ministry of Finance, and from January 1, 1993 as the Director of the Entrepreneurial Financing Department. He is a member of the ČEPRO Supervisory Board, a member of the Czech Railways Supervisory Board and a member of the Restitution Investment Fund Board of Directors.
As of December 31, 1997 he did not own any ČEZ shares.

Ing. Zdeněk SPITZER *- born 1967*
Member of the Supervisory Board from September 20, 1993 to January 29, 1998

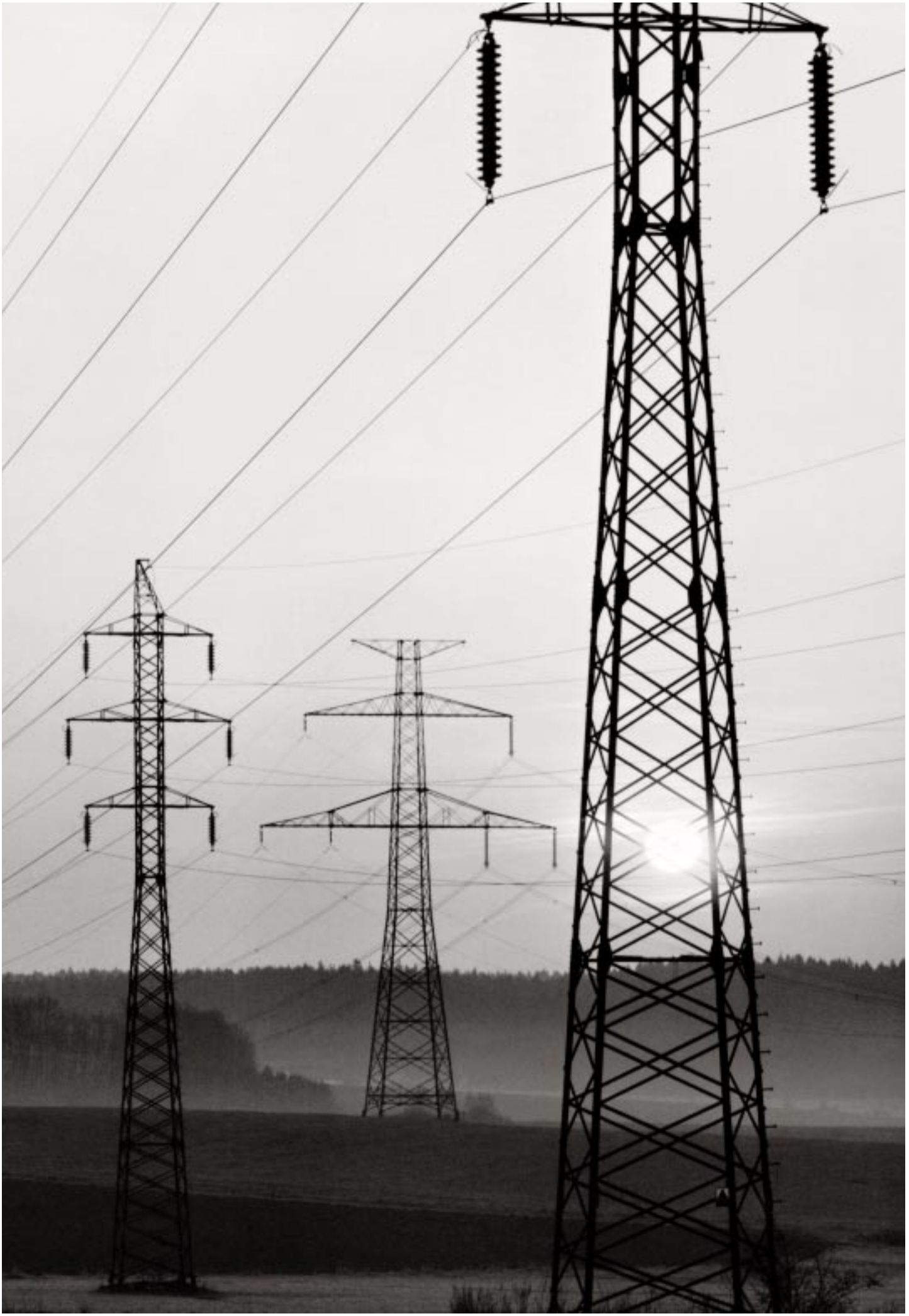
Mr. Spitzer is a graduate of the Mechanical Engineering Department at the Czech Technical University, where he studied management economics. He worked for three years as a ČEZ - Inženýring, Orgrez technician, and two years as a Department Head for the Power Industry at the Ministry of Trade and Industry of the Czech Republic. Since 1995 he has been employed at the Československá obchodní banka (Czechoslovak Commercial Bank) as a banking specialist for bad debt and financial restructuring. He is an Alfa 45 company executive and member of the Board of Directors of Auxilium, both of which are subsidiaries of Československá obchodní banka (Czechoslovak Bank of Commerce).
As of December 31, 1997 he did not own any ČEZ shares.

Jan ŠEVR *- born 1947*
Member of the Supervisory Board elected by the Company employees from February 23, 1993 to January 29, 1998

Mr. Ševr is a graduate of a Secondary Mechanical School. He has been employed for 31 years at the Mělník Power Station, currently as the 500 MW Unit Manager.
As of December 31, 1997 he owned six ČEZ shares with a nominal value of 1,100 CZK and two ČEZ shares with a nominal value of 1,000 CZK.

Notes:
- *No member of the ČEZ Supervisory Board has been convicted of a criminal offense involving property.*
- *Unless stated otherwise, the members of the Supervisory Board did not carry on any business activity outside ČEZ in 1997. None of them received any further remuneration in money or in kind, or royalties from ČEZ or from a company in which ČEZ has a majority share. Nor did any of them perform any transaction with ČEZ involving trade, credits, credit guarantees or other financial relations.*
- *On the basis of agreements that were concluded with insurance companies, ČEZ arranged in 1997 capital life insurance for those members of the Supervisory Board who expressed agreement with such insurance.*
- *Members of the Supervisory Board have the option of being provided with a company vehicle for business and personal needs.*
- *Members of the Supervisory Board, who are Company employees, have the option of being provided with an employee allowance for the consumption of electricity.*

Electrical energy generation and supply is the primary objective of ČEZ's activities. Energy sales account for 93.2% of the Company's total revenues. ČEZ's business strategy is therefore focused on the safe and reliable supply of electricity to its customers. Other Company objectives include providing support and supplementary services within the power system at competitive prices and in an environmentally-friendly manner.



The capital stock of the Company registered in the Commercial Register was 59,156 million CZK until the year 1997 and increased to 59,195 million CZK in 1997. The shareholder equity was increased by deposits made by the National Property Fund of the Czech Republic in accordance with the approved amendments of the Privatization Project of the state enterprise České energetické závody.

Shareholder Structure

	June 12, 1997 [1]	Jan. 23, 1998 [2]
National Property Fund of the Czech Republic	67.55 %	67.57 %
Restitution Investment Fund	1.06 %	0.88 %
Other legal entities	27.78 %	28.41 %
Total legal entities	**96.39 %**	**96.86 %**
of which: domestic	74.88 %	72.80 %
foreign	21.51 %	24.06 %
Total natural persons	**3.61 %**	**3.14 %**
of which: domestic	3.43 %	2.97 %
foreign	0.18 %	0.17 %

1) Determined for ordinary shareholder meeting on June 19, 1997.

2) Determined for extraordinary shareholder meeting on January 29, 1998.

As of January 23, 1998, ČEZ had 188,094 shareholders, which represents a decrease of 18,636 compared to June 1997. In addition to the National Property Fund of the Czech Republic, there were five other legal entities holding more than 1% of the capital stock (of which four were foreign). The share of foreign nationals (legal entities as well as natural persons) in the capital stock of ČEZ amounted to almost 25% as of January 23, 1998.

The National Property Fund of the Czech Republic was the only legal entity with more than a 10% share in voting rights at shareholder meetings as of January 23, 1998.

No dividends were paid to ČEZ shareholders in 1997.

An extraordinary shareholder meeting of ČEZ took place on January 29, 1998. The meeting was convened by the Board of Directors at the request of the majority shareholder, the National Property Fund of the Czech Republic. The objective was to increase the control of shareholders, especially that of the majority shareholder, and optimize Company management.

The result of the shareholder meeting was the removal of present members of the Board of Directors and the Supervisory Board, followed by the election of new members, as well as the reduction of the number of members of the Supervisory Board from 12 to six. The Board of Directors was to assume full control of the Company management, whereas the Supervisory Board would be in charge of inspection. The Executive Management took over the direct Company management. The extraordinary general assembly expressed its agreement with the preparation of a new 300 MW back-up source (gas, oil) and a new 300/600 MW coal unit for the purpose of utilization of domestic solid fuel resources for meeting the basic loading of the power system. The general assembly did not approve a proposal by one of the shareholders, which called for a temporary halt in the construction of the Temelín Nuclear Power Station.

ISIN	Type of securities	Date of issue Interest	Interest	Payment due	Form	Volume	Manager	Early redemption from	Early redemption to
CS 0008441952	1st share issue [1]	6. 5. 1992	x	x	registered to bearer	CZK 56,9 bln	x	x	x
CZ 0005104950	2nd share issue [2]	8. 8. 1994	x	x	registered to bearer	CZK 2,2 bln	x	x	x
CZ 0003500191	1st bond issue [3]	25. 6. 1993	16,50 %	1998	certificate	CZK 2,1 bln	Česká spořitelna	[6]	[6]
CZ 0003500233	2nd bond issue [3]	27. 1. 1994	14 3/8 %	2001	certificate	CZK 4,0 bln	Česká spořitelna	27. 1. 1998	27. 1. 2000
[7]	Eurobonds [4]	15. 12. 1994	8 7/8 %	1999	registered to bearer	USD 150 mln	J. P. Morgan	x	x
CZ 0003500423	3rd bond issue [3]	6. 6. 1995	11,30 %	2005	registered to bearer	CZK 4,0 bln	ABN Amro	6. 6. 2000	6. 6. 2004
CZ 0003500654	4th bond issue [3]	27. 6. 1996	10,90 %	2001	registered to bearer	CZK 3,0 bln	Komerční banka, Česká spořitelna, ING Baring Capital Markets	27. 6. 1999	27. 6. 1999
CZ 0003500662	5th bond issue [3]	27. 6. 1996	11 1/16 %	2008	registered to bearer	CZK 3,0 bln	Komerční banka, Česká spořitelna, ING Baring Capital Markets	27. 6. 2003	27. 6. 2006
[7]	Yankee bonds [5]	17. 7. 1997	7 1/8 %	2007	registered to bearer	USD 200 mln	J. P. Morgan, Merrill Lynch, Salomon Brothers	x	x

[1] Face value at the time of issue 1,000 CZK, by decision of the shareholder meeting of Sept. 20, 1993 raised to 1,100 CZK
Number of shares issued: 51,731,161

[2] Face value 1,000 CZK
The number of shares issued before and after the registration of Privatization Project supplements was 2,239,752 and 2,290,665, respectively.

[3] Face value 10,000 CZK

[4] Face value 10,000 USD

[5] Face value 1,000 USD

[6] Early redemption June 25, 1996

[7] Issued through CEZ Finance B.V.

Unpaid amount of shares issued: 0

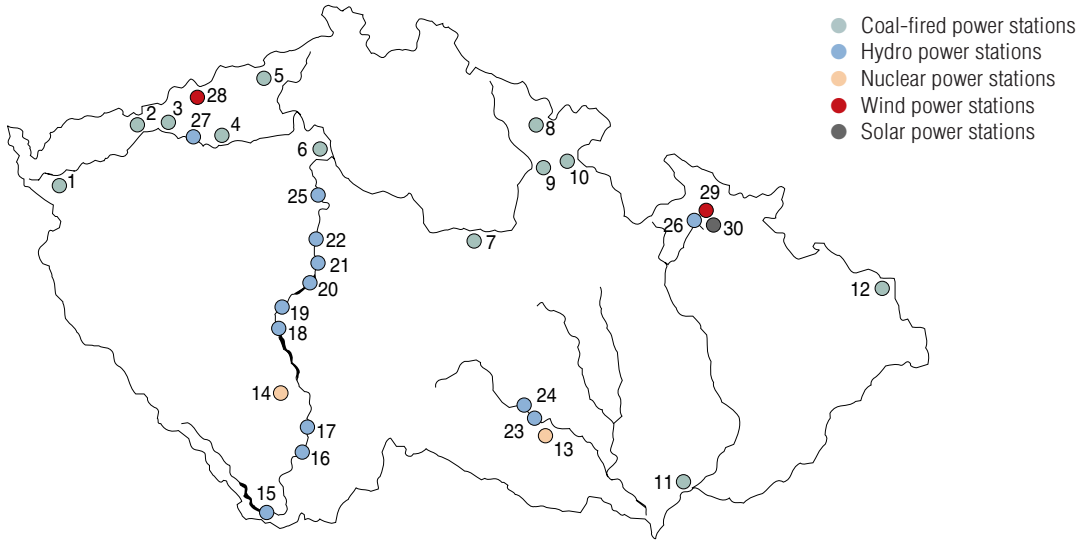
The company has not issued any bonds with the right of exchange for shares.

Bonds are not guaranteed by the state or any bank under the condition of issue.

The last two columns of the table refer to the possibility of bond redemption at the option of the debtor - i.e. ČEZ. Under these terms, ČEZ can redeem its bonds prematurely.

Early redemption at the option of the creditor is stipulated according to each domestic bond contract, if the debtor is not able to secure a minimum installed capacity of 7,500 MW.

The primary activity of ČEZ is the production of electrical energy in nuclear, coal-fired and hydro power stations and the supply of electricity to customers via the transmission network. The share of individual types of power stations in the total installed capacity of ČEZ as of Dec. 31, 1996 and Dec. 31, 1997 is shown in the following graphs.



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

** Power generation plants - belong under the Poříčí Power Stations organizational unit.*

Share of Installed Capacity According to Source Type at ČEZ

31.12. 1996			**31. 12. 1997**	
27 % - 2,932 MW	Coal-fired power stations (desulphurized)		**39 % -**	**4,342 MW**
17 % - 1,872 MW	Hydro power stations		**17 % -**	**1,872 MW**
16 % - 1,760 MW	Nuclear power stations		**16 % -**	**1,760 MW**
40 % - 4,435 MW	Coal-fired power stations (non-desulphurized)		**28 % -**	**3,025 MW**
10,999 MW	Total installed capacity			**10,999 MW**

During 1997 there was a significant reduction in the amount of output that is detrimental to the environment, from 40% to 28%.

Coal-Fired Power Stations (as of Dec. 31, 1997)

Non-desulphurized

Power station	Fuel type	Installed capacity MW	In operation since
Tisová I (part)	brown coal	50	1959 - 1960
Tušimice I	brown coal	3 x 110	1963 - 1964
Ledvice I	brown coal	1 x 200	1967
Ledvice II (part)	brown coal	1 x 110	1966 - 1969
Mělník II	brown coal	4 x 110	1971
Mělník III	brown coal	1 x 500	1981
Chvaletice (part)	brown coal	2 x 200	1977 - 1978
Poříčí (part)	black coal	110	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 (part)	lignite	50	1954 - 1958
Dětmarovice	black coal	4 x 200	1975 - 1976
Total	**x**	**3,025**	**x**

** District-heating plants are part of the Poříčí organizational unit*

Desulphurized

Power station	Fuel type	Installed capacity MW	In operation since	Desulphurized since
Tisová I (part) *	brown coal	172	1959 - 1960	1996 - 1997
Tisová II	brown coal	1 x 100	1961	1997
Tušimice II	brown coal	4 x 200	1974 - 1975	1997
Prunéřov I	brown coal	4 x 110	1967 - 1968	1995
Prunéřov II	brown coal	5 x 210	1981 - 1982	1996
Počerady, unit 2, 3, 4	brown coal	3 x 200	1970 - 1971	1996
Počerady, unit 5, 6	brown coal	2 x 200	1977	1994
Ledvice II (part)	brown coal	2 x 110	1966 - 1969	1996
Chvaletice (part)	brown coal	2 x 200	1977 - 1978	1997
Poříčí (part) *	black coal	55	1957 - 1958	1996
Hodonín (part) *	lignite	105	1954 - 1958	1996 - 1997
Total	**x**	**4,342**	**x**	**x**

** Achieved through the construction of new fluidized-bed boilers*

Nuclear power station (as of Dec. 31, 1997)	Installed capacity MW	In operation since
Dukovany	4 x 440	1985 - 1988

Nuclear power station under construction (as of Dec. 31, 1997)	Installed capacity MW	Expected operation
Temelín	2 x 981	1st unit - 2001
		2nd unit - 2002

Hydro power stations (as of Dec. 31, 1997)	Installed capacity 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
Large and small hydro power stations	**727**	**x**
Štěchovice II	45	1947 - 1948
Dalešice	450	1978
Dlouhé Stráně	650	1996
Pumped storage hydro power stations	**1,145**	**x**
Total	**1,872**	**x**

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

Wind power station (as of Dec. 31, 1997)	Installed capacity MW	In operation since
Dlouhá Louka (Krušné hory)	0.315	1993

Wind power station under construction (as of Dec. 31, 1997)	Installed capacity MW	In operation since
Mravenečník (Jeseníky)	1.165	1998

Solar power station (as of Dec. 31, 1997)	Installed capacity MW	In operation since
Mravenečník (Jeseníky)	0.010	1997

■ Business Conception of ČEZ

In July 1995 the General Assembly adopted a Business Conception, which was based on an analysis of external and internal business environments, defined business activities and strategic initiatives.

The Conception is based on the presumption that ČEZ will be able to continually ensure sustainable development by fulfilling the following conditions:

- transform itself in time into a competitive company, which focuses on meeting the expectations of its customers
- convince partners of its intention to do business based on equality of partnership
- rank among Europe's most successful and ethically operating electrical utilities
- have the confidence of its shareholders and creditors, the public and its employees.

Transformation of ČEZ into a company capable of effectively carrying out its business and holding its own in a competitive environment in the generation market will be a challenging long-term process. To this end, the Board of Directors deemed the adoption of the Business Conception and its consistent implementation to serve as a basis for strategic and tactical activities. In April 1996 the updated Program of Changes was adopted by the Board of Directors. Of the 24 tabled projects (part of the Program of Changes), six were completed in 1996 and 1997. Five projects are to be launched in 1998.

Achievement of ČEZ's strategic aims is not only dependent upon competitive, reliable and safe technology, but also, and above all, on people who are willing to take upon themselves the risks of social changes and to actively contribute to minimizing these risks. Changes are needed within the management of the Company. The Board of Directors considers its primary task on the part of Company management and its employees, market and shareholders to be an agreement of expectations.

ČEZ implemented protection measures against potential risks by adopting a Risk Management Program. It approved a financial risk policy, developed a company insurance program and systematically adhered to these measures.

■ ČEZ Development Strategy until the Year 2000

The development strategy of ČEZ up to the year 2000 is based on objectives formulated in 1992 in the Privatization Plan. Specifically these objectives include:

- To ensure a reliable supply of electricity via the transmission grid and meet demand (including auxiliary and ancillary services) at competitive prices in an environmentally friendly manner;
- To create conditions for synchronous co-operation of the Czech power system with the West European UCPTE (Union pour la Coordination de la Production et du Transport de lElectricité);
- To meet conditions for the continued operation of coal-fired power stations after 1998, as stipulated in particular by the "Clean Air Act" No. 309/91 Coll. in its later version including amendments;
- To maintain ČEZ's share in the generation market through long-term competitiveness of the technological production base and the structure of electric power sources;
- To create conditions for attracting foreign capital for financing the extensive development program under the most advantageous conditions; and
- To maintain the financial health of the Company.

To fulfill the Development Strategy the following key tasks for ČEZ were drawn up for the period until the year 2000:

- Completion and beginning of operation of two 981 MW units at the Temelín Nuclear Power Station.
- Completion and beginning of operation of two 325 MW sets, which were prepared for operation in 1996, in the Dlouhé Stráně Pumped Storage Hydraulic Power Station.
- Preparation for the construction of a central interim storage facility for spent nuclear fuel;
- Restoration of 6,452 MW capacity in coal-fired power plants, allowing for their competitive operation after 1998, in line with environmental protection legislation; considered restoration of three 110 MW units in the Tušimice I Power Station, which would increase the total capacity of coal-fired power stations to 6,792 MW.
- Decommissioning of 2,020 MW in coal-fired power stations between 1990 and 1998.
- Attaining and permanently maintaining conditions for synchronous interconnection of the Czech power system with the West European UCPTE system.
- Reconfiguring and modifying the capacity of the transmission system to meet structural changes in the generation system.

The development strategy of ČEZ is assessed each year through mid-term business plans. In 1997, ČEZ completed an analysis of the Company's competitive position on the electricity market. Its aim was to estimate the expected interest of relevant electricity market players and define ČEZ responses, which would utilize key competencies to the maximum extent. This involved addressing the impact of Directive 96/92, approved by the European Parliament and the European Union Council, concerning common rules of the internal electricity market and possible application methods in the Czech Republic. The directive aims to encourage competition in the production and sale of electricity to end users, by allowing member states to select specific elements of the competition that apply to them.

■ Provision of Fuels for ČEZ Coal-Fired Power Stations

The approved strategy of purchasing solid fuels for ČEZ's coal-fired power stations depends on the creation of strong ties with the largest suppliers of coal through gradual signing of mid-term and long-term contracts for coal supply. The objective of these contracts is to create a stable competitive environment on the fuel market, suppress fluctuations in solid fuel prices, fulfill long-term coal requirements of ČEZ's coal-fired power stations and engender the strategic development (top soil layer removal, investments etc.) of coal companies.
Mid-term contracts for the period 1997 - 2001 were signed with Severočeské doly (North Bohemian Mines), Mostecká uhelná společnost (Most Coal Company), Sokolovská uhelná (Sokolov Coal Company) and Ostravsko-Karvinské doly (Ostrava-Karviná Mines) in December 1996.

Based on the evaluation of strategic priorities, negotiations regarding long-term contracts with Severočeské doly (North Bohemian Mines), Mostecká uhelná společnost (Most Coal Company), Ostravsko-Karvinské doly (Ostrava-Karviná Mines) and Českomoravské doly (Czech-Moravian Mines) for the period until 2015 were initiated in 1997. The contracts contain binding reservation provisions until 2030 and 2040.
The first of the contracts with Severočeské doly was signed in December 1997. ČEZ became a 33% capital stock shareholder of this company in the beginning of 1998.

■ Quality System

In 1995, the General Assembly adopted a "Quality Plan" as part of the Business Conception, approved in the same year. In 1997, the Quality Plan was expanded by a commitment of the Board of Directors to continuously improve the profile of ČEZ, as a company consistently complying with all commitments related to environmental protection.

One of the most significant means of fulfilling the Business Conception is the implementation of a quality system. Its structure, which respects standards ČSN EN ISO 9004-2 and ČSN ISO 14004, directive No. 214/97 Coll. and recommendations of the International Agency for Nuclear Energy, is part of the Top Quality Assurance Program.

The quality system development plan approved by the Company management is evaluated and updated at the end of each calendar year based on internal and external requirements.

The developed quality system is based on the requirements of ČEZ management and allows the implementation of basic features of the complex quality management system. It is focused on three basic levels:

1. Customers: meeting their wants and needs.
2. Internal needs of the Company: providing Company management with the tools for evaluating potential risks and assets of business activities and environmental protection.
3. Suppliers: creating a base of competent suppliers.

■ Financial Risk Management Policy

Financial risk management, which is a strategic aim of ČEZ, is strictly defined through internal management documents. Financial risk management aims to minimize any possible negative effects on the Company's financial health resulting from movements in the financial markets. ČEZ systematically monitors and analyzes currency, interest rate, depreciation of the CZK and other financial risks, which may affect the Company. ČEZ uses for risk evaluation the Value at Risk (VAR) method as well as other methods. Operations related to interest and principal repayments, as well as non-debt payments, are carried out through dealers in foreign currencies based on ČEZ's evaluation of its risk exposure.

ČEZ initiated the operation of a dealing workplace where the Company carries out operations related to the Company's liquidity and risk management. Operations are effectively supported by a REUTERS terminal.

The main objective in 1997 was to hedge the "Yankee Bond" issue against currency and interest risks during its maturity period. In order to minimize the risk associated with the high volatility of the USD/CZK exchange rate compared to the volatility of the DEM/CZK exchange rate, a currency swap was implemented at the time of bond issue. This resulted in an obligation to repay the bond interest and principal in DEM with a floating interest rate, as opposed to payments in USD with a fixed interest rate. At the same time, the floating rate DEM interest payments were capped by another financial instrument (collar), such that the rate would not exceed acceptable levels.

In addition to lowering risk exposure and increasing the effectiveness of its hedging operators, ČEZ also restricted the number of foreign currencies used in contractual transactions.

■ Development of Information Systems

ČEZ is aware of the danger which the "Millenium Bug" poses to the reliable distribution of electrical energy. The millenium change represents a real danger to the control of technological processes, which are interconnected in

New market relationships are emerging in the European Union power industry. ČEZ is making a significant effort in preparing itself for the era, when necessary conditions for the creation of market relationships, in accordance with legislative requirements for business activities in the European Union, are created in the Czech power industry. The Company is gradually modifying its inner structure to become more competitive on the future continent-wide electricity market.

real time. ČEZ must therefore prevent problems related to the "Millenium Bug" from occurring. A solution team has been selected and presented with the task to identify the possible dangers and find an optimal solution.

The main achievement in the development of the ČEZ information system in 1997 was the introduction of a new office system KSYS 96. The extensive system is based on MS OFFICE 95 and LOTUS NOTES, as well as stabilization of part of the information system introduced in 1996. The number of users of the ČEZ information system exceeded 5,000 by the end of 1997. The aim is to expand applications to support document sharing and develop a company with minimal paper circulation. In addition, testing of the Power Station Information System (ISE) has begun at selected organizational units. An analysis of the requirements for the management information system (first stages should be complete by 1998) has been started as well. The objective of the establishment of this system is the development of information support to top management (based on individually arranged, accessible and guaranteed information) for quick decision-making, thus improving the overall ČEZ management process.

The implementation of strategies from previous years (1995 - Internet e-mail, 1996 - full connection to the Internet and launching of the www.cez.cz Web site) has proven successful, based on the increased number of visitors to the ČEZ Web site. In addition to general information, the Web site contains press releases, quarterly summary reports of Company economics and annual reports in Czech and English.

Another indicator of increased interest in ČEZ's activities is the large increase in questions received at the info@hs.cez.cz e-mail address.

ČEZ management realizes the key importance of Internet / intranet and their effects on the information structure of the company in the future. For this reason, the introduction of Intranet access at all Company locations is being prepared.

The protection of data has been increased by the establishment of a sprinkler fire-extinguishing system at shared facility locations, as well as by the introduction of a back-up system for shared data sources at the Headquarters.

The entire information system has been inspected by Andersen Consulting, which stated that the development, operation and utilization of the ČEZ information system is comparable to similar companies in the Czech Republic as well as worldwide. However, they recommended several measures for its improvement. The main area for improvement is to learn to use the information system as a tool for increasing company effectiveness and improving communication with the company management system.

■ Telecommunication Infrastructure Development

With respect to the continuing construction of combined grounding cables with fiber optics and the establishment of transmission instruments using fiber optics, company telecommunication services are under continuous improvement. The improvement is evident in the areas of the power grid control system, management, economy and commerce. Quality telecommunications have allowed conversion of the private data network from the X.25 protocol to the more effective "frame relay" protocol.

■ Internal Control System

The ČEZ Board of Directors is continuously developing company control and management mechanisms in order to ensure the effective protection of its property and increase the effectiveness of all activities and processes. It strives towards the protection of Company property against theft, loss, damage, destruction and misuse. The Board aims to effectively and economically distribute Company resources. Internal auditing is used in all five basic areas, including creating a proper auditing environment within the Company, risk assessment and management, information and communication, auditing activities and procedures and monitoring of the auditing system effectiveness.

Results of both the Internal audit and the external auditor's (Arthur Andersen) reports are regularly discussed by the Audit Board of the Supervisory Board. Both of these bodies express suggestions for additional activities of the internal audit in relationship with the assessment of risks, resulting from the external environment and Company activities.

■ Insurance

An agreement for insuring the property of heat and hydro power stations, effective as of June 1, was negotiated through the Marsh & McLennan broker company. A damage liability insurance agreement became effective as of July 1. The property insurance was related to damages incurred by ČEZ during the flooding.

A property insurance agreement for the Transmission System Division was signed in November. A damage liability agreement for nuclear damages related to the operation of the Dukovany Nuclear Power Station was negotiated with the Czech Nuclear Pool in December. A „Quality Certificate" was awarded to the Dukovany Nuclear Power Station by representatives of the Czech and British Nuclear Pool as part of the insurance agreement signing event.

Liability insurance agreements for damages during the transportation and storage of nuclear fuel at the Temelín Nuclear Power Station were negotiated with the Czech Nuclear Pool in October 1996. A framework insurance agreement against liability risks, related to the transportation of nuclear material from the Russian Federation to the Czech Republic, signed in August 1997, is valid for the Dukovany Nuclear Power Station.

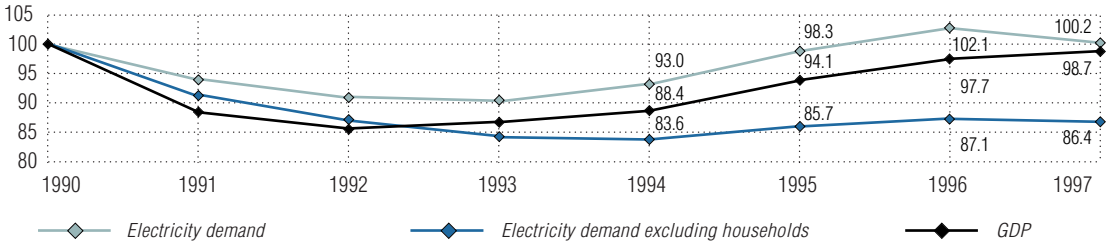
■ Investment Rating

One of the important elements of the Company's business strategy is the procurement of advantageous financial resources, made possible by its confirmed rating assessments.

The rating agency Standard & Poor's rated ČEZ's credit as „BBB+ with a positive outlook" after carrying out the regular annual revision in 1997. The rating agency Moody's rated ČEZ as „Baa1" in 1995.

■ Development of Electricity Demand in the Czech Republic

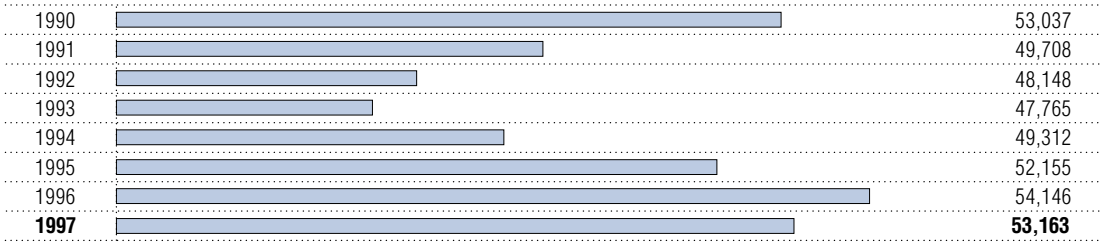
Comparison of Gross Domestic Product (GDP) and Demand for Electricity (%)



The gross domestic product indicator was recalculated by the Czech Statistical Institute in 1997. This resulted in differences between the 1990 index values and those published in the 1996 annual report of ČEZ.

Czech GDP has been continuously increasing since 1994. The demand for electricity increased until the year 1996 as well. In 1997 the electricity demand decreased in sectors contributing most to GDP as well as in the household sector (after the conversion to equal climatic conditions). The decrease in industrial production was partially caused by the July flooding in Moravia and eastern Bohemia.

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



The demand for electricity is defined as the gross domestic generation minus in-plant consumption by power stations, minus losses in electricity distribution networks, minus consumption of electrical energy by pumping at pumped-storage hydro power stations, plus the balance of foreign trade.

■ Meeting Electricity Demand

Development of Electricity Demand and Generation

	1992	1993	1994	1995	1996	1997
Inter-annual electricity demand index (%)	96.9	99.2	103.2	105.8	103.8	98.2
Inter-annual electricity generation index:						
total in the Czech Republic (%)	98.0	99.3	99.7	103.6	105.6	100,5
in ČEZ (%)	92.4	97.4	97.7	102.2	104.1	99.5

The effect of the decline in electricity demand (1.8%) was offset by the positive balance of foreign trade. Imports decreased compared to 1996 by 18.9%, whereas export increased by 19.2%. Electricity generation in the Czech Republic increased compared to 1996 by 0.5%.

Export and Import of Electricity in the Czech Republic (GWh)

	1992	1993	1994	1995	1996	1997	97/96
Import	987	903	1,593	2,539	3,090	2,506	81.1 %
Export	4,023	3,007	2,038	2,121	3,093	3,686	119.2 %
Balance	-3,036	-2,104	-445	418	-3	- 1,180	x
Transit	5,258	5,096	3,396	2,421	3,238	2,995	92.5 %

Note: In 1996 there was a change in the accounting method for imports and exports and has been reflected back into the figures of previous years.

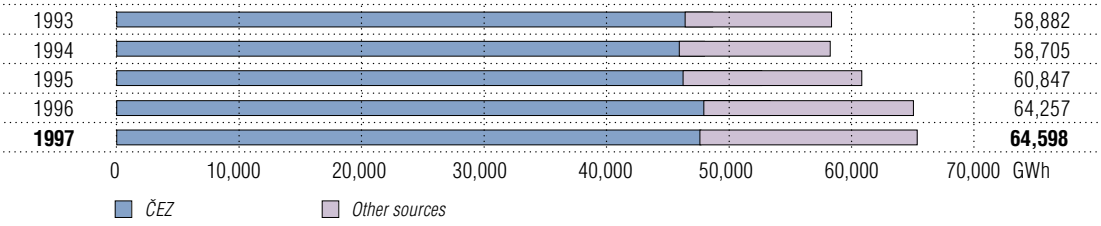
■ Development of Electricity Generation

Development of the Installed Capacity of Generation Sources and Electricity Generation in the Czech Republic and ČEZ

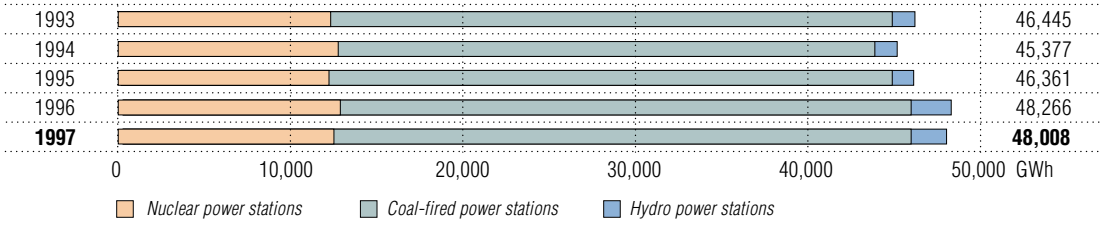
	unit	1993	1994	1995	1996	1997	97/96
Peak loading of the Czech power system	MW	9,288	9,632	10,415	10,814	10,814	100.0 %
Date of peak loading of the Czech power system	x	1. 12.	19. 12.	6. 12.	25. 1.	7. 1.	x
Installed capacity in the Czech power system as of Dec. 31	MW	14,227	13,826	13,793	14,937	15,073	100.9 %
of which: ČEZ	MW	10,655	10,235	10,184	10,999	10,999	100.0 %
	%	74.9	74.0	73.8	73.6	73.0	x
Total electricity generation in the Czech Republic	GWh	58,882	58,705	60,847	64,257	64,598	100.5 %
of which: ČEZ	GWh	46,445	45,377	46,361	48,266	48,008	99.5 %
	%	78.9	77.3	76.2	75.1	74.3	x

In 1997, the installed capacity of generation sources in the Czech Republic increased by 0.9% compared to 1996. The generation of electricity at all generation sources in the Czech Republic increased by 341 GWh (+ 0.5%). ČEZ generation, however, decreased by 258 GWh (- 0.5%), whereas the generation at other sources increased by 599 GWh (+ 3.7%). As a result, the ČEZ share in the total generation of electricity in the Czech Republic slightly decreased from 75.1% to 74.3%.

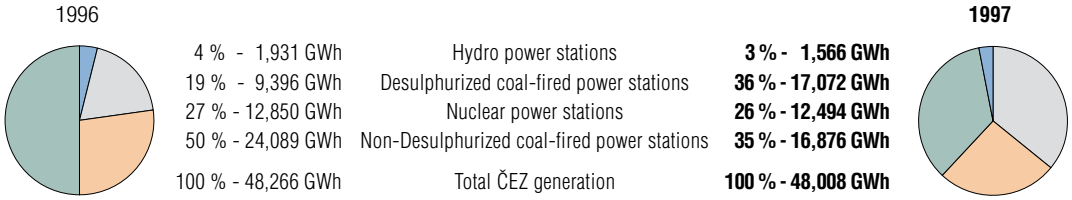
Electricity Generation in the Czech Republic (GWh)



Electricity Generation at ČEZ (GWh)



Share of Electricity Generation at ČEZ



1996		1997
4 % - 1,931 GWh	Hydro power stations	**3 % - 1,566 GWh**
19 % - 9,396 GWh	Desulphurized coal-fired power stations	**36 % - 17,072 GWh**
27 % - 12,850 GWh	Nuclear power stations	**26 % - 12,494 GWh**
50 % - 24,089 GWh	Non-Desulphurized coal-fired power stations	**35 % - 16,876 GWh**
100 % - 48,266 GWh	Total ČEZ generation	**100 % - 48,008 GWh**

In 1997, the share of electricity generation by environmentally friendly processes once again increased from 50 to 65% through the significant increase of the number of desulphurized units at coal-fired power stations. Due to less favorable hydrological conditions, as well as lower utilization of pumped-storage hydro power stations, the share of electricity produced by the most environmentally friendly power stations slightly decreased.

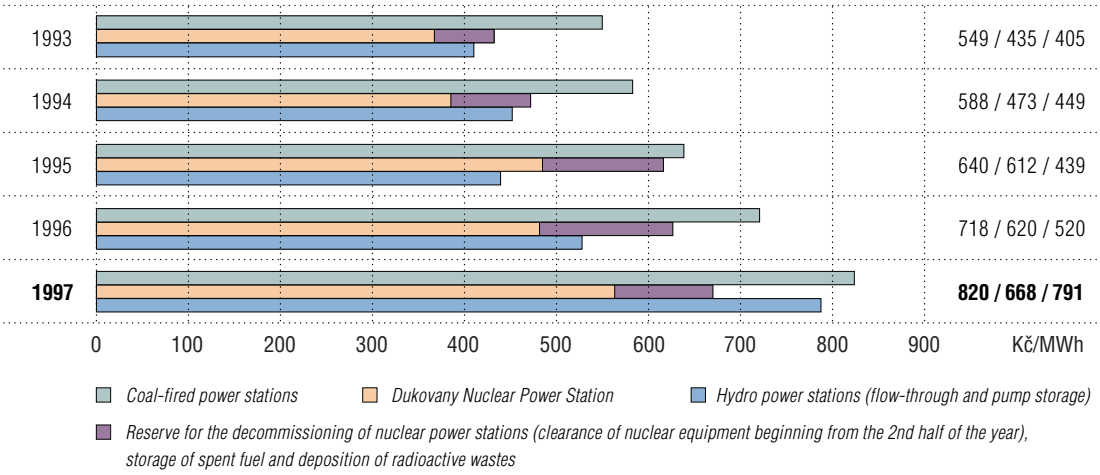
Of the total amount of electricity generated at ČEZ, 65% was produced by generation sources which comply with the "Clean Air Act" No. 309/91 Coll. (in its latest amendment), a year before this statute comes into effect (Jan. 1, 1999).

Development of Costs related to Electricity Generation

Despite the number of measures aimed mainly at the lowering heat rate, reducing the number of employees, etc., the cost of supplying electricity and heat from ČEZ's sources has continued to rise in the last few years. The following reasons have contributed to the increase in cost:

a) an overall inflationary increase in the price of basic inputs (mainly involving services) for the generation of electricity and heat;
b) the inclusion of financial reserves (for the future decommissioning of nuclear power stations and disposal of spent nuclear fuel) which would be included in the fixed costs of nuclear power stations as of 1993;
c) the increase in depreciation costs, linked to the completion of major projects;
d) the increase of financial costs relating to the increase in company debt;
e) significant decrease of electricity generation at hydro power stations in 1997 due to unfavorable hydrological conditions.

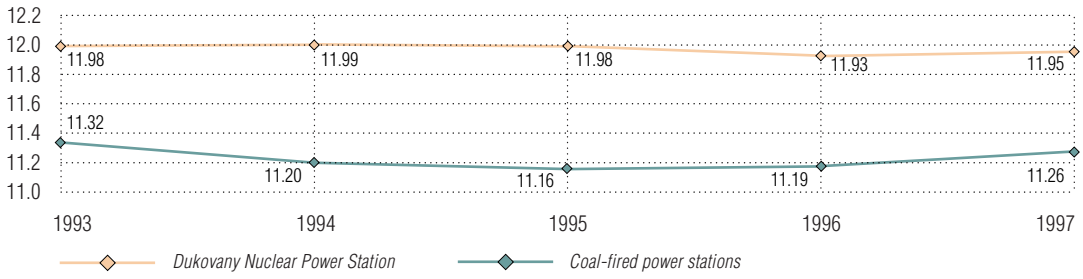
Specific Costs for the Supply of Electricity at the Dukovany Nuclear Power Station and at Coal-Fired and Hydro Power Stations



Development of Efficiency and Failure Rate Indicators

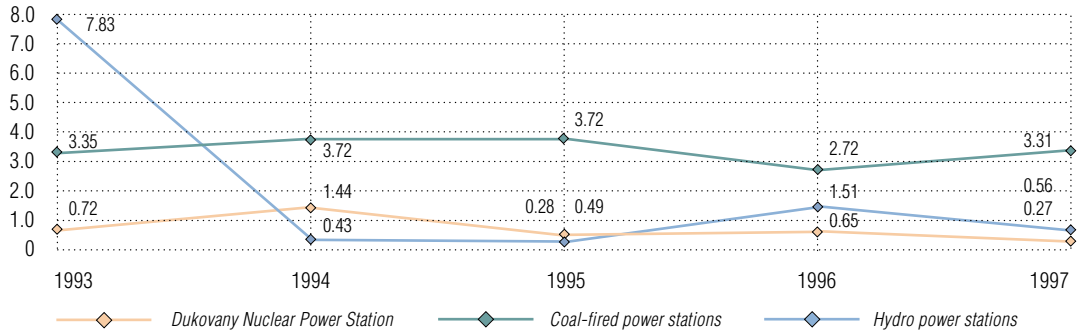
The heat rate for energy generation in classical-fuel generation units started increasing as a result of the intensive commissioning of new technologies for the treatment of combustion by-products and other wastes. A slight increase of the heat rate in the Dukovany Nuclear Power Station by 0.2%, compared to 1996, has been caused by the higher outside temperature in 1997.

Development of Heat Rate at Coal-Fired Power Stations and at Dukovany Nuclear Power Station (GJ/MWh)



The failure rate of generation units at the Dukovany Nuclear Power Station continued to decrease in 1997 reaching the low value of 0.27% of its maximum capacity due to increased quality of repairs and maintenance. In addition, the failure rate of hydro power stations decreased compared to previous years. In the case of classic fuel power stations, the failure rate has somewhat increased as anticipated because of the commissioning of new technologies used for the treatment of combustion by-products.

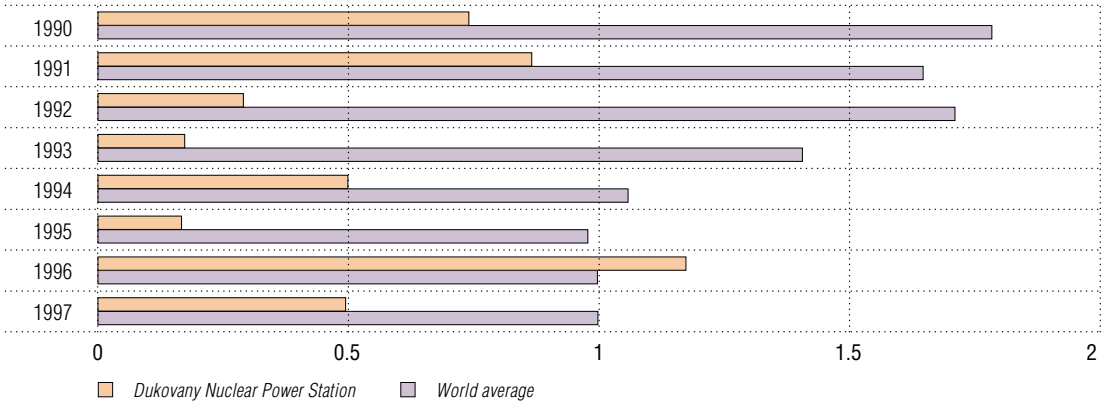
Development of Failure Rate at Coal-Fired and Hydro Power Stations and Dukovany Nuclear Power Station (% of maximum capacity)



Note: Technical failures were specified in the 1996 annual report for the Dukovany Nuclear Power Station. The failures included control system failures and unplanned power outages due to power station reserves (unplanned maintenance during periods of excessive output in the power system)

The number of automatic shut-downs (due to reactor break-downs), converted to 7,000 hours of operation under critical conditions, decreased at the Dukovany Nuclear Power Station by more than 50% compared to 1996.

Comparsion of the Number of Unplanned Shut-Downs at Dukovany Nuclear Power Station with the World Average



Note: The World average for 1997 has been calculated using the last 12 months before June 30, 1997. Data for the entire year were not available.

■ The Repair and Maintenance Program

Nuclear Power Stations

A total of 890 million CZK was expended for repairs and maintenance of nuclear power stations in 1997 in order to ensure a high standard of safety and reliability.

The total expenses at the Dukovany Nuclear Power Station in 1997 reached 837 million CZK, of which 442 million CZK (53%) has been used for capital repairs of all main generation units.

The total expenditures at the Temelín Nuclear Power Station, which is still under construction, reached 62 million CZK in 1997. A portion of these funds has been used for regularly planned maintenance activities at facilities and structures.

Coal-Fired Power Stations

A total of 3,800 million CZK was expended for the repairs and maintenance of ČEZ coal-fired power stations in 1997, of which 1,777 million CZK (47%) has been used for capital repairs. Six capital repairs have been completed and one capital repair with long-term down-time is continuing in 1998. Six capital repairs have been carried out at heat generation plants.

The most significant activities focused on the environmental upgrading of generation sources. This increased the availability of generation sources and improved their dynamic properties (with respect to the interconnection of the Czech power system with the UCPTE). These activities included:

- the replacement of old parts of boiler pressure systems and other upgrading activities, intended to improve the dynamic properties of generation sources within the framework of implemented capital repair works;
- reconstruction of the control system of unit No. 3 at the Dětmarovice Power Station, unit No. 4 at the Chvaletice Power Station, unit No. 25 at the Prunéřov II Power Station, unit No. 23 at the Tušimice II Power Station and unit No. 6 at the Tisová II Power Station;
- reconstruction of electrical precipitators of unit No. 4 at the Chvaletice Power Station and unit No. 25 at the Prunéřov II Power Station;
- primary adjustments intended for the abatement of the NOx unit No. 3 at the Dětmarovice Power Station and unit No. 6 at the Tisová II Power Station; and
- initiation of reconstruction of the low-pressure turbine section at the Prunéřov II Power Station.

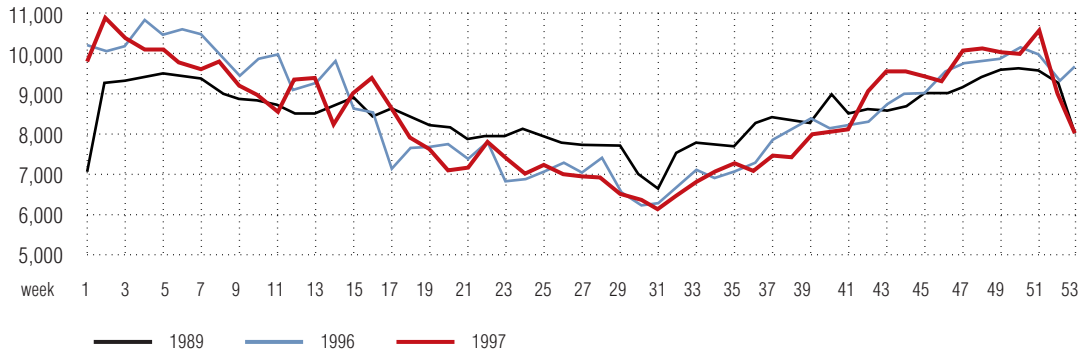
Electricity Trade

The decrease in electricity consumption in the Czech Republic in 1997 was caused by a combination of factors:

- climatic effects - the average temperature in 1997 was 1.5 °C higher than in 1996, resulting in a lower consumption of electricity for heating purposes, especially during the period from the end of January until the middle of March;
- lower GDP growth in the Czech republic;
- lower electricity demand within the economy;
- July flooding in Moravia and eastern Bohemia.

The graph below shows the development of weekly peak loads on the Czech power system in 1989, 1996 and 1997. The load was higher in 1997 relative to 1996 during the first 21 weeks and lower during the remaining 31 weeks.

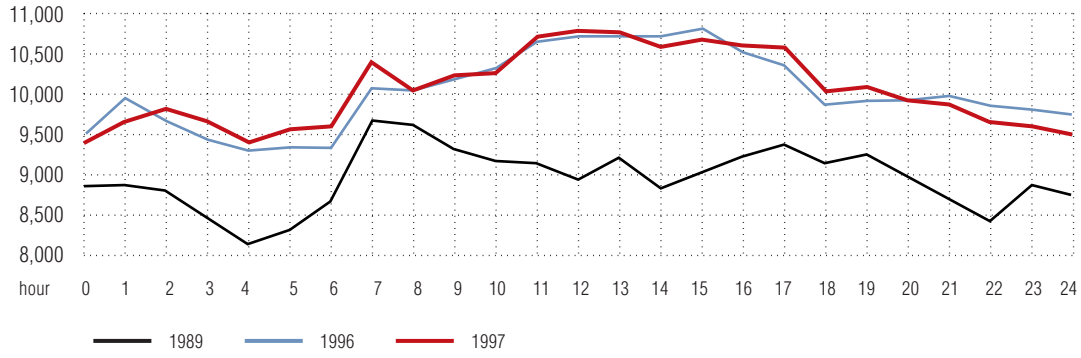
Peak Weekly Loads (MW)



The Environmental Program of ČEZ is reaching its final stage. It is focused mainly on eliminating pollutant emissions from coal-fired power stations and minimizing negative effects of electricity generation on the environment. The construction of remaining desulphurization facilities and fluidized-bed boilers will be completed by the end of 1998. All operating generation sources will then comply with the limits specified by the Clean Air Act, which comes into effect on January 1, 1999.

The maximum peak load on the Czech power system of 10,814 MW was attained on Jan. 7, 1997 at 12 a.m. Its magnitude did not change compared to 1996. The daily load diagram for this day is illustrated below. For comparison, the loads during the highest annual peak days in 1989 and 1996 are shown as well.

Load Diagram for the Day of the Annual Peak (MW)



Balance Sheet of Electricity Procured and Supplied by ČEZ

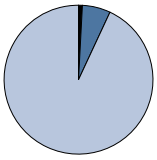
	1996 GWh	1997 GWh	97/96 %
Procured by:			
Own generation	48,266	48,008	99.5
Purchase from independent power producers	3,945	4,132	104.7
Purchase from industrial power plants	910	831	91.3
Purchase from distribution companies (REAS)	60	78	130.0
Import	2,452	1,567	63.9
Total	**55,633**	**54,616**	**98.2**
Supplied to:			
Distribution companies (REAS)	46,796	45,439	97.1
Direct end users	541	143	26.4
Export	3,091	3,751	121.4
other ČEZ consumption	4,362	4,490	102.9
of which: in-house consumption	3,461	3,671	106.1
pumping consumption in pumped storage hydro power stations	596	517	86.7
other consumption	305	302	99.0
Losses in transmission networks	843	793	94.1
Total	**55,633**	**54,616**	**98.2**

In 1997 ČEZ's share in the coverage of total electricity demand in the Czech Republic was 78.2%, a decrease from 80% in 1996. The main reasons for this drop is an increase in imported energy by distribution companies, using 110 kV distribution networks, and a 3.7% production increase on the part of other domestic producers.

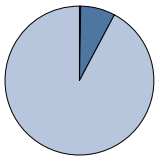
ČEZ accounted for the majority at imported electricity (approx. 60%) response to the requirements of the power system during the winter months. A smaller amount (approx. 40%) of imported electricity was procured by other importers who were active all year, (regardless of the available capacity of domestic sources during the 2nd and 3rd quarter).

The majority of electrical energy procured by ČEZ in 1997 (92.1 %) was sold to eight distribution companies that supply electricity to final customers throughout the Czech Republic. The remainder was intended for export (7.6%) and direct supply to final customers (only 0.3%). Of these three areas, annual growth was achieved only in the export area, thereby partially compensating for the decline in electricity sales in the domestic market.

Sales Structure of Electricity Procured by ČEZ



1996		1997
1.0 % - 518 GWh	Direct customers	**0.3 % - 143 GWh**
6.1 % - 3,091 GWh	Exports	**7.6 % - 3,751 GWh**
92.9 % - 46,796 GWh	Distribution companies	**92.1 % - 45,439 GWh**
100 % - 50,405 GWh	Total	**100 % - 49,333 GWh**

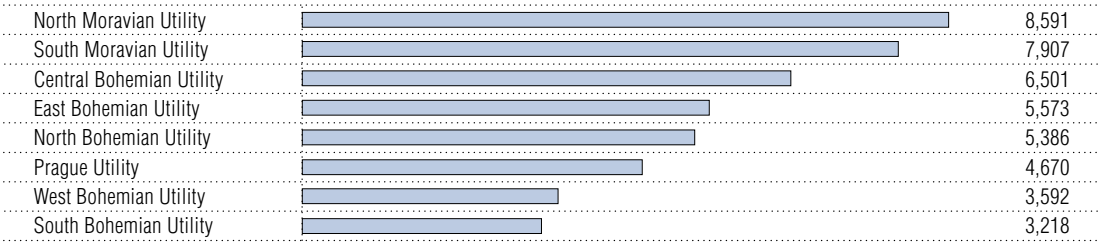


■ Sales of Electrical Energy to Distribution Companies in 1997

Sales to individual electricity distribution companies varied considerably. The greatest volume of sales in 1997 was to the North Moravian Distribution Company, almost three times greater than the volume of sales to the smallest customer, the South Bohemian Distribution Company. The volume of electricity sales to individual distribution companies depends on a number of factors, the most important of which are:

- The number of customers mainly industrial demanding electrical energy;
- The number of inhabitants; and
- The purchase of electricity from other suppliers (imported electricity and independent electricity producers).

Sales of Electrical Energy to Distribution Companies in 1997 (GWh)



North Moravian Utility	8,591
South Moravian Utility	7,907
Central Bohemian Utility	6,501
East Bohemian Utility	5,573
North Bohemian Utility	5,386
Prague Utility	4,670
West Bohemian Utility	3,592
South Bohemian Utility	3,218

The price at which power distribution companies sell electricity to their customers is regulated by the state and in the case of supplying households does not sufficiently cover the costs associated with the development of both the distribution companies and their main supplier (ČEZ).

The negotiation of contractual agreements with these crucial customers - distribution companies - for the supply of electricity in 1997 was very difficult and complicated by the fact that electricity prices, belonging to the category of regulated prices, were not established by the Ministry of Finance of the Czech Republic (assessment No. 04/97) until April 22, 1997.

The prices for which ČEZ sells electricity to distribution companies were assigned to the regulated price category in 1996. Whereas in 1995 and 1996 prices were established in the form of a single-item tariff (CZK/MWh), in 1997 the prices were once again calculated by considering electrical output and electrical energy, and differentiating consumption by peak, day and night zones.

Although the price assessment solved the main problem of price specification of electricity supply, the negotiations regarding other contractual provisions (agreement regarding the aplication of the newly specified price to the beginning of the year, as well as technical and financial provisions) with several distribution companies were very difficult. The negotiations of contractual provisions were also complicated by the unclear position of both parties under the present legislature.

For these reasons, the first contracts were not signed until the end of June, and the last contract was signed in the middle of September.

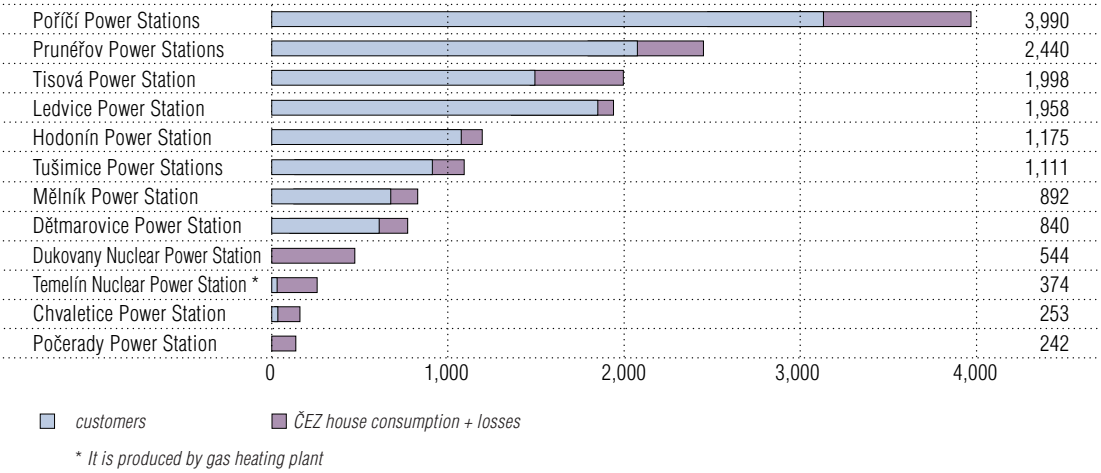
■ Heat Trade

ČEZ's share of the heat market has stabilized with annual variations, mainly due to climatic conditions. ČEZ is one of the largest heat suppliers in the Czech Republic and produces the highest share of heat (95%) using the combined cycle.

Supplies of Heat ČEZ Sources (TJ)

At the present time, ČEZ supplies heat from 12 organizational units. The amount of individual supply varies significantly.

Supplies of Heat from Organizational Units in 1997 (TJ)



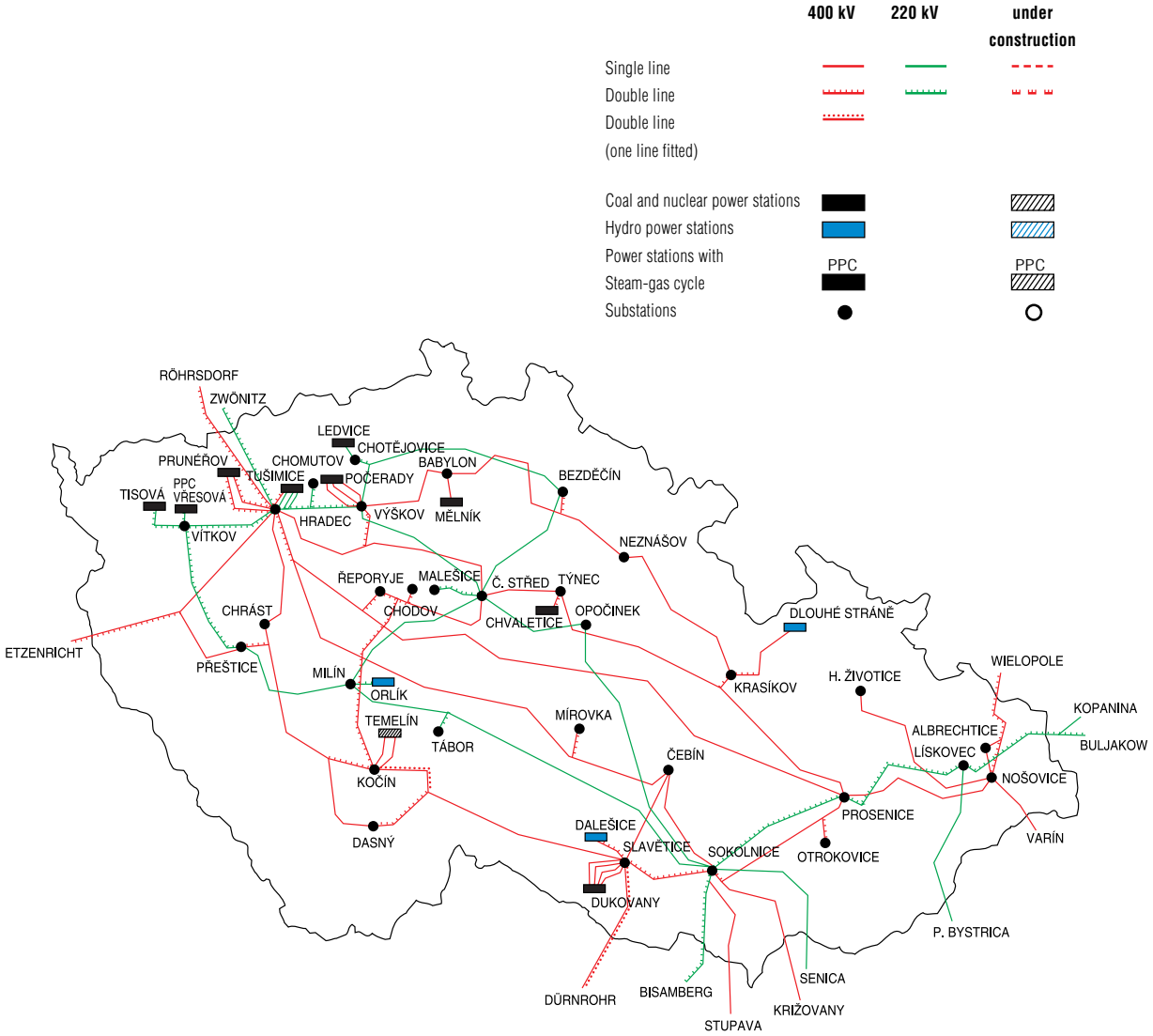
** It is produced by gas heating plant*

Compared to 1996, heat supplies dropped by 8.3% in 1997. Lower heat sales were the result of a higher average temperature in 1997 (1.5 °C higher than in 1996), while the number of consumers remained practically the same. The maximum attained heat output of ČEZ heat supplies was 1,590 MW in 1997, 3% less than in 1996.

Balance Sheet of Heat Procured and Supplied by ČEZ

	1996	1997	97/96
	TJ	TJ	%
Procured by:			
Own generation	16,447	15,112	91.9
Purchase from other producers	800	705	88.1
Total	**17,247**	**15,817**	**91.7**
Supplied to:			
Heating companies	4,863	4,339	89.2
Other consumers	8,281	7,508	90.7
Export	186	169	90.9
Own consumption	2,571	2,397	93.2
Subtotal	15,901	14,413	90.6
Losses in networks	1,346	1,404	104.3
Total	**17,247**	**15,817**	**91.7**

■ Description of the Transmission System Equipment



Transmission line voltage	Single length (km)	Double length (km)	Total length (km)
400 kV	2,404	511	2,915
220 kV	976	509	1,485
110 kV	50	84	134

Transformers voltage	Number	Output (MVA)
400/220 kV	4	2,030
400/110 kV	39	10,470
220/110 kV	21	4,200

Distribution voltage	Number
400 kV	23
220 kV	14
110 kV	1

The transmission system is a sub-system of the Czech power industry. It includes equipment for the transmission of electrical energy at voltage levels of 400 and 220 kV and selected equipment of 110 kV, including control systems. The transmission system is provided with the installed capacity (8,118 MW in total) of domestic sources. Only one of the sources providing power to the transmission system (Vřesová Power Station with a capacity of 364 MW) is not owned by ČEZ. The transmission system provides system services to its customers. For this activity, ČEZ procures supporting services from both domestic and foreign sources.
The transmission system is fully consistent with the European standard in terms of its configuration and sizing of network elements in relationship with the locations of consumption and source points. It is connected to foreign systems through ten 400 kV transmission lines and eight 220 kV transmission lines.

■ Operation and Maintenance of the Transmission System

The operation of the transmission system in 1997 was relatively smooth and reliable. In total, there were 140 breakdowns and 64 malfunctions, of which 16 breakdowns caused damage to equipment. One of the most serious failures occurred in the 400 kV Sokolnice Switching Station, caused by a faulty connection of secondary circuits of transformer T401 on March 20, 1997. The other was the destruction of the 400 kV transmission line support tower at Slavětice - Sokolnice caused by strong wind conditions on July 4, 1997. A gradual renewal of the 220 kV system and transmission system stations continued in 1997, with the objective of gradual conversion to remote control and automated operation of these stations. In December, the 220 kV Tábor Switching Station was the first station of the transmission system to be converted to remote control mode of operation.

■ Development of the Transmission System

The development of the transmission system in 1997 focused on:

- preparing for construction of new coal and gas sources of ČEZ in various locations;
- carrying out joint studies related to the development of 400 to 110 kV transformer linkages and the connected 100 kV networks of the North Bohemian Utility, East Bohemian Utility and North Moravian Utility;
- issuing of 400 to 220 kV, 400 to 110 kV and 220 to 110 kV transformer linkages in the Central Bohemia Switching Station;
- eliminating high levels of short circuiting in the 400 kV Hradec u Kadaně Switching Station, with the proposal to separate the aging switching station into two sections and carry out reconstruction works; and
- incorporating the northern sections of the 400 kV cross connection into the transmission system schematic.

ČEZ and the Polish company PSE SA, are preparing to strengthen the capacity of transmission at the Czech-Polish border. This will be accomplished through the reconstruction of the 220 kV Lískovec - Poland double transmission line to a current load of 1,050 A at each line.
Work continued on local automation of pilot junction points and the interaction of the tertial voltage regulation with these automation systems, within the framework of constructing the voltage regulation and reactive capacity systems. An automatic voltage regulator at the Týnec pilot junction point, which controls the excitation of the Chvaletice Power Station alternators, was put into operation.

■ Control of the Power System

The year-long operation of the power system was implemented within the framework of the synchronous interconnection with the West European interconnected system UCPTE.

The Central Control Center of ČEZ ensured the following:

- maintenance of the qualitative indicators of the power system operation within permitted limits;
- compliance with the conditions of international cooperation;
- maintenance of the daily diagram of electricity consumption in accordance with the Energy Law (No. 222/94 Coll.) requirements; and
- fulfillment of system services.

During the course of the year there were no serious breakdowns of the power system control, which would affect the reliability and quality of electrical energy supply. The summer flooding in Moravia and eastern Bohemia did not affect the quality and reliability of operation.

The flooding only caused losses of several measurements required for the regulation of the Czech power system within the framework of CENTREL, resulting in extra efforts to regulate sources during a few weeks.

ČEZ took part in the activities of the Association of Authorized Holders for Generation and Distribution at the Central Electrical Energy Control Center of the Czech Republic, especially in the preparation of the Control Regulations of law No. 222/94 Coll.

Along with the start of operation of the 400 kV Přeštice - Etzenricht (Germany) transmission line, a new operation arrangement came into effect between ČEZ and BAG (power utility active in Bavaria, Germany), specifying the mutual relationship, operation standards and means of cooperation.

■ Synchronous Cooperation with UCPTE

The pilot operation with UCPTE was successfully completed in September 1997. Full cooperation was initiated within the framework of the interconnected power system. Based on the evaluation of the pilot operation, measures are being taken in order to improve the regulation systems of power stations. The main objective is to prevent inter-system frequency fluctuations, as well as unplanned fluctuations of electrical delivery which may affect the reliability of operation of international interconnecting transmission lines of the power system. The pilot operation confirmed the necessity for exact compliance with operating parameters by all participants of the Czech power system, in order to continue benefiting from international interconnection.

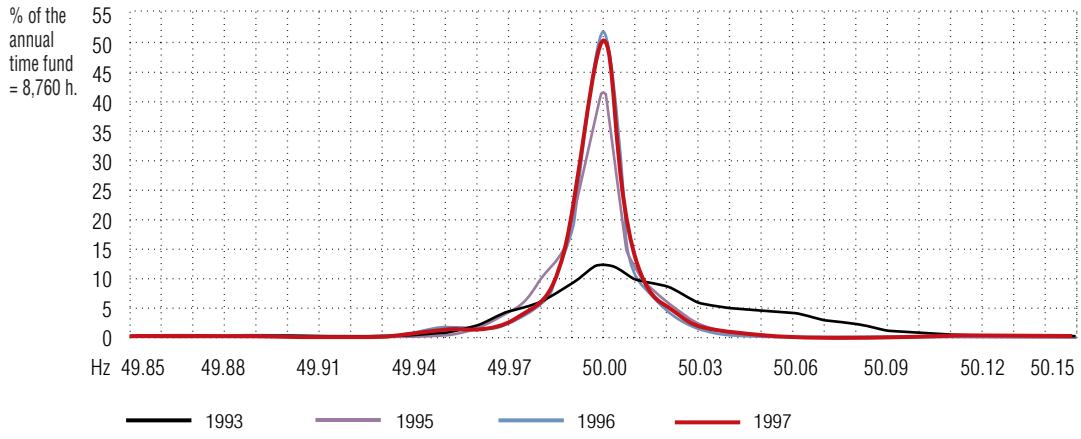
On Oct. 1, 1997, ČEZ filed an official application for membership in UCPTE. UCPTE is an association of power utilities operating system power stations and transmission networks.

In May 1997, ČEZ entered into a consortium of several UCPTE companies (EDF - France, RWE - Germany, Tractabel - Belgium, IVO - Finland) with the objective of taking part in the distinguished project of the European Community, PHARE/TACIS. Its aim is to define conditions for future cooperation between the power systems of Russia, Ukraine, Belarus, Moldavia and UCPTE members. Work on the project began in December and will last two years.

Within the framework of UCPTE, ČEZ is actively participating on the Technical Committee working towards the connection of the Bulgarian and Romanian power systems. The main objective of these activities is to continue to cooperate with power utility partners in the East and allow Czech firms to take part in the upgrading of their power systems.

In 1997 ČEZ held the presidential and a managerial post in the CENTREL secretariat (associating Czech - ČEZ, Polish - PSE SA, Slovak - Slovenské Elektrárne and Hungarian - MVM Rt companies). ČEZ also held the presidential post in CDO (central operation control center of companies of the former Eastern Block Economic Council), which at the time of its 35th anniversary of establishment, became an engineering organization. CDO now principally enables the exchange of operation experience and information related to the development and structure of individual power systems.

Evaluation of Frequency Deviation from the 50 Hz Nominal Value



Regulation of the Czech power field are created by two Ministries. The regulation authority of the Ministry of Industry and Trade oversees management activities of power utilities. The Ministry's conclusions are used by the Ministry of Finance for the establishing electricity prices for consumers and transfer prices between producers and distributors. The price established for households is a political decision and is not based on actual generation and distribution costs.

■ Main Objectives of Modernization and Development Policy

The main objective of ČEZ's modernization and development policy is to create conditions for the generation and distribution of electrical energy and heat in an environmentally friendly manner at an acceptable price, with levels of quality and quantity required by customers. The dominant position of ČEZ binds the Company to fulfill all member agreements as set out by the leading territorial associations of electricity suppliers CENTREL and UCPTE.

An optimal reduction of emissions of sulphur oxides, carbon monoxide and fly ash is being gradually implemented in order to comply with the limits of maximum allowable pollutant emissions, defined by the Clean Air Act (No. 309/1991 Coll.).

ČEZ is currently in the final stages of its environmental program whose main aspects include the following:

- the completion of construction at Temelín Nuclear Power Station with an installed capacity of 2 x 981 MW;
- the phasing-out of the oldest power facilities;
- the desulphurization of coal-fired power stations with 500, 200 and 100/110 MW units, which are to be operated after Dec. 31, 1998;
- the completion of construction and commissioning of fluidized-bed boilers in the Tisová Power Station, Hodonín Power Station, Poříčí Power Station and Ledvice Power Station, with the possibility of retrofitting and environmental upgrading of three 110 MW units in the Tušimice I Power Station;
- the reconstruction and replacement of fly-ash electrostatic precipitators;
- the implementation of technological measures for the reduction of nitrogen oxide (NOx) emissions; and
- the upgrading of water management facilities at power stations with for the operation of desulphurization facilities and the introduction of dry ash and cinder collectors with the objective of decreasing raw water consumption and waste water production.

The gradual application of innovative technologies in the area of waste management continued in 1997. Most importantly, changes are being made to equipment for storing fly-ash and cinder mixtures. This involves a transition from hydraulic floatation to dry extractions, allowing the reprocessing of waste products into material which is more suitable for storage. The reprocessed product may be used as construction material for the recultivation of landfills and for building purposes. Gypsum, the by-product of desulphurization, is an outstanding raw material for secondary processing into building material. Desulphurization by-products are gradually becoming an important component of ČEZ's commercial activities.

The innovation policy is also directed at the modification of equipment which increases energy effectiveness and reliability of power station units. Another significant innovation is the modification of technology for the control of generation units (especially at coal-fired and hydro power stations), in order to increase their dynamic properties to the extent required for the synchronous operation of the interconnected Czech power system with UCPTE members.

Another important initiative has been the applied development and implementation of the new telecommunications network, which uses the optical cable technology and combined optical power earth wires for the 220 and 400 kV transmission line.

Modernization work on the Tušimice I Power Station (3 x 110 MW) has begun based on the analysis of output requirements of the Czech power system and assessment of the installed and available capacity. Preparatory work is continuing for the construction of a new coal-fired source with the likely location at the Dětmarovice Power Station (1 or 2 units 300 MW), as well as a back-up source, which is being considered for the Mělník Power Station. Its fuel base should be formed by high-quality fuels, such as low-sulphur oil or natural gas. Long-term

conceptual analyses were initiated in 1997 and focused on the future replacement of present coal-fired power station units, which operate in the base demand loading zone. New facilities will be more effective during the conversion of primary fuel energy to electrical energy.

Another long-term benefit of the design parameters at the Dlouhé Stráně Pumped Storage Hydro Power Station in northern Moravia is the operational improvement of hydro power stations, which are an integral part of the ČEZ production base. The sustainable energy sources will in the near future include a farm of wind power stations, which is presently being completed, in the Mravenečník area of the Jeseníky mountains.

■ Investment Program

Since its establishment, ČEZ has been carrying out an extensive capital restructuring program, aimed primarily at more environmentally-friendly electricity and heat generation. This involves two basic capital investment projects: the construction of the Temelín Nuclear Power Station and the implementation of environmental investments (desulphurization of combustion gas, construction of new fluidized-bed boilers, fly-ash precipitators, denitrification of combustion products and other environmental measures).

ČEZ Investment Program for the 1994 - 2000 Period (billion CZK)

Investment	Program	Year of implementation				Program
	1994 - 2000	1994	1995	1996	1997	1998 - 2000
Nuclear power	55.3	8.9	7.1	8.6	**7.0**	23.7
of which: Temelín	43.4	8.1	6.0	7.7	**6.1**	15.5
Environment	33.7	6.2	9.7	6.9	**6.4**	4.5
of which: desulphurization	21.4	4.7	6.9	4.2	**3.9**	1.7
fluidized-bed boilers	8.4	0.9	2.3	2.2	**1.8**	1.2
Waste management	9.5	1.8	1.8	2.1	**1.4**	2.4
Steam and steam-gas sources	14.3	2.0	3.5	2.3	**1.7**	4.8
Heat supplies	0.5	0.1	0.1	0.1	**0.1**	0.1
Hydro power stations	3.0	1.1	0.9	0.3	**0.1**	0.6
Czech transmission system	10.8	1.4	1.5	1.1	**1.1**	5.7
Other capital investments	6.3	0.5	0.5	0.9	**1.1**	3.3
Payments for nuclear fuel	15.4	1.4	2.2	1.9	**1.6**	8.3
Interest capitalized	18.7	0.9	2.0	2.9	**2.9**	10.0
Total	**167.5**	**24.3**	**29.3**	**27.1**	**23.4**	**63.4**

In 1997, ČEZ expended 23.4 billion CZK on fixed assets. A substantial amount of this (6.4 billion CZK, or 33.9%) was used for investments in environmental protection (desulphurization, fluidized-bed boilers and other environmental construction). ČEZ invested 6.1 billion CZK (or 32% of the total investment volume in 1997) into the construction of the Temelín Nuclear Power Station.

■ Temelín Nuclear Power Station

The highly challenging nature of the Temelín Nuclear Power Station construction project due to the need to increase the overall nuclear safety level of the future plant, continues to cause delays in the construction deadlines. This results in the delay of the overall construction completion date and increasing pressure on the budget by suppliers.

Budgetary and time schedule analyses for the completion of construction of the Temelín Nuclear Power Station were carried out in the spring of 1998. At the same time, negotiations between ČEZ and sub-contractors took place with the objective of reaching a contractual agreement on the completion date and final expenditures.

According to the above analyses, the expenditures related to the construction of the Temelín Nuclear Power Station will reach 98.6 billion CZK (of which 5.6 billion CZK will cover interest payments during construction). The date for loading nuclear fuel into the 1st unit was established as August 2000. If the above resolution is achieved, the commercial operation of the 1st unit could be initiated in May 2001. The interval between the start of operation of the 1st and 2nd unit is 18 months. Analyses are being developed in order to evaluate the possibility of a shorter interval.

■ Investments at Dukovany Nuclear Power Station

In 1997, during the course of extensive capital repairs to the 3rd and 4th units, a successful reconstruction of the in-plant consumption 0.4 kV sectional switchgear was implemented. The reconstruction of switchgear at all four units was then completed.

The reconstruction of approx. 850 switchgear fields resulted in improved nuclear and fire safety, as well as operational reliability of the specified system. The seismic resistance of the equipment reached a level corresponding to present requirements. From an economical point of view, the reconstruction resulted in decreased maintenance costs, including a shorter period for scheduled equipment shut downs required for inspections and enhancement of operational reliability.

The switchgear problem was solved by a complex reconstruction, while taking into consideration the planned service life extension of equipment at the Dukovany Nuclear Power Station.

During the course of shut downs in 1997, other important projects have been implemented in order to increase nuclear safety. These included the reconstruction of the neutral point of compensator safety valves at all four units (a standard solution for the increase of nuclear safety of this type of equipment) and the installation of a monitoring system for hydrogen removal inside the sealing zone of all units, under post-breakdown conditions.

■ Interim Storage Facility for Spent Fuel at Dukovany Nuclear Power Station

An important event in the Czech power industry was the final approval of an interim storage facility for spent nuclear fuel at the Dukovany Nuclear Power Station in March 1997. The storage facility's capacity of 600 t is sufficient for storing spent fuel produced in the Dukovany Nuclear Power Station until the year 2005. The completed interim storage facility is part of the process of providing a back-end of the fuel cycle and will serve as a temporary storage for nuclear fuel before its transportation to a permanent disposal location or other utilization.

■ Central Interim Storage Facility of Spent Nuclear Fuel

On Mar. 5, 1997, the Government of the Czech Republic passed a bill (decree No. 121/97), in which it expressed its agreement with the expansion of spent fuel facilities located in nuclear power stations. Government decree No. 213/92, related to capacity restrictions of the interim storage facility at Dukovany Nuclear Power Station, was annulled.

The basis for the above-mentioned Government decree was a draft report regarding storage of spent nuclear fuel in the Czech Republic, submitted by the Ministry of Industry and Trade at the beginning of 1997. The report, in accordance with the opinions of the Ministry of Environment, issued in 1996, recommended two alternatives for the construction of additional storage facilities. The preferred alternative involved the establishment of a storage facility for spent nuclear fuel at the Dukovany Nuclear Power Station and Temelín Nuclear Power Station. The construction of a central interim storage facility in the Skalka location was presented as the back-up alternative.
Based on the above decision of the Czech Government and the consideration of possible risks during the placement of such facilities, ČEZ management decided to initiate the creation of an interim storage facility for spent nuclear fuel produced at the Dukovany Nuclear Power Station. The storage facility would be located at the the power station (main project alternative). The creation of a central interim storage facility at the Skalka location was selected as the back-up alternative pending the decision on location of the plant. In the fourth quarter, documentation in compliance with law No. 244/92 Coll. was initiated, as well as that required for the location proceedings on both facilities.
The preparation of an interim storage facility for spent fuel from the Temelín Nuclear Power Station, at the same location, will be initiated after the 2nd unit commences operation.

■ Environmental Investment

In the beginning of 1997, a total of 2,932 MW of the installed capacity of desulphurization equipment and fluidized-bed boilers complied with emission limits. The desulphurization of an additional 800 MW in the Tušimice II Power Station, 100 MW in the Tisová II Power Station and 400 MW in the Chvaletice Power Station, as well as the initiation of a pilot operation of secondary fluidized-bed boilers in the Tisová I Power Station (350 t/h) and the Hodonín Power Station (170 t/h) resulted in the increase of this capacity to 4,342 MW by the end of 1997.

Tušimice II Power Station

The pilot operation of desulphurization equipment at all four units, with individual installed capacity of 200 MW, commenced in March. The construction has not been completed and will continue under an expanded construction program until the end of 1999. The objective is to increase the reliability of operation parameters through the partial modification of technological equipment.

Tisová Power Station

In addition to the first fluidized-bed boiler in this power station, the pilot operation of the second fluidized-bed boiler with a rated capacity of 350 t/h was initiated in August.
The pilot operation of desulphurization equipment at unit No. 6 (100 MW) began in September. Permanent operation began in December based on the final authorization.
An important related facility is the stabilizer production plant, intended for the processing of fly-ash and gypsum, waste products from the desulphurization process of combustion gases. This environmental investment, utilizing waste products as construction material, was completed together with the desulphurization facility. Other environmentally-important and technologically-related facilities include the waste water treatment facility (pilot operation initiated in June) and the complex conversion to dry depositing, which began operating in July.

Chvaletice Power Station

The pilot operation of desulphurization equipment, common for power station units 3 and 4, with individual capacity of 200 MW, was started in November and accepted in December. This investment project utilized the specific solution of releasing desulphurized combustion gases into the atmosphere through cooling columns instead of through the smoke stack. The construction of desulphurization facilities of the additional two 200 MW units is continuing according to schedule, which specifies the year 1998 as the beginning of operation.

This group of facilities, used for the processing, transportation and deposition of desulphurization wastes, including the processing of fly-ash and cinder, has been under pilot operation since September.

Hodonín Power Station

The pilot operation of the first fluidized-bed boiler, with an installed capacity of 170 t/h, was started in September 1996. Required technological modifications were carried out in 1997, in accordance with the results of the pilot operation. The process of repeated operations tests was negatively affected by the flooding in July 1997, resulting in an approximately week-long shut-down of the power station. The fluidized-bed boiler was accepted in December 1997, after modifications were carried out.

Required modifications to the technological equipment for fuel preparation, according to the results of the first fluidized-bed boiler pilot operation, were carried out during the construction of the second fluidized-bed boiler of the same installed capacity (170 t/h). Based on the successful results of operation tests, the fluidized-bed boiler underwent pilot operation in August and was accepted in September 1997.

Dětmarovice Power Station

The desulphurization equipment of four units with an installed capacity of 200 MW is in the final stage of construction. The initial completion date of this project (November 1997) was delayed by approximately five months due to the contractor. An amendment to the work contract, specifying commercial conditions for the project completion and start of operation, has been prepared. The contract amendment extends the warranty period to twice its original length and placed ČEZ, as the client, in a better position. The new deadline for project completion is April 1998.

Mělník Power Station

The construction of desulphurization equipment at the Mělník II Power Station (two 110 MW units) and Mělník III Power Station (one 500 MW unit), the last significant project implemented under the emission reduction program declared by ČEZ in the early 1990s, is being carried out. However, there have been partial delays caused by specific construction difficulties on the part of the contractor. All of the construction problems have been successfully resolved so far. Compliance with the planned due date for the start of operation of the desulphurization equipment in November 1998 is expected.

Ledvice Power Station

The 350 t/h fluidized-bed boiler construction is in its final stage with a new contractual start-of-operation date of July 1998. A two-month construction delay was caused by the effects of the 1997 flooding on the production of important equipment, whose assembly was a necessary requirement for the facility construction.

Poříčí Power Stations

Construction of the first 250 t/h fluidized-bed boiler was completed in 1997. Pilot operation of the boiler and related equipment was initiated in March. The equipment was accepted in November.

Construction of the second 250 t/h fluidized-bed boiler was in its crucial stage in 1997, with a projected start date of December 1998.

Dvůr Králové Heat Generation Plant

Construction of a complex of facilities, including the construction of a substance filter for boiler 3 and reconstruction of coal-fired boilers 1, 2 and 3, including their auxiliary heating by natural gas, was completed in 1997. The required upgrading of technological process control systems was completed along with the above environmental facilities.

■ Other Investments

Replacement of Control Systems of Power Station Generation Units

The implementation of these important construction works took place in 1997, in accordance with time schedules, at the Prunéřov II, Dětmarovice, Chvaletice, Tušimice II and Počerady Power Stations. The objective of the control system replacement at power station units is to improve reliability and safety, as well as energy production effectiveness and to comply with the conditions for interconnecting the Czech power system to the UCPTE.

Telecommunication System

The implementation of earth wires using fiber optics in the 220 and 400 kV transmission lines continued in 1997. The construction of a complex section of optical cable lines with a total length of approximately 1,000 km was completed and operations were initiated. The line length, together with existing lines, is more than 2,000 km long. This includes telecommunication lines with foreign countries (Germany, Poland). The application of this new innovative technology allows a more effective and reliable transmission of control, measurement and information data throughout the Company's telecommunications system.

Transformer Stations

The following transformer station (TS) construction projects were completed in 1997:

- 400/110 kV Chodov TS with a 250 MVA transformer;
- 400/110 kV Central Bohemia VII TS ;
- 400/110 kV Bezděčín II TS with a 250 MVA transformer ;
- 400/110 kV Přeštice TS with a 350 MVA transformer ;
- 400/110 kV Otrokovice III TS with a 350 MVA transformer; and
- 220/110 kV Prosenice TS.

The following transmission line construction projects were completed during 1997:

- 1 x 400 kV Přeštice - Etzenricht (Germany);
- 2 x 400 kV Connection to the Přeštice Transformer Station; and
- 3 x 400 kV and 1 x 220 kV Connection to the Chodov Transformer Station.

ČEZ Strategic Approach Towards the Environment

The ČEZ Business Conception emphasizes the Company's approach and responsibility towards environmental protection. In order to demonstrate its commitment towards the environment, ČEZ is a member of the Entrepreneurial Charter for Sustainable Development.

One of the strategic initiatives is to improve the management process for environmental protection through the introduction of Environmental Management Systems (EMS).

One of the main goals in environmental protection, is to achieve by the year 2000 the following emission reductions (compared to 1993):

- solid air pollutants (fly-ash) by approximately 90%
- sulphur dioxide by approximately 90%
- nitrogen oxides by approximately 55%
- carbon monoxide by approximately 45%

Specific Achievements in Environmental Protection

Development of air-polluting emissions from ČEZ coal-fired power stations

	fly-ash	sulphur dioxide	nitrogen oxides	carbon monoxide
1993 (tons/year)	55,393	719,149	122,212	17,099
1997 (tons/year)	10,625	310,030	67,448	8,910

The above table shows that the 1997 emission levels were reduced compared to 1993 levels as follows:

- solid air pollutants (fly-ash) by 80.1%
- sulphur dioxide by 56.9%
- nitrogen oxides by 44.8%
- carbon monoxide by 47.9%

Reduction of Pollution by Solid Particle Emissions (fly-ash)

Solid particle emissions in 1997 were reduced by 725 tons in comparison with 1996. The fly-ash reduction trend is a result of the replacement, reconstruction and repair program intended for fly-ash electrostatic precipitators. A reconstruction of the electrostatic precipitator of unit 25 in the Prunéřov II Power Station was carried out in 1997. A replacement of active parts, including flue gas ducting, took place at unit 4 of the Chvaletice Power Station. Repairs of electrostatic fly-ash precipitators were implemented at unit 6 of the Tisová II Power Station and boilers 3 and 4 of the Poříčí Power Station. Other tasks included repairs or replacements of old electrostatic precipitator parts at unit 3 of the Dětmarovice Power Station and unit 23 of the Tušimice II Power Station.

Reduction of Sulphur Dioxide Emissions

The operation of desulphurization facilities at an additional seven units in ČEZ's coal-fired power stations was started in 1997. As of December 31, 1997 the total number of units had increased to 23.

Overview of desulphurization equipment in operation as of Dec. 31, 1997

Power Station	Unit	Capacity (MW)	Desulphurization started	Desulphurization technique
Počerady	5, 6	2 x 200	1994	wet limestone scrubbing
	2, 3, 4	3 x 200	1996	wet limestone scrubbing
Prunéřov I	3, 4, 5, 6	4 x 110	1995	wet limestone scrubbing
Ledvice	2, 3	2 x 110	1996	semi-dry
Prunéřov II	21, 22, 23, 24, 25	5 x 210	1996	wet limestone scrubbing
Tušimice II	21*, 22*, 23*, 24*	4 x 200	1997	wet limestone scrubbing
Tisová II	6	1 x 100	1997	wet limestone scrubbing
Chvaletice	3*, 4*	2 x 200	1997	wet limestone scrubbing
Total (units)	**23**	**4,010**	**x**	**x**

** in pilot operation*

The desulphurization equipment generally operates with a higher efficiency than required by legislation for air pollution control.

In addition to the above mentioned desulphurization units, the operation of another two fluidized-bed boilers was started during 1997.

Overview of fluidized-bed boilers in operation as of Dec. 31, 1997

Power station	Fluidized-bed boiler	Steam output (t/h)	Corresponding elect. output (MW)	Operation started
Tisová I	1, 2*	2 x 350	172	1996, 1997
Hodonín	1*, 2*	2 x 170	105	1996, 1997
Poříčí	1	250	55	1996
Total	**5**	**1,290**	**332**	**x**

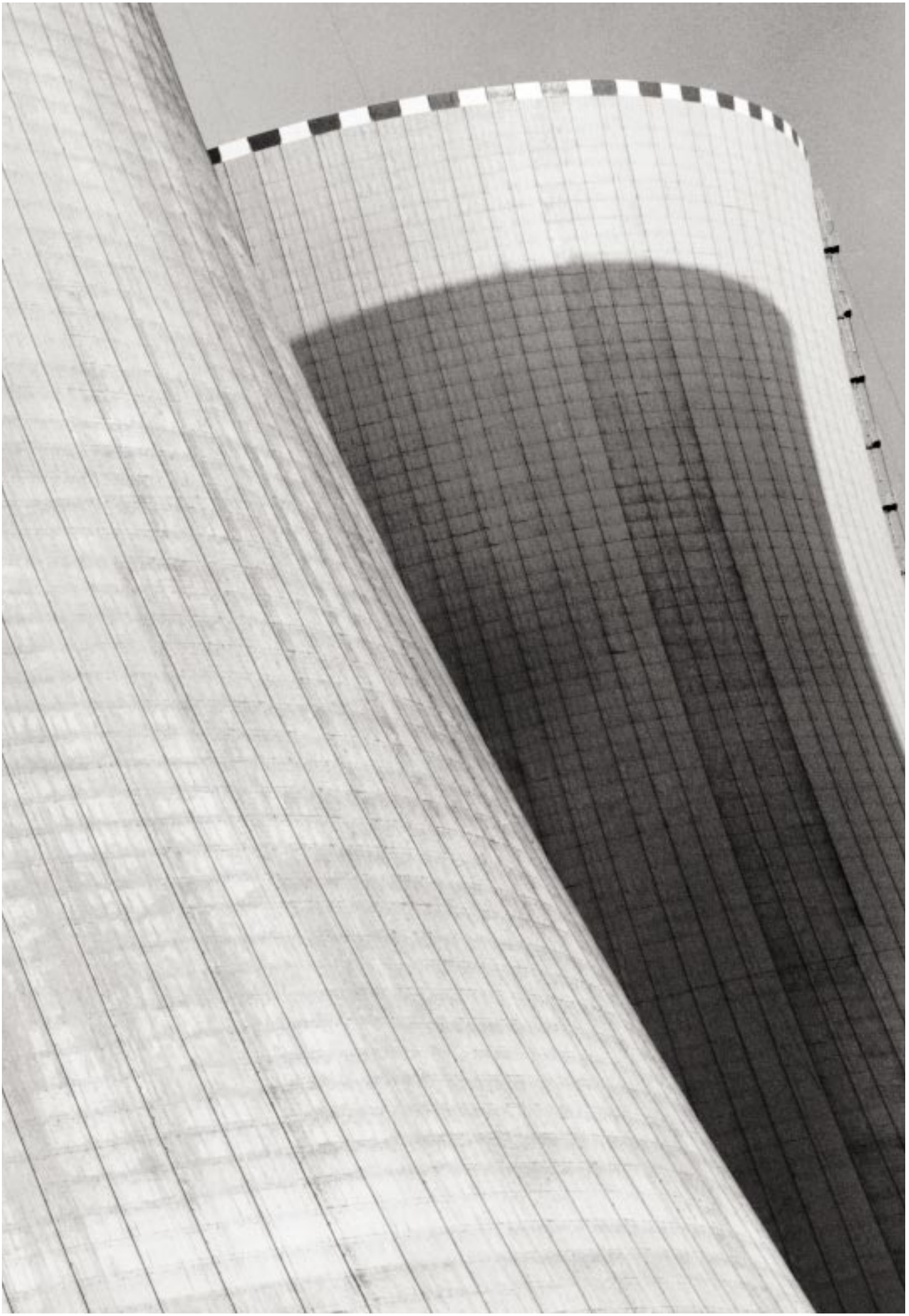
** in pilot operation*

Construction of desulphurization equipment at additional nine units and two fluidized-bed boilers took place in 1997, according to schedule. The construction of desulphurization equipment at the Dětmarovice Power Station was delayed by several months.

Overview of desulphurization equipment under construction as of Dec. 31, 1997

Power station	Unit	Capacity (MW)	Completion of construction	Desulphurization technique
Chvaletice	1, 2	2 x 200	1998	wet limestone scrubbing
Mělník III	11	1 x 500	1998	wet limestone scrubbing
Mělník II	9, 10	2 x 110	1998	wet limestone scrubbing
Dětmarovice	1, 2, 3, 4	4 x 200	1998	wet limestone scrubbing
Celkem	**9**	**1,920**	**x**	**x**

Global warming is a problem, which is becoming one of the top concerns of the general public and politicians. The serious nature of this problem was documented by the conclusions of the international conference in Kyoto, where the world's most economically developed nations committed themselves to an average reduction of carbon dioxide emissions by 8%. ČEZ will reduce these emissions by 25% compared to 1992, once of the Temelín Nuclear Power Station commences operations.



Overview of fluidized-bed boilers under construction as of Dec. 31, 1997

Power station	Steam output (t/h)	Corresponding elect. output (MW)	Completion of Construction
Ledvice	350	110	1998
Poříčí	250	55	1998
Celkem	**600**	**165**	**x**

In addition to the specified environmental measures, the alterations of operation at the Náchod and Dvůr Králové Heat Generation Plants (total installed electrical capacity of 35 MW) will be completed by the end of 1998. The modifications were mainly the replacement of the presently burnt brown coal for natural gas.

Compliance with the coal-fired power station Environmental Upgrading Program as of Dec. 31, 1997

	As of Dec. 31, 1997 (MW)	Scheduled for Jan. 1, 1999 (MW)	Accomplished as of Dec. 31, 1997 (%)
Desulphurization	4,010	5,930	68
Fluidized-bed boilers and others	332	532	55
Total	**4,342**	**6,462**	**67**

The above table shows that by the end of 1997 67% of the coal-fired power station environmental upgrading has been made to comply with the Clean Air Act 309/91 Coll.

Reduction of Nitrogen Oxides Emissions

Primary measures have been taken to reduce nitrogen oxides emissions of the pulverized-coal boilers at ČEZ coal-fired power stations. The low emissions released by the new fluidized-bed boilers are the result of various combustion process methods. In 1997, primary measures were implemented at unit 5 of the Prunéřov I Power Station, unit 6 at the Tisová II Power Station and boilers 3 and 4 of the Poříčí Power Station. A further reduction in the already low emissions of nitrogen oxides has been achieved through capital repair work on unit 4 at the Chvaletice Power Station. Repairs to equipment, which ensures the reduction of nitrogen oxides emissions through primary measures, were carried out in 1997 as part of the capital repair works on unit 25 at the Prunéřov II Power Station and unit 23 at the Tušimice II Power Station.

The Phasing-Out Program of ČEZ Coal-Fired Power Stations

In order to ensure a reliable supply of heat to the cities of Teplice and Bílina, state authorities have permitted the operation of unit 1 (200 MW) at the Ledvice Power Station until the end of September 1998. The operation extension of this unit is on the condition that it complies with individually specified emission limits for solid and gaseous pollutants. This decision is tied to the completion of construction of the fluidized-bed boiler at the Ledvice Power Station.

The operation of remaining blocks 3, 4 and 5 at the Tušimice I Power Station has been extended until Dec. 31, 1998 for similar reasons.

The operation time of non-desulphurized units at the Ledvice and Tušimice I Power Stations was minimal during 1997. ČEZ has fully complied with operating conditions, specified by state authorities. The negative environmental impact of the non-desulphurized unit operation is fully compensated by the higher effectiveness and reliability of desulphurized units (higher than specified by statutory regulations).

Schematic of the Phasing-Out Program of ČEZ Coal-Fired Units

Power station	Unit	Capac. MW	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Tušimice I	B 3	110*										1. 1. 1999	
Tušimice I	B 4	110*										1. 1. 1999	
Tušimice I	B 5	110*										1. 1. 1999	
Mělník II	B 7,8	220										1. 1. 1999	
Poříčí	TG 1	55										1. 1. 1999	
Ledvice	B 1	200										1. 1. 1999	
Tisová	TG 4	50									29. 6. 1998		
Hodonín	TG 1	50									1. 4. 1998		
Tušimice I	B 3	-110							1. 10. 1996				
Hodonín	TG 3	-50							16. 8. 1996				
Hodonín	TG 2	50						2. 1. 1995					
Tušimice I	B 3	110					1. 7. 1994						
Ledvice	B 5	110					1. 2. 1994						
Počerady	B 1	200					1. 1. 1994						
Tušimice I	B 2	110				1. 6. 1993							
Hodonín	TG 3	55				1. 1. 1993							
Tušimice I	B 1	110			1. 4. 1992								
Prunéřov I	B 1	110			1. 1. 1992								
Tisová II	B 8	100			1. 1. 1992								
Tušimice I	B 6	110		1. 7. 1991									
Tisová II	B 7	100		1. 1. 1991									
Prunéřov I	B 2	110		1. 1. 1991									
Cumulative reduction MW			**0**	**320**	**640**	**805**	**1,225**	**1,275**	**1,115**	**1,115**	**1,215**	**2,020**	**2,020**
Total installed capacity of coal-fired power stations in MW			8,482	8,162	7,842	7,677	7,257	7,207	7,367	7,367	7,267	6,462	6,462

** The total capacity of upgraded coal-fired power stations would increase up to 6,792 MW after the retrofitting of three units at the Tušimice I Power Station (330 MW).*

By-product Management

The gradual implementation of the desulphurization equipment and fluidized-bed boiler construction program at coal-fired power stations caused a sharp increase in gypsum production. Whereas in 1995 the total amount of gypsum produced was 0.2 million tons, the expected production volume in 2000 is 2.2 million tons. Preferably, energy generation by-products are processed as secondary raw material. However, at the present time, the majority is being stored as waste. Before an energy product is introduced to the market, it is necessary to evaluate its properties from the point of view of its compliance with the product safety requirements (law No. 22/1997 Coll.) and technical regulations. This certification is subject to a stabilized technological production process, the existence of consumption locations and valid technical standards.

Use of ČEZ By-products in 1997 (thousand tons/year)

By-products	Total	Utilized as secondary raw material	Stored as waste
Production of solid combustion by-products	7,138	1,596	5,542
Desulphurization by-product - Industrial gypsum	927	220	707

At the present time there are two potential partners involved in the desulphurization additive and construction material market, Lhoist Praha, s. r. o., and Cement Bohemia Praha, a. s. The negotiations between those companies and ČEZ resulted in several memoranda covering crucial limestone and lime orders as well as higher utilization of combustion byproducts (by 8 - 10%) on the construction material market. A memorandum with Severočeské doly, a. s. (North Bohemian Mines) is being prepared. It deals with cooperation in the area of effective storage of by-products and should ensure additional environmental benefits as well as reduced costs.

Sustainable Sources of Energy

ČEZ's activities in the area of sustainable energy sources have been focused over the past few years on the utilization of wind and solar power. Other alternative sources are being evaluated on a research level.

The operation of the first ČEZ wind power station (capacity of 315 kW) was initiated in November 1993 in the Dlouhá Louka u Oseka location in Krušné Mountains. Since then, a series of tests has been carried out and measurements taken at the demonstration power station during 1997 and earlier, with the intention of optimizing electricity production. The power station generated 757 MWh of "clean" electricity by the end of 1997.

Preparations for a farm of wind power stations in the Mravenečník u Dlouhých Strání location in Jeseníky Mountains continued in 1997. The wind farm will consist of three units with capacities of 220 kW, 315 kW and 630 kW, respectively. One part of the complex of power stations is an operational solar power station with 10 kW of capacity. The wind farm operation was postponed by the July 1997 flooding when the main supply cable leading to a power station in the Divoká Desná River valley was broken and damaged. Once access to the area was restored, approximately 600 m of cable was replaced, along with the restoration of the Mravenečník farm transformer station. Additional tasks, related to the preparation of the pilot operation, are continuing according to the updated schedule.

■ Staff Profile

Development of the Number of CEZ Employees

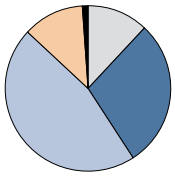
May 6, 1992	16,407
Dec. 31, 1992	16,263
Dec. 31, 1993	13,723
Dec. 31, 1994	12,143
Dec. 31, 1995	11,664
Dec. 31, 1996	11,280
Dec. 31, 1997	**11,157**

The business objective of ČEZ is to match the efficiency as the most successful European power utilities. An important part of this process is the optimization of the number of employees. The selection process for projects, which can be provided more effectively on a contract basis, continued in 1997. Savings were achieved through a change in the composition of employees, resulting from a gradual unification of the organizational structure at ČEZ. In addition, qualified personnel were appointed to newly created employment positions, especially in the desulphurization unit operation areas.

ČEZ had 11,157 employees as of Dec. 31, 1997. Since its establishment in 1992, the Company has decreased the number of employees by 5,250, a reduction of 32%. ČEZ is thereby approaching its objective of employing 9,000 people by the end of 2000.

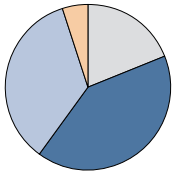
Changes in the Educational Background of ČEZ Employees

1992



12 % -	2,000 persons	University level	**19 % -**	**2,132 persons**
29 % -	4,651 persons	Secondary level	**41 % -**	**4,579 persons**
46 % -	7,546 persons	Vocational (secondary) level	**35 % -**	**3,827 persons**
12 % -	1,970 persons	Elementary level	**5 % -**	**583 persons**
1 % -	96 persons	Incomplete education	**0 % -**	**36 persons**
100 % -	16,263 persons	Total	**100 % -**	**11,157 persons**

1997



The proportion of employees at ČEZ having secondary and university levels of education increased between 1992 to 1997. At the same time there was a reduction in the number of employment positions.

■ Education and Training of Employees

The professional education and training of employees focused mainly on improving the skills required for high quality implementation of Company tasks. The education and training included hands-on instruction, in-class education, periodic and special preparation classes, short-term vocational courses and educational programs for middle and top management.

Education and training is taking place in the following areas:

- foreign languages;
- communications;
- computers; and
- part-time education for Human Resources employees.

■ Social Programs

The development of a social program, which is an important element in the overall satisfaction of Company employees, continues as during previous years. ČEZ has contributed 130 million CZK into the social fund.

Company catering is available in almost all canteens. All employees have been provided with a meal allowance from the social fund.

A considerable part of the social program included a contribution to the employee retirement plan, providing 90% of ČEZ employees with retirement insurance.

In addition to the meal allowance and retirement insurance plan, social fund resources were used for other purposes agreed upon in the collective agreement, including recreational stays, health care, transportation to the work location, partial reimbursement of temporary accommodation costs and social aid.

The Company social plan also includes care provisions for former employees.

As during the previous years, employees were given the opportunity to apply for interest-free loans for housing purposes, either purchase or furnishing of their homes. A total amount of 25 million CZK was intended for these purposes.

ČEZ assisted with the housing and accommodation of employees using its own stock of flats.

In accordance with appropriate legal regulations, the Company provided preventive health care in the work place, as well as other health plans for employees.

As of Jan. 1, 1997, Company employees were provided with an electricity consumption allowance, equal to the financial equivalent of 200 kWh per month in the “B” rate.

■ Development of the Power Industry Legal Framework

In February 1997, an Act on the Peaceful Use of Atomic Energy and Ionizing Radiation, the so-called "Atomic Act" was passed and published in the Collection of Laws of the Czech Republic under No. 18/1997 Coll. This law has great importance for ČEZ, due to the generation of electricity at the Dukovany Nuclear Power Station and the construction of the Temelín Nuclear Power Station. Compliance with the provisions contained by this law is necessary for the issuing of permits required for the construction and operation of nuclear power stations.

The Atomic Law accomplishes the following:

- regulates the conditions for using nuclear energy;
- regulates the treatment and disposal of nuclear wastes;
- regulates civil-law liabilities for nuclear damage using the provisions of the Vienna Convention on civil-law liability for nuclear damage and the Joint Protocol concerning the application of the Vienna and Paris Conventions, published under No. 133/94 Coll.;
- imposes the obligation to obtain insurance for nuclear damage liability;
- defines the competence of the State Office for Nuclear Safety and the Radioactive Waste Storage Administration; and
- states the financial amount, which the government is to guarantee above the operator's compulsory insurance level.

The following regulations have been issued based on the authorization specified by law No. 18/1997 Coll.:

- regulation concerning the approval process for containers used for transporting, storing or disposal of radio-nuclide emitters and nuclear material, approval of ionizing radiation sources, approval of safety accessories used for handling ionizing radiation sources and other equipment for their handling (Type Approval Regulation);
- regulation concerning the transportation of specified nuclear materials and specified radio-nuclide emitters;
- regulation concerning the physical protection of nuclear materials and nuclear facilities and their registration under individual categories;
- regulation concerning the registration and inspection of nuclear materials and their closer definition;
- regulations specifying activities with an immediate impact on nuclear safety and activities particularly important from the point of view of radiation protection, qualification and professional education requirements, verification of technical competency and issuing authorizations to selected workers and the form of approval documentation necessary for the education and training of selected workers;
- regulations specifying selected items and dual-usage items in the nuclear power field;
- regulations concerning radiation protection requirements;
- regulations concerning quality control during activities related to the utilization of nuclear energy, activities subjected to radiation and specifying criteria for the division and registration of selected equipment in various safety groups;
- regulations specifying criteria for the placement of nuclear facilities and very significant sources of ionizing radiation;
- regulations specifying the details of ensuring break-down preparedness of nuclear facilities and workplaces containing sources of ionizing radiation and specifying the contents of the break-down plan and break-down regulations; and
- regulations specifying the manner in which radioactive waste producers will contribute to the nuclear account.

■ Brief Prognosis of the Power Industry Sector from the Point of View of ČEZ

The transformation of the Czech economy underwent a difficult period during 1997. Problems during the second half of 1996 (decline in construction sector production, slower growth of industrial production, trade deficit) continued in the beginning of 1997. These problems resulted in the abrogation of the fixed exchange rate regime for the Czech Crown and the adoption of two Government "packages" of measures intended for the correction of economic policy.

Despite the relatively quick improvement, especially in the area of the foreign trade balance and industrial production, the budgetary restrictions had a negative effect on public consumption and therefore on the overall growth of the economy. The economical growth rate for 1997 is estimated at 1% at constant prices. The development of the Czech economy was furthermore affected by recession in Western Europe, as well as by the financial crisis in south-east Asia during the second half of the year. The negative effects have been reflected in a decrease in the influx of foreign capital, an increase in the unemployment rate and inflation.

Electricity consumption decreased for the first time since 1994, when a period of rapid growth in consumption commenced. The situation can be described as a stagnation, when factoring in normal long-term climatic conditions, the consumption is stagnant. The sensitivity of electricity consumption to climatic effects was dramatically demonstrated during 1996, when the deviation from long-term normal temperature resulted in the increase of electricity consumption by approximately 1 TWh and the maximum load was more than 300 MW higher, as a result of lower than usual (long-term average) temperatures. During 1997, which witnessed average temperatures, the maximum load was higher by as much as 400 MW during short-term lower temperatures.

This development confirms the results of previous analyses, which prompted the need for new back-up sources. On the other hand, the requirement for new sources, operating under base load conditions, does not seem acute at the present time.

The forecast for future developments in electricity consumption was re-evaluated twice during 1997, as a result of the expected reaction of households to the announced electricity price correction. This also lead to lower electricity consumption scenarios.

■ Projected Economical Situation of ČEZ

The slight annual increase in after-tax profits, projected in the 1998 ČEZ budget, depends on several conditions:

- revitalization of electricity demand to a level approx. 0.5% higher than the 1996 demand;
- additional depreciation of the Czech Crown does not exceed 10%; and
- increase of household electricity prices enabling an increase of the average wholesale price of electricity supplied to distribution companies by approximately 6% in comparison to 1997.

Using the above assumptions, an after-tax profit increase of approximately 20%, or 4.2 billion CZK, is expected.

The electricity demand development during the first months of 1998 does not confirm the expected increase, as a result of unusually high temperatures, as well as due to changes in electricity consumption in the industrial sector. The pre-election political situation of the Czech Republic has created unfavorable conditions for the necessary, but politically unpopular, increase in electricity prices (and other energies) in the household sector. An electricity price increase for the household sector by 24%, which is significantly less than originally announced (approx. 40%), was approved by the Government in March 1998, to become effective as of July 1, 1998. Due to

the high share of fixed expenses (especially amortization and depreciation, financial costs, repair, maintenance and service costs), it will not be possible to fully offset financial costs by a reduction in expenditures. After-tax profit thus may not increase and could remain at the 1997 level.

In the investment area, the ČEZ budget assumes a expenditure of approx. 19 billion CZK, of which nearly eight billion CZK is intended for the construction of the Temelín Nuclear Power Station. ČEZ purchased a strategic share in the coal company Severočeské doly, a. s. (North Bohemian Mines) in February 1998, outside the budget framework.

Company financing emanates mainly from operating activities (nearly 14 billion CZK), and a cash surplus from 1997 (initially accumulated for the optional early redemption of the second issue of domestic bonds, which did not materialise). These sources will be supplemented by the draw down of resources from standing or negotiated loan facilities (approximately 7 billion CZK), as well as short-term loans from ČEZ's promissory note program. The above mentioned acquisition consumed the accumulated cash surplus, thus producing need to obtain long-term external resources in 1998, as well.

Yielding extensive information to the general public is one the main objectives of ČEZ's business strategy. The Company has received the "ABN AMRO Signum Temporis" prize several times in the power industry and journalist categories for its willingness to in provide information. ČEZ informs journalists and investment company analysts of its quarterly business results through regular press conferences. The general public may access these results through the www.cez.cz Web site. More than 70,000 people visited ČEZ's Information Centers in 1997.

■ Communication Strategy

ČEZ continued its long-term communication strategy, the goal of which is to be regarded by the public as a strong, large, modern and dynamic Czech company of European standard. In addition, it aims to be perceived as a company which is reliable, environmentally-friendly and prepared for success within the European electrical energy market. Accordingly, it is essential that ČEZ strengthens information availability and partnerships. The Company image has improved gradually over the last few years. For example the journalistic community in the Czech Republic once again rated ČEZ as the best company in providing information about itself. Public perception of the Company has improved as well.

In a public opinion poll, carried out by the AISA agency in 1997, respondents answered several questions with the following results:

Statement:

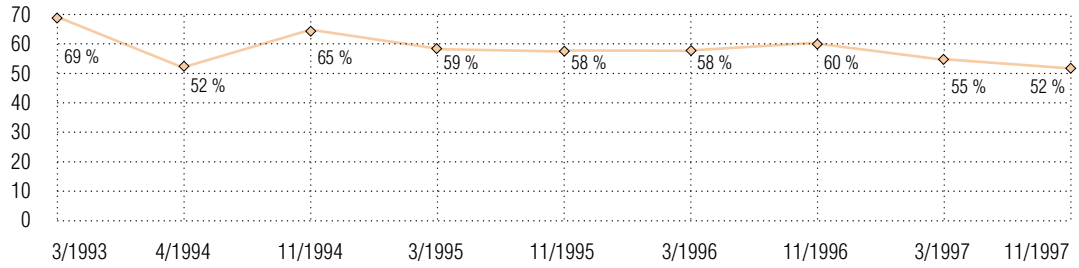
The electrical power company ČEZ:	Percentage of agreement	Change in comparsion with 1996
is modern, dynamic and of a European standard	60 %	+ 5 %
is credible	51 %	+ 6 %
has good environmental programs	43 %	- 1 %
pays regard to public interests	38 %	+ 6 %
provides good information about its plans	41 %	+ 15 %

Despite the positive results, ČEZ encounters many challenges in changing the understanding of ČEZ's role and position in the power generation field, as well as in the overall Czech economy.

The systematic and long-term cooperation between ČEZ and the media is evident through its quarterly reports and summaries of the Company's economic results, published in both Czech and English. These reports are intended to be used by banks, investors, rating and analysis agencies, as well as by journalists, who are provided with the reports at press conferences.

Occasional negative opinions about ČEZ in the press appear only in relation to the completion of construction of the Temelín Nuclear Power Station, which has been delayed several times. The completion of the power station is presently supported by more than 50% of the Czech public. Only 30% of Czechs are opposed to the completion. This topic naturally draws nationwide discussions. On the other hand, the construction of an interim storage facility for spent nuclear fuel in the tentative Skalka location has been well-received in the region.

Public Approval of the Completion of Construction of the Temelín Nuclear Power Station



Source: AISA agency

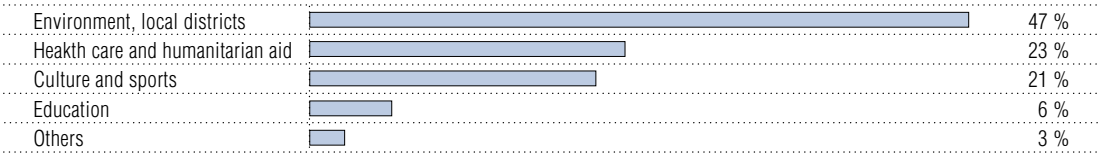
■ Sponsorship Program

The sponsorship program has two levels. The first one is implemented centrally for the whole Company and involves the support of health care, education and humanitarian projects. The second part of the sponsorship program is implemented at the level of individual power stations and is aimed mainly at local district development and the interests of the local population. A total of 178 million CZK was allocated for such sponsorships in 1997, of which 68 million CZK was allocated for the centrally implemented sponsorship program and 110 million CZK for the power station sponsorship program.

In 1997, 23 million CZK was allocated for health sojourns for children. The health sojourns are implemented in cooperation with the Committee of Good Will - the Olga Havlová Foundation. The health sojourns have been provided to 19,000 children since 1993, when this cooperation began.

During the previous year, ČEZ devoted 26.5 million CZK for assistance to areas affected by flooding. An additional 2.1 million CZK was contributed by ČEZ employees, who organized a public collection. Examples of regional sponsorship activities include a donation to the Faculty Hospital in Hradec Králové for the purchase of equipment for treatment of child hepatitis, assistance to the Preventative Treatment Medical Center in Sokolov through the purchase of sonographic equipment, as well as the donation to the city of Vejprty for the establishment of Emergency Services. In order to support energy-savings projects, ČEZ significantly assisted during the establishment of energy-saving public lighting in the city of Klášterec nad Ohří.

Division of ČEZ Sponsorship Donations in 1997



■ Educational and Information Activities

ČEZ is the only industrial company in the Czech Republic which is actively involved in educating and informing youth and the general public. The “Energy for Everyone” program has built a strong position during the six years of its existence. Educational material about the program is being regularly used by more than 2,000 schools in the Czech Republic.

The Company pays considerable attention to informing the general public about its activities through information centers. More than 70,000 people visited the ČEZ Information Center, as well as nuclear, hydro and coal-fired power station Information Centers during 1997.

ČEZ supports technical education and talented students. The Company supported the International Tournament of Young Physicists in 1997. A ČEZ educational video called “Solar Energy” won an award at the EKOFILM 97 festival. A computer program called Joulinka was declared as the best exhibit among teaching and educational programs at the Schola Nova 97 exhibition. The public was given the opportunity to view a 16-part series called “A Minute for Ecology” on Czech Television during the second half of 1997. The series was introduced as part of the energy saving program.

■ Activities Related to Electrical Energy Savings

For the fourth year in a row free-of-charge consultations took place at ČEZ's Power Industry Consulting Center . The objective of the consultations is the long-term education of consumers in the area of lowering heat and electricity consumption. During the four years, information has been provided to more than 20,000 interested people. The Center's activities focus mainly on providing power industry education, training, specialized seminars, presentations accompanied by expositions, specialized publications, advisory activities and responding to electricity consumption inquiries.

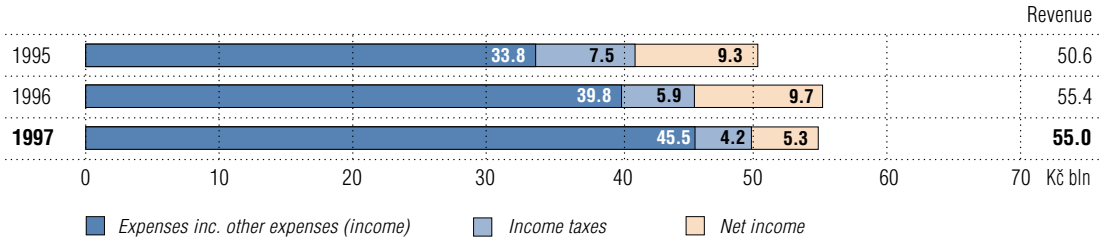
The power industry auditor and manager course continued in 1997. Newly developed activities include power industry audits for schools and power master plans for communities. This includes professional assistance during the search for realistic savings and ways to implement the measures with partial sponsorship support from ČEZ. The Center provided power audits at several schools in the cities of Mělník, Roudnice nad Labem, Vejprty and Rouchovany. A Community Energy Plan has been developed for Rouchovany and specific assistance tasks to each household are presently being prepared.

An international conference was held under the auspices of the electricity utilization expertise group (where ČEZ cooperates with energy distribution companies and the Ministry of Industry and Trade). The conference focused on the feasible utilization of electricity, electrical heating and a working seminar with representatives of a French power utility EdF. In cooperation with a German company HEA e.V., the first Czech-German conference (Rational Energy Utilization with Emphasis on Electricity) was organized for the beginning of 1998. The electricity saving issue was also supported by public relations activities, such as participation at the AMPER 97 and AQUATHERM 97 exhibitions and the publication of information leaflets focused on energy issues in the building industry, household appliances, heating and preparation of hot industrial water, alternative energy sources and electrical heating. In cooperation with the Czech Association of Employers in the Power Industry and the Association for Industry and Transportation, an electricity consumption survey using several hundred industrial consumers was prepared and will be used for the electricity consumption forecasts.

Development of Revenue, Costs and Profit

The following diagrams present the most important economic results achieved by ČEZ in 1997 and compares them with the results of 1996 and 1995.

Formation of profit



In 1997, ČEZ attained total revenues of 55.0 billion CZK with expenses of 45.5 billion CZK. Pre-tax profit fell to 9.5 billion CZK as a result of falling revenues and increased costs, representing a decline of 6.2 billion CZK (39.4%) from 1996. ČEZ realized a net profit of 5.3 billion CZK in 1997, 4.3 billion CZK (54.1%) less than in the previous year. Net income per share for 1997 equaled 97 CZK, a 46.1% decline compared to 1996 (180 CZK).

Total revenues in 1997 decreased by 0.4 billion CZK (0.7%) compared with 1996. This decrease was the result of a lower revenue from electric power sold (51.3 billion CZK), a decrease of 0.8 billion CZK (1.5%).

- **Revenue from electric power** supplied to Czech customers amounted to 47.8 billion CZK, a decrease of 1.3 billion CZK (2.6%). Electricity sold in the Czech Republic decreased from 47.3 TWh in 1996 to 45.6 TWh in 1997 (3.7%) and the average price rose by only 1.1% due to the April 1997 decision of Ministry of Finance categorizing transfer prices for electricity between ČEZ and the distribution utilities as regulated prices.
- **Revenue from exports of electricity** (3.4 billion CZK) rose significantly relative to 1996 by 17.7% (0.5 billion CZK), as a result of growth in the volume of exported electricity.
- **Revenue from heat** supplies were up 4.7% (0.1 billion CZK) over the 1996 level. Although the amount of heat sold decreased by 9.9%, the average price of heat increased by 16.2%.

Overall expenses, including other expenses, rose to 45.7 billion CZK, which is 6 billion CZK (15.1%) more than in the previous year.

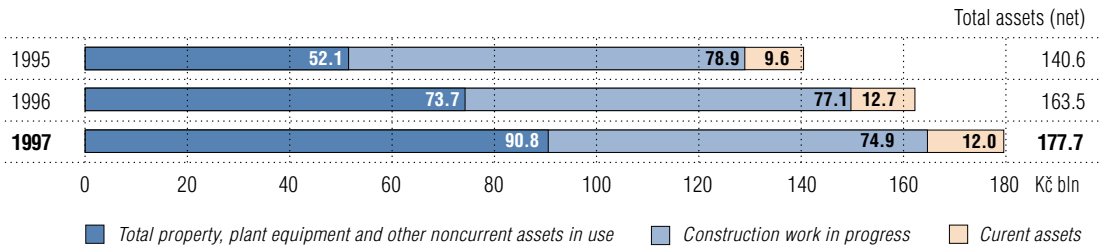
- **Fuel costs** of 13.2 billion CZK, accounting for 28.9% of overall expenses, increased by 0.5 billion (3.9%), while the supply of electricity fell by 1%. This was caused by an increase in the price of fuels, increased in-house consumption (due to the desulphurization) and a change in the structure of electricity supplies in favor of fossil power stations, which use more expensive fuel, at the expense of more economical nuclear units and water power stations.
- **Electricity purchase costs** of 7.4 billion CZK (16.3% of overall costs) remained at the 1996 level; the increased purchase from independent power producers (by 16%) was offset by lower imports (by 33%).
- **Repair and maintenance costs** of 3.9 billion CZK (8.5% of overall costs) decreased by 0.1 billion CZK (by 2%).

- **Depreciation and amortization** rose (after fixed assets of 22 billion CZK were brought into use in 1997) to a level of 6.9 billion CZK, representing an increase of 22.8%. Assets brought into use included the desulphurization equipment at Tušimice II, Chvaletice (2 of 4 units), Tisová II (1 unit), both fluidized-bed boilers in Hodonín, the first fluidized-bed boiler in Poříčí, high voltage lines and transformer stations in the transmission grid. Despite an increase from 14.2% to 15.2% of total expenses, this item continues to be relatively low because of the historically low book value of fixed assets in relation to their replacement value.
- **Personnel costs** of 3.3 billion CZK, representing 7.1% of overall expenses, increased on an annual basis by 0.4 billion CZK (14.9%). In addition to the increased basic wage and salary tariffs (and corresponding increase in social and health insurance), other factors contributing to this increase included the electricity purchase allowance for employees, the increased allowance to compensate for increased food prices in canteens. The number of employees fell in this period to 11,157 (a decrease of 1.1%).
- **Nuclear decommissioning and spent nuclear fuel provisions** decreased by 0.2 billion CZK (8.9%).
- **Other operating expenses** rose from 2.2 billion CZK to 3.1 billion CZK, i. e. increase of 36%.
- **Other expenses** soared from 0.5 billion CZK to 3.4 billion CZK, i. e. by 2.9 billion CZK, as a result of the 2.1 billion CZK provision for unrealized exchange rate losses compared to 0.1 billion CZK at the end 1996), realized exchange rates losses (0.5 billion CZK, in 1996 they were only 0.037 billion CZK) and increased debt interest (0.8 billion CZK in 1997 compared with 0.4 billion in 1996 CZK).

Asset Structure

The development of the asset structure of ČEZ in 1997 can be characterized by a change in the structure of assets and liabilities.

The Structure of Net Assets as of 31. 12. of Each Year



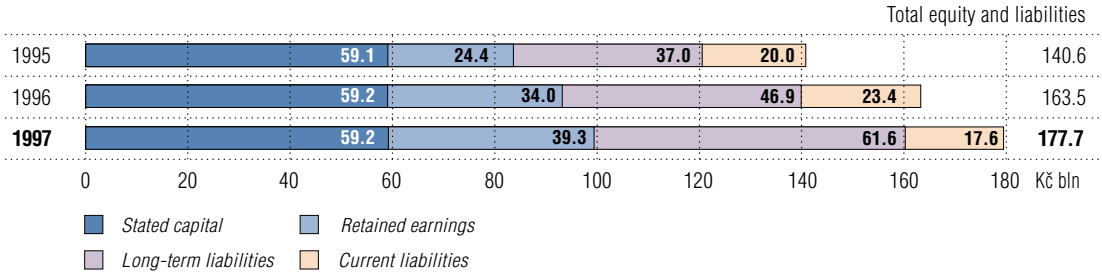
The total net assets of the Company amounted to 177.7 billion CZK at the end of 1997 a 8.7% increase compared to the end of 1996.

Fixed assets valued at 165.7 billion CZK comprise tangible and intangible assets (including investments under construction and advanced payments) and financial investments. Fixed assets comprised 92.2% of total assets and increased by 9.9% compared to the previous year. Investments under construction and advance payments fell by 2.9% to 74.9 billion CZK and their share in the total assets fell from 47.2%, at the end of 1996, to 41.6% at the end of 1997. The decrease in the share of projects under construction to total assets emanates from the fact that a number of significant facilities were brought into operation in 1997.

Current assets, comprising inventory, receivables and financial assets reached a net level of 12.0 billion CZK at the end of 1997, a 5.1% decrease compared to the end of 1996. Individual items in the current assets category developed as follows :

- **Stocks of fossil fuels and material** of 2.9 billion CZK rose to 23.8% of the Company's current assets. Over the course of 1997 stocks rose by 22.6%.
- At the end of 1997, net **receivables** dropped by 34% as compared to the end of 1996 to a level of 4.5 billion CZK, which represents approximately 37% of Company current assets. Receivables decreased from a high initial level, as unpaid 1996 invoices for electricity, due to a high level of payments arrears for some distribution utilities at the end 1996, were paid at the beginning of 1997.

The Structure of Equity and Liabilities



Equity, which consists of the stated capital and retained earnings, amounted to 98.4 billion CZK at the end of 1997, representing 55.4% of the value of Company's capital and liabilities. Shareholders' equity increased by 5.3 billion CZK (5.6%) due to growth in retained earnings by 5.2 billion CZK.

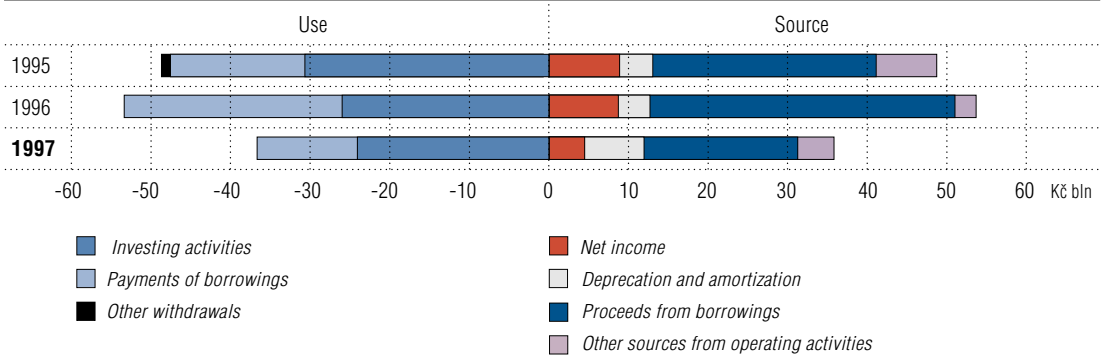
Stated capital of the Company as of 31.12.1997 was 59.2 billion CZK and rose during the course of the year by 39 million CZK, as assets formerly owned by the state enterprise Czech Power Works were transferred by the National Property Fund of the Czech Republic into the Company.

Long-term liabilities increased during 1997 by 14.8 billion CZK (31.6%) to 61.6 billion CZK. This was caused by an increase in long-term debt (including a USD 200 million Yankee Bond issue in July 1997) of 11.2 billion CZK, accumulated provisions for nuclear decommissioning and spent fuel storage (1.5 billion CZK) and deferred income taxes (2.1 billion CZK).

Company Financing

Over the course of 1997 cash increased by 1.9 billion CZK. Operating activities provided 19 billion CZK and financial activities provided 6.2 billion CZK. These sources more than covered the cost of investment activities, which came to 23.6 billion CZK.

Sources and uses of cash by ČEZ



Key investment expenditures were allocated as follows:

a) on the construction of the Temelín Nuclear Power Station (6.1 billion CZK);

b) on construction for environmental purposes (6.4 billion CZK), of which:

- desulphurization units: 3.9 billion CZK
- fluidized - bed boilers: 1.8 billion CZK

Capital investments were less than originally planned, mainly in Temelín Nuclear Power Station, where the expended 6.1 billion CZK was approximately 90% of the budgeted amount, and in the construction of desulphurization equipment in Dětmarovice where the expended 0.8 billion CZK was only 72% of the budgeted amount.

Capital investments were also lower for the construction of a fluidized-bed boiler in Ledvice, where the supplier invoked the detrimental impact of the July floods on the production of important components, and in the construction of desulphurization units in Tušimice II, without any influence on the term of commissioning. There were some savings at several construction works compared with their budgeted amounts without any influence on the terms of commissioning or the composition of the construction.

The financial requirements of the Company were secured both from internal and external resources. Cash generated by operating activities of 19 billion CZK was provided by the following items:

- net income of 5.3 billion CZK
- depreciation of fixed assets of 7.1 billion CZK
- amortization of nuclear fuel of 1.4 billion CZK
- change in the state of reserves of 1.5 billion CZK
- change in state of receivables of 2.3 billion CZK
- change in accrued and deferred taxes of 2.1 billion CZK
- change in accrued liabilities of 1.3 billion CZK
- change in prepayments of - 1.4 billion CZK.

A loan facility with a consortium of banks, led by Citibank London and Generale Bank Brussels, related to equipment and fuel supply for the Temelín Nuclear Power Station, became operable in the first half of the year. The loans are guaranteed by the American Export-Import Bank, Belgian Office National du Ducroire and the Czech government. The loans permitted the refinancing of previous supplies. An amount of approximately 126 million USD was drawn from the loan, guaranteed by the Export-Import Bank, by the end of 1997. Nearly 2 million USD was drawn from the loan guaranteed by the Belgian Office National du Ducroire by the end of the year. ČEZ requested an extension of the loan facility's disbursement period from the Export-Import Bank because of the postponement of the power station's completion date.

Ten-year bonds (Yankee Bonds), registered with the U.S. Securities and Exchange Commission, were issued on July 17 through the Company ČEZ Finance B. V. Bonds in a total amount of 200 million USD and an interest rate of 7 1/8% were sold for 99.96% of their nominal value. The lead manager of the bond issue was the American bank JP Morgan. ČEZ was able to obtain the longest maturity period of all central and eastern Europe corporate issuers in American capital markets. The Company also became the first such company with a fully registered bond issue.

A cash pooling system with Komerční banka was used for Czech Crown payments during the entire year. Foreign payments were made using the cash pooling system with Citibank from the second quarter of the year. This provided the centralization of payment transactions within the entire company and the reduction of outstanding balances in the Company's bank accounts. An agreement with Komerční banka regarding „overnight" automatic deposits in Czech Crowns with a specific interest rate was signed at the end of the year.

Other loan agreements with Komerční banka, Credit Lyonnais and Midland Bank were signed in the second half of the year, with the option of increasing the disbursement of short-term loans by 3.7 billion CZK.

Bank and Other Loans with Dates of Maturity

Long-Term Credit

Creditor	Currency	Maximum amount of credit in currency (million)	Owing as of Dec. 31, 1997 (million CZK)	Due date
Bank Austria AG	ATS	271	657	2005
Citibank International	USD	317	4 733	2001 - 2008
Generale Bank	USD	55	574	2008 - 2009
Commerzbank AG	CZK	999	999	1998
Credit Lyonnais Bank	CZK	240	199	1998
Credit Lyonnais Bank	DEM	10	130	2001
Česká spořitelna	CZK	260	130	1998
ČSOB	USD	4	87	2002
ČSOB	DEM	108	1,430	1999 - 2004
Die Erste Bank AG	ATS	255	680	1998 - 2006
European Investment Bank	USD	55	1,904	2013
European Investment Bank	DEM	30	580	2013
International bank for Reconstruction and Development (World Bank)	USD	246	4,932	2007
ING Bank	NLG	59	888	2005
Investiční a Poštovní banka	CZK	55	18	2001
Komerční banka	CZK	368	119	1998 - 2003
Total long-term credit			**18,060**	
of which: amount payable by the end of 1998			3,445	
Long-term credit in balance sheet			**14,615**	

Short-Term Credit and State Financial Countribution

Creditor	Currency	Maximum amount of credit in currency (million)	Owing as of Dec. 31, 1997 (million CZK)	Due date
Total short-term credit	**x**	**x**	**0**	**x**
Discount credit				
Total discount credit		**x**	**0**	**x**
Revolving credit				
Investiční a Poštovní banka Praha	CZK	3,904	3,204	2002 - 2004
Total revolving credit		**x**	**3,204**	**x**
Portion of long-term credit payable within one year	**x**	**x**	**3,445**	**x**
Total current bank credit	**x**	**x**	**6,649**	**x**
State Financial Countribution				
Ministry of Finance of the CR	CZK	157	57	1998
Total State Financial Countribution	**x**	**x**	**57**	**x**

There was no delay in payment of any credit of financial aid

Financial Indicators

The following table shows the development of financial indicators, comparing the figures achieved by the end of 1997 with

- those which are the limits to be met in several debt contracts (World Bank loan, European Investment Bank loan, the issue of Eurobonds)
- those from the end of 1996 and 1995
- values recommended with regard to good company stability.

Indicator	Unit	1995	1996	1997
Profitability				
Return on equity (ROE) **	%	21.30	17.71	9.89
Return on equity (ROE) *	%	11.79	10.99	5.49
Return on total assets (ROA) *	%	7.20	6.38	3.08
Return on capital employed (ROCE) *	%	9.13	8.21	3.94
Sales margin		0.33	0.28	0.17
Working ratio	%	54	58	58.2
maximum level - WB, EIB	%	60	60	60
Indebtedness				
Debt to equity ratio		0.39	0.43	0.47
Total indebetedness (provisions excluded)	%	29.0	31.8	33.8
maximum level - EIB, Eurobonds	%	50.0	50.0	50.0
Long-term indebtedness	%	19.4	19.8	24.1
Debt service ratio		6.1	4.3	3.4
minimum level - WB		2.2	2.2	2.2
minimum level - EIB		1.65	1.65	1.65
Liquidity				
Current ratio		0.48	0.54	0.68
Operational cash flow to liabilities ratio	%	34.1	26.7	24.0
Total assets turnover		0.36	0.34	0.31
Cash generation ratio	%	48.3	58.1	77.6
minimum level - WB	%	40	40	40
Fixed assets				
Coverage of fixed assets	%	92.1	92.8	96.6
Extent of depreciation	%	50.7	43.7	41
Capital market				
Earnings per share	Kč/share	173	180	97
Dividend share of profit	%	0	0	n.a.
Price-earnings ratio		5.6	5.4	11.5

** Based on net income*

*** Based on income before taxation*

The World Bank indicators

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 ratio of net income to its debt service must exceed until 1994, 3.5 in 1995 and 2.2 after 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 1997 ČEZ **met the limits** for all three conditions.

The European Investment Bank indicators

There are two indicators also in the World Bank contract - **the working ratio**, which should not exceed 60% and **the debt service ratio**, which must higher than 1.65. **The total indebtedness (provisions excluded)** should not exceed 50%. In 1997 ČEZ **met the limits** for all three conditions.

The issue of Eurobonds

The total indebtedness (provisions excluded), the same indicator as in the European Investment Bank contract, should not exceed 50%. In 1997 ČEZ **met this limit.**

Profitability

Return on equity (ROE) btto (9.89%), i. e. profit pre-tax to average equity, declined by 44% due to lower income before taxation (by 39%), while average total capitalization increased by 8.4%.

Return on equity (ROE) ntto (5.49%), i. e. after-tax profit to average equity, declined by 50% due to the lower net income (by 46%), while total equity, as mentioned, increased by 8.4%.

Return on total assets (ROA) ntto, (after-tax profit to average total assets), amounted to 3.08%, 52% lower than at the end of 1996 due to the decrease in net income (46%), while average total assets increased by 12.2%.

Return on capital employed (ROCE) ntto (after-tax profit to average sum of equity and long-term debt, net of amount due within one year) amounted to 3.94%, 52% lower than at the end of 1996 due to the decline in net income and growth in average capital employed (by 13%).

Sales margin (0.17). i. e. pre tax profit to total revenues, declined by 39% due to the growth in expenses (14.5%), and lowered revenues (0.7%).

Indebtedness

Debt to equity ratio (total debt to total equity) of 0.47 increased from 0.43 at the end 1996 mainly due to the issue of Yankee Bonds (July 1997) and an increased amount of bank loans.

Total indebtedness (provisions excluded), i. e. total liabilities without provisions to total equity and liabilities, increased slightly from 31.8% to 33.8%, because the 15.5% increase in liabilities (without provisions) offset the 8.7% increase in equity and liabilities .

Long-term indebtedness, i. e. long-term debt to total equity and liabilities, increased by 21.7% as a result of the issued Yankee Bonds and an increased amount of bank loans.

Liquidity

Current ratio (current assets to currents liabilities) was 0.68, which is 26% higher than at the end of 1996 level. Operational cash flow to liabilities ratio, i. e. cash flow from operating activities to total liabilities, decreased slightly from 26.7% to 24% due to the lower increase in cash flow from operational activities (by 1.3%) than the increase in total liabilities (by 12.7%).

Operational cash flow to liabilities ratio slightly decreased (from 26.7% to 24%) as a result of increased amounts of liabilities.

Total assets turnover, i. e. total revenues to total assets, amounted to 0.31, 8.8% lower than at the end of 1996 due to the decline in revenues (0.7%) and 8.7% increase in total assets.

Fixed assets

Coverage of fixed assets, i. e. sum of long-term liabilities and total equity to fixed assets, increased from 92.8% to 96.6%, i. e. by 4.1%. Although fixed assets increased only by 9.9%, long term liabilities plus total equity increased by 14.2%.

Extent of depreciation, i. e. accumulated provisions for depreciation to initial value of plant in service, decreased from 43.7% to 41%, as a result of commissioning new desulphurization equipment, fluidized-bed boilers, transmission lines, transformers etc.

Capital market

Earnings per share decreased by 46% as a result of decreased net profit.

Dividend share of profit is not available for 1997, because it will be the subject of the general meeting taking place in June 1998.

Price-earnings ratio (share market price to earnings per share) increased 113% from 5.4 to 11.5, due to the increased share price (e. g. the market price of 1,100 CZK per share from 979 CZK at the end of 1996 to 1,135 CZK at the end of 1997), as well as a lower earnings per share (by 46%).

ARTHUR ANDERSEN

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 December 31, 1997 and 1996, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1997. 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.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ČEZ, a.s. as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31,1997 in conformity with Statements of International Accounting Standards issued by the International Accounting Standards Committee.

Arthur Andersen

Prague, Czech Republic
April 30, 1998

Consolidated Balance Sheets as of December 31, 1997, 1996 and 1995
Czech Kč in Millions

Assets	**1997**	**1996**	**1995**
Property, plant and equipment (Note 4):			
Plant in service	143,207	120,406	94,195
Less accumulated provision for depreciation	58,721	52,649	47,802
Net plant in service	84,486	67,757	46,393
Nuclear fuel, at amortized cost	4,599	4,721	4,656
Construction work in progress (Notes 3 and 14)	74,880	77,114	78,898
Total property, plant and equipment	163,965	149,592	129,947
Other noncurrent assets, net (Note 5)	1,737	1,226	1,005
Current assets:			
Cash	4,097	2,222	2,431
Receivables, net (Note 6)	4,495	6,797	4,217
Materials and supplies, net	1,631	1,408	1,311
Fossil fuel stocks	1,227	924	840
Prepayments	570	1,309	841
Total current assets	12,020	12,660	9,640
Total assets	**177,722**	**163,478**	**140,592**
Shareholders' equity and liabilities			
Shareholders' equity (Note 7):			
Stated capital	59,195	59,156	59,131
Retained earnings	39,250	33,994	24,390
Total shareholders' equity	98,445	93,150	83,521
Long-term liabilities:			
Long-term debt, net of amount due within one year (Note 8)	39,689	28,542	22,605
Accumulated provision for nuclear decommissioning and fuel storage (Note 10)	15,664	14,155	12,287
Deferred income taxes (Note 13)	6,280	4,183	2,130
Total long-term liabilities	61,633	46,880	37,022
Commitments and contingencies (Note 14)			
Current liabilities:			
Short-term loans (Note 11)	3,204	10,154	9,161
Long-term debt due within one year (Note 8)	3,502	1,472	655
Accounts payable	4,796	4,295	3,748
Accrued liabilities (Note 12)	6,142	7,527	6,485
Total current liabilities	17,644	23,448	20,049
Total shareholders' equity and liabilities	**177,722**	**163,478**	**140,592**

The accompanying notes are an internal part of these financial statements

Consolidated statements of income and retained earnings for the years ended December 31, 1997, 1996 and 1995
Czech Kč in Millions

	1997	1996	1995
Revenues:			
Sales of electricity	51,254	52,020	47,423
Heat sales and other revenues	3,737	3,365	3,216
Total revenues	54,991	55,385	50,639
Expenses:			
Fuel	13,228	12,735	12,029
Purchased power	7,419	7,427	4,985
Repairs and maintenance	3,869	3,945	3,170
Depreciation and amortization	6,943	5,651	4,601
Salaries and wages	3,250	2,828	2,417
Nuclear decommissioning and fuel storage	1,768	1,939	1,945
Materials and supplies	1,962	1,585	1,289
Costs of ash storage, air and water pollution and environmental claims	613	886	968
Other operating expenses	3,098	2,284	2,072
Total expenses	42,150	39,280	33,476
Income before other expense (income) and income taxes	**12,841**	**16,105**	**17,163**
Other expense (income):			
Interest on debt, net of capitalized interest (Notes 2 and 8)	776	408	283
Interest income	(155)	(62)	(136)
Exchange rate losses (gains), net	2,182	(22)	199
Other expenses, net	563	135	9
Income before income taxes	**9,475**	**15,646**	**16,808**
Income taxes (Note 13)	**4,219**	**5,939**	**7,503**
Net income	**5,256**	**9,707**	**9,305**
Retained earnings, beginning of period	33,994	24,390	15,324
Contributions to other funds	0	(103)	(239)
Retained earnings, end of period (Note 7)	**39,250**	**33,994**	**24,390**
Average number of shares outstanding (thousands)	**53,977**	**53,970**	**53,885**
Net income per share (Kč per share)	**97**	**180**	**173**

The accompanying notes are an internal part of these financial statements

Consolidated statements of cash flows for the years ended December 31, 1997, 1996 and 1995
Czech Kč in Million

	1997	1996	1995
Operating activities			
Net income	5,256	9,707	9,305
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,108	5,659	4,621
Amortization of nuclear fuel	1,353	1,389	1,247
(Gain)/Loss on fixed asset retirements	(18)	158	49
Provision for nuclear decommissioning and fuel storage	1,509	1,868	1,889
Provisions for doubtful accounts, environmental claims and fixed assets adjustments	(273)	(232)	79
Changes in assets and liabilities:			
Receivables	2,261	(2,683)	925
Materials and supplies	(252)	(91)	(50)
Fossil fuel stocks	(303)	(84)	243
Prepayments	740	(468)	(241)
Accounts payable	501	547	(450)
Accrued and deferred taxes	2,158	1,951	1,270
Accrued liabilities	(1,039)	1,045	591
Net cash provided by operating activities	19,001	18,766	19,478
Investing activities:			
Additions to property, plant and equipment and other non current assets	(23,585)	(27,134)	(29,259)
Proceeds from sales of fixed assets	232	409	154
Total cash used in investing activities	(23,353)	(26,725)	(29,105)
Financing activities:			
Proceeds from borrowings	19,730	35,722	27,729
Payments of borrowings	(13,503)	(27,972)	(17,465)
Total cash provided by financing activities	6,227	7,750	10,264
Net increase (decrease) in cash	**1,875**	**(209)**	**637**
Cash at begining of period	**2,222**	**2,431**	**1,794**
Cash at end of period	**4,097**	**2,222**	**2,431**
Supplementary cash flow information			
Cash paid for:			
Interest	3,629	3,175	2,550
Income taxes	1,643	5,391	5,505

The accompanying notes are an internal part of these financial statements

ČEZ, a.s.
Notes to Consolidated Financial Statements
as of December 31, 1997

1. The Company

ČEZ, a.s. ("ČEZ" or "the Company") is a Czech Republic joint-stock company, which was established as of April 30, 1992. At December 31, 1997 the Czech Republic National Property Fund owned 67.6% of the Company. The remaining shares of the Company are publicly held.

ČEZ is an electricity generation and transmission company, which produced approximately 75% of the electricity and a minor portion of the district heating in the Czech Republic in 1997. The Company sells substantially all of its electricity to eight distribution companies („REAS") in the Czech Republic. The Company operates ten fossil fuel plants, thirteen hydroelectric plants, one nuclear plant and a transmission grid. In addition, the Company has one nuclear plant under construction (see Note 3).

On January 1, 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 monitoring certain new investments by the Company in electricity generating equipment and power lines. Also, the Energy Law designates the Ministry of Industry and Trade as the sole authorized body for submitting proposals for changes in the price of electricity, gas and heat to the Ministry of Finance.

Pursuant to the Energy Law, an independent Central Energy Dispatching association was established in April 1997. The Ministry of Industry and Trade, ČEZ, independent power producers and the REAS have 20%, 20%, 20% and 40% interests, respectively, in Central Energy Dispatching. Pursuant to the Energy Law and its articles of association, Central Energy Dispatching is responsible for balancing the demand and supply capacity of electricity on a long-term basis. ČEZ provides short-term to real-time dispatch control. A number of decrees pertaining to the central dispatching function have yet to be issued by the Ministry of Industry and Trade.

Pursuant to the Act on Prices, the Ministry of Finance establishes retail electricity prices. Prior to 1996 the anticipated revenue from retail customers was allocated between ČEZ and the REAS based on annually negotiated individual wholesale contracts between ČEZ and each REAS. Also prior to 1996 the Ministry of Industry and Trade acted as arbiter between ČEZ and the REAS in their negotiations of the revenue split. In 1996, the Ministry of Finance established prices to be charged by ČEZ to each of the REAS. In its 1996 Price Announcement, issued in November 1996, the Ministry of Finance indicated its pricing goal was a fair distribution of retail revenues between ČEZ and each of the eight REAS based on a fixed equivalent return on assets for each company. In its

Price Announcement for 1997, issued in April 1997, the Ministry of Finance followed the same approach to the price calculation as in the previous year. For 1997, the tariff also reflected the consumption curve, maximum load and required capacity for each individual REAS. In January 1998, the Ministry of Finance issued the Price Announcement for the first six months of 1998 and the process of price setting was further refined. The new tariffs include rates for generating capacity and power supplied and also fees for transmission and dispatching.

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. Czech Accounting Standards and International Accounting Standards differ in certain respects. As permitted by both Czech and International Standards, the Company applies Czech Accounting Standards and International Accounting Standards differently in certain respects. See Notes 7 and 10 where such differences are either shown or described.

Financial Statements

The accompanying consolidated financial statements of ČEZ, a.s. are prepared in conformity with Statements of International Accounting Standards issued by the International Accounting Standards Committee and include the accounts of its wholly owned subsidiary ČEZ Finance B.V. (The Company's only material major owned subsidiary)(see Note 8). All intercompany transactions and accounts have been eliminated in consolidation.

Estimates

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

Revenues and Fuel Costs

The Company bills for services rendered through the end of each month based on meter readings.

Approximately 99% of the Company's electricity sales are to eight regional electric distribution companies (Note 1).

Fuel costs are expensed as fuel is consumed. Fuel expense includes the amortization of the cost of nuclear fuel. Amortization of nuclear fuel charged to fuel expense was 1,353, 1,389 and 1,247 million Kč for the years ended December 31, 1997, 1996 and 1995, respectively.

Debt Issuance Costs

Long-term debt discount and issuance costs, amounting to 72 million Kč, 60 million Kč and 34 million Kč in 1997, 1996 and 1995, respectively, 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 3,026 million Kč, 3,111 million Kč and 2,603 million Kč in 1997, 1996 and 1995, respectively.

Property, Plant and Equipment

Property, plant and equipment are stated at historical 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 betterment 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 in 1997, 1996 and 1995 for property, plant and equipment, classified in accordance with Czech accounting principles, are as follows:

	Lives
Buildings and structures	25-50
Machinery and equipment	4-20
Furniture and fixtures	8
Motor vehicles	4-20

Average depreciation lives for 1997, 1996 and 1995 based on the functional use of property are as follows:

	Average Life
Hydro plants	
Buildings and structures	45
Machinery and equipment	20
Fossil fuel plants	
Buildings and structures	30
Machinery and equipment	10
Ash storage facilities	5
Nuclear power plant	
Buildings and structures	30
Machinery and equipment	12
Transmission lines	30
Transformer stations	16

Depreciation of plant in service was 6,970, 5,609 and 4,573 million Kč for the years ended December 31, 1997, 1996 and 1995, which was equivalent to a composite depreciation rate of 5.3%, 5.2% and 5.1%, respectively.

Cash

Cash includes cash on hand and current accounts with banks. At December 31, 1997 and 1996, the current accounts with banks included foreign currency deposits of 592 and 511 million Kč, respectively. Foreign currency deposits are translated at December 31, 1997 and 1996 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 38.2 million Kč, 11.3 million Kč and 17.7 million Kč was charged against inventory for obsolete stocks in 1997, 1996 and 1995, respectively.

Income Taxes

Income taxes are determined on the liability method. Current income taxes are provided on the accounting income as determined under Czech accounting principles at a rate of 39%, 39% and 41%, for the years ended December 31, 1997, 1996 and 1995 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: 35%, the rate for 1998, for 1997 deferred tax expense (see Note 13). Income tax rates are published the year preceding their effectiveness.

Receivables and Payables

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

Accruals and Deferrals

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

Translation of Foreign Currencies

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

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

Exchange rate differences arising on settlement of transactions or on reporting foreign currency transactions at rates different from those at which they were originally recorded are included in the statement of Income and Retained Earnings as they occur.

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.

3. 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 PWR 981 MW units with modifications to upgrade safety and operating systems.

Construction of the Temelin nuclear power plant commenced in 1986 then was delayed in 1990. In March 1993 the government of the Czech Republic approved the completion of two out of an originally planned four units and at the same time ordered a fundamental change in the design of the reactor, primarily to enhance operational safety of the nuclear power plant. This change consisted of adapting the already built soviet plant technology to function with Western instrumentation and control systems. At this time the budgeted cost was 69 billion Kč with estimated fuel loading scheduled for the fall of 1995.

The adaptation of Western technology to the original Soviet plant construction at Temelin is the first such adaptation of its kind and, accordingly, has posed and continues to pose difficult and unprecedented technical challenges beyond what had been anticipated in 1993. As a result of extensive design and construction changes, the estimated completion date for Temelín has been delayed several times.

At year-end 1995 the Company estimated that Temelín would begin fuel loading and related testing in the fall of 1997 and that the plant would cost 76 billion Kč. At year-end 1996, the budgeted cost for Temelín remained constant at 76 billion Kč. Analysis of the construction schedule shortly after year end, however, indicated that further delays and design changes would be required. These additional costs were estimated to be up to 10 billion Kč.

The investment in the Temelín nuclear power plant at December 31, 1997 and the budgeted cost, based on the most recent (April 1998) analysis of the construction schedule and the budgeted amounts to complete construction, is as follows (in billions of Kč):

	Unit No. 1	**Unit No. 2**	**Total**
Investment	39	22	61
Budgeted cost to complete	9	29	38
Budgeted cost	**48**	**51**	**99**

In addition to the 99 billion Kč, the Company will capitalize approximately 14 billion Kč of interest pursuant to its IAS interest capitalization policy.

The Company now expects that the first unit of the Temelín nuclear power plant will begin fuel loading and related testing in the summer of 2000 and will be fully operational from eight to ten months later. The second unit should go into service approximately eighteen months after unit one. Based on the current status of the plant's construction, the Company does not expect further construction delays or cost increases. With regard to the most recent Temelín cost and completion estimates, the Company expects to agree the final Temelín cost and completion date and to conclude new contracts with its major suppliers by mid 1998. However, as a result of past experience and due to the fact that implementing the design modifications at Temelín has no historical precedent, there can be no assurance that further delays and ensuing increases in investment costs will not occur.

4. Property, Plant and Equipment

Property, plant and equipment at December 31, 1997 and 1996 is as follows (in millions of Kč):

	Buildings	Plant and Equipment	Land and Other	Accumulated Depreciation	Net Plant in Service
December 31, 1995	38,618	51,359	4,218	(47,802)	46,393
Plant additions	6,463	19,650	1,386	-	27,499
Retirements	(212)	(973)	(103)	762	(526)
Depreciation	-	-	-	(5,609)	(5,609)
December 31, 1996	44,869	70,036	5,501	(52,649)	67,757
Plant additions	6,841	15,802	1,055	-	23,698
Retirements	(91)	(752)	(54)	898	1
Depreciation	-	-	-	(6,970)	(6,970)
December 31, 1997	51,619	85,086	6,502	(58,721)	84,486

None of the Company's property, plant and equipment is pledged as security for liabilities.

5. Other Noncurrent Assets

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

	1997	1996
Investments	1,300	756
Long-term receivables	98	103
Intangible assets	546	462
Less amortization	(207)	(95)
Total	**1,737**	**1,226**

6. Accounts Receivable

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

	1997	1996
Trade receivables	2,906	4,811
Refundable income taxes	930	1,408
Other	226	286
VAT receivables	666	484
Less allowance for doubtful accounts	(233)	(192)
Total	**4,495**	**6,797**

7. Shareholders' Equity

The Company's stated capital as of December 31, 1997 and 1996 was as follows:

		1997	
	Number of Shares	Value per Share (Kč)	Total (millions of Kč)
Series A	51,731,161	1,100	56,904
Series B	2,290,665	1,000	2,291
Total	**54,021,826**		**59,195**

		1997	
	Number of Shares	Value per Share (Kč)	Total (millions of Kč)
Series A	51,731,161	1,100	56,904
Series B	2,251,410	1,000	2,252
Total	**53,982,571**		**59,156**

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

The Company's basic capital was increased by 39 million Kč (39,255 shares) in 1997 and by 25 million Kč (24,509 shares) in 1996, resulting from privatized land contributed to ČEZ by the National Property Fund.

There are no dividend payment restrictions on the amount of retained earnings recorded pursuant to Czech Accounting Standards. A reconciliation of Czech Accounting Standards capital accounts to IAS capital accounts is as follows (in millions of Kč):

	December 31, 1997			
	Stated Capital	Reserve and Other Funds	Retained Earnings	Total
Balance per Czech Accounting Standards	59,195	7,937	34,275	101,407
Accumulated provision for nuclear decommissioning and waste fuel storage (Note 10)	-	-	(7,563)	(7,563)
Interest capitalized net of deferred tax provision	-	-	5,673	5,673
Depreciation of interest capitalized net of deferred tax provision	-	-	(161)	(161)
Foreign exchange rate gains net of deferred tax provision	-	-	30	30
Reclassification of items from retained earnings, net	-	-	(493)	(493)
Reclassification of items from other funds	-	(448)	-	(448)
Reclassification of reserve fund to retained earnings	-	(7,489)	7,489	-
Balance per International Accounting Standards	**59,195**	**-**	**39,250**	**98,445**

	December 31, 1996			
	Stated Capital	Reserve and Other Funds	Retained Earnings	Total
Balance per Czech Accounting Standards	59,156	7,548	31,432	98,136
Accumulated provision for nuclear decommissioning and waste fuel storage (Note 10)	-	-	(7,479)	(7,479)
Interest capitalized net of deferred tax provision	-	-	3,508	3,508
Depreciation of interest capitalized net of deferred tax provision	-	-	(51)	(51)
Reclassification of items from retained earnings, net	-	-	(511)	(511)
Reclassification of items from other funds	-	(453)	-	(453)
Reclassification of reserve fund to retained earnings	-	(7,095)	7,095	-
Balance per International Accounting Standards	**59,156**	**-**	**33,994**	**93,150**

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

	Year ended December 31,		
	1997	**1996**	**1995**
Net income per Czech Accounting Standards	3,367	7,849	8,064
Nuclear decommissioning and waste fuel storage costs (Note 10)	(83)	125	76
Interest capitalized, net of deferred tax provision	2,165	1,760	1,234
Depreciation of interest capitalized net of deferred tax provision	(111)	(43)	(8)
Foreign exchange rate gains, net of deferred tax provision	31	-	-
Other depreciation differences	18	16	-
Reclassification of items from retained earnings, net	(131)	-	(61)
Net income per accompanying statements of income and retained earnings	**5,256**	**9,707**	**9,305**

8. Long-term Debt

Long-term debt at December 31, 1997 and 1996 is as follows (in millions of Kč):

	1997	**1996**
Non-collateralized long-term bank notes:		
6.00% and less, due 1998 to 2006	773	783
6.24% to 7.13%, due 2001 to 2013 (b,c,d)	13,402	6,304
8.00% to 9.50%, due 1998 to 2004	2,734	2,843
11.20% to 16.00%, due 1998 to 2003	1,208	1,355
7.125% Notes, due 2007 (e)	6,937	-
8.875% Eurobonds, due 1999 (a)	4,137	4,129
10.9% Debentures, due 2001	3,000	3,000
11.1% Debentures due 2008	3,000	3,000
11.3% Debentures, due 2005	4,000	4,000
14.375% Debentures, due 2001	4,000	4,000
Other loans	-	600
Total long-term debt (23,532 million Kč of which is repayable in foreign currency)	43,191	30,014
Less: Current portion	(3,502)	(1,472)
Long-term debt, net of current maturities	**39,689**	**28,542**

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

1998	3,502
1999	7,259
2000	2,762
2001	9,660
2002	2,189
Thereafter	17,819
Total long-term debt	**43,191**

a) On December 20, 1994 ČEZ Finance B.V. (ČEZ F.B.V.) sold 150 million USD 8 7/8% notes which were guaranteed by ČEZ. On the same date, ČEZ borrowed 150 million USD from ČEZ F.B.V. and simultaneously entered into a swap transaction to exchange 97.5 million of its USD liability to 153.3 million DM. The swap was designed to minimize, or eliminate, currency exchange risks as the Czech crown exchange rate is fixed at a value based 65% on the Deutsche mark and 35% on the U.S. dollar.

On December 19, 1996 ČEZ entered into a second swap transaction designed to eliminate currency devaluation risk by exchanging its USD and German DM liabilities for Kč. In consideration for the exchange, ČEZ will pay interest at a rate equivalent to 10 1/4% over the five-year term of the notes (vs. the 8 7/8% rate of the 150 million USD of notes of ČEZ F.B.V.) for the remaining three years the notes are outstanding. The 1996 swap also resulted in ČEZ reducing the Kč equivalent of its USD/DM liability by 115 million Kč. This unrealized gain will be amortized over the remaining three years of the agreement.

b) The Company has entered into a loan agreement („Agreement") with the International Bank for Reconstruction and Development ("the Bank") for a 246 million USD loan to be drawn on through June 1999. As of December 31, 1997 154.7 million USD 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 0.75% per annum is assessed on the unwithdrawn principal amount of the loan. Interest on any outstanding borrowing accrues at the Bank's cost of qualified borrowings, as defined in the Agreement (6.29% at December 31, 1997) and is payable on February 15 and August 15 in each year. Semi-annual principal payments of 12.3 million USD are payable from August 15, 1997 through 2007.

c) On July 11, 1996 ČEZ signed an agreement with a consorcium of twelve foreign banks to provide a guarantee for a European Investment Bank loan in the amount of, or equivalent to, 100 million ECU. The guarantee is valid for 7 years. As of December 31, 1997 30 million DM with an interest rate of 6.33% and 55 million USD with an interest rate of 7.05%(approximately 60 million ECU) have been borrowed. Semi-annual principal payments are due from March 15, 2001 through 2013.

d) On December 3, 1996, the Company entered into two syndicated credit facility agreements to secure financial resources for the completion of the Temelin nuclear power plant (see Note 3). The first facility is for 317 million USD, with an interest rate of LIBOR plus 0.3% and a maturity date in October 2008, and is guaranteed by the Export Import Bank of the United States and by the Czech Republic. There were 136.6 million USD withdrawn on this facility as of December 31, 1997. The Export Import Bank of the United States (EXIM) also allowed the Company to extend the terms of the loan withdrawing to the year 2000 for Temelin Unit 1 and to the year 2001 for Temelin Unit 2. The second facility is for 55 million USD, with an interest rate of LIBOR plus 0.5% and a maturity date in November 2009, and is guaranteed by Belgium Office National du Ducroi and by the Czech Republic. There were 16.5 million USD withdrawn on this facility as of December 31, 1997.

e) On July 17, 1997 ČEZ F.B.V. sold 200 million USD 7.125% notes, guaranteed by ČEZ, on the American Stock Exchange. On the same date, ČEZ borrowed 200 million USD from ČEZ F.B.V. and simultaneously entered into a swap transaction to exchange 200 million of its USD liability to 359 million DM and the fixed interest rate was changed to a floating rate depending on the DEM-LIBOR. The interest rate may float within a range of 5.095% – 7.85%. The swap was designed to minimize currency exchange risks and to reduce interest costs.

9. Fair Value of Financial Instruments

The carrying amount of cash, receivables and accounts payable approximates fair value. The estimated fair value of the Company's long-term debt, including current maturities, was 42,676 million Kč and 30,020 million Kč at December 31, 1997 and 1996, respectively, compared to the carrying amounts of 43,134 million Kč and 30,014 million Kč at December 31, 1997 and 1996, respectively.

10. 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 3). The Czech government has enacted a Nuclear Law („Law") which came into full force as of 1 July 1997. The Nuclear Law defines certain 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").

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 a new Czech Republic Law on Accounting, as of January 1, 1993 ČEZ began recording, on a prospective basis over the remaining operating period, a provision for decommissioning and disposal costs. In the accompanying financial statements prepared in accordance with International Accounting Standards (IAS), the provision for those

costs has been recorded retroactively to the initial operations of Dukovany. ČEZ has updated and reviewed, as of the 1 July 1997 effective date of the Law, its previous estimates for decommissioning and disposal, and adjusted its annual accruals on a prospective basis from that date.

Prior to July 1, 1997, ČEZ provided for the complete site restoration of the Dukovany nuclear plant. The Law requires that all nuclear parts of the plant and equipment be decommissioned at the end of the plant's operating life in 2018. A 1997 Dukovany decommissioning cost study estimates that the regular decommissioning will cost 12.5 billion Kč, and proposes that the site and non-nuclear facilities be used for the construction of a replacement power plant for Dukovany.

Pursuant to the Law, the Ministry of Industry and Trade established in May 1997 the Radioactive Waste Repository Authority („RWRA") as the central organizer and operator of facilities for the final disposal of nuclear waste. The original producer of nuclear waste (such as the Company) will be directly responsible for the interim storage costs of nuclear waste, including spent fuel. The RWRA will centrally organize, supervise and be responsible for all disposal facilities and the disposition of nuclear waste therein. The activities of the RWRA will be financed through a „nuclear account" funded by the owners of nuclear waste, who will remain responsible for funding. Contribution to the nuclear account was stated by the government resolution on 13 August 1997, as 50 Kč/MWh produced at nuclear power plants. Effective 1 October, 1997 ČEZ will make regular payments to the RWRA based on nuclear MWh generated. ČEZ continues to accrue for the cost of the interim storage. Actual costs incurred are charged to the accumulated provision for fuel storage.

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 (in millions of Kč):

	Year-end Accumulated Provision			
	IAS		Czech Law	
Provided for:	**1997**	**1996**	**1997**	**1996**
Decommissioning	6,125	5,442	4,021	3,224
Waste fuel storage	9,539	8,713	4,080	3,451
Total	**15,664**	**14,155**	**8,101**	**6,675**

	Current Expense					
	IAS			Czech Law		
Provided for:	**1997**	**1996**	**1995**	**1997**	**1996**	**1995**
Decommissioning	682	1,028	1,028	894	1,138	1,138
Waste fuel:						
Storage accrual	929	911	917	731	928	883
Payment to RWRA	157	-	-	157	-	-
Total	**1,768**	**1,939**	**1,945**	**1,782**	**2,066**	**2,021**

11. Short-term Loans

Short-term loans at December 31, 1997 and 1996 are as follows (in millions of Kč):

	1997	**1996**
Revolving credit agreements	3,204	5,903
Commercial paper	-	1,483
Loans	-	2,768
Total	**3,204**	**10,154**

ČEZ has in place the following revolving credit facilities :

Agreement	Balance December 31, 1997	Credit Agreement Limit	Term
Domestic	609	609 million Kč	4 years: to 2002
Domestic	2,595	2,595 million Kč	6 years: to 2004
Total	**3,204**		

Interest on these loans is variable. The weighted average interest rate was 12.9% and 10.9% at December 31, 1997 and 1996, respectively. For the years 1997, 1996 and 1995 the weighted average interest rate was 11.3%, 10.4% and 10.9%, respectively.

12. Accrued liabilities

Accrued liabilities at December 31, 1997 and 1996 consist of following (in millions of Kč):

	1997	1996
Repairs and maintenance accrual	2,762	2,941
Unbilled goods and services	685	1,385
Accrued interest	1,312	1,135
Estimated environmental claims (Note 14)	700	1,108
Social and bonus funds	448	453
Other accrued liabilities	235	505
	6,142	**7,527**

13. Income Taxes

Deferred income taxes at December 31, 1997 and 1996 consist of the following (in millions of Kč):

	1997	1996
Tax depreciation in excess of financial statement depreciation	3,278	1,935
Capitalized interest	3,002	2,248
	6,280	**4,183**

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

	1997	1996	1995
Current income taxes	2,122	3,886	6,338
Deferred income taxes	2,097	2,053	1,165
Total income taxes	**4,219**	**5,939**	**7,503**

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

	1997	1996	1995
Income before income taxes	9,475	15,646	16,808
Statutory income tax rate	39%	39%	41%
„Expected" income tax expense	3,695	6,102	6,891
Add (deduct) tax effect of:			
Czech/IAS accounting differences	(32)	(49)	(6)
Non deductible reserves	1,106	710	869
Investment tax relief	(480)	(569)	(166)
Other non deductible items	75	(85)	8
Tax credits	(1)	(1)	(1)
Adjustment of prior year deferred taxes	-	-	(33)
Refundable taxes	51	(169)	-
Difference resulting from using subsequent year tax rate for the calculation of deferred taxes	(195)	-	(59)
Income taxes	**4,219**	**5,939**	**7,503**
Effective tax rate (Note 2)	**45%**	**38%**	**45%**

14. Commitments and Contingencies

Construction Program

The Company is engaged in a continuous construction program, currently estimated as of December 31, 1997 to total 93.3 billion Kč over the next five years, as follows: 18.5 billion Kč in 1998, 21.6 billion Kč in 1999, 20.0 billion Kč in 2000, 19.1 billion in 2001 and 14.1 billion Kč in 2002. In addition to the 93.3 billion Kč, pursuant to its IAS interest capitalization policy (see Note 2) the Company will capitalize approximately 20.2 billion Kč more interest for IAS purposes than under Czech accounting principles. Such additional capitalized interest will result in an increase in the Company's net income and construction expenditures, but will not effect either its cash requirements or its cash flow. The construction programs are subject to periodic reviews and actual construction may vary from the above estimates. The estimated investments include 52.9 billion Kč for nuclear (including the Temelín nuclear power plant, see Note 3). At December 31, 1997 significant purchase commitments were outstanding in connection with the construction program.

The Company is actively pursuing various financing opportunities to fund the future costs of its construction program. In connection therewith, the Company has obtained the following credit ratings- Moody's Investors Service: Baa1, Standard & Poor's: BBB+ with positive outlook 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.

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 by December 31, 1998 certain emission standards. The Company currently expects to meet all 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 502 million Kč in 1997, 119 million Kč in 1996 and 77 million Kč in 1995. Based on current estimates of its probable future obligations, the Company provided 94 million Kč in 1997, 209 million Kč in 1996 and 305 million Kč in 1995 for pollution damages. Although uncertainties exist due to interpretations of applicable laws, management does not believe, based upon the information available at this time, that the ultimate outcome of these matters will have a material adverse effect on the Company's financial position or results of operations.

Insurance Matters

In 1995 ČEZ entered into an agreement to insure Temelin construction and erection risks.

Based on the results of risk inspections and evaluations, ČEZ concluded in June 1997 a property insurance policy to cover „all risks" associated with operation of its fossil and hydro power plants. In July 1997 a general third party liability insurance policy also came into full force and effect. These two policies have been followed in November 1997 by a policy covering risks connected with property and liability of transmission.

The Nuclear Law (see Note 10) sets liabilities for nuclear damages by the operator of nuclear installations/licensees. The Nuclear Law also requires an operator/licensee to insure its liability connected with operation of a nuclear power plant up to a minimum of 1.5 billion Kč and up to a minimum of 200 million Kč for other activities (such as transportation). A construction and erection risk insurance policy for Temelin, which also covers risk connected with transportation and storage of nuclear fuel according to the requirements of the Nuclear Law, is now in force. ČEZ has also concluded a nuclear third party liability policy for damages connected with the operation of nuclear power plant Dukovany. A property insurance policy for nuclear power plant Dukovany is currently under discussion.

Balance Sheets

		1995	1996	1997	97/96
		Net	Net	Net	Index
		Kč mln	Kč mln	Kč mln	%
Total assets		**138,174**	**158,284**	**171,810**	**108.5**
B.	**Fixed assets**	**122,696**	**139,188**	**151,007**	**108.5**
B.I.	Intangible fixed assets	159	368	361	98.1
B.II.	Tangible fixed assets	121,691	137,962	149,270	108.2
B.III.	Financial investments	846	858	1,376	160.4
B.III.1.	Majority shareholdings and participation interests (shareholdings of more than 50%)	207	205	765	373.2
C.	**Current assets**	**15,347**	**18,946**	**18,641**	**98.4**
C.I.	Inventory	8,047	8,825	9,686	109.8
C.II.	Long-term receivables	142	141	129	91.5
C.III.	Short-term receivables	4,727	7,758	4,729	61.0
C.IV.	Financial accounts	2,431	2,222	4,097	184.4
D.	**Other assets - temporary accounts**	**131**	**150**	**2,162**	**1 441.3**

		1995	1996	1997	Index 97/96
		Kč mln	Kč mln	Kč mln	%
Total capitalization and liabilities		**138,174**	**158,284**	**171,810**	**108.5**
A.	**Capitalization**	**90,294**	**98,137**	**101,407**	**103.3**
A.I.	Stated capital	59,131	59,156	59,195	100.1
A.II.	Capital funds	1,208	1,299	1,300	100.0
A.III.	Funds from net profit	7,136	7,549	7,937	105.1
A.IV.	Retained earnings	14,755	22,285	29,608	132.9
A.V.	Net income	8,064	7,848	3,367	42.9
B.	**Liabilities**	**46,005**	**57,281**	**68,281**	**119.2**
B.I.	Reserves	8,668	10,807	13,674	126.5
B.II.	Long-term liabilities	15,318	18,384	25,074	136.4
B.III.	Current liabilities	4,916	6,710	8,212	122.4
B.IV.	Bank loans and short-term notes	17,103	21,380	21,321	99.7
B.IV.1.	Long-term bank loans	7,287	10,165	14,615	143.8
C.	**Other liabilities - temporary accounts**	**1,875**	**2,866**	**2,122**	**74.1**

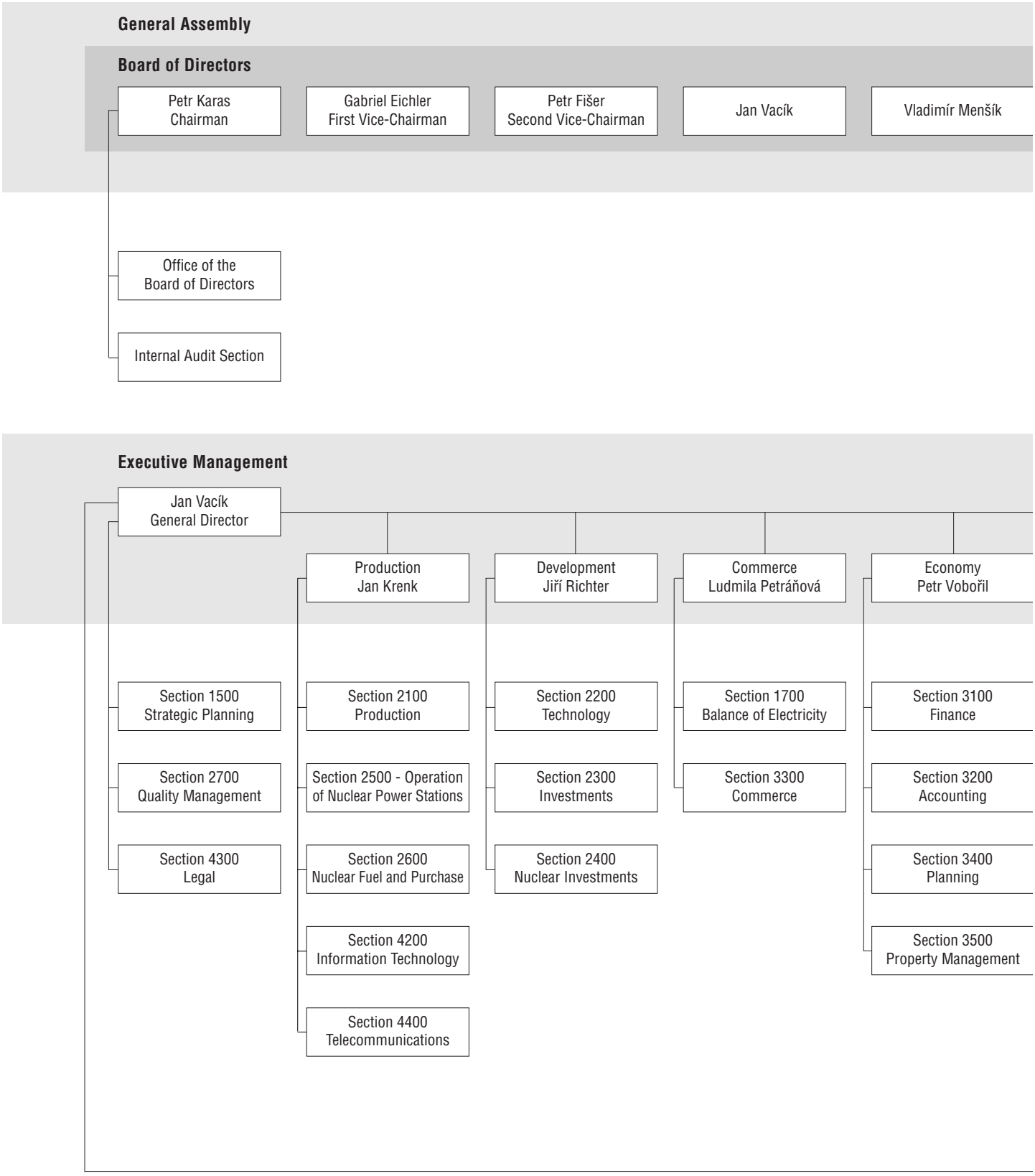
Profit and Loss Statements

	1995	1996	1997	Index 97/96
	Kč mln	Kč mln	Kč mln	%
Total revenues	**54,096**	**60,252**	**59,995**	**99.6**
Sales of electricity	**47,423**	**52,021**	**51,254**	**98.5**
power distribution joint-stock companies	44,851	48,441	47,602	98.3
export	2,039	2,917	3,433	117.7
other sales of electricity	533	663	219	33.0
Sales of heat	**1,262**	**1,474**	**1,543**	**104.7**
Draws on reserves	**2,102**	**2,910**	**3,065**	**105.3**
Other revenues	**3,309**	**3,847**	**4,133**	**107.4**
Total expenses	**39,313**	**47,572**	**53,163**	**111.8**
Production consumption	**23,786**	**28,184**	**29,544**	**104.8**
fuel	11,993	12,697	13,188	103.9
materials	1,326	1,622	2,002	123.4
purchased power	4,985	7,428	7,419	99.9
repairs and maintenance	3,291	3,853	4,048	105.1
other production consumption	2,191	2,584	2,887	111.7
Personnel expenses	**2,405**	**2,818**	**3,237**	**114.9**
Taxes and fees	**715**	**757**	**1,059**	**139.9**
Other operational costs	**680**	**1,463**	**1,439**	**98.4**
Depreciation	**4,598**	**5,669**	**6,953**	**122.6**
Creation of reserves	**4,250**	**5,049**	**5,931**	**117.5**
Financial expenses	**2,593**	**3,435**	**4,672**	**136.0**
Extraordinary expenses	**51**	**43**	**46**	**107.0**
Other expenses	**235**	**154**	**282**	**183.1**
Pre-tax profit	**14,783**	**12,680**	**6,832**	**53.9**
Income tax	6,719	4,832	3,465	71.7
Net income	**8,064**	**7,848**	**3,367**	**42.9**

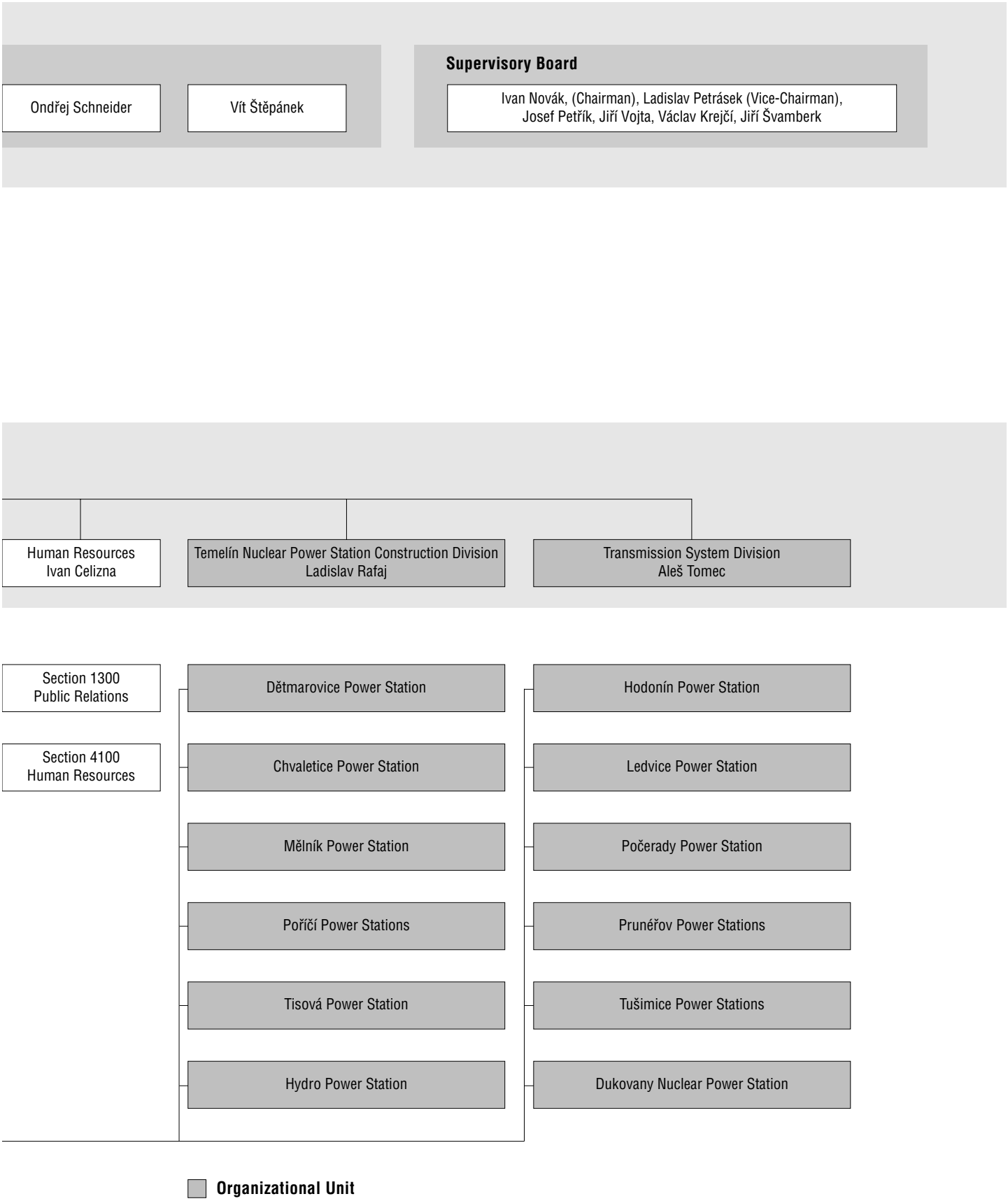
Statements of Cash Flows (Kč mln)

		1995	1996	1997
P. Cash at beginning of year		**1,795**	**2,431**	**2,222**
A. Net cash provided by operational activities		**14,800**	**13,799**	**14,377**
of that, Pre-tax profit by current activities		14,813	12,686	6,849
	- Depreciation of fixed assets	4,608	5,677	6,969
	- Changes in reserve balance	2,147	2,139	2,867
	- Change in receivables by operational activities	(90)	(1,712)	2,523
	- Changes in current liabilities by operational activities	(529)	394	293
	- Changes in inventory	(1,182)	(772)	(888)
B. Investment activities		**(24,874)**	**(21,301)**	**(18,995)**
of that,	- Purchase of tangible fixed assets	(24,467)	(22,170)	(18,801)
C. Financial activities		**10,710**	**7,293**	**6,493**
of that,	- Changes in long-term loans	(944)	2,877	4,450
	- Changes in long-term liabilities from bonds issued	4,000	3,900	0
	- Changes in other long-term liabilities	603	(828)	6,690
A. + B. + C. - Total changes in cash		**636**	**(209)**	**1,875**
R. Cash at end of year		**2,431**	**2,222**	**4,097**

ORGANIZATIONAL STRUCTURE AS OF MAY 1, 1998



ORGANIZATIONAL STRUCTURE AS OF MAY 1, 1998



DIRECTORY OF ČEZ ORGANIZATIONAL UNITS

ČEZ POWER COMPANY

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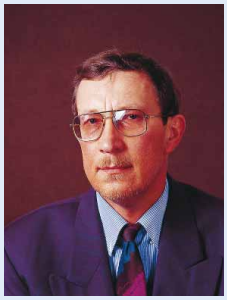

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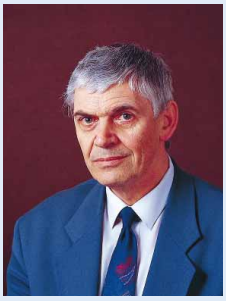

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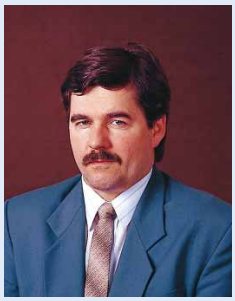

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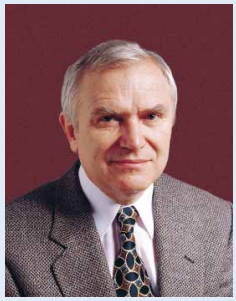

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Year established: 1992
Legal form: joint-stock company

Organizational ID No: 452 74 649
Tax ID No.: 001 - 452 74 649

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